

Euro wrap-up

Overview

- Bunds made modest losses as April euro area inflation data were left unrevised.
- Gilts underperformed as UK employment rose to a record high and an opinion poll suggested increased support for the UK to remain in the EU.
- Thursday sees the publication of the account of the ECB's April policy meeting and data on euro area construction output and UK retail sales.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 03/18	-0.510	+0.002
OBL 0 04/21	-0.364	+0.014
DBR 0½ 02/26	0.022	+0.029
UKT 1¼ 07/18	0.425	+0.045
UKT 1½ 01/21	0.861	+0.063
UKT 2 09/25	1.436	+0.066

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

Euro area

Inflation unrevised and set to rise steadily towards year-end

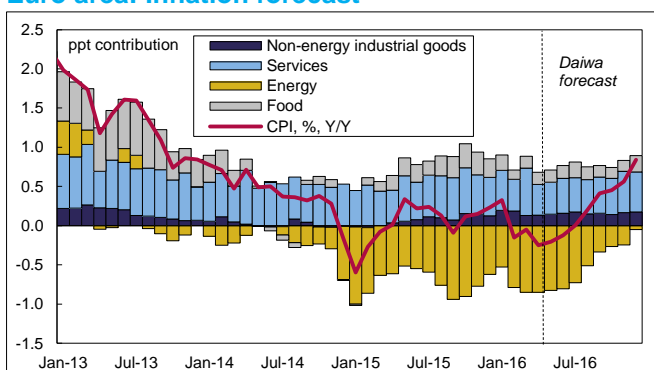
Despite a downwards revision to the Italian figure at the end of last week, euro area CPI in April was left unrevised at -0.2%Y/Y, down 0.2ppt on the month to match February's twelve-month low. To three decimal places, however, CPI was just 0.001ppt away from a downwards revision to -0.3%Y/Y. The core measure of inflation was also unrevised at 0.7%Y/Y, still down 0.3ppt from March to a twelve-month low. And there were only minimal changes made to the various subcomponents, although energy prices fell a touch more than previously thought, down 8.7%Y/Y for the second successive month. Looking ahead, while we expect euro area inflation to remain below zero until July, it should rise steadily to close to 1%Y/Y around the turn of the year as base effects of past energy price declines reverse. Indeed, with the oil price now well above the assumptions of \$34.9pb and \$41.2pb for 2016 and 2017 respectively used in the ECB's March forecast, at the conclusion of the Governing Council's next policy meeting on 2 June Draghi will likely present upwards revisions to the inflation outlook. And with economic growth having surprised on the upside in Q116 at 0.5%Q/Q, he will probably do likewise to the ECB's projection for GDP too. So, while there remains no shortage of causes for caution, e.g. with core inflation remaining stubbornly low, the 5Y5Y measure of market inflation expectations still less than 1.50%, and the risks to the outlook still skewed to the downside, for the time being at least the pressure is off the ECB to deliver more stimulus.

The day ahead in the euro area and the US

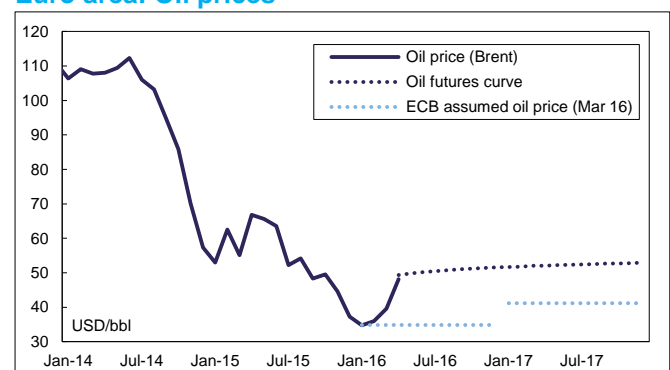
Thursday brings euro area construction output data for March, which are likely to confirm that the sector made a positive contribution to GDP growth in the first quarter. Also due are euro area balance of payments figures for the same month, and the account of the ECB's April monetary policy meeting, which most notably finalised the criteria governing its corporate bond purchases. In the markets, France and Spain will sell a range of bonds.

In the US, Thursday brings the latest Chicago Fed and Philly Fed indices and weekly jobless claims figures. In addition, Fed Vice Chairman Stan Fischer is scheduled to talk publicly, and the Treasury will sell 10Y TIPS.

