WEEKLY ANALYSIS

NUMBER 823, JUNE 19, 2023

ECB not pausing

The ECB again raised rates by 25 b. p.

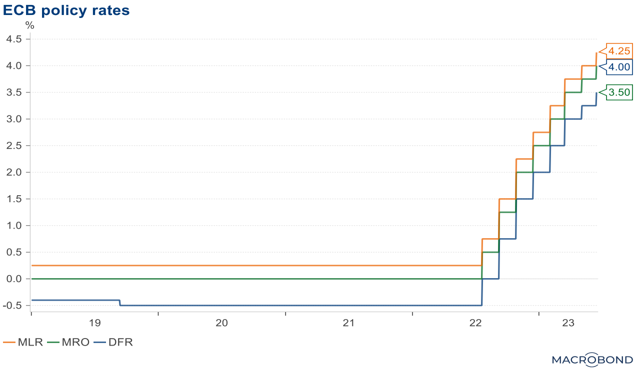
- In line with expectations, at last week's meeting, the European Central Bank maintained its pace of tightening the monetary policy, raising interest rates by 25 b. p. and as of 21 June, the interest rate on deposits (DFR) amounts to 3.50%, 4.00% on main refinancing operations (MRO) and 4.25% on overnight loans (MLR).

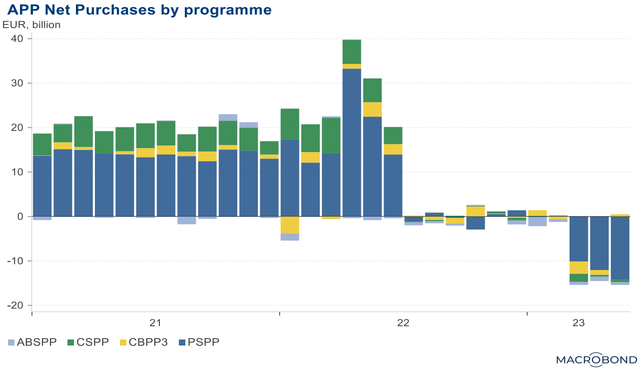
Eurozone inflation projections are elevated

- Projections of the real year-to-year growth rate of eurozone GDP are slightly lowered, to 0.9% in 2023 and 1.5% in the coming year (-0.1% p.p. compared to March figures), and inflation projections slightly elevated. Thus, the average inflation rate should reach 5.4% this year (March 5.3%), or 3.0% in 2024 (March 2.9%). Given the raising of the forecast inflation rate and the statements in the release that inflation is projected to "too high for too long", it is to be expected that this is not the end of the rise in key interest rates. Thus, the ECB reiterates that it will bring rates to a level that is sufficiently restrictive to ensure a timely return of inflation towards the targeted 2%, although labour market strength and stubbornly high underlying inflation could extend this path (the latter's forecast is significantly elevated, by 0.5 p.p. in 2023-24). Everything indicates a minimum of one more upward shift in interest rates, which can also be concluded from the statements of its head Lagarde, and our expectations are that we will see two more increases of 25 b. p. each.
- There has been no change in the asset purchase programme, i.e., the principal payments from maturing securities will no longer be reinvested from July.

Fed keeps fed funds rate at 5-5.25%

- Unlike the ECB, the Fed has decided to maintain its target range of fed funds interest rate unchanged, at 5.00-5.25%, leaving room to assess the cumulative impact of tightening financing conditions on inflation and economic activity until the next July meeting. The latest projections show that the Fed forecasts stronger U.S. GDP growth for 2023 than expected in March (median 1.0%), with a slightly lower rate of headline inflation (median 3.2%), but a higher rate of underlying inflation (median 3.9%). What somewhat surprised the market was the hike in interest rate projection (median from 5.1 to 5.6%) which would imply two more increases of 25 b. p. by the end of this year.

