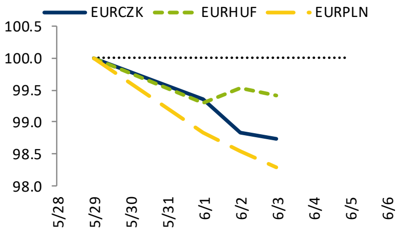
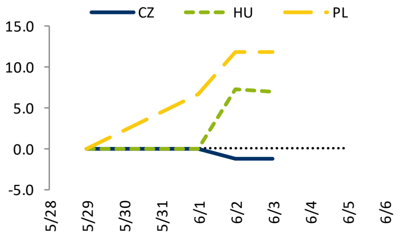
Wednesday, 03 June 2020

Forex markets (index)



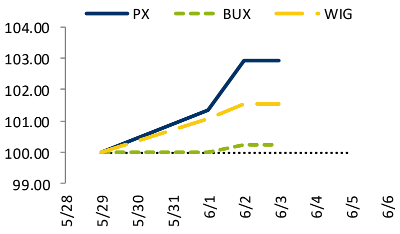
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.57	26.59	-0.10
EURHUF	345.2	345.6	-0.12
EURPLN	4.377	4.389	-0.27

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.685	0.685	0.0
HUGB 10Y	1.96	1.97	-0.1
PLGB 10Y	1.28	1.28	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	921.8	921.8	0.00
BUX	35967	35967	0.00
WIG	48879	48879	0.00

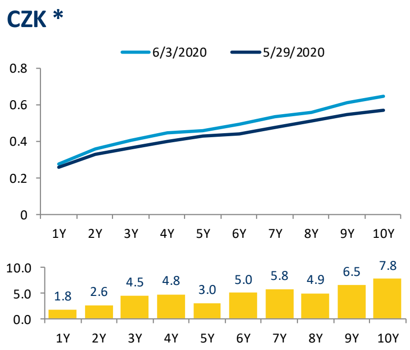
Our regional insights:

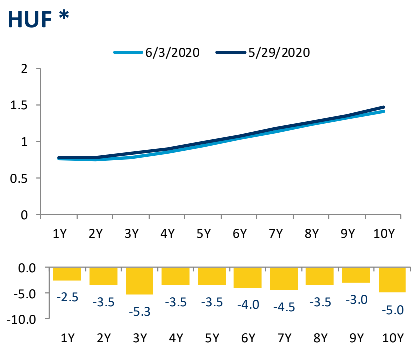
Czech data not rosy yet, but koruna gains strongly

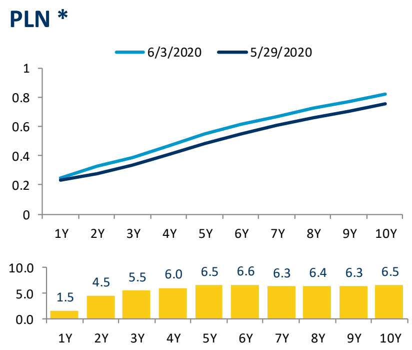
Although the performance of Czech assets, with the Czech koruna and the government bonds at the head, have recently been in an excellent shape, the data from the Czech economy are not very convincing as yet. This applies to Czech manufacturing PMI (released on Monday) and to the results of the Czech state budget. Because the Czech public finance deficit climbed from 94 billion Czech korunas recorded at the end of April to a record 157.4 billion Czech korunas over the following month. We can assume that the fiscal slump in May was caused in particular by the steps taken by the government to fight the corona crisis, which was reflected in the developments of both revenue and expenditure. The revenue side shows the consequences from the closure of stores (a lower VAT collection) as well as deferred income tax advances. A part of this loss will be made up for after the deadline set by the Ministry of Finance expires. However, the lower employment rate together with a considerably slower wage growth will also be reflected in the income from social insurance, which represents the largest revenue item in the Czech state budget. Even more dramatic than on the revenue side were the shifts recorded on the expenditure side, which increased by 94 billion year-on-year. Here, the influence of the government expenditure programmes – so-called the “25” programme or the starting ‘Kurzarbeit’ (7.9 billion for now), parental allowances, sickness benefits or increased government purchases of medical supplies – can be clearly seen. Nor can we forget the valorised old-age pensions, requiring an increase in expenditure by nearly 14 billion, and higher wage costs in the education sector.

Further rapid growth of the Czech state budget deficit can be expected in the coming months, whether due to the continuation of the support measures to promote the economy or the liquidity of the business sector or due to the recession reducing tax collection. For the time being, the Czech government is counting a deficit of 300 billion Czech korunas, but given the depth of the economic downturn and a further possible extension of incentive measures, this figure can be considered rather optimistic and, of course, very uncertain, as are any other estimates at the moment. All will depend on the restart of the economy and its subsequent speed, which will depend not only on the domestic but in particular foreign consumer demand. That, among other things, is why it will be essential to monitor actions of the German government that will be dealing with further support to the local economy, including ‘Abwrackprämie’ or the German version of cash-for-clunkers scrappage program. During the financial crisis in 2009, the German scrappage incentives did the trick as significant support to the Czech automotive industry. This positive scenario may also possibly repeat itself in this crisis. The bet on the fiscal stimuli in Germany may also be one of the reasons why the koruna, which is significantly dependent on the performances of Czech exports, has been doing so well recently.

Interest-rate Swap Curves







* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points (against previous Friday).

Calendar

Country	Date	Time	Indicator		Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	06/04	9:00	Real wages	%	1Q/2020		-2.0				1.9		3.6
HU	06/04	9:00	Retail sales	%	04/01/2020						-13.3		3.5
CZ	06/05	9:00	Retail sales	%	04/01/2020		-24.0				-29.9		-15.5
HU	06/05	9:00	Industrial output	%	04/01/2020						-24.3	-10.4	-10

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