

Euro wrap-up

Overview

- Bunds were little changed despite retail sales data suggesting very subdued household consumption growth in the euro area Q1.
- Gilts also moved broadly sideways as new car sales figures failed to provide a clearer picture of UK consumer mood at the start of Q2.
- Following downside surprises to major UK data, the MPC is expected to leave Bank Rate unchanged the coming week. The euro area dataflow brings the latest IP figures from the large member states.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 03/20	-0.578	+0.007
OBL 0 10/22	-0.170	+0.015
DBR 0½ 02/28	0.540	+0.009
UKT 2 07/20	0.777	+0.014
UKT 0% 07/23	1.101	+0.014
UKT 4% 12/27	1.390	-

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

Euro area

Retail sales point to weaker consumption growth

Following the very weak German retail sales report for March released earlier this week (down for the fourth consecutive month and by 0.6%M/M), today's figures revealed that the other major member states did little more than merely offset that drag to spending on the high street that month. Indeed, March was another unimpressive month for the euro area retail sector. Overall, sales rose only 0.1%M/M, following a drop of 0.3%M/M in January and a rise of the same rate in February. Within the detail, sales of non-food products declined 0.5%M/M for a second consecutive month, while sales of auto fuel fell at a similar rate. So, it was thanks to food sales that total growth managed just about to remain in positive territory. Today's data left retail sales falling by 0.2%3M/3M in March, the lowest quarterly rate in three years and significantly weaker compared to Q3 and Q4, when they rose 0.4%Q/Q. This slowdown, which appears to be at odds with still very elevated consumer confidence levels in recent months, points to a further moderation in euro area household consumption growth in Q1 from the already softer rates of 0.3%Q/Q and 0.2%Q/Q in Q3 and Q4, which would at least to some extent explain the step down in GDP growth at the start of the year. Indeed, private consumption in Q1 now looks set to have been the weakest for at least four years.

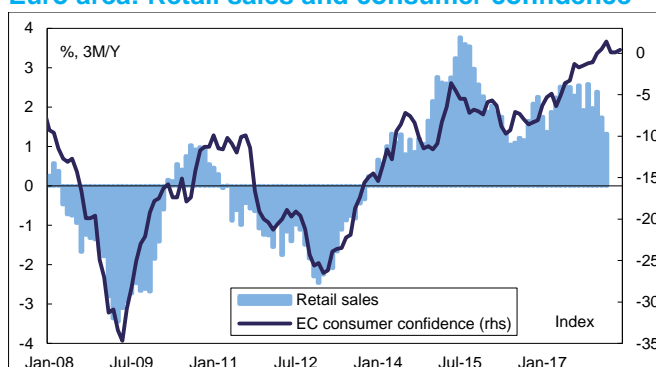
Euro area growth stabilised in April

Earlier euro area PMI releases for April, including the final manufacturing PMIs announced two days ago as well as the flash services indices released last month, suggested that economic momentum was broadly stable at the start of Q2 having weakened in Q1. And today's final estimates of the services and composite PMIs largely reinforced that message. However, the headline index for services was revised slightly lower to 54.7, down 0.2pt from March and the joint-weakest reading in fifteen months. Given the upward revision to the manufacturing output PMI, this left the composite PMI at 55.1, down only 0.1pt from the preliminary estimate and the previous month's reading. Today's release broadly echoed the findings from the European Commission survey, which had also suggested that economic sentiment was little changed last month. But with the composite new orders PMIs index having declined slightly on the month, also to the lowest level since the start of last year, there was no new information in today's numbers that could signal a meaningful acceleration in economic output over the near term. So, overall, it appears that momentum is set to remain broadly stable at a less vigorous pace than seen last year, and we expect that GDP growth this quarter will be broadly similar to that in Q1.

The week ahead in the euro area and US

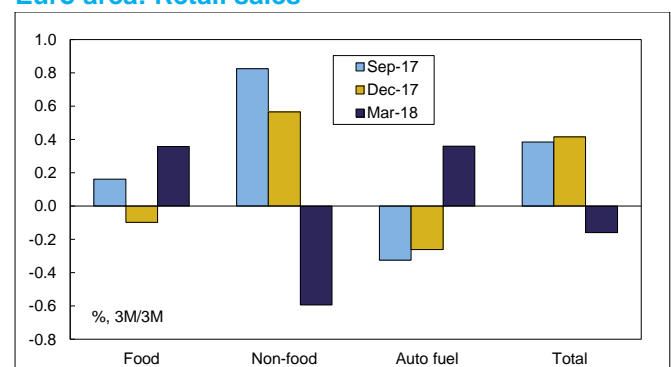
The coming week should be a relatively uneventful one in the euro area bringing mainly March industrial production data from the large member states. On Tuesday, Germany publishes its IP data, which will be followed by the French and Spanish releases on Wednesday, while Italy will report its equivalent numbers on Thursday. Additionally, on Tuesday, German trade figures for the same month are also due. Both exports and imports declined in January and February, and while some recovery is expected in March,

Euro area: Retail sales and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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which would leave trade surplus rising back above €20bn for the first time in four months, growth in shipments to and from the country over Q1 as a whole is likely to have been subdued. Meanwhile, at the end of the week on Friday, Spain will report its final inflation data for April, which should give more colour on how inflationary pressures evolved at the start of Q2. With regard to government bond auctions, Germany will issue index-linked and regular Bunds on Tuesday and Wednesday, while Italy will auction bonds on Friday.

