

April 22 | 2019

Weekly | 2018 | Week 16

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| CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**
Tuesday	23-Apr-19	16:00	EMU	(Flash) Consumer Confidence, Apr'19	-7.0
Wednesday	24-Apr-19	9:00	CZ	Consumer and Business Confidence, Apr'19	N/A
	24-Apr-19	10:00	GER	IFO Business Climate / Expectations, Apr'19	99.9

* 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-30	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

"DID YOU SEE THE ABSURD COMEDY WITH TERESA MAY, BORIS JOHNSON, AND DAVID CAMERON? IT'S CALLED "LEAVE ACTUALLY".

WEEK AHEAD

Another quiet week ahead of us. Very quiet one indeed.

Only the soft indicators are scheduled for release. While German IFO is relatively important inasmuch as it will tell us how German economy was doing at the beginning of 2Q ("relatively" because we know from PMI data, already released, that it didn't do differently from the end of 1Q19), Eurozone consumer confidence is of little analytical or forecasting value: in last years, there's been hardly any link between confidence of consumers and actual spending (as measured, say, by retail sales) to merit looking at confidence in more detail.

In the Czech Republic, confidence data are a little more important as they will shed light on how confidence in industry evolved in April (PMI for April will only come out at the beginning of May). But don't expect any improvement on March.

WEEK BEHIND

- Czech producer prices up further in March ▶
- Eurozone PMI hints at economy starting 2Q19 on weak note ▶
- Final March inflation data confirm EMU inflation not converging to ECB target ▶
- Eurozone external relations still pointing at stronger EUR in medium term ▶

| FX

EURCZK weakened marginally against euro,...

...hitting 25.70 last week. EURCZK thus remains between 25.60 and 25.80 for most of this year.

| FI

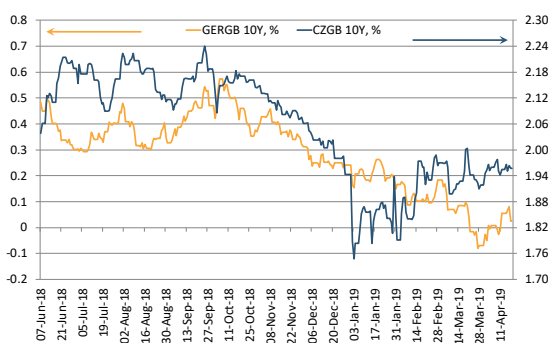
No change of the German or Czech bond yields.

Czech 10Ys are still around 1.95%, German 10Y barely above zero. It comes as no surprise, considering there were few market releases last week, and what released we did have weren't surprising at all.

CZK SLIGHTLY WEAKER

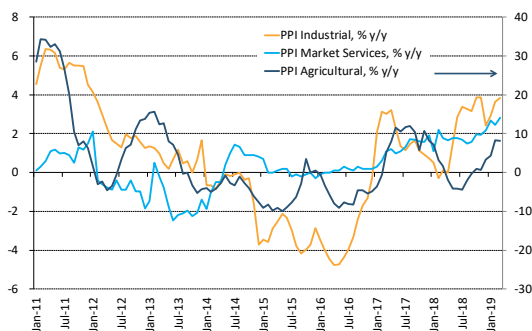


NO CHANGE IN THE CZECH OR GERMAN BOND MARKETS



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PRODUCER PRICES QUICKENED FURTHER IN 1Q19



CZECH ECONOMY

Producer prices quickened further in 1Q19.

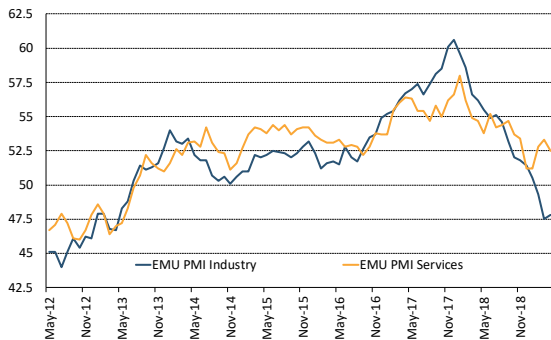
Industrial producer prices quickened to almost 4% y/y in March, their fastest annual growth since early 2012. The monthly increase in the said month was 0.5%, bringing the quarterly growth to 0.6%. The quarterly increase was, as was the annual one, mainly due to energy prices: electricity prices increased 11% y/y (mainly in January, as new prices, reflecting the rise on exchanges in 2018, came into effect) and 6.4% q/q.

