UniCredit Bank

Weekly

N . o . t . e . s

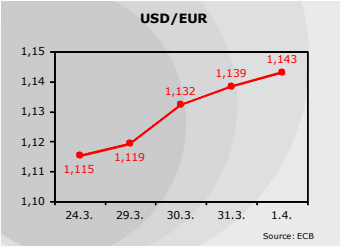
English translation by an external party

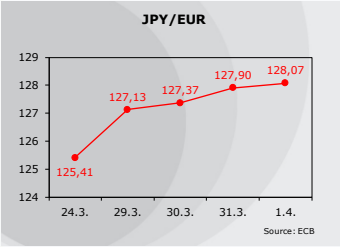
HIGHLIGHTS OF THE WEEK 13/2016

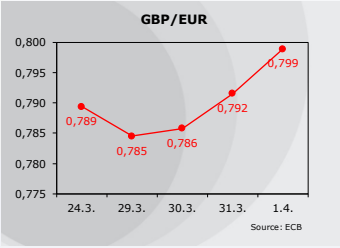
> Chart of the Week: This summer will be extremely hot with above-average rainfall in Slovakia, which could make economy grow faster ☺

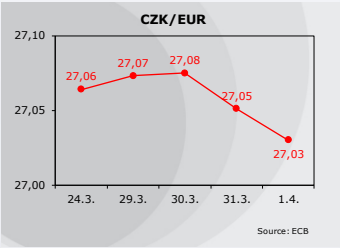
> Producer prices continue to slump, being pushed down mainly by cheap oil

WEEK ON THE MARKETS









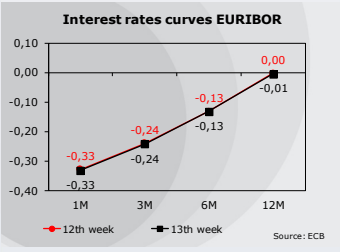
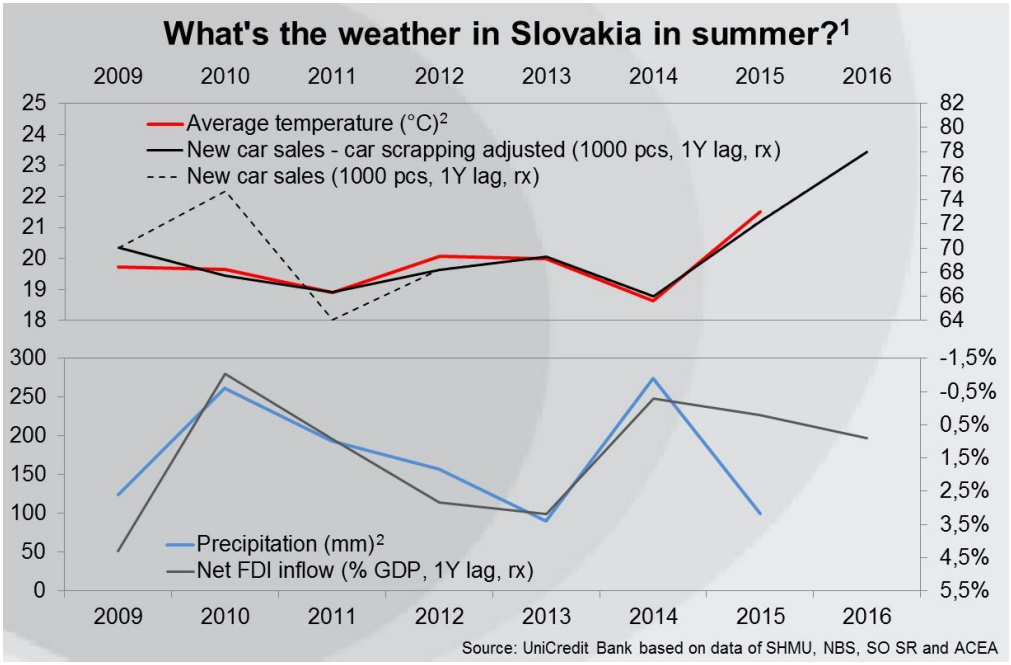


