Weekly | 2018 | Week 08

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CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**
Monday	25-Feb-19	9:00	CZ	Business and Consumer Confidence, Feb'19	N/A
	25-Feb-19	9:00	CZ	PPI Industrial, Jan'19, y/y	2%
Wednesday	27-Feb-19	11:00	EMU	(Final) Consumer Confidence, Feb'19	-7.40
Thursday	28-Feb-19	8:45	FRA	(2nd est.) 4Q18 GDP, q/q (SA, WDA)	0.3%
	28-Feb-19	9:00	SPA	(Preliminary) HICP, Feb'19, y/y	1.0%
	28-Feb-19	11:00	ITA	(Preliminary) HICP, Feb'19, y/y	1.2%
	28-Feb-19	14:00	GER	(Preliminary) HICP, Feb'19, y/y	1.8%
Friday	1-Mar-19	8:00	GER	Retail sales,Jan'19, y/y	1.20%
	1-Mar-19	9:00	CZ	(2nd est.) GDP, 4Q19, q/q	1.0%
	1-Mar-19	9:30	CZ	(Final) manufacturing PMI, Feb'19	48.60
	1-Mar-19	10:00	EMU	(Final) manufacturing PMI, Feb'19	49.20
	1-Mar-19	11:00	EMU	Unemployment, Jan'19	7.9%
	1-Mar-19	11:00	EMU	(Preliminary) headline / Core HICP, Feb'19, y/y	1.5%/1.1%
	1-Mar-19	14:00	CZ	Budget Balance, Feb'19, CZK bn.	N/A

* LOCAL TIME IS CET
** (REUTERS/ BLOOMBERG) POLL

FEBRUARY 2019 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
CZGB 2014-2025**	6-Feb-19	8-Feb-19	17-Sep-25	CZK 5 bn. max	2.40%
CZGB 2017-2027**	6-Feb-19	8-Feb-19	10-Feb-27	CZK 5 bn. max	0.25%
SPP 808*	14-Feb-19	15-Feb-19	16-Aug-19	CZK 5 bn. max	N/A
CZGB 2019-XXXX EURO***	20-Feb-19	22-Feb-19	22.2.21/22.2.22	EUR 100 mn. max	0.00%
CZGB 2018-2029**	27-Feb-19	1-Mar-19	23-Jul-29	CZK 5 bn. max	2.75%
CZGB 2015-2030**	27-Feb-19	1-Mar-19	15-May-30	CZK 5 bn. max	0.95%
CZGB 2006-2036**	27-Feb-19	1-Mar-19	15-May-36	CZK 2 bn. max	4.20%
SPP 809*	28-Feb-19	1-Mar-19	29-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.
*** TO BE DETERMINED ACCORDING TO THE ACTUAL MARKET SITUATION.

THOUGHT OF THE WEEK

"PAYING GBP 1MN. FOR MEMBERSHIP FOR 6 PEOPLE WHERE 1 PERSON PAYS 2750 GBP/YEAR MUST BE THE WORST DEAL SINCE PARTICIPATING IN IPO OF GROUPON. UNTIL UBER IPO COMES ALONG" ↗.

WEEK AHEAD

Locally, February manufacturing PMI and structure of 4Q18 GDP are important releases this week.

Structure of the 4Q18 GDP will probably show that non-sustainable items were behind the surprisingly strong 4Q18 growth i.e. that fixed investments (being mainly due to EU money) and exports (as a lagged reflection of still solid demand in 3Q18) were to get the credit for the 1% q/q expansion.
Going forward, however, the weakness that is evident in Germany, and which is certain to be reflected in **Czech PMI for February**, to be released on Friday, will translate into substantial slowdown of growth in 1Q19. This should also be confirmed by **confidence data for February** (as measured by Czech Statistical Office) where we should see further worsening (at least) in trade and in industry.

In Eurozone, flash inflation for February is the most important release. Even though it is highly unlikely that we'll see something else than in last two years, i.e. core inflation around 1%.

