

Euro wrap-up

Overview

- Bunds were little changed despite a stronger-than-expected euro area consumer sentiment survey.
- Gilts made gains after yesterday's dovish comments from Mark Carney which signalled that the MPC is likely to stay on the sidelines in May.
- The coming week brings Q1 GDP data from France, Spain and the UK, alongside a number of different economic surveys from the euro area.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 03/20	-0.559	-0.002
OBL 0 10/22	-0.119	-0.002
DBR 0½ 02/28	0.606	+0.006
UKT 2 07/20	0.846	-0.058
UKT 0¾ 07/23	1.179	-0.047
UKT 4¼ 12/27	1.496	-0.023

*Change from close as at 4.00pm BST.
Source: Bloomberg

Euro area

Consumer sentiment inched up at the start of Q2

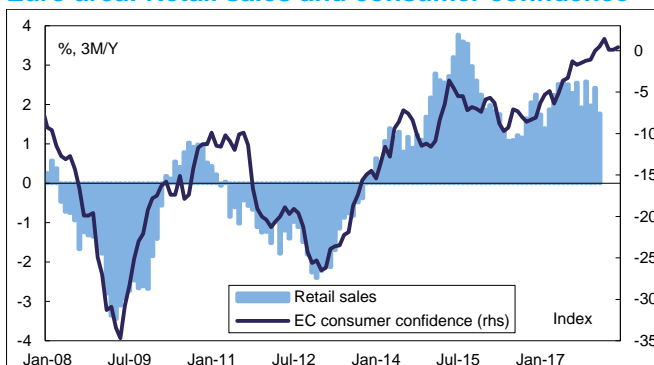
While most euro area economic sentiment surveys followed a downward trend over the first few months of this year, consumer sentiment held up relatively well. Indeed, in January having reached 1.4, the highest level since 2000, the European Commission consumer sentiment index remained at 0.1 in February and March, a level above the Q4 average. And confidence held up well in April, with today's flash indicator for April edging up 0.3ppts to 0.4. Following some disappointing hard private consumption indicators of late, at this level, the index appears to give some reassurance that there is no marked deterioration in spending underway. So, while private consumption in Q417 had already slowed to 0.2%Q/Q, the weakest rate since Q114, euro area retail sales figures for January and February pointed to a decline in High Street spending in Q1, and car registration data signaled a moderation in growth in demand for new vehicles in the first quarter too, there seems to be no cause for great alarm. Like all other top-tier survey indicators, the consumer confidence index signals ongoing growth in economic activity ahead.

The week ahead in the euro area and US

The main event of the coming week, of course, will be the conclusion of the latest ECB policy meeting on Thursday. Of course, after last month saw the Governing Council drop its easing bias on the net asset purchase programme, we expect no substantive change to policy this time around. However, Draghi's press conference will nevertheless be watched to gauge the extent of concerns among the policymakers about the recent softening of most of the dataflow and geopolitical events (not least the risk of a trade war), and hints as to how ECB policy might evolve should the economic outlook deteriorate more substantively.

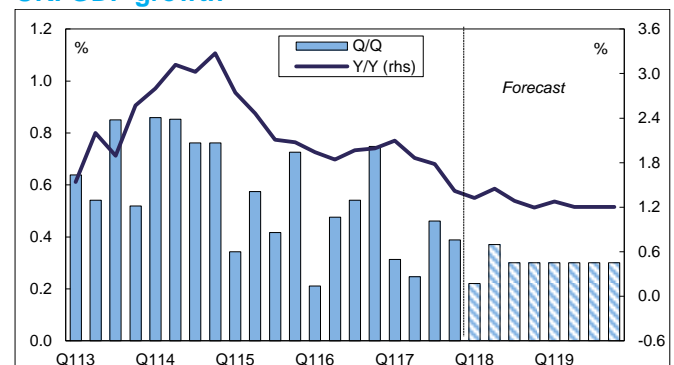
Data-wise, meanwhile, at the back end of the week we will receive a few top-tier hard economic indicators from major member states. Most notably, on Friday France and Spain will release their Q1 GDP growth figures, which we expect to echo the moderation in most major economic sentiment surveys over the last few months and come in at 0.4%Q/Q and 0.6%Q/Q respectively, down from the 0.7%Q/Q rates of growth in Q4. On the same day, these countries will also release their preliminary inflation estimates for April, while Germany will publish its latest data from the labour market. Otherwise, major euro area economic survey indicators for April will dominate the coming week's dataflow. The preliminary PMIs will come out on Monday, the INSEE and Ifo surveys are due on Tuesday, the GfK consumer sentiment index will be released on Thursday, while the European Commission economic sentiment indices – the most comprehensive euro area survey indicators – will come out on Friday. While all surveys should signal ongoing expansion, they are unlikely to buck the trend that we saw over the past couple of months, and so we expect sentiment to have remained softer at the start of Q2. In the markets, Germany and Italy will issue zero-coupon bonds, while Italy will also auction linkers.

