

July 23 | 2018

Weekly | 2018 | Week 29

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CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**	42FS
Monday	23-Jul	16:00	EMU	(Flash) Consumer confidence, Jul'18	-0.7	N/A
Tuesday	24-Jul	9:00	CZ	Consumer & Business Confidence, Jul'18	N/A	N/A
	24-Jul	10:00	EMU	Manufacturing / Service PMI, Jul'18	54.7/55.1	N/A
Wednesday	25-Jul	10:00	GER	IFO Current Assessment / Expectations, Jul'18	104.9/98.3	N/A
Thursday	26-Jul	13:45	EMU	ECB monetary-policy meeting	no change	no change
Friday	27-Jul	7:20	FRA	(Preliminary) GDP, 2Q18, q/q	0.3%	N/A
	27-Jul	9:00	SPA	Retail sales, Jun'18, y/y WDA	0.3%	N/A

* LOCAL TIME IS CET

** (REUTERS/ BLOOMBERG) POLL

JULY 2018 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
CZGB 2015-2026**	11-Jul	13-Jul	26-Jun-26	CZK 4 bn. max	1.00%
CZGB 2014-2027**	11-Jul	13-Jul	19-Nov-27	CZK 4 bn. max	VAR
CZGB 2011-2023**	25-Jul	27-Jul	18-Apr-23	CZK 4 bn. max	VAR
CZGB 2018-2029**	25-Jul	27-Jul	23-Jul-29	CZK 4 bn. max	2.75%

* 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 MEAN, IF YOU WANT TO BYPASS COMMISSION, AT LEAST HIRE TRANSLATOR...↗"

WEEK AHEAD

In Eurozone, leading indicators will offer the first glimpse of how the economy is doing in 3Q18. Neither IFO nor manufacturing / service PMI aren't expected to improve much against the end of 2Q18, so don't hold your breath.

First estimate of the French 2Q18 GDP will, then, offer the first hard evidence of how the economy did in the last quarter. Considering the fairly weak monthly data that we have, the expectation of 0.3% q/q growth is about right. And if I had to guess, it's likely to be less than that than more.

Finally, there's ECB meeting. Normally, this should be the highlight of the week, but not this time. See, last month, ECB announced how it plans to end the QE, so even though core inflation was just last week confirmed at 0.9% in June, it is unlikely to do anything but to confirm it intends to start lowering the monthly purchases in September. This meeting will be a non-event.

WEEK BEHIND

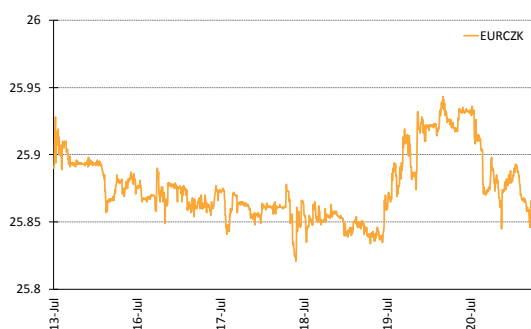
CZ: import prices rise most in a long time, presaging a hike in August ▶

CZ: current account surplus still large ▶

EMU Inflation: core inflation revised under 1% in June, same as 2 years ago ▶

EMU CA: current account surplus lowest since March 2015 ▶

EURCZK IN A TIGHT RANGE



FX

EURCZK remained in a tight range of 25.85 - 25.95.

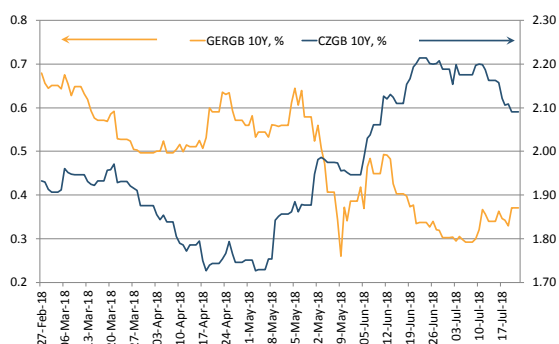
In other words, another boring week.

FI

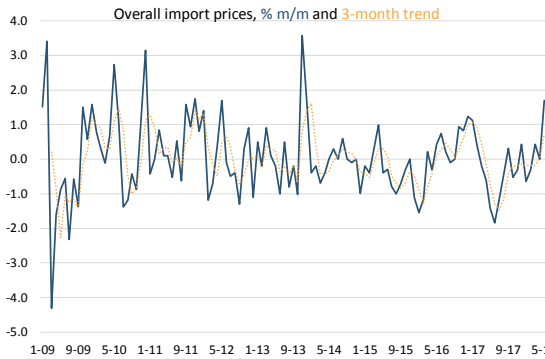
Yields remained unchanged last week.

Not much of a movement in either German or Czech bond markets. German 10Y stayed around 35 bps, Czech ones fell to 2.1%.