CHART OF THE WEEK



Note: 1. The lightweight chart on the occasion of 1 April offers an example of the illusion that the similarity of the curves does not necessarily explain their causality.
2. The average temperature and rainfall in July and August recorded at 6 selected Slovak meteorological stations: Bratislava – airport, Hurbanovo, Sliač, Liesek, Poprad, and Kamenica nad Cirochou

Recently, the temperature has been rising slowly. It also seems that winter has definitely abandoned most of Slovakia's territory, and we can fully enjoy the pleasant spring weather these days. However, the current *Chart of the Week* looks even further, forecasting weather in summer in Slovakia. This can be quite precisely described by some economic indicators. In recent years, sales of new passenger cars have quite reliably predicted the average temperature in the summer of the following year; the net inflow of foreign investment has predicted precipitation (i.e. a lower inflow of foreign investment meant more precipitation and vice versa).

The link between sales of new cars and temperature in the next summer seems to be quite strong, however, it is necessary to adjust the data for various regulations and political interventions. In 2009 and 2010, sales of cars in Slovakia were strongly affected by the scrappage scheme, which was introduced as one of the anti-crisis actions also by the Fico's first cabinet. This artificially increased sales of cars in 2009; on the contrary, it partially reduced sales in 2010, since the part of demand shifted from 2010 to 2009 thanks to the financial support. The effect of the scrappage scheme on sales is very difficult to calculate; however, we assess that in 2009 the scrappage scheme could increase sales of new cars by around 10%, with 2/3 of this extra demand being a one-off incentive driven solely by the scrappage scheme and 1/3 being only an accelerated purchase – i.e. a shift from 2010. The correctness of

our estimate of the effect of the scrappage scheme is confirmed also by the subsequent look at average temperature in summer. Correlation of the sales so adjusted and the average summer temperature exceeds 90%.

Sales of passenger cars in Slovakia hit an all-time record last year. We may expect that this summer will hit record-high temperatures, too. Sales indicate that the average temperature in this year's summer months, compared to an already above-average warm last year's summer, could rise by another 2 degrees to as much as around 23.5°C. In southern Slovakia (Bratislava, Hurbanovo), the average temperature is usually around 2 degrees higher than the Slovakia's average, so it cannot be ruled out that it exceeds the threshold of 25°C in these areas. During this summer, we may expect several attacks of historical records, it is likely that the 40°C threshold will be exceeded in several areas of Slovakia, as well as recurring tropical nights when the temperature does not fall below 20°C, with at least southern Slovakia expecting super-tropical nights (where temperatures do not fall below 25°C). An average day temperature should be just above 20°C also in the colder areas of Slovakia, such as Orava (Liesek) or Poprad.

Besides the expected record-hot summer this year, the inflow of net foreign investment last year indicates that it should be far from dry, even slightly above-average in terms of rainfall. A warm and humid summer could please, in particular, farmers. With the declared arrival of several larger foreign investments, mainly in the automotive industry (including a fourth car plant in Slovakia - Jaguar-Land Rover), we may have the last humid summer ahead of us, with a series of drier summers following. During these rich years, Slovak farmers should think about future, not neglecting investment in irrigation. However, data concerning foreign investment are subject to frequent revisions. Rainfall forecast is therefore considerably less reliable than in the case of average temperature. This was also confirmed by the last summer; a relatively low inflow of foreign investment in 2014 indicated an above-average rainfall in the summer of 2015; however, it was just the opposite, a large part of Slovakia struggled with record drought (in the near future, we therefore expect a more significant revision of data on foreign direct investment in 2014).

Sales of new cars and inflow of foreign investment last year indicate that we have a warm and relatively humid summer ahead of us. This could be good news also for Slovak economy - besides the farmers mentioned above, such weather could positively affect also other parts of economy – tourism (distribution of the relatively numerous rainfall will, however, be important) or energy (increased electricity consumption due to higher performance of air-conditioners). It is likely that air-conditioner manufacturers and seller will not complain about lack of work. However, an extremely hot summer may also pose a threat to economy, in the form of lower labour productivity. Thus, it will be up to Slovaks how they deal with extreme temperatures and whether they turn the hot summer into a strength or weakness of the economy.

