

April 15 | 2019

## Weekly | 2018 | Week 15

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## | CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**
Tuesday	16-Apr-19	9:00	CZ	PPI Industrial, Mar'19	3.7%
Wednesday	17-Apr-19	10:00	EMU	Current Account, Feb'19, EUR bn.	N/A
	17-Apr-19	11:00	EMU	Trade Balance, Feb'19, EUR bn.	N/A
	17-Apr-19	11:00	EMU	(Final) Headline / Core HICP, Mar'19, y/y	0.8% / 1.4%
Thursday	18-Apr-19	10:00	EMU	(Preliminary) Manufacturing / Service PMI	48/53.2

\* 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

"TO BREXIT, VERB – TO REMAIN AFTER HAVING REPEATEDLY STATED THE INTENTION TO LEAVE [ HE BREXITED AT THE PARTY UNTIL 2 A.M.]".

## WEEK AHEAD

Quiet week ahead of us.

Only the **April preliminary PMIs** in Eurozone are of any interest. Manufacturing likely stayed under 50, the question being whether it improved against 6-year low of 47.6 seen in March.

The dominant service sector is of more importance, and there, the expectation is that it remained above 50 for sure. Again, we will want to see whether it is improving or whether the weakness in industry spilled over into services.

## WEEK BEHIND

■ Czech industry positive in February, but outlook for 2Q19 still bleak ▶

■ Inflation above 3% for the first time since Oct'08 ▶

■ ECB hints at rates being negative for longer ▶

■ Eurozone Feb'19 industry in fourth annual decline in a row ▶

**CZK CALM AROUND 25.60**

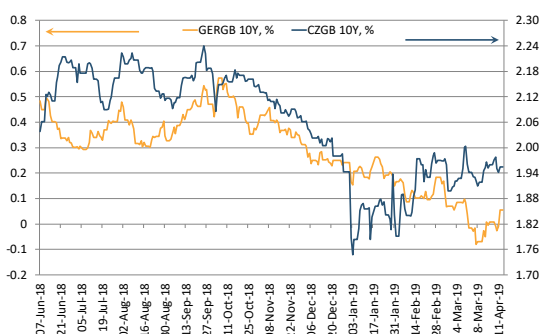


## | FX

**EURCZK stayed at 25.60...**

...with almost no volatility. Nothing to comment here.

**BUND 10Y YIELD RETURNS ABOVE ZERO**

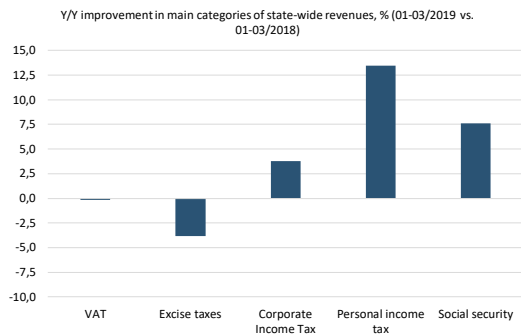


## | FI

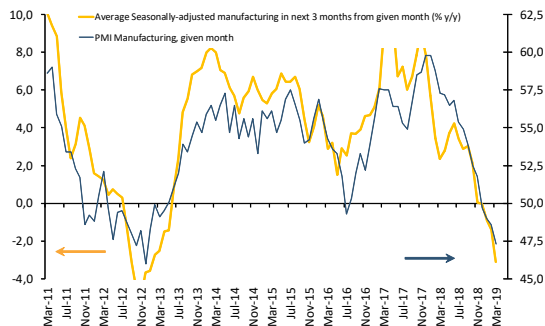
**No big change of the German or Czech bond yields.**

Long Bunds' yields did climb back up above zero, but 5 bps. is hardly anything to dwell on too long here. Czech 10Ys are at 1.95%.

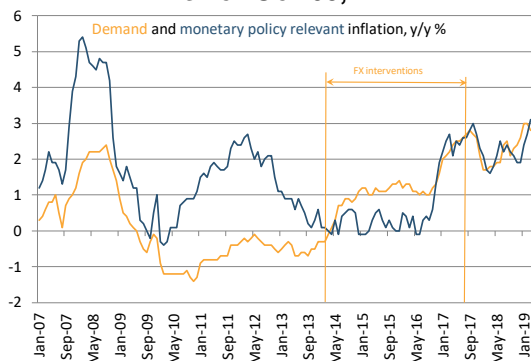
**DESPITE GROWTH IN FEBRUARY, MANUFACTURING...**



