

January 07 | 2019

Weekly | 2018 | Week 01

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CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS
Monday	7-Jan-19	8:00	GER	Retail sales, Nov18, y/y	-0.4%
	7-Jan-19	8:00	GER	Industrial orders, Nov18, y/y (WDA)	-2.7%
	7-Jan-19	11:00	EMU	Retail sales, Nov18, y/y	0.4%
Tuesday	8-Jan-19	8:45	GER	Industrial production, Nov18, y/y (WDA)	-0.8%
	8-Jan-19	9:00	CZ	Industrial production, Nov18, y/y	5.0%
	8-Jan-19	11:00	EMU	Economic Confidence, Dec'18	108.2
Wednesday	9-Jan-19	9:00	CZ	Trade balance, Nov18, CZK bn.	5.7
Thursday	10-Jan-19	9:00	CZ	CPI, Dec'18, y/y	2.1%
Friday	11-Jan-19	9:00	CZ	Retail sales, Nov18, y/y	1.8%
	11-Jan-19	9:00	CZ	(Final) 3Q18 GDP, q/q	0.6%
	11-Jan-19	9:00	SPA	Industrial production, Nov18, y/y (SA)	0.3%
	11-Jan-19	9:00	ITA	Industrial production, Nov18, y/y (WDA)	0.5%

* LOCAL TIME IS CET

** (REUTERS/ BLOOMBERG) POLL

JANUARY 2019 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
SPP 805*	3-Jan-19	4-Jan-19	4-Oct-19	CZK 5 bn. max	N/A
CZGB 2017-2027**	9-Jan-19	11-Jan-19	10-Feb-27	CZK 5 bn. max	0.25%
CZGB 2006-2036**	9-Jan-19	11-Jan-19	4-Dec-23	CZK 3 bn. max	4.20%
SPP 806*	17-Jan-19	18-Jan-19	19-Jul-19	CZK 5 bn. max	N/A
CZGB 2018-2021**	23-Jan-19	25-Jan-19	23-Feb-21	CZK 5 bn. max	0.75%
CZGB 2015-2026**	23-Jan-19	25-Jan-19	28-Jun-26	CZK 5 bn. max	2.40%
SPP 807	31-Jan-19	1-Feb-19	1-Nov-19	CZK 0.5 bn.	N/A

* FOR T-BILLS, THIS IS MAXIMUM AMOUNT PER PRIMARY DEALER.

** MINFIN CAN CHANGE THE ISSUE AT THE LATEST AT THE DAY OF THE AUCTION ANNOUNCEMENT FOR ONE WITH SIMILAR MATURITY.

THOUGHT OF THE WEEK

“SO, PEOPLE FINALLY REALIZE YOU CAN'T SELL SKODA OCTAVIA AT BMW 5 PRICE ↗ ?

WEEK AHEAD

Finally a week that is not (data-) weak.

Key releases in the Eurozone are **Nov'18 German industrial data** (not much expected, especially from orders, as PMI showed) and **Nov'18 Eurozone retail sales** (also likely to be shown weak, but that will not be change against what we'd seen throughout the previous months of last year).

In the Czech Republic, final 3Q18 GDP won't bring any revision to 2nd estimate of 0.6% q/q but there will be data on savings rate (probably up again) and profitability of NFCs (probably down again). Monthly data from **November – retail sales, industry** - will then probably show that growth slackened mid-way through last quarter of 2018. Finally, **December inflation** is forecast at 2.1% but I'd hazard a guess it'll be lower (CZK oil price of Brent fell 15% in December) and that most of the inflation will be shown to have been due to housing.

All the CZ data should then show to the central bank that further tightening is nonsense.

WEEK BEHIND

- CZ Industry about to contract, PMI says ▶
- Government produced a cash deficit in great year that was 2018 ▶
- Eurozone inflation down on energy prices ▶
- Eurozone growth ground to almost a halt at the end of December, PMIs show ▶

| FX

EURCZK last week fell to lowest (25.55) since mid-September.

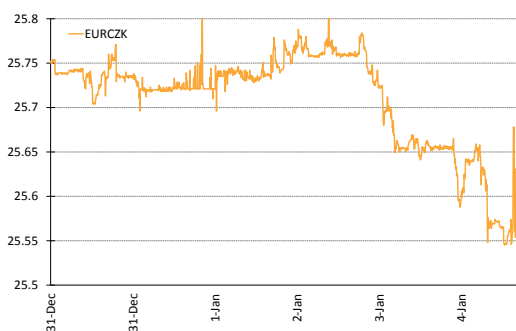
This coincided with substantial decline in Czech government bond yields and was due to renewed interest of foreign buyers who were reported in the bond market last week. But why they came back into the market now while having stayed away before the year-end (when being invested in bonds would have provided shelter from Resolution fund effects) I do not know. Maybe they expect CNB to start cutting soon 😊

