

Euro wrap-up

Overview

- Bunds were little changed as Spain's Prime Minister called a snap general election and data suggested a further recovery in euro area car registrations at the start of the year.
- Gilts were also little changed despite an upside surprise to the latest UK retail sales figures.
- The coming week brings several euro area economic survey indicators including the flash PMIs and the latest UK labour market data.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.559	-0.007
OBL 0 04/24	-0.351	-0.005
DBR 0¼ 02/29	0.101	-0.002
UKT 2 07/20	0.726	-0.015
UKT 0¼ 07/23	0.810	+0.001
UKT 1½ 10/28	1.158	+0.007

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

Euro area

Exports were up in Q4, but down in December

While euro area GDP growth in Q4 was confirmed earlier this week at 0.2%Q/Q, we will have to wait until the final release on 7 March for the official expenditure breakdown. However, today's release of December's trade figures suggest that net exports provided modest support to growth last quarter. Certainly, the trade surplus in Q4 stood at an ample €45.2bn, up €3.6bn from Q3, as the increase in the value of exports (1.1%Q/Q) outpaced that of imports (0.5%Q/Q). Nevertheless, the monthly profile was less encouraging, with the value of exports in December down for the second successive month (-0.1%M/M), to leave it 0.2% lower than a year earlier, the first annual decline since July 2016. While exports to Japan maintained steady growth at the end of last year, shipments to elsewhere in Asia weakened sharply – e.g. the value of exports were down to China (-4.6%Y/Y), Hong Kong (-9.6%Y/Y) and Korea (-13.0%Y/Y). But the downward trend in shipments to Turkey, Russia and Latin America was maintained heading into year-end too. And with global uncertainty – not least associated with Brexit – having intensified at the start of this year, and surveys suggesting that new export orders lost further momentum at the start of the year, we expect export growth to remain very subdued this quarter.

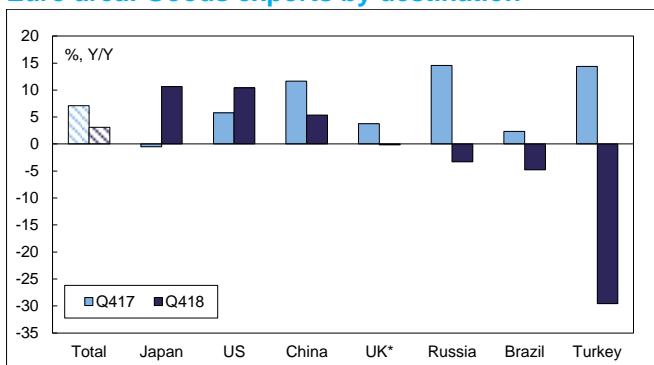
Car registrations to support spending in Q1

At face value, January's new car registrations figures suggested that domestic demand, for big-ticket items at least, remained subdued in the euro area at the start of the year. In particular, new car registrations were down compared with a year earlier for the fifth consecutive month and by more than 5½%Y/Y. But while there was significant weakness in registrations in Italy and Spain (down 7½%Y/Y and 8%Y/Y respectively), and the Netherlands (down a whopping 18.8%Y/Y), registrations in Germany and France saw rates of decline that were much more modest than of late (falling just 1.4%Y/Y and 1.1%Y/Y respectively). Moreover, the level of units registered was still the second-highest January reading since 2009. And most notably, on a seasonally adjusted basis, new car registrations in the euro area actually rose for the fourth consecutive month and by a firm 4.8%M/M, suggesting that the worst of the adjustment to September's emissions regulation is now firmly in the past, and also that spending on autos will contribute positively to GDP growth in Q119 after subtracting in Q4.

