

# Weekly | 2018 | Week 25

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## CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**	42FS
Monday	25-Jun	9:00	CZ	Consumer / Business Confidence, Jun'18	N/A	N/A
	25-Jun	10:00	GER	IFO Business Climate, Jun'18	101.8	N/A
Wednesday	27-Jun	13:00	CZ	CNB rate-setting meeting	0.75%	1.0%
Thursday	28-Jun	9:00	SPA	Retail Sales (SA), May'18, y/y	0.7%	N/A
	28-Jun	9:00	SPA	(Preliminary) HICP, Jun'18, y/y	2.3%	N/A
Friday	28-Jun	11:00	ITA	(Preliminary) HICP, Jun'18, y/y	1.4%	N/A
	28-Jun	14:00	GER	(Preliminary) HICP, Jun'18, y/y	2.1%	N/A
	29-Jun	8:45	FRA	(Preliminary) HICP, Jun'18, y/y	2.4%	N/A
Friday	29-Jun	9:00	CZ	(Final) GDP, 1Q18, q/q	0.4%	N/A
	29-Jun	11:00	EMU	(Preliminary) HICP (Core/Headline), Jun'18, y/y	1%/2%	N/A

\* LOCAL TIME IS CET

\*\* (REUTERS/ BLOOMBERG) POLL

## JUNE 2018 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
CZGB 2018-2021**	6-Jun	8-Jun	23-Feb-21	CZK 4 bn. max	0.75%
CZGB 2014-2025**	6-Jun	8-Jun	17-Sep-25	CZK 4 bn. max	2.40%
CZGB 2018-2029**	6-Jun	8-Jun	23-Jul-29	CZK 4 bn. max	2.75%
SPP 797	7-Jun	8-Jun	7-Dec-18	CZK 0-5 bn.	N/A
CZGB 2007-2022**	13-Jun	15-Jun	12-Sep-22	CZK 4 bn. max	4.70%
CZGB 2017-2027**	13-Jun	15-Jun	10-Feb-27	CZK 4 bn. max	0.25%
CZGB 2015-2030**	13-Jun	15-Jun	15-May-30	CZK 4 bn. max	0.95%
SPP 798	14-Jun	15-Jun	14-Dec-18	CZK 0-5 bn.	N/A
CZGB 2018-2021**	20-Jun	22-Jun	23-Feb-21	CZK 4 bn. max	0.75%
CZGB 2013-2028**	20-Jun	22-Jun	25-Aug-28	CZK 4 bn. max	2.50%
CZGB 2017-2033**	20-Jun	22-Jun	13-Oct-33	CZK 4 bn. max	2.00%
SPP 799	21-Jun	22-Jun	21-Dec-18	CZK 0-5 bn.	N/A
SPP 800	28-Jun	29-Jun	28-Dec-18	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

“EVER WANTED TO KNOW WHAT US WOULD LOOK LIKE IF CONFEDERACY'D WON? NOW YOU CAN PRETTY WELL INFER...”

## WEEK AHEAD

**Locally, CNB meeting is undoubtedly No.1 event.**

The analysts' expectations are split between hike and no-hike almost evenly, depending on which consensus one chooses to refer to. My view is that in light of weak CZK, of high real estate prices (that CNB wants to rein in using restrictions on mortgage lenders<sup>7</sup>) and in light of comments of central bankers in last few weeks, it is more likely than not that CNB will hike this week. The reasons why it might not hike are essentially twofold: the fact that August will see new forecast and the uncertainty regarding the outlook (trade war, worsening soft indicators in German manufacturing).

**In Eurozone, June preliminary inflation data will come out.** Key indicator to watch is core inflation, forecast to not have changed on May. Now that the end of QE has been announced it is less important, but if core inflation remains depressed throughout 2<sup>nd</sup> half of the year, ECB might warn of pushing the first hike well behind summer 2019, possibly into 2020. And this would have an impact on EURUSD.

