

June 03 | 2019

Weekly | 2018 | Week 22

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

| CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**
Monday	3-Jun-19	9:30	CZ	Manufacturing PMI, May'19	46.5
	3-Jun-19	10:00	EMU	(Final) Manufacturing PMI, May'19	47.7
	3-Jun-19	14:00	CZ	Budget Balance, May'19, CZK bn.	N/A
Tuesday	4-Jun-19	11:00	CZ	Unemployment rate, Apr'19	7.7%
	4-Jun-19	11:00	EMU	(Preliminary) HICP, May'19, y/y	1.3%
Wednesday	5-Jun-19	9:00	CZ	Retail sales, Apr'19, y/y (NSA)	3.5%
	5-Jun-19	10:00	EMU	(Final) Services PMI, May'19	52.5
	5-Jun-19	11:00	EMU	Retail sales, Apr'19, y/y (NSA)	3.1%
Thursday	6-Jun-19	8:00	GER	Industrial orders, Apr'19, y/y (WDA)	-5.9%
	6-Jun-19	9:00	CZ	Industrial production, Apr'19, y/y	2.7%
	6-Jun-19	11:00	EMU	GDP, 1Q19, q/q	0.4%
	6-Jun-19	13:45	EMU	ECB meeting, refinancing / lending / deposit rate	0%/0.25%/-0.4%
	Friday	7-Jun-19	8:00	GER	Industrial production, Apr'19, y/y

* LOCAL TIME IS CET

** (REUTERS/ BLOOMBERG) POLL

| JUNE 2019 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
CZGB 2015-2026**	12-Jun-19	14-Jun-19	26-Jun-26	CZK 3 bn. max	1.00%
CZGB 2017-2033**	12-Jun-19	14-Jun-19	13-Oct-33	CZK 4 bn. max	2.00%
CZEUGB 2019-2021**	19-Jun-19	21-Jun-19	20-Aug-21	EUR 0.1-0.2 bn.	0.00%
CZGB 2017-2033**	26-Jun-19	28-Jun-19	13-Oct-33	CZK 4 bn. max	2.00%
CZGB 2007-2057**	26-Jun-19	28-Jun-19	26-Nov-57	CZK 0.5 bn. max	4.85%

* 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

“THE FACT THAT EVEN KUDLOW IS SILENT ON CHINA-US TALKS TELLS YOU A LOT THAT THIS IS NOT GOING LIKE TRUMP WANTED”.

WEEK AHEAD

Lots of monthly real-economy data from the beginning of 2Q19, both here and in Eurozone.

For the **Czech Republic**, retail sales and industrial production for April will hint at what to expect from growth in 2Q19: is it going to be as surprisingly good as 1Q19 or no?

On top of that, there will be **manufacturing PMI for May** that will inform us about how the industry was doing mid-way through the second quarter, so by the end of this week we should have a fairly complete picture of whether industry fell or grew in 2Q.

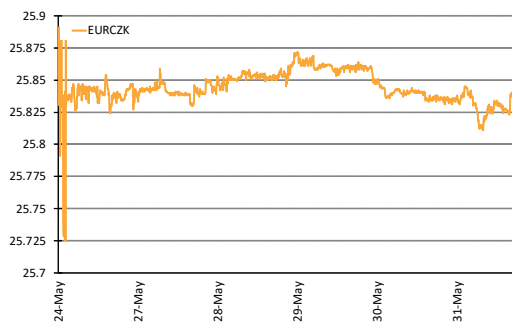
For **Eurozone**, all eyes are on **April German industrial data** (orders, production), with **Eurozone retail sales right next in terms of analysts' attention**. There is also **ECB meeting** this Thursday, but this is likely to be **non-event**: ECB previously ditched the idea of hike this year and the data that came since last meeting didn't do anything but reinforce this stance. On the other hand, the data were nowhere near as weak as to push ECB into contemplating easing of the policy. So, what is to be expected is another meeting where Draghi will admit that inflation is still too low, but add that ECB is confident it will get to the target at some point in the future. In other words, the same we've heard in last years.

WEEK BEHIND

Czech 1Q19 GDP revised up, still weakest in the region

Eurozone data confirm ECB will stay put for long

EURCZK STUCK TO 25.825

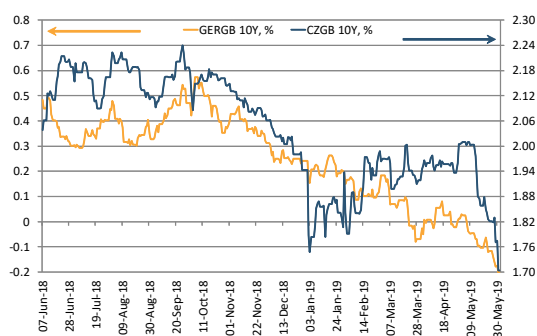


| FX

EURCZK was stuck to 25.825 last week,...

