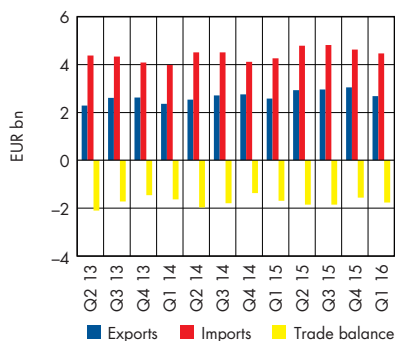


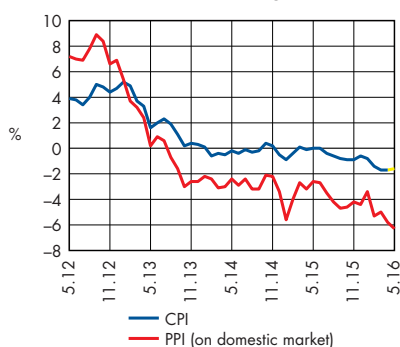
## Political saga continues...

### Foreign trade



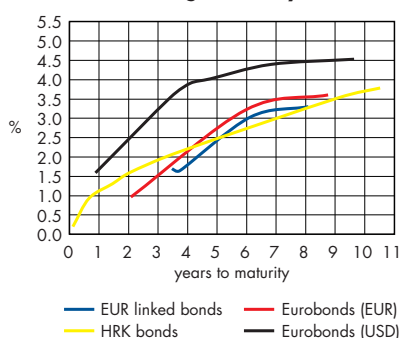
Sources: CBS, Raiffeisen RESEARCH

### PPI and CPI, annual changes (%)



Sources: CBS, Raiffeisen RESEARCH

### Croatia – sovereign bonds yield curve



\* bid rate, as of June 10<sup>th</sup> 8:30 CET

Sources: Bloomberg, Economic RESEARCH/RBA

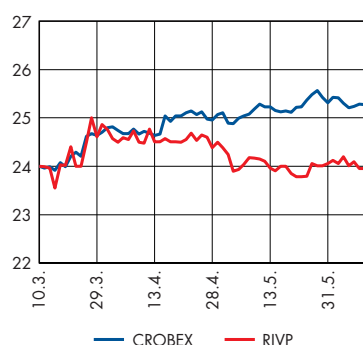
In the week behind us the **political story** undoubtedly stayed in focus. First the HDZ president and First Deputy PM Karamarko announced his party's next move – initiating a no-confidence motion procedure against PM Orešković, and later in the week Mr Karamarko said that he is ready to step down if the PM and Deputy PM Božo Petrov do the same. This week a no-confidence vote against Prime Minister Tihomir Orešković might take place. A new prime minister-designate needs support from at least 76 deputies (of the 151 in the Parliament). In case he fails to form a new Government within 30 days, President Kolinda Grabar-Kitarović has to call early elections. While the conservative party (HDZ) is trying to get out of the crisis with a new cabinet, the main opposition party, the Social Democrats (SDP), would like to have snap elections immediately. New elections could bring about an even more complicated political situation. Furthermore, in such circumstances the much awaited implementation of reforms would have to be postponed definitely and mid-term growth perspective would be depressed.

However, in terms of macroeconomic data it was a rather calm week. The latest data on **foreign trade in March** pointed to a slight rise in foreign trade activities. In the period from January to March, foreign trade deficit widened to EUR 1.8bn (+4.9%yoy). In the same period, exports growth at 4.5%yoy compared to import growth of 4.7%yoy resulted in coverage of imports by exports at 60,3% (-0,1 pp). Deflationary pressures, which have lasted uninterruptedly since August 2013, were confirmed by the **May PPI** data that declined by 6.3%yoy, the strongest fall ever. Imported deflationary pressures were reflected in double-digit annual drop in energy prices (-15.1%yoy) therefore PPI excluding energy in the same observed month reported a much lower decline (-1.6%yoy). As of the next week economic releases, we expect further downward pressures on domestic prices so the awaited **May CPI** release (scheduled for Thursday) could show continued negative inflation rate at around 1.6%yoy. Along with the lower prices coming from the global commodity markets, our forecast is supported additionally by the recent Government's decision on administrative reduction in the price of gas as of April this year. Turning our attention to the **financial markets**, the yields on domestic bonds increased with prices on the longest end of the curve have fallen by around 1%, mostly as a consequence that investors already took their positions ahead of potential new local bond issuance. Additionally domestic political shakiness also affected local bonds' movements. Total weekly registered turnover on ZSE amounted to HRK 439 mn. On the international markets, decline in yields on the core markets spilled over on the Croatian Eurobonds whereas on a weekly level price increase by an average of 0.70% is recorded. In the upcoming days we expect more market downside on the back of the deepening political crisis. This comes in line with our earlier calls citing political instability, and the shaky position of the new Croatian Government might intensify investors' refraining from higher trading volumes on the domestic market. On the **FX market** the week was marked with depreciation of the domestic currency. A stronger demand for FCY from institutional investors and the corporate and banking sector pushed EUR/HRK to a level of about 7,540 kuna per euro. This week we see EUR/HRK market movements between 7.52 and 7.55 kuna per euro.

