

Euro wrap-up

Overview

- Bunds were little changed as euro area trade figures showed an increased trade surplus in November.
- Gilts were also little changed on a quiet day for UK economic data.
- The data focus tomorrow will be on December inflation figures from Germany, Italy and the UK.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 09/19	-0.600	-0.008
OBL 0 10/22	-0.117	+0.003
DBR 0½ 08/27	0.523	+0.009
UKT 1¼ 07/19	0.593	+0.002
UKT 0½ 07/22	0.852	-0.011
UKT 4¼ 12/27	1.320	-0.019

*Change from close as at 4.30pm GMT.

Source: Bloomberg

Euro area

Net trade boosted growth in Q4

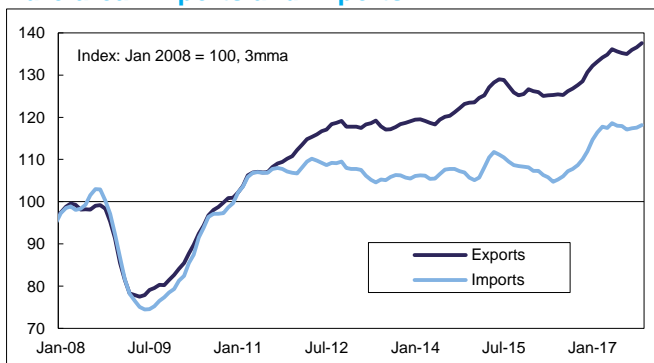
While euro area domestic demand growth momentum is arguably the strongest since the turn of the millennium, euro area manufacturers have also been well-placed to exploit increasing external demand. Indeed, the value of euro area goods exports has been on a steep upward trajectory for more than a year, and the latest figures showed another strong increase, of 3.4%M/M in November, to more than €187bn, 6.8%Y/Y higher than a year ago. Increased demand from the major emerging economies seems to have provided a significant boost, with exports to China, Turkey, India, and Russia all recording double-digit percentage annual increases, while exports to other major advanced economies showed firm, but not-as-impressive results. Looking at the breakdown by type of goods, consumer goods exports seem to have been the most successful category in recent quarters, with capital goods exports also maintaining an upward trend against the backdrop of the global capex recovery. Meanwhile, imports were also 6.8%Y/Y higher, at €164.6bn to leave the seasonally adjusted trade surplus at €22.5bn. Looking at the trend over recent months, however, the picture is slightly more nuanced. Having risen particularly rapidly in the first half of the year, imports have slowed, rising on a three-month basis in November by just 1.6%3M/3M, less than half the rate of exports (3.4%3M/3M), suggesting that net trade in Q4 is on track to make a larger contribution to GDP growth in Q417, having added 0.1ppt in Q3. Looking ahead, the current appreciation trend of the euro represents a downside risk – the nominal trade-weighted index is currently at its highest level since April 2014 and respectively almost 3% and 6% above its one-year and three-year averages. However, with the manufacturing export orders PMIs having reached their two highest levels on the series in November and December, over the near term export growth looks set to accelerate.

The day ahead in the euro area and US

In the euro area, Tuesday brings final December inflation figures from Germany and Italy. According to their preliminary estimates, inflation slowed 0.2ppt to 1.6%Y/Y in Germany but was unchanged at 1.1%Y/Y in Italy. Downwards revisions to the equivalent French and Spanish numbers released at the end of last week already suggest that euro area inflation might be revised down 0.1ppt to 1.3%Y/Y when the respective figures are published on Wednesday. And so, weaker readings tomorrow would strengthen the likelihood of such a revision.

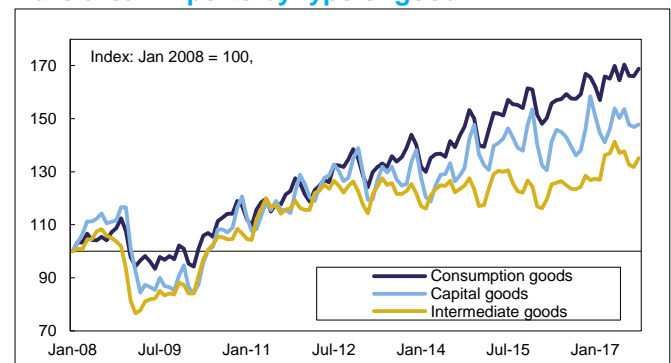
It should be a slow start to a holiday-shortened working week in the US tomorrow, with only the Empire manufacturing survey for January due for release. The headline index is expected to have stabilized at the start of this year having fallen back in the previous two months to the middle of the range last year.

Euro area: Exports and imports



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Exports by type of good



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



UK



The day ahead in the UK

The most notable UK economic data release tomorrow will be the latest inflation figures. In particular, we expect to see the annual CPI rate inch lower in December, from the November's four-and-a-half year high of 3.1%Y/Y to 3.0%Y/Y. We also expect the annual core rate to drop 0.1ppt to 2.6%Y/Y, as services inflation looks set to have eased slightly due not least to base effects related to air fares. Meanwhile, due to shifts in oil prices, energy inflation should continue rising very rapidly from 5.0%Y/Y seen previously. The latest ONS house price data are also due tomorrow, and seem likely to show a slowdown in inflation to a touch above 4%Y/Y, which would be the slowest increase in more than four years.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Trade balance €bn	Nov	22.5	22.3	19.0	-
	 ECB public sector asset purchases €bn	Weekly	7.1	<u>11.5</u>	2.5	-







Auctions

Country	Auction
- Nothing to report -	

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
Germany	 07:00	Final EU-harmonised CPI Y/Y%	Dec	1.6	1.8
Italy	 09:00	Final EU-harmonised CPI Y/Y%	Dec	1.0	1.1
	 10:00	Trade balance €bn	Nov	-	5.0
UK	 09:30	CPI (core CPI) Y/Y%	Dec	<u>3.0 (2.6)</u>	3.1 (2.7)
	 09:30	Input PPI (output PPI) Y/Y%	Dec	5.5 (2.9)	7.3 (3.0)
	 09:30	House price index Y/Y%	Nov	4.2	4.5

Auctions

Country	GMT	Auction / Event
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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