

April 01 | 2019

## Weekly | 2018 | Week 13

| MARTIN LOBOTKA, (+420) 777 027 165, [MLobotka@42fs.com](mailto:MLobotka@42fs.com), [Research@42fs.com](mailto:Research@42fs.com)

## | CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**
Monday	1-Apr-19	9:30	CZ	Manufacturing PMI, Mar'19	47.30
	1-Apr-19	10:00	EMU	(Final) Manufacturing PMI, Mar'19	47.60
	1-Apr-19	10:00	EMU	Unemployment, Feb'19	7.8%
	1-Apr-19	11:00	EMU	(Preliminary) HICP, Mar'19, y/y	1.5%
	1-Apr-19	14:00	CZ	Budget Balance, Mar'19, CZK bn.	N/A
Tuesday	2-Apr-19	10:00	CZ	(Final) GDP, 4Q18, q/q	0.90%
Wednesday	3-Apr-19	11:00	EMU	(Final) Services PMI, Mar'19	52.70
	3-Apr-19	11:00	EMU	Retail sales, Feb'19, y/y	2.2%
Thursday	4-Apr-19	8:00	GER	Industrial orders, Feb'19, y/y WDA	-3.1%
Friday	5-Apr-19	9:00	GER	Industrial production, Feb'19, y/y WDA	-1.4%
	5-Apr-19	9:00	CZ	Retail sales, Feb'19, y/y	2.3%

\* LOCAL TIME IS CET

\*\* (REUTERS/ BLOOMBERG) POLL

## | APRIL 2019 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
CZGB 2015-2026**	3-Apr-19	5-Apr-19	26-Jun-26	CZK 5 bn. max	1.00%
CZGB 2017-2033**	3-Apr-19	5-Apr-19	13-Oct-33	CZK 5 bn. max	2.00%
CZGB 2019-2021**	10-Apr-19	12-Apr-19	20-Aug-21	EUR 100 mn. max	0.00%
CZGB 2018-2029**	10-Apr-19	12-Apr-19	23-Jul-29	CZK 5 bn. max	2.75%
CZGB 2007-2057**	10-Apr-19	12-Apr-19	26-Nov-57	CZK 0.5 bn. max	4.85%
CZGB 2015-2030**	24-Apr-19	26-Apr-19	15-Jan-00	CZK 5 bn. max	0.95%
CZGB 2006-2036**	24-Apr-19	26-Apr-19	4-Dec-36	CZK 2 bn. max	4.20%

\* 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

“SHITTY GOVERNMENT, SHITTY FISCAL, SHITTY CURRENT ACCOUNT: UK FEELS LIKE AN EMERGING MARKET NOW”.

## WEEK AHEAD

**Lots of releases both here and in the Eurozone.**

In the **Czech Republic**, **March manufacturing PMI** is of highest importance as it will show whether the weakness in industry, already evident in December / January industrial production data, deepened further at the end of first quarter. **Final 4Q18 GDP** will not bring new growth information, only data on households' savings rate and profitability of non-financial corporations. Expect former to have gone up, latter to have gone down.

In the Eurozone, there's **March 2019 preliminary inflation**, but it is now certain that inflation will not surprise on the upside. Just the contrary. Since in three out of four big economies inflation was lower in March than expected (Spain 1.5% expected vs. 1.3% in reality, France 1.4% vs. 1.3% and Germany 1.6% vs. 1.4%), I think we will see 1.4% in Eurozone, not 1.5% as I can now see analysts' expectations on Bloomberg / Reuters. Of higher importance are February **German industrial data**, especially industrial orders.

## WEEK BEHIND

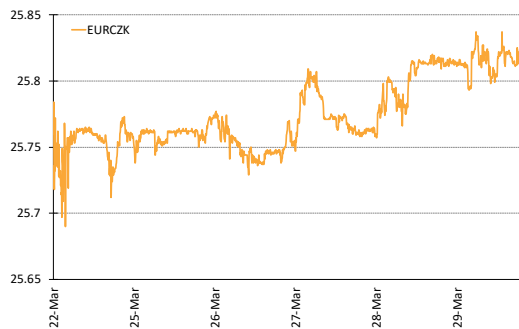
**CNB stays put, two new Zamrazilovas in the Board notwithstanding** ▶

