

May 20 | 2019

Weekly | 2018 | Week 20

| MARTIN LOBOTKA, (+420) 777 027 165, MLobotka@42fs.com, Research@42fs.com

| CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**
Monday	20-May-19	9:00	CZ	PPI (Industrial), Apr'19, y/y	3,9%
Thursday	23-May-19	8:00	GER	(2nd est.) GDP 1Q19, q/q (SA)	0,4%
	23-May-19	10:00	GER	IFO Business Climate, May'19	99,1
	23-May-19	10:00	EMU	(Preliminary) Manufacturing PMI, May'19	48,1
	23-May-19	10:00	EMU	(Preliminary) Services PMI, May'19	53,0
Friday	24-May-19	9:00	CZ	Consumer and Business Confidence, May'19	N/A

* 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

"KUDLOW'S RELATIONSHIP WITH TRUMP HAS NEVER BEEN PARTICULARLY CLOSE. "ANY TIME THE MARKETS GO DOWN, TRUMP BOTHERS LARRY." ↗ YEAH, I KNOW HOW THAT MUST FEEL. TOTAL-RETURN LONG-ONLY MANDATE WITH A BOSS ALWAYS ONE TWEET AWAY FROM SENDING MARKETS ON A ROLLERCOASTER RIDE."

WEEK AHEAD

German GDP structure and leading / soft indicators are what's on the schedule calendar this week.

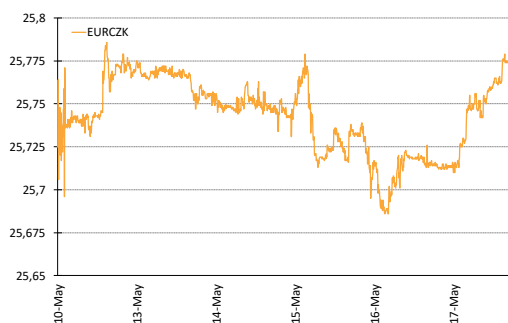
German GDP structure is interesting, but that is look in the past and we have some idea of why German economy grew at 0.4% q/q (see below).

Of more interest will be the PMIs, IFO and Czech confidence, especially from Germany. These will suggest whether 1Q19 was just a positive aberration in Germany or whether we can expect more or less the same in 2Q19.

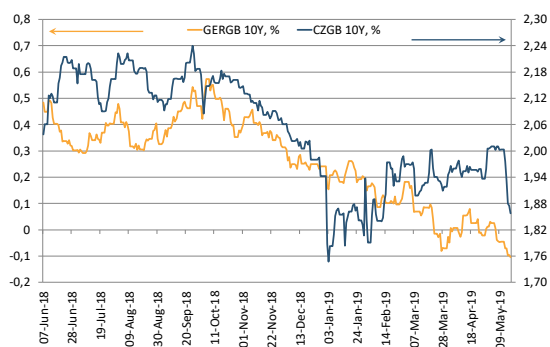
WEEK BEHIND

- Czech inflation retreated in April,...
- ...and Czech GDP growth was again positive in 1Q19,...
- ...if, again, underperforming Poland and Hungary,...
- German GDP surprises positively in 1Q19
- EMU core inflation returns above 1% on higher services prices due to Easter

EURCZK OSCILLATES BETWEEN 25.70 AND 25.80



GERMAN 10Ys RETURN BELOW ZERO.



| FX

EURCZK remained range bound last week, ...

...the range being 25.70-25.80. Nothing has been happening here for weeks.

| FI

German 10Y yields fell further,...

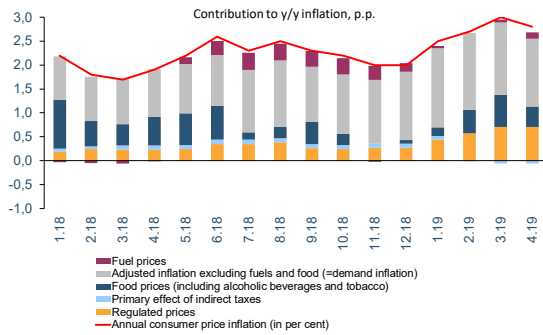
...hitting the lowest (-12 bps.) since late 2016. Last week's fall was very likely the response to further heightening of the tensions between US and China, happening against the backdrop of revised expectations on the future path of global interest rates (Fed funds showing 80% probability of cut by the end of year, ECB on hold).

