

Euro wrap-up

Overview

- With lower oil prices, Bunds made gains, while today's data confirmed a strong start to the year for Spanish GDP.
- Gilts were also higher as revised figures showed that UK GDP in Q1 slowed more than previously thought.
- Tomorrow will bring the latest Italian business and consumer sentiment surveys, as well as a UK service sector survey.

Economic Research Team

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Daily bond market movements

Bond	Yield	Change*
BKO 0 03/19	-0.702	-0.022
OBL 0 04/22	-0.372	-0.032
DBR 0¼ 02/27	0.364	-0.039
UKT 1¼ 07/19	0.094	-0.004
UKT 0½ 07/22	0.484	-0.022
UKT 4¼ 12/27	1.044	-0.029

*Change from close as at 4.30pm BST.

Source: Bloomberg

Euro area

Spanish GDP growth confirmed at 0.8%Q/Q

Spain's economy has been the outperformer in the euro area over recent years and today's detailed GDP data confirmed that output grew by 0.8%Q/Q in Q1, the fourteenth consecutive quarter of positive growth and once again the strongest pace of the large member states. While the recovery at the start of the year was broad based, private investment was much stronger, with growth of 2%Q/Q the firmest for seven quarters and accounting for roughly three-quarters of GDP growth. In contrast, private consumption moderated in Q1, with growth of 0.4%Q/Q the softest for ten quarters. Consistent with a pickup in global demand, Spain's export performance last quarter was also impressive, with growth of 4%Q/Q the strongest for a decade. So, while strong domestic demand resulted in the largest increase in imports since Q309, net trade contributed to GDP growth for the fifth consecutive quarter. Going forward, we expect net exports to provide a further moderate boost to growth in Q2. While we might well see a softening of investment growth in the current quarter, this should be offset by firmer private consumption. And, overall, given the positive tone of recent sentiment surveys, we expect Spanish GDP to grow 0.8%Q/Q once again in Q2.

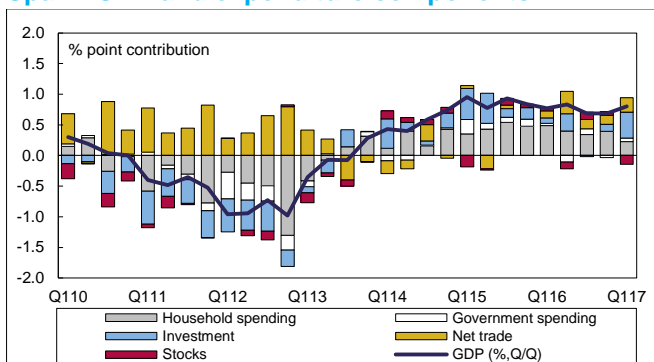
German consumers more upbeat

With Germany's economy in the first quarter having expanded at its fastest pace for a year (0.6%Q/Q), evidence suggests that this positive momentum has been maintained in the second quarter. After the start of the week brought several upbeat business sentiment surveys, including a notable rise in the German Ifo business climate index to a series high, the latest German consumer confidence survey released yesterday was also upbeat. Indeed, the headline confidence index was forecast in June to rise to a new high for the current cycle, which would also thus represent the highest since 2001. Within the detail for May, consumers' expectations for the economic outlook rose to the highest in two years. Reflecting ongoing strong employment growth, although wage growth remained relatively subdued, expectations about future income also rose from an already-elevated level. And despite a slight easing in the index of propensity to buy, overall the survey remains consistent with ongoing steady growth in German consumer spending, which we currently expect to sustain an average pace about 0.6%Q/Q over the remainder of 2017, up from an average of 0.4%Q/Q over the past two years.

The day ahead in the euro area and US

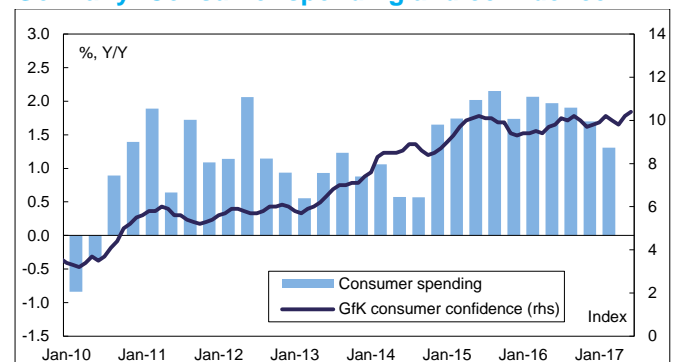
The data focus at the end of the week will turn to the latest Italian business and consumer sentiment surveys. In particular, having signalled the most favourable conditions since 2007 in April, this survey is expected to show that manufacturers remained upbeat in the middle of the second quarter. In contrast, having fallen over recent months to its lowest levels since mid-2015, consumer confidence might see little change in May. In the markets, Italy will sell zero coupon and index-linked bonds.

Spain: GDP and expenditure components



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

Germany: Consumer spending and confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



In the US, tomorrow will bring the second estimate of Q1 GDP, with growth expected to be nudged slightly higher from the initial reading of 0.7%Q/Q annualised, albeit perhaps still remaining below 1%Q/Q. Friday will also bring durable goods figures for April, as well as the final reading of the University of Michigan's consumer sentiment survey.

UK

Q1 GDP growth even weaker than previously thought

The second release of Q1 GDP showed that the slowdown at the start of the year was even steeper than preliminary figures had suggested. Growth was revised down by 0.1ppt to 0.2%Q/Q, the lowest in four quarters and 0.5ppt lower compared to Q4. A downward revision to services output, which similarly pushed the pace of growth down from the preliminary estimate of 0.3%Q/Q to 0.2%Q/Q, was the major factor contributing 0.06ppt to the GDP revision. But previously announced changes to industrial production growth, from 0.3%Q/Q to 0.1%Q/Q also played a role.

