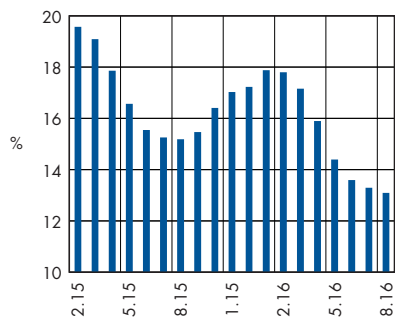


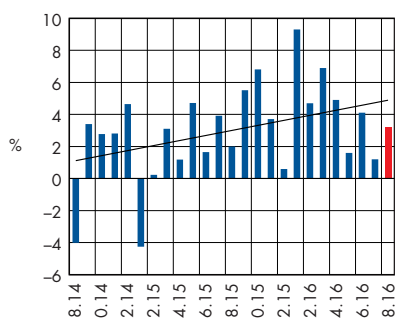
A calm week

Registered unemployment rate



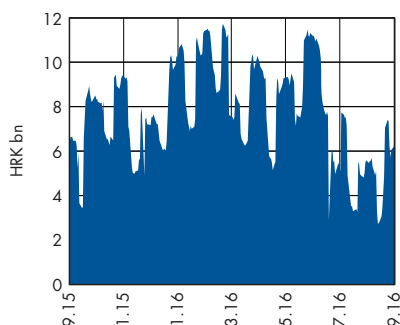
Sources: CBS, Economic RESEARCH/RBA

Industrial production, annual changes



Sources: CBS, Economic RESEARCH/RBA

Daily excess of liquidity



Sources: CNB, Economic RESEARCH/RBA

Although there is still uncertainty on the domestic political scene in anticipation of a new government, a positive sentiment prevailed on the local market where higher bond trading volumes were recorded while the labor market reported a further decline of the unemployment rate. Namely, compared to the last post-election period and the negotiation time, the willingness to reach an agreement much faster seems very realistic this time. This readiness is partly indicated by the second round of talks between the HDZ and MOST, where they agreed on a platform for a future stable government and workflow changes. Furthermore, both sides expressed satisfaction with the way the talks were held and confirmed their intention to form a stable government as soon as possible. The next round of negotiations will take place today. We assume that both parties will reach an agreement soon.

In terms of **macroeconomic data**, it was a rather poor week. Only labor market data were released at the very end of the week. As expected, lower in August (13.1%, the lowest since Nov 2008), the unemployment rate is subject to the usual seasonal movements during the summer months which results in improvements in labor market indicators. However, as the end of the year nears, improved developments in employment, aided by a rising demand for seasonal workers in tourism, is expected to vanish. The latter points to the deep-seated structural problems in the Croatian labor market that is still characterized by a low share of active population, low employment, but also long-term unemployment and the educational structure of the unemployed, which often does not meet the demand for workers of certain profiles. As regards the **upcoming economic releases** on Thursday, industrial production data for August may report a continuation of annual growth for the nineteenth consecutive month at an even faster pace (+3.2% yoy).

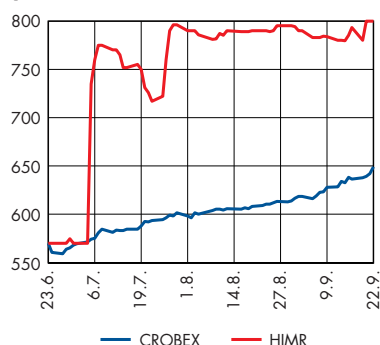
The **local bond market** remained in a positive mood with increased trading volumes, which are expected to continue during the week ahead with investors' focus on the HRK denominated bonds. Over the medium-term period, a stable political situation could contribute to the reduction of the risk premium thus reducing the financing costs and consequently lowering the public debt burden.

Looking at movements on the **FX market** last week brought slight appreciation pressures on the domestic currency thus EUR/HRK slid to the level of 7.50 kuna per euro. We also expect a higher FCY demand from the corporate sector to continue, so in the week ahead EUR/HRK could oscillate within the range of 7.50–7.52 kuna per euro. Coming closer to the end of year, the domestic currency could be supported by a solid performance in fiscal and C/A outcome but an increasing FCY demand will mitigate the HRK strengthening (due to high imports growth).

