

Euro wrap-up

Overview

- Bunds were little changed on a quiet day for euro area data releases.
- Gilts made gains despite a relatively positive UK labour market report.
- Tomorrow brings several releases of note from the euro area, including final inflation figures for July and the account from the ECB's July policy-setting meeting. In the UK, focus will be on July retail sales figures.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.617	-0.008
OBL 0 10/21	-0.503	-0.003
DBR 0 08/26	-0.005	-0.019
UKT 1¼ 07/18	0.153	-0.025
UKT 1½ 01/21	0.206	-0.017
UKT 2 09/25	0.565	-0.020

*Change from close as at 4.30pm BST.
 Source: Bloomberg

UK

Employment growth remained strong in Q2

Despite the increase in uncertainty, conditions in the UK labour market seemingly remained firm in the run-up to the referendum. Indeed, today's figures showed that employment growth in the three months to June exceeded expectations, rising by 172k, having increased by only 44k in Q1. Other headline figures were little changed – the three-month unemployment rate remained at 4.9%, the lowest level since 2005, while wage growth inched up 0.1ppt to 2.4%3M/Y. The more-up-to-date (but less reliable) claimant count data for July also surprised on the upside, with a drop in the number of people claiming unemployment benefits of 8.6k. However, consistent with survey data that have hinted at a probable weakening in labour market momentum ahead, a number of details of today's report were not particularly encouraging. For example, the one-month unemployment rate rose to 5.1% in June, having been below 5.0% in the previous two months, while the level of vacancies continued to fall, down by almost 1.0% in Q2. Total weekly hours worked, meanwhile, increased only 0.1%Q/Q. So, while today's data were on the whole better than expected, with economic surveys pointing to a meaningful fall in GDP in the near-term, labour market data look set to deteriorate from here.

The day ahead in the UK

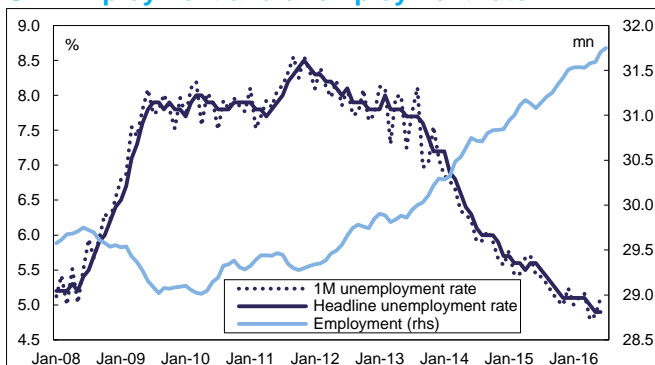
Retail sales figures for July – another full-month release of post-referendum hard economic data – are out tomorrow. Recent surveys have provided mixed results about the Brexit impact on High Street sales. Market consensus is for a small increase on the month, following a much steeper pace of decline in June. But even if sales fall by a few tenths, the annual pace of growth would remain at a relatively high level close to 4%Y/Y.

Euro area

The day ahead in the euro area and US

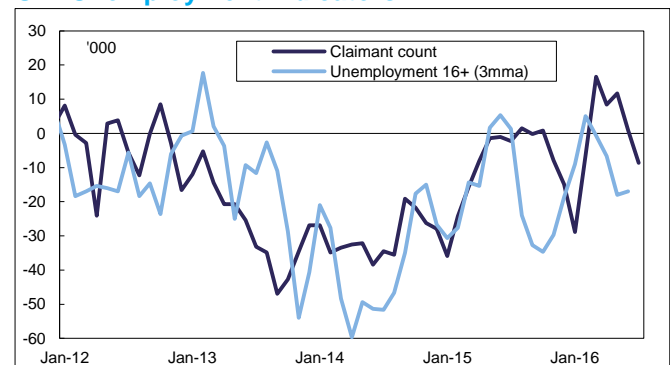
After a day bereft of releases, tomorrow should be busier for euro area data with the most noteworthy the final reading of CPI for July. While national releases last week showed that the German and French EU-harmonised CPI rate were unrevised from the flash estimates (up 0.3ppt to 0.4%Y/Y and up 0.1ppt to 0.4%Y/Y), there were downward revisions to the equivalent figures from Italy and Spain, by 0.1ppt from the preliminary readings to -0.2%Y/Y and -0.7%Y/Y respectively. And so, with the initial estimate of euro area CPI having risen by 0.1ppt to a low 0.2%Y/Y, there is a risk that the headline rate will be revised down to 0.1%Y/Y to leave it unchanged from June. Meanwhile, core CPI is expected to be unchanged at 0.9%Y/Y. Also of interest on

UK: Employment and unemployment rate



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Unemployment indicators*



*Monthly change.






Source: ONS, Thomson Reuters and Daiwa Capital Markets Europe Ltd











Thursday will be the ECB's account from its July Governing Council policy-setting meeting, which might well provide some insight into members' concerns about the ECB's ability to fulfil its €80bn a month asset purchase target against the backdrop of rapidly falling government bond yields. These will be analysed closely for the likelihood as to whether certain parameters of this programme – including the abolition of the issue limit applied to any particular bond and/or the yield floor on bond purchases; and the addition of other assets to the list of securities that the ECB is willing to buy – will be tweaked at its meeting next month. Finally, euro area balance of payments and construction output data for June are also due tomorrow.

In the US, tomorrow brings the Philly Fed sentiment index for August, the Conference Board's leading indicators for July and the usual weekly jobless claims figures. The Fed's Dudley and Williams are also due to speak tomorrow, while the Treasury will sell 5Y TIPS.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
UK	 Average earnings incl. bonuses (excl. bonuses) 3M/Y%	Jun	2.4 (2.3)	<u>2.4 (2.3)</u>	2.3 (2.2)	-	
	 ILO unemployment rate 3M%	Jun	4.9	<u>4.9</u>	4.9	-	
	 Employment change 3M/3M '000s	Jun	172	<u>135</u>	176	-	
	 Claimant count rate % (change 000s)	Jul	2.2 (-8.6)	2.2 (9.0)	2.2 (0.4)	- (0.9)	
Auctions							
Country	Auction						
UK sold	 £1.25bn of 4.25% 2055 bonds (7-Dec-2055) at an average yield of 1.214%						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases								
Economic data								
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous			
EMU	 09:00	Current account balance €bn	Jun	-	30.8			
	 10:00	Construction output M/M% (Y/Y%)	Jun	-	-0.5 (-0.8)			
	 10:00	Final CPI (core) Y/Y%	Jul	<u>0.2 (0.9)</u>	0.1 (0.9)			
France	 06:30	Unemployment rate %	Q2	10.1	10.2			
Italy	 09:30	Current account balance €bn	Jun	-	3.2			
UK	 09:30	Retail sales excluding petrol M/M% (Y/Y%)	Jul	0.3 (3.9)	-0.9 (3.9)			
	 09:30	Retail sales including petrol M/M% (Y/Y%)	Jul	0.1 (4.2)	-0.9 (4.3)			
Country	BST	Auction / Event						
EMU	 12:30	ECB publishes account of the monetary policy meeting held on 20-21 July						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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