| FI

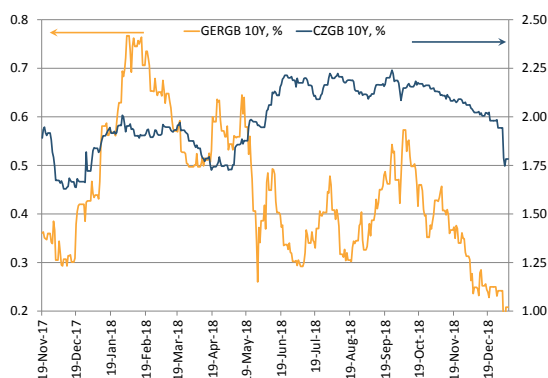
Anyway, Czech government yields fell sharply last week,

...with 10Y down to 1.75%, lowest level since April 2018. This was due to renewed interest of both domestic and foreign buyers combined with low post-Christmas liquidity, solid 2018 cash budget data ▶ (on the surface, at least), and declining German yields.

EURCZK FELL SHARPLY TO 25.55



CZECH YIELDS PLUMMET AS BUYERS JUMPED BACK INTO THIN-LIQUIDITY POST-CHRISTMAS MARKET



| CZECH ECONOMY

It ain't going well in industry.

PMI in December fell below 50 for the first time since July 2016, signaling marginal deterioration of the overall conditions in the industry. It is not unique to Czech Republic, though – in Poland, PMI also fell to 47.6, the lowest in 5 years. Czech slide was driven by two main factors: first, the decline, to lowest in 9 ½ years, of new export orders (which is, not surprisingly, attributed to trade war, though why now and not six months back remains unexplained) and, second, the decline, though to lesser extent, of domestic orders. Firms also remain fairly pessimistic regarding future: the sub-index of confidence was second-lowest in 6 years (and only higher than November 2018 low).

The takeaway is clear: industry is in for an outright contraction y/y pretty soon. The good times are over.

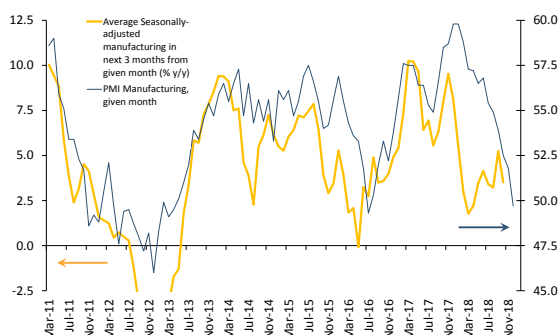
And yet the government couldn't care less, bragging about great budgetary results of 2018

The (cash) budget deficit (after adjusting for EU money on both sides of the budget) was CZK 2.2 bn. in 2018, about the same as in 2017 (CZK -1.3 bn.). That looks great on surface.

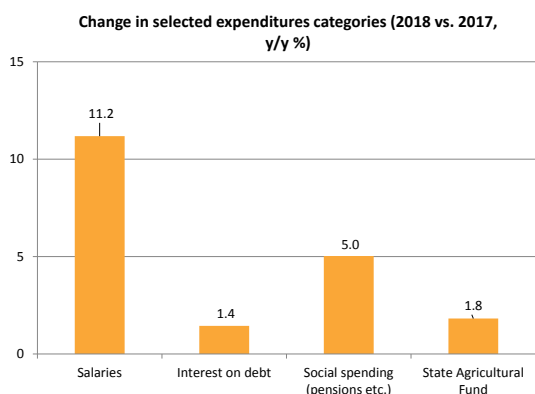
The problem is that, in one of the best years since the crisis when tax revenues rose CZK 83.3 bn. y/y, the government couldn't produce a surplus.

But then, how could it have? Current expenditures went up *exactly* the same CZK 83.3 bn. (what a coincidence, right...?), with salaries up CZK 13 bn. (11%), social spending up CZK 26.6 bn. (5%), transfers to lower levels of administration (mostly to pay for higher wages of their employees like teachers) up CZK 19 bn. (13.6%). Really, the government has been living like there's no tomorrow and there's election tomorrow. 2019 is shaping up to be a (so far not very loud) get-real call.

FIRST CONTRACTION IN PMI IN OVER 2 YEARS

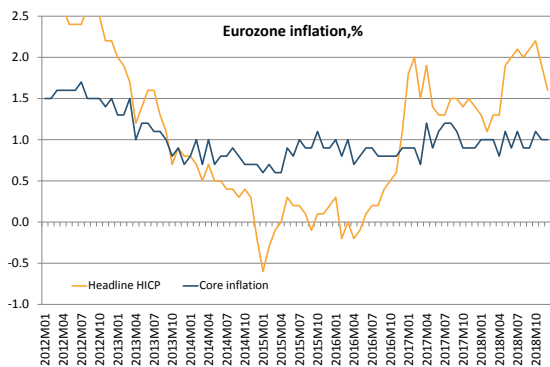


...BUT GOVERNMENT LIVED 2018 LIKE GOOD TIMES ARE FOREVER.