Czech yields finally noticed it too, falling, at 10%, below 1.9%.

CZECH ECONOMY

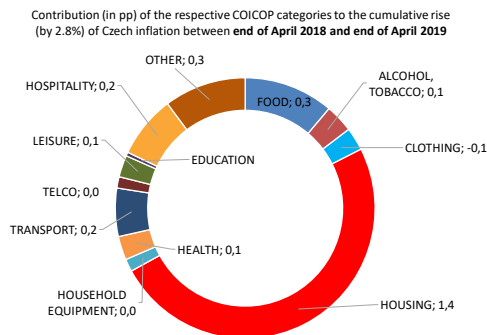
Inflation retreated in April, but the story and the structure remained the same.

CZECH INFLATION RETURNS BELOW 3% ON LOWER FOOD, ALCOHOL PRICES.



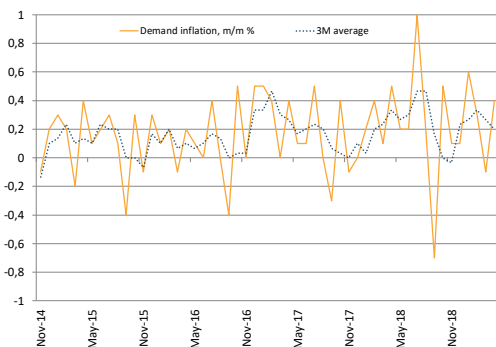
Overall annual inflation fell to 2.8%, monetary-policy relevant one retreated to 2.6% (from 3% in March) and demand one to 2.9% (from 3.1%). The decline against the previous month was due to lower contribution from the food/alcohol prices (0.7 pp in March vs. 0.4 pp. in April) and lower contribution, by 0.1 pp., from demand inflation.

HOUSING STILL No.1 CONTRIBUTOR



Structure-wise, there was nothing new: the primary reason for elevated inflation is still housing, having contributed 1.4 pp (i.e., 50%) to the overall inflation in April, followed by contribution of food and alcohol (0.4 pp).

MONTHLY DYNAMICS OF DEMAND INFLATION STILL ELEVATED



Looking at the monthly dynamics, it remains elevated, at least when it comes to demand inflation: demand inflation has run at around 0.2% monthly rate in last three months, i.e. around 2.5% annualized rate. For deceleration here, the evolution of the prices in the housing sector is crucial: and I think we will see one as house prices are now flattening, and will possible even decline ↴.

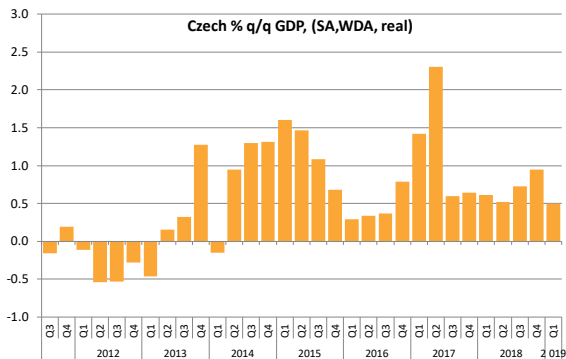
Could CNB find another reasons in April release to hike? Yeah, reasons aplenty. Will it?

Continuing growth of the Czech economy, clearly unfazed by weakness of previous quarters in Germany, may actually cause it to.

Czech growth was 0.5% q/q in 1Q19, 10th quarter in a row with growth of at least that rate. This translated into annual growth of 2.5%. There was no structure released yet, but Czech statistical office said the manufacturing, after a year, became the No.1 supply-side contributor to the growth of value added. On the demand side, foreign demand and household demand were named as primary contributors. The former makes sense seeing the growth in Germany (0.4% q/q in 1Q19, see below),

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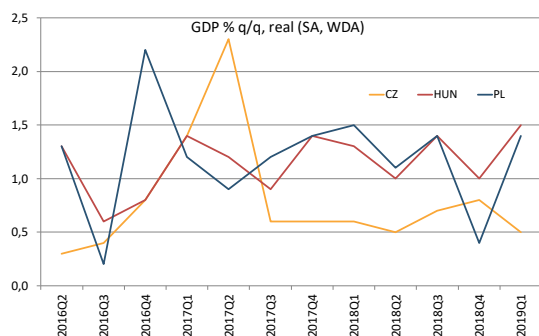
CZECH GDP GROWTH AT 0.5% Q/Q IN 1Q19,...



the latter was in line with retail sales data that have been strong throughout 1Q19. We shall have the full structural data at the end of this month.

