

# Euro wrap-up

## Overview

- Bunds were little changed despite some upbeat data on euro area trade, car registrations and jobs.
- Gilts were also little changed on a quiet day for economic news from the UK.
- Friday's data focus will be UK retail sales in January.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 09/19	-0.557	+0.006
OBL 0 10/22	0.001	+0.008
DBR 0½ 08/27	0.764	+0.008
UKT 1¾ 07/19	0.702	-0.010
UKT 0½ 07/22	1.117	-0.003
UKT 4¾ 12/27	1.650	+0.010

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

## Euro area

### Improved global demand supported euro area economy in 2017

Following yesterday's report that euro area industrial production increased in December to bring to a close the best year for the sector since 2011, today's trade figures illustrated the role played by external demand in generating that expansion. Indeed, the value of exported goods rose 1.7%M/M in December, comfortably above the pace of imports, which rose by almost 1.0%M/M. So, in seasonally adjusted terms, the trade surplus also took a step up to €23.8, a level beaten only twice on the series. Looking at 2017 as a whole, euro area exports rose by an impressive 7.1%Y/Y, having barely grown at all in 2016, fuelled not least by stronger shipments to China (up more than 16%Y/Y) and Russia (up almost 20%Y/Y), although non-euro-area EU member states such as Poland, Hungary and the Czech Republic also provided notable support. And while export growth to other advanced economies was not as impressive, it too offered support (e.g. exports to the US rose by almost 5%, and exports to Japan rose by nearly 4%). Meanwhile, by type of goods exported, intermediate and capital goods led the way, matching the pattern for industrial production in 2017. Consistent with today's data, we think that net exports provided a positive contribution to GDP growth in Q4, to leave their annual contribution to full-year GDP growth at around 0.5ppt, which would be the highest since 2012.

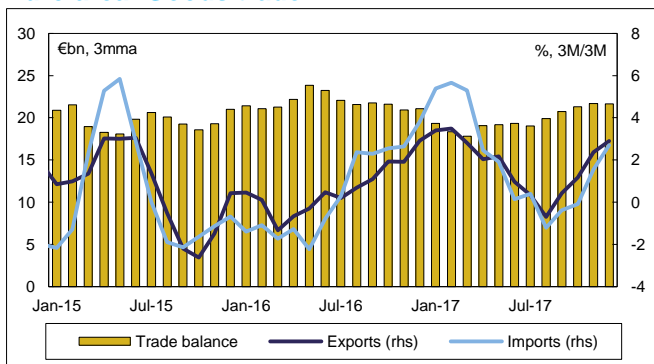
### Good news from France's labour market

Other data today highlighted how conditions in the French labour market continued to improve significantly at the end of last year. Following a small increase in Q3, the French unemployment rate declined a whopping 0.7ppt in Q4 to 8.9%, the lowest level since early 2009, taking the drop over the course of 2017 to 1.1ppt to represent the best year since the financial crisis. The detail of the Q4 figures was even more encouraging, with big falls in joblessness of all age groups, including youth unemployment, and a very significant decline in the long-term unemployment rate to 3.6%, the lowest in almost six years. Moreover, the drop in the unemployment rate was largely due to the rising employment rate, which rose 0.6ppt to 65.7%, the highest level since early 1980s. With the economy continuing to grow at a rate above its potential and Macron's reforms seemingly having generated the necessary confidence among businesses to encourage them to up their recruitment plans, the current trajectory in the French labour market looks set to be maintained this year.

### Car registrations maintain uptrend in the New Year

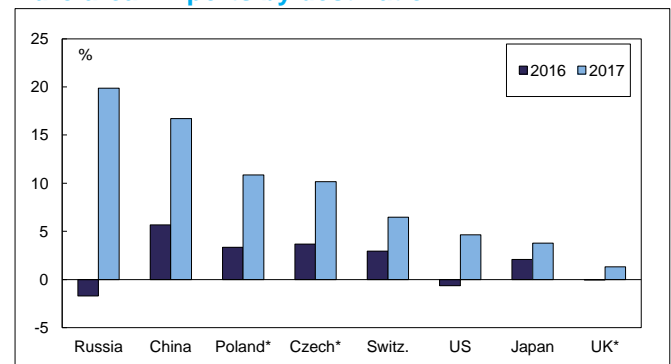
Finally, the latest new car registration figures maintained the good news, extending the solid showing of last year. In particular, new car registrations in the euro area rose in January by 8.6%Y/Y and, in seasonally adjusted terms, 3.8%3M/3M to the

### Euro area: Goods trade



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: Exports by destination



\* Full-year growth except Poland, Czech and UK, for which 2017 data are based on the first 11 months of the year. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



highest level since October 2009, having increased 5.0%Y/Y over 2017 as a whole and 2.3%Q/Q in Q4. New registrations accelerated notably in Germany (up 11.6%Y/Y, from 2.7%Y/Y in 2017) and Spain (up more than 20%Y/Y from 7.7%Y/Y in 2017). Registrations in France (up 2.5%Y/Y in January from 4.7%Y/Y in 2017) and Italy (3.4%Y/Y from 4.7%Y/Y in 2017) were somewhat softer, but still looked healthy, particularly when compared with the UK, where new registrations fell 6.3%Y/Y in January having dropped 5.7%Y/Y in 2017.

