

Euro wrap-up

Overview

- Bunds made modest gains as labour cost data suggested that euro area core inflation will remain weak for some time to come.
- Gilts also made modest gains on a quiet end to the week for UK economic news.
- The coming week brings the flash euro area PMIs and consumer confidence readings for September and UK public finance data.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.653	-0.010
OBL 0 10/21	-0.501	-0.018
DBR 0 08/26	0.004	-0.027
UKT 1¼ 07/18	0.139	-0.008
UKT 3¼ 09/21	0.284	-0.023
UKT 1½ 07/26	0.867	-0.026

*Change from close as at 4.00pm BST.
 Source: Bloomberg

Euro area

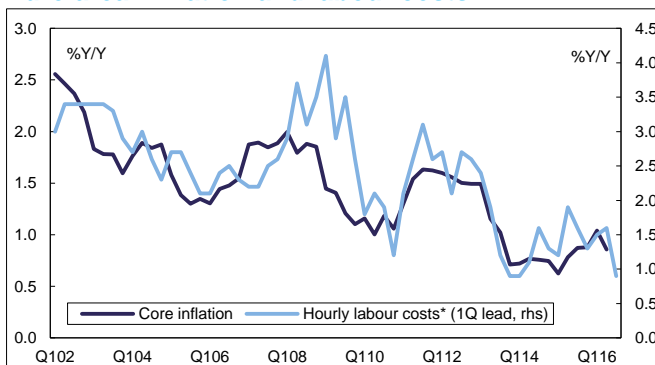
Inflationary pressures in the euro area remain muted

On an otherwise quiet day for new economic data, today's labour cost figures are likely to have represented a significant cause for concern for Draghi and his fellow monetary policy makers at the ECB. Headline growth in hourly labour costs declined in Q2 by 0.6ppt to 1.0Y/Y% to match the series low. And excluding the public sector, growth in labour costs was even lower, at 0.9%Y/Y, a rate matched in both the services and industrial sectors. Meanwhile, looking at the components, growth in wages was lower still, so it was only due to higher growth in non-wage costs, such as social contributions, that the headline figures were not even weaker. And the country breakdown was not any more encouraging, with labour cost growth showing little improvement in almost all of the major member states. Despite the country's tight jobs market, labour cost growth in Germany declined by 1ppt to 1.8%Y/Y, while France saw a 0.6ppt drop to 1.4%Y/Y. And the impact of the vast amount of spare capacity in the labour market in Southern Europe was also evident in today's release. For example, hourly labour costs in Spain rose by only 0.4%Y/Y, while costs continued to decline in Italy, down 1.1%Y/Y. Of course, these numbers tend to be volatile and somewhat stronger readings might be expected in coming quarters. Notwithstanding this caveat, the data should set the alarm bells ringing at the ECB. If labour cost growth in the second half of the year remains similar to Q2, the ECB forecast for core inflation next year, currently 1.5%Y/Y, will need to be reconsidered.

The week ahead in the euro area and US

It should be a quiet start to the coming week for euro area data, with July construction output figures arguably the most noteworthy on Monday. Euro area balance of payments data are also due the same day. The back end of the week should be of more interest, with the Commission's preliminary September consumer confidence indicator on Thursday to be followed on Friday by the flash PMIs also for the current month. These indices are likely to report that conditions continued to hold up relatively well at the end of Q3, with most notably the euro area composite PMI expected to be little changed from the 52.9 reading of August. While this was the lowest since the start of 2015, it would still leave the average index over the third quarter as a whole only a touch below the level in Q2, suggesting that economic expansion has been maintained at a similar pace to the 0.3%Q/Q GDP growth rate recorded last quarter. Of the major member states, the only releases of note will be the French INSEE business confidence survey (Thursday) and final reading of French Q2 GDP (Friday). The ECB will also publish its Economic Bulletin on Wednesday while Draghi is due to speak at an ESRB conference on Thursday. Supply-wise, Germany will sell 5Y Bunds on Wednesday.

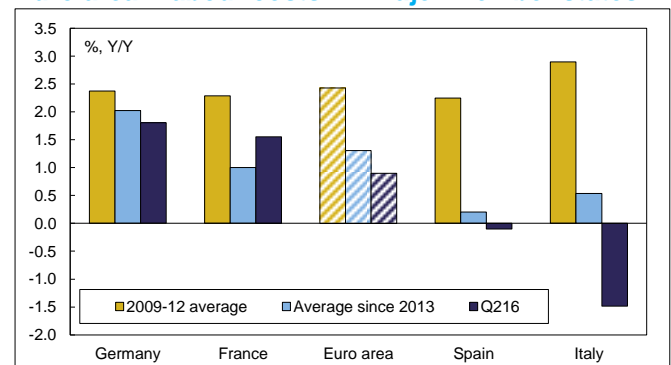
Euro area: Inflation and labour costs



*Excluding public sector.