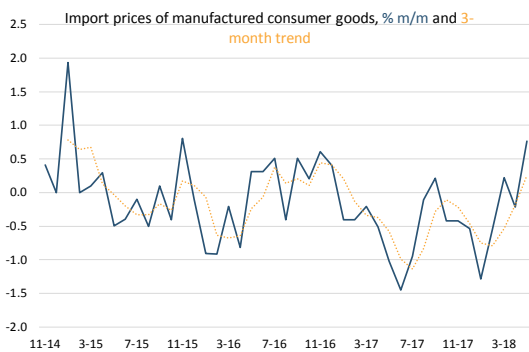
BOND MARKET UNEVENTFUL AGAIN LAST WEEK



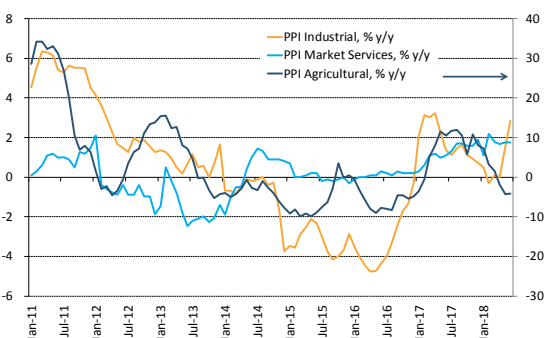
OVERALL IMPORT PRICES IN FASTEST GROWTH SINCE 2013



IMPORT PRICES OF CONSUMER GOODS UP MOST SINCE NOVEMBER 2015



INDUSTRIAL PRODUCER PRICES UP Y/Y ON OIL PRICE,..



CZECH ECONOMY

Weaker CZK and higher oil prices pushed (May) import prices up by most in a long time – and offer explanation of why consumer prices rose recently.

Overall import prices rose 1.7% m/m, their fastest monthly increase since December 2013, while the import prices of manufactured consumer goods rose at the joint-fastest rate (0.8% m/m) since November 2015.

The import prices of the mineral fuels rose 8.7% m/m, the fastest monthly increase since December 2010 and clear reflection of the higher oil prices. But oil prices weren't the only reason for fast growth of import prices in general: as suggested by the fact that the monthly increase was recorded in all of the categories, it is clear something all-encompassing was at play. And that something was - weaker CZK.

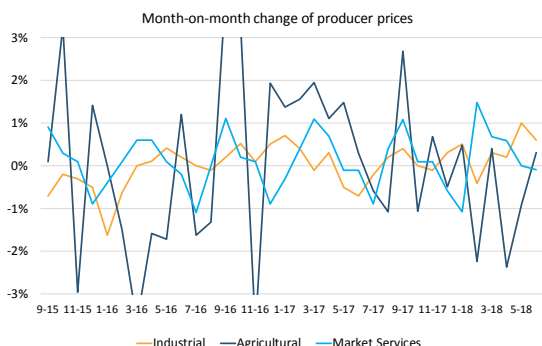
Considering that CZK weakened further in June, hitting 26 at its end, the import prices will almost certainly be shown to have increased further in June once June data come out in one month's time. The evolution of the import prices will thus certainly be the other factor (after "financial stability concerns" aka real estate prices) for August hike.

The producer prices, on the other hand, should be much less of a concern. Of course, there was an annual increase in prices of industrial producers in June (2.1% y/y) but that reflected just the oil price. On the contrary, producer prices of agricultural producers were 4.2% lower in June 2018 than in June 2017. Finally, market services were 1.8% y/y higher, i.e. same as in last 9 months or so.

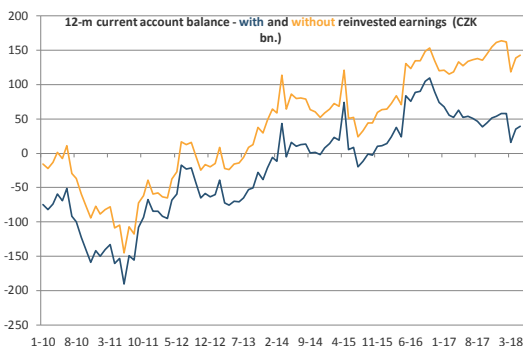
As regards monthly dynamics, there isn't evidence of build-up of cost pressures: prices of market services fell 0.1% m/m in June 2018, just like in June 2017, prices of agricultural producers rose 0.3% m/m, again just like in June 2017. Of course, the growth of prices of industrial producers was faster this June than in June of last year, but as said, that's 'just' oil.

July 23 | 2018

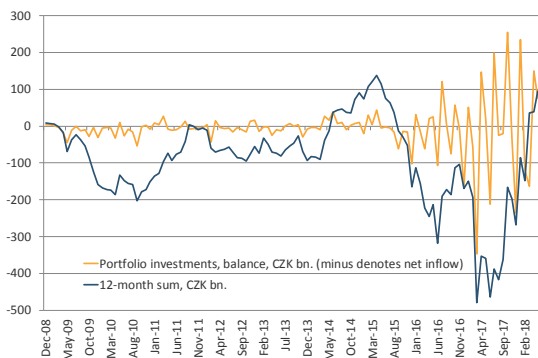
...BUT MONTHLY DYNAMICS REMAINS OK.



CURRENT ACCOUNT SURPLUS STILL LARGE.



