

July 01 | 2019

Weekly | 2018 | Week 26

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

| CALENDAR

DAY	DATE	TIME (CET)*	MARKET	RELEASE	CONSENSUS**
Monday	1-Jul-19	9:30	CZ	Manufacturing PMI, June'19	46.9
	1-Jul-19	11:00	EMU	(Final) Manufacturing PMI, June'19	47.8
	1-Jul-19	14:00	CZ	Budget Balance, 1H19, CZK bn.	N/A
Tuesday	2-Jul-19	8:00	GE	Retail Sales, May'19, y/y	2.7%
Wednesday	3-Jul-19	10:00	EMU	(Final) Services PMI, June'19	53.4
Thursday	4-Jul-19	11:00	EMU	Retail Sales, May'19, y/y	1.6%
Friday	5-Jul-19	8:00	GER	Industrial orders, May'19, y/y	-6.3%
	5-Jul-19	9:00	SPA	Industrial production, May'19, y/y	0.6%

* LOCAL TIME IS CET

** (REUTERS/ BLOOMBERG) POLL

| JULY 2019 AUCTIONS

NAME	DATE OF AUCTION	DATE OF ISSUE	MATURES ON	AMOUNT OFFERED*	COUPON
CZGB 2015-2027**	10-Jul-19	12-Jul-19	10-Feb-27	CZK 3 bn. max	0.25%
CZGB 2017-2033**	10-Jul-19	12-Jul-19	13-Oct-33	CZK 4 bn. max	2.00%
CZEUGB 2019-2021**	17-Jul-19	19-Jul-19	20-Aug-21	EUR 165 mn. Max	0.00%
CZGB 2017-2033**	24-Jul-19	26-Jul-19	13-Oct-33	CZK 4 bn. max	2.00%
CZGB 2007-2057**	24-Jul-19	26-Jul-19	26-Nov-57	CZK 1 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

"FACEBOOK CRYPTO-CURRENCY. I AM TOO OLD FOR THIS S***T".

WEEK AHEAD

Some soft indicators, some hard data.

In Eurozone, the most important releases are Eurozone aggregate retail sales', German industrial orders and Spanish industrial production, all for May. Not that any of them will shock anyone: retail sales growth will be reported to have remained moribund midway through 2Q as Spanish sales indicated last week ►, industrial data will be reported to have been outright weak as PMI/IFO has shown in last months.

In the Czech Republic, May'19 manufacturing PMI is the only thing worth looking at. Since it certainly remained below 50, the only question is whether it worsened or improved against April. I am leaning slightly towards the latter.

WEEK BEHIND

■ CNB meeting interesting only in what hasn't happened ▶

■ Czech business confidence lowest since Sep'15 ▶

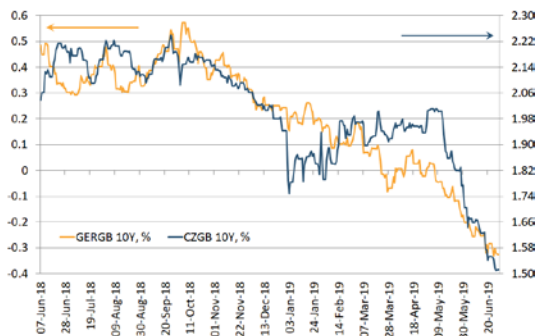
■ German IFO lowest since November 2014 ▶

■ Eurozone core inflation still stuck around 1% ▶

CZK AT ITS STRONGEST AGAINST EUR THIS YEAR



CZECH 10YS YIELDS DECLINED TO LOWEST SINCE OCTOBER 2017



| FX

EURCZK fell to lowest since September of last year,...

...after *relatively* hawkish meeting (relative to recent FED/ECB meetings) of CNB.

| FI

German 10Y bond yields at new all-time low...

...of -33 bps. And 100 year Austrian bund trading at little over 1% ↗. I am really too old for this....

CZECH ECONOMY

CNB meeting was only interesting in what *hasn't* transpired.

See, the result was clear (no change) as was the fact that someone will want higher rates (Vojtech Benda made that much clear ↗ before the meeting). No surprises there.

In the statement, CNB said that risks to the latest forecast are balanced, with main risks being CZK, possibility of trade war and deeper/longer slowdown in Eurozone growth. CNB also said that since last forecast (issued in early May) the incoming data had been close to what was expected - hence no need to act.

