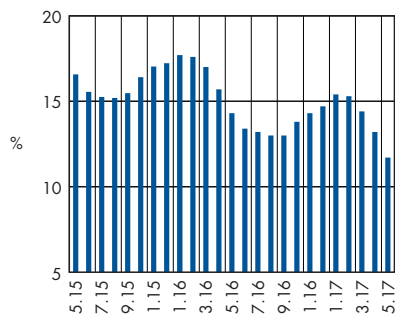


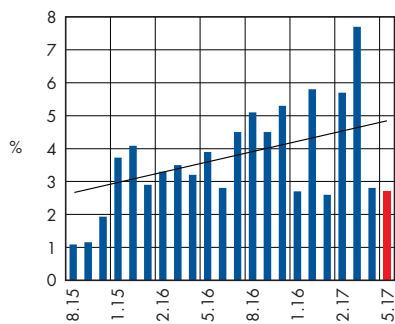
Declining trend in unemployment continued

Registered unemployment rate



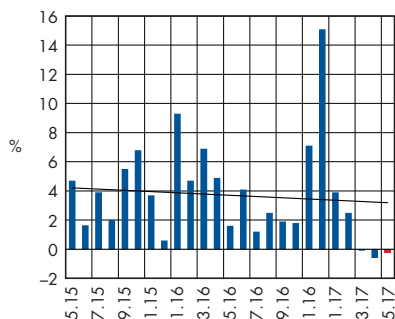
Sources: CBS, Economic RESEARCH/RBA

Retail trade, real changes, yoy



Sources: CBS, Economic RESEARCH/RBA

Industrial output, yoy



Sources: CBS, Economic RESEARCH/RBA

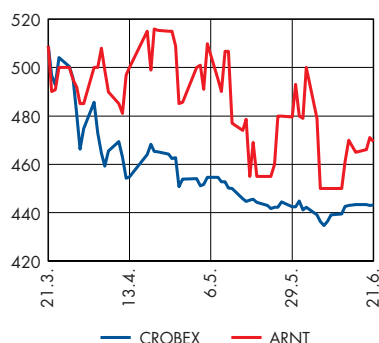
In Croatia, the shorter week, because of the national holiday on Thursday, passed very calmly with only the **labour market figures** released. Although unemployment rate continued on its downward path, the reduction (to 11.7% in May) was only partly caused by rise in employment, while shrinking of the work force also contributed to some of the fall. The reasons for this lie in the negative net migration that undermines the potential for sustainable growth in the long run. Although also positive trends in the form of declining unemployment and a slight growth in employment are expected in the upcoming months (as a result of seasonal employment), the on-going outflow of young, productive population is expected to continue. A reason for this lies partly in the slow creation of new jobs, not to mention in the structure of new vacancies that contain mainly seasonal jobs and/or fixed term jobs. Furthermore, wage growth in April particularly applies to net salary, which predominantly resulted from changes in the taxation of income was somewhat offset by the positive inflation rate. However, the upcoming week is expected to be a bit livelier. At the very end of the week **retail trade and industrial production for May** are scheduled for release. Despite the fact that consumer confidence, expectations and sentiment indices point to caution and a halt of growth, they are still at relatively high levels. The rise in employment and salaries paired with the excellent tourist pre-season data, support our expectations that for the 33rd consecutive month retail trade figures will deliver annual growth at around 2.7 percent. On the other hand, the May data are expected to show stagnation or slight decline in industrial production on annual level. The decline is probably related to the situation in Agrokor and its affiliated companies, while the recovery of the domestic demand and the continued growth of foreign demand will certainly mitigate the negative impact.

The local **financial markets** remained relatively calm over the last week. EUR/HRK market rate hovered between 7.40 and 7.43 kuna per euro where we see the trading also this week. However, in addition to the usual seasonal HRK appreciations ahead of the main tourist season and FCY inflows from investments and exports, we do not exclude that expectations regarding the new credit line of Agrokor are creating an additional pressure on EUR/HRK. As the central bank remains fully committed to FX stability, we should not exclude even one more FX intervention. MM rates will remain subdued amidst the extremely high HRK liquidity in the financial system, and therefore, there is no HRK demand from the banking sectors on the regular repo auctions. After three weeks the Ministry of Finance announced a **T-bill** auction as HRK 562 mn mature this week. Ample liquidity, and consequently a low interest rate environment, suggest no changes in yields. As expected, the **local bond market** reported barely any liveliness due to the shortened working week. Still, the focus was on the longer end of the HRK curve. Investors are still waiting for the MoF information about the local issuance that should take place by the end of year. This week we can expect higher trading volumes due to the summer season arrival and the investors repositioning their portfolio before the summer holidays. After a period of a somewhat more pronounced growth, the Croatian Eurobonds reported a slight decline in prices.

