

Weekly | 2018 | Week 46

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CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS*	42FS
Monday	19-Nov-18	10:00	EMU	Current account, Sep'18, EUR bn.	N/A	N/A
Thursday	22-Nov-18	16:00	EMU	(Flash) Consumer confidence, Nov'18	-3.0	N/A
Friday	23-Nov-18	8:00	GER	(2nd est.) GDP 3Q18, q/q (SA)	-0.2%	N/A
	23-Nov-18	10:00	EMU	(Flash) Manufacturing / Service PML Nov'18	52/53.5	N/A

* LOCAL TIME IS CET

** (REUTERS/ BLOOMBERG) POLL

NOVEMBER 2018 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
CZGB 2018-2029**	21-Nov-18	23-Nov-18	23-Jul-29	CZK 3 bn. max	2.75%
CZGB 2017-2033**	21-Nov-18	23-Nov-18	13-Oct-33	CZK 2 bn. max	2.00%

* 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

“GAME, SET, MATCH BARRIER ↗↗”

WEEK AHEAD

Structural data for German GDP and flash PMIs in Eurozone are the most important data releases.

German GDP structural data are important in that the reported 0.2% quarterly contraction was quite a disappointment. However, we already know what happened: German statistical office already said this was due to foreign trade, that household consumption contracted while fixed investments rose. So, we'll just see the numbers, story is already here.

More important is the **preliminary PMI release for November**. This is very important to see whether the economic situation is no longer worsening.

WEEK BEHIND

CZ: GDP growth continues to lack Poland, Hungary ▶

Neither producer ▶ nor import prices ▶ show higher consumer inflation is in the pipeline

German 3Q18 GDP in sharpest fall since 1Q13 ▶

EMU: core inflation weak in all big countries ▶

| FX

EURCZK continued to move higher.

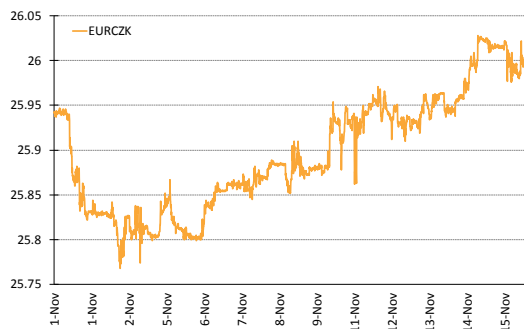
It was a slow but sure drift, with EURCZK breaking above 26 for the first time since the end of September. The interest-rate differential that CNB said at its last meeting would push EURCZK lower doesn't seem to be working. With so much speculative money still (and already) in the CZK, and with weakening growth, it is little wonder.

| FI

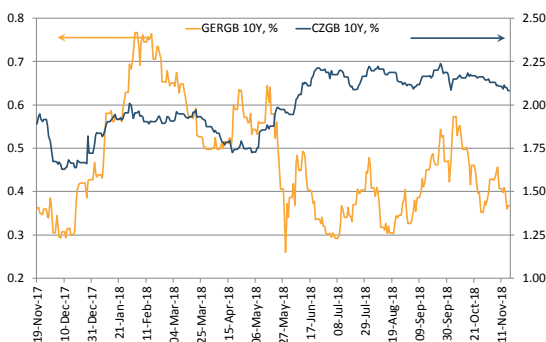
Yields continue to drift lower.

10Y German Bunds slid below 40 bps., amid contraction of German GDP and weak Eurozone inflation data. Czech 10 yields also slid lower, with 2.08% being their lowest yield since early June.

