WEEKLY ANALYSIS

NUMBER 853, MARCH 11, 2024

ECB begins talks on monetary policy relaxation

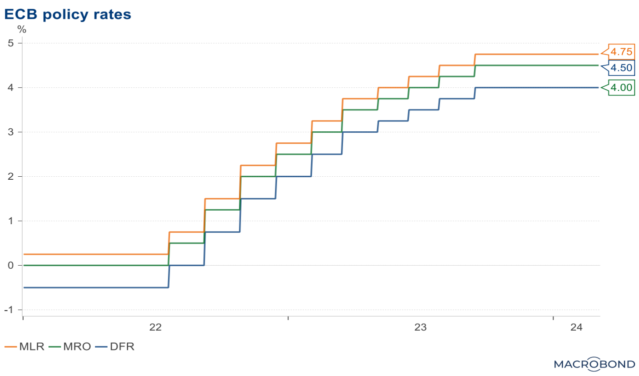
- ECB meeting, in line with expectations, did not bring any major news. Interest rates were kept at current levels and the ECB reiterated its commitment to lowering inflation towards the medium-term goal and towards a data-based approach.

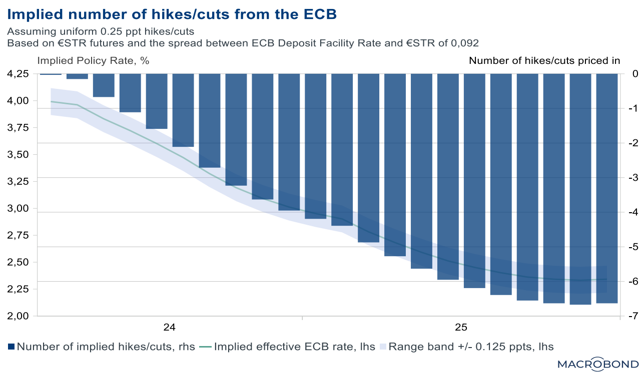
- Projections for this year's GDP growth in the eurozone were reduced, which was also largely expected considering that they were made before data on GDP trends in Q4 2023 were published, which was somewhat below the central bank’s expectations. So now, instead of 0.8%, economic growth of 0.6% y-o-y is expected this year, while the growth projection for 2025 is held at 1.5%. Projections for the average overall but also core annual inflation rate for the eurozone have also been revised down (overall to 2.3% in this and 2.0% in the following year, core at 2.6% and 2.1%), indicating that a faster decline towards the targeted level is expected that is opening a path towards an early start of monetary policy relaxation. Still, not as fast, i.e., already in April like the markets were predicting until recently.

ECB revised down growth and inflation projections in 2024

- Namely, the ECB notes that underlying inflation in January by most measures continued to weaken, but that pressures remain high, partly due to strong wage growth and declining labour productivity, although wage growth appears to be slowing down. At the press conference Ms. Lagarde reiterated that the central bank is carefully monitoring labour costs and profits trends, especially because the inflation component determined mostly by labour-intensive services is not moving in the desired direction. However, while Ms Lagarde’s previous answers regarding interest rate reduction were that a discussion on that topic is premature, at the last week’s conference she stated that the Governing Council started discussing dialling back of monetary policy. It was reiterated that the ECB wants to have more information to be certain that inflationary pressures are permanently easing and that they will have more information in April, and significantly more in June. Our opinion that the first key rate reduction will happen in June remains the same, and it seems that the ECB has indirectly confirmed that. By the end of the year, we expect rates to drop by 75 to 100 bps.

We still foresee first rate reduction in June





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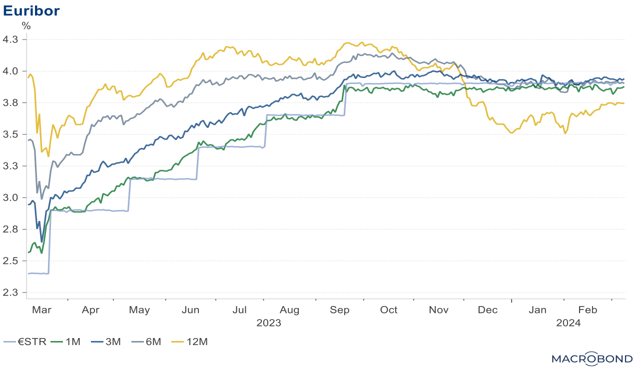
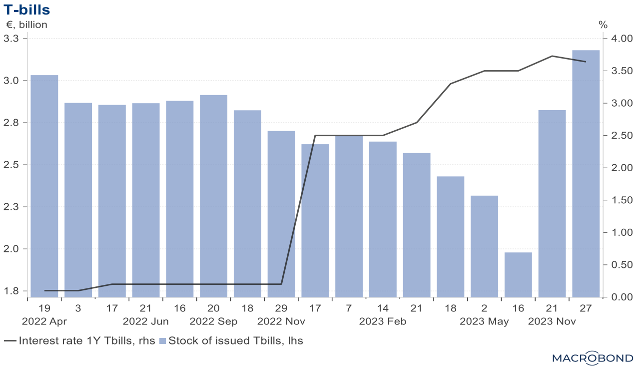
- In January, industrial production remained unchanged month-to-month, and recorded an annual decline of -1.3%. Negative trends from 2023 persist according to year-on-year data, with the production of intermediate goods decreasing by -1.3%, while the production of durable consumer goods dropped significantly by -14.8%. Energy production decreased by -7.8% and the production of capital goods by -8.7%. In contrast, non-durable consumer goods increased by 7.9%. On a month-to-month basis, production of intermediate goods decreased by -2.5%, of energy by -5.8%, of durable consumer goods by -1.8%. However, capital goods production registered an increase of 5%, compensating partially for -15.4% m-o-m decrease observed in December 2023. Non-durable consumer goods also rose by 2.5%, consolidating a positive trend observed in the last two months of 2023. The latest industrial confidence indicator slipped below previous three-month average, reflecting both the deteriorated future production expectations (February lower by -9.1 vs previous 3-month average) and (export) order book assessment. Obviously, sluggish foreign demand, supressed by industrial doldrums in Germany where recent data on orders and confidence surveys suggest that the lack of demand will keep weighing on output in the near term, will continue to weigh on domestic industrial performance.
- Unlike industrial production, retail trade continued with positive trends. Namely, in January retail trade increased by 0.7% m-o-m in real terms, while growth rate was 7.9% y-o-y.
- The dollar depreciated against the euro by 1.1% w-o-w, to 1.0932 dollars to the euro, after the ECB's meeting, as well as Powell's comments on the increasing possibility of reducing fed funds rate in the next few months.
- Considering that the ECB's decision to keep the interest rates at the same level was expected, after the meeting Euribor recorded only minor changes. On Friday 3M and 6M were both 3.9%, unchanged w-o-w. Last week, the Ministry of finance issued on the international capital market a 10Y bond in the amount of 1.5 billion euros and yield of 3.421%.
- Crobex recovered by mid-week but then again took a negative turn, closing Friday at almost unchanged w-o-w, i.e., at 2,761 points. The most important sectoral indices recorded a mix performance (CROBEXindustry +3.1% at 1,943, CROBEXnutris -2.1% at 904, CROBEXtourist +0.6% at 4,489). Crobis stagnated at 96.4 points.





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