WEEKLY ANALYSIS

Number 758, December 20, 2021

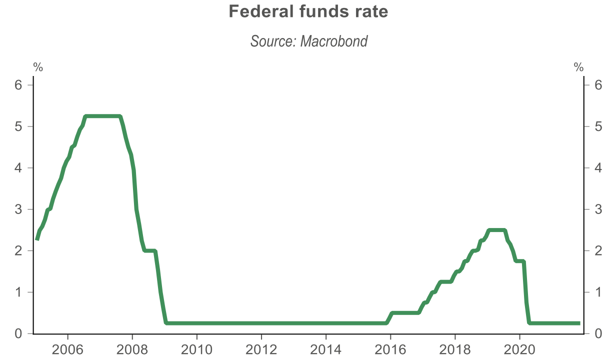
PRIVREDNA BANKA ZAGREB

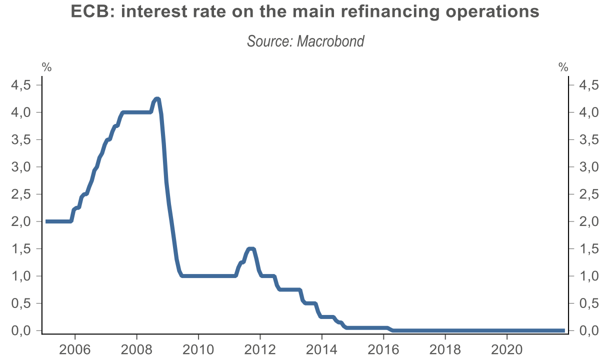
Bank of INTESA SANPAOLO

Inflation in the focus of central banks

Behind us is an exciting week of significant decisions reached by the largest central banks. The week started with a meeting of the Bank of England which became the first of the most significant world central banks that decided to raise key interest rate since the pandemic outbreak as the means for combating the rising inflation whose 12-month average in the UK in November reached 5.1% y-o-y. The rate increased by 15 b.b. to 0.25%, and the programme of bond purchases has not been reduced for the time being. The US Fed at the meeting held on the same day decided to maintain the interest rates at the existing levels, but to considerably accelerate the reduction of its asset purchase programme. Thus, from January net purchases will be 1/3 lower amounting to 60 billion dollars, and a similar pace of reduction may be expected also in the following months which would bring the programme to an end in mid-March. Also the first raising of the federal funds rate would probably occur thereafter, and it is expected that the following year will bring three waves of its hike until reaching 0.9% (now at 0.1%) which is perceived as adequate by the Fed members against the backdrop of elevated inflationary pressures and maintained strong GDP growth (4.0% y-o-y forecasted in 2022). The fight against inflation becomes the monetary policy main objective thus the growth of interest rates would continue in 2023 (three hikes) and 2024 (two hikes) by which at the end of 2024 the fed funds rate would reach 2.1%. The projection for inflation in the USA in 2022 was raised from 2.2 to 2.6% y-o-y. Although the price increase was initially triggered by the pandemic, it now affected a wider range of products and services, thus the Fed chief Powell commented that for a significant part of the next year the inflation would run above 2% y-o-y.

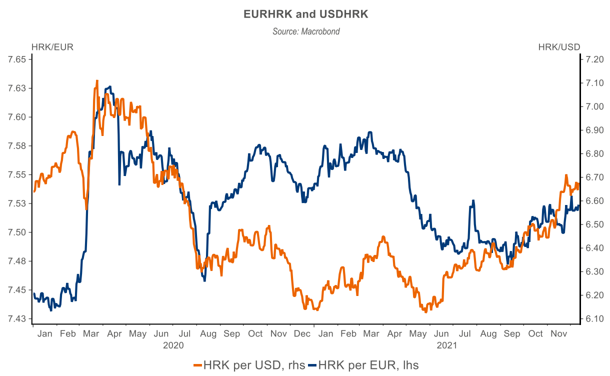
One day later also the ECB's meeting was held, which like Fed kept unchanged the interest rates and their forward guidance, despite the soaring inflation due to which it was estimated that accommodative monetary policy measures are still necessary in order for it to meet the 2% target until the end of the projection horizon (2024). Accordingly, the greatly expected reduction of the PEPP was announced from January next year and its ending in March with an increase of the APP upon halting the PEPP. The APP will thus be increased from the current EUR 20 bn to EUR 40 bn in the 2nd quarter and gradually reduced to EUR 30 bn in the 3rd quarter and EUR 20 bn from October onwards, i.e. „as long as necessary". However, it is important to state that the ECB decided to continue to keep the flexibility of reinvesting or even reactivating PEPP net purchases taking account of the peripheral highly indebted countries. Simultaneously, the announcement of the APP for almost the entire 2022 implies that interest rates will not be raised next year. Revised projections of macroeconomic developments in the eurozone in 2022 indicate a lower GDP growth of 4.2% y-o-y (previously 4.6%) with a noticeably higher inflation rate of 3.2% (previously 1.7%). The inflation should, though, in the medium term drop towards the 2% target thus its growth forecast for 2023 and 2024 amounts to 1.8% y-o-y.

