

# Euro wrap-up

## Overview

- Bunds made gains with 2Y yields at a new record low despite a further notable improvement in German business sentiment.
- Gilts also made modest gains on a day bereft of UK economic releases.
- The coming few days will bring the Commission's flash December consumer confidence indicator (Wednesday), and revised Q3 GDP figures from France and the UK (Friday).

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 12/18	-0.803	-0.006
OBL 0 10/21	-0.514	-0.044
DBR 0 08/26	0.251	-0.065
UKT 1¼ 07/18	0.097	-0.033
UKT 3¾ 09/21	0.597	-0.026
UKT 1½ 07/26	1.405	-0.033

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

## Euro area

### Ifo signals strong year-end in Germany

As expected, the German Ifo business survey for December signalled a strong end to the year for the euro area's largest member state. Indeed, while the flash PMIs released last week reported a slight decline in the composite index albeit from a high level, the headline Ifo business climate index rose to 111.0, the highest since February 2014. Once again, the survey's assessment of current conditions was particularly impressive, rising to 116.6, the highest since early 2012 and well above the long-run average. Meanwhile, the measure for expected conditions for the coming six months inched slightly higher to 105.6, the second highest since early 2014 and likewise comfortably above series norms. At the sectoral level, manufacturers were more upbeat about current and future conditions, reporting rising backlogs and the likelihood of increased production in the New Year. In addition, wholesalers assessed conditions to be the best for three years while retail sentiment remained elevated. And firms in the construction sector continue to judge the business climate to be ever more favourable, with the respective index rising for the ninth consecutive month to a new post-reunification high. Looking at the recent surveys in the round, we currently forecast an acceleration in German GDP in Q416 to 0.5%Q/Q, the strongest rate since Q116. And, weather-permitting, we also expect economic growth in Q117 to be maintained at or above the 0.4%Q/Q average rate for the recovery so far.

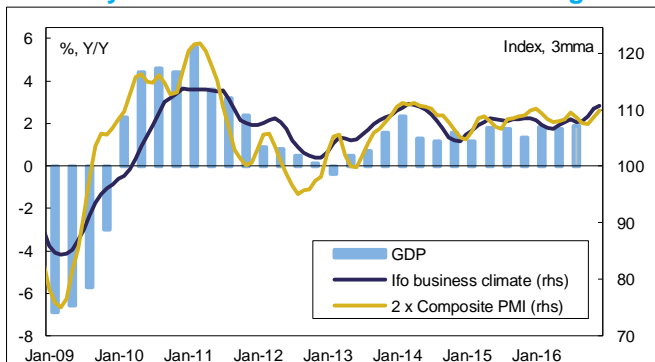
### Construction sector starts Q4 on the front foot

Despite buoyant sentiment, last week's IP data suggested that output from Germany's manufacturing sector was subdued at the start of Q4, failing to grow for the second successive month in October – a pause in growth that we fully expect to be temporary. In contrast, today's construction output figures confirmed that this sector had a much better start to the quarter. In particular, construction activity in the largest member state rose 1.7%M/M in October to its highest level since February on the back of a pickup in civil engineering and building work. And, while recent sentiment surveys have suggested little improvement in conditions at French construction firms, there was also a solid start to Q4 in the second largest member state, with output in the sector increasing more than 2%M/M in October following growth of almost 3%Q/Q in Q3. So, despite some weakness elsewhere, overall, euro area construction output rose 0.8% on the month in October, the firmest monthly rate since July, as increased building work more than offset a decline in civil engineering. Admittedly, the improvement at the start of Q4 merely reversed the decline in September. But with confidence in the sector the highest since 2008, mortgage interest rates at record lows and employment continuing to rise, conditions appear to be in place for continued expansion in the sector in the final quarter of 2016 and into the New Year.

### Wage growth improves in Q3 but still remains weak

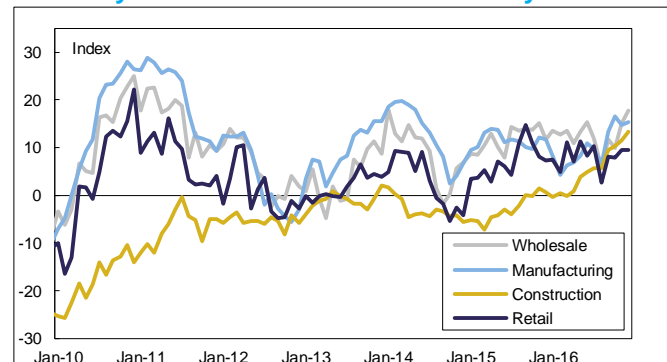
While conditions in the labour market continue to improve, the rate of increase in employment in the euro area slowed in the third quarter to the weakest in six quarters. And with the unemployment rate still high at 9.8% in October, spare capacity in the labour market remains high, as evidenced by the latest labour cost data, which were also released today. Despite a pickup compared with

