

Euro wrap-up

Overview

- Shorter-dated Bunds made losses and periphery spreads widened on a quiet day for economic news from the euro area.
- Gilts were little changed as the services and composite PMIs indicated solid GDP growth in the UK in Q4.
- Friday brings the latest European Commission economic sentiment survey and euro area retail sales data.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/18	-0.728	+0.057
OBL 0 10/21	-0.495	+0.024
DBR 0 08/26	0.255	-0.019
UKT 1¼ 07/18	0.157	+0.004
UKT 3¾ 09/21	0.565	+0.004
UKT 1½ 07/26	1.325	-0.010

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

UK

PMIs point to firm GDP growth in Q4

After the significant upward prints for the manufacturing and construction PMIs earlier in the week, the equivalent survey for services seemed bound to come in strong. And, indeed, today's release showed the headline indicator rising by 1pt in December to 56.2, the highest level in almost one and a half years. Within the survey details, although the outstanding business index decreased slightly, the new business and business expectations indicators were particularly upbeat, both rising by 3.2pts to 58.1 and 68.5 respectively. More generally, when taken together with the manufacturing PMI, today's figures saw the composite PMI rise from 55.3 to 56.7, a seventeen-month high. If the construction survey is also included, the three PMIs imply GDP growth of 0.5%Q/Q in Q4, a pace matching the average over the last eight quarters and 0.1ppt higher than the BoE forecast in November. And with the composite new orders index having risen to a twenty-one-month high in December, economic momentum looks to have remained firm at the start of 2017.

New car registrations at record high in 2016

Consistent with strong consumer spending, new car registrations were up by 2.3%Y/Y over 2016 as a whole to reach a record high of almost 2.7m. Indeed, boosted by attractive financing deals, the new car market reported an annual increase in ten out of the last twelve months. However, the final month of the year saw a small decrease of 1.1%Y/Y, and looking ahead we expect the trend for 2017 to be weaker.

The day ahead in the UK

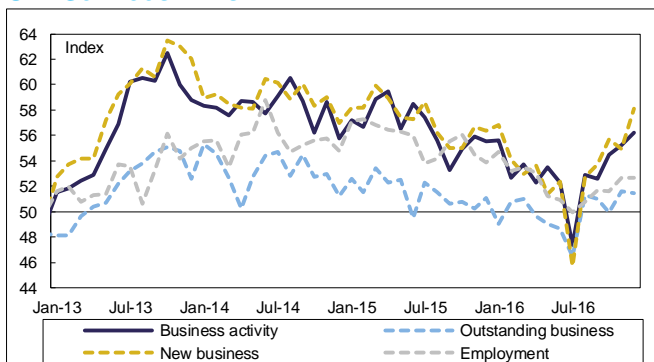
A quiet end to the first week of the year in the UK brings only labour productivity data for Q3. The preliminary figures suggested that growth in output per hour was just 0.2%Q/Q that quarter, down from 0.6%Q/Q previously. But following an upward revision to the Q3 GDP growth figures, the productivity estimate seems also likely to see an upward revision.

Euro area

The day ahead in the euro area and US

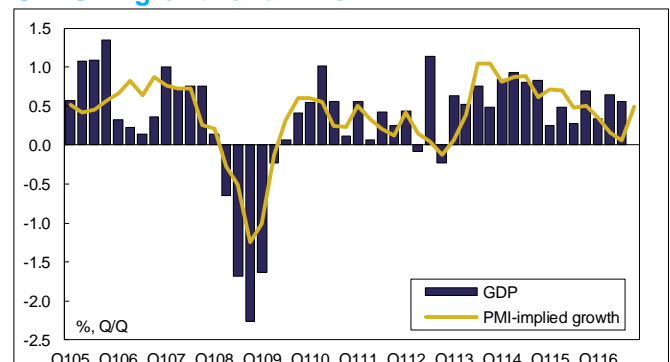
Following a quiet day for euro area data today, Friday will bring the Commission's business and consumer confidence survey for December – arguably the most reliable guide to GDP growth in the euro area – which is expected to show a rise in the headline economic sentiment index to the highest since 2011. Also due are euro area retail sales and German factory orders figures for November.

UK: Services PMIs



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

UK: GDP growth and PMIs














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










In the US, of course, Friday will bring December's labour market report, with non-farm payrolls expected to have risen by around 180k, close to the average of the first eleven months of 2016. However, the unemployment rate is expected to have edged slightly higher from the more than eight-year low of 4.6% reached in November, while the expected 0.3%M/M increase in average hourly earnings would take the annual rate back to 2.8%Y/Y. Friday will also bring the final US trade report and factory orders data for November. FOMC voting members Evans and Kaplan are scheduled to speak publicly.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 New car registrations Y/Y%	Dec	-1.1	-	2.9	-
	 Services PMI (composite PMI)	Dec	56.2 (56.7)	54.7 (55.0)	55.2 (55.2)	- (55.3)
Country	Auction					
Spain sold	 €1.1bn of 0.75% 2021 bonds (30-Jul-2021) at an average yield of 0.271%					
	 €0.5bn of 1% 2030 index-linked bonds (30-Nov-2030) at an average yield of 0.679%					
	 €1.7bn of 1.3% 2026 bonds (31-Oct-2026) at an average yield of 1.45%					
	 €0.8bn of 2.9% 2046 bonds (31-Oct-2046) at an average yield of 2.761%					
France sold	 €4.2bn of 0.25% 2026 bonds (25-Nov-2026) at an average yield of 0.78%					
	 €2.2bn of 1.25% 2036 bonds (25-May-2036) at an average yield of 1.49%					
	 €2bn of 3.25% 2045 bonds (25-May-2045) at an average yield of 1.76%					
UK sold	 €1.1bn of 1.75% 2066 bonds (25-May-2066) at an average yield of 2.02%					
	 £2.25bn of 1.75% 2037 bonds (07-Sep-2037) at an average yield of 1.97%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases						
Economic data						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
EMU	 10:00	Economic sentiment indicator	Dec	106.8	106.5	
	 10:00	Services (industrial) sentiment	Dec	12.0 (-0.4)	12.1 (-1.1)	
	 10:00	Final consumer confidence	Dec	-5.1	-6.2	
	 10:00	Retail sales M/M% (Y/Y%)	Nov	-0.4 (1.9)	1.1 (2.4)	
Germany	 07:00	Factory orders M/M% (Y/Y%)	Nov	-2.4 (3.6)	4.9 (6.3)	
	 07:00	Retail sales M/M% (Y/Y%)	Nov	-0.9 (1.2)	2.5 (-1.0)	
France	 07:45	Trade balance €bn	Nov	-4.8	-5.2	
Auctions and events						
Country	GMT	Auction / Event				
- Nothing scheduled -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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