Fixed Income

CZGB Auction Alert

MinFin expects a similar deficit next year

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Issuance activity: MinFin is scheduled to auction CZK5bn in a two-year bond, CZK5bn in a seven-year bond and CZK4.0bn in an 11-year bond tomorrow. The 2y bond will be introduced for the first time to meet historically record-breaking demand for short-term bonds. Due to the limits of current issues and high financing needs this year, MinFin will introduce its fourth issue this year, and we believe others will follow. The 7y bond will be reopened for the fourth time this year with historically high demand. On the other hand, the issuance limit is reached, thus this may be the last auction. The 11y bond is one of the newly introduced issues, and it is likely MinFin will try to sell most of this bond. Year-to-date, according to our calculations, **MinFin has secured almost 76% of the CZK410.3bn needed this year**, assuming a deficit of CZK200bn. It is clear MinFin wants to take advantage of the current high demand and favourable market conditions to secure reserves to finance a record-high state budget deficit. Moreover, MinFin expects next year's state budget deficit to be similar to this year. Thus, financing needs will be high even next year. For the time being, the maturity calendar sees more than CZK200bn, which is already 10% yoy more.

Bonds offered in the April 15 auction

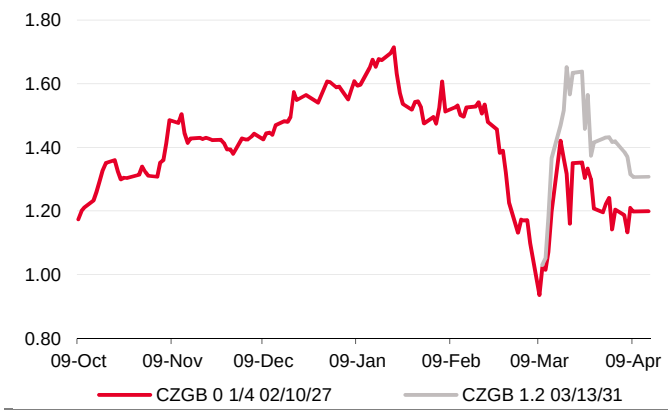
ISIN	Coupon	Maturity	Indicated volume	Mod. duration	Indicative price, KB IB
CZ0001005946	0.10%	17.04.2022	max CZK5.0bn		98.00 – 98.50
CZ0001005037	0.25%	10.02.2027	max CZK5.0bn	6.7	92.50 – 94.00
CZ0001005888	1.20%	13.03.2031	max CZK4.0bn	10.1	96.75 – 98.25

Source: Finance Ministry, Economic & Strategy Research, Komerční banka

Market situation: Over the past week, the IRS curve has shifted slightly higher and the whole curve remains at the steepest level since the end of 2018 with a depressed short end by an aggressive pricing of rate cuts. **However, the yield curve follows this movement, resulting in slight ASW tightening**.

Rates outlook: The CNB cut its key repo rate by a further 75bp at last monetary policy meeting. A poorer growth outlook for the Czech economy due to COVID-19 remains the main reason for the loose monetary policy. **We forecast another rate cut of 50bp in the event of more severe economic impacts**, almost in line with market expectations (see https://bit.ly/2Rohzvk).

Yields of the bonds on tap



Source: Bloomberg, Economic & Strategy Research, Komerční banka

ASW of the bonds on tap



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Macroeconomic forecast overview

	2Q20	3Q20	4Q20	1Q21	2019	2020	2021	2022	2023
GDP (%, yoy)	-11.0	-8.0	-0.7	8.9	2.5	-6.5	9.7	2.6	3.1
Inflation (%, yoy)	3.9	3.6	1.9	1.1	2.8	3.4	1.4	2.0	2.1
Fiscal balance (% GDP)					0.3	-4.0	-1.8	-1.0	-0.5
Public debt (% GDP)					31.3	36.1	34.2	33.9	32.5
EUR/CZK	26.8	26.6	26.5	26.4	25.7	26.4	25.8	24.6	24.0
USD/CZK	23.9	23.3	22.8	22.4	22.9	23.4	21.3	19.4	18.2
3M PRIBOR	0.70	0.70	0.70	0.70	2.12	0.83	1.10	1.40	2.40
10Y CZGB Yield	1.55	1.55	1.70	1.75	1.65	1.70	2.55	3.40	3.40

Source: Economic & Strategy Research, Komerční banka, as of 7/4/2020

Sovereign ratings overview

	Local currency	Outlook	Foreign currency	Outlook	Next rating review
S&P	AA	STABLE	AA-	STABLE	01.05.2020
Moody's	Aa3	STABLE	Aa3	STABLE	07.08.2020
Fitch	AA-	STABLE	AA-	STABLE	24.07.2020

