

# Euro wrap-up

## Overview

- Bunds made modest gains as a survey signalled a further deterioration in German economic sentiment.
- Gilts also made modest gains as the latest UK labour market data showed a fall in unemployment but also softer wage growth than expected.
- Wednesday will bring the release of the UK's inflation data for March, as well as the final estimates of the equivalent indicators from the euro area.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 03/20	-0.579	-0.005
OBL 0 10/22	-0.089	-0.014
DBR 0½ 02/28	0.511	-0.013
UKT 2 07/20	0.893	-0.031
UKT 0¾ 07/23	1.185	-0.021
UKT 4¼ 12/27	1.444	-0.019

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

## Euro area

### Further worsening of sentiment on the cards in Q2?

After strong growth in the second half of last year, most economic surveys suggest that the euro area economy took a turn for the worse in Q1. Several factors might have contributed: capacity constraints in some member states (most notably Germany), bad weather, residual seasonality in the data, and a weaker global economic backdrop, all perhaps exacerbated by caution amid US and Chinese trade spats. Whatever reason it was, according to today's ZEW survey of financial sector professionals, the first of the top-tier surveys for Q2, German economic conditions might well have deteriorated further in April. Indeed, the relevant indicator fell from 90.7 to 87.9, a level almost 5pts lower compared to its average in Q1, but still higher than the average in 2017. The survey's forward-looking index of expectations took a more significant hit, with the reading of -8.2 the lowest since the euro crisis in 2012 and far below the long-term average of 23.5. So, overall, the ZEW survey appears to set the scene for a further moderation in confidence in Q2 and we will be watching if other indicators of economic sentiment – most notably the euro area flash consumer sentiment indicator, due on Friday, and preliminary euro area PMIs, out next Monday – bring a similar message.

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

Final euro area inflation figures for March are coming out tomorrow. Today's equivalent data from Italy surprised on the downside – the headline rate was revised down 0.2ppt to 0.9%Y/Y in March, from 0.5%Y/Y in February. However, given that the inflation estimates from the other large member states fully aligned with their early releases, we expect to see no significant revisions tomorrow, with the euro area's headline and core rates set to be confirmed at 1.4%Y/Y and 1.0%Y/Y respectively. Among other data releases in the euro area, new car registration figures for the month of March, and the latest indicators for construction output growth in February, are due.

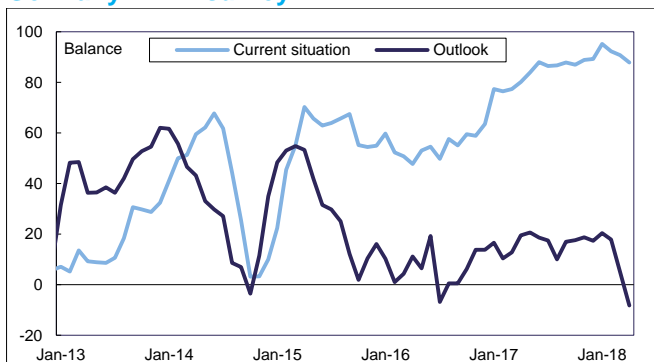
It should be a quiet day for new economic data in the US, with only the Beige Book, a report of the latest information on economic conditions gathered by regional Feds, due for release.

## UK

### Earnings stagnation may not deter Bank Rate hike

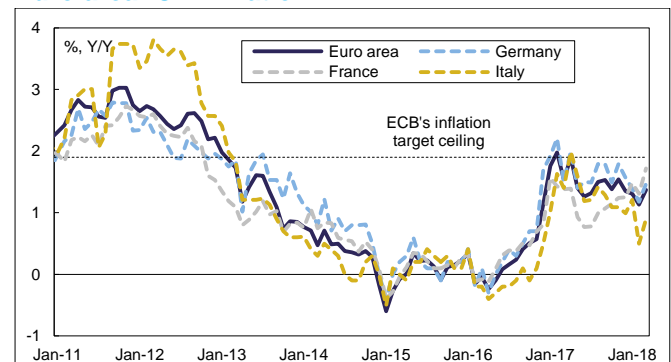
The labour market data marked the first of this week's crucial top-tier UK releases, and proved to be a mixed bag. Average earnings growth came in on the low side of expectations, sticking at 2.8%3M/Y in February, meaning that the BoE's preferred measure of