Disclaimer: This article is, of course, an April 1st joke, which we hope has entertained our readers at least a little. It also shows that when analysing data, it is necessary to look also for logical connections and not only for a statistical form of time series, which can be purely random, in particular in the case of less numerous observations. This is why we will leave weather forecast to experts in this area. (lk)

ECONOMIC CALENDAR

Week	Indicator	Period	Market Consensus	UniCredit Bank Estimate	Reality
12.	Producer prices (March 24)	February	-3.9% yoy	-3.9% yoy	-4.7% yoy
13.	State budget (April 1)	March	-	-1 000 mil. EUR	-879 mil. EUR
14.	Retail sales (April 5)	February	-	2.9% yoy	-
	Foreign trade (April 8)	February	420 mil. EUR	413 mil. EUR	-

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

Producer prices continued to slump in February

ECONOMY

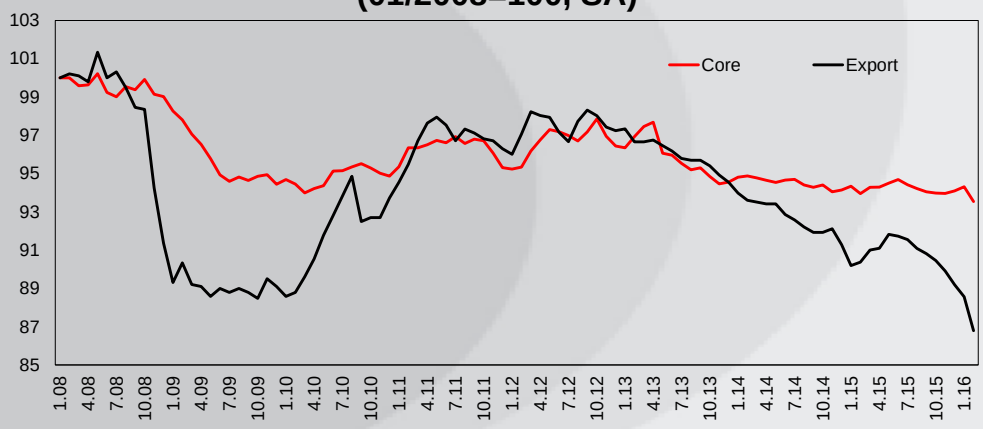
PRODUCER PRICES

According to data of the Statistical Office of SR, domestic producer prices declined by as much as -1.7% mom in February; however, dynamics of their decline moderated from -5.2% to -4.7% yoy.

In February, producer prices were pushed down again mainly by energy prices – prices of energy supplies went down by -2.9% mom; however, due to the last year's lower benchmark, the dynamics of their yoy decline moderated from -6.7% to -6.5%. Similar trends were reported also by refinery products, reflecting the cheap oil prices. In February, their prices went down by another -4.6% mom, with the dynamics of their yoy decline moderating from -36.1% to -30.1%. However, unlike previous months, February saw a considerable decline in core prices in the industry (prices in manufacturing adjusted for the change in oil and food prices – calculation of UniCredit Bank) – compared to January, they were lower by -0.8%; in a yoy comparison, they resumed negative figures after two months of stagnation, being lower by -0.4% yoy. February saw decline of mainly prices of chemical products, which reacted, probably with a mild delay, to the strong decline in oil prices at the turn of the years; however, a strong mom decline of prices was reported also by the automotive industry (-1.9% mom) and machineries (-1.6% mom). On the contrary, compared to January, it was mainly the prices of textile and clothing (2.1% mom) as well as of electrical equipment (0.7% mom) or food (0.5% mom) that went up.

In February, quite a dynamic decline of prices was reported by export prices, which went down by as much as -2.0% compared to the previous month, with the dynamics of their yoy decline deepening from -1.9% to as much as -4.0%, i.e. to a new 13-month low. As for goods intended for export, only prices of furniture and pharmaceuticals increased slightly on a mom basis, and prices of all the other commodities reported a mom decline of prices, with prices of chemical products reporting the strongest decline.

