

March 18 | 2019

Weekly | 2018 | Week 11

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| CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**
Monday	18-Mar-19	9:00	CZ	Industrial producers' prices, Feb'18	3.6%
	18-Mar-19	10:00	CZ	Current Account, Jan'19, CZK bn.	15.00
	18-Mar-19	11:00	EMU	Trade balance, Jan'19, EUR bn. (SA)	N/A
Thursday	21-Mar-19	16:00	EMU	(Flash) Consumer confidence, Mar'19	-7.1
Friday	22-Mar-19	10:00	EMU	Current Account, Jan'19, EUR bn.	N/A
	22-Mar-19	10:00	EMU	(Flash) Services / Manufacturing PMI, Mar'19	49.5/52.7

* LOCAL TIME IS CET

** (REUTERS/ BLOOMBERG) POLL

| MARCH 2019 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
CZGB 2015-2026**	6-Mar-19	8-Mar-19	26-Jun-26	CZK 5 bn. max	1.00%
CZGB 2017-2033**	6-Mar-19	8-Mar-19	13-Oct-33	CZK 5 bn. max	2.00%
CZGB 2017-2027**	20-Mar-19	22-Mar-19	10-Feb-27	CZK 5 bn. max	0.25%
CZGB 2018-2029**	20-Mar-19	22-Mar-19	23-Jul-29	CZK 7 bn. max	2.75%
CZGB 2015-2030**	20-Mar-19	22-Mar-19	15-May-30	CZK 3 bn. max	0.95%

* 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

“COMMONS VOTING ON RULING OUT NO-DEAL WHEN A] NO-DEAL IS DEFAULT OPTION, B] IT HAS NOT VOTED FOR ANYTHING ELSE INSTEAD IS LIKE TITANIC VOTING ON AN ICEBERG TO MOVE”.

WEEK AHEAD

Not many releases either here or in Eurozone this week.

The only one release that is of any importance is that of **March flash PMI**: this is important to see whether economy stabilized at the end of 1Q19, or whether it worsened further. I think the former was the case.

WEEK BEHIND

█ Czech retail sales continue to grow unabated... ▶

█ ...while industry is “finally” showing signs of weakness ▶

█ Czech February inflation still predominantly due to housing ▶

█ Eurozone inflation and industry data vindicate recent loosening of ECB ▶

NO CHANGE IN EURCZK



| FX

Another uneventful week for EURCZK,...

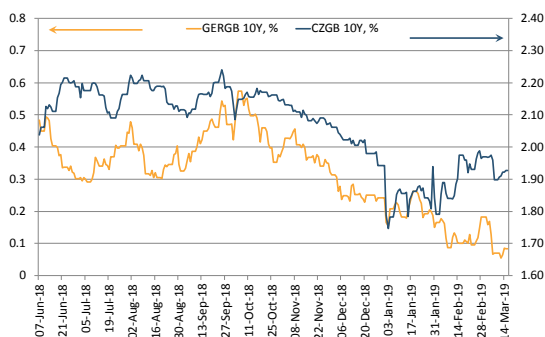
...the trading having been in tight range of 25.65-25.70.

| FI

Bond markets did not move much.

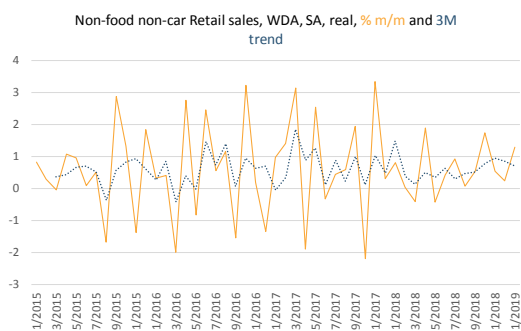
German 10Ys as well as their Czech counterparts rose marginally from the lows of the week before, but both rises were just few bps.

NO CHANGE IN THE BOND MARKETS.