### Germany: ZEW survey



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: CPI inflation\*



\*EU-harmonised measure. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

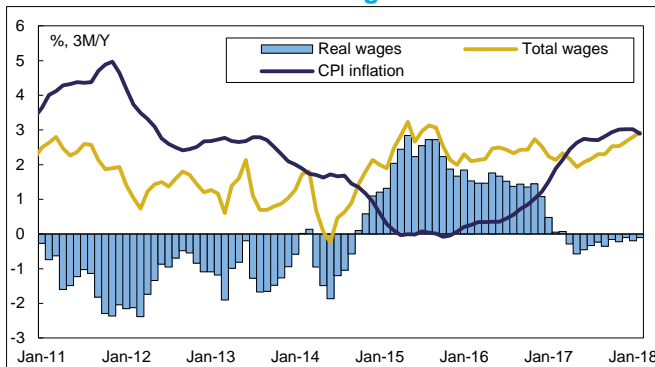


whole economy real earnings growth (using a headline CPI inflation of 2.9%3M/Y) remains negative. The stalling of the headline nominal rate reflects a fall in private sector earnings growth – a key indicator of inflationary pressures for the MPC - by 0.6ppt to 2.3%Y/Y in February alone, with the annualised 3M/3M rate doing the same. That softness appears to raise questions about the BoE's comment after its March meeting that it had "increasing confidence that growth in wages and unit labour costs would pick up to target-consistent rates". But that does not necessarily move a Bank Rate hike off the May 10<sup>th</sup> meeting agenda. Instead, the MPC may choose to focus on the fall in the unemployment rate to a new 40-year low of 4.2% in the three months to February as a sign that the sustained tightening of the labour market will exert more upward pressure on pay settlements. It might equally focus on the rise in the employment rate to 75.4%, the highest since records began in 1971, and a small increase in average hours worked. The latter reversed the fall in hours worked in the second half of 2017, and so may herald a potential reversal in the recent gains recorded in productivity. The number of vacancies in January to March, at 815,000, was unchanged on the previous 3 months, but up 5.4%3M/Y.

## Day ahead in the UK

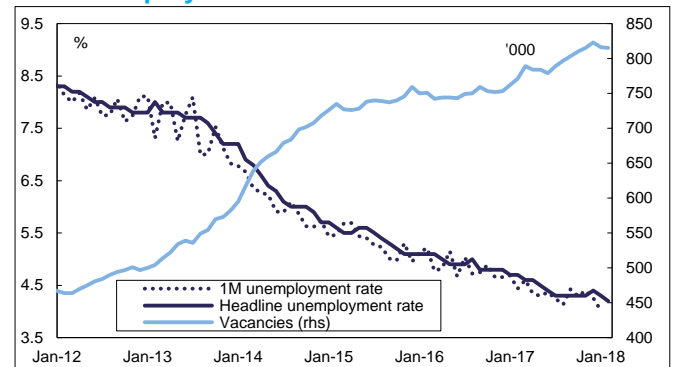
The BoE will have more vital data to ponder on Wednesday with the release of March's CPI inflation. The 0.3ppt drop in the headline rate to 2.7%Y/Y in February is unlikely to have been repeated in the latest month. Instead we expect it to have remained unchanged, and think that the core rate might tick up 0.1ppt to 2.5%Y/Y. But these estimates come with a greater degree of uncertainty than usual due to several special factors including very significant base effects in goods price inflation, harsh weather conditions, and Easter holidays that may have affected prices in March.

### UK: Nominal and real earnings



Source: Thomson Reuters & Daiwa Capital Markets Europe Ltd.

### UK: Unemployment rate and vacancies











Source: Thomson Reuters & 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	 ZEW expectations	Apr	<b>1.9</b>	-	13.4	-
Germany	 ZEW current assessment balance (expectations)	Apr	<b>87.9 (-8.2)</b>	88.0 (-1.0)	90.7 (5.1)	-
Italy	 Final EU-harmonised CPI Y/Y%	Mar	<b>0.9</b>	1.1	0.5	-
	 Trade balance €bn	Feb	<b>3.1</b>	-	-0.1	<b>-0.1</b>
UK	 Claimant count rate % (change '000s)	Mar	<b>2.4 (11.6)</b>	-	2.4 (9.2)	<b>-(15.1)</b>
	 Average weekly earnings (excl. bonuses) 3M/Y%	Feb	<b>2.8 (2.8)</b>	<u>2.9 (2.8)</u>	2.8 (2.6)	-
	 ILO unemployment rate%	Feb	<b>4.2</b>	<u>4.3</u>	4.3	-
	 Employment change 3M/3M '000s	Feb	<b>55</b>	<u>50</u>	168	-







#### Auctions

Country	Auction
- Nothing to report -	


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tomorrow's data releases

### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
EMU		07:00	EU27 new car registrations Y/Y%	Mar	-	4.3
		10:00	Construction output M/M% (Y/Y%)	Feb	-	-2.2 (3.7)
		10:00	Final CPI (final core CPI) Y/Y%	Mar	1.0 (1.4)	1.0 (1.4)
UK		09:30	CPI (core CPI) Y/Y%	Mar	<u>2.7 (2.5)</u>	2.7 (2.4)
		09:30	Input (output) PPI Y/Y%	Mar	4.2 (2.3)	3.4 (2.6)
		09:30	House price index Y/Y%	Feb	4.5	4.9


### Auctions

Country	BST	Auction / Event
Germany		10:30 Auction: To sell €3bn of 0.5% 2028 bonds (15-Feb-2028)

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>10.2</u>	5.0	8.4

### Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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