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



Source: UniCredit Bank based on data of SO SR

Prices of agricultural commodities fell again more considerably in February; compared to January and after adjustment for traditional season (calculation of UniCredit Bank), they were lower by as much as -5.1%, with mainly prices in animal production falling mom. The situation one year ago repeated; in a yoy comparison, prices of agricultural commodities maintained an almost unchanged dynamics of growth compared to January, being higher by 1.7% yoy (by 1.6% in January). Prices in plant production maintain double-digit yoy growth (by 13.6%), with mainly prices in animal production falling (by -5.3%); this is mainly due to the decline in prices of milk (-11.2% yoy) due to its surplus on the European market following the abolition of quotas and lower prices of slaughter pigs (-9.8% yoy) as well as lambs and sheep (-11.8% yoy).

OUTLOOK

At the turn of the years, the oil price went down more considerably, affecting the producer prices in Slovakia. The subsequent stabilisation of oil prices should contribute to the stabilisation of producer prices as well. On the other hand, lower prices of oil (and energy) should prevent core prices in the industry from recovering this year too (secondary effects). (lk)

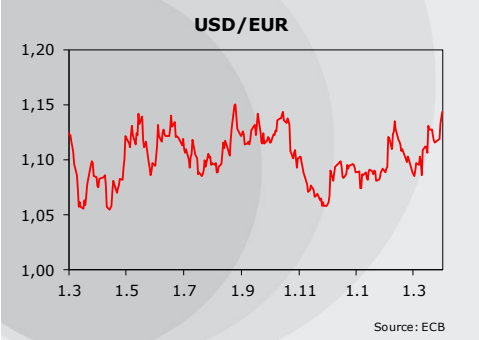
ECONOMIC OUTLOOK

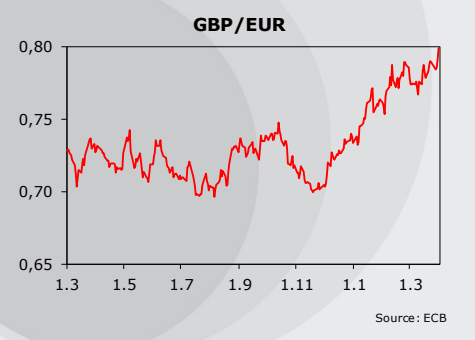
Slovakia	2011	2012	2013	2014	2015E	2016F	2017F
Real GDP growth	**2,8**	**1,5**	**1,4**	**2,5**	**3,6**	**3,2**	**3,2**
GDP per capita	13 052	13 398	13 643	13 947	14 287	14 860	15 383
Household consumption	**-0,6**	**-0,4**	**-0,8**	**2,4**	**2,4**	**2,9**	**2,6**
Government consumption	-1,7	-2,6	2,2	5,9	3,4	1,7	0,0
Gross investments	7,6	-14,0	1,5	2,6	13,1	-0,2	10,8
Exports	12,0	9,3	6,2	3,6	7,0	6,1	5,1
Imports	9,6	2,5	5,1	4,3	8,2	5,1	6,1
Industrial Production	**6,9**	**13,4**	**5,3**	**3,7**	**7,0**	**5,5**	**6,5**
Construction	-1,7	-12,5	-5,3	-4,2	16,3	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**	**1,4**
CPI (Dec.)	4,4	3,2	0,4	-0,1	-0,5	0,5	1,6
Real Estate inflation	-3,0	-1,1	-0,9	-0,8	0,3	2,3	2,5
Average Wage level	786	805	824	858	883	911	941
Nominal Wage growth	**2,2**	**2,4**	**2,4**	**4,1**	**2,9**	**3,1**	**3,4**
Real Wage growth	-1,6	-1,2	1,0	4,2	3,2	3,3	2,0
Employment growth (LFS)	1,5	-1,0	0,0	1,5	2,6	1,0	1,3
Unemployment (average, LFS)	**13,5**	**14,0**	**14,2**	**13,2**	**11,5**	**10,6**	**9,4**
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	53,0	52,7	51,4
Foreign Direct investment (EURbn)	2,8	3,2	-0,3	0,2	0,7	2,5	3,5
ECB Refi rate (%, Dec.)	**1,00**	**0,75**	**0,25**	**0,05**	**0,05**	**0,00**	**0,00**
3M EURIBOR (%, Dec.)	1,2	0,2	0,3	0,1	-0,1	-0,3	-0,3
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

