

May 13 | 2019

## Weekly | 2018 | Week 19

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## | CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**
Monday	13-May-19	9:00	CZ	CPI, Apr'19, y/y	1.6%
Tuesday	14-May-19	8:00	GER	(Final) HICP, Apr'19, y/y	2.0%
	14-May-19	9:00	SPA	(Final) HICP, Apr'19, y/y	1.6%
	14-May-19	10:00	CZ	Current Account, Mar'19, CZK bn.	19,5
	14-May-19	11:00	EMU	Industrial production, Mar'19, y/y	-0.8%
Wednesday	15-May-19	8:00	GER	(1st est.) GDP 1Q19, q/q (SA)	0.4%
	15-May-19	9:00	CZ	(1st est.) GDP 1Q19, q/q (SA)	0.4%
	15-May-19	11:00	EMU	Trade Balance, Mar'19, EUR bn. (SA)	19,4
Friday	17-May-19	11:00	EMU	(Final) HICP, Apr'19, y/y	1.7%

\* LOCAL TIME IS CET

\*\* (REUTERS/ BLOOMBERG) POLL

## | MAY 2019 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
CZGB 2015-2027**	15-May-19	17-May-19	10-Feb-27	CZK 3 bn. max	0,25%
CZGB 2017-2033**	15-May-19	17-May-19	13-Oct-33	CZK 3 bn. max	2,00%
CZGB 2007-2057**	15-May-19	17-May-19	26-Nov-57	CZK 0.5 bn. max	4,85%
CZGB 2015-2026**	29-May-19	31-May-19	26-Jun-26	CZK 3 bn. max	1,00%
CZGB 2018-2029**	29-May-19	31-May-19	23-Jul-29	CZK 3 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.

\*\*\* TO BE DETERMINED ACCORDING TO THE ACTUAL MARKET SITUATION.

## | THOUGHT OF THE WEEK

“CREDIT WHERE IT'S DUE: WE'VE ALL BEEN WARNED THAT ECB POLICY WOULD END IN TIERS.”

## WEEK AHEAD

**First 1Q19 GDP growth estimates for Germany and Czech Republic are the only releases worth looking at this week.**

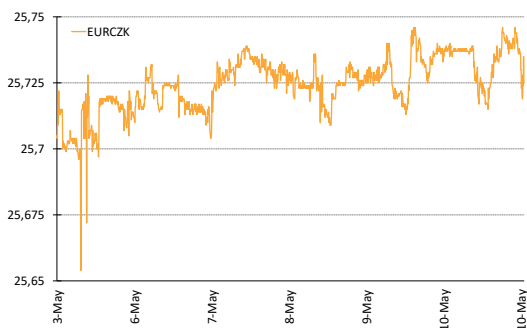
Yes, there will be March **industrial production for the entire EMU** as well, but last week's data for big countries (France: 0.5% y/y, Italy: -1.4% y/y Spain: -3.1% y/y, Germany: -0.6% y/y, all data being local statistics, not EU harmonized ones) make this week's release of EU-wide production not exactly one anyone should wait with the bated breath for.

German GDP and Czech GDP growth is forecast at the same +0.4% q/q. There will not be any structural data for either of the countries, just the numbers and couple of sentences from the respective statistical offices as to what the drivers were.

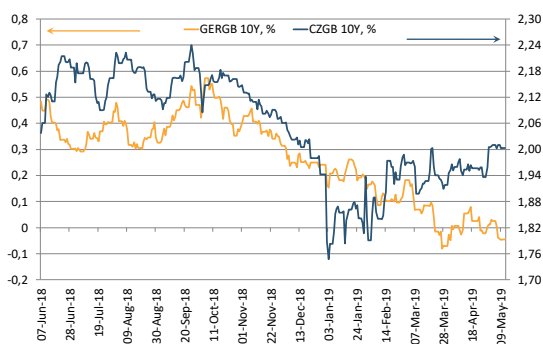
## WEEK BEHIND

- Czech industry in smaller q/q contraction than PMI suggested,...
- ..., same story as in Germany.
- Czech households still on a roll,...
- ...unlike those in Eurozone.

**EURCZK UNCHANGED AT ALL LAST WEEK.**



**GERMAN 10YS RETURN BELOW ZERO.**



### | FX

**EURCZK remained totally unchanged last week,...**

...oscillating in a very tight range around 25.70. So much for the interest rate differential CNB has been saying for ages would push EURCZK lower...

