

# Euro wrap-up

## Overview

- Gilts made further losses as the latest UK labour market data were stronger than expected.
- Bunds were again little changed on an uneventful day in the euro area.
- Thursday will bring the latest policy announcement from the BoE as well as UK retail sales data and the flash March euro area PMIs.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 03/20	-0.589	-0.001
OBL 0 10/22	-0.129	+0.003
DBR 0½ 02/28	0.593	+0.010
UKT 2 07/20	0.933	+0.054
UKT 0¾ 07/23	1.265	+0.061
UKT 4¾ 12/27	1.538	+0.053

\*Change from close as at 4.00pm GMT.  
Source: Bloomberg

## UK

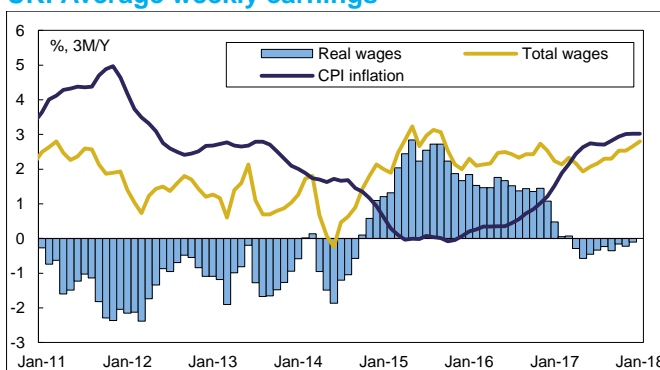
### Labour market increases pressure on Bank Rate

Ahead of tomorrow's BoE policy announcement, today's data brought the clearest signs to date that the squeeze on real incomes may be ending. Average earnings growth beat predictions to reach a 28-month high of 2.8%3M/Y in January, as private sector earnings growth hit 3.0%Y/Y and its 3M/3M rate, which currently seems to be the most important indicator of inflationary pressures for the MPC, remained elevated above the 3%-mark for a third consecutive month. Total real weekly earnings in January on a 3M/Y basis were flat, bringing to an end a nine-month run of declines. After nudging up to 4.4% in December, the unemployment rate slipped back to 4.3% in January, a return to the joint-lowest rate since 1975, as employment rose by 168,000 in the three months to January. The increase in employment has been broadly based over the past year, with the biggest rises recorded in the healthcare and administrative sectors, while only education registered a decline. The figures also showed a recovery in total hours worked which, having fallen gradually in the second half of 2017, recovered notably in January suggesting that the improved productivity performance in Q3 and Q4 of last year will not be sustained in Q1. The only other soft spot in this release was a fall in the number of vacancies for the first time in seven months, although, even here, the level of unfilled jobs remained above last year's average. In its February Inflation Report, the BoE had focussed on signs of growing wage pressures, and the continued momentum in the labour market is likely to add weight to that view. Accordingly, despite inflation surprising on the downside and concerns about softer economic growth in Q1, the MPC will likely keep open the option of a May Bank Rate rise in tomorrow's policy statement.

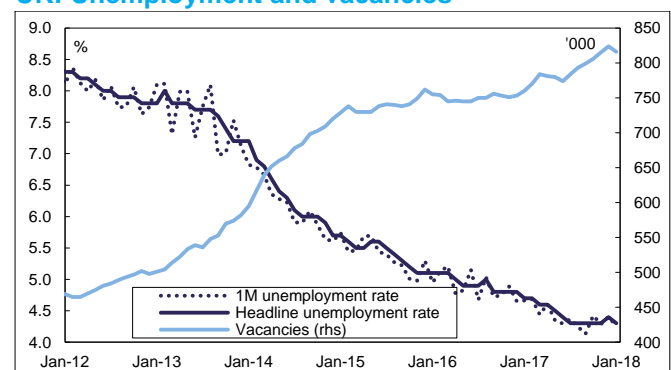
### Manufacturing slows but reassured by transitional deal

Continuing the trend of recent PMI surveys and official data, however, the CBI Industrial Trends Survey revealed a further loss in manufacturing momentum in March. The balance of firms reporting an increase in orders was +4%, the lowest since October. However, the CBI highlighted that this remains above the long-term average of -14% (which reflects the decades-long underperformance of the UK's manufacturing sector relative to its peers), and said that, with the export orders balance holding steady at +10%, stronger external demand and weaker sterling had "gifted UK manufacturers a strong first quarter". While the forward-looking output expectations balance slipped from February's +16% to +13% in March, the CBI welcomed this week's progress on the Brexit negotiations related to the transition period, suggesting that it had increased confidence among its members. However, it also reminded that "Other hurdles on the Brexit path need to be cleared" with a customs union its favoured option for the future relationship.

