

April 23 | 2018

Weekly | 2018 | Week 16

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CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**	42FS
Monday	23-Apr	10:00	EMU	(Preliminary) Manufacturing / Services PMI, Apr'18	56.1/54.6	N/A
Tuesday	24-Apr	9:00	CZ	Consumer / Business Confidence, Apr'18	N/A	N/A
	24-Apr	10:00	GER	IFO Business Climate, Apr'18	102.8	N/A
Thursday	26-Apr	13:45	EMU	ECB rate-setting meeting	no change	no change
Friday	27-Apr	7:45	FRA	(1st est.) GDP 1Q18, q/q (SA)	0.4%	N/A
	27-Apr	8:45	FRA	(Preliminary) Headline HICP, Apr'18	1.7%	N/A
	27-Apr	9:00	SPA	(1st est.) GDP 1Q18, q/q (SA)	0.7%	N/A
	27-Apr	10:00	SPA	Retail Sales, Mar'18, y/y	1.4%	N/A
	27-Apr	10:00	SPA	(Preliminary) Headline HICP, Apr'18	1.2%	N/A
	27-Apr	11:00	EMU	(Final) Consumer Confidence, Apr'18	0.4	N/A
	27-Apr	14:30	USA	(1st est.) GDP 1Q18, q/q (SAAR)	2.0%	N/A

* LOCAL TIME IS CET

** (REUTERS/ BLOOMBERG) POLL

APRIL 2018 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
SPP 788	5-Apr	6-Apr	5-Oct-18	CZK 0-5 bn.	N/A
CZGB 2007-2022**	11-Apr	13-Apr	12-Sep-22	CZK 4 bn. max	4.70%
CZGB 2015-2026**	11-Apr	13-Apr	26-Jun-26	CZK 4 bn. max	1.00%
CZGB 2017-2033**	11-Apr	13-Apr	10-Feb-27	CZK 4 bn. max	0.25%
SPP 789	12-Apr	13-Apr	13-Jul-18	CZK 0-5 bn.	N/A
SPP 786	19-Apr	20-Apr	19-Oct-18	CZK 0-5 bn.	N/A
CZGB 2018-2021**	25-Apr	27-Apr	23-Feb-21	CZK 4 bn. max	0.75%
CZGB 2018-2029**	25-Apr	27-Apr	23-Jul-29	CZK 4 bn. max	2.75%
CZGB 2017-2033**	25-Apr	27-Apr	13-Oct-33	CZK 4 bn. max	2.00%
SPP 791	26-Apr	27-Apr	27-Jul-18	CZK 0-5 bn.	N/A

* 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.

THOUGHT OF THE WEEK

“I’D PROBABLY RISK THE CHARGE OF UNJUST ENRICHMENT IF DEUTSCHE WIRED THIS TO ME ↗.”

WEEK AHEAD

Eurozone’s central bank meeting, preliminary 1Q18 GDP data and April inflation from Spain and France is what’s on radar for this week.

Although **no** one is to expect any **change** from **ECB**, we’re getting closer to September, i.e. to earliest possible date when asset purchase program may be terminated, as per the current statement of the ECB. Therefore, it will be important to see whether ECB is actually leaning towards terminating the program in September (possibly with short tapering period) or whether, in light of persistently low inflation, it is leaning towards extending it for non-negligible period of time beyond September 2018. Press conference is worth monitoring for hints.

First estimates of 1Q18 GDP growth will come out of France and Spain. Both should confirm that Eurozone economy hasn’t quickened in 1Q18 and that it actually may have slowed (French growth expectation is 0.3 pp lower than 4Q17 growth was, Spanish 1Q18 is the same as actual growth was in 4Q17).

Preliminary April inflation from France and Spain will confirm that there are no inflation pressures whatsoever in Eurozone.

WEEK BEHIND

Both import prices...▶

...and producer prices show there is nothing to be feared inflation-wise in CZ▶

Final Eurozone March inflation data show inflation pressures still absent even from Germany▶

Eurozone confidence edges up in April▶

FX

EURCZK returned above 25.35 in the second half of last week. In other words, CZK continues to trade between 25.25 and 25.45, as it's been doing since mid-January, i.e. since the release of December inflation which marked the start of the strong deceleration of inflation that neither the market nor the CNB had expected.

