

Euro wrap-up

Overview

- Longer-dated Bunds made only modest gains even as a German sentiment survey signalled renewed pessimism in the economic outlook in February.
- Gilts followed the global trend higher as UK employment rose to a record high, but wage growth slowed.
- Wednesday brings euro area construction activity figures for December and UK CPI inflation data for January.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/21	-0.657	-
OBL 0 04/25	-0.622	-0.002
DBR 0 02/30	-0.413	-0.010
UKT 3% 09/21	0.529	-0.020
UKT 1 04/24	0.477	-0.029
UKT 0% 10/29	0.612	-0.029

*Change from close as at 4:30pm GMT.
Source: Bloomberg

Euro area

German ZEW points to renewed pessimism

Germany's ZEW survey of financial market professionals – the first to offer insight into sentiment in February and the first to fully reflect heightened concerns about the coronavirus – predictably signalled renewed pessimism in the economic outlook as the anticipated hit to China's economic activity would have knock-on effects for global trade. Most notably, the German expectations balance more than reversed the increase seen in January, to leave it down 18pts on the month at 8.7, a four-month low but nevertheless still considerably higher than the average of the past eighteen months. At the same time, assessments of the current situation also deteriorated, with the relevant index falling for the first month in four in February, by 6.2pts to -15.7. While this was still the second-highest reading of the past six months, it remained 31pts below its level this time last year and more than 110pts below its peak at the start of 2018. Although the ZEW is not a particularly reliable guide for future economic activity, today's survey suggests that the flash PMIs (due to be published Friday) and ifo indicators (Monday) will point to a much weaker recovery in GDP growth than had been implied in the respective surveys in January.

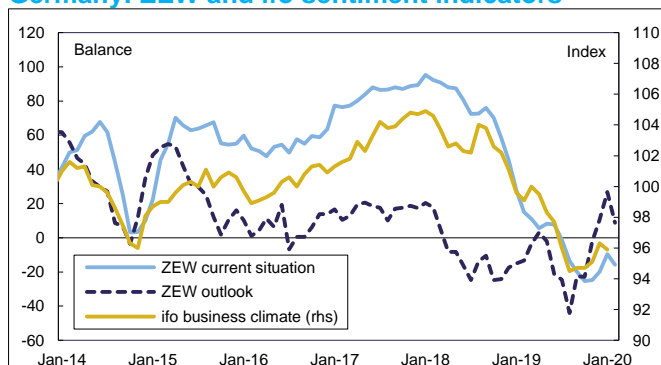
Euro area car registrations fall in January

Today also brought the release of euro area new car registrations figures for January. Given significant weakness previously reported in Germany (-7.3%Y/Y) and France (-13.4%Y/Y), these unsurprisingly showed a notable decline at the start of the year, with total registrations down more than 7%Y/Y, to 834k units, the lowest January reading for four years. Admittedly, this followed strong growth in December (21%Y/Y) as consumers brought forward registrations to avoid major taxation changes that came into force in January in certain member states. But the European Automobile Manufacturers Association noted that demand had also been limited by weaker global economic conditions and uncertainty about the UK's exit from the EU. And downside risks to global growth, not least associated with the impact on the Coronavirus on economic activity, will likely weigh on car registrations and production over coming months too.

The day ahead in the euro area and US

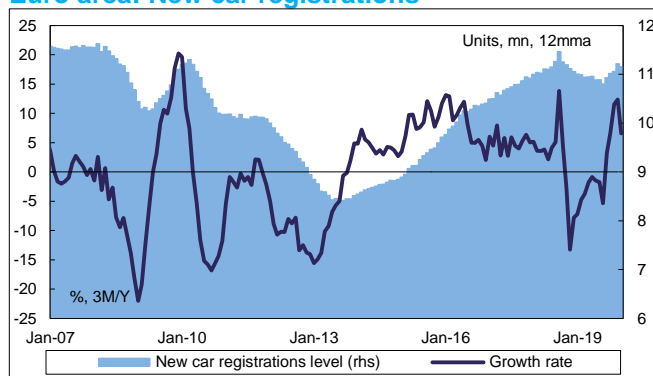
Tomorrow will bring euro area construction output figures for December. Given the weakness already reported in Germany (-8.7%M/M) and France (-2.7%M/M), these are expected to show a marked drop in euro area activity at the end of the last year, to leave output in the sector down in Q4 and compared with a year earlier. Wednesday will also bring euro area balance of payments figures for December. In the markets, Germany will sell longer-dated Bunds.

Germany: ZEW and ifo sentiment indicators



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: New car registrations



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



In the US, meanwhile, tomorrow will bring housing starts and PPI figures for January, as well as the minutes from the Fed's January FOMC meeting.

UK

Employment exceeds expectations in Q4

Despite the UK's [economy having stagnated](#) in Q4, the labour market appears to have held up well. Certainly, today's report showed a stronger than expected increase in employment in the three months to December, by 180k to a record high 32.93mn, with roughly three-quarters of the increase accounted for by full-time employees. This principally reflected a jump in public sector employment in Q4, by 152k, the largest quarterly increase since the series began in 1997. In contrast, growth in the private sector was the softest for three quarters, with sizeable declines in the construction, accommodation and finance sectors offsetting improvements in manufacturing, retail and information/communications. Compared with a year earlier, this left the total number of people in employment up 336k. While roughly half this increase was accounted for by full-time employees, today's figures also showed that the number of people on zero-hour contracts rose to a record high in 2019. But consistent with the improved tone of the [REC/KPMG report on jobs](#), today's figures showed a further pickup in the number of vacancies in the three months to January, by 7k (albeit leaving them down 50k from a year earlier). And this should support steady employment growth over coming months.