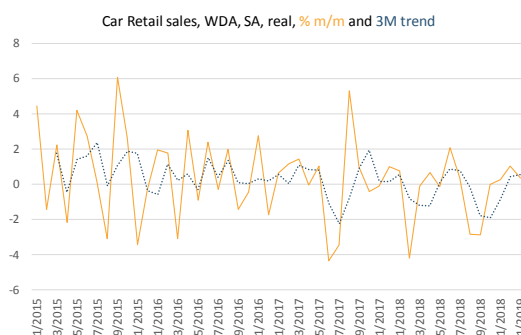


CZECH ECONOMY

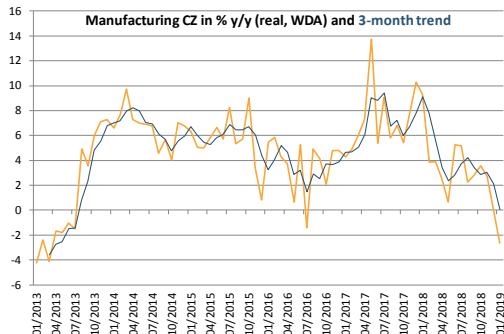
GROWTH OF RETAIL SALES REMAINS STRONG AS CORE RETAIL SALES GROW AT 2% QUARTERLY RATE...



...AND CAR SALES CEASED TO BE A DRAG.



INDUSTRY DECLINES MOST SINCE 2013



Retail sales continue to grow strongly, the signs of weakness elsewhere nonetheless.

And this is true not only of the core portion of the sales, but also of the total sales, i.e. sales including cars, food and fuel. The monthly growth of non-food non-car retail sales was 1.3% in January, bringing the three-month average monthly growth rate to 0.7%, i.e. to over 2% on a quarterly basis. That is very strong growth indeed.

The growth of *total* retail sales was 0.7% in January and the same number (0.7% m/m) was also the average over last three months – and that is even more surprising since the non-core categories (food, fuel, cars) were where the weakness in previous months was. Not in February: especially car sales surprised as they ceased to be a drag on growth.

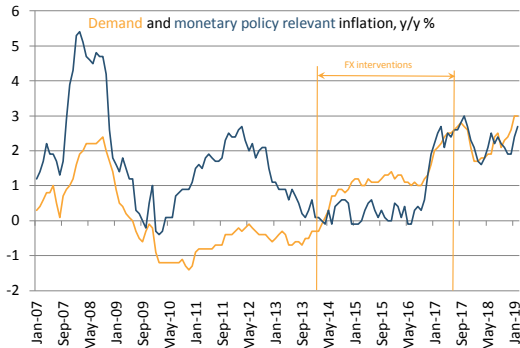
In general, these growth rates are reminiscent of 2016-2017, i.e. the golden post-crisis era for retail. And they make the case for further tightening of the monetary policy stronger.

What does just the contrary are, then, the data from the industry and from inflation. Although in the latter case only if one looks below the surface.

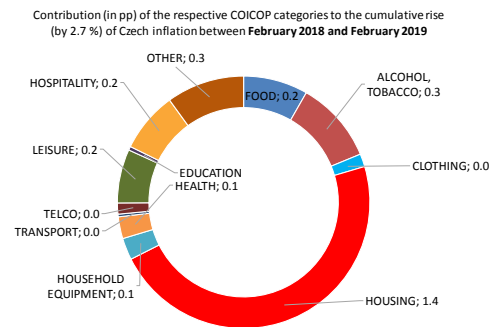
Having declined 1% m/m in December 2018, **Czech industry fell another 1.3% m/m in January 2019**, roughly in line with what worsening of the PMI over the last quarter of 2018 foretold. Industry was thus 1.1% lower in January 2019 than in January 2018, the largest annual decline since short-lived holidays-induced decline of 5.7% in July 2016. Ignoring these occasional summer dips (which are always caused by different timing of holidays in industry between year at and t-1), last time we saw an annual contraction of over 1% was in spring 2013.

As regards manufacturing, it fell 2.7% y/y, lowest annual growth rate since March 2013. Considering the ongoing weakness in Germany and the

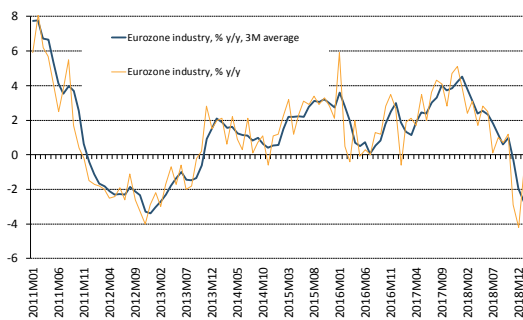
INFLATION REMAINS ELEVATED...