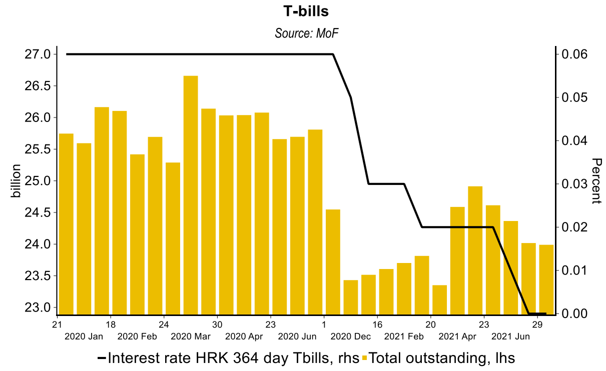


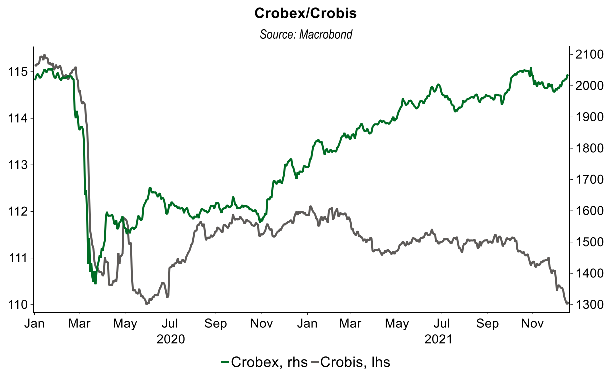


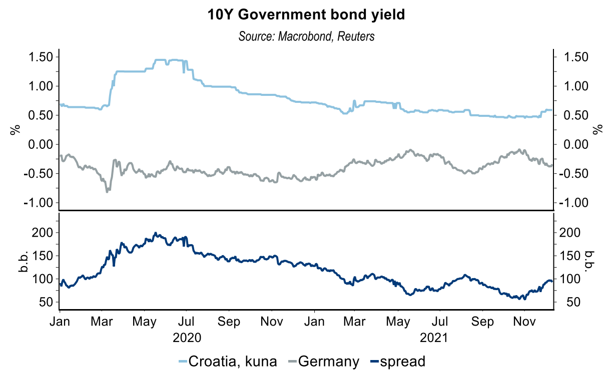
Weekly overview

- The annual inflation rate in November amounted to 4.8%, while in the period from January to November 2021 the average annual inflation rate amounted to 2.3%.
- The kuna appreciated last week by a mild 0.1% against the euro in w-o-w terms, to 7.5133 kuna to the euro. Against the dollar it strengthened by 0.6%, to 6.6360 kuna to the dollar. This week we expect the HRK/EUR trading to be maintained around the level of 7.52 kuna for the euro.
- Excess liquidity last week increased to 72 billion kuna. Interest rates mainly stagnated, and there was no interest shown at the CNB's repo auction.
- The Crobex Index closed last Friday at 2,035.20 points, up by 0.9% w-o-w, while Crobis dropped by 0.2% (to 110.49 points). Sector indices closed on a positive note, whereby CROBEXindustry grew by 1.0% (to 1,161.68 points), CROBEXtourist by 1.4% (3,596.11), and CROBEXconstruct by 2.3% (442.93). Total ZSE turnover last week amounted to 277.7 million kuna, down by 20.3% w-o-w, owing to 28.5% lower turnover in bonds (reaching 228.8 million kuna), while turnover in shares advanced by 69.6% (to 48.9 million kuna).





