

July 08 | 2019

Weekly | 2018 | Week 27

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| CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**
Monday	8-Jul-19	8:00	GER	Industrial production May'19, y/y	-3.2%
	8-Jul-19	9:00	CZ	Industrial production May'19, y/y	1.1%
	8-Jul-19	9:00	CZ	Trade balance, May'19, CZK bn.	55.1
Tuesday	9-Jul-19	9:00	CZ	Retail sales, May'19, y/y	5.1%
Wednesday	10-Jul-19	8:45	FRA	Industrial production May'19, y/y	1.6%
	10-Jul-19	10:00	ITA	Industrial production May'19, y/y	-1.5%
Thursday	11-Jul-19	9:00	CZ	CPI, Jun'19, y/y	2.7%
Friday	12-Jul-19	11:00	EMU	Industrial production May'19, y/y	-1.6%

* LOCAL TIME IS CET

** (REUTERS/ BLOOMBERG) POLL

| JULY 2019 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
CZGB 2015-2027**	10-Jul-19	12-Jul-19	10-Feb-27	CZK 3 bn. max	0.25%
CZGB 2017-2033**	10-Jul-19	12-Jul-19	13-Oct-33	CZK 4 bn. max	2.00%
CZEUGB 2019-2021**	17-Jul-19	19-Jul-19	20-Aug-21	EUR 165 mn. Max	0.00%
CZGB 2017-2033**	24-Jul-19	26-Jul-19	13-Oct-33	CZK 4 bn. max	2.00%
CZGB 2007-2057**	24-Jul-19	26-Jul-19	26-Nov-57	CZK 1 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

“BREXIT MUST END WITH CHARLATANISM. HENCE, BORIS”.

WEEK AHEAD

Czech week ahead.

Not that nothing is going to happen in Eurozone, but most of interesting releases are going to happen here. **First, inflation:** all eyes should be on demand inflation that in May was lowest since November. Real estate prices should now be moderating, so one can expect another small deceleration here.

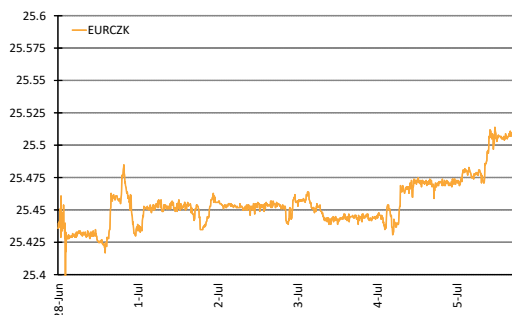
Industrial production should decelerate further in line with May PMI reading of 46.6 pts. – if it wasn't for 1Q19 where actual production data defied the PMI-implied data, I'd go as far as expect outright annual contraction of about 2% for May.

Finally, retail sales are likely to be reported to have grown solidly, with core retail sales certainly up more than headline (but headline not being dragged down by car sales anymore).

WEEK BEHIND

- Czech budgeted optically strong in 1H19 ▶
- Czech PMI at its lowest in a decade ▶
- Eurozone retail sales growth still almost nonexistent ▶
- German industrial orders down 9% y/y ▶

CZK WEAKENS SOMEWHAT



| FX

EURCZK rises slightly,...

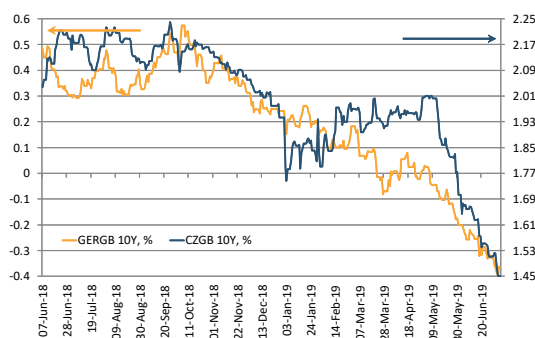
...in what was a very uneventful week. 0.05 CZK weakening cannot be commented upon.

| FI

Czech 10Y bond yields fell to lowest (1.45%),...

