

March 25 | 2019

Weekly | 2018 | Week 12

MARTIN LOBOTKA, (+420) 777 027 165, MLobotka@42fs.com, Research@42fs.com

CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**
Monday	25-Mar-19	9:00	CZ	Business / Consumer Confidence, Mar'19	N/A
	25-Mar-19	10:00	GER	Ifo Business Climate, Mar'19	98.50
Tuesday	26-Mar-19	8:45	FRA	(Final) 4Q18 GDP, q/q	0.3%
Thursday	28-Mar-19	9:00	SPA	(Preliminary) HICP, Mar'19, y/y	1.5%
	28-Mar-19	11:00	EMU	(Final) Consumer Confidence, Mar'19	-7.2
	28-Mar-19	13:00	CZ	CNB rate-setting meeting, 2-week repo rate	1.75%
	28-Mar-19	14:00	GER	(Preliminary) HICP, Mar'19, y/y	1.6%
Friday	29-Mar-19	8:00	GER	Retail sales, Feb'19, y/y	2.2%
	29-Mar-19	8:45	FRA	(Preliminary) HICP, Mar'19, y/y	1.5%
	29-Mar-19	9:00	SPA	Retail sales, Feb'19, y/y	1.0%
	29-Mar-19	9:00	SPA	(Final) 4Q18 GDP, q/q	0.7%
	29-Mar-19	11:00	ITA	(Preliminary) HICP, Mar'19, y/y	1.0%

* 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

"NEVER SHORT A BUND".

WEEK AHEAD

Lots of releases in Eurozone, just the central bank here.

In the Czech Republic, major event is CNB's monetary policy meeting. I don't expect any change in the policy, the external environment having worsened since previous meeting (recall that weakness abroad was what persuaded those 5 who voted against the hike to do so at the previous meeting). The only interesting thing to see will thus be whether those two ex-analysts in the Board – Michl and Benda – will again vote for the hike like they did the last time. If they were to only look at data from abroad, they'd have to conclude that no-change is the best option. However, were they to look only at Czech data, they could easily say "hey, we decoupled" and press on with hike calls. I certainly think staying put is the best course of action now.

In the Eurozone, there's German IFO, German and Spanish retail sales and preliminary March 2019 inflation for 4 largest economies. These data are likely to confirm that a) German industry remains - and shall remain - very weak, b) that household demand is far from inflation-causing levels and c) that inflationary demand pressures are non-existent. Nothing new in any of these cases.

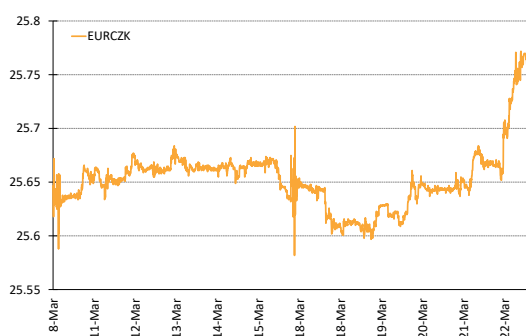
WEEK BEHIND

Agricultural producers' prices rose markedly at the beginning of 2019 ▶

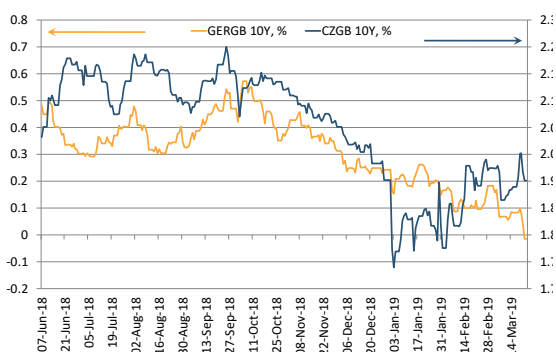
Current account gives zero reasons to worry about CZK strength ▶

EMU PMI squash hope of transient weakness ▶

EURCZK MOVES UP AS WEAK EMU PMI TRIGGERS FLIGHT TO SAFETY



GERMAN BUNDS AGAIN BELOW ZERO AFTER 2 ½ YEARS



| FX

EURCZK moved higher up last week,...

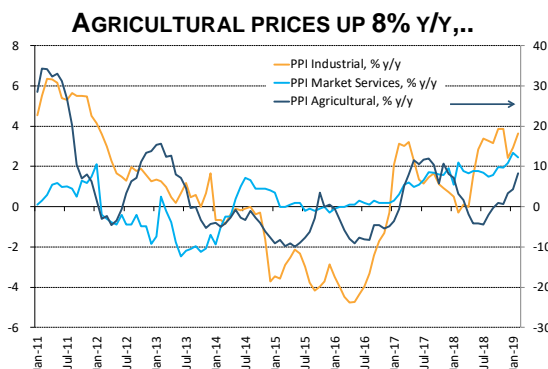
...breaking out of the 25.60-25.70 range of previous couple of weeks and hitting 25.75. This was clearly the consequence of flight to safety after weak German (and EMU) PMI readings and amid high Brexit uncertainty.