WEEK BEHIND

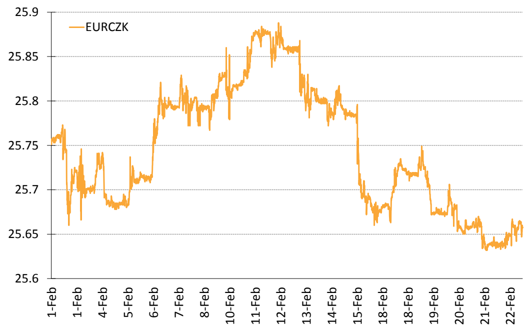
Import prices fell most in 18 months in December ▶

Eurozone leading indicators point at growth stagnation in 1Q19 ▶

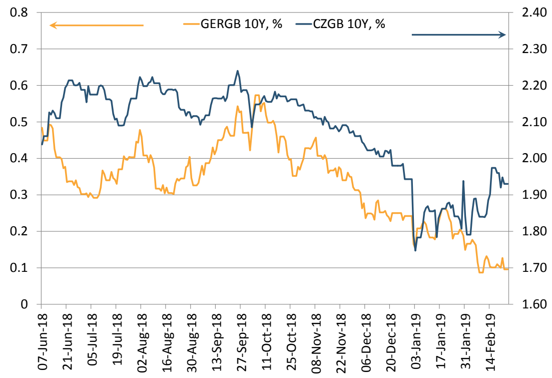
German economy stagnated in 4Q18, IFO suggests weakness continued midway through 1Q19 ▶

ECB prepares for (verbal) policy change in March ▶

CZK IN A TIGHT RANGE THROUGHOUT LAST WEEK.



…WHICH ALSO SEND CZGB YIELDS UP.



| FX

EURCZK remained in a tight range…

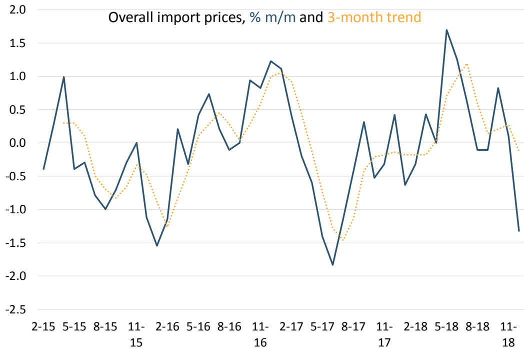
…of 25.65-25.75 throughout last week. No news to push the pair either way.

| FI

Nothing eventful in the bond markets either.

Czech 10Y remained above 1.9%, 1.8 pp above where German 10Ys spent last week.

OVERALL IMPORT PRICES FALL MOST IN 1 ½ YEARS



| CZECH ECONOMY

In December, import prices fell most since June 2017, in proof that weak CZK is doing little to threaten domestic price stability.

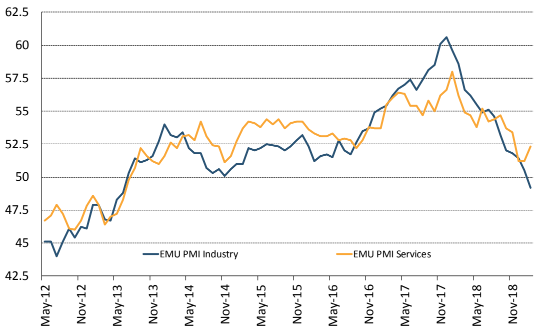
We saw previous week that local consumer inflation is 50% due to housing and there are substantial contributions from other non-demand segments (like 0.3 pp from alcohol and tobacco). Now we can see that the external environment is anything but inflationary, weaker CZK nonetheless. Even though the biggest contributor to 1.1% m/m decline of import prices in December 2018 came from mineral fuels (which fell 10.5% m/m), all other segments except for raw materials also saw import prices fall at the end of last year.

This was to be expected: Eurozone growth faltered in the 2nd half of 2018, especially in (for us very important) Germany, development hardly conducive to higher inflation that we could then eventually import.