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

Euro area: Labour costs* in major member states



*Excluding public sector.

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






Of course, all eyes in the US will be on the Fed's policy announcement on Wednesday, which will be accompanied by updated economic forecasts. Not least given weakness in certain recent data, the Fed is expected to keep its target range for the FFR unchanged at 0.25-0.50%. But Yellen's press conference and updated forecasts will be scrutinised for insight into the near-term policy outlook. And while the dot-plot chart of FOMC member views seems bound to signal a median expectation for a 25bps increase in the FFR range by the end of this year, it will be interesting to see whether the median expectation for the FFR at end-2017 will be revised from the range of 1.50-1.75% signalled in June. Data-wise, there will be numerous housing market indicators released in the coming week, including September's NAHB housing index (Monday), August housing starts (Tuesday), existing home sales and July's FHFA home price index (Thursday). The latest Chicago Fed national activity index and Conference Board's leading indicators will also be published on Thursday. Supply-wise, the Treasury will sell 10Y TIPS on Thursday.

UK

The week ahead in the UK


















A quiet week in the UK brings only second-tier data releases. On Wednesday the BoE releases its Agents' Business Conditions survey for Q3, but this will merely summarise the monthly survey results already published from between late May and late August. The latest public finance figures for August are due on Wednesday. The budget surplus in July was lower than in the same month last year, while the August figures are expected to show that net borrowing was £10bn at the end of the summer, about £1bn lower than in August 2015. Other new data in the coming week include the CBI Industrial Trends survey on Thursday and the Rightmove House price index out on Monday. Policy-wise, the FPC is meeting on Tuesday and the BoE will release the statement from the meeting on Thursday.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
EMU	 Labour costs Y/Y%	2Q	1.0	-	1.7	1.6	
Italy	 Trade balance total €bn	Jul	7.8	-	4.7	-	
Spain	 Labour costs Y/Y%	Q2	-0.1	-	-0.2	-	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

Key data releases						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Monday 19 September 2016						
EMU		09:00	Current account balance €bn	Jul	-	28.2
		10:00	Construction output M/M% (Y/Y%)	Jul	-	0.0 (0.6)
		14:45	ECB public sector asset purchases €bn	Weekly	<u>16.0</u>	16.4
Italy		09:30	Current account balance €bn	Jul	-	7.2
UK		00:01	Rightmove house price index M/M% (Y/Y%)	Sep	-	-1.2 (4.1)
Tuesday 20 September 2016						
- Nothing to report -						
Wednesday 21 September 2016						
UK		09:30	Public sector net borrowing excluding interventions £bn	Aug	10.0	-1.0
Thursday 22 September 2016						
EMU		15:00	Preliminary consumer confidence	Sep	-8.3	-8.5
France		07:45	Business confidence indicator (production outlook)	Sep	101 (-)	101 (0)
Spain		09:00	Trade balance €bn	Jul	-	-1.4
UK		11:00	CBI Industrial Trends survey, total orders	Sep	-5	-5
Friday 23 September 2016						
EMU		09:00	Preliminary manufacturing PMI	Sep	51.5	51.7
		09:00	Preliminary services PMI (preliminary composite PMI)	Sep	52.8 (52.8)	52.8 (52.9)
Germany		08:30	Preliminary manufacturing PMI	Sep	53.1	53.6
		08:30	Preliminary services PMI (preliminary composite PMI)	Sep	52.1 (53.5)	51.7 (53.3)
France		07:45	GDP – second release Q/Q% (Y/Y%)	Q2	<u>0.0 (1.4)</u>	0.7 (1.4)
		08:00	Preliminary manufacturing PMI	Sep	48.4	48.3
		08:00	Preliminary services PMI (preliminary composite PMI)	Sep	52.0 (51.7)	52.3 (51.9)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country	BST	Event / Auction	
Monday 19 September 2016			
UK		14.50	BoE APF operation: To purchase 3-7Y Gilts
Tuesday 20 September 2016			
UK		10:30	Auction: To sell £2.5bn of 1.5% 2047 bonds (22-Jul-2047)
		14.50	BoE APF operation: To purchase 15Y+ Gilts
Wednesday 21 September 2016			
Germany		10:30	Auction: To sell €4bn of 2021 zero-coupon bonds (08-Oct-2021)
UK		09.30	BoE publishes Agents' Summary of Business Conditions Q3 2016
		14.50	BoE APF operation: To purchase 7-15Y Gilts
Thursday 22 September 2016			
EMU		09:00	ECB publishes Economic Bulletin
		14:00	ECB's Draghi scheduled to speak at ERSB conference in Frankfurt
UK		13.00	BoE's Forbes scheduled to speak in London
Friday 23 September 2016			
- Nothing scheduled -			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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