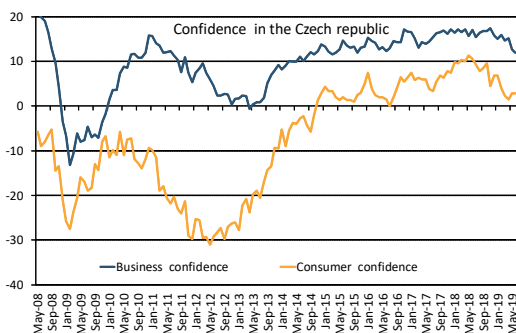
So, what *hasn't* happened is more important. And that is that CNB didn't succumb to the dovishness that recently so suddenly hit ECB and FED. During the press conference, CNB said that while it'd expected ECB to climb back from the hawkish hill (and that, thus, the recent turnaround of Frankfurt wasn't surprising), it was perplexed by recent US central bank's dovishness. As I am because in the US, hard data show no reason to contemplate cut and certainly not 50 bps. one as markets now priced in and as FOMC boss Powell didn't exclude. Core PCE inflation is below target, true, but it has been below 2% pretty much in all months since FED began hiking in December 2015.

Asked what further potential fall of ECB interest rates would mean for CNB, CNB stuck to interest-rate differential story: "...in the short term, the koruna might not be affected. If the wider interest rate differential were to persist for a long time, it would probably be a source, a stronger source, of potential medium-term appreciation of the koruna." Maybe they should look at Polish interest rate differential in last ten years vs. EURPLN before they bet too much on interest rate differential story.

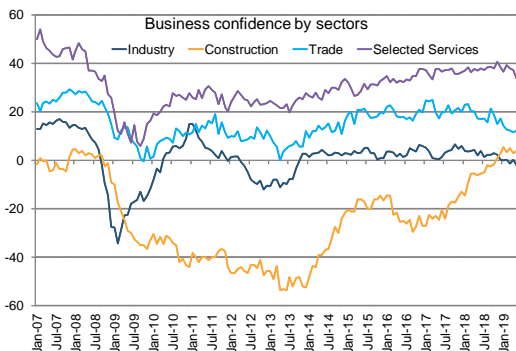
Business confidence fell to lowest since October 2015.

This was caused by the decline in all components except for the construction. Confidence in industry

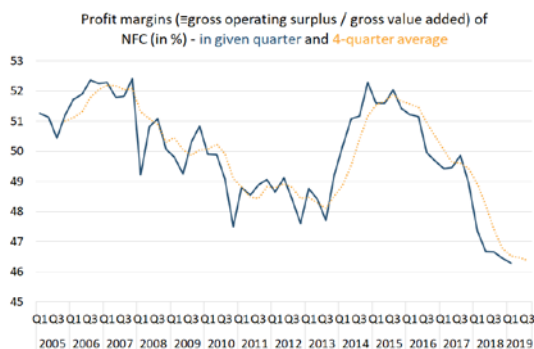
CZECH BUSINESS CONFIDENCE DROPS FURTHER,...



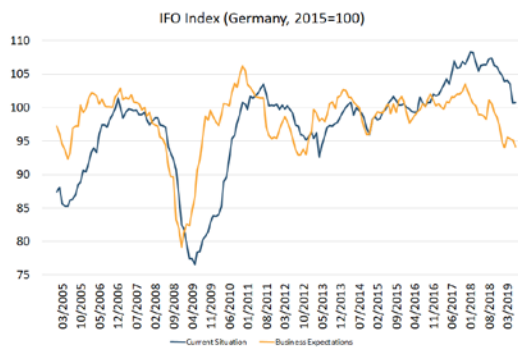
...AS ALL COMPONENTS EXCEPT FOR CONSTRUCTION WORSEN.



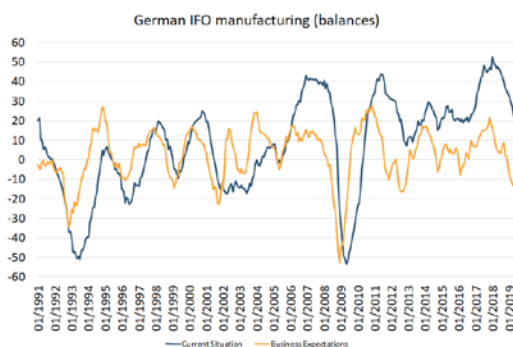
PROFITABILITY OF CZECH FIRMS AT NEW LOW IN 1Q19



GERMAN IFO LOWEST IN 4 ½ YEARS...



...DUE TO PESSIMISM IN MANUFACTURING...



declined further to lowest (-3 pts.) since September 2013, confidence in trade to lowest since November 2014. In services, the businesses are at their most pessimistic since August 2016. This is essentially reflection of pessimism abroad – but one which hard data (industrial production or retail sales) do not confirm.

Households, being less sensitive to the pessimistic economic chatter than companies, remained cool: their confidence, although also lowest since September 2016, is still well above long-term average (let alone above post-crisis average).

Profitability of Czech non-financial corporations fell to a new low in 1Q19,...

...reflecting weaker industry and continuing growth of wages. This was the only new information from the final 1Q19 growth data released last week. The q/q growth rate remained the same (0.6% q/q) as in previous two releases, y/y growth rate was revised up by 0.2 pp to 2.8%.