FI

Czech yields continued to slide lower while German longer ones jumped up.

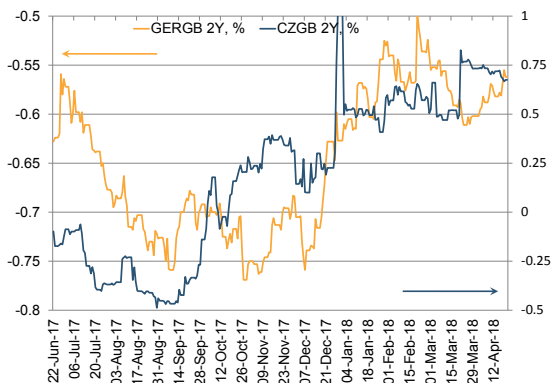
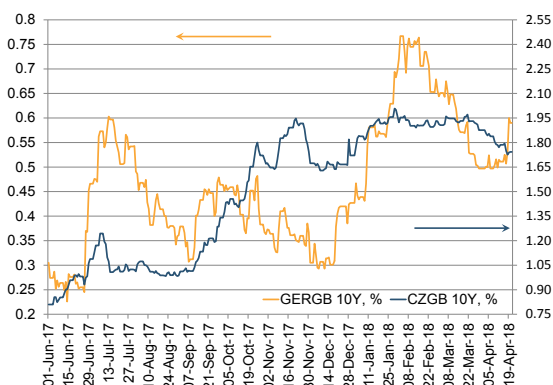
German long end was pushed up almost 10 bps. to 60 bps, highest since early March, by rise of oil prices. Last week, Brent rose to highest (≈USD 75/brl.) since November 2014, eliciting a vaguely threatening response ↗ from Trump that oil prices were being kept “*artificially high*” and it will “*not be accepted*”. Not to nitpick, but OPEC by definition, being a cartel, does keep prices artificially high whenever it reaches an agreement on production...And, moreover, US production is now highest ever (>10 mbd) and US may become the largest producer this year so it is as much a culprit here as OPEC. I.e., if US wants lower prices, how about trying to pump a quarter of what it is doing now...But I digress.

Bond market responding to this is inane, though: oil prices will not put inflation in Eurozone on a sustainable path. Although they will raise headline, they will at least to some extent depress core.

EURCZK WEAKENED TOWARDS 25.40 LAST WEEK



TOTAL CALM IN THE BOND MARKETS



CZECH ECONOMY

Import prices fell again in February, recording the 2nd monthly decline this year and, what is more important, 10th decline in last 12 months.

The February decline was driven by fall of import prices of oil (mineral fuels -0.8% m/m), of vehicles and machinery (-0.9% m/m) and, of course, the manufactured consumer goods. The import prices of manufactured consumer goods fell 0.5% m/m and thus fell in each month since January 2017 except the September of last year.

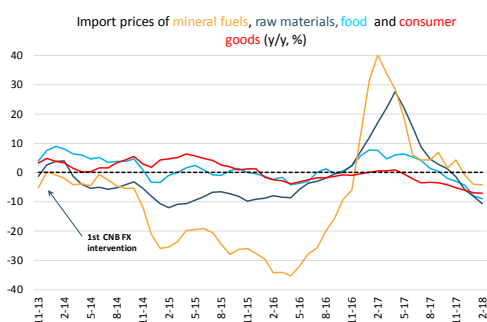
The cumulative decline of import prices over the first two months last year thus is 1% (and is about 6.5% since February 2018), which is about twice as large as the cumulative strengthening of CZK over the same period. There is possibly in Jan-Feb import prices some reflection of strengthening of CZK that occurred in the last quarter of last year, but anti-inflationary Eurozone certainly had a say in weak import price growth too.

While I don't expect further fall in import prices in March and April – February should be the bottom – it will take whole remainder of this year for import prices to return to y/y growth. And, considering how anti-inflationary Eurozone, our main trading partner, is, it is unlikely we will see fast growth of import prices thereafter. Unless, of course, CZK weakens - - as it should.

