

Euro wrap-up

Overview

- Bunds were little changed as euro area new car registrations data signalled stronger spending in Q1.
- Gilts were also little changed on a quieter day for Brexit news.
- In the coming week all eyes will remain on Brexit, with the latest BoE policy announcement, UK labour market, inflation and retail data, and preliminary euro area PMIs also due.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.557	+0.009
OBL 0 04/24	-0.338	+0.007
DBR 0¼ 02/29	0.086	+0.001
UKT 1½ 01/21	0.771	-0.001
UKT 1 04/24	0.945	-0.006
UKT 1½ 10/28	1.215	-0.009

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

Euro area

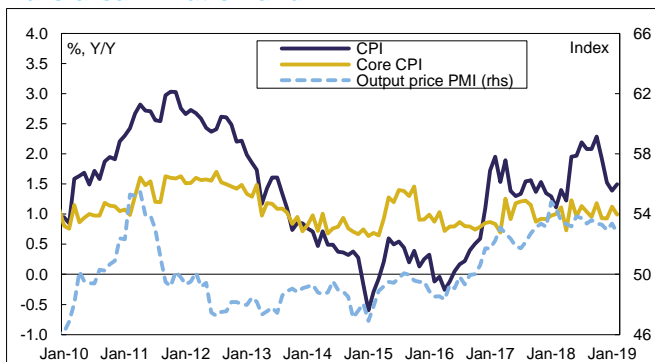
Inflationary pressures remain weak

Final euro area inflation data for February brought no major surprises, with the preliminary estimate of headline CPI confirmed at 1.5%Y/Y, up 0.1ppt from January but in line with the December reading. Looking at the major components, however, there were a few small adjustments. With regards to non-core items, energy price inflation of 3.6%Y/Y was 0.1ppt higher than previously estimated and 1.0ppt stronger than in January, while food price inflation of 2.3%Y/Y was down 0.1ppt from the flash estimate but still up notably from January. Meanwhile, both categories of core items saw an upwards revision of 0.1ppt, to leave non-energy industrial goods inflation at 0.4%Y/Y and services inflation at 1.4%Y/Y, with the former rate representing a twelve-month high. But, in both cases, to more than one decimal place the revisions were smaller than portrayed by the rounded figures and insufficient to cause any change to the core CPI rate, which was left at 1.0%Y/Y in February, down 0.1ppt from January and a level matching its average in recent years – underscoring that underlying inflationary pressures in the euro area remain weak. While we might see the core inflation rate moving higher in coming months, the increase most likely will be driven by a temporary distortion associated with the timing of Easter. Indeed, with euro area growth set to remain subdued and risks to the outlook skewed to the downside, we do not expect underlying inflationary pressures to increase significantly over coming quarters either, with our full-year forecast for core CPI at just 1.1%Y/Y in 2019.

Cars boosting spending this quarter

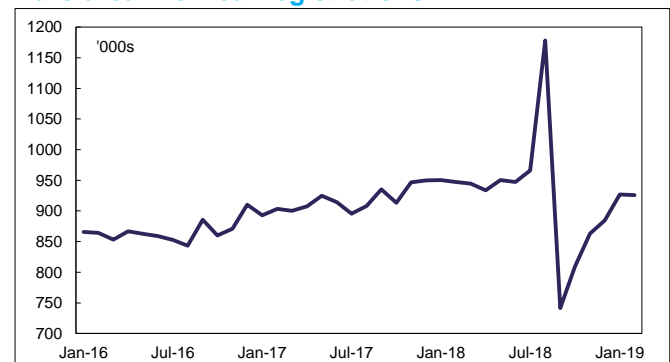
Today's car registration figures suggested that momentum in the market for new cars stabilised last month. Total new car registrations in the euro area were still down by 1.5%Y/Y, but that represented a significant improvement from the 5.6%Y/Y drop in January and was the best reading since September, when activity plummeted following the introduction of new car emission testing standards. From the major euro area member states, results from Spain were most disappointing, with registrations down by nearly 9%Y/Y. But encouragingly, Germany and France reported the first positive growth rates for six months – exceeding 2%Y/Y in both countries – while the Italian data were also consistent with improvement. Adjusting for seasonal effects, ECB data suggested that – while still below levels seen throughout last year until September's plunge – the level of new car registrations was little changed in February having risen strongly in each of the previous four months. As a result, the average level of new car registrations in the first two months of the year was up by 8.7% compared to the Q4 average strongly suggesting a positive contribution to euro area private consumption growth this quarter.

