

Euro wrap-up

Overview

- Bunds were little changed today despite an upwards surprise to the latest German consumer confidence indicator.
- Gilts made modest gains as the first estimate of Q1 GDP showed that growth moderated at the start of 2016 to its slowest pace since 2012.
- Tomorrow brings the Commission's latest economic sentiment surveys for April, alongside the flash estimate of German CPI for the same month.

Chris Scicluna
+44 20 7597 8326

Mantas Vanagas
+44 20 7597 8318

Daily bond market movements

Bond	Yield	Change*
BKO 0 03/18	-0.497	-0.003
OBL 0 04/21	-0.298	-0.011
DBR 0½ 02/26	0.288	-0.012
UKT 1¼ 07/18	0.544	-0.010
UKT 1½ 01/21	1.002	-0.023
UKT 2 09/25	1.626	-0.033

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

Euro area

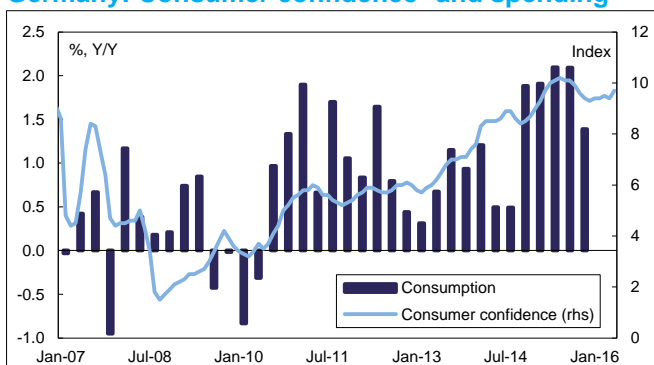
Consumer sentiment strengthens in Germany, mixed picture elsewhere

More than half of all euro area economic growth over the past six quarters has come from consumer spending, which surpassed its pre-crisis peak as rising real disposable incomes and falling unemployment encouraged households to loosen their purse strings. A notable deterioration in consumer confidence in the first quarter of the year, however, raised concerns about the near-term outlook for spending. But while their findings were mixed, the latest household sentiment surveys from the largest member states suggest that consumption should continue to offer support to GDP growth in Q2. Most encouragingly, the latest German GfK survey surprised on the upside with the headline sentiment index up 0.3pt, the most in a year, to an eight-month high of 9.7, back in the middle of the range of the past year or so and comfortably above the long-run average. Within the detail, there were sizeable gains in April in the indices for income expectations and willingness to buy. In contrast, although French jobless claims dropped 60k – the most in more than fifteen years – to take the level to a one-year low in March from a record high the previous month, there was no improvement in consumer confidence in the euro area's second-largest member state in April. The headline French sentiment index was flat at 94, the bottom of the range of the past year and some way below the long-run average, with no change in consumers' readiness to make future purchases and a deterioration in their assessment of future standard of living, suggesting that the outlook for consumption growth in France might remain tepid. Most disappointing, however, was the larger-than-expected decline in consumer confidence in Italy, where the headline index fell to a seven-month low and respondents reported a deterioration in willingness to buy durable goods. But we are not overly concerned: household sentiment in Italy remains well above levels prevailing for most of the past fifteen years. And a modest improvement in business sentiment also reported today suggests that the gradual Italian economic recovery continues.