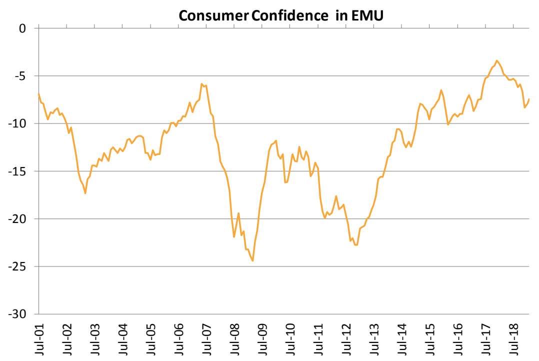
Considering that – as will be shown below – the leading indicators in Eurozone remained weak in February, it is certain there will be no inflation to speak of in Eurozone this year, and hence nothing that could push our local level up (once house prices stop rising, that is).

| EUROZONE ECONOMY

PMI CALLS FOR STAGNATION OF EUROZONE IN 1Q19, WITH MANUFACTURING DRAGGING THE ECONOMY DOWN …



…AND HOUSEHOLDS DEMAND PROPPING IT UP.



Eurozone leading indicators point at continuing stagnation in 1Q19.

And that holds even though euro area PMI rose to a 3-month high in February. You see, that rise took it from January's 51 pts. to 51.4 pts. in February, a negligible increase.

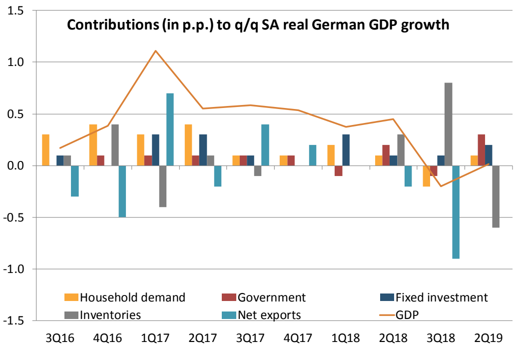
And the rise was "only" due to services: services rose to 52.3 (from January 51.2), mainly due to improvement in Germany and France, though the latter is still in contraction in both sectors (manufacturing, services).

As regards **Eurozone manufacturing**, it is still very weak: **PMI fell to almost 6-year low of 49.2** in February and is now thus for the first time since June 2013 in the contraction. Furthermore, the situation in manufacturing will not improve soon: as German orders' data released two weeks ago as well as orders' sub-index of February PMI show, just the contrary is true. With new orders in PMI weakest in 6 years, there just cannot imaginably be any rebound soon.

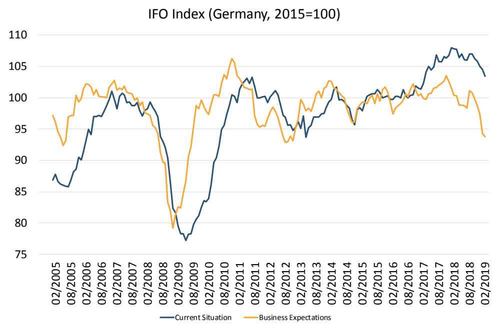
The big question that remains is thus this: will services hold up through the period of manufacturing softness, or will they succumb to it? So far, it looks like former is the case, with domestic demand clearly providing support to overall growth (consumer confidence was reported last week to even have risen in February, from -7.9 pts. in January to -7.4 pts.). But if manufacturing weakness persists (as it may, seeing the risk of Brexit, ongoing trade tensions, China slowdown etc.), the overall economy cannot but be affected.

But even if service sector proves impervious to manufacturing weakness, the GDP growth won't be anything to write home about: 1Q19 is shaping up to be 0-0.1% q/q, and 2Q19 will not be much faster. We're looking at sub-1% growth even in the best case for 2019.

GERMAN GROWTH STAGNATED IN 4Q18, NO CONTRIBUTION FROM NET EXPORTS



IFO INDEX WORSENED FURTHER, BODING ILL FOR 1H19 GROWTH



And Germany will not help. German growth was confirmed at 0% q/q, and is unlikely to improve in 1Q19.

German stagnation in last quarter of last year was, as previously indicated by German Statistical Office in the first release, due to lack of contribution from net exports, i.e. due to weak external environment. Domestic demand remained positive contributor, though weaker one than in 2016-2017.

Reinforcing the message from PMI, the **February IFO** index release suggested that growth will not pick up in 1Q19: the assessment of the current situation fell to lowest in 2 years whereas the expectations are lowest since the end of 2011. And because the expectations are self-fulfilling, this does not bode well for demand in 1H19, especially as regards investments.