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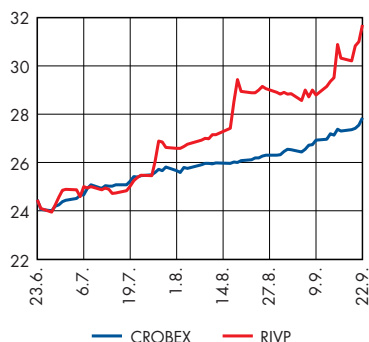
Growth of equity indices continues

Imperial (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Valamar Riviera (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

Trading on the Zagreb Stock Exchange continued in an optimistic mood coupled with higher turnover and plenty of encouraging announcements from companies. The regular stock turnover amounted to HRK 13 million daily on average and CROBEX and CROBEX10 added as much as 3.3% and 3.0%, respectively. All of the CROBEX shares increased, headed by shares of Valamar Riviera. All of the sector indices registered growth of values as well led by CROBEXnutris index. The highest turnover was recorded again with shares of Hrvatski Telekom (HRK 15.8 million) followed by shares of Valamar Riviera and Imperial. Gains were seen across the regional stock exchanges too.

Company news

Podravka sold its beverages unit Studenac to Radenska and Kofola ČeskoSlovensko for an undisclosed amount and said that there will be no negative effects from this transaction in the current year's result of Podravka while an improvement of profitability is expected in next years. **Ericsson Nikola Tesla** signed new contract with HT Mostar to modernize its fixed core network. Following the conclusion of the takeover contract for 50.08% shares in **Imperial**, **Valamar Riviera** acting together with AZ d.o.o. now holds 59.53% shares and will publish the takeover offer for the remaining shares of the target company. Also, Valamar Riviera signed an allotment contract for Valamar Girandella Resort in Rabac with DER Touristik Köln GmbH for the next three seasons starting in 2017 with an occupancy guarantee. **Viadukt** will perform construction works on the wind power plant Krš Pađene worth HRK 11 mn.

In this week

We expect similar trading dynamics on ZSE to continue.

Financial analyst Nada Harambasic Nereau

Market performance

Index	1w %	ytd %	Value on* 23.9.2016
SASX10 (BH)	4.82	4.28	729
ATX (AT)	3.42	0.13	2,400
CROBEX (HR)	3.27	14.65	1,937
NTX (SEE,CE,EE)	2.17	-2.02	940
SOFIX (BG)	1.96	5.21	485
PX (CZ)	1.42	-8.71	873
BELEX15 (RS)	1.15	-0.72	639
MICEX (RU)	1.06	13.72	2,003
WIG30 (PL)	1.00	-2.67	2,020
SBITOP (SI)	0.60	6.95	745
BUX (HU)	0.13	17.62	28,135
BETI (RO)	0,00	-0,73	6.954

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

Top/Flop – CROBEX index

Share	1w %	Price on* 23.9.2016	Share	1w %	Price on* 23.9.2016
Valamar Riviera	9.43	33	Tankerska NG	2.45	77
Belje	9.36	27	Luka Rijeka	1.89	48
Zagrebačka Banka	8.14	49	HT	1.36	165
Luka Ploče	7.79	608	OT-Optima T.	1.08	3
Atlantska Plov.	6.77	190	Ledo	0.99	10,750
Podravka	5.83	381	Imperial	0.89	800
AD Plastik	4.75	132	Arenaturist	0.70	430
Ingra	3.35	3	Varteks	0.58	17
Atlantic Grupa	2.95	872	Dalekovod	0.23	13
Đuro Đaković H.	2.85	51	Sunčani Hvar	0.00	24
Končar El	2.64	680	Uljanik Plovidba	0.00	125
Adris Grupa (P)	2.60	435			

* 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 Reconstruction and Development	MF – Ministry of Finance
DZS – Croatian Bureau of Statistics	HNB – Croatian National Bank	RBA – Raiffeisenbank Austria d.d.
ECB – European Central Bank	IMF – International Monetary Fund	USD – Dollar
EUR – Euro		
FED – Federal Reserve System		

Design

SIBI; OIB: 62606715155; I.B. Mažuranić 70, 10090 Zagreb

Publisher

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 Magazinska cesta 69, 10000 Zagreb
 www.rba.hr
 tel. ++385 1/45 66 466
 fax: ++385 1/48 11 626

Publication finished on September 23, 2016

Publication approved by editor on September 26, 2016 at 08:05

First release scheduled for September 26, 2016 at 08:17

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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.

Target prices are based on calculated fair value which is derived by applying relative valuation tools (peer group analysis) or discounted cash flow DCF method. Detailed information on specific valuation methods applied is available at: <https://www.rcb.at/en/the-bank/business-segments/cr/concept-and-methods/>

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Investment banking services	0	2	0	0	0	0
% all IB services	0%	29%	0%	0%	0%	0%

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