Euro area: Inflation forecast



Euro area: Oil prices



UK

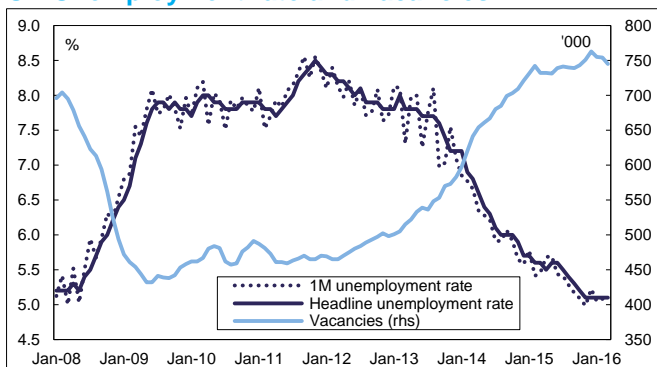
Labour market remained sluggish in March

Given the weakness evident in recent data, today's release of the latest figures from the UK labour market provided a modest upward surprise. They showed that, having dropped from 267k in November to just 20k in February, headline three-month-on-three-month employment growth halted the decline, rising 44K in March. And headline earnings growth was stronger too: instead of falling from 1.9%3M/Y as expected, headline growth rate inched up to 2.0%3M/Y. But despite exceeding expectations, the report nonetheless had a softish tone. The three-month unemployment rate remained unchanged at 5.1% for the fifth consecutive month, having fallen by 0.5ppt in the prior five months, while regular earnings growth (excluding bonuses) actually fell by 0.1ppt to 2.1%3M/Y, continuing to signal weak domestic inflationary pressure. And, looking beyond the headline indicators, the level of vacancies recorded the steepest three-month fall since mid-2011, suggesting that the pace of hiring has slowed sharply, perhaps in part reflecting the uncertainty surrounding the EU referendum. So, on balance, today's figures offer little to suggest that the economic momentum might be improving in the UK.

The day ahead in the UK

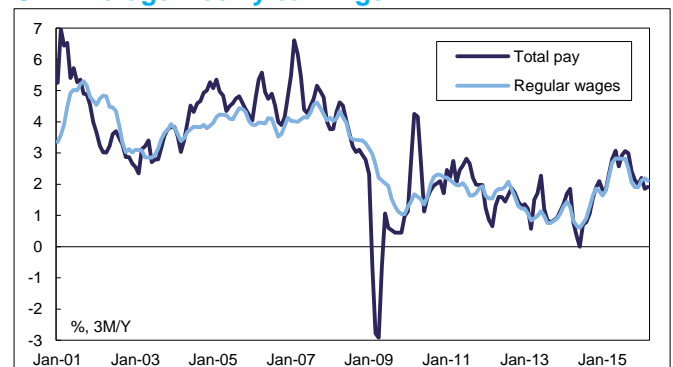
Tomorrow's figures from the retail sector continue the flow of major economic indicators from the UK this week. Indeed, having almost halved since the start of the year to 2.7%Y/Y in March, sales growth is expected to have inched even lower in April.

UK Unemployment rate and vacancies



Source: Datastream and Daiwa Capital Markets Europe Ltd.

UK: Average weekly earnings








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	 Final CPI (core CPI) Y/Y%	Apr	-0.2 (0.7)	<u>-0.3 (0.7)</u>	0.0 (1.0)	-
UK	 Average earnings incl. bonuses (excl. bonuses) 3M/Y%	Mar	2.0 (2.1)	<u>1.7 (2.2)</u>	1.8 (2.2)	1.9 (-)
	 ILO unemployment rate 3M%	Mar	5.1	<u>5.1</u>	5.1	-
	 Employment change 3M/3M '000s	Mar	44	<u>-25</u>	20	-
	 Claimant count rate % (changed 000s)	Apr	2.1 (-2.4)	2.1 (4.5)	2.1 (6.7)	2.2 (14.7)






Auctions

Country	Auction
Germany sold 	€3.2bn of 0.5% 2026 bonds (15-Feb-2026) at an average yield of 0.14%
UK sold 	£1.5bn of 4.25% 2036 bonds (07-Mar-2036) at an average yield of 2.11%










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	 09.00	Current account balance €bn	Mar	-	19.0
	 10.00	Construction output M/M% (Y/Y%)	Mar	-	-1.1 (2.5)
France	 06.30	Unemployment rate %	Q1	10.2	10.3
UK	 09.30	Retail sales excluding petrol M/M% (Y/Y%)	Apr	0.6 (2.0)	-1.6 (1.8)
	 09.30	Retail sales including petrol M/M% (Y/Y%)	Apr	0.6 (2.5)	-1.3 (2.7)

Auctions and events

Country	BST	Auction / Event
EMU	 12.30	ECB account of April's Governing Council meeting
France	 09.50	Auction: To sell 2019 zero-coupon bonds (25-Feb-2019)
	 09.50	Auction: To sell 2021 zero-coupon bonds (25-May-2021)
	 10.50	Auction: To sell 0.1% 2021 index-linked bonds (01-Mar-2021)
	 10.50	Auction: To sell 0.1% 2025 index-linked bonds (01-Mar-2025)
	 10.50	Auction: To sell 0.7% 2030 index-linked bonds (25-Jul-2030)
Spain	 09.30	Auction: To sell 0.25% 2019 bonds (31-Jan-2019)
	 09.30	Auction: To sell 4.8% 2024 bonds (31-Jan-2024)
	 09.30	Auction: To sell 1.95% 2030 bonds (30-Jul-2030)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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