Meanwhile, the expenditure breakdown confirmed that private consumption slowed notably. Having risen by 0.7%Q/Q in every quarter last year, consumption rose by only 0.3%Q/Q in Q1, the slowest pace in nine quarters. Other domestic demand components were stronger: government spending rose by 0.8%Q/Q, business investment was up by 0.6%Q/Q, having dropped 0.9%Q/Q in Q4, while total investment increased by 1.2%Q/Q, the steepest rise in seven quarters. With the property market having remained relatively firm despite the uncertainty around Brexit, the latter was supported by a 3.5%Q/Q increase in investments in dwellings. However, momentum in the housing market seems to have taken a step down recently – house price growth has eased and today's release of BBA lending figures showed that mortgage approvals for house purchase declined for a third consecutive month, suggesting that the pace of growth in housing investment may not be sustained.

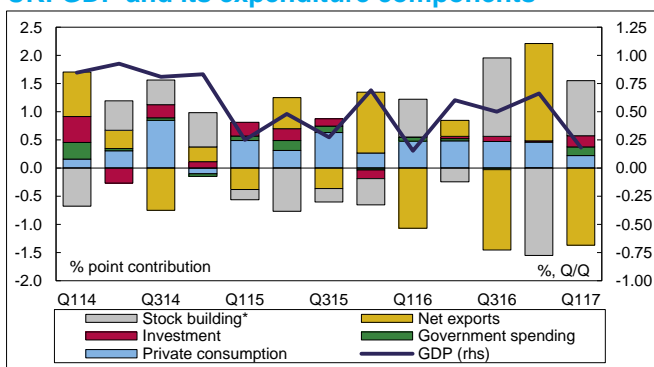
While domestic demand, in aggregate, remained relatively robust in Q1, the trade figures were disappointing, with exports falling by 1.6%Q/Q and imports rising 2.7%Q/Q, to leave net exports subtracting 1.4ppts from GDP growth. That, however, included the usual distortion provided by movements in non-monetary gold, which presented an offsetting contribution to gross capital formation. If these are excluded, net exports provided a negative contribution to GDP of around 0.3ppt, still soft bearing in mind the weakness in the exchange rate.

Overall, given that some economic indicators bounced back in April, the weaker-than-expected results in some output categories at the end of Q1 might have been related to special factors, such as the timing of Easter holidays or weather. Nevertheless, we think that subdued consumption growth will persist and investment growth will have eased this quarter, and, therefore, we do not expect a notable increase in GDP growth in Q2.

The day ahead in the UK

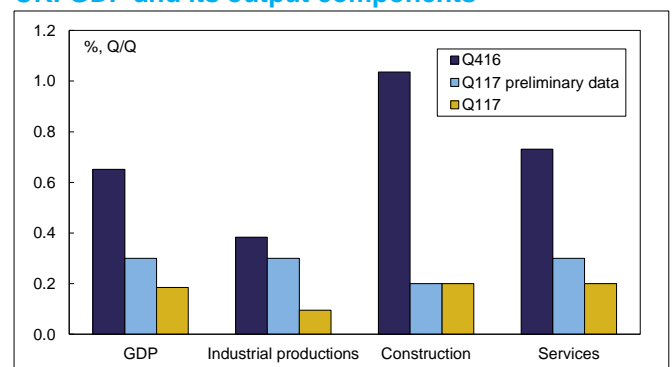
It will be a quiet day in the UK, with only the quarterly CBI Service Sector survey due out.

UK: GDP and its expenditure components









*Includes acquisitions less disposal of valuables category
Source: ONS, Thomson Reuters and Daiwa Capital Markets Ltd

UK: GDP and its output components









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



European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Italy	 Industrial sales M/M% (Y/Y%)	Mar	0.5 (7.2)	-	2.0 (4.6)	-
	 Industrial orders M/M% (Y/Y%)	Mar	-4.2 (9.2)	-	5.3 (7.8)	5.2 (-)
Spain	 GDP – final release Q/Q% (Y/Y%)	Q1	0.8 (3.0)	<u>0.8 (3.0)</u>	0.7 (3.0)	-
UK	 GDP – 2nd release Q/Q% (Y/Y%)	Q1	0.2 (2.0)	<u>0.3 (2.1)</u>	0.3 (2.1)	-
	 Index of services M/M% (3M/3M%)	Mar	0.2 (0.2)	0.0 (0.3)	0.2 (0.5)	-
	 BBA loans for house purchase 000s	Apr	40.8	40.8	41.1	40.9
Country	Auction	- Nothing to report -				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases						
Economic data						
Country	BST	Release	Period	Market consensus/ Daiwa forecast	Previous	
Italy	09:00	 Consumer confidence indicator	May	107.2	107.5	
	09:00	 Manufacturing (economic) confidence	May	107.9 (-)	107.9 (107.4)	
UK	00:01	 CBI Services survey – business volume	Q2	-	1	
Auctions and events						
Country	BST	Auction / Event				
Italy	10:00	 Auction: To sell up to €3.5bn of zero-coupon 2019 bonds (30-May-2019)				
	10:00	 Auction: To sell 1.3% 2028 index-linked bonds (15-May-2028)				
	10:00	 Auction: To sell 2.55% 2041 index-linked bonds (15-Sep-2041)				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Germany	 GfK consumer confidence survey	Jun	10.4	10.2	10.2	-
Country	Auction					
Germany sold	 €2.4bn of 0.25% 2027 bonds (15-Feb-2027) at an average yield of 0.39%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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