UniCredit Bank

Weekly

N . o . t . e . s

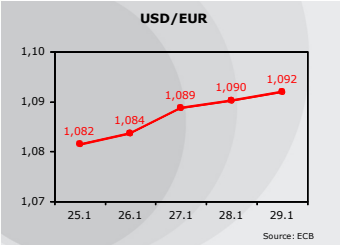
English translation by an external party

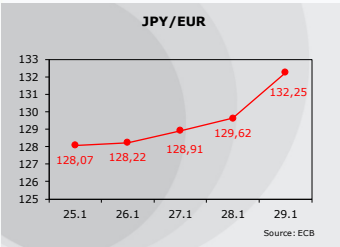
HIGHLIGHTS OF THE WEEK 04/2016

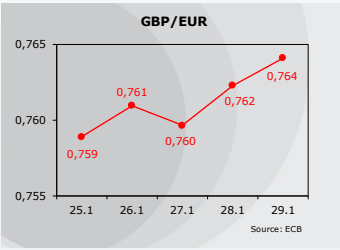
> Chart of the Week: Number of passengers served at Slovak airports grows the fastest in Europe, while flight intensity in Slovakia remains the lowest in the EU

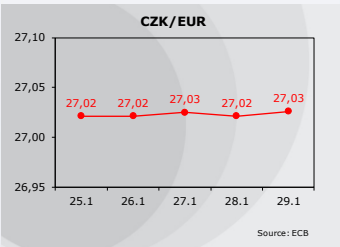
> Producer prices falling again in December, with their yoy decline moderating

WEEK ON THE MARKETS









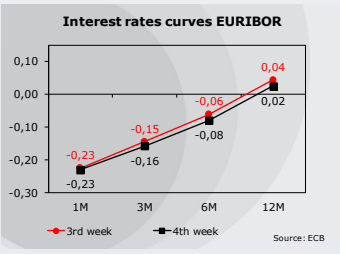
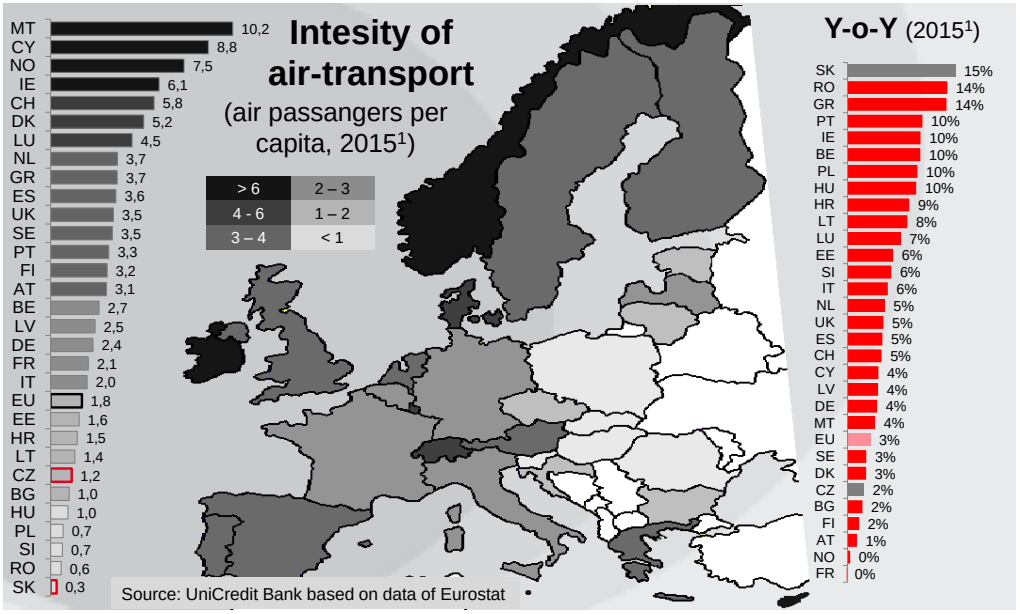


CHART OF THE WEEK



Note: 1. data for the last 12 available months, i.e. July 2014 to June 2015; data for April 2014 to March 2015 for PL, MT and EU, data for 2014 for NO.