**Czech confidence worsens almost across the board** ▶

**Eurozone leading indicators point at weak growth at best** ▶

**Eurozone retail remains weak midway through 1Q** ▶

### CZK CONTINUES TO WEAKEN



## | FX

**EURCZK continued to move up last week,...**

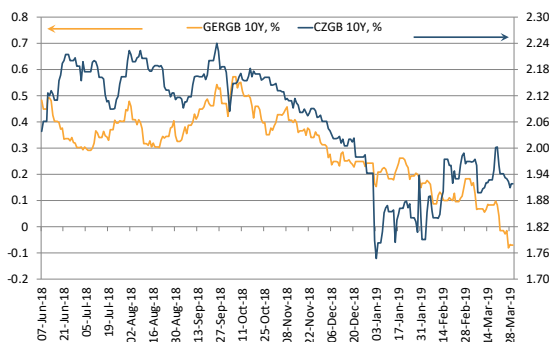
...breaking through 25.8 after CNB kept the rates unchanged.

## | FI

**Never short a Bund, part II.**

Having turned negative the week before, the German 10Y yields continued to head lower amid weak leading indicators and weaker than expected inflation. Shorting the Bund was always going to end up in tears.

### BUND YIELDS FALL FURTHER IN THE RED



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## | CZECH ECONOMY

**As expected, CNB stayed put last week, despite two new Zamrazilovas calling for a hike.**

But not unanimously so: two Board members voted again for a 25 bps. hike. Although their names were not yet published, with probability of one these were the only ex-analysts in the Board, i.e. A. Michl and V. Benda. They both seem to put much more emphasis on currently still strong domestic data, conveniently choosing to ignore the weakness evident in our biggest trading partner, Germany. Michl and Benda are new Zamrazilova, clamoring for policy that is out of tune with the outlook of the economy: recall how Zamrazilova, in 2010-2012 (!) voted 10 times for a hike. It may be a coincidence, but Zamrazilova had been an analyst with Komerční banka before being appointed to the Board. It looks like analysts turn into hawks the moment they get a seat at Senovážné náměstí.

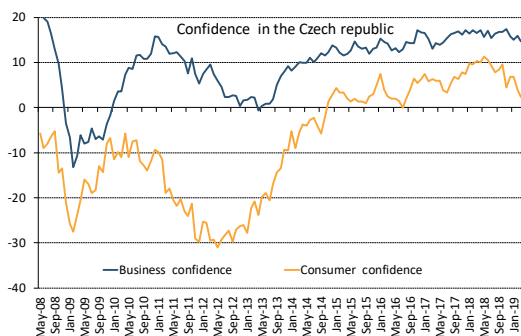
Overall, though, and thankfully so, the Board displayed more understanding for developments outside of the Czech Republic than these two. Hence, it decided to keep rates unchanged, i.e. two-week repo stays at 1.75%. The risks to the latest (February 2019) forecast were deemed balanced, with risk of anti-inflationary developments in the global economy (stemming from growth deceleration) being in policymakers' eyes offset by the possibility of longer period of weaker CZK.

All in all, a rather boring meeting. Next one, in May, will be more interesting as a) new forecast will be prepared and b) more clarity will be had regarding Brexit (which Board identified as one of the risks).

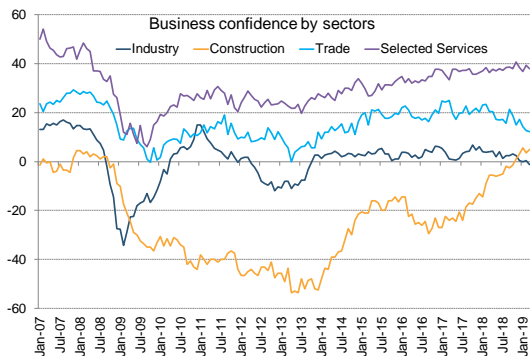
**Confidence worsened further at the end of 1Q.**

Consumer confidence fell to lowest (2.3 pts.) since August 2016, as consumers said they were more concerned, for the next 12 months, about their own financial situation as well as about the unemployment.