PORTFOLIO INVESTMENTS' BALANCE SHOWS NET OUTFLOW OF INVESTMENTS OVER LAST YEAR



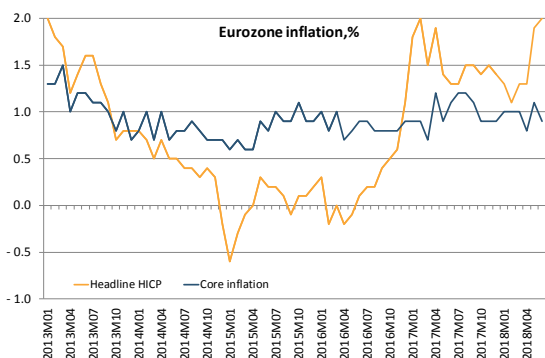
Czech current account remained in a healthy 12-month surplus in June.

Although the headline 12-month current account surplus was lower (CZK 39.56 bn.) than in almost all months in last two years, the one without reinvested earnings (reinvested earnings don't have FX impact – they are an outflow in accounting logic, but one that doesn't result in cash flow) was almost CZK 150 bn., i.e. one of the highest 12-month surpluses ever.

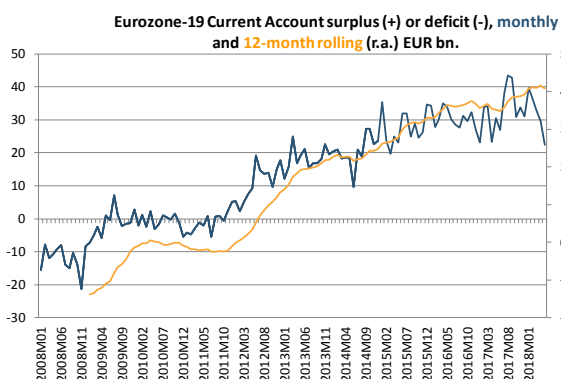
What's evident in both portfolio and other investments' balance is the net outflow of money from Czech economy in last year – since the end of interventions, money has been leaving the country. Approximately 100 bn. of portfolio investments left the country in last twelve months, a sizeable sum, yes, but one still dwarfed by what flew in in the last 4-5 months prior to the intervention exit in April 2017. In other words, CZK continues to remain vulnerable to mood shifts.

July 23 | 2018

EUROZONE CORE INFLATION REVISED DOWN TO 0.9% IN JUNE, NO TREND WHATSOEVER FOR LAST 5 YEARS



EUROZONE CURRENT ACCOUNT SURPLUS LOWEST SINCE MARCH 2015



EUROZONE ECONOMY

Final June inflation data confirmed the demand inflation remained weak and that there is no trend.

Although the annual headline inflation rose to joint-highest (2%) since January 2013, this was only the reflection of fuel and food prices – the former contributed 0.76 pp to the annual inflation, the latter 0.53 pp. In other words, fuel and food prices contributed almost 1.3 pp to the overall inflation

It thus inevitably follows that the core inflation remained weak. Indeed, the core inflation was just 0.9% y/y, revised by 0.1 pp downwards from the preliminary estimate. This is the same rate as in June 2016 and 0.2 pp lower than in 2017. So much for the ECB’s expectation of sustainable inflation convergence...

External balance of Eurozone is strong, though recent trade war tensions probably took a toll.

Eurozone current account surplus was EUR 22.4 bn., nice by itself but lower than in any month since March 2015. The 12-month surplus remained close to EUR 400 bn., certainly to the Trump’s ire.

The worsening of the (WDA,SA adjusted) surplus in June from May’s EUR 29.6 bn. was due to EUR 3 bn. smaller surplus in balance of trade with goods / services, and EUR 6 bn. lower primary income (i.e., earnings on foreign investments minus payments made to foreign investors).

Nothing to worry about so far, but with trade war of Trump not showing any signs of abating and with pricier oil, the current account surplus will almost surely be lower over next 12 months than what it was in last twelve months.



July 23 | 2018

MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	1.180	1.270	1.757	2.010	2.025	2.080	
	-1M	0.930	1.010	1.450	1.810	1.895	1.983	
	-3M	0.900	0.990	1.235	1.620	1.700	1.795	
	-6M	0.770	0.860	1.365	1.755	1.830	1.930	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.676	-0.752	-0.630	-0.503	-0.174	0.010	
	-1M	-0.397	-0.485	-0.323	-0.233	0.031	0.232	
	-3M	-0.560	-0.648	-0.578	-0.448	-0.225	-0.052	
	-6M	-0.824	-0.860	-0.695	-0.708	-0.564	-0.005	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.081	1.129	1.335	1.507	1.851	2.090	
	-1M	1.053	1.142	1.416	1.577	1.926	2.214	
	-3M	0.675	0.742	0.947	1.172	1.475	1.743	
	-6M	0.541	0.698	0.986	1.047	1.266	1.925	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.876	4.318	325.56	4.653	5.616	1.172	
	-1M	25.796	4.322	324.81	4.662	5.453	1.165	
	-3M	25.358	4.173	310.84	4.658	5.009	1.229	
	-6M	25.402	4.168	309.63	4.667	4.630	1.226	

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

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