The current *Chart of the Week* brings insight into passenger air transport in European countries. The highest number of passengers per capita is served by airports in the Mediterranean island states – in Malta (10 passengers per capita) and Cyprus (9 passengers per capita). Airports in both countries are massively supported by active tourism. An above-average intensity of passenger air transport can, however, be found also in Norway, Ireland, Switzerland, and Denmark, with more than 5 passengers per capita a year being served by local airports in all of these countries. Compared to Malta and Cyprus, these airports profit more from passive tourism, i.e. from serving the residents. On average in the EU countries, the intensity of passenger air transport is almost two passengers per capita. The lowest intensity of passenger air transport is reported by CEE countries, with the highest capacity being reported by airports in Latvia, only at 2.5 passengers per capita. The lowest number of passengers per capita is served by airports in Slovakia (only 0.3); however, less than one passenger per capita is served by airports in Romania, Slovenia, and the neighbouring Poland, too. Airports in the Czech Republic are used by slightly more than 12 million passengers a year, which still means an intensity of 1.2 passenger per capita.

Despite the fact that Slovak airports serve the lowest number of passengers in air transport per capita in a Europe, it does not necessarily mean that the Slovaks are a European nation which uses the air transport services the least. Given the eccentric position of the capital city and the relatively small size of the country, the Slovaks often use close airports in the neighbouring countries – mainly the nearby airport in

the Vienna Schwechat, located between Vienna and Bratislava, and also the Budapest, Krakow or Prague airports. As for Slovak airports, flights are mostly routed to the British islands; on the contrary, passengers at Czech airports are mostly looking for flights to Germany and France.

Although Slovak airports still serve the lowest number of passengers per capita in Europe, the year 2015 can be considered quite successful. Their attempts to attract new air carriers and extension of the listing of the destinations offered have been beneficial, increasing the number of passengers by 15% yoy. Last year Slovak airports reported the fastest growth of the number of passengers served from among all EU countries. However, even this fact has not helped them get close to the 2008 peaks, when they served the highest number of passengers so far, namely 2.6 million, i.e. almost 0.5 passenger per capita. With the onset of the crisis and bankruptcy of national low-cost airlines, the intensity at Slovak airports declined considerably, falling by as much as -40% in 2008-2012; currently, Slovak airports serve around one third fewer passengers than seven years ago. Last year, an above-average growth of passengers was reported also by airports with a relatively low air transport intensity – in Romania, as well as by airports in Greece which probably profited from the repeated recovery of tourism in their country. On average for the last 12 months, the number of passengers increased by around 3% yoy at airports in the EU countries, by 2% in the neighbouring Czech Republic and only by 1% in Austria, which is often used by Slovak passengers. A negligible yoy decline (more-or-less a stagnation) of passengers in Europe was reported only by airports in France. (lk)

ECONOMIC CALENDAR

Week	Indicator	Period	Market Consensus	UniCredit Bank Estimate	Reality
4.	Producer prices (January 28)	December	-4.6% yoy	-5.0% yoy	-4.5% yoy
5.	State budget (February 1)	January	-	0 mil. EUR	-
	Retail sales (February 3)	December	-	3.5% yoy	-

Source: Bloomberg, Reuters, NBS, SOSR, UPSVaR, MinFin SR, UniCredit Bank Slovakia