...continuing to defy CNB's expectations that interest rate differential will push it lower. So far it didn't. Just the contrary...But hey, don't expect CNB to tell you where CZK will be, unless it is an intervention... 😊

CZECH 10YS CONTINUE TO CATCH-UP WITH REALITY



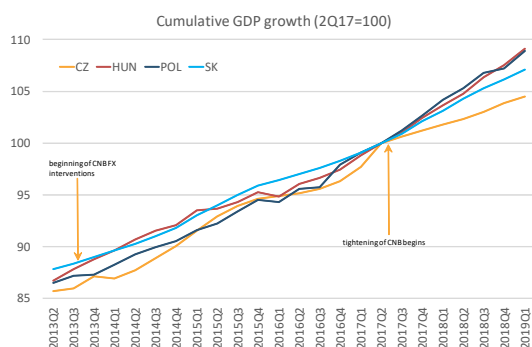
| FI

Like week before, Czech yields continued to catch up with reality,...

...having declined further (to 1.70% at 10Y). This is reflection of lower German yields that investors in Czech market finally noticed, of escalation of trade tensions between Trump and China, all against the background of outlook for stable / lower interest rates from major central banks.

June 03 | 2019

CZECH GROWTH HAS BEEN LAGGING THE REGIONS SINCE TIGHTENING OF CNB BEGAN



CZECH ECONOMY

Czech 1Q19 GDP growth was revised up slightly, but remained slowest in the region nonetheless.

1Q19 quarterly growth rate was revised 0.1 pp up to 0.6% q/q, translating into annual growth of 2.6% y/y, exactly like in 4Q18. The growth in Poland and Hungary was more than twice as fast (1.6% and 1.5%, respectively) and Slovakia grew 0.9%.

There is now thus **clear evidence of underperformance of the Czech economy** coinciding with the period of monetary policy tightening of CNB. In other words, whereas the interventions of 2013-2017 didn't help Czech growth at all, tightening since summer 2017 outright hurt it. I am convinced this tightening was not needed, seeing that since 2017 half of the inflation has been due to housing, so CNB prevented the economy from growing much better.

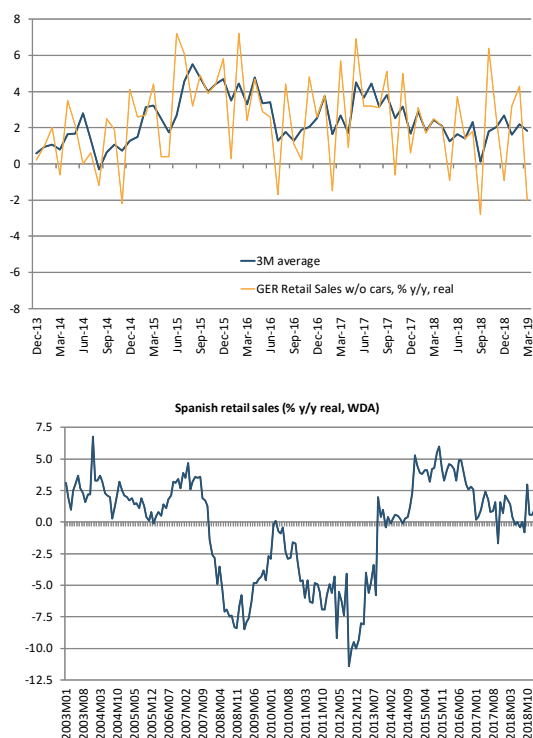
In Poland or Hungary, the growth is only now translating into inflation: if central banks acted now, they'd easily contain it. But it looks like they are behind the curve now.

As for the structure of **1Q19 growth**, it was **driven by strong quarterly expansion (1.6%) of household demand**. This wasn't so surprising, though, since, as you will certainly recall, retail sales data had been strong in 1Q (core retail sales having grown at almost double-digit annual growth rate).

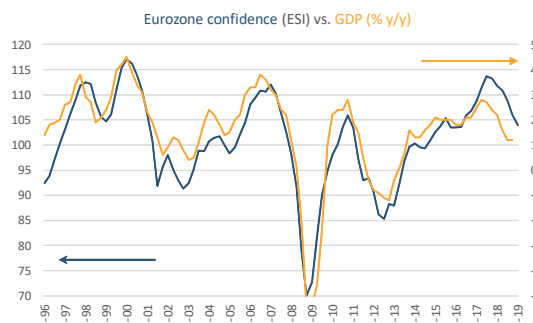
Fixed investment fell 2% q/q, equally due to quarterly decline of investments into transport equipment and machinery (reflection of heightened uncertainty in the industry) and due to lower investment in dwellings (reflection of cooling-off of the real estate market).

Exports fell 1% q/q (because of 1.7% q/q decline in exports of goods, their largest contraction since 1Q13) while imports declined 0.6%. **In other words, net exports were a drag on growth. Unlike government whose consumption rose strong 1.6% q/q (3.4% y/y), confirmation of**

RETAIL SALES IN SPAIN AND GERMANY WEAK AT THE START OF 2Q19



ESI CONTINUES TO TREND LOWER.



broad fiscal expansion going on.