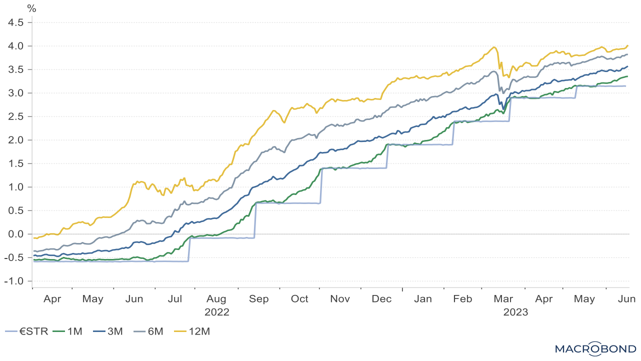




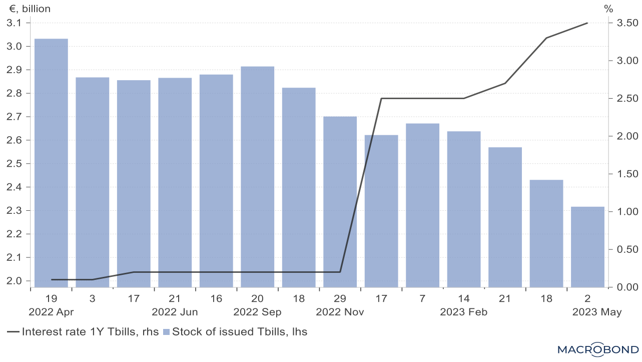
- While the CBS confirmed the first estimate of May inflation (7.9%) on Friday, data on the movements of the industry producer price index in May were also released earlier in the week. The index of total producer prices decreased by 1.4% month-on-month, and for the second month in a row, the index also posted a decrease in the domestic market by as much as 1.7% (similar to April), while the price index in the non-domestic market decreased by 0.9%. On an annual basis, producer price indices, further backed by last year's high base, saw a strong slowdown: the overall index to 2.5% (from 6.4% in April); in the domestic market to 3.8% (from 9.1%) and in non-domestic market to only 0.8% (from 3.1% recorded in April). At all levels, the monthly decline in the index was mainly contributed by the fall in energy prices, which fell by 6.2% in the domestic market in April, which, along with a high base, led to a decline of -2.1% year-on-year – for the first time since the beginning of 2021. At the same time, energy prices in the non-domestic market decreased by -11% month-on-month, and by as much as -30.3% year-on-year. While prices of intermediate and capital goods also recorded a monthly decline in the domestic market (for the second consecutive month), and prices of durable consumer goods stagnated, prices of non-durable products recorded monthly growth for the third month in a row, which keeps the annual growth rate still high at 9.9%.
- After last week's meetings of central banks, the dollar weakened against the euro despite an increase in the fed funds rate projection showing that markets are not convinced of two more hikes. The week closed at $1.0966 for the euro, up by 1.7% compared to Friday a week earlier.
- Euribor rose by 10 b. p. w-o-w so 3M was 3.6% on Friday and 6M was 3.8%. This week, €38 million of treasury bills is due, but the auction will not be held.
- The upward trend of shares was maintained, so Crobex closed on Friday up by 1.6% w-o-w, i.e., at 2,323 points owing to the strong growth of sectoral indices. Thus, CROBEXindustry soared by 3.9% (to 1,484 points), CROBEXnutris by 0.8% (to 776 points), and CROBEXtourist by 3.0% (to 4,206 points). Crobis fell 0.2% (to 94.6 points).

EUR/ USD

Euribor



T-bills



Crobex/Crobis

LEGAL DISCLAIMER

This publication is issued by PRIVREDNA BANKA ZAGREB-DIONIČKO DRUŠTVO, Zagreb, Radnička 50 (hereinafter: PBZ) and aimed at clients of the PBZ Group. This publication is intended for information purposes only and may not in any way be considered an offer or invitation to purchase any property or rights mentioned in it. The informative nature of this publication means that it may not serve as a substitute for the personal judgment and assessment of any reader or anyone who receives this publication. The information, opinions, analyses, conclusions, forecasts and projections given here are founded on publicly available data whose accuracy PBZ relies on but cannot guarantee. Accordingly, all the opinions, attitudes, conclusions, forecasts and projections given in this publication are subject to changes, which depend on changes to the data as published by the source used. PBZ allows further utilization of the data given in this publication on the condition that the publication is indicated as the source. All the property mentioned in this publication and whose movement is the subject of comment may from time to time be the subject of trade or positions taken by PBZ.

ECONOMIC RESEARCH

Ivana Jović

Ana Lokin

TRANSLATION

Ana Biloš

Jelena Marinović

www.pbz.hr