Daiwa Capital Markets

Euro wrap-up

Overview

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- Bunds made modest losses but BTPs made gains as Italian PM Conte resigned in a tactical move aimed at strengthening his position.
- Gilts were little changed even as the latest data suggested that the UK labour market fared better than had been feared at the end of 2020.
- Wednesday will bring the results of the latest consumer confidence surveys from Germany and France.

Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.731	+0.004
OBL 0 10/25	-0.737	+0.012
DBR 0 08/30	-0.536	+0.016
UKT 1¾ 09/22	-0.147	-
UKT 0⅝ 06/25	-0.063	+0.003
UKT 4¾ 12/30	0.267	+0.008

*Change from close as at 4:30pm GMT.
Source: Bloomberg

Euro area

BTPs unperturbed as Conte resignation expected to be precursor to new government

With no top-tier economic data published in the euro area today, there was little local news to distract attention from Italy's political soap opera as PM Giuseppe Conte submitted his resignation to President Mattarella after 2½ years at the head of two successive coalition governments. While he survived his parliamentary confidence votes early last week, he had not been able to pin down a new stable governing majority in light of the decision of former PM Renzi to withdraw the support of his Italia Viva party, which has held the balance of power in the Senate with its 18 seats. But following consultations with party leaders, Mattarella will likely give Conte additional time to try to form a new coalition, not least as the departing PM will be able to count on the continued support of the Five Star Movement and Democratic Party in his efforts to do so. If he fails to form a new coalition, Mattarella would be expected to invite someone else – probably a neutral technocrat – to try to form a new National Unity government. So, for the time being, we maintain our expectation that early elections are unlikely. And BTP investors share that view, pushing yields lower across the curve today.

The day ahead in the euro area

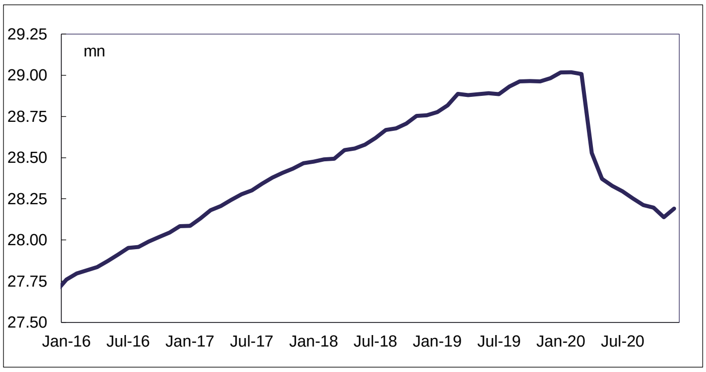
The quiet tone to the euro area dataflow continues tomorrow with the latest German and French consumer confidence survey results most notable. As for the European Commission's January flash estimate of euro area consumer confidence released last week, rising coronavirus cases and ongoing pandemic containment measures seem highly likely to be reflected in a deterioration in the headline sentiment indices in each of the two largest member states. French job-seeker data for Q4 will also be published, while ECB board members Lane and Villeroy will speak at separate events. And reports suggest that a new French lockdown might be announced.

UK

UK payrolls edged up in December as Covid containment measures were briefly relaxed

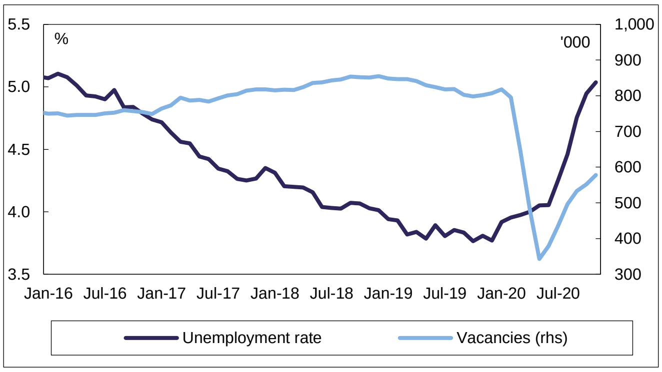
As Covid-19 containment measures were repeatedly adjusted ahead of the festive season, the UK's labour market inevitably remained in a state of flux. However, with the reopening of non-essential retail nationwide for much of the month, and the government's Job Retention Scheme extended to the end of April, the number of payrolls rose in December for the first time since the start of the pandemic, increasing by 52k from November. Nevertheless, that still left the number of pay-rolled employees falling 2.7%Y/Y (793k below the level in December 2019) and down 828k from last February's pre-Covid-19 level.

UK: Payroll employment



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Unemployment rate and vacancies



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

And the claimant count rate, which includes those working on low incomes or hours as well as those who are not working at all, edged up 7k in December to 2.644mn, with the equivalent rate up 0.1ppt to 7.4%. Moreover, the rebound in vacancies slowed towards year-end to about 578k in the three months to December, up 81k (roughly half the rate) from the prior quarter and still 224k below the level a year ago. The ONS also reported that their single-month figures showed a decline of about 10% from October to December.