ECB became more pessimistic in January and clearly prepares ground for forecast downgrade in March.

Account of the January ECB meeting ↗, published last week, showed that policymakers finally understood that they will not be able to pretend much longer that all's fine and that hike might come this year. It will not.

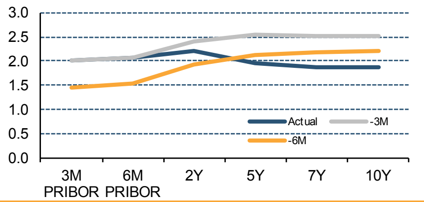
The comment that "*the observed slowdown in euro area growth appeared to be deeper and more broad-based than previously anticipated, affecting not only the car sector, but also other manufacturing sectors*" is as clear an official admission that ECB again didn't get the forecast right as one can expect from ECB.
As is the assessment of chief economist Praet that "*stronger case could now be made for assessing the risks as having moved to the downside*" with which the members were reported to have *"concurred".*
Or as is the sentence that *"All in all, members concurred with the view that the risks to the euro area outlook had moved to the downside on account of the persistence of uncertainties related*

to geopolitical factors and the threat of protectionism, vulnerabilities in emerging markets and financial market volatility." Yeah, whatever.

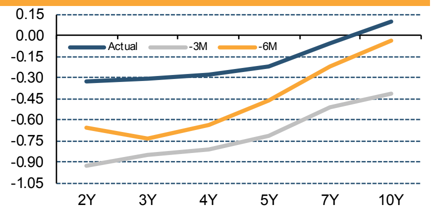
So, although everyone knew (and reluctantly admitted) that economy had slowed, nobody wanted to do anything about it lest (s)he looks panicky. See, with QE having been voted out only few weeks ago, nobody wanted to admit in any way that it may have been premature. Therefore, ECB said, "*more information [was] needed for thorough assessment"* of what weaker growth means for medium-term inflation outlook. Even though everyone knows what it means…It means that March will bring downgrade of forecast of both growth and inflation, and thus the postponement of hike well into 2020.

| Markets ‡

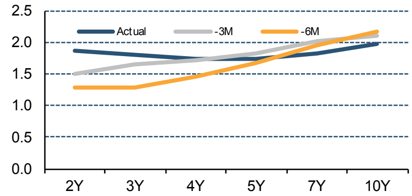
MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y
%	Actual	2.000	2.060	2.195	1.960	1.868	1.880
	-1M	2.010	2.070	2.100	1.790	1.715	1.730
	-3M	2.000	2.060	2.415	2.540	2.525	2.515
	-6M	1.460	1.550	1.935	2.135	2.178	2.210



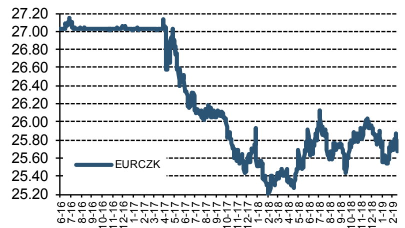
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y
bps.	Actual	-0.329	-0.312	-0.280	-0.219	-0.056	0.094
	-1M	-0.327	-0.298	-0.159	-0.085	0.015	0.054
	-3M	-0.927	-0.853	-0.814	-0.714	-0.512	-0.416
	-6M	-0.655	-0.740	-0.636	-0.461	-0.222	-0.034



CZGB**		2Y	3Y	4Y	5Y	7Y	10Y
%	Actual	1.866	1.793	1.740	1.741	1.812	1.974
	-1M	1.773	1.682	1.716	1.705	1.730	1.784
	-3M	1.488	1.638	1.708	1.826	2.013	2.099
	-6M	1.280	1.290	1.457	1.674	1.956	2.176



FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD
	Actual	25.678	4.334	318.28	4.741	5.969	1.130
	-1M	25.545	4.293	323.08	4.681	6.221	1.141
	-3M	26.005	4.289	321.97	4.663	6.075	1.133
	-6M	25.768	4.322	324.44	4.666	6.748	1.135



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

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