

# Euro wrap-up

## Overview

- Bunds made gains despite a further improvement in euro area consumer confidence.
- Gilts similarly followed US Treasuries higher on a quiet day for economic news from the UK.
- Tuesday will bring the euro area flash PMIs for January and the UK Supreme Court judgement on the role of Parliament in launching the Brexit process.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 12/18	-0.686	-0.016
OBL 0 10/21	-0.452	-0.038
DBR 0¼ 12/27	0.366	-0.056
UKT 1¼ 07/18	0.167	-0.030
UKT 3¼ 09/21	0.588	-0.037
UKT 1½ 07/26	1.386	-0.045

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

## Euro area

### Consumer confidence up again at start of 2017

This week's euro area dataflow is set to be dominated by economic surveys, which signalled a pickup in GDP growth in the fourth quarter and are widely expected to show that recovery momentum has been sustained at the start of 2017. The first of this series of releases, today's preliminary Commission euro area consumer confidence index, did just that, edging higher to -4.9, the highest since April 2015 and comfortably above the long-run average, to suggest that private consumption growth is likely to remain firm in the first quarter. There are good reasons for the steady improvement in consumer sentiment. Unemployment has fallen faster than expected, down to 9.8% by November. And while wage growth remains highly subdued by historical standards, steady growth in employment – up almost 1.9mn in the year to Q316 – saw gross household disposable income rise steadily over the past year at an average rate above 2%Y/Y, the highest in eight years. Nevertheless, with inflation set to rise to a 3½-year high of around 1½%Y/Y from Q117 on, we expect real income growth to slow. And given heightened political risks over coming months, it remains to be seen whether such elevated sentiment will be sustained. Nevertheless, for now we certainly expect household spending to remain a key driver of euro area economic growth. Indeed, we currently forecast consumption growth of 0.5%Q/Q or more in Q416 and Q117.

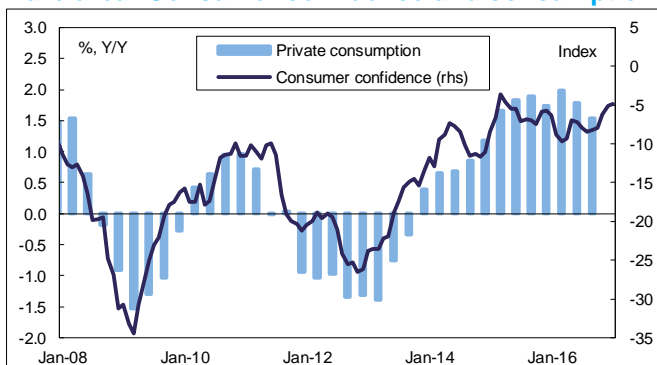
### The Outsider wins yet another European election

Just as the French Republicans' Presidential primary threw up a surprise victory for the outsider candidate François Fillon, so too the weekend's Socialist primary brought victory for an anti-establishment candidate, former Education Minister Benoît Hamon. A member of the Socialists' left wing who had been sacked from government in 2014 for publicly criticising President Hollande's commitment to fiscal tightening and pro-business reforms, Hamon won more than 36% of the vote. In the primary's second-round head-to-head on 29 January, he will face the centre-left former Prime Minister Manuel Valls, who was runner-up with 31% of the vote. With the eliminated third-placed candidate Arnaud Montebourg (17.5%) subsequently urging his supporters to back him in the second round, Hamon now looks odds-on to win the Socialist nomination.

### Existential crisis for the Socialists, but a boost for Macron

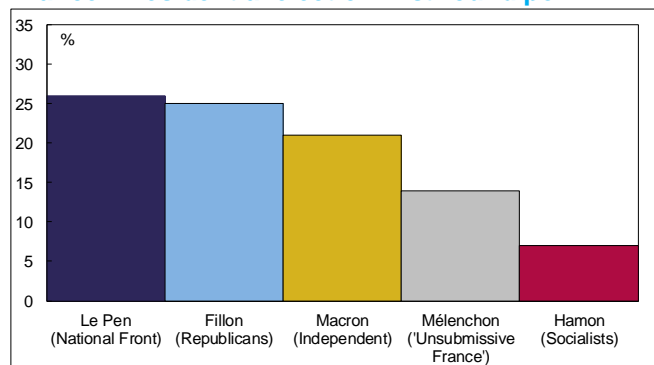
During his campaign, Hamon – who has been compared to Bernie Sanders in the US or Jeremy Corbyn in the UK – has advocated crowd-pleasing policies including, among other things, the introduction of a universal basic income of around €750 per month for each citizen aged 18 years or over regardless of whether or not they are in employment. But he has also failed