Put together, there wasn't anything wrong with the growth in 1Q19. Considering all the risks (trade war, Brexit) and the ongoing tightening of the policy of CNB, it was actually surprisingly good. If, as said, much weaker than in other countries in the region because of CNB.

| EUROZONE ECONOMY

Eurozone data confirmed ECB would stay put for long.

Spanish and German retail sales from the beginning of 2Q19 confirmed that household demand is still far too weak to produce meaningful rise of demand inflation. German retail sales fell 2% y/y in April, their average growth in last three months being +2% y/y. So, while April decline is not important, 2% annual average growth in last three months – or pretty much actually since 4Q17 – certainly isn't anything to write home about. **Same for Spain: 1.1% y/y in April isn't going to produce much inflation anytime soon.**

Since household demand certainly didn't change for better in May, it comes as no surprise that **preliminary May HICP was lower than expected in all big economies.** French May HICP came in at 1.1% (vs. the expectation of 1.2%), Spanish HICP was 0.9% (vs. 1.1%). German inflation also undershot the expectation with 1.3% being tad lower than 1.4% that was forecast, and so Italy was the only big economy with inflation having been reported in line with what was expected, i.e. at 0.9%. Although we don't have the core inflation data yet, it is clear that core inflation must have stayed around April's 1% for the whole of Eurozone. **No inflationary signs anywhere, despite what ECB's been telling you for years.**

And if Eurozone sentiment indicator is anything to go by, not much change in the economic, therefore inflationary, dynamics is to be expected. **European Sentiment Indicator (ESI)** did improve on April, but

June 03 | 2019

only slightly (103.8 in May'19 vs. 103.6 in April) and it is still well below May'18 (111.9) as well as among the lowest since Fall 2016. 2Q19 will see ESI on average lower than in 1Q19, hardly a sign of improving economic dynamics.

May consumer confidence improved marginally as well, but it too is lower than in 2018 and at levels commensurate with those seen in 1Q17. That may still be above the long-term average, but consumer confidence is very poor predictor of household demand: I'd argue it is no predictor at all. I think it is really a lagging indicator: household report optimism when they're doing good. So don't read much into it.

June 03 | 2019

MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	2.190	2.230	2.017	1.775	1.690	1.675	
	-1M	2.050	2.100	2.228	2.113	2.050	2.045	
	-3M	2.030	2.070	2.255	2.093	2.015	2.038	
	-6M	2.020	2.080	2.345	2.415	2.388	2.368	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.272	-0.244	-0.225	-0.169	0.015	0.029	
	-1M	-0.482	-0.541	-0.495	-0.356	-0.179	-0.040	
	-3M	-0.390	-0.427	-0.353	-0.281	-0.108	-0.068	
	-6M	-0.747	-0.789	-0.734	-0.622	-0.423	-0.307	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.745	1.661	1.605	1.606	1.705	1.704	
	-1M	1.746	1.657	1.665	1.757	1.871	2.005	
	-3M	1.865	1.786	1.792	1.812	1.907	1.970	
	-6M	1.598	1.611	1.684	1.793	1.965	2.061	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.849	4.282	324.91	4.747	6.534	1.117	
	-1M	25.623	4.284	324.63	4.759	6.682	1.120	
	-3M	25.633	4.305	316.19	4.745	6.111	1.137	
	-6M	25.964	4.292	323.61	4.654	5.902	1.132	

‡ 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

PREVIOUS ISSUES OF WEEKLY AND OTHER REPORTS ARE AVAILABLE HERE ↗

June 03 | 2019

| DISCLAIMER

This publication has been prepared by 42 Financial Services Czech Republic (hereafter referred to as '42 Financial Services' only). This report is for information purposes only.

Publications in the United Kingdom are available only to investment professionals, not private customers, as defined by the rules of the Financial Services Authority. Individuals who do not have professional experience in matters relating to investments should not rely on it.

The information contained herein has been obtained from public sources believed by 42 Financial Services to be reliable, but which may not have been independently justified. No guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose.

This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument or any other action and will not form the basis or a part of any contract.

Neither 42 Financial Services nor any of its affiliates, its respective directors, officers or employers accepts any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. Any opinion, estimate or projection expressed in this publication reflects the current judgment of the author(s) on the date of this report. They do not necessarily reflect the opinions of 42 Financial Services and are subject to change without notice. 42 Financial Services has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favorable investment results.

42 Financial Services, its affiliates, principals or employees may have a long or short position or may transact in the financial instrument(s) referred to herein or may trade in such financial instruments with other customers on a principal basis. 42 Financial Services may act as a market maker in the financial instruments or companies discussed herein and may also perform or seek to perform investment banking services for those companies. 42 Financial Services may act upon or use the information or conclusion contained in this report before it is distributed to other persons.

This report is subject to the copyright of 42 Financial Services. No part of this publication may be copied or redistributed to persons or firms other than the authorized recipient without the prior written consent of 42 Financial Services.

By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.

Copyright: 42 Financial Services Czech Republic, 2019.

All rights reserved.