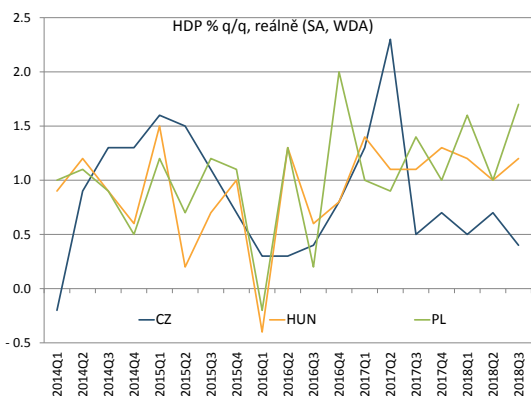
EURCZK CONTINUES TO MOVE HIGHER



BOND YIELDS CONTINUE TO MOVE LOWER



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CZECH GDP GROWTH CONTINUES TO LACK ONE IN POLAND, HUNGARY**CZECH ECONOMY**

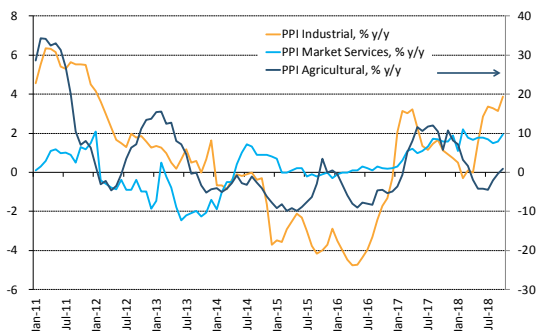
Czech GDP slowed and the gap between us and Poland or Hungary widened further.

See, since the beginning of 2017, Poland and Hungary have been growing at over 1% quarterly rate, while the Czech economy only managed to grow faster than just one of them and to do so only in one quarter (2Q17). Since 3Q17, it grew at the slowest rate of all: whereas Poland averaged 1.2% q/q and Hungary 1.3% q/q growth rate over five quarters since (and including) 3Q17, Czech economy averaged only 0.6%. And, no, it cannot be argued to be a payback time after the much faster growth during intervention period: in 15 quarters between 4Q13 and 2Q17, Poland and Hungary both averaged 0.9% q/q whereas Czech Republic averaged 1% q/q. Or, put differently, total GDP increase since 3Q13 (i.e., last pre-interventions quarter) is now 21.6% higher in Poland, 20.4% higher in Hungary and 19.2% higher here. Keep this in mind when you read eulogies of departing Board members Hampl and Tomšík about how they saved the economy from deflation...

Anyway, Czech growth in 3Q17 was 0.4% q/q and 2.3% y/y, 0.4 pp weaker than expected by either CNB or MinFin in its latest (November) forecast. And recall that as recently as in May, CNB forecast the growth 1.3 pp *higher* than what the reality turned out to be. This being the preliminary release, the structure wasn't released yet but the conspicuous omission of manufacturing amongst the factors that CSU stated in its release had contributed to increase of value added in 3Q18 ("construction, trade, transport") is telling.

It shouldn't be a surprise: German GDP contracted for the first time since 1Q15 and at the sharpest rate (-0.2% q/q) since 1Q13. And that was due to "*foreign trade, as exports were down while imports were up*", according to German Statistical Office (Destatis).

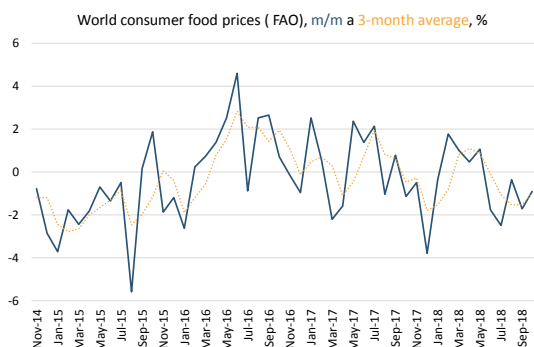
INDUSTRIAL PRODUCER PRICES TO SLOW IN NOVEMBER AS CZK OIL PRICE PLUMMETS



Price of barrel of Brent oil in CZK



CZ AGRICULTURAL PRODUCER PRICES POSE LITTLE THREAT TO CONSUMER INFLATION AS GLOBAL FOOD PRICES KEEP FALLING



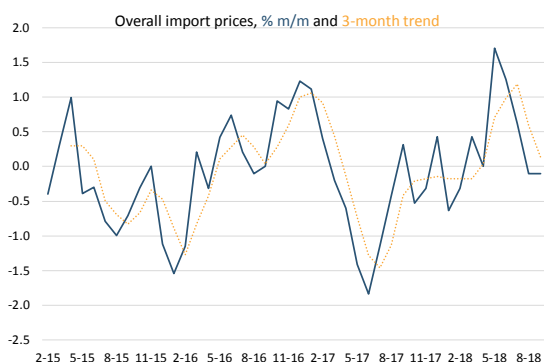
Czech producer prices don't show any inflation quickening is in making.