WEEK BEHIND

**CZ:** producer prices ▶ or import prices ▶ show little inflationary pressures among producers or being imported.

**US-EU:** EU began retaliating against US tariffs ▶

**EUROZONE:** leading indicators in manufacturing worsened further in June ▶

| FX

**EURCZK** almost touched 26 last week before diving back to 25.80.

The weakening last week was likely in response to the retaliatory tariffs that European Union imposed on US and that came into effect last Friday. The prospect of CNB hike is supporting the currency, though.

| FI

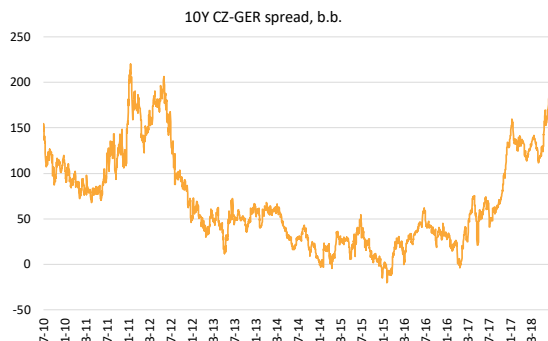
**CZ-GER 10Y spread** widened to a new 6-year high of almost 190 bps. as...

...German yields fell below 40 bps. on weak manufacturing PMI ▶ and the escalating EU-US trade war ▶ .

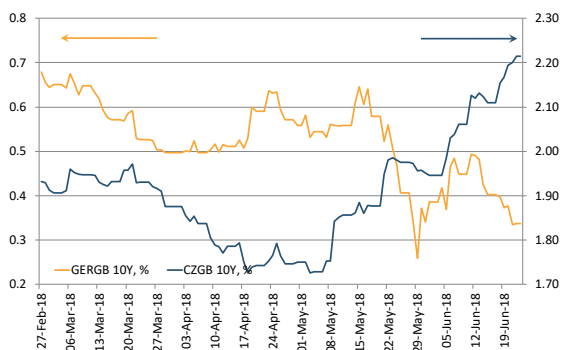
**EURCZK ALMOST TOUCHED 26 AMID WEAK PMI IN GERMANY, ESCALATING EU-US TRADE WAR.**



**CZ-GER SPREAD WIDENED TO NEW 6-YEAR HIGH...**

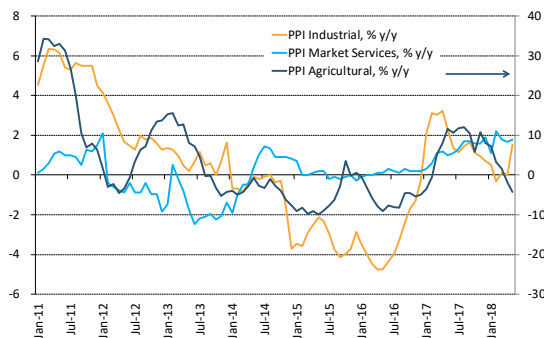


**...AS GERMAN BUND YIELDS FELL BELOW 40 BPS. ON TARIFFS, WEAK MANUFACTURING PMI DATA**



**CZECH ECONOMY**

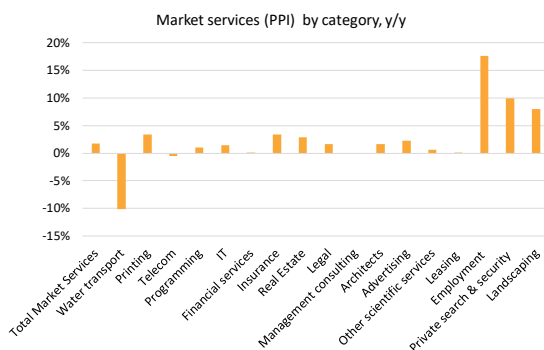
**CZECH PRODUCER PRICES DON'T SHOW BUILDUP OF INFLATIONARY PRESSURES**



May producer prices and (surprisingly) stagnating April import prices suggest no buildup of inflationary pressures.

