

August 20 | 2018

Weekly | 2018 | Week 33

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| CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**	42FS
Wednesday	22-Aug-18	20:00	USA	FOMC Minutes (Aug 1, 2018 meeting)	N/A	N/A
Thursday	23-Aug-18	10:00	EMU	(Preliminary) Manufacturing / Services PMI, Aug'18	55,2/54,4	N/A
	23-Aug-18	16:00	EMU	(Preliminary) Consumer Confidence, Aug'18	-0,7	N/A
Friday	24-Aug-18	8:00	GER	(Final) GDP, 2Q18, q/q	0,5%	N/A
	24-Aug-18	9:00	CZ	Consumer & Business Confidence, Aug'18	N/A	N/A

* LOCAL TIME IS CET

** (REUTERS/ BLOOMBERG) POLL

| AUGUST 2018 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
CZGB 2011-2023**	8-Aug	10-Aug	18-Apr-23	CZK 4 bn. max	VAR
CZGB 2014-2025**	8-Aug	10-Aug	17-Sep-25	CZK 4 bn. max	2,40%
SPP 799	9-Aug	10-Aug	9-Nov-18	CZK 0-5 bn.	N/A
CZGB 2014-2027**	22-Aug	24-Aug	19-Nov-27	CZK 4 bn. max	VAR
CZGB 2018-2029**	22-Aug	24-Aug	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

“SALVINI BLAMING EU ↗ FOR GENOA BRIDGE COLLAPSE IS THE NEW “SOROS IS BEHIND IT”.

WEEK AHEAD

Pretty light week ahead of us.

The only interesting thing is the structure of German GDP in the 2Q18 and the Eurozone PMI for August. The former is old news but will shed the light on what was behind the surprisingly strong growth in 2Q18. The latter is important in that it will inform us whether we are to expect better or worse second half of the year (I think the latter is the case).

WEEK BEHIND

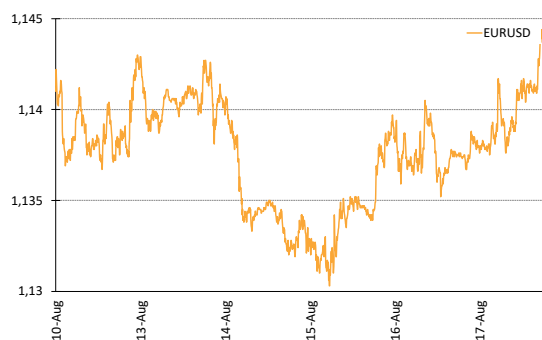
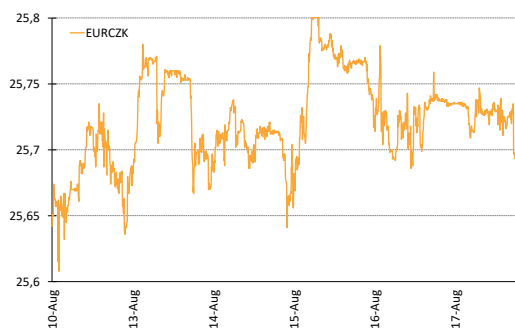
CZ: growth at 0.5% q/q weaker than CNB expected ▶

CZ: import prices post another strong monthly gain ▶

GER: 2Q18 GDP growth surprises on the upside ▶

EMU: industry stagnated in 2Q18 ▶

EURCZK WEAKENS MODERATELY



FX

CZK weakened moderately last week,...

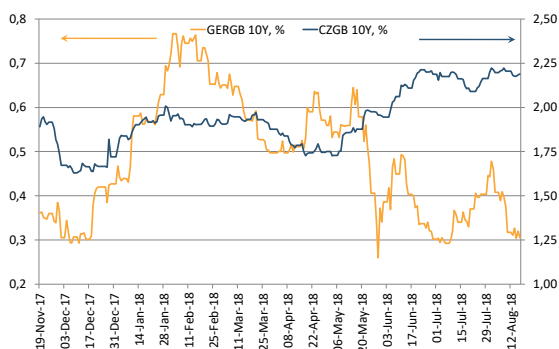
...finishing the week about 0.1 CZK weaker than it started it (at 25.60). Halfway through last week, it weakened to above 25.80, following the fall in the EURUSD (where euro fell to lowest in little over a year). Following the calm-down in Turkey in the 2nd half of the week, EURUSD, and consequently CZK, regained footing.

FI

Uneventful week behind us.