## The day ahead in the euro area and US

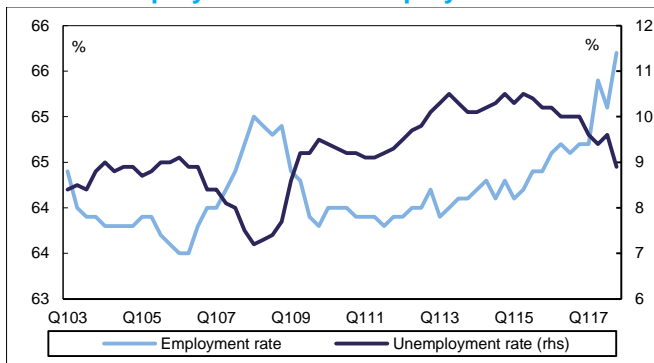
A quiet end of the week in the euro area will bring no notable data releases. In the US, we will receive further inflation data for January in the shape of the import and export price indices. In addition, housing starts for the same month and the University of Michigan consumer sentiment survey for February will also be released.

## UK

### The day ahead in the UK

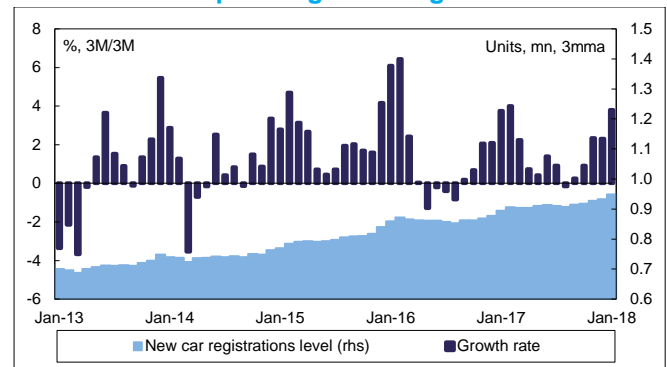
After a quiet day today, the focus on Friday will be on the latest figures from the retail sector. After a disappointing festive season at the end of last year, when sales declined by 1½%M/M, a recovery is expected in January. Sales are expected to have risen by 0.5%M/M, which together with the favourable base effect should leave the annual pace of growth at around 2½%. However, looking ahead, we continue to expect the downward trend in retail sales growth to be maintained at least for a while, given that real wage growth is likely to remain absent and consumer sentiment is set to remain subdued.

### France: Employment and unemployment rates

















Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: New passenger car registrations






Source: ECB and Daiwa Capital Markets Europe Ltd.

## European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
EMU	 EU27 new car registrations Y/Y%	Jan	7.1	-	-4.9	-	
	 Trade balance €bn	Dec	23.8	22.3	22.5	22.0	
France	 ILO Unemployment rate %	Q4	8.9	9.5	9.7	9.6	
Spain	 Final EU-harmonised CPI Y/Y%	Jan	0.7	0.7	1.2	-	
Auctions							
Country	Auction						
France sold	 €3.3bn of 0% 2021 bonds (25-Feb-2021) at an average yield of -0.18%						
	 €3.2bn of 0% 2023 bonds (25-Mar-2023) at an average yield of 0.23%						
	 €1.5bn of 6% 2025 bonds (25-Oct-2025) at an average yield of 0.57%						
	 €911mn of 0.1% 2025 index-linked bonds (01-Mar-2025) at an average yield of -0.77%						
	 €325mn of 0.1% 2047 index-linked bonds (25-Jul-2047) at an average yield of -0.04%						
	 €762n of 1.85% 2027 index-linked bonds (25-Jul-2027) at an average yield of -0.62%						
Spain sold	 €630mn of 0.45% 2022 bonds (31-Oct-2022) at an average yield of 0.385%						
	 €2bn of 1.4% 2028 bonds (30-Apr-2028) at an average yield of 1.58%						
	 €1.9bn of 2.35% 2033 bonds (30-Jul-2033) at an average yield of 2.11%						
UK sold	 £2.25bn of 1.75% 2057 bonds (22-Jul-2057) at an average yield of						

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		
UK		09:30 Retail sales excluding petrol M/M% (Y/Y%)	Jan	0.6 (2.4)	-1.6 (1.3)		
		09:30 Retail sales including petrol M/M% (Y/Y%)	Jan	0.6 (2.5)	-1.5 (1.4)		
Auctions							
Country	GMT	Auction / Event					
EMU		08:20 ECB's Cœuré scheduled to speak in Macedonia					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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