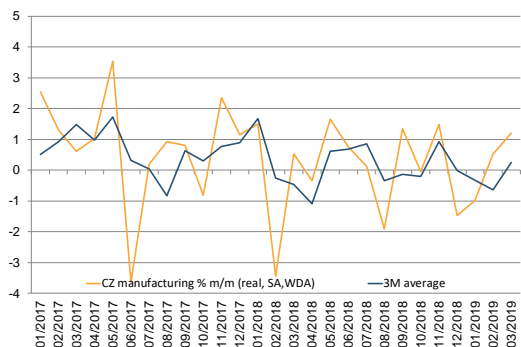
### | FI

**German 10Y yields fell below 0%,...**

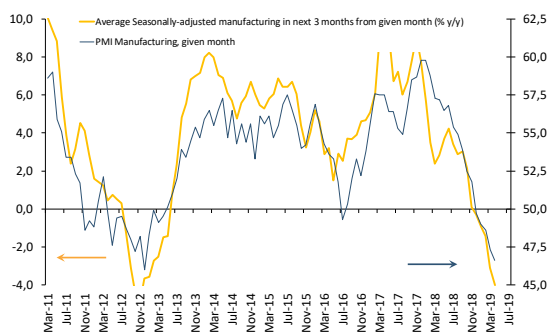
...despite industrial production data that were surprisingly good, considering what PMI indicated. Maybe the concern that the trade talks between US and China have run aground caused the return below zero.

**CZECH ECONOMY**

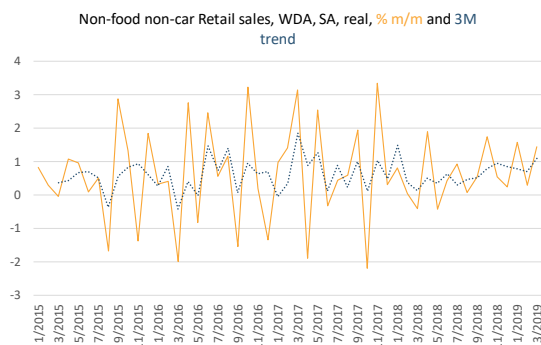
**CZECH MANUFACTURING SURPRISINGLY GREW 1Q19**



**...BUT IT WILL LIKELY CONTRACT FURTHER IN 2Q19.**



**CORE RETAIL SALES GROWING AT DOUBLE-DIGIT ANNUALIZED RATE IN 1Q19**



Industry contracted 1.2% q/q in the 1Q19, qualitatively in line with what PMI suggested.

Quantitatively, though, one could have – should have ! - reasonably expected even larger decline, given that average PMI in 4Q18 was 51.3 while it was 48.3 in 1Q19. This smaller-than-expected decline was first positive news.

Second one came from the structure: manufacturing grew about 0.6% q/q in the 1Q19, owing to the strong March when production in that sector increased by over 1% (while the overall industry fell 0.1% m/m). The decline of industry in March was thus driven exclusively by weaker production of energy and other utilities, in turn in good part reflecting the weather in March.

Manufacturing was thus 2.3% y/y higher in March than in March 2018, again pretty good considering how much PMI worsened. The weakness of PMI continues, however, with 46.6 in April being lowest since December 2012. Despite the better-than-forecast 1Q19m, this makes further weakening of industry and manufacturing component thereof in 2Q19 almost guaranteed.

Retail sales are holding up very well, rounding a very strong 1<sup>st</sup> quarter...

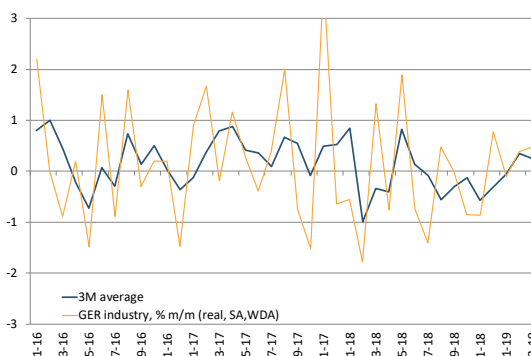
...with growth in March of core retail sales at incredible 9.7% y/y, fastest annual growth rate since January 2018 (10.5% y/y). If that is not enough, look at the monthly dynamics: March 1.4% m/m SA, WDA gain brought the q/q growth to over 3% in 1Q19. Now, annualize that and you can see why core retail sales may grow at >10% y/y starting next month and keep growing like that until the end of the year.