A pause in loan growth to NFCs

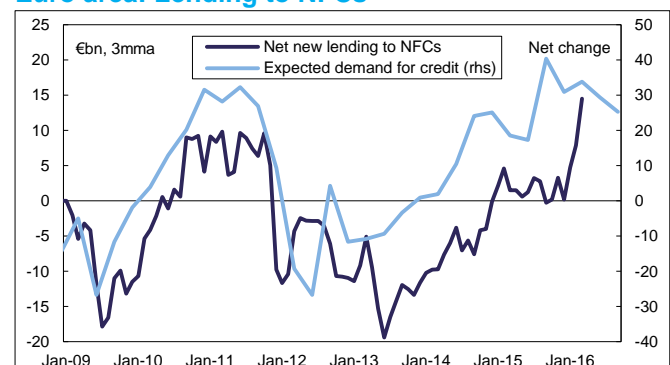
While consumer spending looks set to remain the euro area's principal driver of economic growth, there have also been tentative signs of a slightly improved outlook for business investment, which was still almost 15% below its pre-crisis peak at the end of last year. At face value, therefore, the latest bank lending figures were disappointing, showing that the flow of net new loans to non-financial corporations (NFCs) fell back to zero in March. While this might in part reflect a lagged response to the deterioration in financial market and business confidence reported earlier in the first quarter, it was more likely to represent a temporary pullback following strong increases in the first two months of the year. Indeed, consistent with the continued reported easing of credit conditions and costs of borrowing over recent quarters, overall net new lending to NFCs (adjusted for sales and securitisations) rose in Q116 to more than €44bn, roughly 50% higher than any other quarter since the global

Germany: Consumer confidence* and spending



*GfK index. Source: Datastream and Daiwa Capital Markets Europe Ltd.

Euro area: Lending to NFCs



Source: ECB, Datastream and Daiwa Capital Markets Europe Ltd.



financial crisis. Admittedly, at the country level, most of that growth was accounted for by Germany, France and the Netherlands, with the flow of net new lending negative in Spain and flat in many member states. And the annual rate of growth in total loans outstanding to NFCs remains relatively subdued, up just 0.1ppt in March to 1.1%Y/Y, with the equivalent figure for loans to households also up 0.1ppt to 1.6%Y/Y. Nevertheless, with the ECB's latest credit conditions survey suggesting that banks expect a further pickup in demand for business loans over the near term, the trend in lending growth should remain positive.

The day ahead in the euro area and the US

Thursday brings the Commission's April economic sentiment survey, which typically provides the most reliable guide to the strength of economic activity in the euro area. The headline sentiment indicator is expected to increase for the first month in four. Also due on Thursday is the first guide to inflation in April with the flash estimate of German CPI, which on the EU harmonised measure is expected to fall 0.1ppt to zero. In addition, Italy will sell 5Y and 10Y regular bonds and 7Y FRNs. However, the previously mooted Eurogroup meeting to discuss Greece will now not take place tomorrow due to a lack of progress in identifying the necessary Greek government reform actions.

In the US, meanwhile, Thursday brings the advance estimate of Q116 GDP, with growth likely to have slowed to a little less than 1.0%Q/Q ann. from just 1.4%Q/Q ann. the previous quarter. Within the detail, growth of consumer spending is expected to have slowed below 2%Q/Q ann., business investment is likely to have remained weak and net trade and inventories are likely to have subtracted from growth. The core PCE deflator, meanwhile, is expected to have picked up to 1.9%Q/Q ann. Also due will be the Kansas City Fed manufacturing index for April and the usual weekly claim figures. In the bond market, the Treasury will sell 7Y Notes and 2Y FRNs.

UK

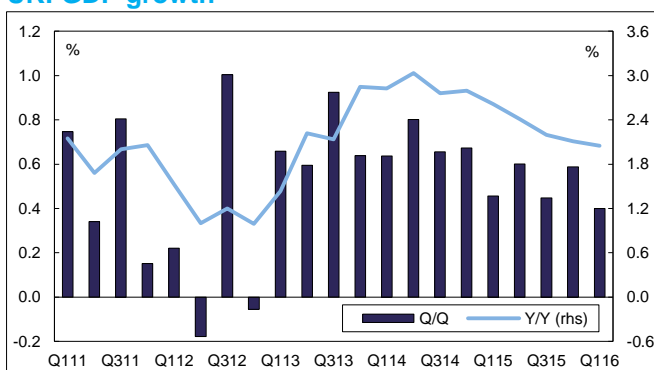
GDP growth moderated in Q1

Consistent with the recent flow of weaker economic indicators, the preliminary GDP figures, released today, showed that growth in Q1 eased by 0.2ppt to 0.4%Q/Q, matching the slowest pace of increase since the end of 2012 posted in Q315. While the headline pace of growth was in line with market consensus, other data suggested that the service sector, which has driven the UK's economic recovery, is starting to show signs of weakness. Service activity figures, announced in a separate release, showed that growth in February eased from 0.9%3M/3M to 0.7%3M/3M, with the estimate in the GDP release showing that it fell to a three-quarter low of 0.6% in Q1. Overall, there is little doubt that the UK economy is slowing, while the headwinds surrounding the EU referendum mean that we do not see GDP growth picking up ahead of the vote at the end of Q2.

