

Euro wrap-up

Overview

- Bunds made losses on a quiet day for economic news from the euro area.
- Gilts also made sizeable losses despite some weak UK retail sales data.
- Friday will bring the Commission's April flash estimate of euro area consumer confidence.

Chris Scicluna
+44 20 7597 8326

Mantas Vanagas
+44 20 7597 8318

Daily bond market movements

Bond	Yield	Change*
BKO 0 03/20	-0.557	+0.012
OBL 0 10/22	-0.017	+0.052
DBR 0½ 02/28	0.598	+0.068
UKT 2 07/20	0.904	+0.053
UKT 0¾ 07/23	1.226	+0.083
UKT 4¾ 12/27	1.517	+0.102

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

Euro area

Current account surplus remains huge

The euro area current account surplus moderated in February, falling by €4bn to €35.1bn, today's ECB figures showed. However, that level, still very high by historical standards, matched the average in the second half of last year, and on a twelve-month basis the surplus reached a new record high. Within the detail, on the balance of payments basis, the goods trade surplus narrowed for a second successive month from its series high in December, while the services surplus was little changed. And a lower primary income balance (earned on net overseas assets) was partly offset by an improvement in the secondary income balance (which includes items such as remittances and aid payments). Looking at the first quarter as a whole, despite the recent weakening in economic momentum, the euro area current account surplus will likely match the 3.7% of GDP reading of Q4. Meanwhile, the latest figures for the financial account suggested that foreign resident appetite for euro area equities diminished, as volatility in global markets picked up sharply and valuations fell. Indeed, foreigners reduced their euro area equity holdings for the first time in sixteen months, while their holdings of euro area debt securities continued to decline broadly in line with the trend over the past two years.

The day ahead in the euro area and US

In the euro area, the end of the working week will bring only the European Commission flash consumer confidence indicator for April. Having reached its highest level since 2000 at the start of the year, this indicator eased only slightly over the remainder of Q1, particularly when compared to the notable deterioration in business sector surveys. But tomorrow we expect to see a step down from the elevated reading of 0.1 seen February and March, suggesting that euro area economic momentum might have weakened further at the start of Q2.

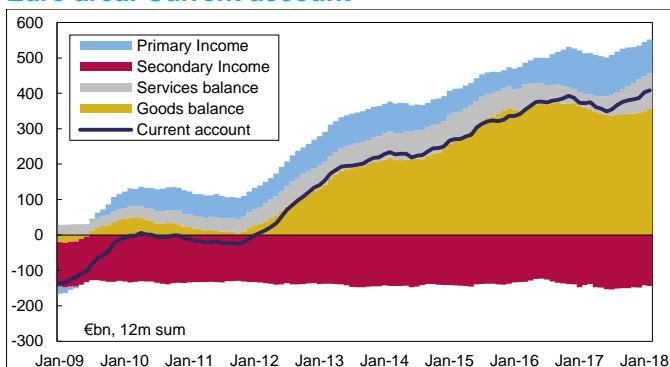
No notable economic data releases are scheduled in the US tomorrow.

UK

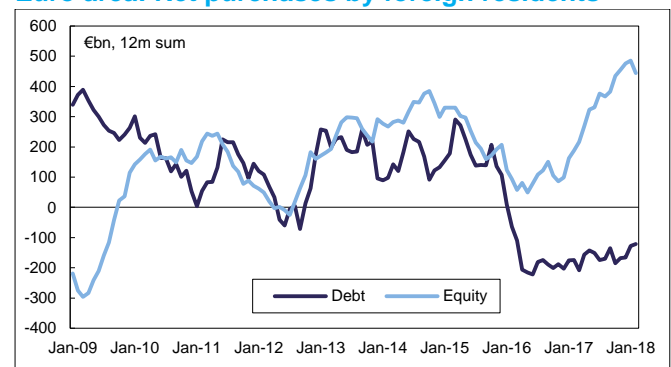
Retail spending suffers big freeze

The March retail sales data, which completed this week's trio of soft top-tier UK releases, were not a pretty sight. Sales volumes declined by 1.2%/M/M, more than twice as much as expected. Admittedly, sales were hit by the harsh weather, dubbed the "Beast from the East", which prompted a decline of 7.4%/M/M in petrol sales alone. Only online and department store sales rose in March, as shoppers took to the internet instead of the roads. Even a relatively early Easter, which traditionally boosts sales of food and