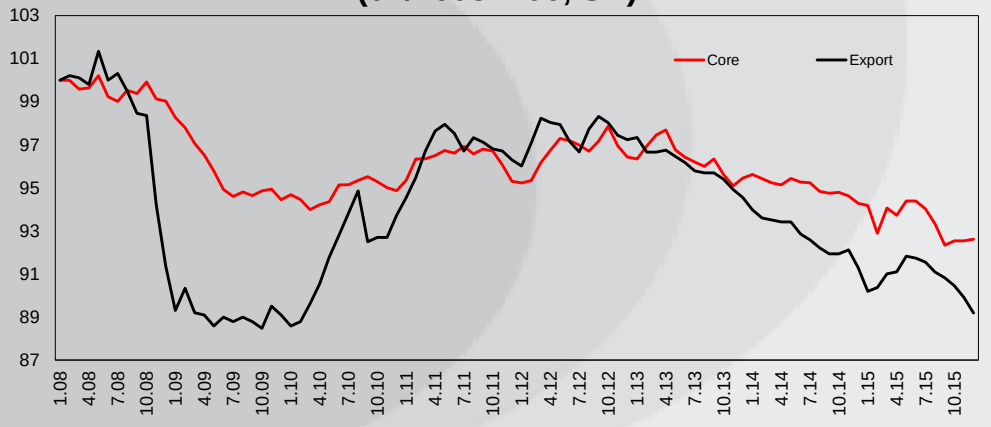
ECONOMY

PRODUCER PRICES

Producer prices falling in December, with their yoy decline moderating

According to data of the Statistical Office of SR, domestic producer prices declines by 0.4% mom in December; however, dynamics of their decline moderated from -5.0% to -4.5% yoy.

Chart 1: Producer prices - core and export (01/2008=100, SA)



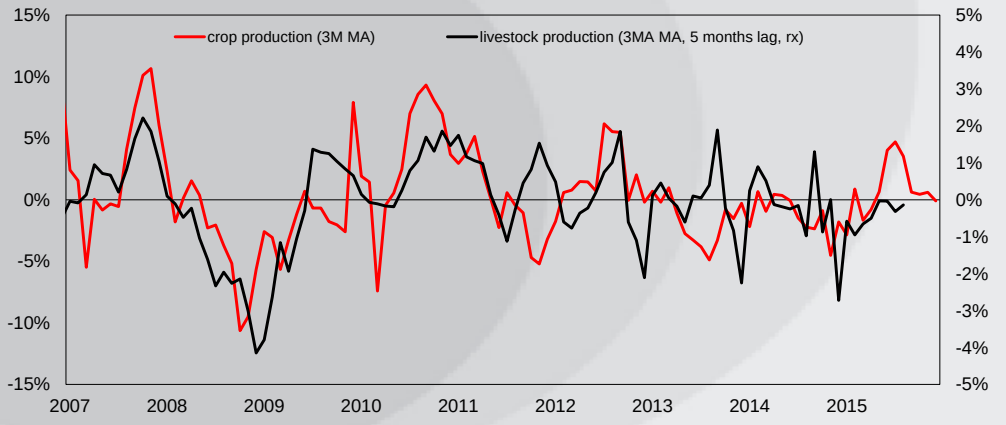
Source: UniCredit Bank based on data of SO SR

Also in December, producer prices were pushed down mainly by prices of refinery products, affected by cheap oil on global markets. The sharp decline in oil prices at the turn of the years has translated into the prices of refinery products in Slovakia only partially. The Brent oil price in EUR fell by more than 15% mom in December;

however, the prices of refinery products in Slovakia decreased "only" by -3.7%, and therefore the dynamics of its yoy decline moderated from -28.9% to -25.1%. At the end of the year, there was another unexpected price development in a sector where oil prices usually play an important role - manufacture of chemicals and chemical products – their prices were rising mom for two months in a row, by considerable 2.1% in December, returning the prices of chemicals to their moderate yoy growth (by 0.9% compared to the decline by -3.2% in November). It was the prices in chemical industry that constituted the main driver of the mom growth of core prices in the industry (prices in manufacturing adjusted for the change of oil and food prices – calculation of UniCredit Bank) – they increased by 0.1% mom in December, with the dynamics of their yoy decline moderating from -2.2% to -1.8%. Besides the prices in chemical industry, there was a considerable increase also in prices of consumer electronics (by 0.8% mom) and machinery (by 0.5%) in December; on the contrary, a considerable mom decline in prices was reported mainly by food (-0.7%) and basic metals (-0.4%)

Export prices followed a similar trend as the domestic prices – they fell by another -0.8% in December, with the dynamics of their yoy decline being the same, i.e. at -2.4%. As for export prices, decline was reported mainly by prices of refinery products, by as much as -12% mom in contrast to domestic prices; on the contrary, a mom increase was reported by prices of chemicals (1,3%), consumer electronics (0.6%) and machinery (0.4%). After a brief recovery of export prices at the beginning of last year, the trend changed again in the second half of the year, causing export prices to fall quite dynamically again. At present, the already average level of export prices is again approaching the 2009 crisis lows. It is mainly the cheap oil that is presently creating room for decline in export (as well as domestic) producer prices.