| FI

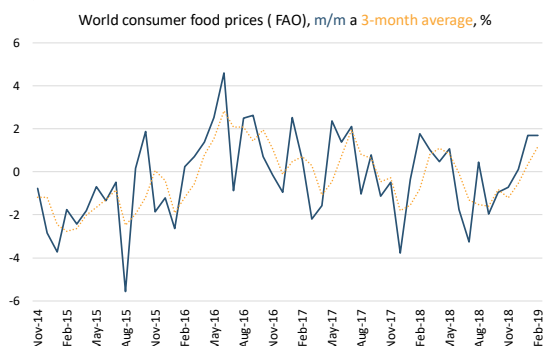
Never short a Bund...

...at least until ECB really starts tightening. Last week, for the first time since October 2016, the German 10Y yields turned negative. This was the consequence of weak PMI reading in Eurozone, especially in Germany (more on that below), and of the heightened tensions about Brexit (UK government headed for a hard Brexit).

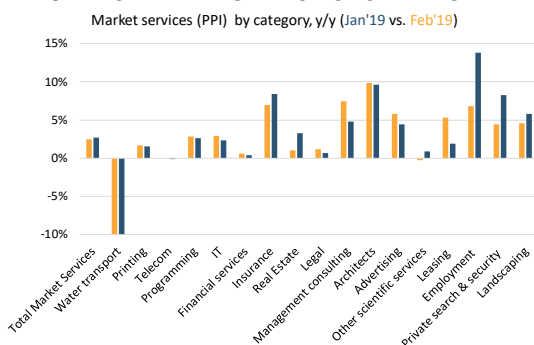
I would now like to see the faces of those at ECB who indulged, as recently as in January, the idea of hike coming in summer 2019...



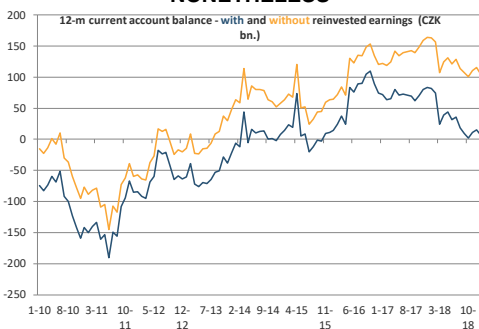
...THE ACCELERATION LIKELY REFLECTING THE QUICKENING OF WORLD FOOD PRICE GROWTH.



GROWTH OF EMPLOYMENT SERVICES SLOWED, PULLING MARKET SERVICE GROWTH LOWER



CURRENT ACCOUNT NO REASON TO EXPECT WEAKER CZK, ITS SHRINKING SURPLUS NONETHELESS



CZECH ECONOMY

Industrial producer prices accelerated at the beginning of 2019.

The prices of the agricultural producers rose fastest, with 8.2% annual growth in January 2019 being the fastest since the end of 2017. This reflects big annual rise of prices of crop production (17% y/y); the prices of the animal products fell. One could blame the poor harvest of 2018 for the increase of the former, but I think it would have shown up in prices earlier if the harvest had really been the cause. This looks more like the reflection of world food prices which began to grow again this year.

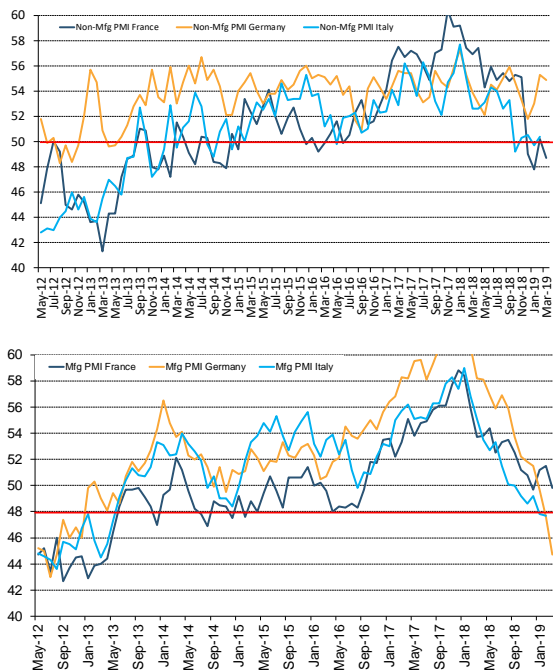
Prices of industrial producers also accelerated to 3.6% y/y, reflecting mainly the rebound of oil prices. The only component of the producers' prices that slowed in January were market services (from December 2018 2.7% to 2.4% in January). This was mostly due to slowdown in employment services, reflecting cooling of the labor market.

Current account shows signs of worsening amid weaker trade balance.