Turning to the US, most interest in the coming week will centre on developments in inflation with the CPI report for April due on Thursday, preceded by the PPI report for the same month on Wednesday. A repeat of previous month's 0.2%M/M rise in the core CPI would likely see annual inflation lift to a 14-month high of 2.2%Y/Y. The coming week's diary also includes March consumer credit (Monday); the March JOLTS report and the April NFIB business survey (Tuesday); the final March wholesale inventory report (Wednesday); and March import prices and the preliminary results of the University of Michigan's consumer survey for May (Friday). There are also a number of Fed speeches scheduled this week, including from Chairman Powell who will speak in Zurich on Tuesday. After a busy fortnight, the US corporate earnings season will begin to wind down, however. In the bond market, the Treasury will auction 3Y notes on Tuesday, 10Y notes on Wednesday and 30Y bonds on Thursday.

UK

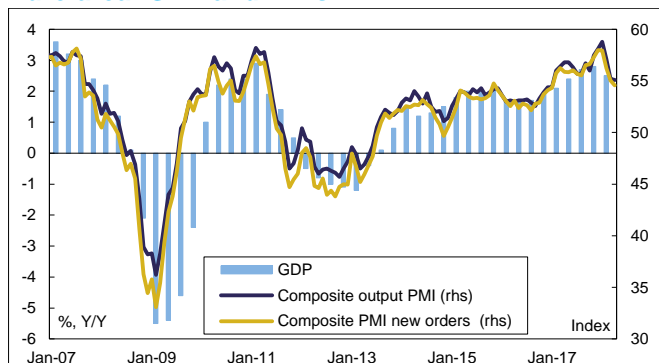
New car sales remain weak

At face value, today's UK economic data appeared much stronger than other recent releases. The SMMT reported that new car registrations increased by 10.4%Y/Y in April, having fallen by more than 15%Y/Y in March. This was the best reading since mid-2015. However, a number of special factors distorted growth in recent months. Most notably, the base effect from last year played a significant role – with the government having raised Vehicle Excise Duty from the start of April last year, many people brought forward their car purchases to March 2017. Moreover, the timing of Easter meant that there were two more selling days in April 2018 than last year. In addition, cold winter weather in March might have disrupted some sales, pushing them into April. So, overall, underlying growth in new car sales was likely much weaker than today's headline figure suggests. Indeed, on a year-to-date basis, new car registrations were still down by almost 9%Y/Y.

The day ahead in the UK

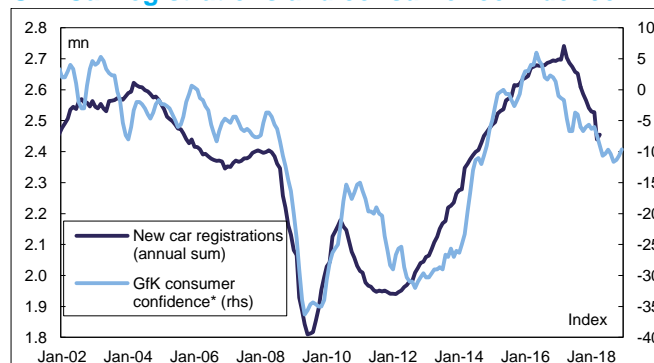
The main event in the coming week will be the BoE MPC meeting, with an announcement on Bank Rate and the latest Inflation Report due on Thursday. At the time of the last Report, the Bank had hinted strongly that signs of building wage pressures were likely to prompt a tightening in the near future. However, a raft of weak data over the past month – including inflation, retail sales and a paltry 0.1%Q/Q rise in GDP – has meant that Bank Rate now looks highly likely to remain on hold for the time being. Even ahead of the GDP release, Governor Carney admitted some data has been softer than the MPC expected, and highlighted that there will be other opportunities later in the year, after this meeting, to raise rates instead. The Inflation Report will certainly be scrutinised for clues as to how lasting the BoE views the recent softness in activity. And with inflation in Q1 having been 0.2ppt lower than it previously expected, at 2.7%Y/Y, the MPC's inflation projections are set to shift lower, although higher oil prices will provide some offset. That midday policy announcement will be preceded by ONS data releases that day on IP and overseas trade, which should be consistent with the weakness of the initial estimate of Q1 GDP. The same day will bring insight into retailing and the housing market in April from the BRC and RICS surveys respectively. UK markets will be closed, meanwhile, on Monday for a public holiday. On Wednesday the DMO will issue £2.75bn of 10Y Gilts.