That said, Czech growth was actually the weakest in the region – and the regional underperformance of last 6 quarters thus continued into 2019 [nagging idea: can the fact that CNB has tightened policy over that time be to blame?]. Anyway, **Poland** grew at very strong 1.4% q/q in 1Q19, much quicker than 0.5% q/q in the quarter before. **Hungary** posted 9th (9th!) consecutive quarter with growth at or faster than 1% (**ONE** percent), this time at 1.5% q/q!

...BUT THAT IS STILL WEAKER THAN ELSEWHERE IN THE REGION. CZ UNDERPERFORMANCE CONTINUES.

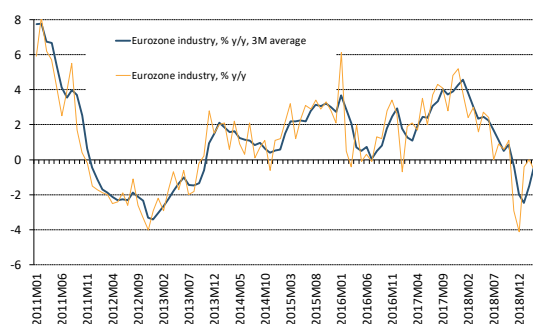


This is very strange and very impressive – CEE economies clearly remained impervious to the loss of momentum in the Eurozone. As to why is that so, I scratch my head. Maybe the structural data that will come out at the end of the month will shed some light on this. It truly is a conundrum at this point. To me, anyway.

| EUROZONE ECONOMY

Eurozone industry is still down y/y, but German economy returned to positive growth.

EUROZONE INDUSTRY STILL NEGATIVE Y/Y, BUT 1Q19 WAS SURPRISINGLY GOOD OVERALL.

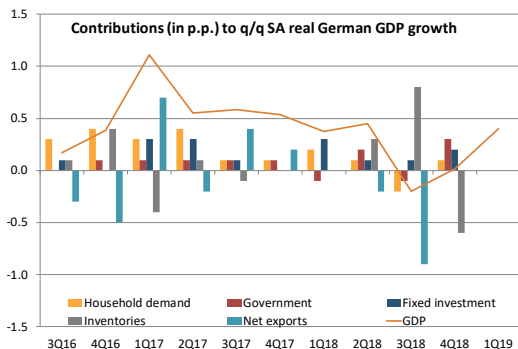


March industrial production data wasn't surprising considering that previous week saw the release of the data from all big economies ↗.

So, Eurozone industry declined 0.3% m/m at the end of 1Q19, but thanks to 2% m/m increase in January (and to the fact that February saw just 0.1% m/m decline), the overall q/q increase in 1Q19 was 1.5%. In other words, despite the weak PMI readings throughout, the 1Q19 turned out to be pretty good for the industry. And for the manufacturing especially: it increased by 1.8% q/q.

And although it didn't help in Germany (German industry stagnated q/q), **GDP there** returned back to black in 1Q19. The growth of 0.4% q/q (0.7% y/y) was a refreshing release after previous two weak quarters (-0.2% q/q in 3Q18 and 0% q/q in 4Q18). Structure is not yet available, but in a brief note the German Statistical Office said fixed investments in

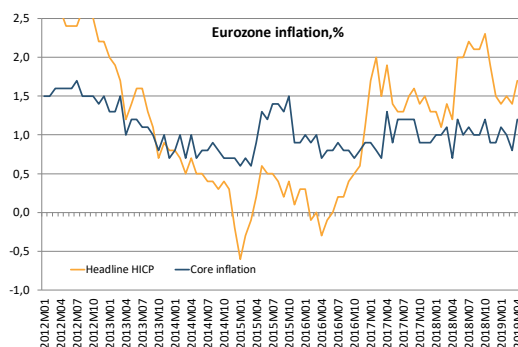
GERMAN 1Q19 GDP GROWTH BACK IN BLACK



construction and machinery went up considerably q/q, and so did the household demand. Net exports were said to be a mixed bag, with both imports and exports increasing.

