

Euro wrap-up

Overview

- Bunds made modest gains at the longer end of the curve as euro area export data remained weak.
- Gilts made modest gains as UK inflation fell back, defying the market consensus.
- Wednesday brings the final estimate of euro area inflation in April and the latest UK labour market report.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 03/18	-0.512	+0.004
OBL 0 04/21	-0.377	-0.004
DBR 0½ 02/26	0.130	-0.012
UKT 1¼ 07/18	0.383	+0.001
UKT 1½ 01/21	0.800	-0.013
UKT 2 09/25	1.372	-0.023

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

Euro area

Trade surplus close to record high thanks to falling import prices

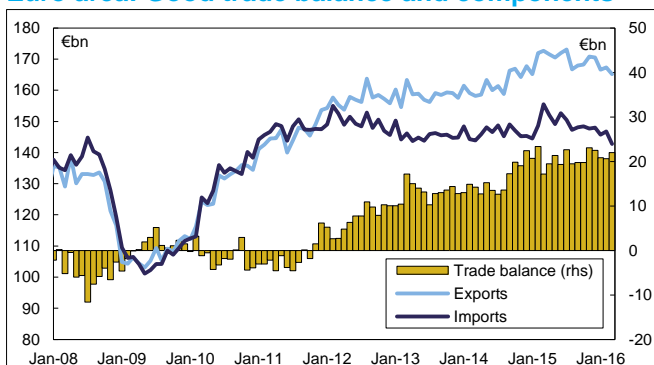
As foreshadowed by the national data, which saw increases in the trade surpluses of each of the large member states and a record surplus in Germany, the euro area goods trade surplus rose in March by more than €1½bn on a seasonally adjusted basis to €22.3bn, only about €1bn below the series high recorded thirteen months before. The increase in the trade surplus was not, however, due to an improved export performance: the value of exports fell more than 1%M/M and 3%Y/Y to the lowest level since 2014, with weakness related to almost every major destination. Instead, the large trade balance was driven by a sharp drop in the value of imports, down more than 2½%M/M and 8%Y/Y to the lowest level since November 2010, which was likely entirely due to falling prices. In March, prices of imported manufactured goods fell 3.6%Y/Y while prices of imported energy fell more than 30%Y/Y. And while March goods trade volume data are not yet available, in February the volume of imports was up more than 3½%Y/Y while the volume of exports was down more than 2%Y/Y, weighed particularly by the drop in exports of capital goods. Indeed, based on the volume data for the first two months of the past quarter, and consistent with the messages from the French and German statistical agencies, with imports significantly higher than in Q4 and exports lower, net trade appears to have subtracted from economic growth again in Q1 for the third successive quarter. Looking ahead, the recovery in the price of oil, coupled with the likelihood of continued subdued global demand for capital goods, is likely to halt the rise in the trade surplus over coming quarters.

The day ahead in the euro area and the US

Wednesday brings the final estimate of euro area inflation in April. While the equivalent German (-0.3%Y/Y), French (-0.1%Y/Y) and Spanish (-1.2%Y/Y) figures aligned with their respective preliminary estimates, Friday's downward revision to the Italian number (down 0.1ppt from the flash reading to a fifteen-month low of -0.4%Y/Y) implies that we are also likely to see a downward revision made to the euro area headline CPI rate to a fourteen-month low of -0.3%Y/Y. The core measure, however, is likely to be left unchanged at the flash estimate of 0.7%Y/Y, which was already revised down to correct for initial German errors and would still represent a twelve-month low. In the bond markets, meanwhile, Germany will sell 10Y Bunds.

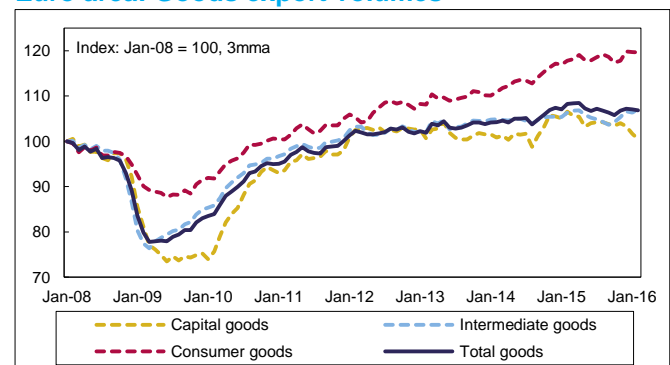
In the US, attention will be focused on the release of the minutes of the April FOMC meeting, for which the post-meeting statement suggested that the Committee was in no hurry to raise rates.

Euro area: Good trade balance and components*



*Export and import values. Source: Datastream and Daiwa Capital Markets Europe Ltd.

Euro area: Goods export volumes



Source: Datastream and Daiwa Capital Markets Europe Ltd.