Annual growth of producer prices of agricultural producers returned to above zero (0.9% y/y) in October for the first time since March, mainly as the consequence of sharp m/m increase of agricultural prices back in September – the October monthly increase here was just 0.2%, nothing compared to September's rise of 4.5% m/m. Over last half-year, we saw fast change in the dynamics of agricultural producers' prices: from contraction of around 1.5% in 1Q18 to the gain of almost 6% over last three months ending in October. Most of this increase is due to bad harvest, which in turn is due to drought we had this summer. Looking forward, though, the effects of producers' prices on consumer food price inflation may not be as large as this might suggest and as number of observers incl. CNB still expect: global food prices happen to have fallen in all of last five months. And that should keep our local food price level under control.

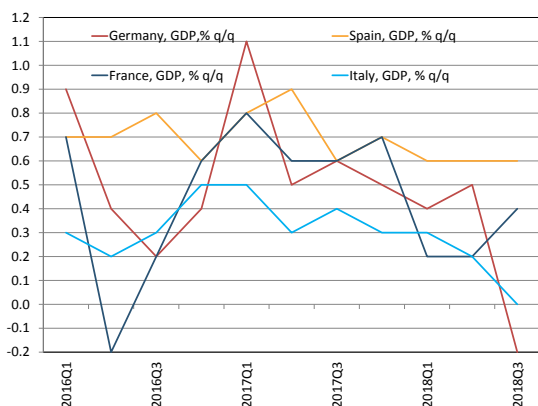
As regards **industrial producers' prices**, their annual growth quickened further to 3.9% from September's 3.2%, quickest growth since early 2012. The annual growth is mainly due to higher oil prices (average CZK Brent barrel cost 45% more in October 2018 than in October 2017) and the higher October y/y growth vs. the one seen in September was also primarily due to CZK oil price: average CZK Brent price was higher (1813 CZK/brl.) in October 2018 than in September 2018 (1740 CZK/brl.). Looking forward, the fall in second half of October and in November of CZK oil price to lowest (1520 CZK/brl. at the time of this writing) since mid-April guarantees the growth of industrial producer prices will slow down massively in November.

Market services rose 0.5% m/m, but if one excludes advertising the growth was just 0.1% m/m. Even with advertising included, the y/y growth is just 2%, i.e. just like what the growth was over last twelve months. And good part of those 2% is due to labor market-related services and construction and landscaping services. The former is the reflection of

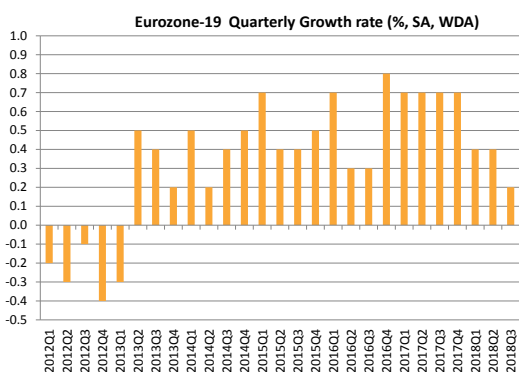
IMPORT PRICES FELL FOR THE 2ND MONTH IN A ROW, ALTHOUGH JUST marginally SO.



GERMAN GROWTH IN SHARPEST CONTRACTION SINCE 1Q13



EUROZONE GROWTH CONFIRMED AT 0.2% Q/Q.



tight labor market, the latter the reflection of housing boom. Both will soon change for worse.

Import prices fell for the second month in a row in September, but only marginally.

The monthly decline of import prices was 0.1%, just like in August, but that is obviously little to offset 1.7%, 1.3% and 0.6% monthly increases in May, June and July, respectively. Since EURCZK moved on average lower in September it was nothing unexpected.