For **agricultural producers**, the annual growth remained the same in March as during the previous month, i.e. 8% y/y. This was a significant quickening from the 4.4% y/y *contraction* seen as recently as in July 2018. This swing reflected faster growth of world food prices we've seen since summer 2018 as well as poorer local harvest of 2018. The monthly increase in March was 0.3% m/m, one of the slowest since summer 2018, bringing the quarterly growth in 1Q19 to 4.2%.

Finally, **market services** climbed further to 2.8% y/y, another quickening from February 2019 and much quicker growth than in March 2017 (1.1% y/y) or 2018 (1.8% y/y). Quarterly growth was 0.4%, mainly because of pricier employment services (+4.6% q/q) and of management consulting (+7.2%). The former reflects current economic situation in labor market, the latter is strange: maybe it indicates companies' attempts to deal with slowdown they see coming? Pure speculation here.

All in all, the increase of producer prices was mostly due to non-demand factors, apart from market services where demand is clearly at play, especially for services in tight labor market.

EUROZONE STARTS 2Q19 ON A WEAK FOOTING



EUROZONE ECONOMY

Eurozone economy started 2Q19 on a weak note.

The **manufacturing** PMI did improve, but it was just marginal (from final March value of 47.5 to April's preliminary value of 47.8) and remained well below 50, i.e. firmly in contractionary territory. The future isn't too bright, either: new orders fell for the 7th month in a row and, save for March, at the steepest rate in 6 years. Manufacturing sentiment fell further to lowest since 2012.

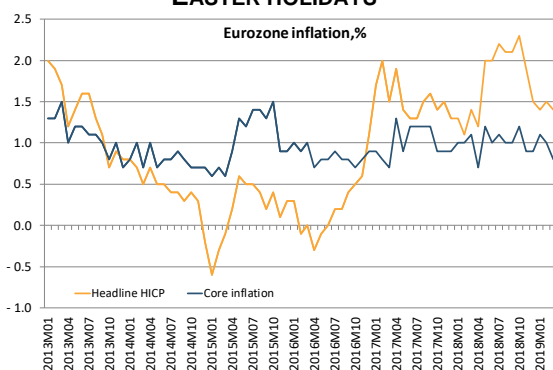
Service sector retreated from March 2019 four-month high of 53.3 to April's preliminary reading of 52.5. This is one of the weakest readings since September 2016, and although it is still in the expansionary territory, it is only barely so. There are signs that it might weaken further in the 2Q: growth of new orders slowed and optimism fell, just like in manufacturing. It is thus likely we will see weaker service PMIs in next couple of months.

Country-wise, France was a drag, new orders having declined for the 5th month in a row. Germany's manufacturing remained in the doldrums, but service sector, on the other hand, rose to 7-month high.

Put together, it doesn't look like Eurozone will growth faster than 0.1-0.2% q/q in 2Q19. And it is certain ECB will not hike anytime soon.

And that is also what final March HICP inflation data say.

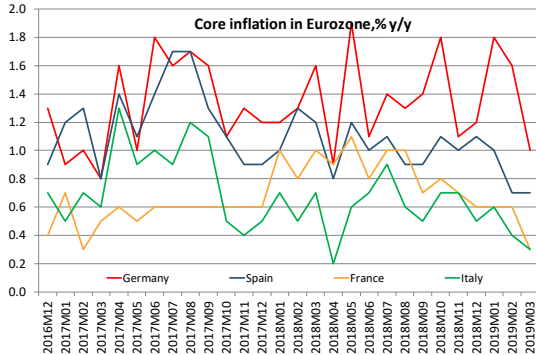
CORE INFLATION DIP BELOW 1%, LIKELY DUE TO EASTER HOLIDAYS



Core inflation fell to lowest (0.8%) in March since last April (0.7%). This looks like a dip related to Easter, and was caused by slower growth of services.