Euro area: Current account



Euro area: Net purchases by foreign residents

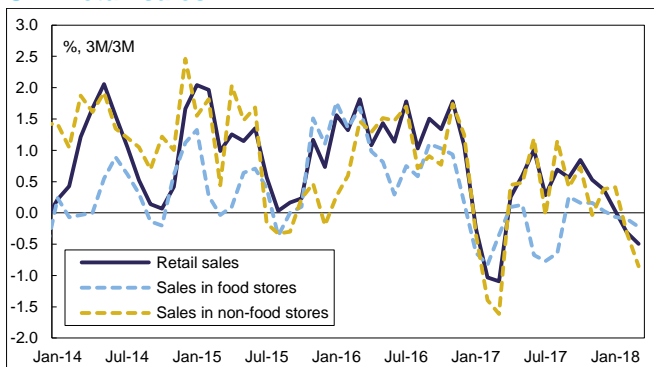


home-wares, failed to compensate. Nor did a slowing of price rises – the retail sales deflator dropped to 1.9%Y/Y in March, its weakest since January 2017 – tempt consumers to spend. And even without the snow, the underlying trend in retail spending is undoubtedly bleak. Sales dropped 0.5%Q/Q in Q1 (with the drop in March petrol sales accounting for 0.1ppt), more than cancelling out the (downwardly revised) 0.4% Q/Q expansion in Q417. The more cautious spending environment has already prompted the restructuring and failure of some prominent high street chains this year, and the fate of several more hangs in the balance. Indeed, the sector bucked the trend by losing 50k jobs in the second half of 2017, a pattern which, anecdotally, has continued since. Overall, the quarterly drop in sales reinforces our view that GDP slowed in Q1 (data out next week). We maintain our forecast of 0.2%Q/Q, half both the BoE's forecast and the rate seen in 2017Q4. These figures make the MPC's policy decision on 10 May look even more finely balanced. The further drop in unemployment announced earlier this week might still lead to a rate hike. But we now think that this week's downside surprises to wages, inflation and retail sales, as well as the softening in the euro area economic dataflow, will lead the majority to vote to leave rates unchanged, albeit leaving open the possibility of a rate hike in August should economic activity pick up pace.

The day ahead in the UK

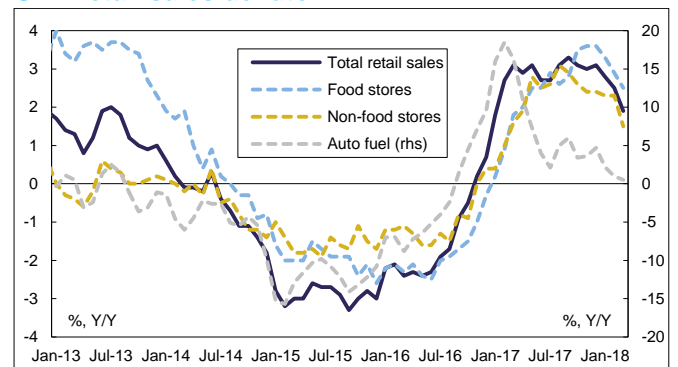
There are no major UK data scheduled for release on Friday.

UK: Retail sales



Source: Thomson Reuters & Daiwa Capital Markets Europe Ltd.

UK: Retail sales deflator






Source: Thomson Reuters & 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	 Current account balance €bn	Feb	35.1	-	37.6	39.0
UK	 Retail sales excluding petrol M/M% (Y/Y%)	Mar	-0.5 (1.1)	-0.4 (1.4)	0.6 (1.1)	0.4 (1.2)
	 Retail sales including petrol M/M% (Y/Y%)	Mar	-1.2 (1.1)	-0.6 (1.9)	0.8 (1.5)	-

Auctions

Country	Auction
France sold	 €3.2bn of 0% 2023 bonds (25-Mar-2023) at an average yield of 0.06%
	 €2.8bn of 0% 2021 bonds (25-Feb-2021) at an average yield of -0.32%
	 €1bn of 1.75% 2024 index-linked bonds (25-Nov-2024) at an average yield of 0.3%
Spain sold	 €2.1bn of 0.45% 2022 bonds (31-Oct-2022) at an average yield of 0.194%
	 €0.8bn of 0.35% 2033 bonds (30-Jul-2033) at an average yield of 1.723%
	 €1.7bn of 1.4% 2028 bonds (30-Apr-2028) at an average yield of 1.235%
UK sold	 £2.5bn of 1.625% 2028 bonds (22-Oct-2028) at an average yield of 1.597%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	15:00	European Commission consumer confidence indicator	Apr	-0.1	0.1
Germany	07:00	PPI M/M% (Y/Y%)	Mar	0.2 (2.0)	-0.1 (1.8)
Spain	08:00	Trade balance €bn	Feb	-	-4.0

Auctions

Country	BST	Auction / Event
UK	10:30	BoE's Saunders scheduled to speak in Glasgow

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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