

Euro wrap-up

Overview

- Bunds made modest gains as the US CPI data merely matched expectations.
- Gilts also ended the day slightly higher as the OBR figures showed an improved outlook for UK public finances.
- Euro area industrial production for January along with the latest employment figures for Q4 are due tomorrow. Policy-wise, Draghi and other ECB officials are scheduled to speak.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 03/20	-0.576	-0.002
OBL 0 10/22	-0.109	-0.011
DBR 0½ 02/28	0.616	-0.016
UKT 2 07/20	0.832	-
UKT 0¾ 07/23	1.162	-0.007
UKT 4¾ 12/27	1.481	-0.013

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

Euro area

French labour market momentum remains firm

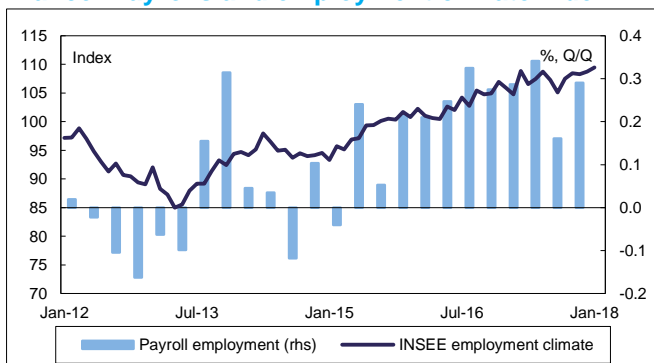
A quiet start to the week for euro area economic data continued today with the French payrolls report for Q4 arguably the most notable new release. As expected, these data added to evidence that the benign trend in France's labour market continued towards year-end. Total payrolls rose 0.3%Q/Q, in line with the average of the past six quarters, to leave them up 1.1%Y/Y, again extending the recent trend. Within the detail, an acceleration in the private sector (up 0.4%Q/Q and 1.5%Y/Y) more than offset a second successive quarterly drop in the public sector (down 0.2%Q/Q and also down 0.2%Y/Y) to reflect key Macron policy initiatives (labour market reforms and public sector cuts) as well as the impact of firmer economic expansion. Indeed, job growth was widespread across the private sector, albeit strongest in construction (up 1.0%Q/Q and 2.3%Y/Y) and services (0.5%Q/Q and 1.9%Y/Y). Of course, data already released had signalled the strong end to the year for the labour market, with the unemployment rate having dropped 0.7ppt in Q4 to 8.9%, the lowest since early 2009 and below the long-run average. At the same time, however, reforms to wage-bargaining arrangements as well as the impact of increased labour force participation and hidden labour market slack are all keeping wage growth subdued (just 1.3%Y/Y in Q4, barely above inflation). And while economic growth looks to have moderated somewhat, surveys such as that produced by INSEE (which suggested that the employment climate remained the most favourable in February since 2011) point to continued firm payroll growth and declines in unemployment in Q1.

The day ahead in the euro area and US

In the euro area, Wednesday will be a busier day for economic data. Among other releases, January euro area industrial production figures are due and expected to show a drop of ½%M/M or more. That, however, should still leave the level of output more than 4% higher than a year earlier. In addition, euro area employment data for Q4 are likely to show continued jobs growth of around 1.7%Y/Y or more, representing the strongest pace in a decade. Separately, final February inflation numbers from Germany are expected to align with the flash estimates which saw the EU-harmonised measure decline 0.2ppt to 1.2%Y/Y (the equivalent Spanish data released today, similarly confirmed the preliminary estimate on the EU-harmonised measure of 1.2%Y/Y, up 0.5ppt from January). Tomorrow could also bring new insights into the monetary policy outlook with speeches from ECB President Draghi, Vice President Constâncio and Chief Economist Praet. In the markets, Germany will sell 30Y bonds.

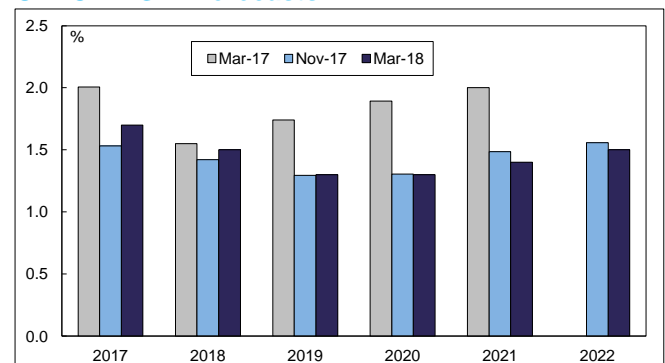
In the US, the focus will be February's producer price and retail sales data. Most notably, a rebound in retail sales seems likely after poor weather weighed in January although a drop in sales of new motor vehicles is likely to constrain the headline number.

France: Payrolls and employment climate index



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: OBR GDP forecasts



Source: OBR and Daiwa Capital Markets Europe Ltd.