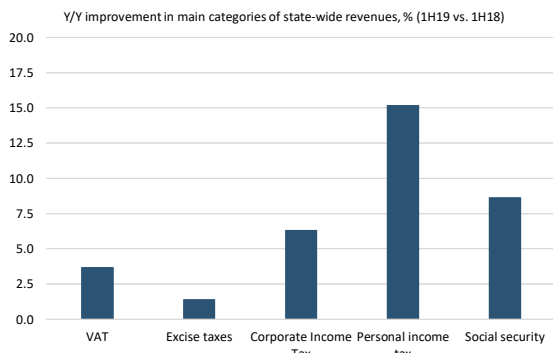
...since mid-October of 2017. No particular reason for this apart from momentum from previous weeks.

CZECH 10YS YIELDS DECLINED TO LOWEST SINCE OCTOBER 2017

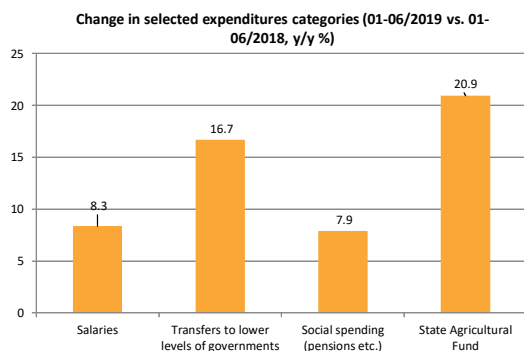


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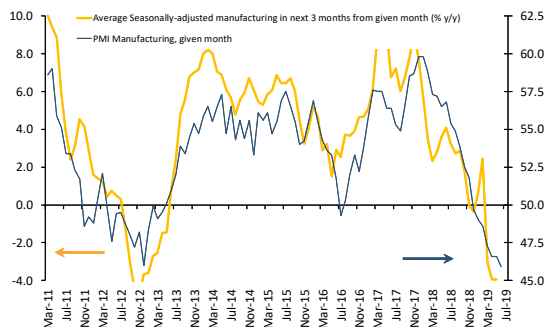
REVENUES UP NICELY IN 1ST HALF,...



...BUT EXPENDITURES MANAGED TO KEEP UP.



PMI AT ITS LOWEST IN ALMOST A DECADE



| CZECH ECONOMY

Czech budget in first half of the year: strong on the outside, ticking bomb under the surface.

The budget balance ended the first half of the year in a deficit of CZK 20.7 bn. Adjusting for the EU money on both the revenues' and expenditures' side, the deficit was smaller, CZK 5.6 bn. This is good result, on the surface at least.

Looking under the surface, one sees the same old story that doesn't give many reasons to be optimistic: growth of revenues that is unlikely to be repeated is in its entirety being squandered on expenditures unlikely to be cut when going get tough. See, the tax revenues rose about CZK 41 bn. y/y in 1H19, predominantly due to growth of personal income tax (+CZK 9.4 bn., +14.3%) and social security insurance (+ CZK 20.8 bn., + 8.2%) but current expenditures rose whopping CZK 58.1 bn., of which CZL 19 bn. was due to higher pensions, CZK 17 bn. was due to transfer to municipalities (mainly for wages of their employees, i.e. teachers etc.) and CZK 4.4 bn. was for higher wages of employees of the central government. None of these expenditures will ever fall, recession or no recession

One question on my mind is thus this: who will pay for all this once wage growth grinds to zero and unemployment rises to, say, 7%. I mean, you know, just ordinary recession, nothing 2008-like. Who will pay? Your kids will.

And recession may be closer than we think.

June Czech PMI (45.9 pts.) was lowest since July 2009. This was caused by the deepest decline in growth of new orders since May 2009, one that was due both to domestic sector as well as to an external one. The price pressures eased, suggesting consumer inflation is likely to remain stable or decrease in the coming months (not that PMI input/output inflation subindices have much bearing on CPI).