Chart 2: Prices of vegetable and animal production (MoM, SA)



Zdroj: UniCredit Bank na základe údajov ŠÚ SR

Prices of agricultural commodities went down more considerably in December - by as much as 4.8% mom (after adjustment for traditional season - calculation of UniCredit Bank), with the dynamics of their yoy growth moderating from 6.7% to 2.7%. In December, a mom decline was reported mainly by prices in plant production, with the dynamics of their yoy growth moderating from 19.7% to 8.5%. On the contrary, after months of decline, prices in animal production reported a moderate upward correction in December, with the dynamics of their yoy decline moderating from -6.7% to -3.3%, with further decline being reported mainly by prices of milk (-12.9%) and slaughter pigs (-11.6%), i.e. food with reduced VAT rate from January, which should make the translation of reduced VAT into the end prices of products easier for retailers. The considerable correction of prices in plant production in December also increases the likelihood of further decline in prices of food on the shelves of shops in the first half of this year (even beyond the VAT reduction), increasing deflation in Slovakia.

OUTLOOK

At the turn of the years, oil prices fell considerably once again, with this decline being reflected in producer prices to a limited extent only, and therefore we expect a considerable decline in producer prices also at the beginning of this year. Moreover,

in the next months, lower prices of oil create again room also for decline in core prices in the industry (secondary effects). (lk)

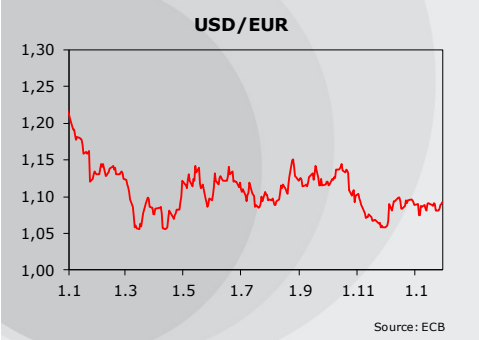
ECONOMIC OUTLOOK

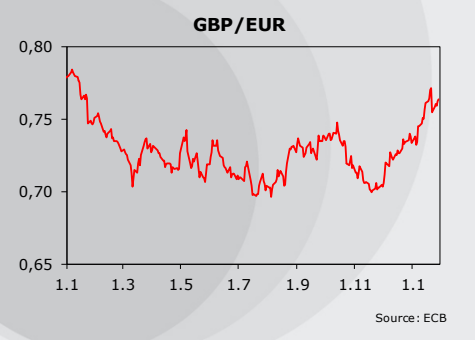
Slovakia	2011	2012	2013	2014	2015F	2016F	2017F
Real GDP growth	**2,8**	**1,5**	**1,4**	**2,5**	**3,4**	**3,0**	**3,0**
GDP per capita	13 052	13 398	13 643	13 947	14 372	14 788	15 291
Household consumption	**-0,6**	**-0,4**	**-0,8**	**2,4**	**2,5**	**2,9**	**2,6**
Government consumption	-1,7	-2,6	2,2	5,9	3,8	1,7	0,5
Gross investments	7,6	-14,0	1,5	2,6	11,4	-2,5	6,8
Exports	12,0	9,3	6,2	3,6	6,4	5,6	4,1
Imports	9,6	2,5	5,1	4,3	8,1	4,1	4,5
Industrial Production	**6,9**	**13,4**	**5,3**	**3,7**	**5,8**	**5,5**	**6,5**
Construction	-1,7	-12,5	-5,3	-4,2	15,1	2,7	6,5
Retail Sales	-2,8	-1,0	0,1	3,6	1,7	2,3	2,5
CPI (average)	**3,9**	**3,6**	**1,4**	**-0,1**	**-0,3**	**0,3**	**1,5**
CPI (Dec.)	4,4	3,2	0,4	-0,1	-0,2	0,9	1,6
Real Estate inflation	-3,0	-1,1	-0,9	-0,8	0,9	2,3	2,4
Average Wage level	786	805	824	858	880	904	930
Nominal Wage growth	**2,2**	**2,4**	**2,4**	**4,1**	**2,5**	**2,8**	**2,9**
Real Wage growth	-1,6	-1,2	1,0	4,2	2,8	2,5	1,4
Employment growth (LFS)	1,5	-1,0	0,0	1,5	2,2	1,0	1,0
Unemployment (average, LFS)	**13,5**	**14,0**	**14,2**	**13,2**	**11,6**	**10,8**	**9,9**
Fiscal deficit (% of GDP)	-4,1	-4,2	-2,7	-2,8	-2,7	-2,0	-1,0
Public Debt (% of GDP)	43,3	51,9	54,6	53,5	53,1	52,9	51,7
Foreign Direct investment (EURbn)	2,8	3,2	-0,3	0,2	2,0	2,5	3,3
ECB Refi rate (%, Dec.)	**1,00**	**0,75**	**0,25**	**0,05**	**0,05**	**0,05**	**0,50**
3M EURIBOR (%, Dec.)	1,2	0,2	0,3	0,1	-0,2	-0,2	0,5
3Y SK gov't bonds(%,Dec.)	2,7	0,3	0,7	-0,1	-0,6	0,0	1,5
10Y SK gov't bonds(%,Dec.)	5,2	3,9	2,7	1,2	0,7	1,0	2,0