Another Spanish election in April

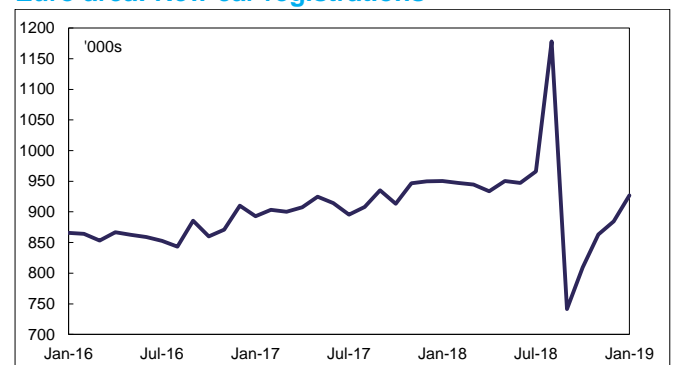
Away from the data, as was widely expected after Spain's Parliament on Wednesday failed to pass the Government's 2019 budget, Prime Minister Sanchez today called a snap election for 28 April. This will be the third election in less than four years.

Euro area: Goods exports by destination



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: New car registrations*



*Seasonally adjusted data. Source: ECB, Bloomberg and Daiwa Capital Markets Europe Ltd.



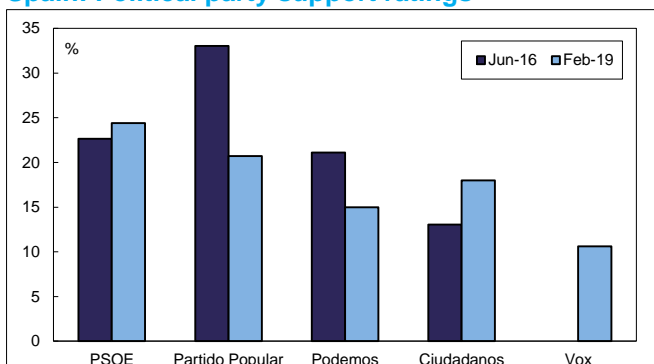
But with no single party commanding a clear lead in the polls, the outcome will likely be another weak Government. Indeed, recent polls have shown significant fluctuations in support for the various parties, adding to the unpredictability of the outcome. Currently they suggest that the ruling Socialists are likely to win the largest share of support, but might struggle to win more than one quarter of the vote. Meanwhile, the establishment right-wing Partido Popular (PP), which won about one third of the vote at the 2016 election, continues to struggle, attracting little more than one fifth of voters. Support for the centrist Ciudadanos is down from its high point earlier in 2018 when the party topped the opinion polls, but is not far behind the PP and well up on its showing at the last election. And the populist left-wing Podemos (which has been losing ground over the past couple of years) and nationalist Vox (which is very much on the rise) can also each muster more than 10% of the vote. So, while a centre-right coalition between PP and Citizens has been mooted as a likely consequence of the election, a number of outcomes is possible. But while the political complexion of the next Government is uncertain, any economic impact over the near term seems likely to be minimal with policy inertia a likely consequence. Indeed, persistent political instability over recent years – whether related to Catalan nationalism or the weakness of successive Governments – has not held back Spain's economic expansion, which in 2018 was the clear outperformer of the large member states. This appears to be the view of investors too, with Spanish yields having barely reacted to today's news.

The week ahead in the euro area and US

The coming week in the euro area will be a busy one for economic data, dominated by February sentiment surveys, including the Commission's flash consumer confidence indicator on Wednesday and the flash PMIs on Thursday, while also bringing final inflation figures for January and the ECB's account from its most recent Governing Council meeting. Having maintained a downward trend throughout 2018, consumer confidence surprised on the upside at the start of 2019. And expectations are for a further modest improvement in February, although this would likely still be the third-lowest reading for almost two years. Business sentiment similarly fell sharply last year and the euro area's composite PMI took a further step down in January to its lowest level for 5½ years. But expectations are for the PMIs to move broadly sideways in February in the euro area and the two largest member states. Other national sentiment indicators due include those from Germany's ZEW survey of investors (Tuesday), and the business climate indices of France's INSEE (Thursday) and Germany's Ifo institute (Friday). The back end of the week will also bring final January inflation numbers from Germany, France and Italy on Thursday, ahead of the euro area aggregate figure on Friday – the flash euro area estimates of 1.4%Y/Y for headline inflation and 1.1%Y/Y for core inflation seem likely to be confirmed. Thursday's ECB account will be worth watching for any further insight into likely changes to the Governing Council's interest rate guidance at the next meeting in March as well as views on the case for a new round of TLTROs. Among other releases, euro area construction output and current account figures are due Tuesday and the final estimate of German Q4 GDP will come with a first expenditure breakdown on Friday. There are several policy members due to speak in the coming week including, Vice President Guindos on Tuesday, Chief Economist Praet every day bar Monday, and President Draghi on Friday. In the markets, Germany will sell 5Y bonds on Wednesday, while France and Italy will sell bonds with various maturities on Thursday and Friday respectively.

