

May 27 | 2019

## Weekly | 2018 | Week 21

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## | CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**
Tuesday	28-May-19	11:00	EMU	European Sentiment Indicator (ESI), May'19	104.0
Wednesday	29-May-19	8:45	FRA	(Final) GDP 1Q19, q/q (SA)	0.3%
	29-May-19	8:45	FRA	(Preliminary) HICP, May'19, y/y	1.2%
Thursday	30-May-19	9:00	SPA	(Preliminary) HICP, May'19, y/y	1.1%
	30-May-19	9:00	SPA	Retail sales, Apr'19, y/y (SA)	2.0%
Friday	31-May-19	8:00	GER	Retail sales, Apr'19, y/y (NSA)	1.4%
	31-May-19	9:00	CZ	(2nd est.) 1Q19, q/q (SA)	0.5%
	31-May-19	10:00	ITA	(2nd est.) 1Q19, q/q (SA)	0.2%
	31-May-19	11:00	ITA	(Preliminary) HICP, May'19, y/y	0.9%
	31-May-19	14:00	GER	(Preliminary) HICP, May'19, y/y	1.4%

\* 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

“TSLA: WHEN FOOLISH IDEA MET STUPID MARKETS”.

## WEEK AHEAD

Structure of 1Q19 Czech growth and preliminary May Eurozone inflation are the most important releases this week.

The former is look in the past and the headline number wasn't that surprising as to make us eagerly wait for this release, the latter is hardly going to show anything but the lack of inflationary pressures. There are also retail sales in Spain and Germany for April, but these will very likely be weak, as in previous months.

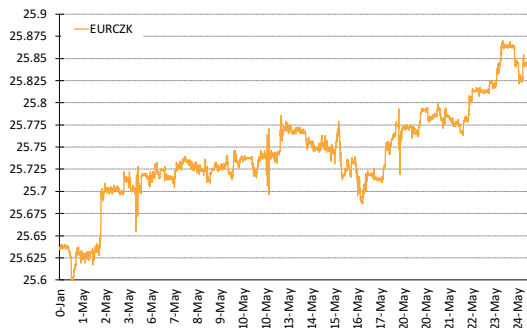
## WEEK BEHIND

**Czech manufacturing confidence lowest in 6 years** ▶

**German data releases last week: a cacophony** ▶

**Eurozone PMI still points at 0.1% q/q growth in 2Q19** ▶

### EURCZK MOVED HIGHER LAST WEEK.



### | FX

**EURCZK moved higher again last week,...**

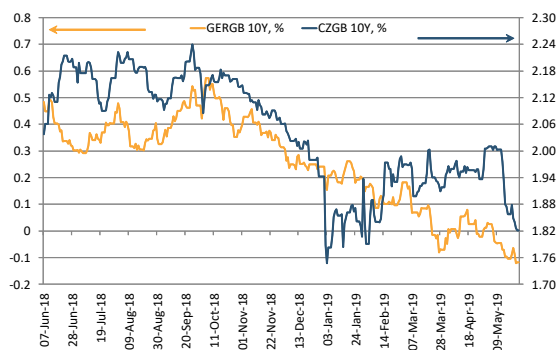
...almost hitting 25.90. So much for the story of CNB that the interest-rate differential will push CZK stronger.

### | FI

**Czech yields continued to catch up with reality,...**

...having declined further, at 10Y, to 1.80%. There is still space to go here.

### GERMAN 10YS RETURN BELOW ZERO.



## | CZECH ECONOMY

**Czech households remain optimistic while the confidence of firms plummeted to lowest since July 2016.**

The latter was the result of further decline of confidence in industry. The confidence in industry is now lowest in six years and this May release of Czech statistical office finally brought the CSO-measured confidence in industry in line with what one saw in the PMI previously.

Consumers, on the other hand, are still fine, their confidence having even increased slightly against April and thus having remained well above the long-term average.