### Germany: Ifo business climate index & GDP growth



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Germany: Ifo business climate indices by sector



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



Q2, headline labour cost growth of 1.5%Y/Y remained highly subdued by historical standards. Admittedly, in the absence of a moderation in growth of non-wage costs, down 0.3ppt to 1.2%Y/Y, its lowest rate this year, the pickup might have been a bit stronger. But despite an increase of 0.7ppt on the quarter, at 1.6%Y/Y hourly wage growth also remained below its long-run average. Perhaps unsurprisingly, the increase in the latest quarter was driven by a pickup in labour cost growth in Germany, by 0.6ppt to 2.5%Y/Y, although this rate was still below those in Q415 and Q116 and is subdued for a country with such a tight jobs market. And cost pressures remained notably absent in the other large member states, where excess capacity in the labour market is still high and recent reforms are also contributing to wage moderation. For example, labour cost growth was unchanged in France at 1.4%Y/Y, moderated 0.1ppt in Spain to 0.4%Y/Y, and declined for a sixth quarter in Italy at -0.5%Y/Y. And with wage growth likely to remain restrained by recent low inflation and excess capacity in most countries for some time to come, underlying cost pressures are also likely to remain absent over coming quarters, ensuring that headline CPI will remain below the ECB's target through to end 2019.

## The holiday period in the euro area and US

Over the remainder of the week, euro area balance of payments numbers for October are due tomorrow, while Italian retail sales and industrial orders numbers for the same month are due on Thursday. And Friday will bring Germany's latest GfK consumer confidence survey results and final French GDP numbers for Q3. Next week, meanwhile, will bring German retail sales for November (precise release date to be confirmed), the latest Italian economic sentiment surveys (Wednesday), euro area bank lending figures (Thursday) and the flash estimate of Spanish inflation in December (Friday). The first week of January will bring the final PMIs from the manufacturing sector (Monday) and services sector (Wednesday), and the flash estimates of December inflation in Germany and France (Tuesday) and the euro area (Wednesday). In addition, the ECB will publish its account of the December monetary policy meeting on Thursday.

In the US, the remainder of the week brings several top-tier economic releases on Thursday, including revised Q3 GDP figures, which are expected to show growth little changed from the 3.2%Q/Q annualised rate in the second estimate. Thursday also brings the latest monthly personal income and spending figures, including the closely-watched deflators, as well as durable goods orders data and the Chicago Fed national activity index, all for November. Meanwhile, housing market indicators due include existing home sales figures (Wednesday), the FHFA index (Thursday) and new home sales numbers (Friday). The revised University of Michigan's consumer sentiment survey is also due Friday. In the UST market, a 5Y TIPS auction will be conducted on Thursday. The most notable economic data from the US next week will be the Conference Board consumer confidence survey for December (Tuesday) and advance goods trade figures for November (Thursday). The first week of January will be very busy, with the ISM manufacturing and non-manufacturing indices (Tuesday and Thursday respectively), the minutes of the December FOMC meeting (Wednesday) and the December labour market report (Friday).

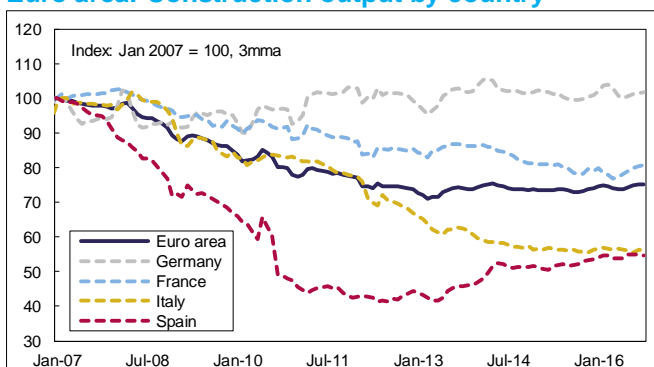
## UK

### The holiday period in the UK

It was a quiet start to the week in the UK with no economic data of note. Over the remainder of the week, tomorrow brings the December CBI Distributive Trades survey, with November's public finances figures following on Wednesday and the December GfK consumer confidence survey on Thursday. Friday, meanwhile, will bring the final estimate of Q3's GDP figures. After large revisions to Q3's trade data, the expenditure breakdown is set to show that net exports subtracted less from economic growth than originally thought. However, we still expect GDP growth to be unrevised at 0.5%Q/Q in Q3, down from 0.7%Q/Q in Q2. In addition, Q3 balance of payments figures will be released for the first time.