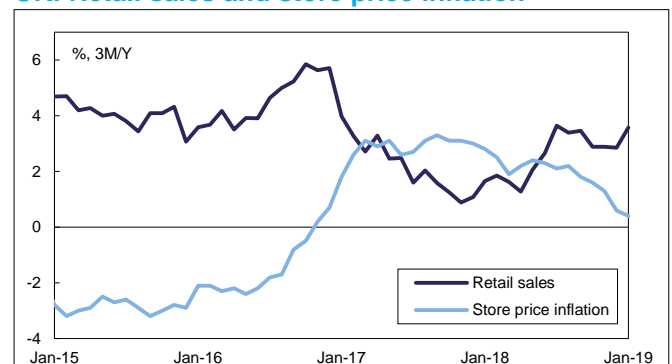
In the US, following Monday's Presidents' Day holiday, the economic diary begins on Tuesday with the release of the NAHB housing index for February. On Wednesday there will be plenty of interest in the minutes of last month's FOMC meeting. Thursday will see the release of the delayed durable goods orders report for December, together with the Philadelphia Fed's manufacturing survey for February. Also that day we will receive existing home sales data for January, the Conference Board's leading Index for the same month and the preliminary Markit PMI reports for February. While there are presently no reports scheduled for release on Friday, several FOMC members will speak at a Fed conference on 'The future of the Federal Reserve's balance sheet'. Other Fed speakers in the coming week include Mester on Tuesday and Bostic on Thursday. In the bond market, the US Treasury will auction 2-year FRNs on Wednesday and 30-year TIPS on Thursday.

Spain: Political party support ratings



Source: El Pais and Daiwa Capital Markets Europe Ltd.

UK: Retail sales and store price inflation



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK

Retail sales surprise on the upside

Against the backdrop of intensifying doom and gloom surrounding the Brexit debacle, today's UK retail sales figures provided a rare glimmer of economic optimism at the start of the year. In particular, retail sales rose a stronger-than-expected 1.0%M/M in January, more than reversing the decline of 0.7%M/M in December, which was not quite as bad as previously thought. So, sales were up 4.2% compared with a year earlier, the strongest such increase for more than two years. Spending at food stores, non-food stores and online all posted strong growth at the start of the year, with consumers seemingly lured by heavy discounting as the average store price rose at the softest annual pace since November 2016. This was particularly evident at clothing and footwear stores, where sales were up a strong 5.5%Y/Y in January as store price inflation fell 0.9%Y/Y. Admittedly, the strength at the start of the year will in part reflect payback for the disappointing festive period, which saw sales decline over the fourth quarter as a whole. But, by the same token, given the surge in January, apparel sales seem bound to fall back over the near term too. And with consumer confidence having dropped to its lowest level for 5½ years and likely to remain subdued as Brexit uncertainty persists, we expect a much weaker February and, despite today's data, a very subdued Q1 for retail sales overall.







The week ahead in the UK

Yesterday's Brexit debate saw Theresa May humiliated once again, defeated on a vote related to her strategy of seeking alternative arrangements to the Irish backstop. Apart from acute political embarrassment for the Prime Minister and the further sign of her ever-eroding authority, however, the defeat could have little consequence, and talks should still be conducted between London and Brussels in the coming week. Indeed, more important will be the outcome of a further vote, likely to be held on 27 February, on proposals from Labour's Yvette Cooper and the Conservative Oliver Letwin that would demand the Prime Minister to seek an extension of the Article 50 deadline if Parliament fails to approve a Brexit deal by 13 March. That appears to have a good chance of passing, and, if so, would suggest that the ultimate choice given to MPs at end-March will be between a largely unmodified version of Theresa May's current draft Withdrawal Agreement and Political Declaration and a lengthy extension to the Article 50 deadline.

