

January 22 | 2018

## Weekly | 2018 | Week 03

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## CALENDAR

DAY	DATE	TIME (CET)	MARKET	RELEASE	CONSENSUS**	42FS
Wednesday	24-Jan	9:00	CZ	Business and Consumer Confidence, Jan'18	N/A	N/A
	24-Jan	10:00	EMU	(Flash) manufacturing/services PMI, Jan'18	60.3/56.4	N/A
Thursday	25-Jan	10:00	GER	IFO Business Climate, Jan'18	117.0	0.4%
	25-Jan	13:45	EMU	ECB Rate-setting meeting	no change	no change

\* LOCAL TIME IS CET

\*\* (REUTERS/ BLOOMBERG) POLL

## JANUARY 2018 \*\* AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
CZGB 2014-2025	3-Jan	5-Jan	17-Sep-25	CZK 2bn. max	2.40%
CZGB 2017-2025	3-Jan	5-Jan	10-Feb-27	CZK 2bn. max	0.25%
CZGB 2006-2036	3-Jan	5-Jan	4-Dec-36	CZK 1bn. max	4.20%
SPP 776	4-Jan	5-Jan	6-Apr-18	CZK 0-5 bn.	N/A
SPP 777	11-Jan	12-Jan	13-Apr-18	CZK 0-5 bn.	N/A
CZGB 2015-2023	17-Jan	19-Jan	25-Oct-23	CZK 2 bn. max	0.45%
CZGB 2013-2028	17-Jan	19-Jan	25-Aug-28	CZK 2 bn. max	2.50%
CZGB 2017-2033	17-Jan	19-Jan	13-Oct-33	CZK 2 bn. max	2.00%
SPP 778	18-Jan	19-Jan	20-Apr-18	CZK 0-5 bn.	N/A
SPP 779	25-Jan	26-Jan	27-Apr-18	CZK 0-5 bn.	N/A

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

\*\* DEPENDING ON MARKET CONDITIONS.

## THOUGHT OF THE WEEK

“(TWITTER) THE IRONY OF CRYPTO TRADING AS THINGS STAND IS THAT THERE'S AN ALMOST LUDICROUS AMOUNT OF TRUST EMBEDDED IN THE TRADING OF A PURPORTEDLY TRUSTLESS ASSET.”

## WEEK AHEAD

Not much in the way of Czech releases this week except for business/consumer confidence for January. However, this is not important release for markets. For analysts, the only interesting thing is whether the consumer confidence improved upon all-time high from previous month.

In Eurozone, the most important is obviously the **ECB meeting**. The big question is whether ECB will make any changes to its forward guidance as was suggested in the minutes from the previous (December) meeting. Although from the inflation perspective the situation is still dismal (inflation has been running well below the target for years now and hasn't improved at all in last 12 months), the strong economic growth increases the courage and self-confidence of ECB and, as was the case for CNB in 2017, creates window of opportunity (before next recession, which isn't far away, statistically speaking, hits) to normalize, at least to some extent, monetary policy. Hence, and although I don't think the inflation outlook dictates any tightening of the policy, no matter how small, **ECB will probably change the forward guidance in its QE component**, i.e. by removing the easing bias (“ECB stands ready to increase the size of duration of program”) while keeping the rate component (“rates will remain low for long”) intact. Since this is already reflected in EURUSD exchange rate (1.22+) I don't expect any response there.

WEEK BEHIND

Import prices and PPI confirm lack of need to tighten the monetary policy in CZ ▶

Current account unaffected by stronger CZK, surging demand ▶

No inflationary pressures in Eurozone at the end 2017 ▶

FX

EURCZK strengthened further towards 25.30.

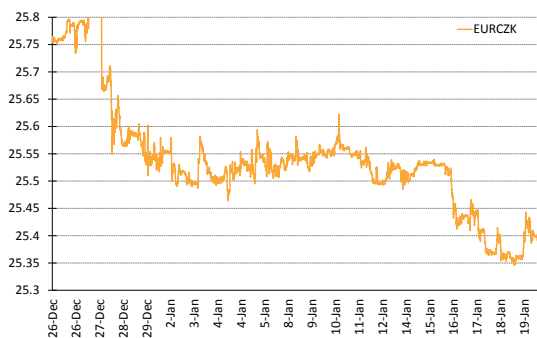
Board member Nidetzky said ↗ that two hikes, as (approximately) embedded in most recent (November) forecast might suffice this year. To me, not even this is necessary given the disinflation and general lack of true demand pressures here, but CNB might want to normalize policy further no matter what inflation does.

