

December 31 | 2018

Weekly | 2018 | Week 52

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| CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**	42FS
Wednesday	2-Jan-19	9:30	CZ	(Final) Manufacturing PMI, Dec'18	51.4	N/A
	2-Jan-19	10:00	EMU	(Final) Manufacturing PMI, Dec'18	51.4	N/A
Thursday	3-Jan-19	14:00	GE	Retail sales, Nov'18, y/y	-0.9%	N/A
Friday	4-Jan-19	8:45	FRA	(Preliminary) HICP, Dec'18, y/y	2.0%	N/A
	4-Jan-19	10:00	EMU	(Final) Services PMI, Dec'18	51.4	N/A
	4-Jan-19	11:00	EMU	(Preliminary) HICP, Dec'18, y/y	1.8%	N/A
	4-Jan-19	11:00	ITA	(Preliminary) HICP, Dec'18, y/y	1.4%	N/A

* LOCAL TIME IS CET

** (REUTERS/ BLOOMBERG) POLL

| JANUARY 2019 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
SPP 805*	3-Jan-19	4-Jan-19	4-Oct-19	CZK 5 bn. max	N/A
CZGB 2017-2027**	9-Jan-19	11-Jan-19	10-Feb-27	CZK 5 bn. max	0.25%
CZGB 2006-2036**	9-Jan-19	11-Jan-19	4-Dec-23	CZK 3 bn. max	4.20%
SPP 806*	17-Jan-19	18-Jan-19	19-Jul-19	CZK 5 bn. max	N/A
CZGB 2018-2021**	23-Jan-19	25-Jan-19	23-Feb-21	CZK 5 bn. max	0.75%
CZGB 2015-2026**	23-Jan-19	25-Jan-19	26-Jun-26	CZK 5 bn. max	2.40%
SPP 807	31-Jan-19	1-Feb-19	1-Nov-19	CZK 0-5 bn.	N/A

* 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

"THERE IS FED PUT AND THERE IS FED PUTT ➔"

WEEK AHEAD

Light week ahead of us.

Final PMI data from Eurozone won't differ much from the preliminary estimates, so nothing to wait here for.

German retail sales will post another slow growth of about 1% y/y (after adjustment for working days) so that will also not bring anything new.

And neither will the **December preliminary inflation from Eurozone**, although the expectation will probably be undershot just like with German and Spanish inflation released last week. But the general narrative – that of no inflationary pressures in the Eurozone – will remain as valid as before.

In the Czech Republic, it's just the manufacturing PMI for December. With confidence in industry down (see below), a worsening against November is to be expected.

Happy New Year 2019!

WEEK BEHIND

- Confidence in industry lowest in 5 years ▶
- Eurozone inflation likely further down at the end of 2018, German / Spanish data show ▶
- Spanish retail in a surprisingly strong m/m growth 2nd month in a row ▶

| FX

EURCZK returned back towards 25.70...

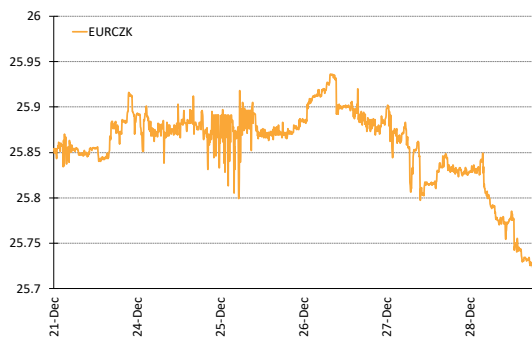
...something to be expected at the end of the year (when effect of the Resolution fund disappears), although end-of-2018 strengthening of the CZK was much smaller than what we saw last year.

| FI

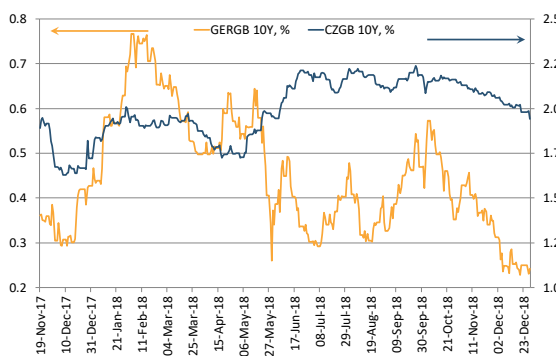
Nothing happening with 10Y German Bunds,...

...while Czech ones declined further amid thin Christmas liquidity.

EURCZK RETURN BACK TO 25.75, NOT MUCH OF END-OF-YEAR EFFECT SEEN



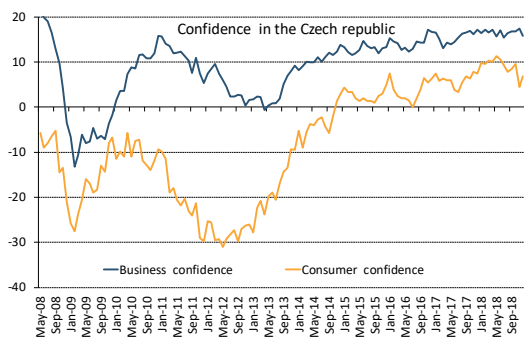
CZECH YIELDS DECLINE FURTHER AMID THIN CHRISTMAS LIQUIDITY



| CZECH ECONOMY

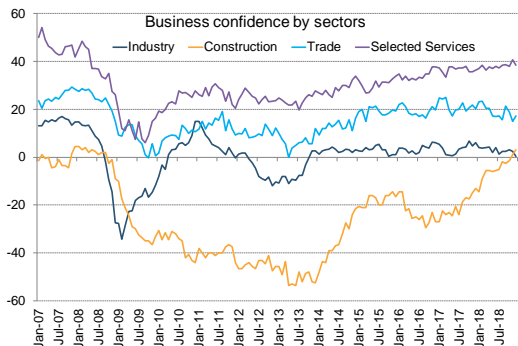
December saw divergence of confidence across sectors.