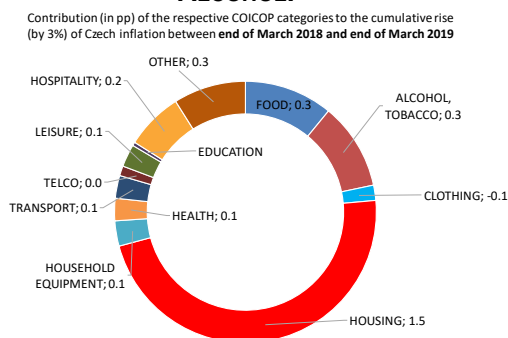
**...IS IN FOR ANOTHER WEAKENING.**



**MP INFLATION ABOVE 3% FOR THE FIRST TIME SINCE OCT'08,...**



**...BUT 2/3 STILL DUE TO HOUSING, FOOD AND ALCOHOL.**



**CZECH ECONOMY**

**Czech industry posted first positive monthly growth after two months.**

0.5% m/m growth in February wasn't such a surprise – after the contraction of almost 2.5% in previous two months, some respite was in order. But even this monthly growth still left the annual one low (just +1.5% y/y) and meant that the growth so far this year is outright negative.

Manufacturing wasn't better – or worse, for that matter: having contracted 1.5% and 1% m/m in December 2018 and January 2019, respectively, it grew 0.6% m/m in February. Whatever holds for the overall industry holds for manufacturing subcomponent thereof.

Looking forward, the swing to positive growth in February is not a harbinger of brighter future. Seeing the March PMI (47.6), one could, after all, hardly think so. Instead, PMI points at contraction of about 3% y/y in 2Q19.

**MP-relevant inflation rose above 3% for the first time since October 2008.**

But the story told by the structural data remained unchanged. Half of that increase (i.e., 1.5 pp) is due to housing, additional 0.3 pp was contributions of food and alcohol / tobacco prices. In other words, housing (taming of which via general repo rate increase is too blunt an approach) and non-demand items (which CNB has little control over) accounted for 60% of the reported inflation. If demand pressures were really robust, as some within the Board of CNB still claim they are, one would reasonably expect to see positive and non-negligible contributions to inflation from all other categories.

That said, this release may push CNB to hike when new forecast is prepared for the May meeting. I still think there's no reason for that, but inflation above 3% may be a psychological trigger for someone beyond Michl and Benda (two hawkish members who voted for hike at the last two meetings) even if the structure isn't indicative of broad inflationary

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pressures.

## | EUROZONE ECONOMY

**ECB remained on hold, but offered some indication that rates may stay low / negative for longer than hitherto thought.**

Although no details about the new series of the TLTROs were forthcoming at the press conference just yet (but are promised for one of the future meetings), the press conference was not an uninteresting one.

That is because ECB officially raised the possibility of “mitigation” of the “possible” side effects of negative interest rates. Again, no details on what that means, with Draghi saying no more than “we’ve got to look at that”. Journalists tried few times to pry something from Draghi, but he wouldn’t play ball.

Draghi admitted that growth was weak in 1Q19, mainly in manufacturing, but that, since labor market gains continue (yes, but at the slowing rate!) and wage growth continues (yes, but very weak one!), the conviction that inflation will in “medium term” get “close, but below 2%” remains justified one. Not to me... And sentences like “we don’t tolerate too low inflation; we remain fully committed to using all necessary instruments to return inflation to 2% without undue delay” sound, in light of almost perennial inability of ECB to hit the target, a little too much like bluster.

Asked whether the recent decline in 5Y5Y inflation-linked swaps (ILS) might trigger some additional monetary-policy response from ECB, the decline in this measure having previously heralded the beginning or the expansion of QE, Draghi went on a technical lecture of why ILS went down. He claimed it was because of inflation risk premium (i.e., premium compensating investors of these contracts for the risks surrounding their central estimates of inflation over the forecast horizon), not because of central estimate having go down. In other words, there is no threat of un-anchoring of inflation

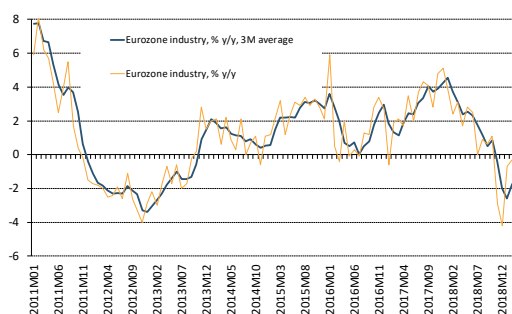
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expectations like when 5Y5Y ILS fell in late 2015, leading to QE. To me, this decomposition of ILS into unobservable parts has always been little too close to magic with numbers, but Draghi believes in it and Governing Council believes in it, so don't expect 5Y5Y ILS to trigger return to QE.

Risks surrounding the euro area growth outlook were said to remain to the downside, mainly because of geopolitics, protectionism and weakness in emerging markets. Estimated probabilities of recession, however, remain low in Draghi's view.

The main takeaway, thus, is this: **rates will now definitely stay low for long and hike even in 2020 is pretty much excluded.** Why? Well, one of the most prominent counter-arguments to protracted period of low (negative) rates was their effect on banks' profitability. But if ECB is looking at ways how to mitigate this, isn't this the sign that ECB is preparing to keep negative rates low for long? Or, can this not be read as a sign that ECB is attempting to create a space to lower them even further? Or both.