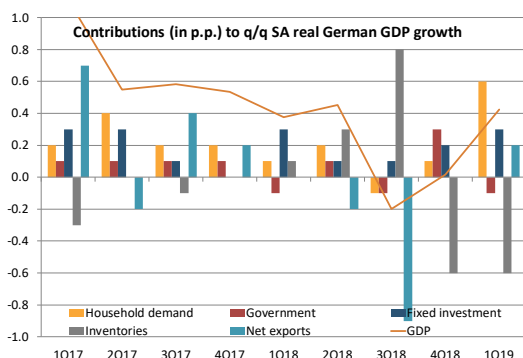
The divergence between the confidence in two sectors may be surprising at the first glance, but once one thinks about it the surprise disappears. See, while industrial companies see the slowdown from Germany in their order books pretty quickly, it is not so for the consumers: companies take the first hit and it needs to hit of certain size for them to transfer it onto its labor force. So far, this didn't happen. For now, all that consumers see is low (non-existing) unemployment and continuing growth of wages (driven by public sector). No wonder they remain optimistic.

## | EUROZONE ECONOMY

**German data didn't make forming the expectations about the economy any easier.**

**Last week's Destatis release confirmed the growth in 1Q19 at 0.4% q/q growth.** That was expected, so nothing new there. What was new was the structure of the growth. As regards the quarterly growth, the biggest contribution came from household demand – at 0.6 pp, this was also the highest contribution since 3Q11. But other aggregate demand components were positive contributors too: fixed investments added 0.3 pp, net exports 0.2 pp. In other words, the only negative contributor were inventories which posted

**1Q19 GERMAN GDP GROWTH STRUCTURE**  
VERY OPTIMISTIC,...



second negative quarter in a row, with another 0.3 pp subtracted from the 1Q19 GDP growth, just like in 4Q18. Putting all together, this release was incredibly inconsistent with the 1Q19 monthly data which included weak retail sales, contraction of industry etc.

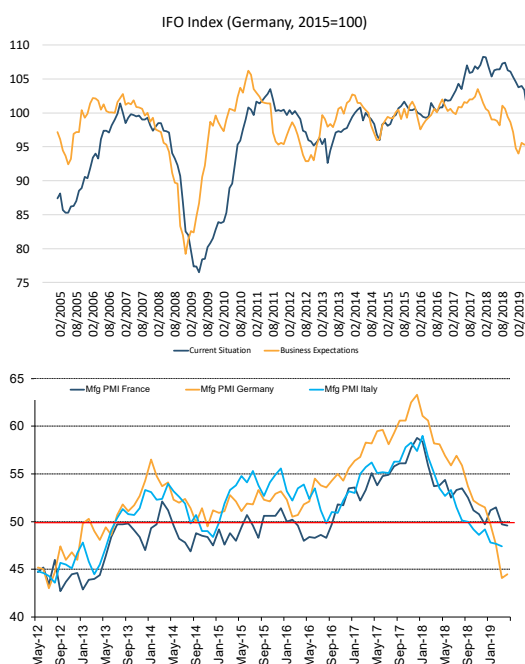
It looks like the growth of aggregate demand was faster than expected (and thus than what was produced), the shortfall having had to be covered by running down the inventories. If this indeed was the case, then the cumulative -0.6 pp negative contribution from inventories over last two quarters (4Q18-1Q19) bodes well for the coming one(s) - unless aggregate demand slows, inventories will need to be rebuilt.

So, GDP structure was even more surprising than the headline number per se. But with PMI / IFO data released last week as well, it makes forming an expectation about the economic dynamics in 2<sup>nd</sup> and 3<sup>rd</sup> quarter hard, if not impossible.

**See, flash May PMI was mediocre.** Manufacturing PMI ticked lower to 44.3, lowest since summer 2012 (i.e., since debt crisis), and service sector, while still firmly in the growth territory, eased to a 4-month low of 55. New orders eased again (and have thus fallen in four out of last five months) as did employment growth (which is now slowest in three years). The composite index reading of 52.4 is pointing at about 0.2% q/q expansion in 2Q19. Which is what May **German IFO also points at.** Owing to the collapse (to lowest since August 2016) of actual assessment sub-index thereof, and because business expectations remained among the weakest since 2012, the overall index fell to 97.9 pts., again consistent with about 0.1-0.2% q/q growth.