In October, however, just the contrary will happen as there was a weakening of the CZK in that month. However, as seen in the consumer inflation data, this is pretty inconsequential for the consumer inflation. There has so far been little impact of weaker CZK on consumer inflation to date: 40% of inflation (0.9 pp out of 2.1%) is due to housing which certainly doesn't reflect currency.

EUROZONE ECONOMY

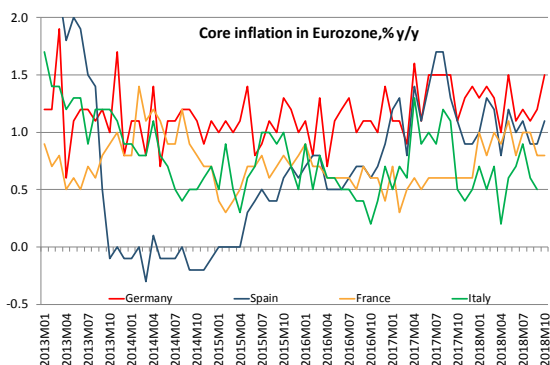
We have a culprit for underperformance of the whole of Eurozone in 3rd quarter. German GDP growth contracted in 3Q18.

As said above, this was the sharpest contraction since 1Q13 and massive slowdown against 0.5% and 0.4% q/q growth in 2Q18 and 1Q18, respectively. Structure wasn't released, but the German statistical office (Destatis) said foreign trade was primarily to blame (due to exports). A little surprising was the fact that fixed investments rose q/q whereas household spending contracted: with unemployment non-existent and trade war fears abundant, I would've expected just the contrary.

The Eurozone growth was confirmed at 0.2% q/q after the German release. Hence, my previous conclusions stand: it's going to take a lot of creativity to come up with the justification for tightening of the policy in Eurozone in 2019.

Finally, September industrial production data for

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CORE INFLATION LOW IN ALL BIG EURO AREA ECONOMIES

the whole of Eurozone showed **industry stagnated in 3Q18**, and contracted strongly in Germany (-1.6%). But this is not interesting – it is all in GDP data.

Eurozone inflation confirmed low in October.

There was no change from the preliminary reading from two weeks ago (see here [↗](#) for the commentary). The only new piece of information was the core inflation in individual economies: all big economies show core inflation rates below (Germany) or well below (Italy, Spain, France) 2%. And with weakening growth momentum and abundant risks ahead, it is unlikely that core inflation will get to 2% in Eurozone anytime soon.

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MARKETS ‡

MM / IRS	3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y		
%	Actual	2.000	2.070	2.400	2.530	2.520	2.505	
	-1M	1.760	1.860	2.385	2.635	2.650	2.665	
	-3M	1.470	1.560	1.980	2.183	2.220	2.255	
	-6M	0.900	0.990	1.383	1.820	1.913	2.005	
ASW spread*	2Y	3Y	4Y	5Y	7Y	10Y		
bps.	Actual	-0.920	-0.829	-0.792	-0.683	-0.502	-0.423	
	-1M	-0.801	-0.825	-0.839	-0.788	-0.561	-0.501	
	-3M	-0.674	-0.772	-0.691	-0.512	-0.234	-0.066	
	-6M	-0.564	-0.677	-0.620	-0.504	-0.290	-0.127	
CZGB**	2Y	3Y	4Y	5Y	7Y	10Y		
%	Actual	1.480	1.641	1.713	1.847	2.018	2.082	
	-1M	1.584	1.676	1.744	1.847	2.089	2.164	
	-3M	1.306	1.306	1.448	1.671	1.986	2.189	
	-6M	0.819	0.906	1.104	1.316	1.623	1.878	
FX	EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD		
	Actual	25.996	4.315	321.69	4.663	6.089	1.142	
	-1M	25.842	4.289	322.22	4.667	6.426	1.150	
	-3M	25.694	4.293	322.91	4.655	6.901	1.144	
	-6M	25.583	4.296	317.32	4.636	5.265	1.180	

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

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