Although the industrial production surprisingly grew in last three months (0.3%, 0.1% and 0.8% in February-April), translating into positive annual growth (2.1%, 0.6% and 3.4%, respectively), the current levels of PMI cannot but lead us to firmly expect annual declines of 4-5% in the coming months.

And if that weakness spreads, as it eventually will, into consumer sector, next year is going to be, euphemistically speaking, fiscally challenging.

| EUROZONE ECONOMY

GERMAN INDUSTRIAL ORDERS LOWER THAN THREE YEARS AGO, MAKE RECESSION MORE LIKELY



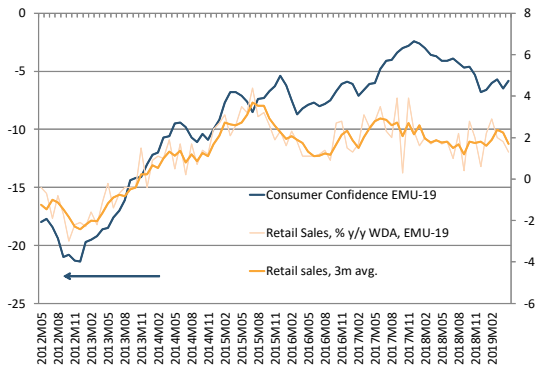
German industrial data make Czech recession more likely.

German orders fell 2.2% m/m in May after two small increases in March and April, in what was big disappointment for the analysts who expected just the stagnation. The orders are now 0.2% smaller than *three* years ago and whopping 8.7% lower than in May of 2018. This cannot but translate into very, very weak production in the coming months. The recession is pretty likely and the only thing that can save us from one is rebuilding of inventories that fell massively during 4Q18 and 1Q19.

As for the geographical structure, the decline was due to the fall of foreign orders: those from Eurozone fell 1.7% m/m (after decline of 5.6% in April), those from elsewhere fell 5.7% m/m (after rise of 5.4% in April). Total orders fell by over 7% cumulatively year-to-date, hardly anything positive for the production going forward.

Goods-wise, the decline was universal, but largest one was seen in capital goods (-2.8% m/m), bringing the orders of capital goods down to 10% lower than at the end of December 2018.

EUROZONE RETAIL SALES' GROWTH STILL ALMOST IMPERCEPTIBLE



Eurozone retail sales' growth remains moribund,..

...the growth rates impossible to cause higher HICP in the foreseeable future. In May, sales grew at just 1.3% y/y, bringing the average annual growth in March-May to mere 1.7%...Even in Germany where the unemployment has been non-existent for at least three years, the retail sales grew just 1.2% y/y in May and on average just 1.5% y/y in last three months.

Now, with such a meagre growth of household demand, ECB will be happy if inflation doesn't fall further.

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MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	2.170	2.220	1.910	1.540	1.453	1.445	
	-1M	2.180	2.230	1.960	1.745	1.680	1.688	
	-3M	2.020	2.060	2.110	1.968	1.898	1.903	
	-6M	2.010	2.070	2.160	1.900	1.805	1.773	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.342	-0.296	-0.151	-0.101	0.013	0.007	
	-1M	-0.269	-0.271	-0.210	-0.181	-0.049	-0.029	
	-3M	-0.296	-0.355	-0.272	-0.209	-0.051	0.058	
	-6M	-0.498	-0.398	-0.280	-0.171	-0.043	0.037	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.568	1.444	1.472	1.439	1.465	1.452	
	-1M	1.691	1.594	1.590	1.564	1.631	1.659	
	-3M	1.814	1.715	1.748	1.759	1.847	1.960	
	-6M	1.662	1.667	1.700	1.729	1.762	1.809	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.493	4.252	324.05	4.726	6.320	1.123	
	-1M	25.613	4.259	320.23	4.718	6.609	1.133	
	-3M	25.636	4.289	321.24	4.752	6.314	1.122	
	-6M	25.563	4.297	321.16	4.663	6.183	1.147	

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

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