The day ahead in the UK

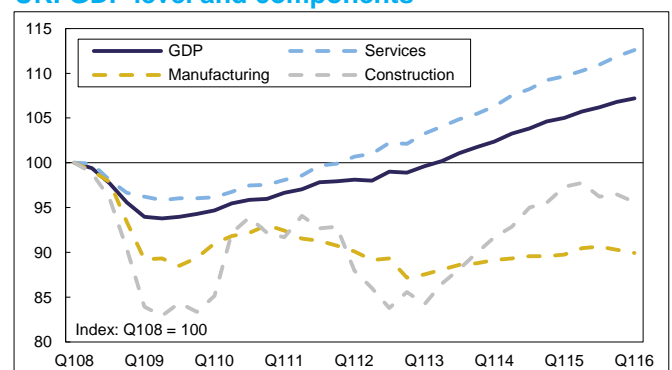
It is set to be a quiet day in the UK tomorrow with only the Nationwide house price index for April due for release.

UK: GDP growth



Source: Datastream and Daiwa Capital Markets Europe Ltd.

UK: GDP level and components












Source: Datastream 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	 M3 money supply Y/Y%	Mar	5.0	5.0	5.0	4.9
Germany	 GfK consumer confidence survey	May	9.7	9.4	9.4	-
France	 Consumer confidence survey	Apr	94	95	94	-
Italy	 Consumer confidence indicator	Apr	114.2	115.0	115.0	114.9
	 Manufacturing (economic) confidence indicator	Apr	102.7 (102.7)	102.5 (-)	102.2 (100.1)	-(100.2)
Spain	 Retail sales Y/Y%	Mar	4.4	3.4	3.9	4.1
UK	 GDP – preliminary release Q/Q% (Y/Y%)	Q1	0.4 (2.1)	0.3 (1.9)	0.6 (2.1)	-
	 Index of services M/M% (3M/3M%)	Feb	0.1 (0.7)	0.2 (0.8)	0.2 (0.9)	0.1 (-)
	 CBI's Distributive Trades survey, reported sales	Apr	-13	13	7	-


Auctions

Country	Auction
Germany sold 	€804mn of 2.5% 2046 bonds (15-Aug-2046) at an average yield of 1.03%


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	 BBA loans for house purchase 000s	Mar	45.1	46.1	45.9	45.7









Auctions

Country	Auction
Italy sold 	€750mn of 2.35% 2024 index-linked bonds (15-Sep-2024) at an average yield of 0.48%




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		10.00 Economic sentiment indicator	Apr	103.4	103.0
		10.00 Services (industrial) sentiment	Apr	10.0 (-4.0)	9.6 (-4.2)
		10.00 Final consumer confidence	Apr	-9.3	-9.7
Germany		08.55 Unemployment change `000s (rate %)	Apr	0 (6.2)	0 (6.2)
		13.00 Preliminary EU-harmonised CPI Y/Y%	Apr	0.0	0.1
Spain		08.00 Preliminary EU-harmonised CPI Y/Y%	Apr	-1.0	-1.0
		08.00 Unemployment rate %	Q1	20.9	20.9
UK		07.00 Nationwide house price index M/M% (Y/Y%)	Apr	0.4 (5.0)	0.8 (5.7)

Auctions and events

Country	BST	Auction / Event
Italy		10.00 Auction: To sell up to €2.25bn of 0.45% 2021 bonds (01-Jun-2021)
		10.00 Auction: To sell up to €3bn of 2023 floating-rate bonds (15-Jul-2023)
		10.00 Auction: To sell up to €2.5bn of 1.6% 2026 bonds (01-Jun-2026)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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