

June 17 | 2019

## Weekly | 2018 | Week 24

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## CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**
Monday	17-Jun-19	9:00	CZ	(Industrial) PPI, May'19, yy	3.5%
Tuesday	18-Jun-19	11:00	EMU	Trade Balance, Apr'19, EUR bn. (SA)	16.3
	18-Jun-19	11:00	EMU	(Final) Headline/Core HICP, May'19	1.2%/0.8%
Wednesday	19-Jun-19	10:00	EMU	Current Account, Apr'19, EUR bn. (SA)	NA
Thursday	20-Jun-19	16:00	EMU	(Flash) Consumer confidence, Jun'19	-6.5
Friday	21-Jun-19	10:00	EMU	(Preliminary) Manufacturing/Service PMI, Jun'19	48/53

\* LOCAL TIME IS CET

\*\* (REUTERS/ BLOOMBERG) POLL

## JUNE 2019 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
CZGB 2015-2026**	12-Jun-19	14-Jun-19	26-Jun-26	CZK 3 bn. max	1.00%
CZGB 2017-2033**	12-Jun-19	14-Jun-19	13-Oct-33	CZK 4 bn. max	2.00%
CZEUGB 2019-2021**	19-Jun-19	21-Jun-19	20-Aug-21	EUR 0.1-0.2 bn.	0.00%
CZGB 2017-2033**	26-Jun-19	28-Jun-19	13-Oct-33	CZK 4 bn. max	2.00%
CZGB 2007-2057**	26-Jun-19	28-Jun-19	26-Nov-57	CZK 0.5 bn. max	4.85%

\* 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

“ECB RESURRECTING QE IS GIVING ITALIAN GOVERNMENT LICENSE TO MISBEHAVE.”

## WEEK AHEAD

**Soft June data from Eurozone is what's on the release schedule this week.**

Most important among these is the **preliminary PMI from June**: not much change against May is expected, but we shall want to see whether industry improved at least somewhat from the weakness of April and May, especially in Germany where it hit lowest since 2012 in those two months. But I wouldn't hold my breath, considering the trade uncertainty remained elevated. There will also be **consumer confidence for June**, but this a] is a lagging indicator, really, and b] doesn't have any link to actual retail sales.

## WEEK BEHIND

**Czech MPRI back at 3%, demand inflation continues to weaken** ▶

**Czech import prices up in April, but only because of pricier mineral fuels, raw materials** ▶

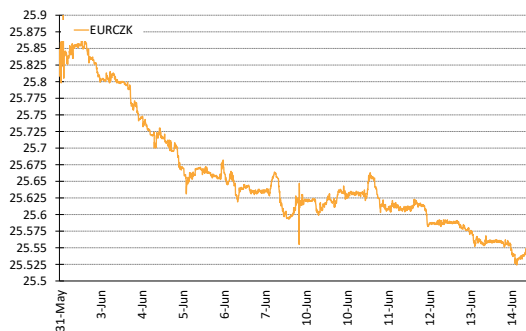
**Eurozone industry dragged down by weakness in Germany, Italy** ▶

## | FX

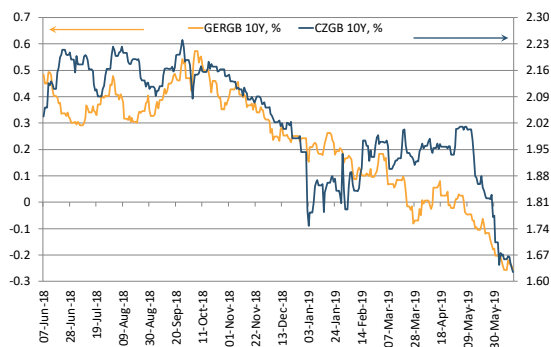
**EURCZK fell further below 25.60,...**

...as Czech bond prices continued to rise. What also helped CZK rise to levels not seen since mid-January was the CNB Board member Benda's comments ↗ that state of the Czech economy warrants higher interest rates because, supposedly, domestic pressures outweigh the countervailing effects on inflation of global slowdown. Well, if you look below the surface inflation doesn't reflect domestic pressures beyond housing, which is a very specific sector. But, irrespective of what one may think, Benda's comments were certainly pro-CZK.

**EURCZK FALLS BELOW 25.60**



**CZECH 10Ys YIELDS CONTINUE TO DECLINE**



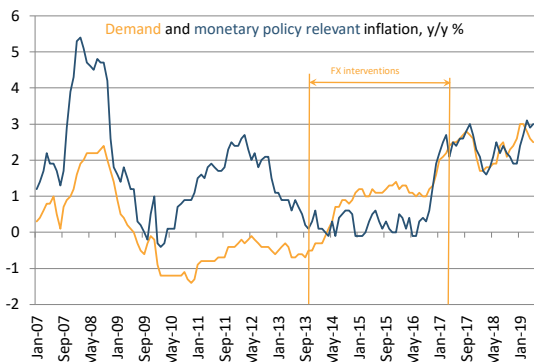
## | FI

**Czech yields continued to fall,...**

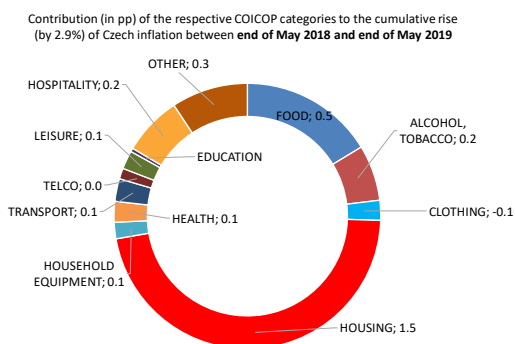
...having fallen, at 10Y, to almost 1.6% last week. This is their lowest since December 2017, i.e. since somewhat after CNB began tightening the policy.