In April 2018 services slowed from pre-Easter March growth of 1.7% to April's 1%. This year, we saw slowdown from February's 1.4% to March 1.1%, but since Easter is in 2nd half of April 2019 (as opposed to the very beginning of April as in

CORE INFLATION WELL BELOW 2% IN ALL BIG ECONOMIES



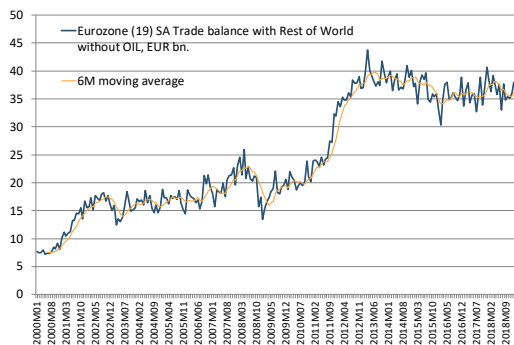
2018), I expect price growth of services to revert back to $\approx 1.5\%$ in April, bringing core back to around 1%.

But that is not important. What is important is the fact that even at 1%, the core inflation is nowhere near levels that ECB would need in order to be able to claim that inflation has hit the inflation target in a sustainable way.

When looking at individual countries, it is clear that even in countries where unemployment has been at or below NAIU (i.e., Germany) the core inflation is low. And it is clear that both Italy and France saw core inflation slow down in last 6 months. Nowhere in the Eurozone can one claim to see demand pressures. And that is a fact.

External relations still very good.

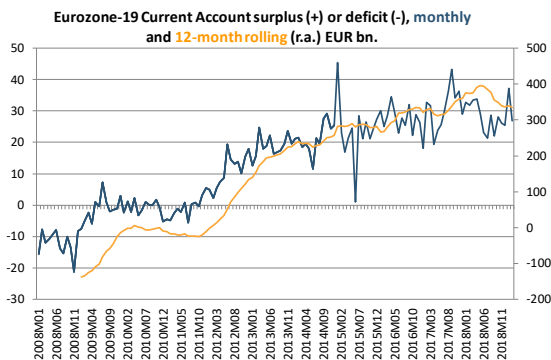
TRADE BALANCE WITHOUT OIL STILL RUNNING AT EUR 400 BN. ANNUAL SURPLUS



Trade balance has remained at around EUR 36 bn. monthly surplus in last three years, and February 2019 was no exception – without oil, that is. Current account has also been pretty uneventful, running at around 300 bn. annualized surplus for about the same time.

These data point in the direction of stronger EUR in the medium term – and I expect EURUSD to be around 1.17-1.18 in a year's time.

CURRENT ACCOUNT ALSO STABLE AT AROUND EUR 300 BN. ANNUAL SURPLUS



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MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	2.020	2.070	2.120	1.965	1.893	1.893	
	-1M	2.030	2.080	2.185	2.060	1.998	1.995	
	-3M	2.010	2.070	2.180	1.975	1.905	1.920	
	-6M	1.770	1.860	2.385	2.640	2.645	2.653	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.392	-0.419	-0.343	-0.263	-0.067	0.064	
	-1M	-0.347	-0.421	-0.339	-0.237	-0.146	0.006	
	-3M	-0.402	-0.375	-0.251	-0.206	-0.105	-0.058	
	-6M	-0.823	-0.858	-0.864	-0.787	-0.558	-0.483	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.728	1.659	1.677	1.702	1.826	1.957	
	-1M	1.838	1.724	1.771	1.823	1.852	2.001	
	-3M	1.778	1.730	1.782	1.769	1.800	1.862	
	-6M	1.562	1.660	1.739	1.853	2.087	2.170	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.697	4.281	320.16	4.758	6.542	1.125	
	-1M	25.618	4.287	313.06	4.762	6.218	1.135	
	-3M	25.579	4.289	318.01	4.704	6.054	1.136	
	-6M	25.855	4.294	323.18	4.668	6.499	1.151	

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

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