Euro area: Retail sales and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: GDP growth



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



Turning to the US, the advance PMI reports for April will be released on Monday, together with existing home sales data for March. The S&P/CoreLogic home price index for February and new home sales data for March follow on Tuesday, alongside the Conference Board's consumer survey for April. On Thursday most interest will centre on the advance durable goods orders report for March, with the advance trade and inventory reports for March also released that day. Following those reports, analysts will be able to refine their estimates of Q1 GDP growth, the advance estimate of which is the highlight of Friday's diary. At present Bloomberg's survey indicates that the market expects growth to have slowed to 2.0%Q/Q ann. from 2.9% in Q4. Also of significant interest on Friday will be the Employment Cost Index for Q1, while the final University of Michigan survey results for April round out the economic diary. In the bond market, the Treasury will auction 2-year notes on Tuesday, 2-year FRNs and 5-year notes on Wednesday, and 7-year notes on Thursday. It is also worth noting that over a third of the companies that make up the S&P500 will report their Q1 earnings over the coming week.

UK
















Carney shuts the door for a Bank Rate hike in May

After yesterday's dire retail numbers (which left sales down 0.5%Q/Q in Q1), taking into account the downside surprises to wages and inflation data on Tuesday and Wednesday this week, as well as the sudden deterioration in the euro area dataflow over the past couple of months, we amended our Bank Rate call for the May MPC meeting to no change. And, lo and behold, Governor Carney gave an interview to the BBC early yesterday evening to give a steer that the BoE indeed might well leave rates unchanged next week. Of course, he wasn't explicit, stating among other things "I don't want to get too focused on the precise timing" of when to expect the next rate hike. And with Carney also noting Brexit uncertainty as a reason to go slow on rates, the markets today responded appropriately, reducing significantly the implied probability of a rate hike to around 50%. Indeed, in our view, the timing of the next tightening in BoE policy is very much data-dependent, with inflation and wage growth developments set to be the dominant factor of whether a Bank Rate rise in August is appropriate. This is despite today's comments from another MPC member, Michael Saunders, one of the two members who voted to tighten policy in the last meeting, that the latest patch of weaker data will not change his view on the monetary policy outlook.

The day ahead in the UK




Following this week's releases of labour market, inflation and retail sector figures, the flow of top-tier UK economic data continues in the coming week with the release of the first estimate of Q1 GDP on Friday. With bad weather conditions evidently having disrupted economic activity in early March, we expect an expansion of just 0.2%Q/Q. This would be half the rate seen in Q417, a pace of growth which the BoE had forecast in February would be sustained in Q1. Manufacturing growth is set to be less than half of Q4's rate of 1.3%Q/Q. More significantly, consumer spending appears to have slowed considerably, with retail sales dropping 0.5%Q/Q in Q1. Meanwhile, Tuesday will see the release of March's public borrowing numbers which should confirm that the FY17/18 deficit is in line with the government's (recently improved) forecast of £45.2bn. On the same day, the CBI Industrial Trends Survey for April will provide clues on the strength of manufacturing at the start of Q2. Thursday will bring mortgage lending data from UK Finance and more up-to-date insights into the state of retail spending from the April CBI Distributive Trades Survey.

Daiwa economic forecasts

	2017		2018				2019		2017	2018	2019
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
GDP forecasts %, Q/Q											
Euro area 	0.7	0.7	0.5	0.4	0.4	0.4	0.4	0.4	2.5	2.1	1.7
Germany 	0.7	0.6	0.5	0.6	0.5	0.5	0.5	0.5	2.5	2.3	2.0
France 	0.5	0.7	0.4	0.3	0.4	0.3	0.4	0.4	2.0	1.9	1.5
Italy 	0.4	0.3	0.2	0.2	0.3	0.3	0.3	0.3	1.5	1.2	1.1
Spain 	0.7	0.7	0.6	0.5	0.6	0.6	0.5	0.5	3.1	2.6	2.2
UK 	0.5	0.4	0.2	0.4	0.3	0.3	0.3	0.3	1.8	1.3	1.2
Inflation forecasts %, Y/Y											
Euro area											
Headline CPI 	1.4	1.4	1.3	1.5	1.7	1.5	1.3	1.3	1.5	1.5	1.4
Core CPI 	1.2	0.9	1.0	0.9	1.1	1.2	1.2	1.3	1.0	1.0	1.3
UK											
Headline CPI 	2.8	3.0	2.7	2.5	2.4	2.1	2.1	2.0	2.7	2.4	2.0
Core CPI 	2.6	2.6	2.5	2.2	2.1	2.0	2.0	2.0	2.4	2.1	2.0
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	0.25
Deposit Rate % 	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.25	-0.40	-0.40	0
Net asset purchases* 	60	60	30	30	30	5	0	0	60	5	0
BoE											
Bank Rate % 	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.50	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 	European Commission consumer confidence indicator	Apr	0.4	-0.1	0.1	-
Germany 	PPI M/M% (Y/Y%)	Mar	0.1 (1.9)	0.2 (2.0)	-0.1 (1.8)	-
Spain 	Trade balance €bn	Feb	-2.2	-	-4.0	-
Auctions						
Country	Auction					
- Nothing to report -						







Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

Key data releases						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Monday 23 April 2018						
EMU		09:00	Preliminary manufacturing PMI	Apr	56.0	56.6
		09:00	Preliminary services PMI (preliminary composite PMI)	Apr	54.6 (54.8)	54.9 (55.2)
		14:45	ECB public sector asset purchases €bn	Weekly	<u>5.5</u>	8.4
Germany		08:30	Preliminary manufacturing PMI	Apr	57.5	58.2
		08:30	Preliminary services PMI (preliminary composite PMI)	Apr	53.7 (54.8)	53.9 (55.1)
France		08:00	Preliminary manufacturing PMI	Apr	53.5	53.7
		08:00	Preliminary services PMI (preliminary composite PMI)	Apr	56.5 (55.9)	56.9 (56.3)
Tuesday 24 April 2018						
Germany		09:00	Ifo business climate index	Apr	102.8	103.2
		09:00	Ifo current assessment balance (expectations)	Apr	106.0 (99.5)	106.5 (100.1)
France		07:45	Business sentiment indicator (manufacturing confidence)	Apr	108 (110)	109 (111)
Italy		09:00	Consumer confidence index	Mar	117.0	117.5
		09:00	Business sentiment indicator (manufacturing confidence)	Mar	- (108.7)	106.0 (109.1)
UK		09:30	Public sector net borrowing excluding interventions £bn	Mar	2.9	1.3
		09:30	CBI Industrial Trends Survey, total orders	Apr	4.0	4.0
Wednesday 25 April 2018						
France		07:45	Consumer confidence indicator	Apr	100	100
Thursday 26 April 2018						
EMU		12:45	ECB Refi rate%	Apr	0.00	0.00
		12:45	ECB Marginal lending rate%	Apr	0.25	0.25
		12:45	ECB Deposit rate%	Apr	-0.40	-0.40
Germany		07:00	GfK consumer confidence	May	10.8	10.9
Spain		08:00	Unemployment rate%	Q1	16.2	16.6
UK		09:30	UK Finance mortgage approvals 000's	Mar	37.0	38.1
		11:00	CBI Distributive Trades survey, retail sales	Apr	-	5
Friday 27 April 2018						
EMU		10:00	Economic sentiment indicator	Apr	112.0	112.6
		10:00	Services (industrial) confidence	Apr	15.9 (5.8)	16.3 (6.4)
		10:00	Final consumer confidence	Apr	-	-
Germany		08:55	Unemployment change 000s (rate%)	Apr	-15.0 (5.3)	-19.0 (5.3)
France		06:30	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.4 (2.3)</u>	0.7 (2.5)
		07:45	Preliminary EU-harmonised CPI Y/Y%	Apr	1.7	1.7
Spain		08:00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.6 (2.9)</u>	0.7 (3.1)
		08:00	Preliminary EU-harmonised CPI Y/Y%	Apr	1.2	1.3
UK		00:01	GfK consumer confidence	Apr	-6	-7
		09:30	Services activity M/M% (3M/3M%)	Feb	-0.1 (0.6)	0.2 (0.6)
		09:30	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (1.3)</u>	0.4 (1.4)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country	BST	Event / Auction	
Monday 23 April 2018			
EMU		15:00	ECB's Cœuré scheduled to speak in Frankfurt
Tuesday 24 April 2018			
Germany		10:30	Auction: To sell €4bn of 0% bonds 2020 (13-Mar-2020)
Italy		10:00	Auction: To sell up to €2bn of 0% 2020 bonds (30-Mar-2020)
		10:00	Auction: To sell 1.3% 2028 index-linked bonds (24-Apr-2028)
UK		10:00	Auction: To sell 1.25% 2032 index-linked bonds (15-Sep-2032)
		10:30	Auction: To sell €750mn of 0.125% 2048 linked bonds (10-Aug-2048)
Wednesday 25 April 2018			
- Nothing scheduled -			
Thursday 26 April 2018			
EMU		13:30	Draghi holds a press conference after policy announcement
Friday 27 April 2018			
Italy		10:00	Auction: To sell bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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