The growth of total retail sales (just 2.8% y/y in March), on the other hand, is still being held down by contracting car sales (-0.7% y/y in March + only small positive q/q growth in 1Q19) and weak food sales (1.1% y/y). The former is at least partially due

**GERMAN INDUSTRIAL ORDERS STILL 6% LOWER Y/Y,...**



**...BUT INDUSTRY DID BETTER THAN PMI SUGGESTED IN 1Q19.**



to number of car models still being unavailable pending the passage of the new emissions tests, the latter reflects higher food prices. Put together, households are still going strong and were very likely No.1 contributor to growth in 1Q19. We'll learn soon.

**| EUROZONE ECONOMY**

**German industrial data from the end of 1Q19 showed sector having done somewhat better in 1Q19 than indicated by leading indicators.**

The **actual production increased by 0.5% m/m**, defying the expectations for the contraction and marking the 2<sup>nd</sup> monthly gain in a row (after February's 0.4% m/m). This, together with the fact that production only declined by 0.1% in January, was the good news. The (somewhat) bad news was that strong-ish March was mainly due to production outside manufacturing. In manufacturing, there was almost no growth in 1Q19. But, now, thinking about it, I guess that result is a positive surprise considering how gloomy a picture did the leading indicators such as PMI painted before.

Looking forward, it is hard to make a call as to what one should expect going forward. On the one hand, we have had better than expected numbers from 1Q19, divergence from PMI-implied levels. On the other hand we see continuing weakness in PMI (which is very clearly in contractionary territory), continuing uncertainty (Brexit, trade war), continuing weakness in other big economies (suggesting wider problems, not just locally German ones) and weak orders.

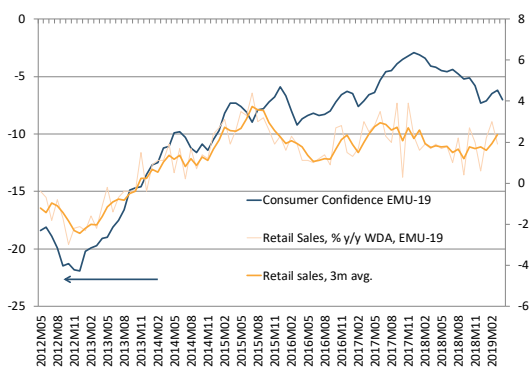
**On this last point, the German industrial orders may have posted a positive growth in March, but 0.6% m/m gain**

- a] still leaves orders 6% lower y/y and
- b] doesn't even come close to erasing combined >6% decline seen in February and January.

To me, more signals still point in the direction of

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**EMU RETAIL SALES' GROWTH STILL WEAK**



further weakening of the production in 2Q19 and beyond. Even if that weakness may not be as pronounced as PMI might lead one to believe.

**Eurozone retail sales remain firmly in non-inflationary territory.**

In March, retail sales grew 1.9% y/y, the average y/y growth in 1Q19 being 2.4% y/y. Although this was the fastest quarter since the last quarter of 2017, these are growth rates that will not bring any meaningful inflation any time soon. Hence, ECB will stay put – and quite likely introduce those ‘tiers’ ↗.

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MARKETS †

MM / IRS	3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y		
%	Actual	2,200	2,250	2,223	2,050	1,988	1,975	
	-1M	2,020	2,060	2,118	1,945	1,880	1,870	
	-3M	1,990	2,050	2,040	1,783	1,723	1,760	
	-6M	1,990	2,050	2,445	2,588	2,580	2,575	
ASW spread*	2Y	3Y	4Y	5Y	7Y	10Y		
bps.	Actual	-0,482	-0,547	-0,468	-0,337	-0,120	0,028	
	-1M	-0,430	-0,381	-0,318	-0,254	-0,075	0,084	
	-3M	-0,238	-0,243	-0,244	-0,174	0,019	0,088	
	-6M	-0,961	-0,900	-0,875	-0,777	-0,576	-0,483	
CZGB**	2Y	3Y	4Y	5Y	7Y	10Y		
%	Actual	1,741	1,616	1,630	1,713	1,868	2,003	
	-1M	1,688	1,669	1,677	1,691	1,805	1,954	
	-3M	1,802	1,695	1,604	1,609	1,741	1,848	
	-6M	1,484	1,623	1,693	1,811	2,004	2,092	
FX	EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD		
	Actual	25,722	4,297	323,05	4,759	6,747	1,123	
	-1M	25,617	4,278	321,39	4,759	6,540	1,130	
	-3M	25,855	4,328	318,27	4,748	5,953	1,133	
	-6M	25,928	4,305	322,20	4,656	6,138	1,122	

† As of Sunday night  
 \* Spreads to generic bonds  
 \*\* Generic bond

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