Euro area: Inflation and PMI



Source: Thomson Reuters, Markit and Daiwa Capital Markets Europe Ltd.

Euro area: New car registrations*



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

The week ahead in the euro area and US

In the euro area, the coming week brings several releases of note, with March flash sentiment surveys at the back end of the week to be watched closely for an update on economic conditions at the end of the first quarter. In particular, the Commission's preliminary consumer confidence indicator, due Thursday, is expected to have posted another modest improvement in March for the third consecutive month, albeit still leaving the index on average in Q1 roughly ½pt below the average in Q4. The flash PMIs, due Friday, are also anticipated to have inched slightly higher in March, although the manufacturing index is likely to have remained in contractionary territory. Moreover, the composite PMI in Q1 is still expected to remain below the Q4 average, therefore signalling a further moderation in GDP growth this quarter. The first half of the week will bring an update on activity at the start of the year, with January trade and construction output reports due Monday and Tuesday respectively. Tuesday will also bring the latest labour cost data for Q4, which, if the equivalent German figures are to go by, will see softer annual growth than the 2½%Y/Y rate in Q3. Germany's latest ZEW survey (Tuesday) and euro area balance of payments data (Friday) are also due. In the markets, Germany will sell 5Y bonds.

The focus in the US in the coming week will be firmly on the Fed, with the conclusion of the two-day FOMC meeting on Wednesday. Given recent communications it goes without saying that the Fed will almost certainly leave its policy settings unchanged. So most interest will be on the Fed's revised Summary of Economic Projections and Fed Chair Powell's post-meeting press conference to see what meeting participants have in mind regarding policy over the remainder of this year and beyond. Certainly, we expect more dovish dot plots than the previous set issued in December, with the dots back then showing the median expectation for two interest rate hikes this year and a further 25bp hike in 2020 – given current uncertainties, the Fed will likely play down the importance of the central forecast. On the data front, the week begins with the NAHB housing index for March on Monday, followed by factory orders figures for January on Tuesday. The Philadelphia Fed's manufacturing survey for March and the Conference Board's leading indicator for February will be released on Thursday. On Friday, the week concludes with February existing home sales and January wholesale trade reports, as well as the preliminary PMIs for March. In the bond market, the US Treasury will auction 10-year TIPS on Thursday.

UK

MV3 and Brexit extension to dominate the coming week

After a week of momentous activity in Parliament, today was quieter on the Brexit front, allowing the dust to settle on yesterday evening's votes, which predictably confirmed that the Government will request an extension of the Article 50 deadline at the EU Summit on 21-22 March. While there was a landslide majority in favour of making the extension request (412 votes to 202), the result once again shone light on the Prime Minister's ever-diminishing authority as more than half of all Conservative MPs – including seven Cabinet Ministers (including Brexit Secretary Barclay) – voted against, suggesting that they are more interested in jockeying for position to succeed Theresa May as party leader and Prime Minister than delivering a sensible Brexit policy. Another bad week for the Prime Minister, and her tenure in Downing Street might abruptly come to an end.

However, not least as EU leaders wish to avoid the damage of a no-deal Brexit – and also wish to avoid being blamed for such an outcome – we fully expect the Article 50 extension to be granted at the coming week's Summit. The length of the extension to be agreed by the EU leaders remains to be seen – it could be a short extension to end-June as May will be seeking, or a longer one to end-2020 that many EU leaders such as Council President Tusk have advocated – and will be influenced by what happens when May brings her deal back to the House of Commons once again for a third meaningful vote (MV3), most likely on Tuesday.

Despite the PM's major setbacks in the first two meaningful votes, she will still hope that – with a 'no deal' Brexit effectively ruled out – 75 MPs will be willing to reverse their opposition and vote to secure the majority in favour of the deal in MV3. But the Government yesterday conceded that, if the deal is not backed by Parliament next week, MPs would be given time after the Summit to consider a range of alternative ways forward for Brexit. As such, most Labour MPs from Leave-voting constituencies are likely to continue to reject the PM's deal next week, being able to hold out hopes of achieving the softer form of Brexit advocated by their party's leadership in due course. By the same token, however, faced with increased risks of a softer Brexit or no Brexit at all, the Northern Irish DUP and some Brexiter Conservatives might now be persuaded to vote in favour of May's deal next week, not least as the Attorney General Geoffrey Cox was reportedly offering them further (debatable) assurances to help them to support the deal without a loss of face. But continued vehement opposition from a number of hardcore Conservative Brexiters in the ERG still suggests that May will again fail to find a Parliamentary majority in favour of her deal in MV3.
