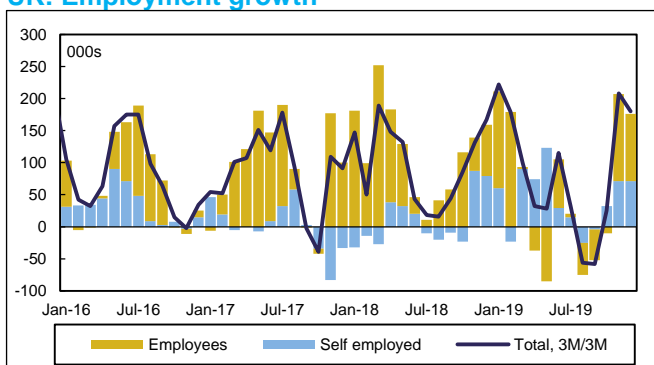
But wage growth moderates

There was also a positive development with respect to real wages, with average weekly scheduled earnings in Q4 finally surpassing their pre-crisis peak. Nevertheless, this saw the annual pace of growth in the three months to December moderate to its softest pace in seven. And the slowdown was more marked in nominal terms. Indeed, total earnings growth fell a larger-than-expected 0.3ppt to 2.9%3M/Y, while private sector wage growth slowed to 2.7%3M/Y, both the weakest rates since the summer 2018. Admittedly, this in part reflected bonus payments. But underlying wage growth continued to moderate too, down 0.2ppt to 3.2%3M/Y, similarly a sixteen-month low. This notwithstanding, with the flash estimate of productivity in Q4 still very subdued – today's figures showed that output per hour grew by just 0.3%Y/Y in Q4, while output per worker fell 0.5%Q/Q to show no growth compared with a year earlier – today's report implies still solid unit labour cost growth in the final quarter of 2019. And with productivity set to remain weak and employment growth firm over the near term, MPC members are likely to remain concerned about upside risks to domestically generated price pressures for a while yet.

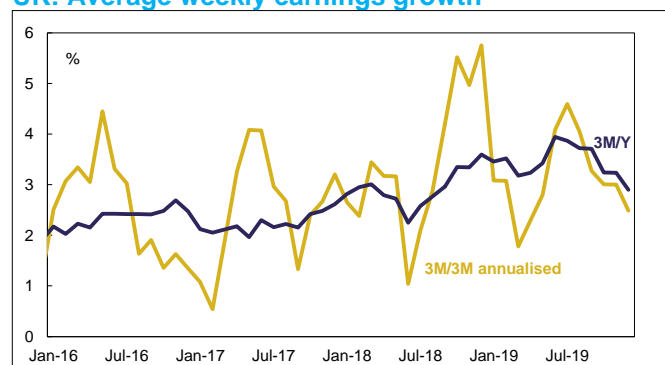
The day ahead in the UK

The key UK release tomorrow will be January's CPI figures, which are expected to show that headline inflation increased 0.3ppt from December's near-three-year low of 1.3%Y/Y on the back of higher energy inflation. The upwards drift in core inflation will, however, be more modest. Tomorrow will also bring the official ONS house price data for December, which are likely to report a further modest pickup at the end of last year, to the strongest year-on-year growth for more than a year.

UK: Employment growth










UK: Average weekly earnings growth




European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 EU27 new car registrations	Jan	-7.5	-	21.7	-
Germany	 ZEW current situation balance (expectations)	Feb	-15.7 (8.7)	-10.5 (20.0)	-9.5 (26.7)	-
UK	 Claimant count rate % (change '000s)	Jan	3.4 (5.5)	-	3.5 (14.9)	3.4 (2.6)
	 Average weekly earnings (excluding bonuses) 3M/Y%	Dec	2.9 (3.2)	3.1 (3.3)	3.2 (3.4)	-
	 ILO unemployment rate 3M%	Dec	3.8	3.8	3.8	-
	 Employment change 3M/3M '000s	Dec	180	159	208	-
	 Preliminary output per hour Y/Y%	Q4	0.3	-	0.1	-


Auctions

Country	Auction
Germany	 sold €4.1bn of 0% 2022 bonds at an average yield of -0.66%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 Rightmove house price index M/M% (Y/Y%)	Feb	0.8 (2.9)	-	2.3 (2.7)	

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	09.00	Current account balance €bn	Dec	-	33.9
	10.00	Construction output M/M% (Y/Y%)	Dec	-	0.7 (1.4)
UK	09.30	CPI (core CPI) Y/Y%	Jan	1.6 (1.5)	1.3 (1.4)
	09.30	PPI output prices Y/Y%	Jan	1.0	0.9
	09.30	ONS house price index Y/Y%	Dec	-	2.2

Auctions and events

Country	GMT	Auction / Event
Germany	10.30	Auction: €1.5bn of 2048 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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