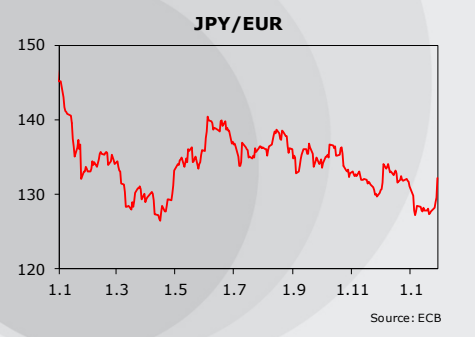
Abroad	2011	2012	2013	2014	2015F	2016F	2017F
Eurozone GDP	**1,5**	**-0,6**	**-0,4**	**0,9**	**1,5**	**1,9**	**1,6**
German GDP	**3,1**	**0,9**	**0,5**	**1,6**	**1,7**	**2,1**	**1,4**
Czech R GDP	1,7	-1,0	-0,9	2,0	4,3	2,3	3,0
USA GDP	1,7	2,8	1,9	2,4	2,5	2,6	2,4
Eurozone Inflation	2,7	2,5	1,3	0,4	0	0,9	1,4
EUR/USD (average)	**1,39**	**1,28**	**1,33**	**1,33**	**1,11**	**1,08**	**1,16**
EUR/USD (Dec)	1,32	1,31	1,37	1,21	1,09	1,12	1,18
EUR/CZK (Dec)	25,8	25,1	27,5	27,7	27,0	27,0	26,5
EUR/HUF (Dec)	304,2	285,8	300,2	315,5	314,0	320,0	325,0
EUR/PLN (Dec)	4,5	4,1	4,2	4,3	4,3	4,2	4,2

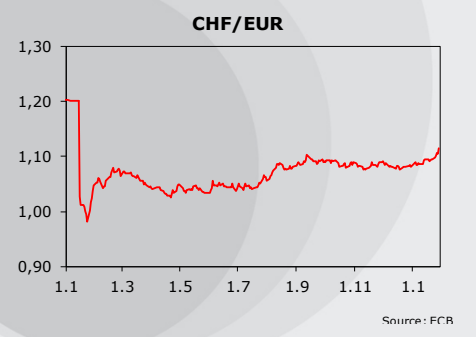
Source: NBS. SOSR. ÚPSVaR. MinFin SR. Eurostat. ECB
Forecasts: UniCredit Bank Slovakia – Slovakia. Eurozone. USA (EURIBOR. USDLIBOR. Brent. USD/EUR); UniCredit Group (CEE Economic Research. CIB) – Eurozone. USA