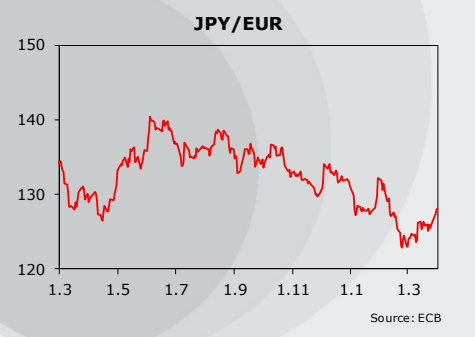
Abroad	2011	2012	2013	2014	2015	2016F	2017F
Eurozone GDP	**1,5**	**-0,6**	**-0,4**	**0,9**	**1,5**	**1,7**	**1,6**
German GDP	**3,1**	**0,9**	**0,5**	**1,6**	**1,7**	**1,8**	**1,4**
Czech R GDP	1,7	-1,0	-0,9	2,0	4,3	2,2	3,0
USA GDP	1,7	2,8	1,9	2,4	2,4	2,2	2,4
Eurozone Inflation	2,7	2,5	1,3	0,4	0	0,4	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

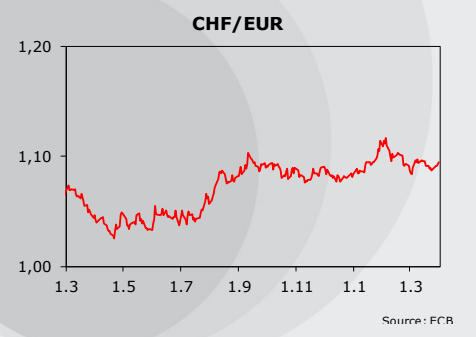
Source: NBS. SOSR. ÚPSVaR. MinFin SR. Eurostat. ECB
Forecasts: UniCredit Bank Slovakia – Slovakia. Eurozone. USA (EURIBOR. USDLIBOR. Brent. USD/EUR); UniCredit Group (CEE Economic Research. CIB) – Eurozone. USA