Financial analyst: Elizabeta Sabolek Resanović (+385 46 95 099)

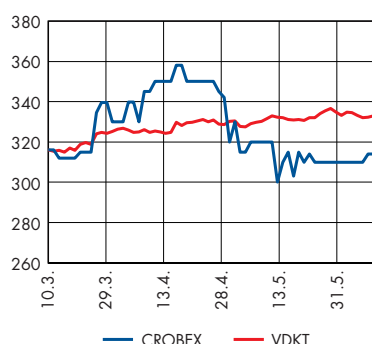
## Valamar Riviera presented corporate strategy until 2020

### Valamar Riviera (3 m)



Sources: ZSE, Raiffeisen RESEARCH

### Viadukt (3 m)



Sources: ZSE, Raiffeisen RESEARCH

### Trading comment

ZSE equity indices CROBEX and CROBEX10 lost 0.5% and 0.2% wow. Out of CROBEX constituents **Luka Rijeka** posted the highest growth, while the strongest drop was recorded by **AD Plastik**. Viewed by sectors, tourism and F&B sectors' shares posted wow gains and construction shares lost the most. Regional stock indices mostly had a negative performance led by Czech index PX. The regular share turnover was even lower than in the previous week, HRK 5 mn on average daily, and the largest regular turnover was recorded with shares of **Hrvatski Telekom**.

### Company news

**Valamar Riviera** presented its corporate strategy for the next five years (until 2020). The goal is to reach double digit growth of EBITDA, which is to be realized through HRK 1.5 to HRK 2 bn investments in the portfolio, as well as through acquisitions and strategic partnerships with the aim of season extension and diversification of emission markets. In 2017 the company plans to invest HRK 197 mn in Family Life Bellevue Resort out of total of HRK 465 mn until 2020 into upgrade of the entire Rabac destination from current 2\* and 3\* to 4\* and 5\*. Furthermore, the company intends to raise the share of the direct booking from current 38% to 50% by 2020. **Uljanik** has signed with JSC KTZ Express from Kazakhstan a shipbuilding contract (plus one optional with technical modifications) for the construction of one wagon carrier with a total load bearing capacity of 5,250 tones i. e. 54 wagons. Delivery time is scheduled for the end of 2017. **Viadukt's** offers, as part of consortium, were chosen as the best on two tenders; for the construction of the road worth HRK 144.7 mn and water infrastructure worth HRK 21.1 mn.

### In this week

We expect cautious trading on ZSE to continue in this week.

Financial analyst: Ana Turudić (+385 1 61 74 401)

### Market performance

Index	1w %	ytd %	Value on*
			<b>10.6.2016</b>
ATX (AT)	-1.61	-9.05	2,180
BELEX15 (RS)	-0.04	-3.07	624
BETI (RO)	-1.94	-8.36	6,419
BUX (HU)	-2.07	11.09	26,573
CROBEX (HR)	-0.54	0.32	1,695
PX (CZ)	-4.60	-12.26	839
MICEX (RU)	1.23	8.44	1,910
SBITOP (SI)	-0.18	-0.43	693
SOFIX (BG)	0.58	-3.39	445
SASX10 (BH)	-0.80	0.15	700
NTX (SEE,CE,EE)	-1.76	-7.12	891
WIG30 (PL)	-0.39	-4.19	1,988

\* as at 16:30 CET. Source: Bloomberg

### Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
					<b>10.6.2016</b>
Luka Rijeka	3.85	47	Končar El	-0.74	670
Adris Grupa (P)	3.02	399	Valamar Riviera	-1.03	24
Ericsson NT	1.67	1,029	Dalekovod	-1.24	13
Đuro Đaković H.	1.19	41	Belje	-1.98	19
Atlantic Grupa	0.46	817	Ingra	-2.34	3
Atlantska Plov.	0.22	130	Zagrebačka Banka	-2.37	40
Ledo	0.20	9,870	OT-Optima T.	-2.94	2
HT	0.13	140	Tankerska NG	-3.49	76
Kraš	0.00	480	Ina	-3.57	2,700
Arenaturist	0.00	325	Varteks	-3.69	14
Maistra	0.00	220	AD Plastik	-4.18	110
Podravka	-0.29	343			

\* as at 16:30 CET. Source: ZSE, Raiffeisen RESEARCH

# Economic RESEARCH

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### Abbreviations

avg – average	EUR – Euro	MoF – Ministry of Finance
bp – basis points	FCY – foreign currency	mom – month over month
C/A – current account	FED – Federal Reserve System	ON – overnight
CBRD – Croatian Bank for Reconstruction and Development	FI – financial institutions	MM – money market
CBS – Croatian Bureau of Statistics	FY – full year	MFEA – Ministry of Foreign and European Affairs
CES – Croatian Employment Service	GDP – Gross Domestic Product	qoq – quarter over quarter
CNB – Croatian National Bank	GFCF – Gross fixed capital formation	RBA – Raiffeisenbank Austria d.d.
DPS – dividend per share	ILO – International Labour Organisation	RoC – Republic of Croatia
EC – European Commission	IMF – International Monetary Fund	SMP – Securities markets programme
ECB – European Central Bank	kn, HRK – Kuna	SNA – Aystem of national accounts
EDP – Excessive Deficit Procedure	LSE – London Stock Exchange	USD – Dollar
EM – Emerging Markets	MIP – Macroeconomic imbalance procedure	w.d.a – working day adjusted
eop – end of period		yoy – year over year

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