**CONSUMER CONFIDENCE FALLS, AS DOES...**



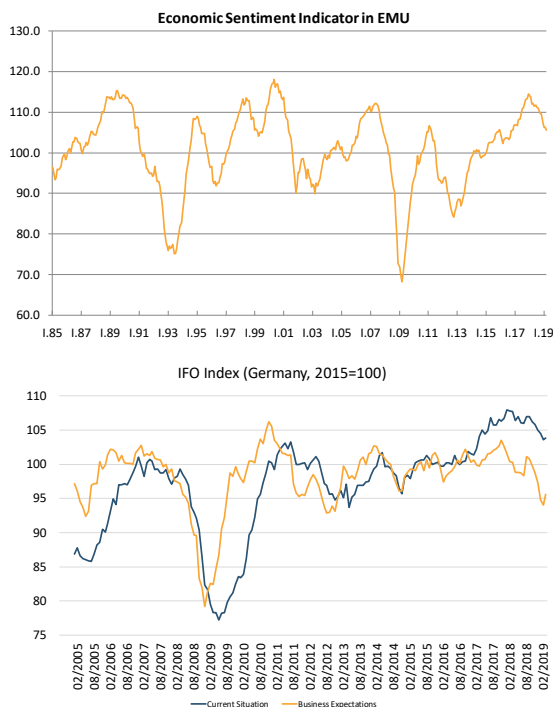
...ONE IN INDUSTRY AND TRADE.



For firms, the individual sectors (services, construction, trade, industry) evolved differently. On the one hand, confidence in industry fell to lowest since September 2013, another sign of German contagion hitting Czech Republic, and lowest confidence since November 2014 was recorded in trade. On the other hand, services remained unchanged (and high) and close to an all-time high from January 2019 was confidence in construction.

Since, as we write in latest Special report, the housing boom of last years is over, the confidence in construction is certainly at the maximum now.

EMU LEADING INDICATORS SHOW NO RE-ACCELERATION OF GROWTH ANYTIME SOON.



EUROZONE ECONOMY

Sentiment in Eurozone remained weak in March.

ESI (European Sentiment Indicator) fell for the 13<sup>th</sup> time in a row, returning back to level (105.5) last seen in October 2016 (105.6). Although the consumer confidence improved marginally, the declines in industry and in services dragged the overall indicator down. In Germany, IFO stabilized, although, in case of expectations, at levels of 2<sup>nd</sup> half of 2012.

Put together, the deterioration in the economic dynamics we saw in last 6 months is at best over; possibly, as ESI or PMI hint at, there can still continue the loss of dynamics. Whatever it shall be, the certainty is that there isn't any re-acceleration of Euro area growth in the offing.

And retail sales data from Spain / Germany seem to confirm that: household demand continue to grow only slowly.

February annual growth of 1.2% y/y in Spain was faster than at the end of last year (0.6% y/y), but that's about it for the good news. The monthly growth of 0.3% m/m was the same as in January, but that only made up for the decline in December of 0.5%. In other words, the growth in last three months was barely positive. This is hardly

**SPANISH RETAIL STILL WEAK, GERMAN ONE SURPRISED ON THE UPSIDE**



something to lift growth and inflation up.

Ok, but Spain has still solidly double-digit unemployment, right? Germany must be much better, no? Yes, to an extent. German retail sales still remain relatively weak, but finally surprised and finally on the upside in February: defying the expectation of 2.1% and January growth of 2.6%, retail sales grew 4.7% y/y.



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MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	2.020	2.060	2.012	1.813	1.753	1.778	
	-1M	2.020	2.070	2.250	2.085	1.995	2.025	
	-3M	2.020	2.070	2.040	1.833	1.778	1.775	
	-6M	1.700	1.770	2.223	2.410	2.418	2.443	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.196	-0.207	-0.154	-0.025	0.078	0.141	
	-1M	-0.380	-0.409	-0.357	-0.266	-0.089	-0.061	
	-3M	-0.542	-0.384	-0.240	-0.071	0.117	0.168	
	-6M	-0.741	-0.786	-0.625	-0.547	-0.328	-0.256	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.816	1.728	1.711	1.788	1.830	1.918	
	-1M	1.870	1.801	1.793	1.819	1.906	1.964	
	-3M	1.498	1.571	1.655	1.762	1.894	1.943	
	-6M	1.482	1.534	1.753	1.863	2.090	2.187	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.820	4.305	321.18	4.774	6.260	1.122	
	-1M	25.630	4.304	315.82	4.746	6.080	1.137	
	-3M	25.743	4.301	321.51	4.662	6.040	1.144	
	-6M	25.765	4.281	323.41	4.654	7.034	1.160	

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

CONTACTS

MARTIN LOBOTKA, ANALYST

(+420) 777 027 165, [MLobotka@42fs.com](mailto:MLobotka@42fs.com)

RESEARCH

[Research@42fs.com](mailto:Research@42fs.com)

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