Euro area: GDP and PMIs



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
















UK: Car registrations and consumer confidence



*Nine month lead. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.










Due to a public holiday, the next edition of the Euro wrap-up will be published on 08 May 2018.

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	0.4	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	0.3	0.3	0.4	0.3	0.4	0.4	2.0	1.7	1.5
Italy		0.4	0.3	0.3	0.2	0.3	0.3	0.3	0.3	1.6	1.2	1.1
Spain		0.7	0.7	0.7	0.5	0.6	0.6	0.5	0.5	3.1	2.7	2.2
UK		0.5	0.4	0.1	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	1.4	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	2.2	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	0.25
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		Final services PMI (final composite PMI)	Apr	54.7 (55.1)	55.0 (55.2)	54.9 (55.2)	-
		Retail sales M/M% (Y/Y%)	Mar	0.1 (0.8)	0.5 (1.9)	0.1 (1.8)	0.3 (-)
Germany		Final services PMI (composite PMI)	Apr	53.0 (54.6)	54.1 (55.3)	53.9 (55.1)	-
France		Trade balance €bn	Mar	-5.3	-5.0	-5.2	-5.0
		Final services PMI (composite PMI)	Apr	57.4 (56.9)	57.4 (56.9)	56.9 (56.3)	-
Italy		Services PMI (composite PMI)	Apr	52.6 (52.9)	53.0 (53.7)	52.6 (53.5)	-
Spain		Unemployment net 000's	Apr	-87	-101	-48	-
		Services PMI (composite PMI)	Apr	55.6 (55.4)	56.1 (55.5)	56.2 (55.8)	-
UK		New car registrations Y/Y%	Apr	10.4	-	-15.7	-
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 07 May 2018						
EMU		14:45	ECB public sector asset purchases €bn	Weekly	<u>3.5</u>	9.0
Germany		07:00	Factory orders M/M% (Y/Y%)	Mar	0.5 (5.0)	0.3 (3.5)
Tuesday 08 May 2018						
Germany		07:00	Trade balance €bn	Mar	23.1	18.5
		07:00	Current account balance €bn	Mar	-	20.7
		07:00	Exports (Imports) M/M%	Mar	2.1 (1.2)	-3.1 (-1.3)
		07:00	Industrial production M/M% (Y/Y%)	Mar	0.9 (3.0)	-1.6 (2.6)
UK		08:30	Halifax house price M/M% (3M/Y%)	Apr	-0.2 (3.2)	1.5 (2.7)
Wednesday 09 May 2018						
France		07:45	Industrial production M/M% (Y/Y%)	Mar	0.3 (2.6)	1.2 (4.0)
		07:45	Manufacturing production M/M% (Y/Y%)	Mar	-	-0.6 (2.4)
Spain		08:00	Industrial production M/M% (Y/Y%)	Mar	-0.2 (-1)	1.5 (3.1)
Italy		08:45	Retail sales M/M% (Y/Y%)	Mar	-0.2	0.4 (-0.6)
UK		00:01	BRC retail sales like-for-like Y/Y%	Apr	-1.5	1.4
Thursday 10 May 2018						
Italy		09:00	Industrial production M/M% (Y/Y%)	Mar	0.4 (2.4)	-0.5 (2.5)
UK		09:30	RICS house price balance %	Apr	-1	0
		09:30	Trade balance (goods trade balance) £bn	Mar	-2.1 (-5.6)	-1.6 (-3.0)
		09:30	Industrial production M/M% (Y/Y%)	Mar	0.1 (3.1)	0.1 (2.2)
		09:30	Manufacturing production M/M% (Y/Y%)	Mar	-0.2 (2.9)	-0.2 (2.5)
		09:30	Construction output M/M% (Y/Y%)	Mar	-2.1 (-5.6)	-1.6 (-3.0)
		12:00	Bank Rate%	May	0.50	0.50
		12:00	NIESR GDP estimate	Apr	-	0.2
Friday 11 May 2018						
Spain		08:00	Final EU-harmonised CPI Y/Y%	Apr	1.1	1.3

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country	BST	Event / Auction	
Monday 07 May 2018			
- Nothing scheduled -			
Tuesday 08 May 2018			
Germany		10:30	Auction: To sell €250mn of 0.1% index-linked bonds 2046 (15-Apr-2046)
		10:30	Auction: To sell €500mn of 0.5% index-linked bonds 2030 (15-Apr-2030)
Wednesday 09 May 2018			
UK		10:30	Auction: To sell £2.75bn of 1.625% bonds 2028 (22-Oct--2028)
Germany		10:30	Auction: To sell €1.5bn of 1.25% bonds 2048 (15-Aug--2048)
Thursday 10 May 2018			
EMU		09:00	ECB publishes Economic Bulletin
UK		12:00	BoE publishes Inflation Report
Friday 11 May 2018			
Italy		10:00	Auction: To sell bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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