Theresa May will nevertheless still hope that defeat in MV3 would not kill her deal completely, and that any majority against will be small enough to allow for a fourth meaningful vote after the Summit to get her deal over the line. However, Parliamentary process might not even allow for an MV4. And given the process of indicative votes being lined up for after the Summit, in practice there remains a full range of possible scenarios for the way forward for Brexit, with no one particular scenario – from approval of May's deal, to softer forms of Brexit such as 'Norway-plus customs union' to a second referendum or general election – having a probability of greater than 50%.

The week ahead in the UK beyond Brexit

While all eyes in the coming week will be glued on Brexit, Thursday's monetary policy announcement from the BoE will be watched too. At February's meeting the MPC left policy unchanged and reaffirmed its forward guidance that limited and gradual policy tightening will be required over the coming years if the economy evolves in line with expectations. However, Carney's tone in the press conference was quite dovish, acknowledging that the outlook for the UK economy had deteriorated. With no new economic forecasts due at this point and with Brexit uncertainty weighing ever more heavily on the economy, MPC members will not want to make any adjustments to their policy stance at this point, so we expect Thursday's announcements to be uneventful. With regard to Brexit, a couple of external members of the Committee have recently expressed their personal opinion that, in a disorderly Brexit scenario, a cut to Bank Rate would be more likely than an increase. But not all MPC members are of a similar opinion. And while the past week's House of Commons votes significantly reducing the likelihood of a disorderly Brexit, we would expect the Committee to reaffirm its readiness to change policy in either direction in such a scenario, depending on the balance of the impact to supply, demand and the exchange rate.




With regard to new economic data, the coming week will be busy, starting with the latest labour market release on Tuesday. Having risen to a nine-month high of 167k3M/3M in December, headline employment growth is set to have eased at the beginning of the year, likely to around 100k3M/3M. This should leave the unemployment rate unchanged at 4.0%, the lowest level since mid-1970s. Meanwhile, on the wages front, average weekly earnings growth at the end of last year reached a post-crisis high of 3.4%3M/Y. But the message from recent business sentiment surveys is that labour market sentiment has weakened, suggesting that we might see a slight easing in the pace of wage growth. On Wednesday, the focus will shift to inflation with CPI figures for February due. We expect the headline rate to have remained unchanged from the previous month, at 1.8%Y/Y, while the core rate will also likely have moved sideways at 1.9%Y/Y. On Thursday, alongside the announcement from the BoE, we will receive the latest official data on retail sector activity. Surveys suggest that after a stronger performance in January growth stalled in February, as many retailers introduced new-season items at full price. So, having risen to a two-year high of 4.2%Y/Y in January, retail sales growth is set to have softened in February, likely to around 3%Y/Y. Among other data releases, the CBI Industrial Trends survey for March is due on Wednesday, while public finance data for February are out on Thursday.

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	0.3	1.8	1.0	1.0
Germany 	-0.2	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	1.4	0.8	1.2
France 	0.3	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	-0.1	0.1	0.2	0.1	0.2	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	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	0.3	1.4	1.0	1.1
Inflation forecasts %, Y/Y												
Euro area												
Headline CPI 	2.1	1.9	1.5	1.4	1.2	1.2	1.5	1.4	1.8	1.3	1.4	
Core CPI 	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.0	1.1	1.2	
UK												
Headline CPI 	2.5	2.3	1.8	1.9	1.8	1.8	2.0	1.9	2.5	1.8	1.9	
Core CPI 	1.9	1.9	1.9	2.0	2.0	2.0	2.0	1.9	2.1	2.0	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.

