

Euro wrap-up

Overview

- Bunds made gains today as risk aversion continued to dominate euro area financial markets.
- Gilts also made notable gains today, with 10Y yields falling to their lowest in a year, despite a day bereft of UK economic data.
- Tomorrow brings German IP and trade figures for December, as well as the UK's trade report for the same month.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/17	-0.506	-0.014
OBL 0 04/21	-0.280	-0.033
DBR 0½ 02/26	0.225	-0.071
UKT 1 09/17	0.321	-0.045
UKT 2 07/20	0.758	-0.114
UKT 2 09/25	1.416	-0.143

*Change from close as at 4.30pm GMT.

Source: Bloomberg

Euro area

Spanish IP down in December, French manufacturers more upbeat in January

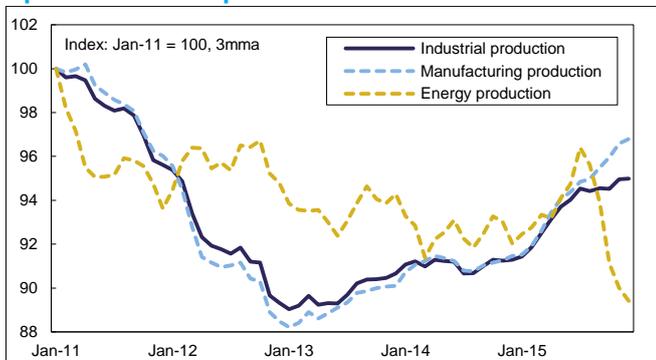
At the start of the week, risk aversion continued to dominate euro area financial markets, e.g. with concerns about the health of the region's banks for the eighth consecutive day pushing up sharply the cost of default protection on financials' senior debt to its highest since October 2013. With respect to economic data, meanwhile, the news-flow was more prosaic. For example, ahead of Friday's aggregate euro area GDP and industrial production releases for the final quarter of 2015, one focus at the start of the week was December's industrial output data from Spain. These reported a modest decline in production, of 0.2%M/M, to represent the first fall in four months. The weakness principally reflected a further drop in output from the energy sector, down for the fifth consecutive month and by more than 1%M/M. Despite a more-than 1%M/M decline in production of consumer goods, overall manufacturing output was up for the fourth consecutive month in December and by 0.2%M/M. So, over the fourth quarter as a whole, manufacturing output rose 1.4%Q/Q. And although energy output provided a significant drag in Q4, overall industrial production from Spain was up for the fifth consecutive quarter and by ½%Q/Q. Elsewhere, the Bank of France's business sentiment survey for January exceeded expectations. While the survey suggested that sentiment in the services and construction sectors was unchanged from December, the equivalent indicator for the manufacturing sector improved slightly, up 1pt to 101, above the long-run average and the strongest since 2011. On the basis of the survey, the Bank of France currently forecasts French GDP growth to pick up to 0.4%Q/Q in Q116, twice the rate in Q415. We, however, are more pessimistic and expect growth to be maintained at 0.2%Q/Q.

The day ahead in the euro area and the US

The data focus in the euro area on Tuesday will be December industrial production figures from Germany. Expectations are for an increase of ½%M/M in December, although this would leave industrial output down around ½% over the fourth quarter as a whole. Tuesday also brings Germany's trade report for December, which is expected to report a further modest increase in exports on the month, while a German index-linked bond auction will be conducted.

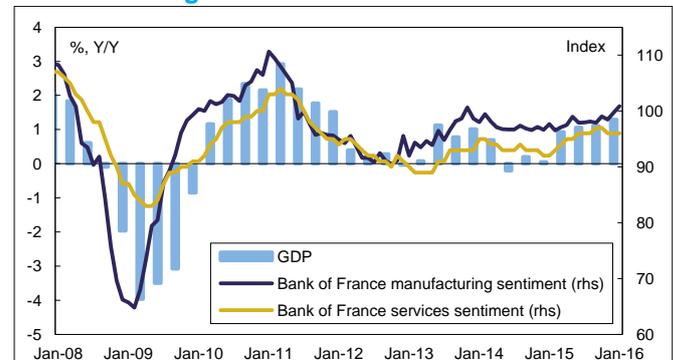
In the US, it should be another relatively quiet day for economic news with just December JOLTS data and wholesale inventories figures due for release. In the UST market, a 3Y auction is scheduled.

Spain: Industrial production



Source: Datastream and Daiwa Capital Markets Europe Ltd.

France: GDP growth and business sentiment



Source: Bank of France, Datastream and Daiwa Capital Markets Europe Ltd.



UK

The day ahead in the UK

After a quiet start to the week today, the UK dataflow picks up tomorrow with the release of the December trade figures. Even though the headline trade balance is likely to have narrowed slightly in December, import growth still looks to have outpaced export growth in Q4, leaving net exports once again subtracting from growth that quarter. Also due tomorrow is the BRC retail sector survey for January.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 ECB QE net purchases €bn	Weekly	13.2	13.0	14.5	-
France	 Bank of France business sentiment indicator	Jan	101	99	99	100
Spain	 Industrial production M/M% (Y/Y%)	Dec	-0.2 (3.7)	- (4.1)	0.0 (4.2)	0.1 (4.3)
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	Industrial production M/M% (Y/Y%)	Dec	0.5 (-0.6)	-0.3 (-0.1)	
		07.00	Trade balance €bn	Dec	20.0	20.5	
		07.00	Imports (exports) M/M%	Dec	-0.5 (0.5)	1.7 (0.5)	
		07.00	Current account balance €bn	Dec	26.7	24.7	
UK		00.01	BRC like-for-like sales Y/Y%	Jan	0.3	0.1	
		09.30	Visible trade balance £bn	Dec	-10.4	-10.6	
		09.30	Total trade balance £bn	Dec	-3.0	-3.2	
Auctions and events							
Country	GMT	Auction / Event					
Germany		10.30	Auction: To sell €500mn of 0.1% 2046 index-linked bonds (15-Apr-2046)				
UK		09.30	BoE's Cunliffe scheduled to speak in London				
		10.30	Auction: To sell £1.3bn of 0.125% 2026 index-linked bonds (22-Mar-2026)				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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