Now, as industry data showed last week and as we indicated above, German industry stagnated q/q in 1Q19, so it is strange that exports were up. We'll see more in the structural data released this week but preliminary 1Q19 release is certainly positive (though cautiously so, with PMI / IFO still pointing at q/q stagnation ahead).

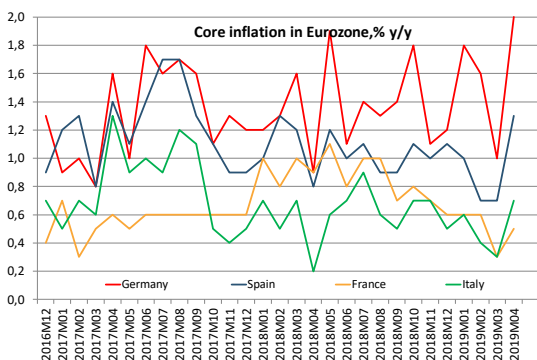
EUROZONE CORE INFLATION RETURNS BACK ABOVE 1%,...



Eurozone inflation was confirmed at 1.7% in April.

The core inflation returned, as expected, back above 1% (to 1.2% exactly) after the Easter-related dip in March to 0.8%. March-April swings were related to services: prices of services increased just 1.1% y/y in March, lowest in a year, but grew at strong 1.9% in April. The swings are due to Easter-related items such as airplane tickets, hotels etc. Ignoring these swings, the inflation is still well below levels necessary to sustain total inflation slightly below 2% (which is what the ECB target is).

...BUT GERMAN ONE SHOTS HIGHEST SINCE OCTOBER 2015.



Except, maybe, in Germany where core inflation shot to 2%, the highest since October 2015. There is probably some overshooting in April's reading that will be corrected in May, but looking at the graph to your left, German core inflation is close to ECB target – it's been around 1.5% in last 12 months, and was actually at 1.8% few times. Not that one wouldn't expect more from the economy with full employment for last three years, but still – Germany would be ready for tighter policy.

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MARKETS ‡

MM / IRS	3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y		
%	Actual	2,200	2,240	2,120	1,923	1,858	1,843	
	-1M	2,020	2,070	2,130	1,988	1,910	1,913	
	-3M	2,010	2,060	2,195	1,960	1,868	1,880	
	-6M	2,000	2,070	2,410	2,530	2,518	2,505	
ASW spread*	2Y	3Y	4Y	5Y	7Y	10Y		
bps.	Actual	-0,394	-0,348	-0,336	-0,215	-0,083	0,016	
	-1M	-0,403	-0,430	-0,359	-0,289	-0,085	0,051	
	-3M	-0,329	-0,312	-0,280	-0,219	-0,056	0,094	
	-6M	-0,930	-0,844	-0,800	-0,683	-0,500	-0,423	
CZGB**	2Y	3Y	4Y	5Y	7Y	10Y		
%	Actual	1,726	1,700	1,644	1,708	1,775	1,858	
	-1M	1,727	1,655	1,676	1,699	1,825	1,964	
	-3M	1,866	1,793	1,740	1,741	1,812	1,974	
	-6M	1,480	1,641	1,713	1,847	2,018	2,082	
FX	EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD		
	Actual	25,775	4,308	326,50	4,761	6,758	1,116	
	-1M	25,661	4,270	319,17	4,764	6,504	1,130	
	-3M	25,677	4,333	318,46	4,741	5,967	1,130	
	-6M	25,996	4,315	321,69	4,663	6,089	1,142	

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

CONTACTS

MARTIN LOBOTKA, ANALYST

(+420) 777 027 165, MLobotka@42fs.com

RESEARCH

Research@42fs.com

AVAILABLE AT THOMSON REUTERS EIKON MESSENGER

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