### Euro area: Consumer confidence and consumption



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### France: Presidential election first round poll\*



\*Voting intention in Presidential election first round on 23 April in the event that Benoît Hamon wins Socialist nomination on 29 January. Survey published 19 Jan 2017. Source: Le Monde, IPSOS and Daiwa Capital Markets Europe Ltd.



to clarify how such a costly policy might be financed. And, like Sanders and Corbyn, while he evidently pleases grass-roots supporters with his proposals and rhetoric, Hamon looks set to fail to win highest office. Indeed, a poll released last week suggested that, if he does indeed win the Socialists' candidature, Hamon would be eliminated from the Presidential election in the first round, perhaps with less than 10% of the vote and in fifth place behind even the far-left candidate Jean-Luc Mélenchon. Indeed, the selection of Hamon by the Socialists would seem to benefit principally the independent former Economy Minister Emmanuel Macron, who now seems likely to be the sole candidate of the political centre-ground on 23 April. Polls have recently shown notable momentum in support for Macron, although – for the time being – the Presidential run-off on 7 May still looks more likely to be fought between Fillon and the National Front's Marine Le Pen. Meanwhile, like many of Western Europe's centre-left parties, the French Socialists look set for existential crisis.

## The day ahead in the euro area and US

Tuesday brings the release of January's flash PMIs. In December, the euro area manufacturing PMI rose to 54.9, the highest since the first half of 2011. And, although the equivalent indicator for services slipped back slightly, at 53.7 it remained close to the top end of the range of the past five years. As a result, the euro area composite PMI rose to 54.4, the highest since May 2011, to signal a firming of economic growth momentum at the end of 2016. In the bond markets, the Netherlands will sell 5Y bonds.




In the US, while all eyes remain on the President's first actions in office, December's existing home sales data are due along with January's preliminary Markit manufacturing PMI and Richmond Fed manufacturing index.

## UK

### The day ahead in the UK

Ahead of PM May's meeting with President Trump on Friday, attention tomorrow seems bound to be on the Supreme Court decision of its judgment in the Brexit case, where the Government is appealing the High Court's decision requiring that it seeks Parliamentary approval before triggering Article 50. While it is widely expected that the Government will lose this appeal, the Supreme Court judgment will be most interesting with respect to what it decides about the requirements to consult the devolved administrations. At present there is no Government in Northern Ireland, and the elections due to be held in early March seem unlikely to be followed by a swift agreement on a new administration. So, if the Supreme Court was to require the approval of the devolved Governments that could potentially delay the triggering of Article 50. But that seems an unlikely outcome and, following Theresa May's speech last week, a triggering of Article 50 looks odds-on by the end of March, which would then likely see the UK leaving the EU (and the Single Market) two years thereafter. With respect to economic data, the only UK release of note tomorrow is December public finance figures.








## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
EMU	 ECB public sector asset purchases €bn	Weekly	18.5	18.0	18.9	-
	 Preliminary consumer confidence	Jan	-4.9	-4.8	-5.1	-
Country	Auction					
UK	 BoE APF operation purchased £1bn of 3-7Y Gilts (1.82 cover ratio)					




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	 09:00	Preliminary manufacturing PMI	Jan	54.8	54.9
	 09:00	Preliminary services PMI (preliminary composite PMI)	Jan	53.8 (54.5)	53.7 (54.4)
Germany	 08:30	Preliminary manufacturing PMI	Jan	55.4	55.6
	 08:30	Preliminary services PMI (preliminary composite PMI)	Jan	54.5 (55.3)	54.3 (55.2)
France	 08:00	Preliminary manufacturing PMI	Jan	53.4	53.5
	 08:00	Preliminary services PMI (preliminary composite PMI)	Jan	53.2 (53.2)	52.9 (53.1)
UK	 09:30	Public sector net borrowing excluding interventions £bn	Dec	6.7	12.6

Auctions and events					
Country	GMT	Auction / Event			
EMU	 13:45	ECB's Praet scheduled to speak in Rome			
UK	 09:30	Supreme Court judgement on Article 50			
	 14:50	BoE APF operation: To purchase 15Y+ Gilts			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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