

Euro wrap-up

Overview

- Bunds again followed Treasuries marginally lower while the euro area trade surplus unexpectedly increased at the end of 2016.
- Gilts made modest gains as the latest UK labour earnings data disappointed.
- Tomorrow brings the account of the ECB's January Governing Council meeting, as well euro area new car registration numbers for January.

Emily Nicol

+44 20 7597 8331

Mantas Vanagas

+44 20 7597 8318

Daily bond market movements

Bond	Yield	Change*
BKO 0 12/18	-0.789	+0.005
OBL 0 04/22	-0.414	+0.005
DBR 0¼ 02/27	0.379	+0.013
UKT 1¼ 07/18	0.107	-0.009
UKT 3¼ 09/21	0.497	-0.013
UKT 1½ 07/26	1.307	-0.003

*Change from close as at 4.30pm GMT.

Source: Bloomberg

Euro area

Euro area trade surplus increases at year-end

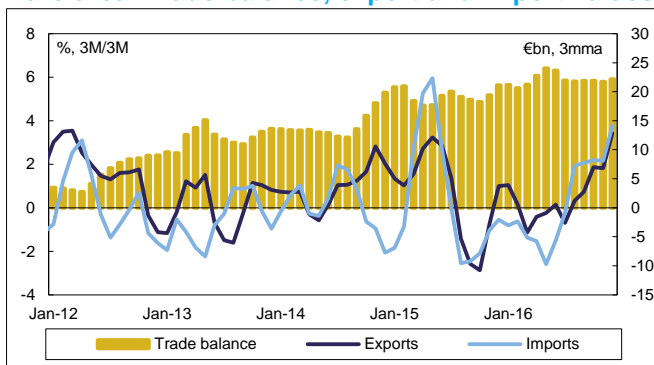
While the first estimates of German and Italian Q4 GDP yesterday signalled that net trade was a drag on growth in the final quarter of last year in those member states, today's euro area goods trade report for December suggested that net trade made a broadly neutral contribution to aggregate euro area growth. Indeed, the monthly figures came in ahead of expectations, with the trade surplus rising by more than €2½bn to €24.5bn, marginally higher than the average for the year as a whole. In particular, the value of exports rose for the second successive month and by almost 3%M/M, the second-strongest such increase since September 2014, to leave it up 6% compared with a year earlier. This principally reflected a surge in French exports at the end of last year to Asia and the Middle East, with Airbus broadly doubling its shipments in December. And so the value of euro area exports in Q4 was up almost 3½%Q/Q, the strongest quarterly pace since Q112. However, the value of imports rose for the third consecutive month, and by almost 2%M/M, and was on average in Q4 3.8% higher than in Q3. To some extent, that pickup in imports over recent months reflects price shifts, with prices of imported industrial goods rising for the third consecutive month in December and at the fastest monthly pace since early 2015. And we will have to wait until the publication of the Q4 euro area national accounts on 7 March for confirmation of the precise contribution from net trade to GDP growth at the end of 2016.

The coming two days in the euro area and US

Tomorrow might yield further information on the monetary policy debate at the ECB with the publication of the account of the Governing Council's January meeting. However, with the post-meeting statement and press conference having been prosaic, the account might prove similarly un-illuminating. Thursday will also bring euro area new car registrations data for January, followed on Friday by euro area balance of payments and construction output data for December. Supply-wise, France and Spain will sell a range of bonds on Thursday.

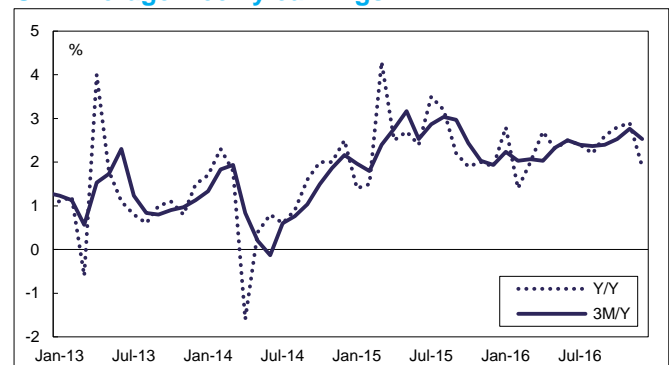
In the US, aside from the usual weekly jobless claims figures tomorrow will bring January housing starts data and February's Philly Fed index. The Fed's Dudley will also speak in New York, while the Treasury will sell 30Y TIPS. Friday, meanwhile, will be a relatively quiet day with just the Conference Board's leading index for January.

Euro area: Trade balance, export and import values



Source: Thomson Reuters, Eurostat and Daiwa Capital Markets Europe Ltd.