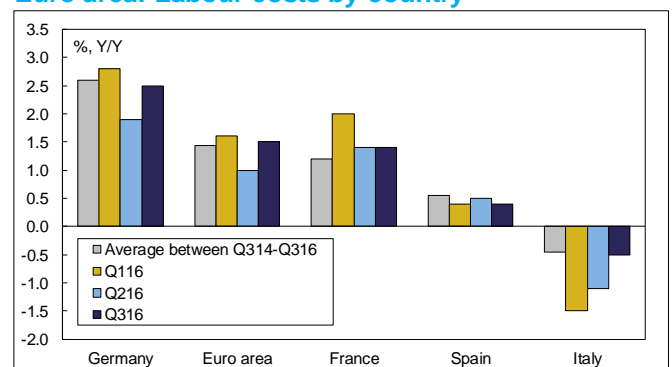
Meanwhile, after what should be a quiet period between Christmas and New Year in the UK, the focus in the first week of 2017 will be on the December PMIs, with the indices for manufacturing, construction and services due on Tuesday, Wednesday and Thursday respectively. In addition, BoE bank lending figures for November are also due on the first Wednesday of January.

### Euro area: Construction output by country



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: Labour costs by country








Source: Eurostat and Daiwa Capital Markets Europe Ltd.




















Due to public holidays, the next edition of the Euro wrap-up will be published on 3 January 2017.



## European calendar






































Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Labour costs Y/Y%	Q3	1.5	-	1.0	-
	 Construction output M/M% (Y/Y%)	Oct	0.8 (2.2)	-	-0.9 (1.8)	-0.8 (1.9)
	 ECB public sector asset purchases €bn	Weekly	16.3	10.0	16.3	-
Germany	 Ifo business climate index	Dec	111.0	110.6	110.4	-
	 Ifo current assessment balance (expectations)	Dec	116.6 (105.6)	115.9 (105.6)	115.6 (105.5)	-
Country	Auction	- Nothing to report -				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Rest of the week's data releases						
Economic data						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
<b>Tuesday 20 December 2016</b>						
EMU		09:00 Current account balance €bn	Oct	-	25.3	
Italy		09:30 Current account balance €bn	Oct	-	2.8	
UK		11:00 CBI Distributive Trades survey, retail sales	Dec	20	26	
<b>Wednesday 21 December 2016</b>						
EMU		15:00 Preliminary consumer confidence	Dec	-6.0	-6.1	
UK		09:30 Public sector net borrowing excluding interventions £bn	Nov	12.2	4.8	
<b>Thursday 22 December 2016</b>						
Italy		09:00 Industrial sales M/M% (Y/Y%)	Oct	-	-4.6 (-0.3)	
		09:00 Industrial orders M/M% (Y/Y%)	Oct	0.5 (2.9)	-6.8 (2.6)	
		09:00 Retail sales M/M% (Y/Y%)	Oct	0.3 (-1.0)	-0.6 (-1.4)	
Spain		09:00 Trade balance €bn	Oct	-	-2.2	
UK		00:01 GfK consumer confidence survey	Dec	-8	-8	
<b>Friday 23 December 2016</b>						
Germany		07:00 GfK consumer confidence survey	Jan	9.9	9.8	
France		07:45 GDP – third release Q/Q% (Y/Y%)	Q3	0.2 (1.1)	-0.1 (1.2)	
		07:45 Consumer spending M/M% (Y/Y%)	Nov	0.1 (2.4)	0.9 (1.5)	
UK		00:01 Lloyds business barometer	Dec	-	32	
		09:30 GDP – third release Q/Q% (Y/Y%)	Q3	0.5 (2.3)	0.7 (2.1)	
		09:30 Index of services M/M% (3M/3M%)	Oct	0.2 (0.8)	0.2 (0.8)	
		09:30 Current account balance £bn	Q3	-28.2	-28.7	
Auctions and events						
Country	GMT	Auction / Event				
<b>Tuesday 20 December 2016</b>						
UK		14:00 Prime Minister May scheduled to be questioned by UK Parliament panel on Brexit				
<b>Wednesday 21 December 2016</b>						
- Nothing scheduled -						
<b>Thursday 22 December 2016</b>						
EMU		09:00 ECB publishes Economic Bulletin				
<b>Friday 23 December 2016</b>						
- Nothing scheduled -						





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Coming two week's data calendar