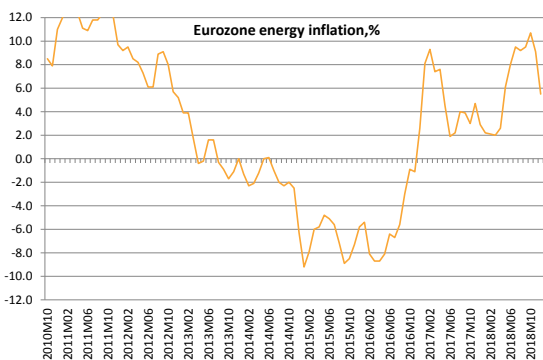


EUROZONE ECONOMY

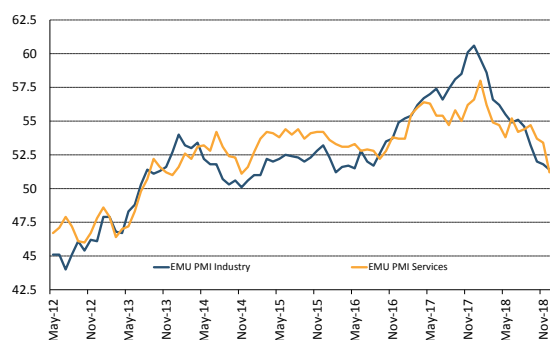
EUROZONE INFLATION FELL...



...AS ENERGY PRICES DECLINED.



ECONOMY CONTINUED TO DECELERATE AT THE END OF LAST YEAR.



Eurozone inflation declined further in December 2018 due to the energy prices.

This was to be expected: EUR oil price declined another 10% in December, extending the total decline from the peak in early October to a third month and bringing the cumulative decline over that period to almost 40%. Energy prices will thus soon turn to a negative contributor to inflation.

As regards core inflation, nothing changed: it remained at 1% just like in November, and thus hasn't been out of the 0.8-1.1% range since September 2017. Nothing that would justify the ECB's continuing inflationary optimism ↗, if you ask me. And nothing that would increase the probability of 2019 hike of ECB.

And there was nothing to increase that probability in final Dec'18 PMI data either.

The manufacturing PMI declined further to lowest since February 2016 and service PMI saw a sharp drop to lowest since November 2014. While manufacturing PMI was the same as in preliminary report (51.4), service PMI was 0.2 pts. lower at 51.2.

Service index was dragged down by France, which saw a very sharp decline to a 34-month low of 49.7 pts. (vs. 55.1 in November), it being attributed to yellow vests protests that rocked France at the end of last year. But, it wasn't only France: Germany declined to 51.8, 27-month low, for example. Italy was moribund, as is usual, and the only big country where service sector (so far) seems to be doing well was Spain.

Manufacturing was weak in all big economies: Spain (51.1, 28-month low), Germany (51.5, 33-month low), France (49.7, 27-month low), Italy (49.2 pts., small improvement on November but still in contraction).

Bottom line: economy is grinding to halt. At December PMIs, there will be no growth in 1Q19.

MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	2.010	2.070	2.135	1.870	1.784	1.750	
	-1M	2.010	2.070	2.290	2.330	2.295	2.270	
	-3M	1.740	1.810	2.330	2.560	2.564	2.580	
	-6M	1.170	1.250	1.700	1.900	1.926	1.970	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.439	-0.334	-0.263	-0.155	-0.034	0.033	
	-1M	-0.715	-0.716	-0.662	-0.551	-0.344	-0.239	
	-3M	-0.782	-0.822	-0.810	-0.718	-0.493	-0.432	
	-6M	-0.574	-0.611	-0.454	-0.305	-0.015	0.205	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.696	1.682	1.681	1.715	1.750	1.783	
	-1M	1.575	1.612	1.674	1.779	1.951	2.031	
	-3M	1.548	1.634	1.713	1.842	2.071	2.148	
	-6M	1.126	1.191	1.411	1.595	1.911	2.175	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.572	4.290	320.85	4.662	6.079	1.140	
	-1M	25.881	4.281	323.02	4.652	6.083	1.137	
	-3M	25.758	4.305	324.81	4.671	7.068	1.152	
	-6M	25.898	4.355	322.97	4.654	5.374	1.175	

‡ As of Sunday night
 * Spreads to generic bonds
 ** Generic bond

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