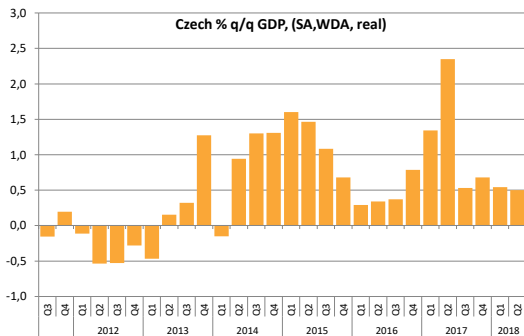
10Y German yields remained close to 30 bps., their Czech counterparts to 2.20%.

GERMAN YIELDS STABLE AT 30 BPS. FOR 10Y



CZECH ECONOMY

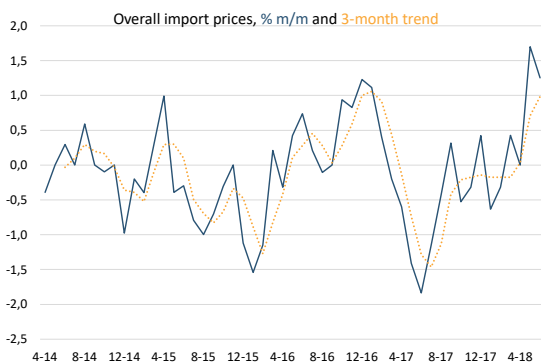
CZECH GDP POSTS ANOTHER 0.5% Q/Q GROWTH



Czech GDP undershot the market expectation and came in line with what I expected: 0.5% q/q.

This being the preliminary estimate, there were no structural data details beyond Statistical office saying that domestic demand (of firms, of households) was positive contributor, as was the foreign trade. It thus seems that everything was positive contributor but not a huge one: 0.5% q/q growth isn't anything extraordinary, I mean, Spain has been growing faster than this for years now and Germany grew at the same rate in 2Q18. And, save for two extraordinary quarters in first half of 2017, the growth since end of 2015 was about 2% annualized.

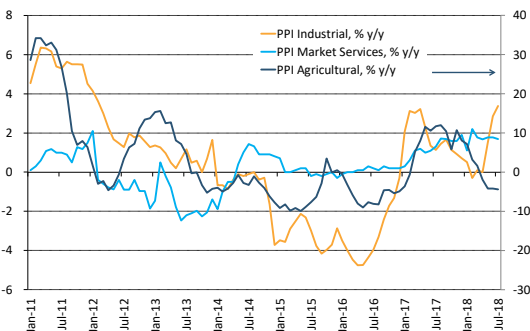
IMPORT PRICES ROSE AGAIN IN JUNE ON OIL, WEAK CZK



2Q18 growth is thus just another confirmation that economy is growing at the annualized rate of little over 2%, i.e. below what CNB expects: CNB August forecast called for annual 2Q18 GDP growth of 2.6% instead of 2.3% y/y that the quarterly expansion of 0.5% translates into. That said, the weaker than forecast growth is unlikely to change the desire to tighten the policy as CZK remains weak and CNB hellbent on creating maneuvering space for next recession and on containing the real estate bubble.

Speaking of weaker CZK: import prices rose for the 2nd time in a row in June, and at a high rate.

PRODUCER PRICES UP IN INDUSTRY, DOWN IN AGRICULTURE, SIDWAYS IN SERVICES.



The monthly increase of import prices was 1.3% m/m, second fastest growth since the end of 2014 (fastest one was in May). It wasn't only the reflection of weaker CZK - the biggest increase was in mineral fuels (3.7% m/m after 8.7% in May) - but that weaker CZK (which got to 26 in June) was a powerful factor is seen in the fact that all other categories rose, and they did so at pretty uniform monthly rate of 0.6%-1.3%.

Producer prices were far less eventful in July.

Prices of agricultural producers fell 0.8% m/m, bringing the annual decline to 4.4%. This is what's reflected in consumer prices as well and is also the reflection of the evolution of global food prices. **Prices of industrial producers rose modestly** (0.3% m/m to +3.4% y/y) due to increase of chemical prices (oil). **Finally, prices of market services fell 1%**, second time in a row and the largest monthly decline since January. This was primarily caused by lower prices of advertising & market research, which is usual July seasonality, the only difference being that July 2018 decline in this segment was noticeably bigger (16.2 % m/m) than what'd been usual in July (decline in this category was between 11% and 12.5% in July 2012-July 2017).

Looking forward, the moderate strengthening of CZK in July and fall of CZK prices of oil (Brent) means import prices shouldn't grow over summer.

In production sector, and despite all the warnings of impending inflation doom, we still see no signs of buildup of inflationary pressures.