CONFIDENCE WORSENS IN BUSINESS, MAINLY IN INDUSTRY...



On the one hand, consumer confidence rebounded from November’s 16-month low (4.5 pts.) to December’s level of 6.8 pts. It is still lower than anytime this year, though, and also lower than in December 2017. The only two components that changed measurably against November were 1) intention of consumers to save (it is higher now than in November) and 2) concerns about their own financial situation (which is slightly lower now); everything else remained the same. But I don’t think this will stay like this for long: the current market turmoil and gradual weakening of the economy will bring consumer confidence further down in the coming months.

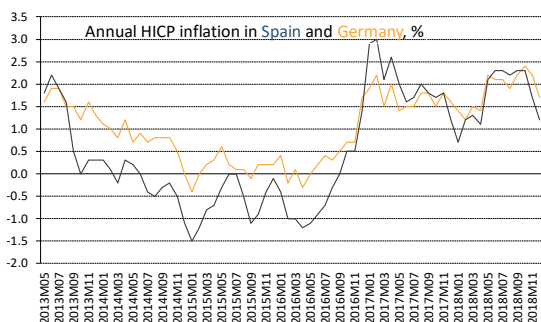
...WHILE CONSTRUCTION IS AT ITS MOST OPTIMISTIC SINCE MAY 2008.



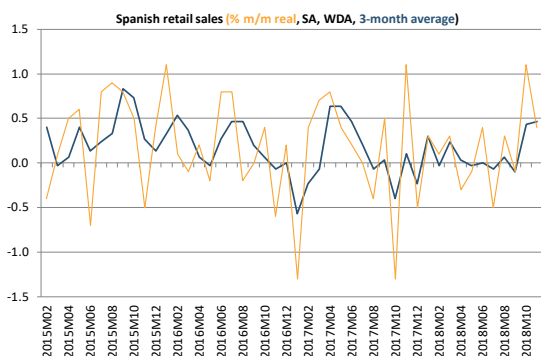
Industry, on the other hand, fell to the lowest since October 2013, further indicating that something is amiss with the industry. This must be the reflection of the German industrial weakness slowly seeping into Czech economy. And it is another indication that 2019 will very likely be slower than 2018, contrary to what Ministry of Finance or Czech National bank say.

The only sector that’s still riding high is construction: the real estate boom and public money in infrastructure are the reasons. With CNB putting the brakes on residential real estate prices and signs of slowdown in the economy, confidence in this sector is probably also close to this cycle high.

EUROZONE INFLATION FELL LIKELY IN DECEMBER, SPANISH/GERMAN DATA SHOW



SPANISH RETAIL SALES POST SECOND SOLID MONTH.



EUROZONE ECONOMY

EUROZONE INFLATION HEADED DOWN AT THE END OF YEAR.

Preliminary Spanish and German headline inflation data for December came in deep below the market consensus at 1.2% and 1.7% (against expectations of 1.6% and 1.9%, respectively). This undershooting either points towards core inflation undershooting the expectations (since one would expect analysts to take into account the fall of oil prices) or towards analysts forgetting to adjust the expectations for the fall of oil prices. Knowing the analytical community, I'd hazard a guess that the latter is the case... We'll see once whole-of-Eurozone data come out this week, but I am sure ECB will find nothing in that release to back its claims that inflation is returning sustainably to the target of (close to but below) 2%.

THOUGH IT COULD FIND SOME HOPE THAT INFLATION WILL EVENTUALLY LIFT IN THE RETAIL SALES RELEASE...

...once Euro-area data are released on January 7 (next Monday). Why? Spanish retail sales for November posted second solid monthly result: after 1.1% m/m in October came the growth 0.4% m/m in November. Although the annual growth is still very weak (1.4% y/y), if this keeps up...But will it? If I had to guess I would not put much money on it, but who knows...

MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	2.010	2.060	2.035	1.830	1.758	1.770	
	-1M	2.020	2.080	2.360	2.435	2.415	2.395	
	-3M	1.700	1.770	2.225	2.400	2.419	2.435	
	-6M	1.160	1.240	1.605	1.910	1.978	2.040	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.537	-0.386	-0.234	-0.068	0.136	0.173	
	-1M	-0.707	-0.772	-0.733	-0.608	-0.434	-0.324	
	-3M	-0.743	-0.776	-0.613	-0.537	-0.329	-0.248	
	-6M	-0.532	-0.581	-0.421	-0.317	-0.055	0.167	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.498	1.571	1.655	1.762	1.894	1.943	
	-1M	1.653	1.645	1.699	1.827	1.981	2.071	
	-3M	1.482	1.534	1.753	1.863	2.090	2.187	
	-6M	1.073	1.163	1.422	1.593	1.923	2.207	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.743	4.301	321.25	4.658	6.042	1.145	
	-1M	25.937	4.286	323.60	4.645	5.939	1.137	
	-3M	25.765	4.281	323.41	4.654	7.034	1.160	
	-6M	25.940	4.364	328.48	4.660	5.311	1.157	

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

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