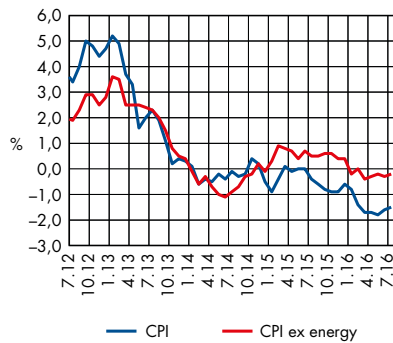


CPI remained in the negative territory

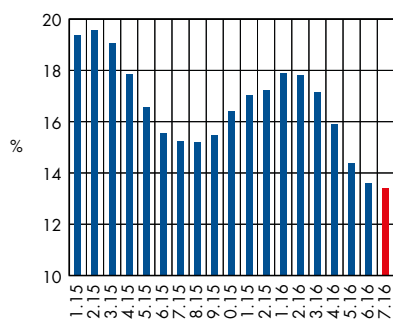
CPI, yoy



Sources: CBS, Economic RESEARCH/RBA

The shorter week because of the public holiday brought CPI readings for July. In line with our expectations **persistent deflationary pressures** are confirmed with the annual drop by 1.5%. The CPI decline, observed for the third year in a row, gained additional strength thanks to the administrative decline in the gas prices early in the second quarter. The expected annual decline in consumer prices is one percent in annual terms. There are no fears of a deflationary spiral. The decline in prices has a positive impact on consumption by alleviating the burden on personal income. Namely, the main generator of negative rates continues to be the energy, which is expected to gradually later in the year, after the recovery in the prices (of oil) in the world's commodities markets. **The upcoming week** has nothing special to offer in terms of economic releases as only the first estimate of July's registered unemployment rate and June's average wages are on the calendar. Amidst the seasonal factors (tourist season), the first one will report a further decline (to 13.4% from June 13.6%) while the real wages should confirm an upward trend.

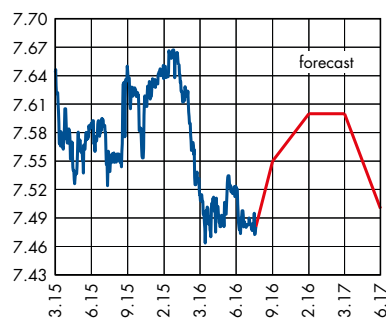
Registered unemployment rate (%)



Sources: CBS, Economic RESEARCH/RBA

As for **political issues**, the parliamentary election campaign for the upcoming snap elections scheduled on Sep 11th started officially on Tuesday. For now the situation is still calm and the main political parties (SDP and HDZ) and MOST started with presentations of their economic programmes. While HDZ in its program focuses on the GDP growth but also offering populist tax cuts, the centre-left party SDP intends to tackle unemployment and boost domestic consumption. And finally, the Bridge of Independent Lists (MOST) advocates structural reforms and the fight against youth unemployment.

EUR/HRK, bid



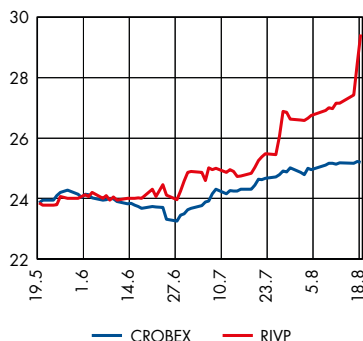
* as at 19.08.2016, 15:30 CET
Sources: Bloomberg, Economic RESEARCH/RBA

Turning our attention to **financial markets**, where an increased inflow of FCY from tourism and strengthening of the local currency were offset with the pronounced demand for FCY from corporate sector. Thus EUR/HRK moved in a narrow range between 7.475 and 7.485 kuna per euro. The upward EUR/HRK trend is expected to continue by the end of the year. Still, the average 2016 EUR/HRK exchange rate at the annual level should come in lower than in 2015, thus confirming the recovery of economic activity mostly accompanied by the strengthening of the kuna against the euro. The **domestic bond market remained relatively quiet** with reduced trading volumes and the absence of EUR-linked bonds trading. The market participants were mainly focused on pure kuna bonds with maturity in 2021, whose price rose by 0.2% on a weekly level. This week with the approaching end of the peak tourist season and the return of market participants from the holidays we expect livelier days with increased trading volumes. Croatian Eurobonds, following a continuous rise in prices in the last month, closed the week with a slight fall in the prices especially on USD issues.