FI

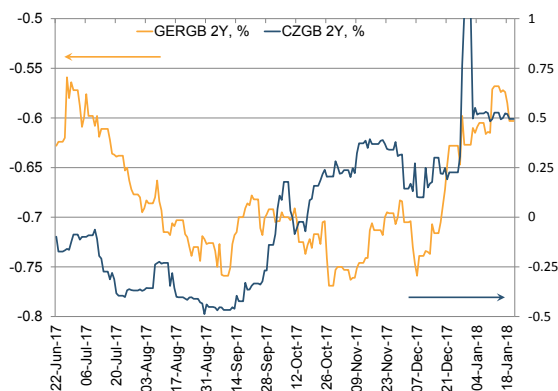
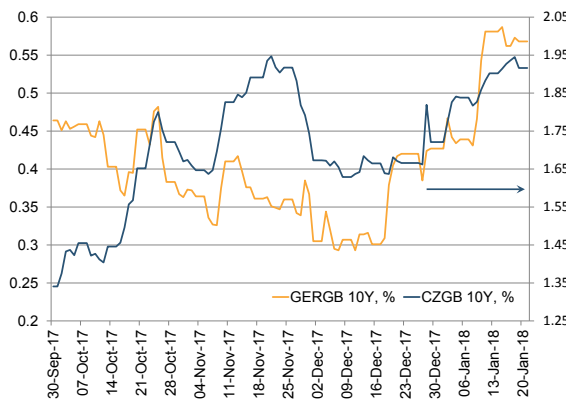
Yields remained stable last week.

Both here and in the Eurozone.

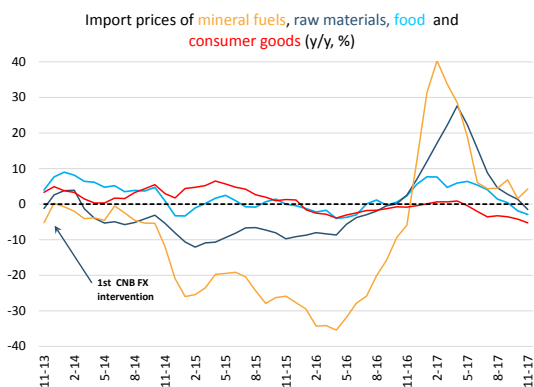
EURCZK FALLING FURTHER IN THE RUN-UP TO THE CNB MEETING



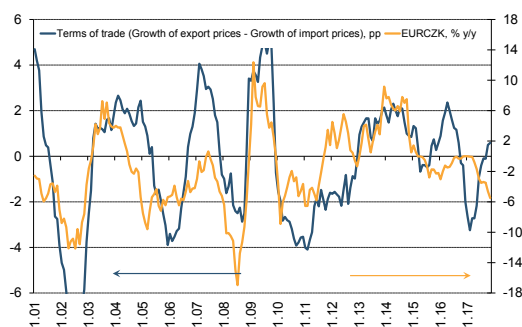
EUROZONE / CZ YIELDS STABLE LAST WEEK



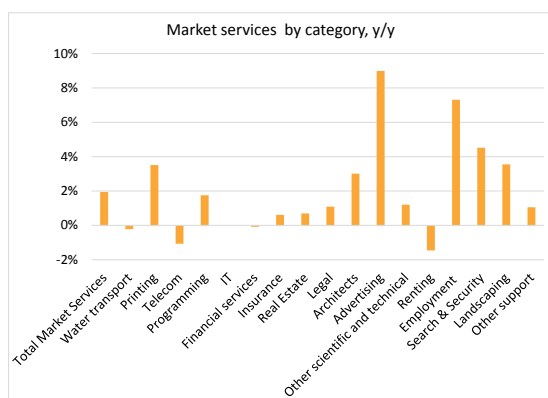
**IMPORT PRICES CONTINUE TO FALL, LED BY THOSE OF CONSUMER MANUFACTURED GOODS**



**THERE WAS NO WORSENING OF TERMS OF TRADE SO FAR, JUST THE CONTRARY**



**ON THE PRODUCTION SIDE, ONLY PRICES OF MARKET SERVICE PRODUCERS QUICKENED IN DECEMBER, PRIMARILY DUE TO EMPLOYMENT AND ADVERTISING SERVICES**



**CZECH ECONOMY**

After December consumer inflation, the November import prices and December producer prices also confirm there is little need to tighten the monetary policy that'd be justified by inflation outlook.

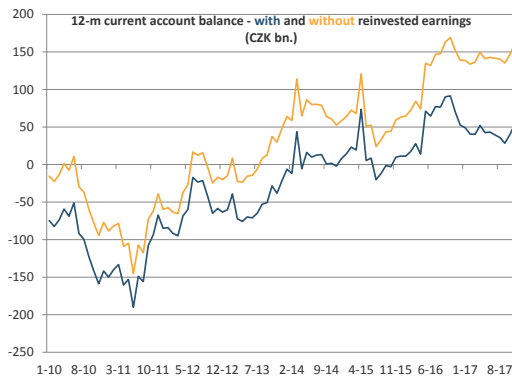
Import prices fell again in November (0.3% m/m), having fallen in each but one month since March (the one exception having been September). On an annual basis, the import prices are 3.3% lower, with most of it having been caused by 5.2% y/y decline of import prices of manufactured consumer products. This is due to anti-inflationary external environment and stronger CZK. What is somewhat surprising, and what is reflected in current account figures (see below), is that the stronger CZK hasn't led to worsening of terms of trade: contrary to what usually happens when CZK strengthens, last year export prices fell less (3.3% y/y) than import prices did (4.7%).