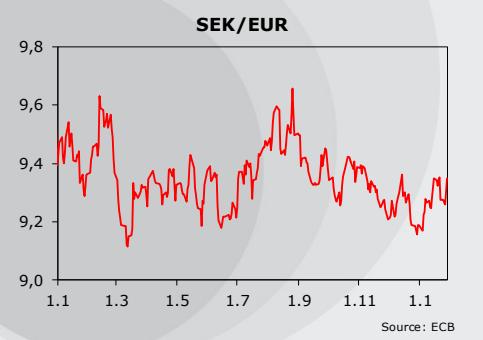
FOREIGN EXCHANGE

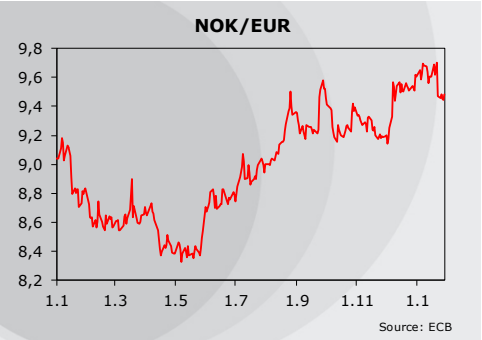


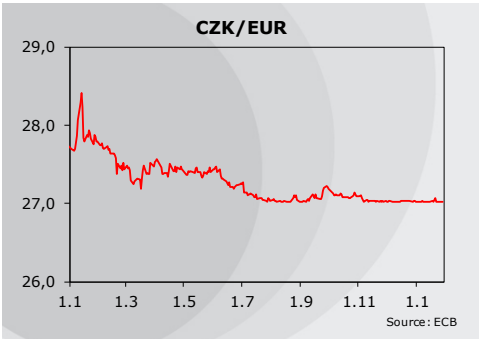


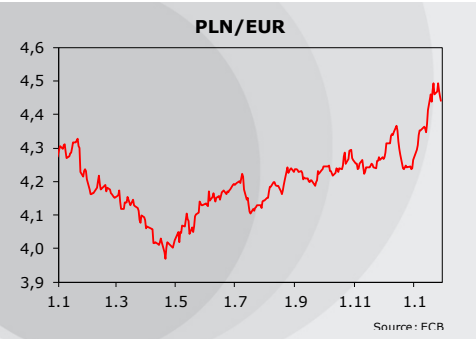


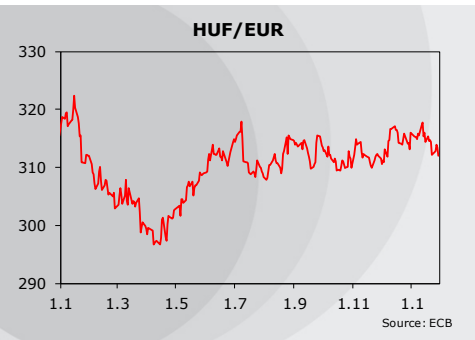


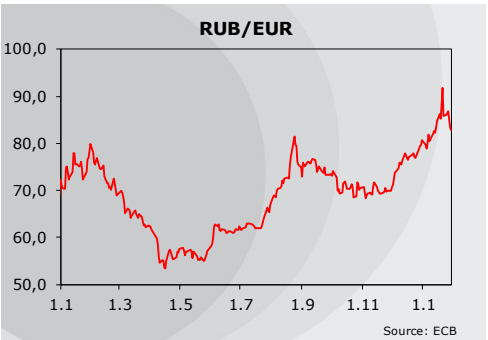






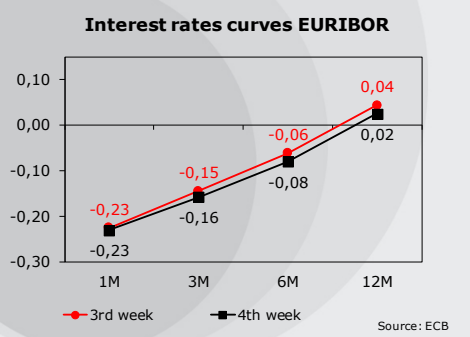




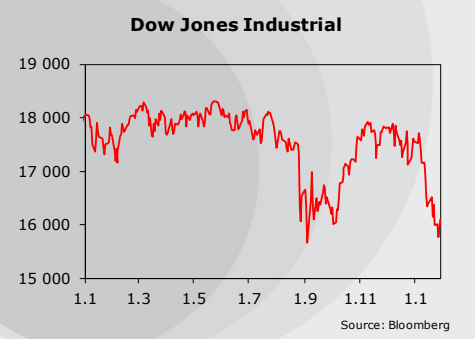


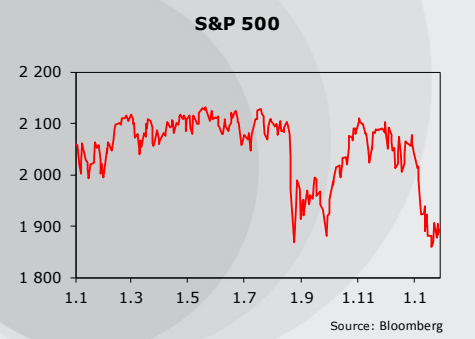
MONEY MARKET

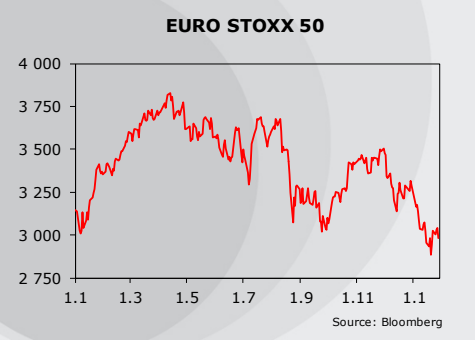
MONEY MARKET

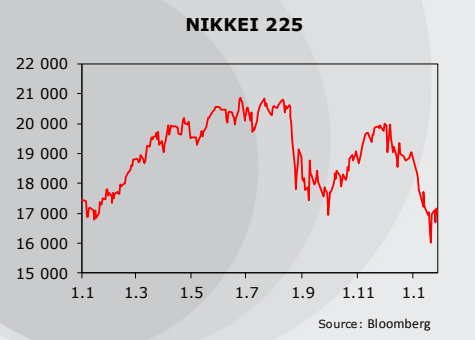


EQUITY









UniCredit Bank Weekly N.o.t.e.s has been prepared by Macroeconomic Analysis

Ľubomír Koršňák,
+421 2 4950 2427; Lubomir.Korsnak@unicreditgroup.sk

CONTACTS:

Jaroslav Habo, Large Corporates and Multinationals
+421 2 4950 4319; Jaroslav.Habo@unicreditgroup.sk

František Doležal, MID Corporates
+421 2 4950 4229; Frantisek.Dolezal@unicreditgroup.sk

Raymond Kopka, Retail and SB
+421 2 4950 3212; Raymond.Kopka@unicreditgroup.sk

Roman Hajduk, Private
+421 2 5942 8022; Roman.Hajduk@unicreditgroup.sk

The present material was elaborated by UniCredit Bank Czech Republic and Slovakia, a.s. and can be reproduced only with its prior written consent. The document contains opinions of authors, which do not necessarily have to correspond with the opinion of UniCredit Bank Czech Republic and Slovakia, a.s.. Information and opinions contained herein were obtained from sources, which were deemed as reliable, however. UniCredit Bank Czech Republic and Slovakia, a.s. does not provide any guarantee for their correctness and completeness. UniCredit Bank Czech Republic and Slovakia, a.s. bears no responsibility for possible damage or other detriment, which can be suffered by third parties if they decide to use information contained herein.