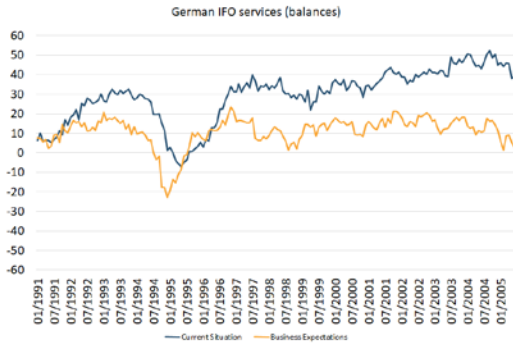
Household savings rate declined somewhat against previous quarter, but remained well above 10%, which is about where I'd normally want to see it and where the long-term average is.

EUROZONE ECONOMY

German IFO index fell further in June, hitting lowest since November 2014.

The decline was marginal (0.5 pts. to 97.4) but clear, and was driven by more pessimistic expectations. These worsened in both manufacturing and services (and also for construction, although from very high levels). Interestingly, in trade both current assessment and expectations improved, albeit only marginally so. Put together with PMI, this is another indicator that German growth isn't going back to 2017-1H2018 rates anytime soon. As said at the end of May (see page 3 here ↗), German growth can surprise on the upside in 2Q-3Q19 because of inventories (which fell in 4Q18/1Q19 and thus may need to be

...AND SERVICES.

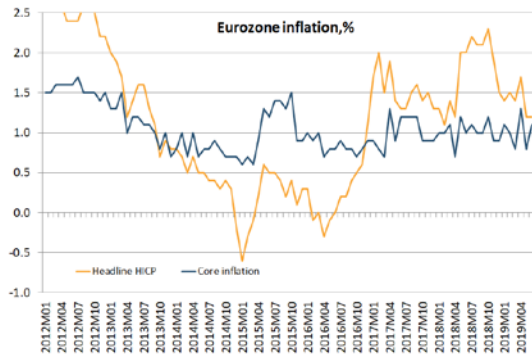


rebuilt), but this, if it indeed happens, will be only transitory; the underlying weakness, as evidenced by PMI/IFO, persists.

Eurozone core inflation remained stuck around 1% in June.

Recall that June 2019 was the last month Draghi said in December 2018 was guaranteed to have rates unchanged. By now, the inflation was supposed to be firmly on its climb towards sustainability around 2%. Well, preliminary data showed core inflation at 1.1% in June and the headline inflation at 1.2%. In other words, both are miles away from approx. 2% target of ECB.

CORE INFLATION STILL STUCK TO 1%...



And it doesn't look this will change soon, even though Spanish retail sales did quicken somewhat in recent 6 months. With meagre 2.4% annual growth rate it is unlikely that we shall see higher demand inflation in Eurozone inflation soon. Don't believe me? Look at US. Or Germany.

...AND THIS IS UNLIKELY TO CHANGE, SEEING HOW WEAK RETAIL SALES IN EUROZONE ARE.



July 01 | 2019

MARKETS ‡

MM / IRS		3M PRIBOR	6M PRIBOR	2Y	5Y	7Y	10Y	
%	Actual	2.170	2.220	1.960	1.670	1.605	1.598	
	-1M	2.190	2.240	2.043	1.830	1.763	1.758	
	-3M	2.020	2.060	2.012	1.813	1.753	1.778	
	-6M	2.020	2.070	2.040	1.833	1.778	1.775	
ASW spread*		2Y	3Y	4Y	5Y	7Y	10Y	
bps.	Actual	-0.389	-0.344	-0.193	-0.251	-0.119	-0.086	
	-1M	-0.301	-0.329	-0.293	-0.182	-0.017	0.014	
	-3M	-0.196	-0.207	-0.154	-0.025	0.078	0.141	
	-6M	-0.542	-0.384	-0.240	-0.071	0.117	0.168	
CZGB**		2Y	3Y	4Y	5Y	7Y	10Y	
%	Actual	1.571	1.471	1.532	1.419	1.486	1.512	
	-1M	1.742	1.634	1.597	1.648	1.745	1.771	
	-3M	1.816	1.728	1.711	1.788	1.830	1.918	
	-6M	1.498	1.571	1.655	1.762	1.894	1.943	
FX		EURCZK	EURPLN	EURHUF	EURRON	EURTRY	EURUSD	
	Actual	25.434	4.244	323.11	4.729	6.592	1.137	
	-1M	25.853	4.293	325.83	4.760	6.695	1.113	
	-3M	25.820	4.305	321.18	4.774	6.260	1.122	
	-6M	25.743	4.301	321.51	4.662	6.040	1.144	

‡ 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 ↗

July 01 | 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.