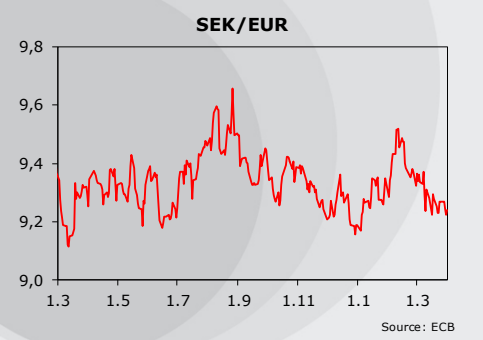
FOREIGN EXCHANGE

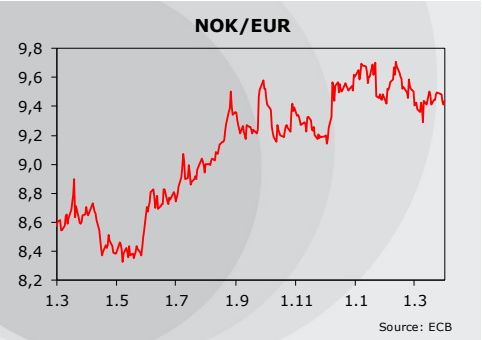


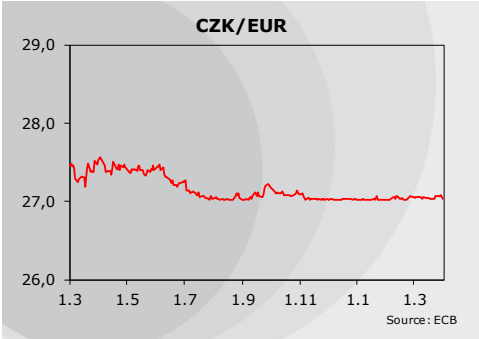


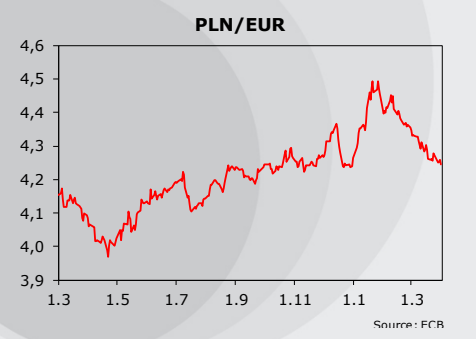


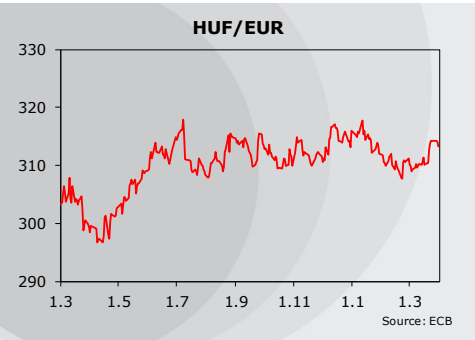


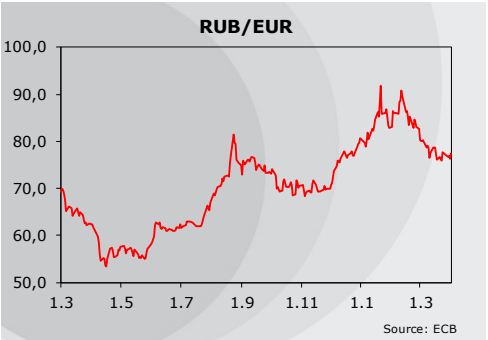












MONEY MARKET

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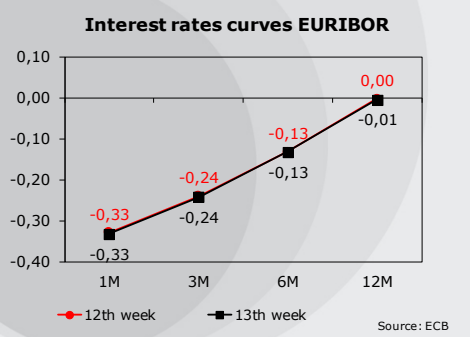
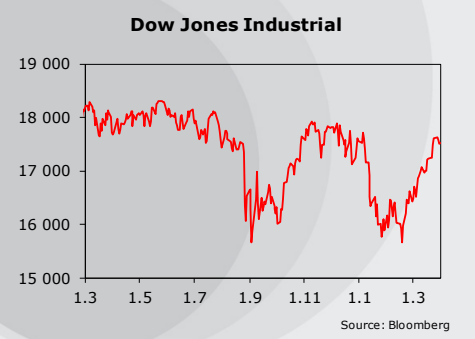
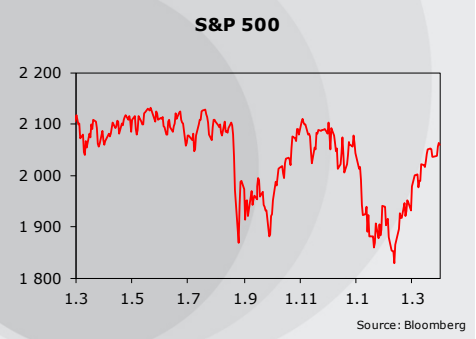
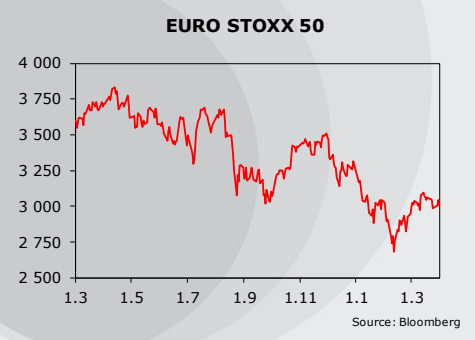
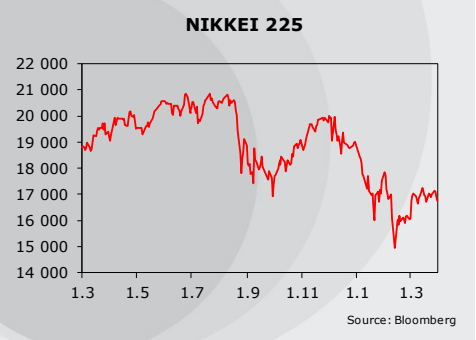


EQUITY









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