### UK: Average weekly earnings



### UK: Unemployment and vacancies



## Public borrowing on track to meet FY target

Meanwhile, the public finances recorded a slightly larger than expected deficit (excluding publicly-owned banks) of £1.3bn in February. This was a deterioration of £2.5bn compared to last February, thanks to lower income and capital gains tax receipts and higher spending. Together with £2.3bn worth of revisions to previous month's data, cumulative borrowing for this financial year continues to track below the previous year's but by less than previously thought. Nevertheless, the cumulative deficit for FY17/18 to date of £41.7bn means borrowing remains comfortably on track to meet the improved forecast of £45.2bn for FY17/18 contained in last week's Spring Statement.

## The day ahead in the UK








The conclusion of the BoE's monetary policy meeting on Thursday is unlikely to reveal anything new of substance. Certainly, we see no chance of a rate hike as yet. At the time of its last meeting (and Inflation Report) the MPC stated that if the economy were "to evolve broadly in line with the February Inflation Report projections, monetary policy would need to be tightened somewhat earlier and by a somewhat greater extent over the forecast period than anticipated at the time of the November Report". We don't anticipate any material change to the MPC's broad message, while it might acknowledge that market expectations for future changes in Bank Rate have now shifted. As outlined above, the labour market data may have increased the chances of a May Bank Rate hike, but the Bank could yet decide to wait beyond that month for more data from Q2 to evaluate the underlying trend in activity, not least as recent snow disruption is almost certain to have dampened growth in Q1. The official retail sales numbers, to be released earlier in the morning, won't however reveal any impact of the exceptionally wintery spell. The survey period used by the ONS stopped just short of the final week of February, when the "Beast from the East" delivered the worst snow in more than five years. After the weakness of recent months, a slight monthly increase is expected in February spending but the underlying trend is likely to remain subdued, reflecting the pressure on real wages and pre-Brexit nerves.

## Euro area

### The day ahead in the euro area and US

After a quiet day today, Thursday will bring the most notable euro area economic data of the week with the first business sentiment survey results for March, including the flash PMIs. The euro area composite PMI declined more than 1½pts in February to a four-month low of 57.1, and the Bloomberg consensus forecast is for a further moderation in March to suggest a gradual softening of economic momentum in Q1. The German and French PMIs will likely send similar messages, as should the main national business sentiment survey indicators from the two largest member states – i.e. Germany's Ifo and France's INSEE indices – both of which are also due tomorrow. In the US, the usual weekly jobless claims figures are due along with the March flash PMIs, February Conference Board leading indices, and January FHFA house price numbers.














## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 Average earnings (excl. bonuses) 3M/Y%	Jan	<b>2.8 (2.6)</b>	<u>2.6 (2.6)</u>	2.5 (2.5)	<b>2.7 (-)</b>
	 ILO unemployment rate 3M%	Jan	<b>4.3</b>	<u>4.4</u>	4.4	-
	 Employment change 3M/3M '000s	Jan	<b>168</b>	<u>100</u>	88	-
	 Claimant count rate % (change 000s)	Feb	<b>2.4 (9.2)</b>	-	2.3 (-7.2)	<b>- (-1.6)</b>
	 Public sector net borrowing excluding interventions £bn	Feb	<b>1.3</b>	1.8	-10.0	<b>10.1</b>
	 CBI Industrial Trends Survey, total orders	Mar	<b>4</b>	8	10	-
Auctions						
Country	Auction					
Germany sold 	€3bn of 0.5% 2028 bonds (15-Feb-2028) at an average yield of 0.6%					


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 Current account balance €bn	Jan	-	29.9
		09:00 Preliminary manufacturing PMI	Mar	58.1	58.6
		09:00 Preliminary services PMI (preliminary composite PMI)	Mar	56.0 (56.8)	56.2 (57.1)
Germany		08:30 Preliminary manufacturing PMI	Mar	59.8	60.6
		08:30 Preliminary services PMI (preliminary composite PMI)	Mar	55.0 (57.0)	55.3 (57.6)
		09:00 Ifo business climate index	Mar	114.6	115.4
		09:00 Ifo current assessment balance (expectations)	Mar	125.6 (104.4)	126.3 (105.4)
France		07:45 Manufacturing confidence (production outlook)	Mar	111 (28)	112 (30)
		08:00 Preliminary manufacturing PMI	Mar	55.5	55.9
		08:00 Preliminary services PMI (preliminary composite PMI)	Mar	57.0 (57.0)	57.4 (57.3)
UK		09:30 Retail sales excluding auto fuel M/M% (Y/Y%)	Feb	0.4 (1.2)	0.1 (1.5)
		09:30 Retail sales including auto fuel M/M% (Y/Y%)	Feb	0.4 (1.4)	0.1 (1.6)
		12:00 BoE Bank Rate %	Mar	<u>0.5</u>	0.5

### Auctions

Country	GMT	Auction / Event
EMU		09:00 ECB publishes Economic Bulletin

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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