Aside from Brexit noise, the coming week will also bring several UK data releases of note. First up will be the latest labour market report on Tuesday, which is expected to show only modest employment growth in the three months to December to leave the unemployment rate unchanged at 4%. Nevertheless, wage growth is likely to remain close to November's increase of 3.4%3M/Y, which was the strongest in more than a decade. Wednesday, meanwhile, will bring the CBI's industrial trends survey for February, which is expected to show that conditions in the manufacturing sector continued to deteriorate in the face of ongoing Brexit uncertainty. The CBI will also provide an update on retail sector conditions in February in its distributive trades survey due for release on Friday. Elsewhere, Thursday will bring public spending figures for January, the last release of such data before next month's Spring Statement. Supply-wise, the DMO will sell 2057 bonds on Thursday.
















In the absence of significant news, the next edition of the Euro wrap-up will be published on 19 February 2019.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
EMU	 EU27 new car registrations Y/Y%	Jan	-4.6	-	-8.4	-	
	 Trade balance €bn	Dec	15.6	15.7	15.1	15.8	
Italy	 Trade balance €bn	Dec	3.7	-	3.8	-	
Spain	 Final EU-harmonised CPI Y/Y%	Jan	1.0	1.0	1.2	-	
UK	 Retail sales excluding auto fuel M/M% (Y/Y%)	Jan	1.2 (4.1)	0.2 (3.2)	-1.3 (2.6)	-1.0 (2.9)	
	 Retail sales including auto fuel M/M% (Y/Y%)	Jan	1.0 (4.2)	0.2 (3.4)	-0.9 (3.0)	-0.7 (3.1)	
Auctions and events							
Country	Auction						
- Nothing to report -							

































Source: Bloomberg and Daiwa Capital Markets Europe Ltd

Daiwa economic forecasts

		2018		2019				2020		2018	2019	2020
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
GDP forecasts %, Q/Q												
Euro area		0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	1.8	1.0	1.0
Germany		-0.2	0.0	0.3	0.3	0.3	0.3	0.3	0.3	1.5	0.9	1.2
France		0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	1.5	1.1	0.9
Italy		-0.1	-0.2	0.1	0.2	0.1	0.2	0.1	0.2	0.8	0.1	0.5
Spain		0.6	0.7	0.5	0.4	0.4	0.4	0.4	0.4	2.5	2.0	1.7
UK		0.6	0.2	0.1	0.1	0.4	0.3	0.3	0.3	1.4	1.0	1.1
Inflation forecasts %, Y/Y												
Euro area												
Headline CPI		2.1	1.9	1.4	1.2	1.0	1.0	1.4	1.4	1.7	1.2	1.4
Core CPI		1.0	1.0	1.1	1.1	1.1	1.2	1.2	1.2	1.0	1.1	1.3
UK												
Headline CPI		2.5	2.3	1.9	1.9	1.7	1.7	1.9	1.9	2.5	1.8	1.9
Core CPI		2.0	1.9	1.8	1.9	1.9	2.0	2.0	1.9	2.1	1.9	1.9
Monetary policy												
ECB												
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
Net asset purchases*		30	15	0	0	0	0	0	0	15	0	0
BoE												
Bank Rate %		0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Net asset purchases**		0	0	0	0	0	0	0	0	0	0	0














*Monthly target €bn, end of period. **Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

