

Euro wrap-up

Overview

- Bunds made modest gains as the euro area trade surplus reached a new record high.
- Gilts made gains despite a stronger than expected UK labour market report.
- Thursday brings UK retail sales and final euro area inflation figures for May. In addition, the latest BoE MPC meeting will leave policy unchanged.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/18	-0.591	-0.011
OBL 0 04/21	-0.484	-0.016
DBR 0½ 02/26	-0.015	-0.012
UKT 1¼ 07/18	0.336	-0.025
UKT 1½ 01/21	0.653	-0.023
UKT 2 09/25	1.114	-0.029

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

Euro area

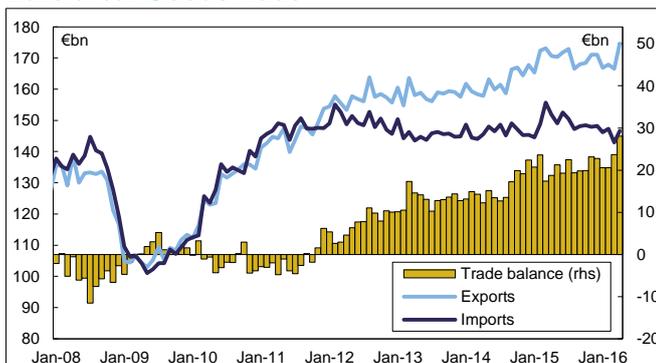
Trade surplus hits new record high

As foreshadowed by the national data, which revealed a series-high German surplus, today's euro area trade report for April likewise showed a record surplus on a seasonally adjusted basis, up more than €4bn on the month to €28bn. Despite rising more than 2% above the level in March, imports were still down almost 3½% compared to a year earlier. Meanwhile, having the previous month reached the lowest level since 2014, exports rebounded vigorously, rising almost 5%M/M, the most in almost three years, to a level almost 2½% higher than a year earlier. By destination, exports were much stronger to China (up almost 9%Y/Y) and certain other emerging Asia countries. But they remained relatively subdued to the US and Japan, and were lower than a year earlier to the recent persistent sources of weakness, Russia and Brazil. And while at face value today's figures might offer hope that net trade will provide a positive contribution to euro area GDP growth in the second quarter of the year, significant price shifts provide reasons for caution. Falling import prices over the past year explain most of the drop in the value of imports. And in April import prices fell 2.9%Y/Y, the most since late 2009, with prices of imported manufactured goods down more than 4%Y/Y and prices of imported energy down more than 30%Y/Y. Moreover, a significant drop in German factory orders from beyond the euro area in April, coupled with more recent signals of sluggish new export orders from surveys such as the PMIs, suggests that the jump in exports in the latest month might well have represented a dose of random data volatility rather than the start of a new upwards trend.

The day ahead in the euro area and US

Thursday brings the final estimate of euro area inflation in May. While today saw French inflation revised up from the flash estimate by 0.1ppt on the EU measure to 0.1%Y/Y, since the equivalent preliminary estimates from Germany (0.0%Y/Y), Italy (-0.3%Y/Y) and Spain (-1.1%Y/Y) were all confirmed, we expect the final headline euro area figure to align with the flash estimate of -0.1%Y/Y, 0.1ppt firmer than in April. Likewise, we expect core CPI to be confirmed at the flash estimate of 0.8%Y/Y, close to the middle of the range of the past two years and clearly inconsistent with a return of headline inflation back to the ECB's target of close to 2%Y/Y for the foreseeable future. Also due are May figures for new car registrations, which have levelled off over recent months following robust growth throughout last year. In the markets, France and Spain will sell a range of bonds. In addition, on the political front, the Eurogroup meeting on Thursday should see Finance Ministers confirm their agreement to disburse €7.5bn to Greece, which should then enable the Governing Council meeting on 21 July to reintroduce the waiver on Greek debt allowing its eligibility as collateral in the ECB's refinancing operations.

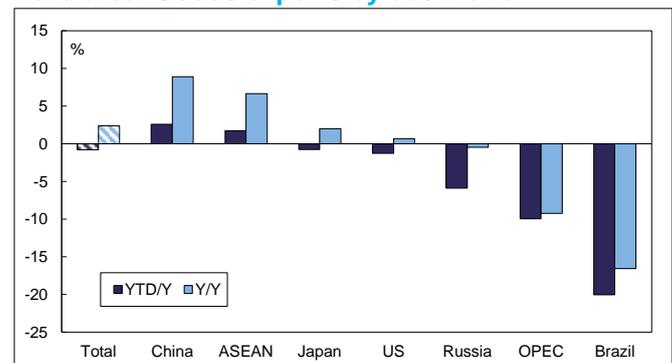
Euro area: Goods trade*



*Seasonally adjusted data.

Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Goods exports by destination*



*April 2016.

Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



In the US, as the dust settles following the Fed's latest policy announcement, Thursday brings several economic data releases of note including May's CPI inflation figures, the June Philly Fed business outlook and NAHB housing market indices, and usual weekly jobless claims numbers. Having the previous month risen 0.4%M/M, the firmest pace in more than three years, not least due to higher energy prices we expect only a slight moderation in monthly CPI to 0.3%M/M. That, however, would leave the annual rate unchanged at 1.1Y/Y. Core prices are expected to have risen 0.2%M/M leaving the annual rate close to the top of its range of the past few years at 2.2%Y/Y.