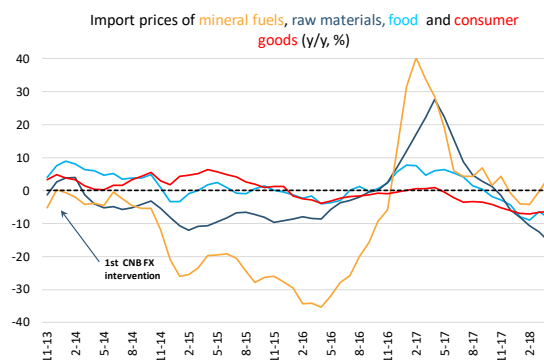
Yes, industrial producer prices rose 1% as against April, fastest monthly growth since January 2013 and one that lifted the annual growth rate to 1.5% y/y, the highest since October of last year. But that was almost exclusively due to the fact that oil prices rose (refined petroleum products and chemicals were behind most of May rise), which is transient (will fall out of the numbers in year's time).

**PRICES OF MARKET SERVICES UP MAINLY ON EMPLOYMENT SERVICES (=TIGHT LABOR MARKET)**



Moreover, prices of agricultural producers fell for the second time in a row, having fallen another 0.9% m/m after 2.4% m/m fall in April. Agricultural producers' prices are thus now over 4% lower than this time last year, something that shall offset the impact of higher oil prices on the monetary-policy relevant inflation in the coming months.

**IMPORT PRICES STAGNATED IN APRIL DESPITE WEAKER CZK, WITH ONLY THOSE OF MINERAL FUELS RISING**

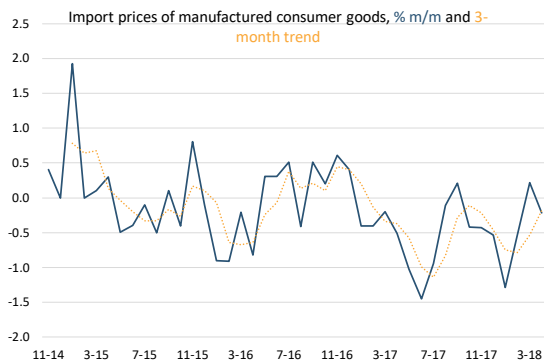


Finally, market services remained at 1.8% y/y (0% m/m), the annual growth mainly being due to the increase of prices of employment services (=tight labor market) and, surprisingly, of almost double-digit annual growth of prices in search & security and landscaping.

Put together, thus, there appears to be little evidence of buildup of overall inflationary pressures in the producers' sector, the increase in producer prices and the decline of agricultural prices offsetting each other.

April import prices were a bit surprising in that they merely stagnated m/m and in that the subset of them – import prices of manufactured consumer goods – actually fell again in April (-0.2% m/m). That the overall import prices remained unchanged as against March was due to 1.7% m/m increase of import prices of mineral fuels; everything else fell (food -2.2% m/m) or essentially stagnated (raw materials, machinery, vehicles). Looking forward,

**IMPORT PRICES OF MANUFACTURED CONSUMER GOODS FELL AGAIN**



though, it is hard to imagine this trend to continue. **Although non-inflationary Eurozone will continue to exert dampening effect on local import prices (and thus on local consumer price inflation), weaker CZK will lift import prices above zero in May and June.**

**EUROZONE ECONOMY & FED**

**EU retaliated against US tariffs, raising the risk of tit-for-tat escalating into the full trade war as concerns about such an outcome widened.**

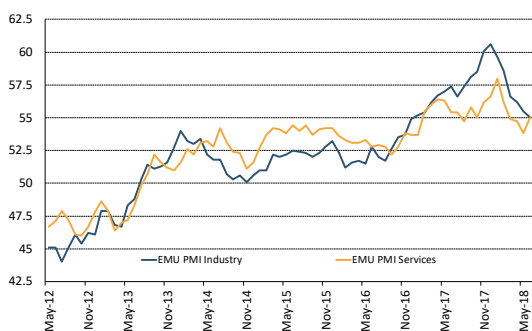
Even though the decision to start imposing, as of last Friday, the tariffs on approx. USD 3.2 bn. worth of US products (H-D motorcycles, bourbon, orange juice etc.) was expected and is relatively measured (US tariffs on EU steel and aluminum exports affect USD 7.4 bn.), it certainly isn't going down well with many who fear this could escalate into full blown trade war that nobody can win. Canada (USD 16.6 bn. worth of US exports from July 1) and Mexico retaliated in the same way.