UK: Average weekly earnings



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



UK

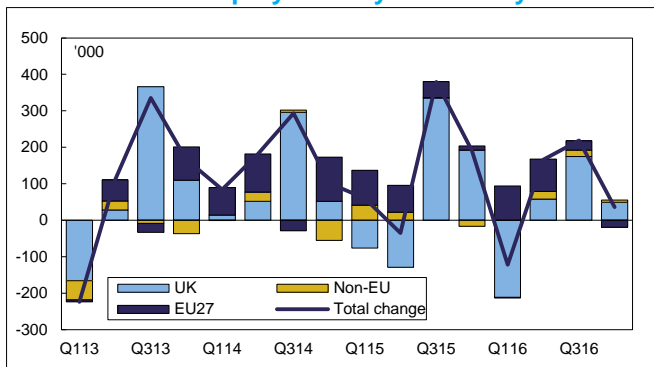
Despite higher inflation, pay growth slows

With the economy seemingly moving towards full employment ahead of the EU referendum, perhaps inevitably the UK labour market has subsequently lost some momentum. Indeed, three-month employment growth fell from rates above 170k last summer to -9k3M/3M in November. And although the tone of the latest jobs data might have been marginally more positive, the employment gain of 37k3M/3M in December was only around half the average pace in 2016. Interestingly, higher employment was driven almost entirely by UK citizens, while employment of EU nationals fell for the first time in more than two years – perhaps a sign of what to expect once the formal Brexit negotiations commence. Meanwhile, the headline three-month unemployment rate held steady at 4.8% for the fourth successive month, but a significant decline of 42k in the claimant count level suggested that we might see the headline jobless rate inch further down this quarter. And most encouragingly perhaps, total hours worked continued rising in Q4 and output per hour worked was up again too, this time by 0.3%Q/Q, having increased by 0.4%-0.5%Q/Q in the previous three quarters. So, compared to a year ago, the level of productivity was 1.6%Y/Y higher, representing the joint highest pace in six and a half years. But higher productivity does not appear to be benefiting workers, with the latest wage figures certainly on the soft side. Indeed, the headline rate of wage growth fell 0.2ppt to 2.6%3M/Y. And the one-month rate fell from 2.9%Y/Y to 1.9%Y/Y, the first sub-2% reading in ten months, to leave real wage growth at just 0.3%Y/Y, the weakest since August 2014. It remains to be seen how pay growth will evolve over coming months and quarters. But today's figures might suggest that, against the backdrop of sharp increases in other input costs and Brexit-related uncertainty, employees' ability to negotiate higher wages might be minimal, despite a degree of labour market tightness and rapidly accelerating inflation. Indeed, we expect real wage growth to turn negative, which will weigh notably on consumption and GDP growth.

The coming two days the UK

It should be a quieter day on the economics front tomorrow, with no new UK data releases due. Meanwhile, Friday will bring retail sales figures for January. The latest retail sector surveys were weaker, and, therefore, the annual rate of sales growth is set to have moderated at the start of the year from 4.3%Y/Y in December.

UK: Growth in employment by nationality



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Output per hour











Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 17 February 2017.

European calendar

Today's results





Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
EMU	 Trade balance €bn	Dec	24.5	22.0	22.7	22.2
Spain	 Final EU-harmonised CPI Y/Y%	Jan	2.9	3.0	1.4	-
UK	 Average earnings incl. bonuses (excl. bonuses) 3M/Y%	Dec	2.6 (2.6)	<u>2.8 (2.7)</u>	2.8 (2.7)	-
	 ILO unemployment rate 3M%	Dec	4.8	<u>4.8</u>	4.8	-
	 Employment change 3M/3M '000s	Dec	37	<u>30</u>	-9	-
	 Claimant count rate % (change 000s)	Jan	2.1 (-42.4)	2.3 (0.5)	2.3 (-10.1)	- (-20.5)
Country	Auction					
UK sold	 £1.25bn of 0.125% 2026 index-linked bonds (22-Mar-2026) at an average yield of -1.874%					
	 BoE APF operation purchased £775mn of 7-15Y Gilts (4.49 cover ratio)					


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	GMT	Release	Period	Market consensus/ Daiwa forecast	Previous
EMU	07:00	 EU27 new car registrations	Jan	-	3.0
France	06:30	 Unemployment rate %	Q4	9.8	10.0
Italy	09:00	 Trade balance total €bn	Dec	-	4.2
UK	15:00	 BoE corporate bond purchases £bn	Weekly	-	6.1






Auctions and events

Country	GMT	Auction / Event
EMU	12:30	 ECB publishes account of the monetary policy meeting held on 19 January
	14:00	 ECB's Coeuré scheduled to speak in Maastricht, Netherlands
France	09:50	 Auction: To sell 0% 2020 bonds (25-Feb-2020)
	09:50	 Auction: To sell 0% 2022 bonds (25-Mar-2022)
	10:50	 Auction: To sell up to €2.5bn of 0.1% 2028 index-linked bonds (01-Mar-2028)
Spain	09:30	 Auction: To sell 0.4% 2022 bonds (30-Apr-2022)
	09:30	 Auction: To sell 5.15% 2028 bonds (31-Oct-2028)
	09:30	 Auction: To sell 1.5% 2027 bonds (30-Apr-2027)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's data releases

Economic data

Country	GMT	Release	Period	Market consensus/ Daiwa forecast	Previous
EMU	09:00	 Current account balance €bn	Dec	-	36.1
	10:00	 Construction output M/M% (Y/Y%)	Dec	-	0.4 (0.0)
Italy	09:30	 Current account balance €bn	Dec	-	4.6
UK	09:30	 Retail sales excluding petrol M/M% (Y/Y%)	Jan	0.7 (3.9)	-2.0 (4.9)
	09:30	 Retail sales including petrol M/M% (Y/Y%)	Jan	1.0 (3.4)	-1.9 (4.3)

Auctions and events

Country	GMT	Auction / Event
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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