UK

Inflation pick-up proved short-lived

This week's flow of major UK economic indicators started today with the release of the latest CPI figures. Bang in line with our forecast, headline inflation surprised markets on the downside, slipping by 0.2ppt to 0.3%Y/Y. The core rate also dropped significantly, to 1.2%Y/Y, down 0.3ppt on the previous month. This returned inflation to where it was in February, before the Easter-induced rise in March, which looks to have been an entirely temporary phenomenon. Indeed, goods (excluding food and energy) and services inflation declined to -0.8%Y/Y and 2.4%Y/Y respectively to match their February readings. Overall, while the drop in sterling and the higher oil price looks set to drive inflation higher over coming months, the increase will be very gradual. And with the economy having slowed sharply in recent months, in part thanks to the uncertainty around the EU referendum, if growth doesn't rebound rapidly after the referendum (assuming a vote to remain), then a weaker inflation profile will merely add to the pressure on the MPC to cut rates later in the year.

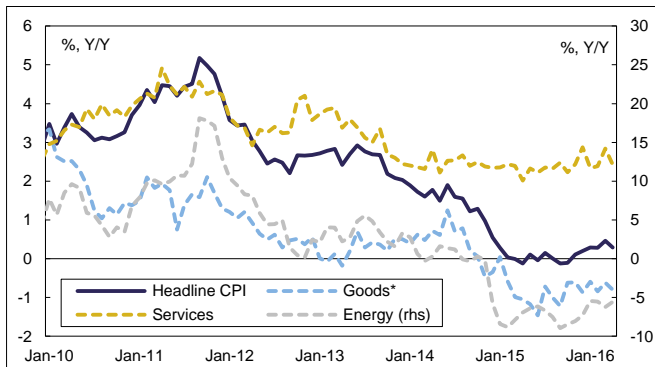
House price growth surged ahead of Stamp Duty tax increase

The ONS house price index, also released today, suggested that house price growth strengthened in March. House price growth hit 9.0%Y/Y, the strongest in twelve months and 1.4ppts higher than in February. Growth was stronger in most areas in England, with prices in London leading the way with a 13.0%Y/Y increase and South East and East England both reporting increases in excess of 12%Y/Y. However, the market was particularly active ahead of an increase in Stamp Duty tax on second properties in April, with residential property transactions surging by more than 41% in March. Therefore, the increase in house price growth reported today looks likely to be reversed in subsequent months, with Brexit risks additionally weighing on activity.

The day ahead in the UK

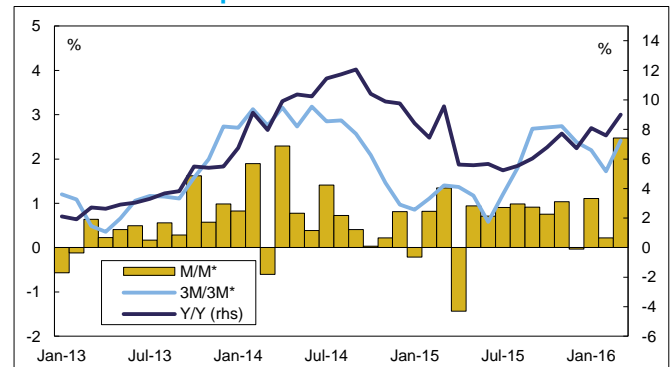
The focus tomorrow turns to the release of labour market figures, which should also be relatively downbeat. We expect employment to have fallen in the three months to March, while the unemployment rate is set to have remained unchanged at 5.1% for the fifth consecutive month. And with earnings growth having fallen to just 1.1%Y/Y in February, the headline three-month growth rate is unlikely to signal any strengthening in underlying wage pressures.

UK: CPI inflation



*Non-energy industrial goods. Source: Datastream and Daiwa Capital Markets Europe Ltd.

UK: ONS house price index







*Seasonally adjusted data. Source: Datastream 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	 Trade balance €bn	Mar	22.3	22.0	20.2	20.6
Italy	 Trade balance €bn	Mar	5.4	-	3.9	-
UK	 CPI (core CPI) Y/Y%	Apr	0.3 (1.2)	<u>0.3 (1.2)</u>	0.5 (1.5)	-
	 ONS house price Y/Y%	Mar	9.0	-	7.6	-



Auctions

Country	Auction
- Nothing to report -	

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 QE net purchases €bn	Weekly	16.9	<u>18.2</u>	19.8	-
UK	 Rightmove house price index M/M% (Y/Y%)	May	0.4 (7.8)	-	1.3 (7.3)	-






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		10.00 Final CPI (core CPI) Y/Y%	Apr	<u>-0.3 (0.7)</u>	0.0 (1.0)
UK		09.30 Average earnings incl. bonuses (excl. bonuses) 3M/Y%	Mar	<u>1.7 (2.2)</u>	1.8 (2.2)
		09.30 ILO unemployment rate 3M%	Mar	<u>5.1</u>	5.1
		09.30 Employment change 3M/3M '000s	Mar	<u>-25</u>	20
		09.30 Claimant count rate % (changed 000s)	Apr	<u>2.1 (4.5)</u>	2.1 (6.7)

Auctions and events

Country	BST	Auction / Event
Germany		10.30 Auction: To sell €4bn of 0.5% 2026 bonds (15-Feb-2026)
UK		09.30 BoE publishes Agents' Summary of Business Conditions
		10.30 Auction: To sell £1.5bn of 4.25% 2036 bonds (07-Mar-2036)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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