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Valamar Riviera in spotlight

Valamar Riviera (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Maistra (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

In the four-day week behind us the regular stock turnover on the Zagreb Stock Exchange amounted to HRK 8.7 million daily, on average. Shares of Valamar Riviera were the most traded, measured by the turnover of HRK 8.8 million in total over the week. In a wavering mode, equity indices CROBEX and CROBEX10 closed the week up by 0.4% and 0.9%. The winners list was headed by shares of and Valamar Riviera while shares of Đuro Đaković Holding and Varteks this time were on the down side thus erasing some gains from the week before. Regarding the performance by sectors, all sector indices except for the tourism were in the red led by the construction shares index. Leading regional equity indices had a mixed performance in the last week.

Company news

Petrokemija completed the planned fertilizer facilities overhaul works which were one of the larger in scope in the last decade. The works started at the end of June and the overall investment amounted to HRK 110 million. **Maistra** opened doors of a new family hotel Amarin in which the company invested HRK 300 million. The hotel has 280 rooms and can accommodate almost 1,000 guests. **Valamar Riviera** announced investments worth HRK 500 million in upgrades of its capacities in Rabac. The Family Life Bellevue Resort will be branded according to TUI standards and the second project, the Girandella Resort will include upgrades in all three pavilions.

In this week

According to the dividend calendar of the Zagreb Stock Exchange, the ex-dividend days scheduled are as follows: **HUP-Zagreb** shares on Tuesday (DPS of HRK 15), **Jamnica** shares on Wednesday (DPS of HRK 2,197) and **Plava Laguna** preferred shares on Thursday (DPS of HRK 1).

Financial analyst Nada Harambašić Nereau

Market performance

Index	1w %	ytd %	Value on*
19.8.2016			
SOFIX (BG)	1.65	1.24	467
BETI (RO)	1.63	-1.50	6,899
SBITOP (SI)	1.40	4.19	725
CROBEX (HR)	0.36	6.11	1,793
MICEX (RU)	-0.22	11.44	1,963
SASX10 (BH)	-0.47	-1.35	690
BUX (HU)	-0.95	15.16	27,548
ATX (AT)	-1.31	-5.94	2,255
PX (CZ)	-1.83	-11.32	848
NTX (SEE,CE,EE)	-2.35	-3.98	921
BELEX15 (RS)	-2.40	-3.90	619
WIG30 (PL)	-2.99	-1.27	2,049

* as at 16:30 CET. Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
19.8.2016					
Valamar Riviera	6.59	29	Zagrebačka Banka	-0.34	42
OT-Optima T.	4.24	2	Ericsson NT	-0.73	1,020
Luka Rijeka	1.41	49	Ina	-1.50	2,955
HT	0.98	144	Kraš	-3.05	509
Adris Grupa (P)	0.80	403	Maistra	-3.10	233
Podravka	0.56	361	Dalekovod	-3.56	13
Ledo	0.47	10,650	Belje	-4.11	20
Atlantic Grupa	0.31	817	Ingra	-4.38	2
AD Plastik	-0.01	118	Tankerska NG	-4.70	71
Končar EI	-0.02	658	Đuro Đaković Holding	-12.20	47
Atlantska Plov.	-0.06	185	Varteks	-12.65	16
Arenaturist	-0.32	389			

* as at 16:30 CET. Source: ZSE, Economic RESEARCH/RBA

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Abbreviations

bp – basis points	GDP – Gross Domestic Product	kn, HRK – Kuna
CERP – Restructuring and Sale Center	HBOR – Croatian Bank for	MF – Ministry of Finance
DZS – Croatian Bureau of Statistics	Reconstruction and	RBA – Raiffeisenbank Austria d.d.
ECB – European Central Bank	Development	USD – Dollar
EUR – Euro	HNB – Croatian National Bank	
FED – Federal Reserve System	IMF – International Monetary Fund	

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"Reduce": expected negative return up to -10% over next 12 months.

"Sell": for stock with expected negative return by more than -10% u over next 12 months.

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% of all recommendations	29%	72%	0%	0%	0%	0%
Investment banking services	0	2	0	0	0	0
% all IB services	0%	29%	0%	0%	0%	0%

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