UK

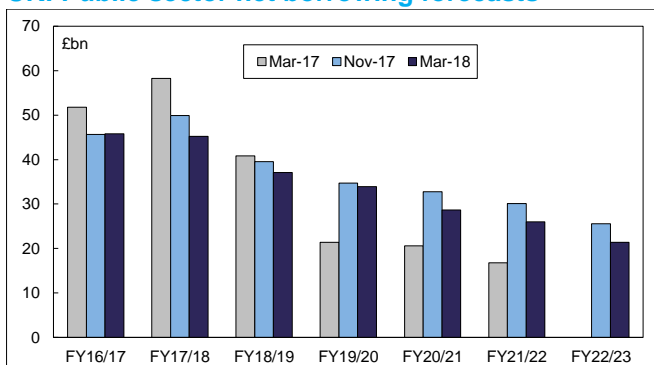
The OBR acknowledges slightly stronger outlook for UK public finances

Today the Chancellor of the Exchequer Phillip Hammond presented the 2018 Spring Statement. In line with the new budget timetable, according to which all major fiscal policy changes will be made in the Autumn Budget, there were no new tax or spending announcements. So the focus was on the OBR's updated fiscal and economic projections, which compared to the equivalent publication last autumn painted a more positive picture of the UK economy. Indeed, with the monthly net public borrowing figures having continued to undershoot their expected levels, the FY17/18 forecast was revised down by almost £5bn to £45.2bn and this lower starting point pushed the forecast for net public borrowing down in every year over the forecast horizon. Indeed, the government is now expected to balance the current budget in FY18/19, a year earlier than expected in November and the total net borrowing at the end of the forecast in FY22/23 is now expected to be £4.2bn lower. However, given that it remains at more than £20bn, there is a lot of uncertainty whether the Government can still reach its fiscal objective of balancing the total budget by the middle of the next decade. The more positive than expected UK economic backdrop last year and this, largely thanks to the stronger world economy, was the most important factor working in Chancellor's favour. But while the growth forecasts for this year and next were revised up by 0.2ppt and 0.1ppt respectively to 1.7%Y/Y and 1.5%Y/Y, it is not expected to last, with growth expected to be slightly lower than previously expected in 2021 and 2022. Interestingly, the recent stronger-than-expected labour productivity growth data for Q317 and Q417 did not change the OBR's assessment of the UK's economic potential. Having revised lower its output per hour rates in November, it stuck to its projection this time, continuing to expect that the pick-up in productivity growth will soon be reversed. Finally, on the Brexit front, the OBR did confirm that the Brexit settlement will cost the UK public purse £37.1bn, a figure in the middle of the range estimated by the Treasury and that payments will continue for around 45 years

The day ahead in the UK

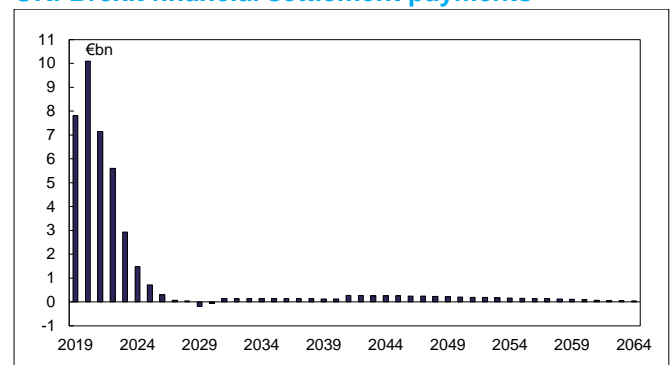
It should be a quiet day in the UK with no new data releases due.

UK: Public sector net borrowing forecasts



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Brexit financial settlement payments






Source: OBR 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
France	 Payroll employment (private sector payrolls) Q/Q%	Q4	0.3 (0.4)	0.2 (0.3)	0.2 (0.3)	-
Italy	 Unemployment rate %	Q4	11.0	11.0	11.2	-
Spain	 Final EU-harmonised CPI Y/Y%	Feb	1.2	<u>1.2</u>	0.7	-

Auctions

Country	Auction
Italy sold	 €2.5bn of 0.2% 2020 bonds (15-Oct-2020) at an average yield of 0.06%  €4bn of 1.45% 2025 bonds (15-May-2025) at an average yield of 1.47%  €1.29bn of 2.45% 2033 bonds (01-Sep-2033) at an average yield of 2.48%  €960mn of 2.7% 2047 bonds (01-Mar-2047) at an average yield of 2.92%

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	Industrial production M/M% (Y/Y%)	Jan	-0.5 (4.4)	0.4 (5.2)
	10:00	Employment Q/Q% (Y/Y%)	Q4	-	0.4 (1.7)
Germany	07:00	Final EU-harmonised CPI Y/Y%	Feb	<u>1.2</u>	1.4
Italy	09:00	Retail sales M/M% (Y/Y%)	Jan	-	-0.3 (-0.1)
Spain	08:00	Retail sales Y/Y%	Jan	2.4	1.2


Auctions

Country	GMT	Auction / Event
EMU	08:00	ECB's Draghi, Praet and Constâncio scheduled to speak in Frankfurt
	16:15	ECB's Cœuré scheduled to speak in Berlin
Germany	10:30	Auction: To sell €1.5bn of 1.25% 2048 bonds (15-Aug-2048)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 ECB public sector asset purchases €bn	Weekly	<u>6.2</u>	5.3	5.2	-

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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