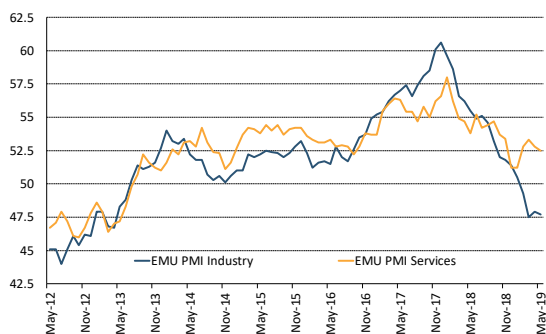
Put together, we're not much wiser about what to expect in the coming months. On the one hand, strong 1Q19 growth and its optimistic structure of suggest potential for sustained growth, in 2Q19 and possibly 3Q19, at 1Q19 rate. On the other hand, continuing weak leading indicators point towards growth at best at half that rate.

...WHILE LEADING INDICATORS REMAIN WEAK, ESPECIALLY IN INDUSTRY



May 27 | 2019

### EUROZONE PMI POINTS AT 0.1% Q/Q GROWTH IN 2Q19



Go figure.

### Eurozone composite PMI remained unchanged in May.

See, the tick from 51.5 in April to 51.6 in May cannot be called a change, in my dictionary at least. Both services and manufacturing PMI worsened (the fact that composite index improved despite both services and manufacturing PMIs having worsened is due to the fact that composite PMI index is an average of Services PMI, which, as mentioned, worsened, and manufacturing *Output subindex* of manufacturing PMI which rose from 48 to 49 points between April and May). The difference here is that manufacturing remained in decline whereas services continued to grow.

The outlook is nor very encouraging, either. First, in services the new orders growth was, with the exception of the end of 2018 and the beginning of 2019, the slowest since 2014. Second, the expectations about the coming year are at their most pessimistic since October 2014. Weak new orders and spreading pessimism caused hiring to stall, with gains in employment joint-smallest since Fall 2016. In manufacturing, the employment sub-index actually fell into contraction for the first time since August 2014.

Put together, Eurozone looks set to grow 0.1% q/q in 2Q19. But, then again, it looked set to grow that "fast" in 1Q19 and see what happened...

May 27 | 2019

MARKETS ‡

MM / IRS	3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y		
%	Actual	2.190	2.240	2.085	1.883	1.810	1.808	
	-1M	2.020	2.080	2.155	2.020	1.955	1.970	
	-3M	2.020	2.070	2.240	1.985	1.890	1.883	
	-6M	2.020	2.080	2.345	2.438	2.423	2.405	
ASW spread*	2Y	3Y	4Y	5Y	7Y	10Y		
bps.	Actual	-0.377	-0.371	-0.337	-0.236	-0.024	0.013	
	-1M	-0.442	-0.504	-0.414	-0.309	-0.121	-0.011	
	-3M	-0.380	-0.333	-0.265	-0.164	-0.002	0.080	
	-6M	-0.750	-0.751	-0.712	-0.586	-0.425	-0.314	
CZGB**	2Y	3Y	4Y	5Y	7Y	10Y		
%	Actual	1.708	1.634	1.596	1.647	1.786	1.821	
	-1M	1.713	1.611	1.656	1.711	1.834	1.959	
	-3M	1.860	1.797	1.790	1.821	1.888	1.962	
	-6M	1.595	1.659	1.716	1.852	1.998	2.091	
FX	EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD		
	Actual	25.819	4.290	325.38	4.761	6.813	1.120	
	-1M	25.721	4.292	322.21	4.758	6.608	1.113	
	-3M	25.641	4.338	317.86	4.765	6.024	1.136	
	-6M	25.928	4.293	322.23	4.659	5.997	1.134	

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

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AVAILABLE AT THOMSON REUTERS EIKON MESSENGER

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