Key data releases						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Monday 18 February 2019						
UK		00:01 Rightmove house prices M/M% (Y/Y%)	Feb	-	0.4 (0.4)	
Tuesday 19 February 2019						
EMU		09:00 Current account balance €bn	Dec	-	20.3	
		10:00 Construction output M/M% (Y/Y%)	Dec	-	-0.1 (0.9)	
		10:00 ZEW expectations indicator	Feb	-	-20.9	
Germany		10:00 ZEW current situation (expectations) indicator	Feb	21.5 (-13.5)	27.6 (-15.0)	
Italy		09:00 Current account balance €bn	Dec	-	4.8	
		09:00 Industrial orders M/M% (Y/Y%)	Dec	-	-0.2 (-2.0)	
UK		09:30 Claimant count rate % (change '000s)	Jan	-	2.8 (20.8)	
		09:30 Average weekly earnings (excl. bonuses) 3M/Y%	Dec	3.5 (3.4)	3.4 (3.3)	
		09:30 ILO Unemployment rate 3M%	Dec	4.0	4.0	
		09:30 Employment change 3M/3M '000s	Dec	156	141	
Wednesday 20 February 2019						
EMU		15:00 Flash consumer confidence indicator	Feb	-7.7	-7.9	
Germany		07:00 PPI M/M% (Y/Y%)	Jan	-0.2 (2.1)	-0.4 (2.7)	
UK		11:00 CBI industrial trends survey, total orders	Feb	-5	-1	
Thursday 21 February 2019						
EMU		09:00 Preliminary manufacturing PMI	Feb	50.3	50.5	
		09:00 Preliminary services PMI (composite PMI)	Feb	51.4 (51.1)	51.2 (51.0)	
Germany		07:00 Final EU-harmonised CPI Y/Y%	Jan	1.7	1.7	
		08:30 Preliminary manufacturing PMI	Feb	50.0	49.7	
		08:30 Preliminary services PMI (composite PMI)	Feb	52.8 (52.0)	53.0 (52.1)	
France		07:45 Final EU-harmonised CPI Y/Y%	Jan	1.4	1.9	
		07:45 Business sentiment indicator	Feb	102	102	
		07:45 Manufacturing confidence (production outlook) indicator	Feb	103 (-11)	103 (-11)	
		08:15 Preliminary manufacturing PMI	Feb	51.0	51.2	
		08:15 Preliminary services PMI (composite PMI)	Feb	48.5 (48.9)	47.8 (48.2)	
Italy		09:00 Final EU-harmonised CPI Y/Y%	Jan	0.9	1.2	
Spain		09:00 Trade balance €bn	Dec	-	-2.6	
UK		09:30 Public sector net borrowing excluding interventions £bn	Jan	-10	3.0	
Friday 22 February 2019						
EMU		10:00 Final CPI (core CPI) Y/Y%	Jan	1.4 (1.1)	1.6 (1.0)	
Germany		07:00 Final GDP Q/Q% (Y/Y%)	Q4	0.0 (0.6)	-0.2 (1.1)	
		09:00 Ifo business climate index	Feb	99.0	99.1	
		09:00 Ifo current assessment balance (expectations)	Feb	103.9 (94.4)	104.3 (94.2)	
UK		11:00 CBI distributive trades survey, total retail sales	Feb	5	0	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country	GMT	Event / Auction	
Monday 18 February 2019			
-Nothing scheduled -			
Tuesday 19 February 2019			
EMU		10:15	ECB's Vice-President Guindos scheduled to speak in Brussels
		15:00	ECB's Praet scheduled to speak in Berlin
Wednesday 20 February 2019			
Germany		10:30	Auction: to sell €4bn of 0% 2024 bonds (05-Apr-2024)
Thursday 21 February 2019			
EMU		08:00	ECB's Praet scheduled to speak in Luxembourg
		12:00	ECB account of the Governing Council's January meeting
		13:30	ECB's Praet scheduled to speak in Brussels
France		09:50	Auction: to sell 2.25% 2022 bonds (25-Oct-2022)
		09:50	Auction: to sell 0% 2024 bonds (25-Mar-2024)
		09:50	Auction: to sell 6% 2025 bonds (25-Oct-2025)
		10:00	Auction: to sell 2.1% 2023 index-linked bonds (25-Jul-2023)
UK		10:00	Auction: to sell 0.1% 2036 index-linked bonds (25-Jul-2036)
		10:30	Auction: to sell £1.5bn of 1.75% of 2057 gilt (2057)
Friday 22 February 2019			
EMU		13:30	ECB President Draghi scheduled to speak in Italy
Italy		16:00	Auction to sell bonds
		16:00	Auction to sell index-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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