

# Euro wrap-up

## Overview

- Bunds made modest losses as data showed euro area labour cost growth picked up at the start of the year.
- Gilts also made losses as campaigning on the UK referendum paused to mark respect for the MP murdered on Thursday.
- Thursday's UK referendum will dominate attention in the coming week, which also brings the results of several euro area economic surveys.

## Economic Research Team

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 06/18	-0.607	-0.003
OBL 0 04/21	-0.498	+0.003
DBR 0½ 02/26	0.017	+0.042
UKT 1¼ 07/18	0.388	+0.039
UKT 1½ 01/21	0.694	+0.037
UKT 2 09/25	1.142	+0.032

\*Change from close as at 4.30pm BST.

Source: Bloomberg

## Euro area

### Labour costs growth suggest a small improvement in inflationary pressures

In his most recent press conference, ECB President Draghi highlighted the lack of inflationary pressures emanating from the labour market as a key factor explaining stubbornly low inflation in the euro area. So he might take some comfort from today's release of the latest hourly labour cost numbers, which showed them picking up in Q1 from 1.3%Y/Y to 1.7%Y/Y, a level close to the top end of the range of the past three years. Business economy labour costs, which exclude public sector workers, were a touch stronger, hitting a joint three-year-high of 1.8%Y/Y. Behind the headline numbers, the figures underlined the stark differences among the large member states. For example, on the back of a tight labour market, labour costs in Germany rose by 3.3%Y/Y, the highest pace in three years and 1.4ppts higher than in Q4. Meanwhile, in France labour costs rose 2.4%Y/Y, up from 1.1%Y/Y previously. However, the figures for Spain and Italy continued to reflect the sizeable amount of spare capacity in the labour market, and arguably a deflationary mindset among the main protagonists, with the former showing labour cost growth of only 0.7%Y/Y, unchanged from Q4, and the latter posting -2.0%Y/Y, the lowest reading for this data series. So, today figures once again illustrate the wide disparities in economic performance across the euro area. And while the pick-up in the headline number means that wage growth moved in the right direction in Q1, it remained well below levels consistent with the ECB's inflation target.

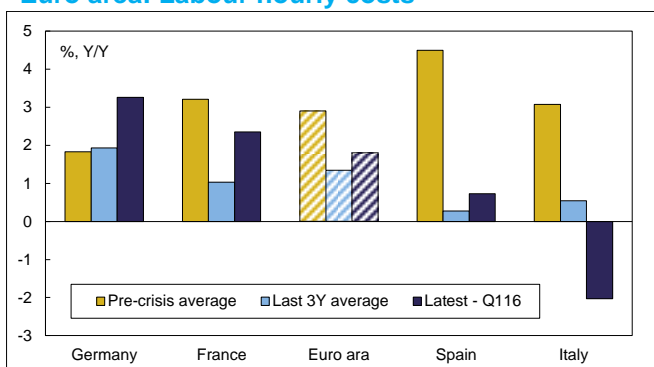
### Current account hits record surplus in April

After the release earlier this week of the latest euro area goods trade figures showed a second consecutive sharp improvement in the trade balance to a record high surplus of €28.0bn (on a seasonally adjusted basis), today's figure for the overall current account marked a series high too. In particular, the total current account surplus increased by almost €10bn to a record high of €36.2bn. While goods trade provided a positive contribution to the increase in the overall balance, the principal driver in the latest month was the income account. Primary income, which reflects the net return on investment assets, rose to €8.3bn, the highest level since last September, while the deficit on secondary income (or net transfers) fell by more than €4bn. These left the cumulative twelve-month balance as a share of GDP at 3.1%, 0.3ppts higher than a year earlier.

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

While the principal focus in Europe will be on the UK referendum result, due early on Friday, the coming week also brings several economic data releases of note from the euro area, the most notable of which will be the first survey results for June.

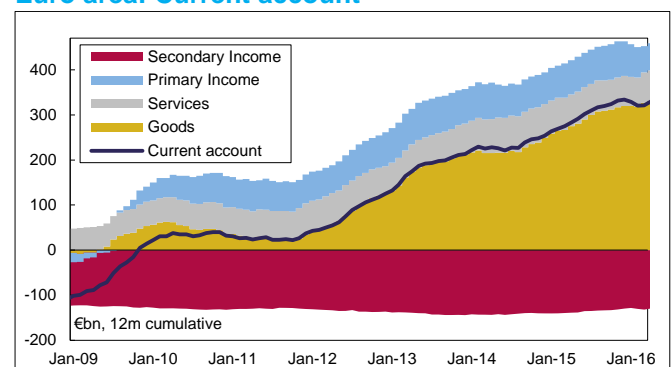
#### Euro area: Labour hourly costs\*



\*Excluding public sector.

Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

#### Euro area: Current account



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



Given recent financial market risk aversion, the German ZEW survey (due Tuesday) might be expected to show a deterioration in investor optimism. However, we expect the flash euro area consumer confidence index (due the following day) to remain relatively stable and above its long-run average. We expect Thursday's flash PMIs to show the euro area services, manufacturing and composite PMIs moving broadly sideways, close to levels reported since February, which would leave the average for Q2 down from Q1 and suggesting a modest moderation in GDP growth this quarter to about 0.3%Q/Q. Friday, meanwhile, brings the German Ifo business sentiment survey. Other data due in the coming week include the first estimate of Q1 GDP in Ireland, where growth (in what is a highly erratic series) reached an extraordinarily strong 9.3%Y/Y in the final quarter of 2015. And the week will start with euro area construction output figures for April. Policy-wise, the ECB will hold its first TLTRO II operation, with Thursday morning representing the deadline for bids. Finally, in the markets, Germany will sell 30Y Bunds on Wednesday.

In the US, the first half of the coming week will see Janet Yellen present her semi-annual monetary policy testimony before the Senate on Tuesday and House on Wednesday. Data-wise, housing market indicators due for release include the FHFA home price index and existing home sales figures on Wednesday and new homes sales data on Thursday. Weekly jobless claims figures are also due Thursday, alongside the Chicago Fed's national activity index and Conference Board's latest leading indicators. Finally, Friday brings durable goods orders data for May, as well as the revised University of Michigan's consumer sentiment survey. In the bond market, the Treasury will sell 2Y Notes on Monday, 5Y Notes on Tuesday, and 7Y Notes, 2Y FRNs and 30Y TIPS on Wednesday.

## UK

### Referendum campaign suspended in wake of tragedy

What had become an increasingly bitter referendum campaign turned to tragedy yesterday with the murder in the UK of a young MP who had been an active Remain campaigner. While it remains far from clear whether her murder was in any way related to the referendum, it moved market expectations of the likelihood of a Leave vote. Cable, arguably the bellwether of market referendum fears, moved from a low of 1.40 Thursday to hit 1.43 on Friday. And risk assets more generally performed better.

### Weekend polls to give first sign of any impact on voting intentions

It remains to be seen whether the initial market reaction turns out to be correct. Certainly, the immediate aftermath of the murder saw a more intense spotlight shone on some of the tactics that have been employed by sections of the Leave campaign, which has imported (with some success it has to be said) the nihilistic, fear-of-the-outsider politics favoured by certain pockets of the American right. Whether this more intense scrutiny and the MP's shocking death is sufficient to shift the outcome remains to be seen. The latest opinion polls published yesterday had leads of between 3 and 6pts for Leave. New opinion polls are due at the weekend and will give the first indication of any move in people's voting intention in response to yesterday's tragic events.

### Referendum to dominate coming week

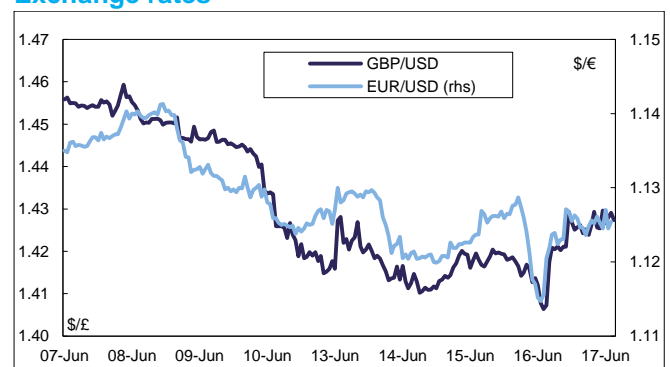
Both sides immediately suspended their campaigns and it is unclear whether they will be restarted before the vote itself this coming Thursday. Nevertheless the build up to, and the referendum result itself, will dominate the newsflow globally in the coming week. In terms of the referendum itself, there are no plans for exit polls, so the first indication of results will not come in until around 12:30am BST on the Friday. Based on estimates from the Electoral Commission, around

### Referendum timetable

Date	Time*	Event
23-Jun	07:00	Polling stations open
	22:00	Polling stations close
24-Jun	00:30	First results declared
	03:00	~25% of votes declared
	04:00	~50% of votes declared
	04:30	~75% of votes declared
	07-09:00	Final result announced

Source: Daiwa Capital Markets Europe Ltd.  
\*BST. All times are estimates

### Exchange rates






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

25% of votes will be declared by around 3:00am, and around 50% by around 4:00am (see table). So, dependent on how close the results are, we could have a good idea of the outcome by then. If it's close, however, a clear indication of the result may not come until much later.
















