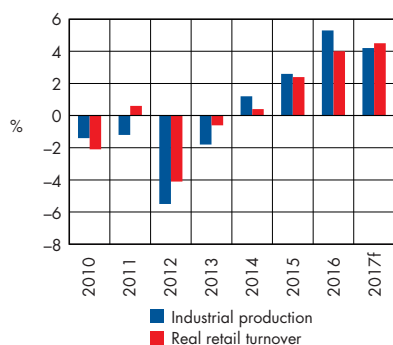


Favourable industrial and retail trade turnover in 2016

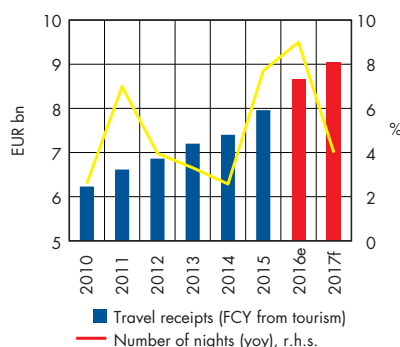
Retail trade and industrial production, annual changes



Sources: CBS, Economic RESEARCH/RBA

The week behind us was highlighted by better-than-expected industrial and retail trade turnover in December. The above-expected double-digit growth rate of **industrial production** (+14.9%yoy) confirmed the trend of positive annual growth rates, which has lasted from February 2015. Strong growth in industrial production in December spurred the favourable trends on annual basis in the last quarter (+7.1% gross indices), which will certainly contribute to a positive movement of GVA in Q4. For the whole 2016, industrial output is higher by 5%yoy, primarily driven by rising manufacturing industry (+5.4%yoy) that makes almost 78% in total structure. This year, we expect positive annual growth rates to continue with the main growth drivers in activities closely related to tourism and trade.

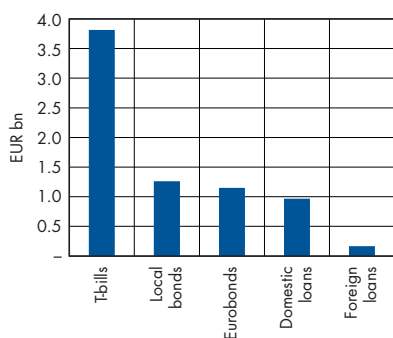
Travel receipts (FCY from tourism) and nights



Sources: CNB, CBS, Economic RESEARCH/RBA

The latter is supported by the recently published **retail trade** data for December that positively surprised with the highest real growth rate since September 2007 (+5.8%yoy), strongly influenced by extended tourist season, rising consumer optimism and increased holiday consumption. According to seasonal adjusted indices, the average retail trade turnover in 2016 accelerated to 4% thus confirming a positive trend for the third year in a row. Expected subdued inflation and further excellent results in tourism (the first results for December are to be released this week), paired with effects of the new tax changes, could finally result in continuation of positive retail trade trends in 2017.

Budgetary principal debt repayment in 2017



Sources: MF, Economic RESEARCH/RBA

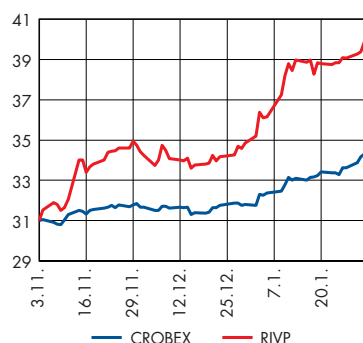
As for the **money market**, the HRK liquidity in the system remained high and consequently the interest rates stood at low levels. Moreover, at the last week's **T-bills auction**, an increased demand for short-term government papers resulted in declining yields again. The total amounts offered exceeded the amount accepted by the Ministry of Finance thus pure HRK 1-year T-bill's yield recorded further decline to 0.59% (1bp lower in comparison to the previous auction). Improved financing conditions on the domestic financial market were reflected also in the last week's huge interest of investors for the new long-term Government papers. At the very end of week The Order Book of new Government issuances was closed. The Government decided to tap the primary market by offering two pure **HRK bond issuances** with maturity in 2022 and 2028. As the great investors' interest significantly exceeded the total amount planned, the new 5-year bond paper (HRK 3bn) brought yield to maturity at 2.29% while 11-years bond (HRK 5.5bn) will be issued at 3.09%ytm. Lower yields, if compared to previous bond issuances, are attributed in entirety to the significantly different market environment characterized by the record-high level of liquidity in the system. Although the collected amount is higher than the amounts due this week (HRK 5.5bn), we expect that the Government will use a part of financing receipts for Eurobond repayment in April (USD 1.5bn).