Key data releases						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
<b>Monday 26 December 2016</b>						
- Nothing scheduled -						
<b>Tuesday 27 December 2016</b>						
Germany		07:00 Retail sales M/M% (Y/Y%)*	Nov	-0.8 (1.2)	2.5 (-1.0)	
<b>Wednesday 28 December 2016</b>						
Italy		09:00 Consumer confidence indicator	Dec	107.5	107.9	
		09:00 Manufacturing (economic) confidence	Dec	101.8 (-)	102.0 (101.4)	
Spain		08:00 Retail sales Y/Y%	Nov	2.7	2.2	
UK		07:00 Nationwide house price index M/M% (Y/Y%)*	Dec	0.3 (3.9)	0.1 (4.4)	
		09:30 BBA loans for house purchase '000s	Nov	41.5	40.9	
<b>Thursday 29 December 2016</b>						
EMU		09:00 M3 money supply Y/Y%	Nov	4.4	4.4	
<b>Friday 30 December 2016</b>						
Spain		08:00 Preliminary EU-harmonised CPI Y/Y%	Dec	1.0	0.5	
<b>Monday 02 January 2017</b>						
EMU		09:00 Final manufacturing PMI	Dec	54.9	53.7	
Germany		08:55 Final manufacturing PMI	Dec	55.5	54.3	
France		08:50 Final manufacturing PMI	Dec	53.5	51.7	
Italy		08:45 Manufacturing PMI	Dec	52.0	52.2	
Spain		08:15 Manufacturing PMI	Dec	54.5	54.5	
<b>Tuesday 03 January 2017</b>						
Germany		08:55 Unemployment change '000s (rate %)	Dec	-5.0 (6.0)	-5.0 (6.0)	
		13:00 Preliminary EU-harmonised CPI Y/Y%	Dec	1.1	0.7	
France		07:45 Preliminary EU-harmonised CPI Y/Y%	Dec	0.9	0.7	
UK		09:30 Manufacturing PMI	Dec	53.6	53.4	
<b>Wednesday 04 January 2017</b>						
EMU		09:00 Final services PMI (final composite PMI)	Dec	53.1 (53.9)	53.8 (53.9)	
		10:00 Flash CPI estimate Y/Y%	Dec	<u>1.0</u>	0.6	
		10:00 Flash core CPI estimate Y/Y%	Dec	0.8	0.8	
Germany		08:55 Final services PMI (final composite PMI)	Dec	53.8 (54.8)	55.1 (55.0)	
France		07:45 Consumer confidence survey	Dec	99	98	
		08:50 Final services PMI (final composite PMI)	Dec	52.6 (52.8)	51.6 (51.4)	
Italy		08:45 Services PMI (composite PMI)	Dec	52.8 (53.1)	53.3 (53.4)	
Spain		08:15 Services PMI (composite PMI)	Dec	54.7 (55.0)	55.1 (55.2)	
		08:00 Unemployment M/M '000s	Dec	-52.1	24.8	
UK		09:30 Construction PMI	Dec	52.6	52.8	
		09:30 Mortgage approvals '000s	Nov	69.0	67.5	
		09:30 Net consumer credit (net lending secured on dwellings) £bn	Nov	1.6 (3.3)	1.6 (3.3)	
<b>Thursday 05 January 2017</b>						
UK		09:00 New car registrations Y/Y%	Dec	-	2.9	
		09:30 Services PMI (composite PMI)	Dec	54.7 (55.0)	55.2 (55.2)	
<b>Friday 06 January 2017</b>						
EMU		10:00 Economic sentiment indicator	Dec	106.6	106.5	
		10:00 Services (industrial) sentiment	Dec	12.0 (-0.6)	12.1 (-1.1)	
		10:00 Final consumer confidence	Dec	-6.0	-6.1	
		10:00 Retail sales M/M% (Y/Y%)	Nov	-0.4 (1.8)	1.1 (2.4)	
Germany		07:00 Factory orders M/M% (Y/Y%)	Nov	-1.8 (3.7)	4.9 (6.3)	
France		07:45 Trade balance €bn	Nov	-	-5.2	

\*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Coming two week's events/auctions calendar

Key events & auctions			
Country	GMT	Event / Auction	
<b>Monday 26 – Wednesday 28 December 2016</b>			
- Nothing scheduled -			
<b>Thursday 29 December 2016</b>			
Italy		10:00	Auction: To sell bonds
<b>Friday 30 December 2016</b>			
- Nothing scheduled -			
<b>Monday 02 – Wednesday 04 January 2017</b>			
- Nothing scheduled -			
<b>Thursday 05 January 2017</b>			
EMU		-	ECB publishes account of the monetary policy meeting held on 7-8 December*
Spain		09:30	Auction: To sell bonds
UK		10:30	Auction: To sell 1.75% 2037 bonds
<b>Friday 06 January 2017</b>			
- Nothing scheduled -			

\*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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