### The week ahead in the UK

Away from the referendum the week sees only a few second-tier data releases. The public finance figures for May, on Tuesday, are expected to show that public sector borrowing in May was £9.5bn, about £1bn lower compared to a year ago. Also due on Tuesday is the CBI Industrial Trends survey, while the BBA High Street banking data from will be released on Friday.

## European calendar





Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Current account balance €bn	Apr	<b>36.2</b>	-	27.3	<b>26.3</b>
	 Labour costs Y/Y%	Q1	<b>1.7</b>	-	1.3	-
Italy	 Trade balance €bn	Apr	<b>4.5</b>	-	5.4	<b>5.2</b>
Auctions						
Country	Auction					
- Nothing to report -						

## Coming week's data calendar

Key data releases						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
<b>Monday 20 June 2016</b>						
EMU		10.00 Construction output M/M% (Y/Y%)	Apr	-	-0.9 (-0.5)	
		14.45 ECB QE net purchases €bn	Weekly	<u>18.2</u>	17.7	
Spain		09.00 Trade balance €bn	Apr	-	-0.8	
UK		00.01 Rightmove house price index M/M% (Y/Y%)	Jun	-	0.4 (7.8)	
<b>Tuesday 21 June 2016</b>						
EMU		10.00 ZEW survey balance - expectations	Jun	-	16.8	
		10.00 ZEW current assessment balance (expectations)	Jun	53.0 (4.5)	53.1 (6.4)	
UK		09.30 Public sector net borrowing excluding interventions £bn	May	<u>9.5</u>	7.2	
		11.00 CBI Industrial Trends survey, total orders	Jun	-10	-8	
<b>Wednesday 22 June 2016</b>						
EMU		15.00 Preliminary consumer confidence	Jun	-7.0	-7.0	
<b>Thursday 23 June 2016</b>						
EMU		09.00 Preliminary manufacturing PMI	Jun	51.4	51.5	
		09.00 Preliminary services PMI (preliminary composite PMI)	Jun	53.2 (53.0)	53.3 (53.1)	
Germany		08.30 Preliminary manufacturing PMI	Jun	52.0	52.1	
		08.30 Preliminary services PMI (preliminary composite PMI)	Jun	55.0 (54.3)	55.2 (54.5)	
France		07.45 Business confidence indicator (production outlook)	Jun	103 (-)	102 (6)	
		08.00 Preliminary manufacturing PMI	Jun	48.8	48.4	
		08.00 Preliminary services PMI (preliminary composite PMI)	Jun	51.6 (51.0)	51.6 (50.9)	
Italy		09.00 Industrial orders M/M% (Y/Y%)	Apr	-	-3.3 (0.1)	
		09.00 Industrial sales M/M% (Y/Y%)	Apr	-	-1.6 (-3.6)	
<b>Friday 24 June 2016</b>						
Germany		09.00 Ifo business climate index	Jun	107.4	107.7	
		09.00 Ifo current assessment balance (expectations)	Jun	114.0 (101.2)	114.2 (101.6)	
France		07.45 GDP – final release Q/Q% (Y/Y%)	Q1	0.6 (1.4)	0.4 (1.4)	
Italy		09.00 Retail sales M/M% (Y/Y%)	Apr	-	-0.6 (2.2)	
UK		09.30 BBA loans for house purchase 000s	May	37.9	40.1	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Coming week's events/auctions calendar

Key events & auctions			
Country	BST	Event / Auction	
<b>Monday 20 June 2016</b>			
EMU	 14.00	ECB's Mersch scheduled to speak in Brussels	
<b>Tuesday 21 June 2016</b>			
EMU	 14.00	ECB's Draghi scheduled to speak in Brussels	
<b>Wednesday 22 June 2016</b>			
Germany	 10.30	Auction: To sell €1bn of 2.5% 2046 bonds (15-Aug-2046)	
<b>Thursday 23 June 2016</b>			
UK	 -	UK holds a referendum on the EU membership	
<b>Friday 24 June 2016</b>			
- Nothing scheduled -			

Source: ECB, BoE, Bloomberg and Daiwa Capital Markets Europe Ltd.

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