And it is starting to have an effect: Jerome Powell (Fed chair) said **⬆** FED is "for the first time hearing about decisions to postpone investment, postpone hiring, postpone making decisions", all because of Trump administration trade policies, and also said that "in principle changes in trade policy could cause us to have to question the outlook". In Eurozone, Daimler said trade tensions would hit sales **⬆** while Draghi said there was no room for optimism here.

**The European leading indicators seem to suggest the same concerns are felt acutely in the economy, especially in manufacturing.**

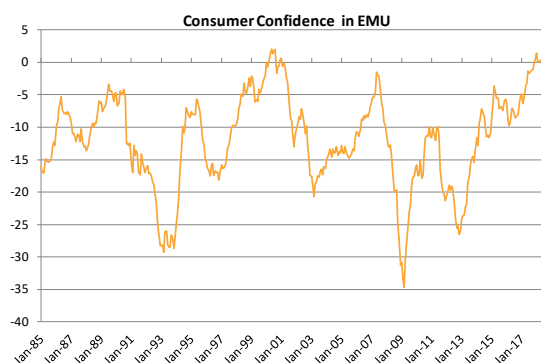
**Manufacturing PMI fell further in June, hitting 55, the lowest since November 2016.** This was due to weakest pace of order inflows in 22 months as well as weakest export growth in 1 ½ years. Both France (51.8 in June vs. 53.7 in May) and Germany (55.9 in June vs. 56.9 in May) worsened.

**MANUFACTURING PMI FELL TO LOWEST IN 19 MONTHS.**



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### CONSUMER CONFIDENCE LOWEST SINCE OCTOBER 2017



On the more positive note, **service sector rebounded** and posted the **first improvement this year**. Having fallen to 53.8 in May, service PMI rose to a 4-month high of 55 in June, mainly due to the rebound in employment (new jobs creation in June was at the highest rate since October 2007) and better output growth.

**That said, expectations remain relatively bleak.** Sentiment concerning next twelve months fell to lowest since 2015 in manufacturing, and even including the relatively optimistic service sector the overall expectations are at their lowest in 18 months. Since one can reasonably expect that service sector will feel the slowdown once it's had time to work itself through manufacturing, the recent rebound in service sector may only prove to be transient.

**Consumer confidence**, while still very high, worsened to -0.5 pts. in June, **the weakest since October last year**. This may be another indication that the best in this business cycle is behind us, though strong hiring activity seen in June PMI goes against this.

**Put together, 1] 2Q18 GDP growth was likely again 0.4% q/q and 2] it doesn't look likely 3Q18 will be anything different. The risks to Euro area growth stemming from foreign trade policies of US are firmly downwards.**



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MARKETS ‡

MM / IRS	3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y		
%	Actual	0.709	0.969	1.450	1.810	1.895	1.983	
	-1M	0.709	0.969	1.390	1.790	1.876	1.955	
	-3M	0.709	0.969	1.290	1.700	1.790	1.898	
	-6M	0.709	0.969	1.310	1.620	1.711	1.840	
ASW spread*	2Y	3Y	4Y	5Y	7Y	10Y		
bps.	Actual	-0.397	-0.485	-0.323	-0.233	0.031	0.232	
	-1M	-0.481	-0.595	-0.478	-0.357	-0.167	0.031	
	-3M	-0.522	-0.598	-0.528	-0.407	-0.168	0.034	
	-6M	-1.084	-0.827	-0.934	-0.833	-0.649	-0.174	
CZGB**	2Y	3Y	4Y	5Y	7Y	10Y		
%	Actual	1.053	1.142	1.416	1.577	1.926	2.214	
	-1M	0.909	0.987	1.228	1.433	1.709	1.986	
	-3M	0.768	0.872	1.085	1.293	1.622	1.931	
	-6M	0.226	0.623	0.615	0.787	1.062	1.666	
FX	EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD		
	Actual	25.796	4.322	324.81	4.662	5.453	1.165	
	-1M	25.786	4.303	318.43	4.627	5.355	1.170	
	-3M	25.427	4.228	312.89	4.663	4.915	1.235	
	-6M	25.754	4.192	311.74	4.639	4.521	1.186	

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

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