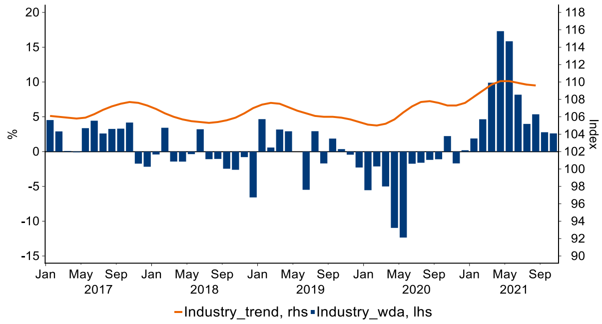




Statistics

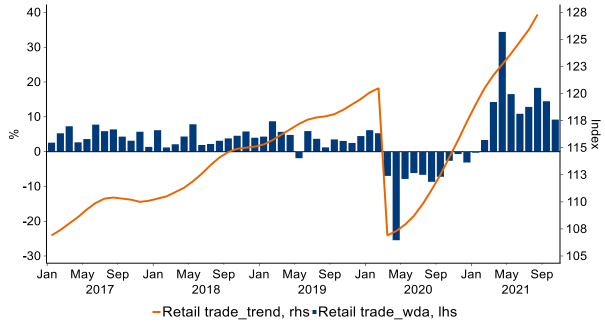
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



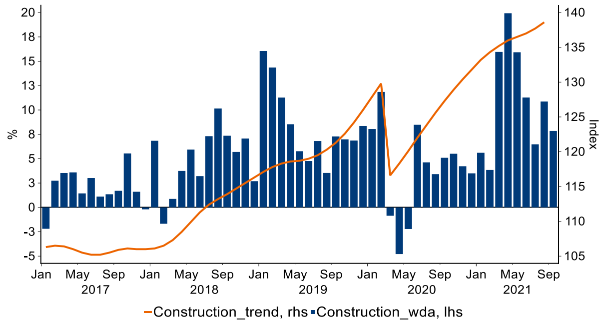
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



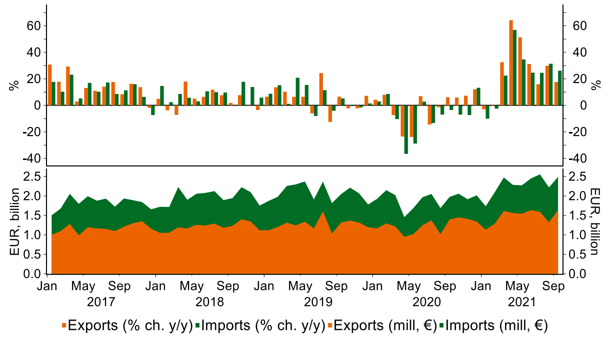
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



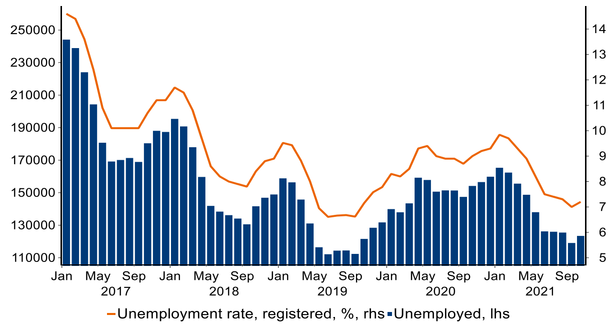
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



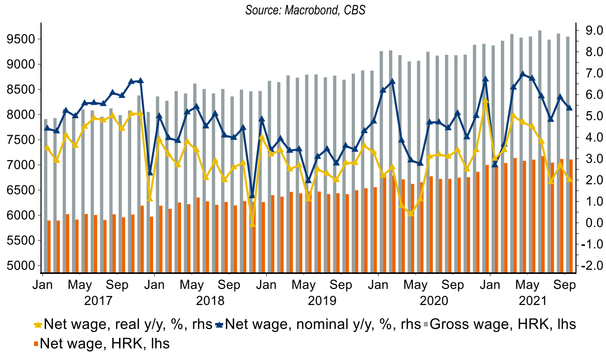
Total number of unemployed and unemployment rate

