

June 24 | 2019

## Weekly | 2018 | Week 25

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	24-Jun-19	9:00	CZ	Business / Consumer Confidence, Jun'19	N/A
	24-Jun-19	10:00	GER	IFO Business Climate	97.4
Wednesday	26-Jun-19	13:00	CZ	CNB rate-setting meeting, 2W repo rate	2.0%
Thursday	27-Jun-19	11:00	EMU	(Final) Consumer confidence, Jun'19	-7.2
Friday	28-Jun-19	9:00	CZ	Final GDP, 1Q19, q/q	0.6%
	28-Jun-19	9:00	SPA	Final GDP, 1Q19, q/q	0.7%
	28-Jun-19	9:00	SPA	Retail Sales, May'19, y/y SA	1.5%
	28-Jun-19	11:00	EMU	(Preliminary) Headline/Core HICP, Jun'19, y/y	1.2% / 0.9%

\* 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

“GOTTA LOVE THIS CUT-RATE MANIA BECAUSE OF TRADE WARS AND BREXIT RISKS. LIKE THESE JUST APPEARED YESTERDAY”.

## WEEK AHEAD

**CNB rate-setting meeting and Eurozone June inflation are the most important events / releases this week.**

CNB will stay put, although one or two hawkish votes may appear. But in general, the somewhat stronger CZK and weakening core inflation will keep CNB on hold. The important thing to watch is how CNB views recent dovish rhetoric of ECB and of FED.

Eurozone June inflation will not bring anything surprising either – the only question is whether core inflation remained below 1% or rose to 1% in June. That it remained far, far away from ECB's target is beyond doubt.

## WEEK BEHIND

Prices of producers in CZ in quickened, slowed and stagnated in May ▶

Still no demand inflation to speak of in Eurozone ▶

Eurozone trade balance surplus still very large despite German manufacturing woes ▶

Eurozone PMI hits 7-month high in June ▶

## | FX

### EURCZK ROSE SLIGHTLY TO ABOVE 25.60

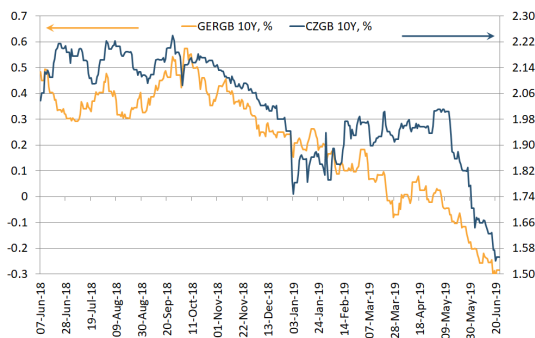


EURCZK rose slightly above 25.60,...

...an almost imperceptible correction of strengthening seen in previous June weeks.

## | FI

### CZECH 10YS YIELDS DECLINED TO LOWEST SINCE OCTOBER 2017

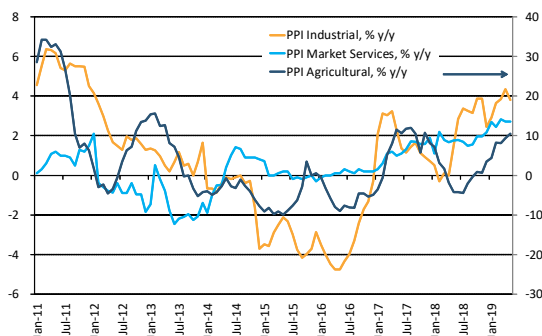


Czech yields continued to fall,...

...having fallen, at 10Y, below 1.55% last week. This is their lowest since October 2017, i.e. since little after CNB began tightening the policy.

**CZECH ECONOMY**

**DIVERGENT EVOLUTION OF PRODUCER PRICES IN MAY**



**Czech producer prices quickened, slowed and kept the pace of growth in May.**

What? Well, depending on which producers we talk about.

Prices of agricultural producers quickened to 10.5% y/y, highest since November 2017. This was primarily due to 16% higher prices of crops y/y (with potatoes prices up 50% y/y).

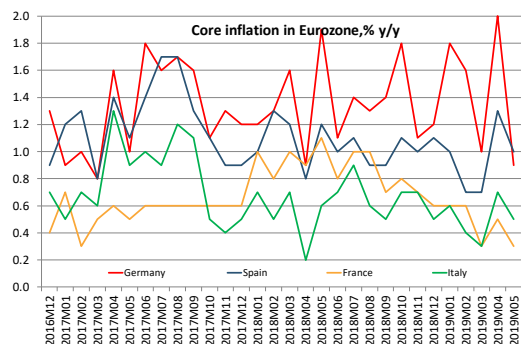
On the contrary, the growth of prices of industrial producers slowed back below 4% y/y (3.8%). This is a reflection of higher (regulated) electricity prices and of oil products.

The growth of prices of market services stagnated, but at 2.7%, i.e. at the highest level in almost a decade. This reflected 17% growth of prices in water transport, 9% growth of prices of consulting and real-estate services, and almost 9% growth in employment-associated services.

All in all, if you're of hawkish leanings, you will find what you need easily in May producer price data. They are slightly on the hawkish side, indeed.