Redundancy rate at new high but average pay leaps on composition effect

Among the less timely data, the redundancy rate rose to a new record high of 14.2 per thousand in the three months to November. And the UK's unemployment rate rose 0.1ppt to 5.0% in the same period, up 1.2ppt from a year earlier and 0.6ppt from the previous quarter. That is the highest level since March 2016. However, it also masks the full severity of the labour market shake-out over the past year, which appears to have disproportionately hit foreign-born workers, many of whom (at least 600k, perhaps more) have left the UK and hence fallen out of the arithmetic. Nevertheless, with lower-paid workers more likely to have lost their jobs, growth in average total pay (including or excluding bonuses) in the three months to November jumped 3.6%3M/Y in nominal terms to be up 2.8%3M/Y in real terms. There remained significant variation between sectors, with average pay in the finance and business services sector up 5.4%3M/Y but falling 1.1%3M/Y in construction.

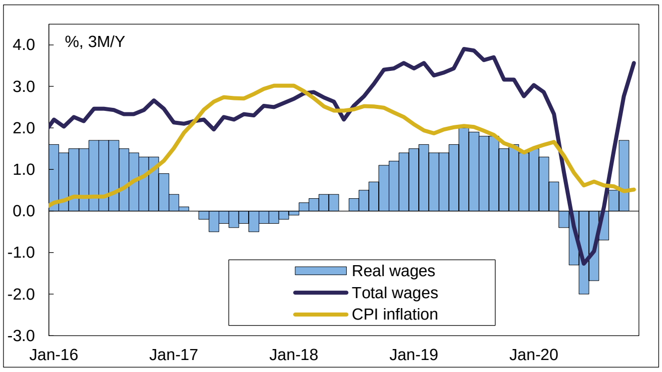
A bad start to the year for retailers

The re-imposition of tighter lockdown measures this month, including the nationwide closure of non-essential stores, has unsurprisingly hit economic activity from the start of 2021. Indeed, today's CBI distributive trades survey suggested that total sales volumes (a net balance of -50%) as well as sales for the time of year (a net balance of -45%) were the worst since the initial lockdown in May. Most sub-sectors reported steep declines in sales, although grocers and furniture retailers – which have had a relatively successful pandemic – reported flat sales. And online sales eased slightly to close to the long-run average. The survey balances for orders placed with suppliers (-45%) were similarly the weakest since May 2020 as expectations for sales in February were similarly weak. Nevertheless, with the Job Retention Scheme to be in place until the end of April, surveys point to only modest job losses over the near term. Nevertheless, the new policies to support employment to be unveiled in the government's Budget in early March are unlikely to be as generous for business as the current schemes. And so, we expect the unemployment rate to take another step up in the second quarter even as many restrictions on economic activity are likely then to be relaxed.

The day ahead in the UK

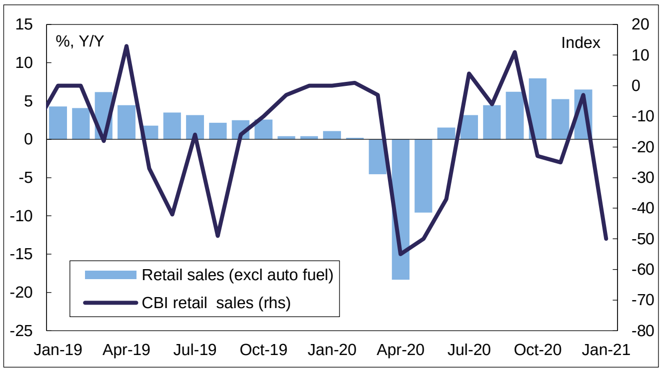
Tomorrow sees the publication of the BRC shop price index for January, which will indicate whether retailers – especially those hardest hit by the pandemic such as fashion outlets – are continuing to offer discounts in an attempt to entice shoppers.

UK: Average labour earnings and inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country		Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Spain		PPI Y/Y%	Dec	**-1.4**	-	-2.8	**-**
UK		Unemployment claimant count rate % (change '000s)	Dec	**7.4**	-	7.4 (64.3)	**7.3 (38.1)**
		Average earnings including bonuses (excluding bonuses) 3M/Y%	Nov	**3.6 (3.6)**	2.9 (3.2)	2.7 (2.8)	**- (2.8)**
		ILO unemployment rate %	Nov	**5.0**	5.1	4.9	**-**
		Employment change '000s, 3M/3M	Nov	**-88**	-104	-144	**-**
		CBI distributive trades survey, reported sales	Jan	**-44**	-25	-2	**-**

Auctions

Country		Auction
Italy		sold €1.0bn of 0.65% 2026 index-linked bonds at an average yield of -0.62%
		sold €3.0bn of 0% 2022 bonds at an average yield of -0.277%
UK		sold £2.5bn of 0.1625% 2035 index-linked bonds at an average yield of 0.614%
		sold £1.75bn of 0.625% 2050 index-linked bonds at an average yield of 0.837%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country		GMT	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Germany		07.00	GfK consumer confidence	Feb	-7.9	-7.3
France		07.45	INSEE consumer confidence	Jan	94	95
		11.00	Total jobseekers '000s	Q4	-	3673
UK		00.01	BRC shop price index Y/Y%	Jan	-	-1.8

Auctions and events

Country		GMT	Event
EMU		10.00	ECB's Villeroy scheduled to speak
		15.00	ECB's Lane scheduled to speak
Germany		10.30	Auction: €4bn of 0% 2031 bonds
UK		11.30	Auction: £1bn of 0.125% 2031 index-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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