March producer prices also show no impending threat to price stability.

The m/m rise of prices of agricultural and industrial producers came after the declines in both in February and doesn't show any trend: for the former, the dynamics is significantly slower than this time last year, for industrial prices it is somewhat slower. This is reflected in the annual numbers: industrial price growth returned from the negative territory (-0.3% y/y) of February, but only slightly so. In March, the growth was just 0.1% y/y, i.e. stagnation for all practical purposes.

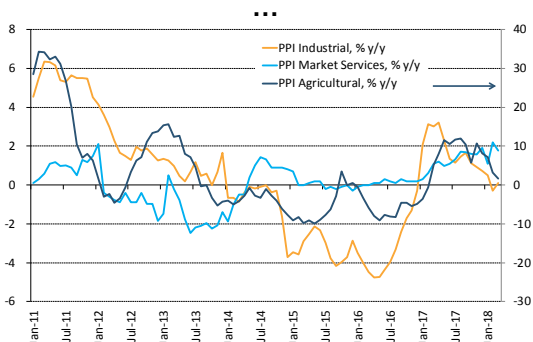
IMPORT PRICES CONTINUED TO FALL IN FEBRUARY...



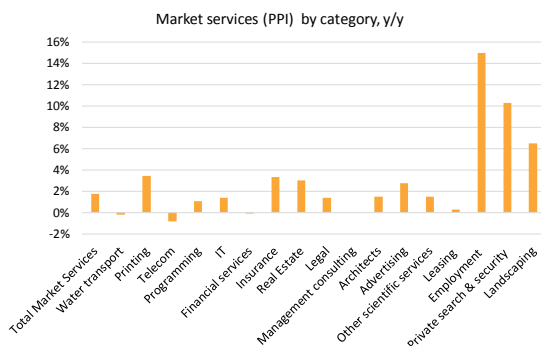
...WITH THOSE OF MANUFACTURED CONSUMER GOODS RECORDING 13TH DECLINE IN LAST 14 MONTHS.



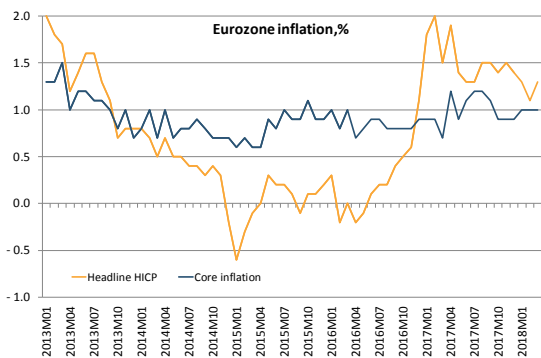
PRODUCER PRICES CONTINUE TO DECELERATE



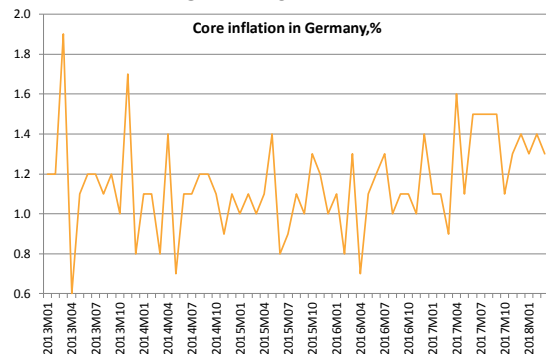
...EXCEPT MARKET SERVICES, WHICH MERELY STABILIZED. BUT THEIR RISE IS NOT BROAD-BASED.



EUROZONE INFLATION REMAINS LOW...



...EVEN IN COUNTRIES WITH ULTRA-LOW UNEMPLOYMENT



Deceleration of annual inflation is seen in prices of agricultural producers as well: whereas the prices of agricultural producers rose 12% y/y as recently as last August, they grew just 1.6% y/y at the end of 1Q18.