**EUROZONE ECONOMY**

**CORE INFLATION VERY LOW IN ALL BIG EUROZONE ECONOMIES IN MAY**



**There is not even a sign of demand pressures in the Eurozone.**

Final inflation data for May, released last week, were certainly nothing to justify the ECB belief (recently duly downplayed) that inflation is on its way to sustainability. Of four largest economies, the highest core inflation was in Spain, and even that was just 1 percent, i.e. long way to the ECB's target of "close but below 2%". German core inflation was at 0.9%, French at 0.3% and Italian at 0.5%, whole Eurozone was at 0.8%.

Yes, ECB specifies the target in headline inflation, but since the requirement for any tightening of the policy by ECB is that the inflation "must be sustainable at target level (of close to but below 2%)", it is clear that ECB basically targets core

inflation: non-core items like food and fuel mostly influence the price level only in a given year (unless there is a multi-year growth trend) before vanishing from the base. For inflation to be sustainable in the long-run at whatever target you set, you have to have core inflation close to that level. In other words, ECB will need to stay put for long, as I've always expected. Actually, if it does stay put, it will be quite a hawkish outcome.

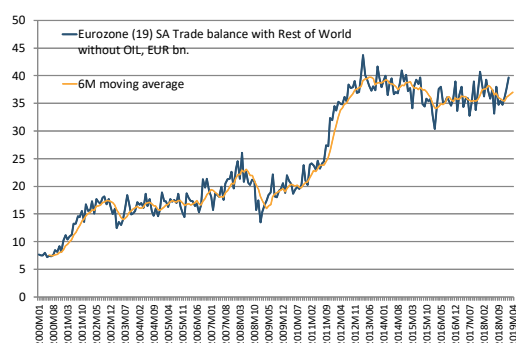
**Despite German industrial weakness, trade balance of Eurozone remains in large surplus.**

In April, trade balance surplus without oil was almost 40 bn. EUR, with 6-month cumulative one over 220 bn. Trade balance with oil did worsen in last year, but that was to be expected considering the prices and continuing growth of demand. But to judge the external balance, oil isn't important as nothing can be done about oil imports: they just need to happen for Eurozone that is not energy self-sufficient. Underlying strength of Eurozone export machinery is evidenced in trade balance surplus ex oil – which is impressive and very much pro-EUR.

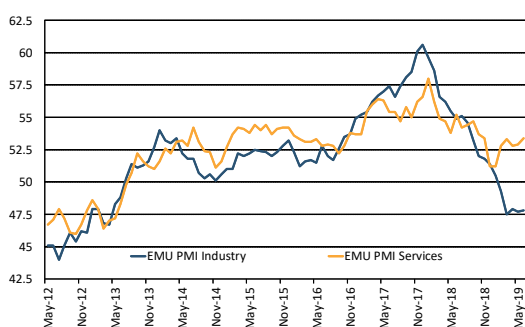
**In a sign that economy stabilized in 2Q, Eurozone PMI hit 7-month high in June.**

The composite index rose to 52.1 in June (vs. 51.8 in May), driven by resilient service sector (53.4, up 0.5 pts against May) that has withstood the weakness in the manufacturing in last two, three quarters. In manufacturing, the improvement in June was marginal, with PMI coming in at 47.8 (vs 47.7 in May). While the rise of activity in service sector was sharpest since November of last year, manufacturing saw the output falling for fifth consecutive month. Hence, while services grew in 2Q19 at their strongest since 3Q18, manufacturing had the weakest quarter in 6 years. While sub-indices of employment were little changed on May (the only change being that employment again rose, very marginally, in

**TRADE BALANCE SURPLUS OF EUROZONE REMAINS VERY HIGH DESPITE GERMAN INDUSTRIAL WEAKNESS**



**EUROZONE PMI HITS 7-MONTH HIGH AS SERVICES IMPROVE**



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manufacturing after having fallen in May for the first time since 2014) and while exports order fell again (weakest since January), the sentiment for the next twelve months deteriorated in both sectors. In other words, companies don't expect situation to improve in next year, a bad sign for investment decisions and hiring decisions.

So, while situation appears to be stabilized (mainly due to the fact that service sector has remained impervious to the weakness in manufacturing), it is unlikely Eurozone will start growing at inflation-producing rate in next two years. Or, I should say, it is impossible.

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MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	2.170	2.220	1.930	1.685	1.620	1.620	
	-1M	2.190	2.240	2.085	1.883	1.810	1.810	
	-3M	2.030	2.060	2.050	1.845	1.785	1.788	
	-6M	2.020	2.080	2.115	1.930	1.863	1.860	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.287	-0.241	-0.189	-0.196	-0.150	-0.067	
	-1M	-0.341	-0.370	-0.325	-0.230	-0.024	0.016	
	-3M	-0.216	-0.234	-0.187	-0.054	0.055	0.154	
	-6M	-0.624	-0.463	-0.318	-0.142	0.063	0.120	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.643	1.564	1.551	1.489	1.470	1.553	
	-1M	1.744	1.635	1.605	1.653	1.786	1.826	
	-3M	1.834	1.749	1.723	1.791	1.840	1.941	
	-6M	1.491	1.580	1.662	1.788	1.925	1.980	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.622	4.257	324.13	4.726	6.623	1.137	
	-1M	25.863	4.305	326.28	4.761	6.833	1.118	
	-3M	25.764	4.298	316.65	4.755	6.516	1.130	
	-6M	25.857	4.291	322.09	4.636	6.057	1.137	

‡ 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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