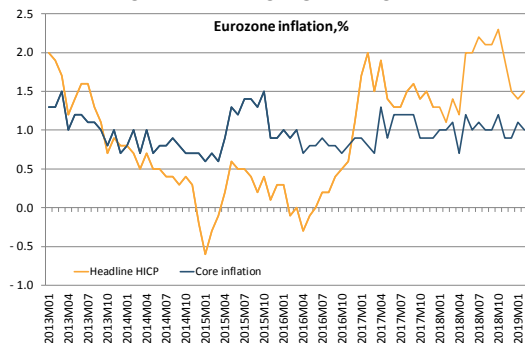
...BUT PREDOMINANTLY DUE TO HOUSING.



EUROZONE INDUSTRY STILL NEGATIVE, BUT LESS SO THAN IN DECEMBER



CORE INFLATION STILL LOW...



softness in leading indicators, there is no rebound of industry in sight.

Monetary policy relevant inflation (and total inflation as well) remained close to the upper-bound of the target range, increasing 0.3 pp to 2.7% in February 2019; demand inflation remained at 3%. Although on the surface this may look like a clear justification for further tightening of the policy, the structure reveals a less clear a story. Just like in previous months, the majority of inflation comes from housing (1.4 pp) and alcohol, tobacco (0.3 pp). In other words, had there been no change in housing prices (incl. utilities) and taxes on alcohol, tobacco, the headline inflation would now be 1% instead of 2.7%. To me, tightening the policy when most of the inflation is due to housing is pretty inane, especially with signs of weakness in industry and now that the measures that CNB implemented last October ↗ are beginning to have a tangible impact on mortgage volumes ↗ and can thus be expected to have, in the foreseeable future, effect on prices. And prices of flats is what've been driving the CPI increases over last three years.

| EUROZONE ECONOMY

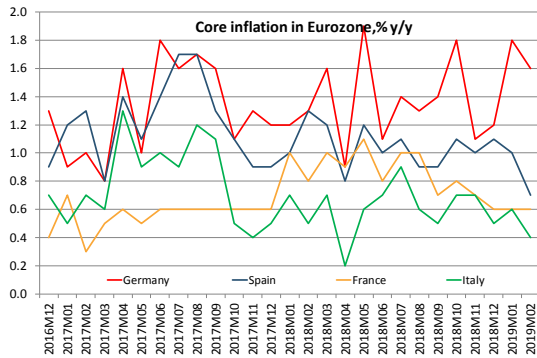
Eurozone industry and final HICP reinforce my view that ECB is far, far away from anything remotely resembling tighter monetary policy.

Although industry posted a strong rebound of 1.4% m/m in January, the growth over November-January was negative, as was the y/y growth (-1.1% y/y vs. -4.2% y/y in December). Considering the weak PMI and weak growth of orders (in Germany at -3.7% y/y recently) it doesn't look like we're going to see strongly positive annual growth rates of industry any time soon.

Together with **inflation** that didn't go anywhere in February, as final data released last week showed (**core: 1%, headline: 1.5%**), it is thus clear why ECB will remain on hold for very long. On top of low core inflation reading, core inflation decreased over

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...HAVING ACTUALLY DECREASED IN 3 OUT OF 4 BIG ECONOMIES IN LAST 6 MONTHS.



last 6 months in three out of four big economies (Germany being the only exception). And even in Germany it is somewhat below the target.

Put together: ECB was right in loosening the policy at its last meeting. And will remain on hold for long.

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MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	2.030	2.070	2.155	1.955	1.893	1.888	
	-1M	1.990	2.050	2.028	1.740	1.678	1.708	
	-3M	2.010	2.070	2.290	2.323	2.293	2.265	
	-6M	1.510	1.610	2.103	2.285	2.313	2.360	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.298	-0.344	-0.274	-0.157	-0.056	0.011	
	-1M	-0.227	-0.215	-0.205	-0.142	0.045	0.133	
	-3M	-0.681	-0.711	-0.654	-0.549	-0.365	-0.243	
	-6M	-0.744	-0.808	-0.656	-0.566	-0.324	-0.242	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.857	1.751	1.751	1.798	1.837	1.898	
	-1M	1.801	1.698	1.605	1.598	1.722	1.840	
	-3M	1.609	1.609	1.679	1.774	1.928	2.022	
	-6M	1.359	1.377	1.584	1.719	1.989	2.118	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.648	4.301	315.36	4.746	6.116	1.124	
	-1M	25.812	4.312	318.90	4.748	5.943	1.132	
	-3M	25.864	4.291	323.26	4.647	6.038	1.138	
	-6M	25.689	4.315	324.94	4.622	7.409	1.155	

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

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