Regarding the **FX market**, the last week brought additional appreciation pressures on HRK thus the EUR/HRK slid to the levels last time seen in 2012. A stronger interest of non-residents for the domestic currency could push the EUR/HRK within the range 7.43–7.46 kuna per euro. In case of further HRK strengthening, we do not exclude an FX intervention by the CNB.

Tomislava Ujević

Surge of construction shares continued

Valamar Riviera (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Viadukt (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

The stock indices of the Zagreb Stock Exchange, CROBEX and CROBEX10 posted significant gains last week. The regular equity turnover was wow higher and amounted to HRK 20 million daily on average. The highest regular turnover over the week was recorded by shares of **Valamar Riviera** totalling HRK 17 million. Shares of **Ingra** gained the most among the CROBEX members and CROBEXkonstrukt index was the top performer among sector indices of the ZSE, while transportation sector shares recorded the strongest decline. Regional equity indices posted mixed wow performance.

Company news

Đuro Đaković Grupa member company, ĐĐ Specijalna Vozila, contracted with Croatian Ministry of Defence the service agreement on general revision of the tank M-84 worth HRK 8 million. Furthermore, Đuro Đaković announced financial reports for 2016. The top line amounted to HRK 554.3 million, 47% yoy up, whereas the net loss came in yoy lower at HRK -19.9 million (HRK -62.5 million in 2015). At the end of 2016 the order backlog stood at HRK 554 million. **Viadukt** also informed about new contract worth HRK 212.2 million which the company has signed as a member of consortium and is related to works on reconstruction of the water supply and drainage system.

In this week

In this week we expect continuation of the positive sentiment in established equity markets and ZSE.

Ana Turudić

Market performance

Index	1w %	ytd %	Value on* 3.2.2017
CROBEX (HR)	2.91	8.79	2,170
PX (CZ)	0.80	2.48	944
BUX (HU)	0.35	2.58	32,829
NTX (SEE,CE,EE)	0.23	6.23	1,075
SASX10 (BH)	0.19	-4.77	658
BELEX15 (RS)	0.09	-2.83	697
BETI (RO)	-0.02	5.77	7,494
SBITOP (SI)	-0.04	3.69	744
ATX (AT)	-0.09	4.28	2,731
WIG30 (PL)	-0.66	7.19	2,405
SOFIX (BG)	-1.06	2.93	604
MICEX (RU)	-1.96	-0.50	2,222

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

Top/Flop – CROBEX index

Share	1w %	Price on* 3.2.2017	Share	1w %	Price on* 3.2.2017
Ingra	16.93	4	Kraš	2.16	555
OT-Optima T.	14.29	3	Atlantic Grupa	1.30	934
Valamar Riviera	8.62	42	HT	0.52	174
Dalekovod	6.91	17	Luka Rijeka	0.36	48
Končar El	5.77	825	Imperial	0.00	815
Podravka	4.96	413	Tankerska NG	-0.21	80
Arenaturist	4.56	535	Varteks	-2.11	17
Adris Grupa (P)	4.47	491	Ledo	-3.35	10,100
AD Plastik	3.54	147	Luka Ploče	-4.22	565
Ericsson NT	2.86	1,296	Belje	-4.57	23
Zagrebačka Banka	2.27	60	Atlantska Plov.	-5.15	330
Đuro Đaković Grupa	2.22	46	Uljanik Plovidba	-5.71	165

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

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Abbreviations

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

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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	0%	86%	14%	0%	0%	0%
Investment banking services	0	1	0	0	0	0
% all IB services	0%	29%	0%	0%	0%	0%

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