The present document cannot be deemed as a replacement for provision of individual investment consultancy. Investors have to make their own assessment of suitability and adequacy of investment in any financial instrument mentioned herein and that based on the substance of and risks connected with the relevant financial instrument, their own investment strategy and their own conditions and financial situation. The present document is not an investment recommendation or direct personal advice, neither this document nor any part hereof is a basis for conclusion of any contract or agreement upon obligation of whatsoever kind, and one cannot rely on the present document in connection with conclusion of any contract or agreement upon any obligation and it is not meant to be used as persuasion or recommendation for conclusion of any contract or agreement upon any obligation of any kind. We strongly recommend investors to contact their own investment consultants in order to receive the required explanations and individual investment consultancy.

The present material is only for information purposes and (i) it does not represent any offer for sale or subscription or call to file proposals for purchase or subscription of any financial instruments or securities (ii) it does not represent whatsoever propagation thereof. Investment opportunities mentioned herein do not have to be suitable and adequate for certain particular investors, namely depending on their specific investment objectives and time horizon of investment or in connection with their overall financial situation. Investments in financial instruments are connected with risk and value of the investment and revenue on the investment can grow or fall, and that also as a consequence of currency fluctuations. Performance in the past is not a reliable indicator of future performances. No predictions of performance in the future are a reliable indicator of performance in the future. One cannot rely on this document as on an explanation of all risks connected with investing in financial instruments, instruments of the money market, investment instruments or securities referred to herein.