Source: Macrobond



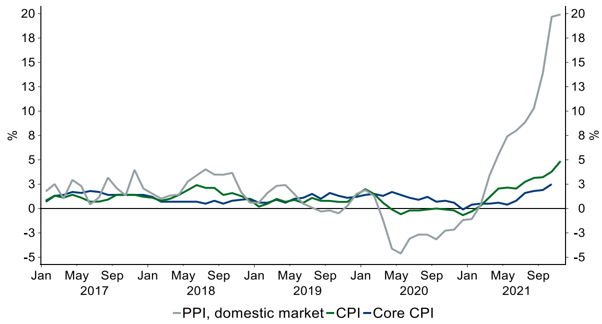
Wages, monthly average and % ch. y/y

Source: Macrobond, CBS



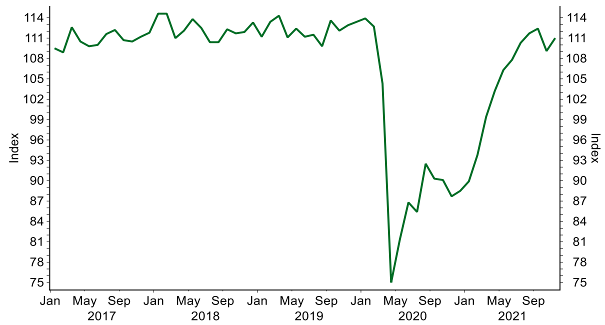
Prices, y/y % change

Source: Macrobond



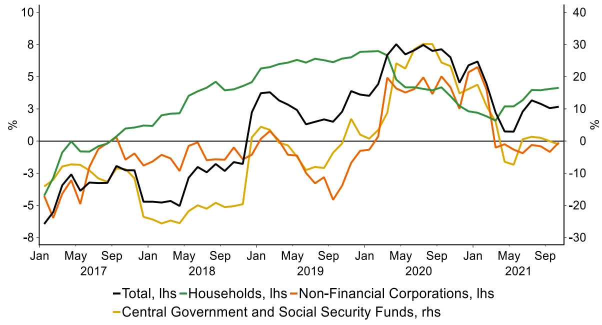
Economic Sentiment Indicator (ESI)

Source: Macrobond



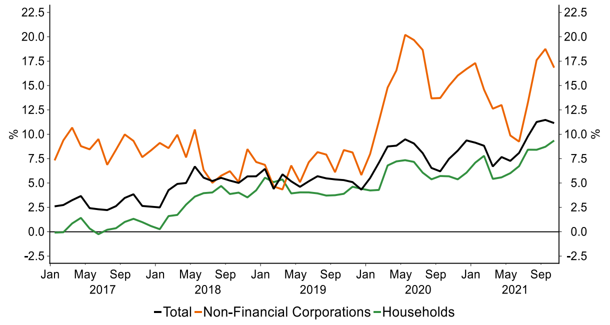
Loans, y/y change

Source: Macrobond



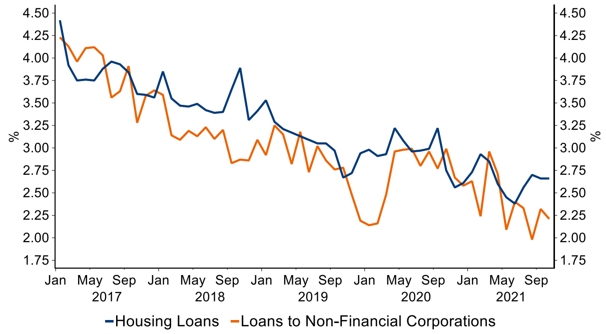
Deposits, y/y change

Source: Macrobond



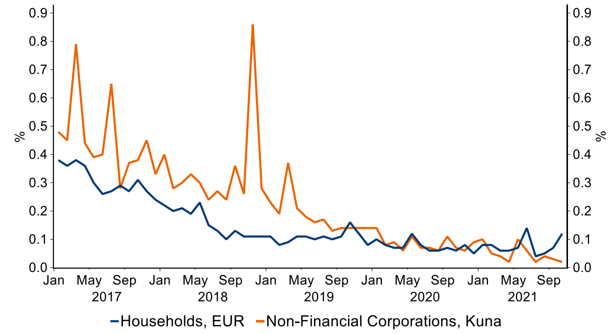
Interest rates on long-term loans, fx clause, euro (new business)

Source: Macrobond



Interest rates on short-term time deposits (new business)

Source: Macrobond



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