Elizabeta Sabolek Resanović

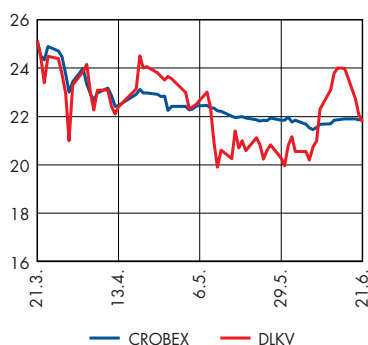
Arena H.G.'s stocks in focus

Arena H.G. (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Dalekovod (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

In a rather unexciting week behind us, the average regular stock turnover on the ZSE amounted to only HRK 5.8 mn and CROBEX was moving in a narrow range. The highest regular turnover was recorded by shares of Arena Hospitality Group while preferred shares of Adris had a block transaction from stock buy-back program. Among CROBEX constituents shares of OT–Optima Telekom and Petrokemija posted the largest losses on the weekly level. Last week CROBEXkonstrukt index retreated while CROBEXtransport was the best performer. In the CEE region, stock indices had a mixed performance while MICEX recovered from the drop in the week before.

Company news

Dalekovod expects to sign another contract in Norway worth EUR 35 mn and is awaiting the final confirmation by the investor. **Adris** bought back only 19,386 preferred shares out of maximum planned 400,000 priced at HRK 471 per share (at the upper band of the range set to HRK 477.6) while no common shares were bought back during the program. After a week-long production halt in **Petrokemija's** ammoniac facility caused by a technical failure, the company does not expect to see negative effects on the results due to sufficient stocks on hand.

In this week

The dividend calendar of the ZSE is fully booked this week. Dividend is to be paid out to shareholders of INA and Končar – Distributivni I Specijalni Transformatori while on Thursday shares of Adris go ex-dividend (DPS of HRK 17).

Nada Harambašić Nereau

Market performance

Index	1w %	ytd %	Value on*
23.6.2017			
MICEX	2.44	-16.36	1,867
SBITOP	1.02	10.40	792
SOFIX	0.37	17.26	688
CROBEX	0.36	-6.53	1,865
WIG 30	0.29	18.66	2,662
BUX	0.25	11.24	35,600
BELEX15	-0.65	-1.61	706
NTX	-1.00	17.24	1,186
PX	-1.02	6.41	981
BETI	-1.42	17.82	8,348
ATX	-1.42	16.79	3,058
SASX-10	-2.87	-13.21	599

* as at 16:30 CET.

Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
23.6.2017					
Podravka	2.94	329	Valamar Riviera	-0.46	44
Atlantska plovdba	2.63	390	Zagrebačka burza	-0.63	16
Maistra	2.11	290	HT	-0.71	175
Zagrebačka banka	1.91	47	Đuro Đaković Grupa	-0.77	35
Adris grupa (P)	1.72	473	Uljanik plovdba	-0.85	129
AD Plastik	1.53	169	Ingra	-1.23	5
Arena H.G.	1.10	470	Ericsson Nikola Tesla	-1.44	1,230
Atlantic Grupa	0.71	776	Viadukt	-3.70	130
Luka Ploče	0.00	555	Dalekovod	-4.13	23
Kraš	-0.04	475	Petrokemija	-9.67	14
Končar Elektroind.	-0.14	725	OT-Optima Telekom	-14.49	3

* as at 16:30 CET.

Source: ZSE, Economic RESEARCH/RBA

Raiffeisen RESEARCH

Raiffeisenbank Austria

Economic Research

Zrinka Živković Matijević, MSc, Head of Department; tel: +385 1/61 74 338, email: zrinka.zivkovic-matijevic@rba.hr
 Elizabeta Sabolek Resanović, Economic Analyst; tel: +385 1/46 95 099, e-mail: elizabeta.sabolek-resanovic@rba.hr
 Viktor Viljevac, tel: +385 1/61 74 837, e-mail: viktor.viljevac@rba.hr

Financial Advisory

Nada Harambašić Nereau, MSc, Financial Analyst; tel.: +385 1/61 74 870, email: nada.harambasic-nereau@rba.hr
 Ana Turudić, Financial Analyst; tel: +385 1/61 74 401, email: ana.turudic@rba.hr

Markets and Investment Banking

Robert Mamić, Executive Director; tel: +385 1/46 95 076, email: robert.mamic@rba.hr

Editor

Zrinka Živković Matijević, MSc, Head of Economic Research

Abbreviations

bp – basis points	HBOR – Croatian Bank for Reconstruction and Development	Q1, Q2, Q3, Q4 – quarters
CERP – Restructuring and Sale Center	HNB – Croatian National Bank	RBA – Raiffeisenbank Austria d.d.
DPS – Dividend per share	IMF – International Monetary Fund	s.a. –seasonally adjusted
DZS – Croatian Bureau of Statistics	kn, HRK – Kuna	USD – Dollar
ECB – European Central Bank	MF – Ministry of Finance	WDA – working day adjusted
EUR – Euro	pp – percentage points	yoy – year-on-year
FED – Federal Reserve System		
GDP – Gross Domestic Product		

Design

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

Publisher

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

Publication finished on June 23, 2017

Publication approved by editor on June 26, 2017 at 08:05

First release scheduled for June 26, 2017 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.

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Investment banking services	0	0	0	0	0	0
% all IB services	0%	0%	0%	0%	0%	0%

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