As regards, industrial producers' prices, in December they slowed further to +0.7% y/y while agricultural prices slowed to 8% y/y (from double-digit growth in November). The prices of the market services were the only producer prices that quickened. However, looking at these in more detail reveals that the growth came predominantly from advertising and employment, the former reflecting strong demand, the latter reflecting the tight labor market. How much of these price increases will end up in consumer inflation is unknown, but I wouldn't expect anything dramatic.

Current account remains in sizable surplus despite stronger CZK and strong growth of household demand.

As hinted at above, the terms of trade haven't worsened despite strengthening of the currency. The current account, without reinvested earning, thus remained in November in 12-month surplus of CZK 160.5 bn. (and CZK 50 bn. with them). Fundamentally, this is still pro-CZK, but one

**CURRENT ACCOUNT REMAINS IN SURPLUS,..**

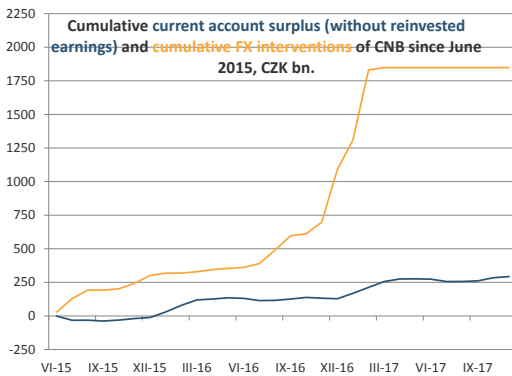


shouldn't rely on this surplus to continue pushing EURCZK ever lower: there is still massive divergence between CNB intervention purchases (which goes in relation to the amount of CZK that is in foreign hands) and the current account surplus. In other words, **there is still a huge potential overhang of EURCZK demand over its supply.**

**| EUROZONE ECONOMY**

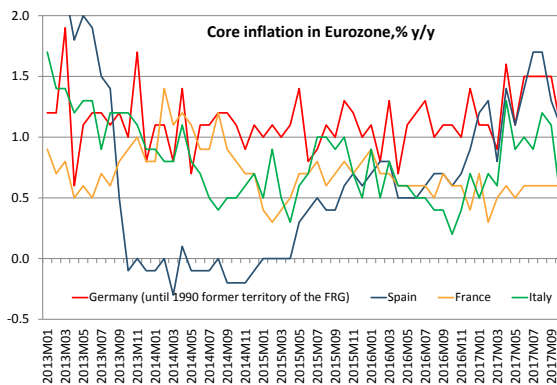
**Final December inflation confirmed that there are no inflation pressures in Eurozone whatsoever.**

**..BUT ECONOMY STILL FACES HUGE POTENTIAL EURCZK DEMAND OVERHANG.**



Core inflation remains under 1% in three out of four big economies (Germany being the only exception) and is lower or at most the same as it was 6 months ago in all of them. In other words, core inflation is low and without a trend. Hence, the recent mention of ECB of the possibility of changing the forward guidance nonetheless, the bank is still very far from actually tightening the policy via rate increases.

**EUROZONE CORE INFLATION WITHOUT TREND**



MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	0.709	0.969	1.375	1.750	1.821	1.920	
	-1M	0.709	0.969	1.330	1.640	1.730	1.860	
	-3M	0.709	0.969	1.110	1.455	1.568	1.700	
	-6M	0.709	0.969	0.720	1.070	1.223	1.388	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.880	-0.853	-0.712	-0.710	-0.566	-0.004	
	-1M	-1.139	-0.895	-0.982	-0.865	-0.697	-0.189	
	-3M	-0.952	-0.708	-0.750	-0.766	-0.649	-0.048	
	-6M	-1.115	-0.962	-0.928	-1.078	-1.034	-0.377	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	0.495	0.709	0.969	1.040	1.255	1.916	
	-1M	0.191	0.582	0.591	0.775	1.033	1.671	
	-3M	0.158	0.556	0.622	0.689	0.919	1.652	
	-6M	-0.395	-0.112	0.047	-0.008	0.189	1.011	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.383	4.173	309.14	4.662	4.654	1.222	
	-1M	1.750	1.562	1.38	1.681	1.790	1.821	
	-3M	1.750	1.562	1.38	1.681	1.790	1.821	
	-6M	1.750	1.562	1.38	1.681	1.790	1.821	

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

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