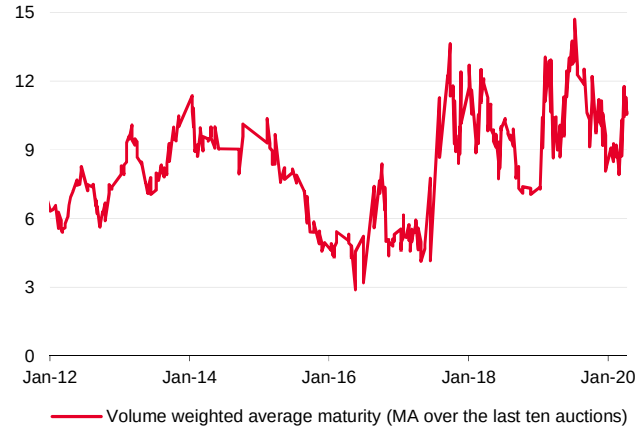
Source: Bloomberg, Economic & Strategy Research, Komerční banka

Issuance calendar for April 2020

Date	ISIN	Coupon	Maturity	Indicated volume
22.04.2020	CZ0001004600	0.45%	25.10.2023	max CZK4.0bn
22.04.2020	CZ0001005870	1.25%	14.02.2025	max CZK4.0bn
22.04.2020	CZ0001005920	x.xx%	24.04.2040	max CZK2.0bn

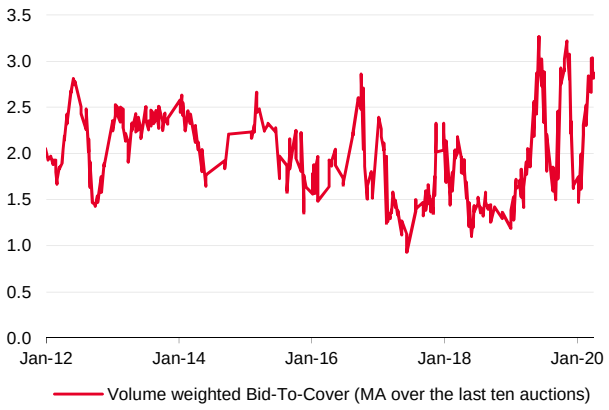
Source: Finance Ministry, Economic & Strategy Research, Komerční banka

MinFin extends maturity of newly issued bonds (years)



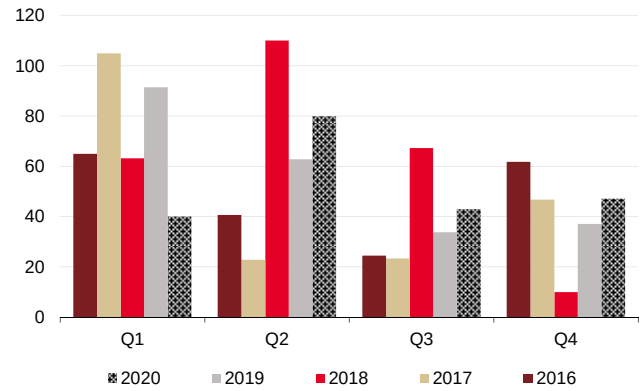
Source: Bloomberg, Economic & Strategy Research, Komerční banka

Demand remains strong



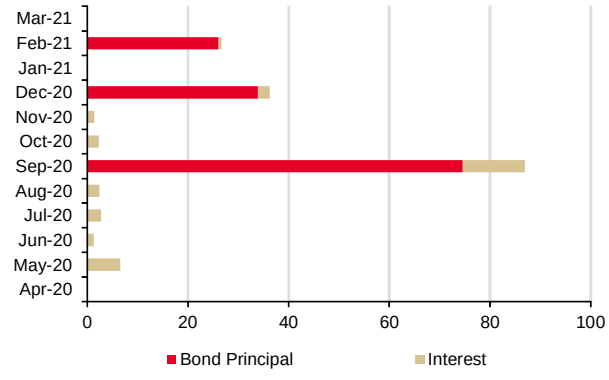
Source: Bloomberg, Economic & Strategy Research, Komerční banka

Quarterly CZGB issuance on primary market (CZKbn)



Source: Finance Ministry, Economic & Strategy Research, 2020 is KB forecast

Maturity of bonds and interest in the next 12 months (CZKbn)



Source: Bloomberg, Economic & Strategy Research, Komerční banka

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