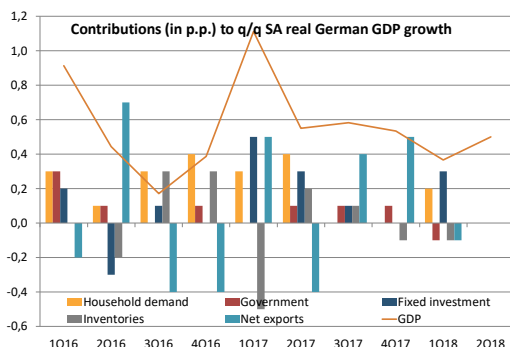
| EUROZONE ECONOMY

German 2Q18 GDP growth surprised on the upside, raising the 2Q18 GDP growth for the whole of Eurozone.

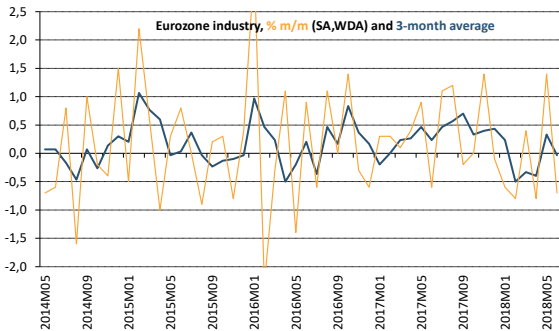
Despite weak leading indicators as well as unimpressive monthly data, German GDP was reported to have grown 0.5% q/q in 2Q18 (vs. 0.4% q/q in 1Q18), above the market median forecast as well as above my gut feeling-derived estimate. This led to the upward revision of Eurozone growth: 2nd estimate (still without structural data) is now 0.4% q/q (previously 0.3 % q/q).

German Statistical Office didn't provide any more numbers, but said that growth was driven by private domestic demand (of both households and firms) and by government demand. Which is where I think the upside surprise has its origin. As regards foreign trade, this was the only drag on growth,

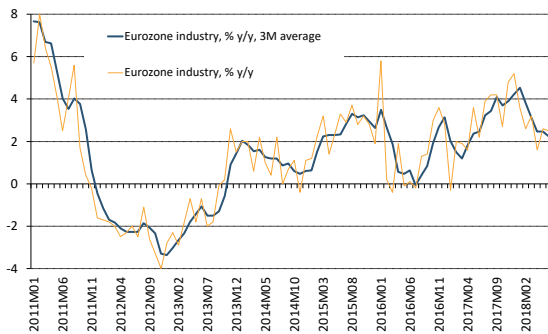
GERMAN GDP GROWTH SURPRISED ON THE UPSIDE IN 2Q18



EUROZONE INDUSTRY DIDN'T GROW IN 2Q18...



...AND ITS ANNUAL GROWTH REMAINS WEAK.



hardly a surprise considering the (relative) strength of domestic demand.

The upside surprise nonetheless, German economy is growing at just 2% annual rate, so this is hardly going to cause any inflation at the Eurozone level. Furthermore, escalating tensions in the global trade couldn't have been felt much in 2Q18, but are likely to be felt (on exports, on business investments) in the second half of this year. Hence, the growth in the 2nd half of this year will certainly not be as fast as in 1H18.

Separately released last week, and of far less importance, (2Q18 GDP growth data being already available), was **Eurozone industrial** production for June. Industrial production fell 0.7% m/m, meaning that altogether it stagnated in 2Q18. Which, considering the PMI, is actually a pretty good outcome.

Manufacturing component thereof fared slightly better, having grown about 0.6% q/q in 2Q18, but here I suspect that some of that was just one-off increase of production to get ahead of the tariffs. We'll see in July whether that was indeed the case, but since leading indicators show no improvement in business morale as against 2Q18, it seems likely.

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MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	1.240	1.320	1.955	2.180	2.203	2.225	
	-1M	1.160	1.250	1.740	1.975	2.019	2.065	
	-3M	0.900	0.990	1.240	1.635	1.725	1.830	
	-6M	0.910	0.990	1.390	1.835	1.930	2.050	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.747	-0.815	-0.695	-0.482	-0.236	-0.027	
	-1M	-0.524	-0.662	-0.505	-0.368	-0.095	0.133	
	-3M	-0.529	-0.644	-0.584	-0.452	-0.227	-0.104	
	-6M	-0.820	-0.904	-0.731	-0.749	-0.623	-0.097	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.208	1.258	1.446	1.698	1.967	2.198	
	-1M	1.216	1.193	1.423	1.607	1.924	2.198	
	-3M	0.711	0.773	0.960	1.183	1.498	1.726	
	-6M	0.570	0.696	1.019	1.086	1.307	1.953	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.625	4.263	320.06	4.615	5.882	1.158	
	-1M	26.125	4.395	327.30	4.659	5.447	1.166	
	-3M	25.501	4.266	313.92	4.666	5.055	1.199	
	-6M	25.237	4.171	309.91	4.647	4.697	1.246	

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

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