Where the situation is slightly different is with prices of market services. Here, the annual growth slowed back under 2% in March (to 1.8%) but is nonetheless one of the fastest seen since crisis. But to me that isn't sign of build-up of inflation pressures. First, the link from market services prices to companies to consumer inflation is fairly light. Second, the growth in market services is predominantly due to 16% y/y increase in employment services, a reflection of tight labor market, and due to 11% rise in prices of private security services. Everything else is growing much, much more slowly.

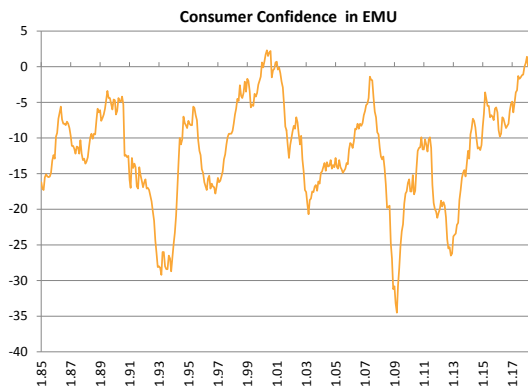
Since I believe the peak of the economic growth momentum was reached late last year, I don't expect quickening growth of producer prices in the remainder of this year or in 2019.

EUROZONE ECONOMY

Eurozone final March inflation confirmed zero inflation pressures – even in economies where one could / should see them.

Final inflation data obviously didn't deviate much from the preliminary estimates: headline HICP was 0.1 pp lower against the estimate (i.e., 1.3% in March) while core inflation remained unchanged at 1%. Reinforcing my expectation of long period of very loose monetary policy ahead (incl. possibly prolonging the ECB's QE well into 2019) is the total absence of inflation pressures, even in countries where labor market has been tight for a long time, such as Germany. If Germany hasn't produced anything higher than 1.3% in core HICP, how can the core inflation of the entire Eurozone be expected to move up to 2% any time soon? It can't.

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CONSUMER CONFIDENCE UP IN APRIL

Eurozone consumer confidence edged higher in April, but that is of little importance for household demand.

Preliminary data put the April confidence 0.3 pp above the level seen in both February and March, and hence to one of the highest levels ever.

This would be welcome news for ECB (inflation, growth should head \uparrow) but there's a catch: consumer confidence has in last few quarters turned out to be a pretty poor predictor of household demand. Hence, although April release is certainly positive, I wouldn't read much into it. Unless we see wage growth – and that is not happening, not even in Germany where nominal wage growth has been around 4% since 2010 – we won't see quicker growth of household demand or quicker inflation. And we're still at least couple of years away from that point.

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MARKETS ‡

MM / IRS	3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y		
%	Actual	0.709	0.969	1.235	1.620	1.700	1.795	
	-1M	0.709	0.969	1.330	1.755	1.845	1.950	
	-3M	0.709	0.969	1.375	1.750	1.821	1.920	
	-6M	0.709	0.969	1.110	1.455	1.568	1.700	
ASW spread*	2Y	3Y	4Y	5Y	7Y	10Y		
bps.	Actual	-0.560	-0.648	-0.578	-0.448	-0.225	-0.052	
	-1M	-0.504	-0.604	-0.545	-0.428	-0.174	0.021	
	-3M	-0.880	-0.853	-0.712	-0.710	-0.566	-0.004	
	-6M	-0.952	-0.708	-0.750	-0.766	-0.649	-0.048	
CZGB**	2Y	3Y	4Y	5Y	7Y	10Y		
%	Actual	0.675	0.742	0.947	1.172	1.475	1.743	
	-1M	0.826	0.916	1.120	1.327	1.671	1.971	
	-3M	0.495	0.709	0.969	1.040	1.255	1.916	
	-6M	0.158	0.556	0.622	0.689	0.919	1.652	
FX	EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD		
	Actual	25.358	4.173	310.84	4.658	5.009	1.229	
	-1M	25.400	4.230	311.34	4.668	4.824	1.234	
	-3M	25.383	4.173	309.14	4.662	4.654	1.222	
	-6M	25.706	4.235	307.98	4.600	4.327	1.178	

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

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