The 12-month current account surplus shrank to zero at the beginning of 2019, the consequence of the worsening of the trade balance. The trade balance has been squeezed from both sides. On the one side, there are weaker exports, reflecting weaker demand from Eurozone, on the other, the domestic demand is still strong, driving imports up. Still, after the strong growth of aggregate domestic demand in recent years, the fact that current account is essentially balanced is pretty good. Moreover, when one realizes that without reinvested earnings (which have no FX impact but are only accounting item) the CA balance would be positive to the tune of CZK 100 bn., this particular release gives zero reasons to expect weakening of CZK.

March 25 | 2019

MARCH PMI KILLS THE HOPE OF WEAKNESS IN EMU BEING JUST TEMPORARY



EUROZONE ECONOMY

March leading indicators squash the hopes of “temporary weakness”.

The manufacturing PMI weakened further, having fallen from February already-contractionary level of 49.3 to the lowest level in 6 years at 47.6. This was mainly the reflection of new exports growth: new export orders (incl. intra EU trade) fell to the lowest since August 2012; total new orders were weakest since December 2012. This is bad omen for the future: weakness of orders is bound to translate into weak actual production. Actual output fell for the second month in a row and orders have seen nothing but declines in last 6 months.

Although **service sector is still holding up better**, its PMI in March was only marginally above the lows from the end of 2018. This renewed worsening was again driven by France where yellow vests protests flared up again, sending the service PMI from February’s 50.2 to 48.7 in March. And in general, **the signs are not good**: the exports orders fell most since the data began to be compiled in September 2014. And **in both sectors, the pessimism remained high**: the companies in manufacturing were most pessimistic since December 2012, those in services since late 2014. Not good, especially for future investments.

All in all, this doesn’t bode well for the 2Q19. Another worsening of service sector and we’ll see outright Eurozone-wide recession.

March consumer confidence was the only somewhat bright release last week: consumers remained as optimistic as in February 2019 (and thus optimistic above the long-term average) but, as usual, confidence is not a leading, but lagging indicator. So one is well advised to not read much into this. It will worsen as soon as consumers feel the weaker economy themselves.



March 25 | 2019

MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	2.030	2.060	2.050	1.845	1.785	1.788	
	-1M	2.020	2.070	2.215	1.965	1.870	1.865	
	-3M	2.020	2.080	2.115	1.930	1.863	1.860	
	-6M	1.560	1.680	2.230	2.410	2.415	2.428	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.216	-0.234	-0.187	-0.054	0.055	0.154	
	-1M	-0.342	-0.298	-0.256	-0.154	-0.017	0.065	
	-3M	-0.624	-0.463	-0.318	-0.142	0.063	0.120	
	-6M	-0.717	-0.810	-0.633	-0.554	-0.318	-0.227	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.834	1.749	1.723	1.791	1.840	1.941	
	-1M	1.873	1.820	1.779	1.811	1.853	1.930	
	-3M	1.491	1.580	1.662	1.788	1.925	1.980	
	-6M	1.513	1.518	1.750	1.856	2.097	2.201	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.764	4.298	316.65	4.755	6.516	1.130	
	-1M	25.655	4.337	317.83	4.760	6.031	1.134	
	-3M	25.857	4.291	322.09	4.636	6.057	1.137	
	-6M	25.601	4.307	324.24	4.656	7.395	1.175	

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

CONTACTS

MARTIN LOBOTKA, ANALYST (+420) 777 027 165, MLobotka@42fs.com

RESEARCH Research@42fs.com

AVAILABLE AT THOMSON REUTERS EIKON MESSENGER

PREVIOUS ISSUES OF WEEKLY AND OTHER REPORTS ARE AVAILABLE HERE ↗

March 25 | 2019

| DISCLAIMER

This publication has been prepared by 42 Financial Services Czech Republic (hereafter referred to as '42 Financial Services' only). This report is for information purposes only.

Publications in the United Kingdom are available only to investment professionals, not private customers, as defined by the rules of the Financial Services Authority. Individuals who do not have professional experience in matters relating to investments should not rely on it.

The information contained herein has been obtained from public sources believed by 42 Financial Services to be reliable, but which may not have been independently justified. No guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose.

This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument or any other action and will not form the basis or a part of any contract.

Neither 42 Financial Services nor any of its affiliates, its respective directors, officers or employers accepts any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. Any opinion, estimate or projection expressed in this publication reflects the current judgment of the author(s) on the date of this report. They do not necessarily reflect the opinions of 42 Financial Services and are subject to change without notice. 42 Financial Services has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favorable investment results.

42 Financial Services, its affiliates, principals or employees may have a long or short position or may transact in the financial instrument(s) referred to herein or may trade in such financial instruments with other customers on a principal basis. 42 Financial Services may act as a market maker in the financial instruments or companies discussed herein and may also perform or seek to perform investment banking services for those companies. 42 Financial Services may act upon or use the information or conclusion contained in this report before it is distributed to other persons.

This report is subject to the copyright of 42 Financial Services. No part of this publication may be copied or redistributed to persons or firms other than the authorized recipient without the prior written consent of 42 Financial Services.

By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.

Copyright: 42 Financial Services Czech Republic, 2019.

All rights reserved.