**CZECH ECONOMY**

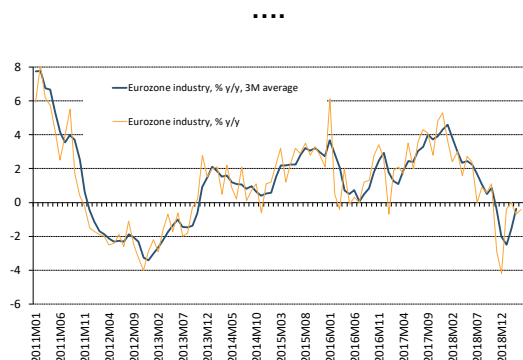
**MPRI BACK AT 3%, DEMAND INFLATION SLOWS DOWN**



**STRUCTURE OF INFLATION UNCHANGED: MORE THAN HALF DUE TO HOUSING, ALMOST QUARTER DUE TO FOOD, TOBACCO, ALCOHOL.**



**INDUSTRIAL PRODUCTION DOWN IN EUROZONE,**



**Czech MP-relevant inflation returned to 3%, demand one continues to decline.**

Having declined slightly to 2.9% in April, **MPRI** was back at 3% in May and thus only 0.1 pp below the ten-year peak seen in March 2019. The return of the MPRI was due to renewed growth of food, tobacco and alcohol prices (+2.7% y/y, fastest since June 2018).

**Demand inflation**, on the other hand, continued to decelerate, declining to lowest (2.5% y/y) since November of last year. In the first two months of the 2<sup>nd</sup> quarter, demand inflation rose 0.5%, noticeably slower than 0.7% growth seen in the April-May of 2018.

In the structure of the demand inflation, nothing changed: more than one half is still due to housing, almost a quarter due to food + alcohol + tobacco. So, demand inflation still far, far from being broad-based. But go explain that to Benda...

In a separate release, **import prices rose 3.4% y/y** in April, in line with annual growth rates seen in previous three quarters. Weak CZK is partially to blame (April 2018 average of EURCZK was 25.37, April 2019 average was 1.2% higher, at 25.67) but most of it is due to higher prices of raw materials (+7.8%) and mineral fuels (+9.9% y/y).

**EUROZONE ECONOMY**

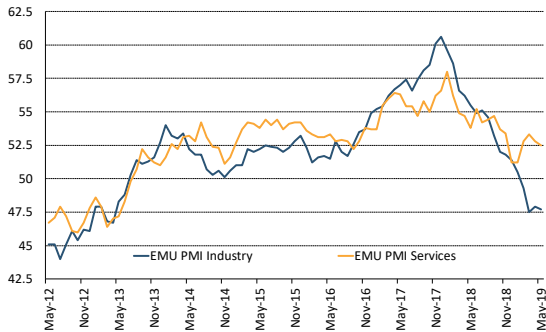
**Industrial production fell 0.5% m/m in April, marking the third consecutive decline.**

Over the period of February-April, the industry thus fell 1% and is **now 0.4% lower than year ago**. Manufacturing component of the industry is 0.5% lower y/y. But considering the PMI, these are actually still good results.

As regards individual economies, Spain and France are actually up y/y, with the industry in the former 1.4% higher than in 2018 and the industry in the latter 1% higher. Nothing to write home about, but pretty good -- and not that surprising given that both

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**... BUT SURPRISINGLY MODERATELY SO CONSIDERING PMI.**



countries saw their respective PMIs above 50 in April.

That cannot be said of Germany where PMI has been deeply below 50 this year (44.4 in April, 44.3 in May) or Italy (47.6 in 1Q19, 49.1 in April, 49.7 in May). German industrial production is thus 3.5% lower y/y, Italian one is down 1.5%.

Germany is clearly suffering from trade tensions, and with Trump not toning rhetoric down (just the contrary), it is unlikely that this will change for better soon.



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MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	2.170	2.220	1.950	1.695	1.633	1.635	
	-1M	2.200	2.250	2.150	1.955	1.885	1.875	
	-3M	2.030	2.080	2.185	1.993	1.923	1.908	
	-6M	2.020	2.080	2.305	2.305	2.255	2.238	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.277	-0.217	-0.143	-0.164	-0.076	-0.010	
	-1M	-0.367	-0.380	-0.348	-0.219	-0.021	0.057	
	-3M	-0.324	-0.362	-0.291	-0.197	-0.083	0.014	
	-6M	-0.764	-0.716	-0.646	-0.511	-0.305	-0.233	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.673	1.623	1.615	1.531	1.556	1.625	
	-1M	1.783	1.693	1.657	1.736	1.864	1.932	
	-3M	1.861	1.758	1.757	1.796	1.839	1.921	
	-6M	1.541	1.599	1.669	1.794	1.950	2.005	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.543	4.257	322.41	4.724	6.593	1.121	
	-1M	25.751	4.309	324.44	4.760	6.759	1.120	
	-3M	25.664	4.303	314.46	4.764	6.191	1.130	
	-6M	25.791	4.292	323.69	4.656	6.068	1.131	

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

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