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%	Feb	-1.0	-	-4.6	-	
	Final CPI (core CPI) Y/Y%	Feb	1.5 (1.0)	1.5 (1.0)	1.4 (1.1)	-	
Italy 	Final EU-harmonised CPI Y/Y%	Feb	1.1	1.2	0.9	-	
Auctions and events							
Country	Auction						
- Nothing to report -							












Source: Bloomberg 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 March 2019						
EMU		10:00	Trade balance €bn	Jan	15.0	15.6
UK		00:01	Rightmove house prices M/M% (Y/Y%)	Mar	-	0.7 (0.2)
Tuesday 19 March 2019						
EMU		10:00	Construction output M/M% (Y/Y%)	Jan	-	-0.4 (0.7)
		10:00	Labour costs Y/Y%	Q4	-	2.5
		10:00	ZEW expectations indicator	Mar	-	-16.6
Germany		10:00	ZEW current situation (expectations) indicator	Mar	13.0 (-11.0)	15.0 (-13.4)
Italy		09:00	Trade balance €bn	Jan	-	3.7
UK		09:30	Claimant count rate % (change '000s)	Feb	-	2.8 (14.2)
		09:30	Average weekly earnings (excl. bonuses) 3M/Y%	Jan	3.2 (3.4)	3.4 (3.4)
		09:30	ILO Unemployment rate 3M%	Jan	4.0	4.0
		09:30	Employment change 3M/3M '000s	Jan	120	167
Wednesday 20 March 2019						
Germany		07:00	PPI M/M% (Y/Y%)	Feb	0.2 (2.9)	0.4 (2.6)
UK		09:30	CPI (core CPI) Y/Y%	Feb	1.8 (1.9)	1.8 (1.9)
		09:30	UK House Price Index Y/Y%	Jan	2.3	2.5
		11:00	CBI Industrial Trends Survey, total orders %	Mar	4	6
Thursday 21 March 2019						
EMU		15:00	Flash consumer confidence indicator	Mar	-7.1	-7.4
Spain		09:00	Trade balance €bn	Jan	-	-3.2
UK		09:30	Public sector net borrowing excluding interventions £bn	Feb	-0.6	-14.9
		09:30	Retail sales excluding auto fuel M/M% (Y/Y%)	Feb	-0.4 (3.4)	1.2 (4.1)
		09:30	Retail sales including auto fuel M/M% (Y/Y%)	Feb	-0.4 (3.3)	1.0 (4.2)
		12:00	BoE Bank Rate%	Mar	0.75	0.75
Friday 22 March 2019						
EMU		09:00	Current account balance €bn	Jan	-	16.2
		09:00	Preliminary manufacturing PMI	Mar	49.5	49.3
		09:00	Preliminary services PMI (composite PMI)	Mar	52.7 (52.0)	52.8 (51.9)
Germany		08:30	Preliminary manufacturing PMI	Mar	48.0	47.6
		08:30	Preliminary services PMI (composite PMI)	Mar	54.8 (52.7)	55.3 (52.8)
France		08:15	Preliminary manufacturing PMI	Mar	51.4	51.5
		08:15	Preliminary services PMI (composite PMI)	Mar	50.6 (50.7)	50.2 (50.4)
Italy		09:00	Current account balance €bn	Jan	-	4.2

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions		
Country	GMT	Event / Auction
Monday 18 March 2019		
EMU	 13:15	ECB's Luis de Guindos scheduled to speak in Madrid
	 15:10	ECB's Peter Praet scheduled to speak in Luxembourg
Tuesday 19 March 2019		
- Nothing scheduled -		
Wednesday 20 March 2019		
Germany	 10:30	Auction: to sell €4bn of 0% 2024 bonds (05-Apr-2024)
Thursday 21 March 2019		
France	 09:50	Auction: to sell 1% 2025 bonds (25-Nov-2025)
	 09:50	Auction: to sell 0% 2024 bonds (25-Mar-2024)
	 09:50	Auction: to sell 0% 2022 bonds (25-May-2022)
	 09:50	Auction: to sell 0% 2022 bonds (25-Feb-2022)
	 10:50	Auction: to sell €2.5bn of 0.1% 2029 index-linked bonds (01-Mar-2029)
Spain	 09:45	Auction: to sell 0.05% 2021 bonds (31-Oct-2021)
	 09:45	Auction: to sell 1.45% 2029 bonds (30-Apr-2029)
	 09:45	Auction: to sell 4.9% 2040 bonds (30-Jul-2040)
Friday 22 March 2019		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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