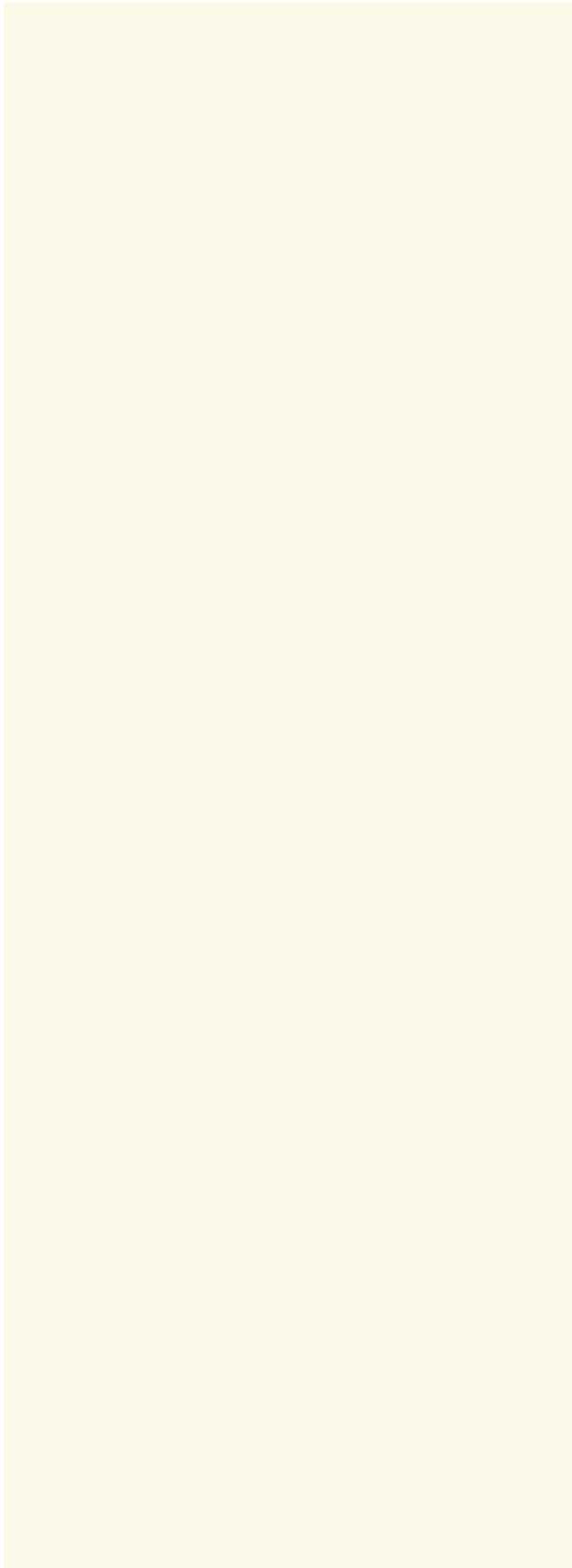
#### EUROZONE INDUSTRY STILL CONTRACTING Y/Y



#### Eurozone industrial production posted fourth negative annual growth in February, but...

...only a small one. After the contraction of 4.2% y/y in December 2012 and 0.7% y/y in January, the February decline was mere 0.3%. Monthly decline was similarly small (0.2%) after the 1.9% gain in January.

Still, even with February monthly growth positive, it was only fourth positive month in last 14 months, i.e. since January 2018. And looking at the PMIs, next monthly decline is close: manufacturing PMI was solidly below 50 at the end of 1Q19, and German IFO also points at weakness in that country's industry extending well into (at least) 2Q19.



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MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	2.020	2.060	2.118	1.945	1.880	1.870	
	-1M	2.030	2.080	2.185	1.993	1.923	1.908	
	-3M	2.010	2.070	2.100	1.825	1.765	1.773	
	-6M	1.750	1.830	2.375	2.620	2.628	2.660	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.430	-0.381	-0.318	-0.254	-0.075	0.084	
	-1M	-0.324	-0.362	-0.291	-0.197	-0.083	0.014	
	-3M	-0.381	-0.315	-0.173	-0.081	0.010	0.086	
	-6M	-0.805	-0.833	-0.839	-0.761	-0.543	-0.505	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.688	1.669	1.677	1.691	1.805	1.954	
	-1M	1.861	1.758	1.757	1.796	1.839	1.921	
	-3M	1.719	1.680	1.725	1.744	1.775	1.858	
	-6M	1.570	1.670	1.741	1.859	2.085	2.155	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.614	4.280	321.67	4.761	6.540	1.130	
	-1M	25.664	4.303	314.46	4.764	6.191	1.130	
	-3M	25.551	4.291	321.73	4.680	6.248	1.147	
	-6M	25.777	4.295	324.12	4.665	6.769	1.156	

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

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