UK

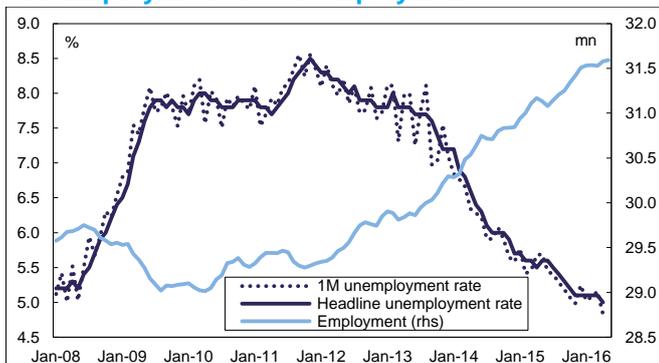
Labour market data were mixed in April

Ahead of the release of the latest labour market figures in the UK today, market expectations were for little or no change in the major indicators. In the event the figures were slightly stronger than expected, at least at face value. Most notably, the headline three-month unemployment rate inched down to 5.0% in April, having flat-lined at 5.1% for the past five months, while regular earnings growth rose to 2.3%3M/Y, a seven-month high, up from an upwardly revised 2.2%3M/Y in March. However, a deeper delve into the data revealed a less positive picture. For example, the unemployment rate was flattered by a fall in the labour force that month. And, although the magnitude of its effect is unclear, the introduction of the National Living Wage rather than a tightening labour market may well explain the stronger earnings growth. In addition, while the increase in employment of 55k3M/3M was the highest in three months, it remained far short of the around-200k pace recorded in the final months of last year. So, on balance, these data provided no compelling news for the MPC, which is in any case is no doubt focused on the outcome, and potential economic repercussion, of the EU referendum.

The day ahead in the UK

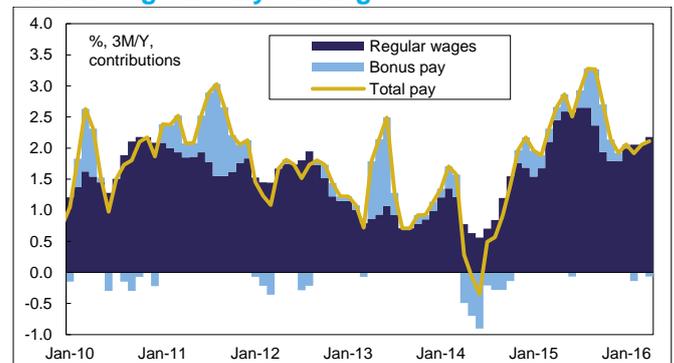
Indeed, the announcement from the MPC's latest meeting comes tomorrow. But coming only one week before the EU referendum, there is no chance of any change in policy. There will be no press conference after, but Carney is scheduled to give a speech later in the evening at the annual Mansion House dinner. His remarks should be mainly about new technologies in finance, but markets will be looking for any insights to what the MPC reaction to the referendum vote could be. The Chancellor will also speak at the same event. Meanwhile, on the data front, the numbers from the retail sector for May should continue to show that sales growth remained firm, at nearly 4%Y/Y.

UK: Employment and unemployment rate



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Average weekly earnings



Source: Thomson Reuters 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	Apr	28.0	21.5	22.3	23.7
France	 Final EU-harmonised CPI Y/Y%	May	0.1	<u>0.0</u>	-0.1	-
UK	 Average earnings incl. bonuses (excl. bonuses) 3M/Y%	Apr	2.0 (2.3)	<u>1.8 (2.0)</u>	2.0 (2.1)	-(2.2)
	 ILO unemployment rate 3M%	Apr	5.0	<u>5.1</u>	5.1	-
	 Employment change 3M/3M '000s	Apr	55	<u>70</u>	44	-
	 Claimant count rate % (changed 000s)	May	2.2 (-0.4)	2.1 (0.0)	2.1 (-2.4)	2.2 (6.4)

Auctions

Country	Auction
Germany sold 	€3.3bn of 0.5% 2026 bonds (15-Feb-2026) at an average yield of 0.01%

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%	May	-	9.1
	10.00	 Final CPI (core CPI) Y/Y%	May	<u>-0.1 (0.8)</u>	-0.2 (0.7)
Spain	08.00	 Labour costs Y/Y%	Q1	-	1.2
UK	09.30	 Retail sales excluding petrol M/M% (Y/Y%)	May	0.3 (3.8)	1.5 (4.2)
	09.30	 Retail sales including petrol M/M% (Y/Y%)	May	0.2 (3.9)	1.3 (4.3)
	12.00	 BoE bank rate %	Jun	<u>0.50</u>	0.50
	12.00	 BoE asset purchase target £bn	Jun	<u>375</u>	375

Auctions and events

Country	BST	Auction / Event
EMU	08.00	 ECB publishes Economic Bulletin
	14.00	 Eurogroup meets in Brussels
France	09.50	 Auction: To sell 0.5% 2019 bonds (25-Nov-2019)
	09.50	 Auction: To sell 2021 zero-coupon bonds (25-May-2021)
	09.50	 Auction: To sell 1.75% 2023 bonds (25-May-2023)
	10.50	 Auction: To sell 0.1% 2021 index-linked bonds (25-Jul-2021)
	10.50	 Auction: To sell 1.85% 2027 index-linked bonds (25-Jul-2027)
Spain	09.30	 Auction: To sell 0.25% of 2019 bonds (31-Jan-2019)
	09.30	 Auction: To sell 0.75% of 2021 bonds (30-Jul-2021)
	09.30	 Auction: To sell 1.95% of 2026 bonds (30-Apr-2026)
	09.30	 Auction: To sell 4.9% of 2040 bonds (30-Jul-2040)
UK	12.00	 Monetary policy announcement and MPC minutes
	21.00	 BoE's Carney scheduled to speak at the Mansion House Dinner in London

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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