

Euro wrap-up

Overview

- Bunds made losses as euro area GDP figures surprised on the upside.
- Gilts were little changed as a survey reported a deterioration in UK consumer confidence.
- The European economic data focus in the coming week will be the April PMIs, which seem bound to be overshadowed by figures from elsewhere, not least the US labour market report.

Chris Scicluna
+44 20 7597 8326

Mantas Vanagas
+44 20 7597 8318

Daily bond market movements

Bond	Yield	Change*
BKO 0 03/18	-0.478	+0.020
OBL 0 04/21	-0.273	+0.036
DBR 0½ 02/26	0.289	+0.032
UKT 1¼ 07/18	0.528	-0.008
UKT 1½ 01/21	0.985	-0.002
UKT 2 09/25	1.611	+0.003

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

Euro area

GDP growth surprises on the upside

A busy end to the week for euro area economic data brought good news for the ECB, most notably with the flash estimate of Q116 GDP providing a welcome upside surprise. Despite the deterioration in economic sentiment measures to their weakest levels in a year at the start of 2016, some firm data – not least regarding retail sales, car registrations and industrial output – had already raised the possibility of an acceleration in growth from 0.3%Q/Q in Q315 and Q415. In the event, the preliminary estimate of GDP growth exceeded expectations, coming in at 0.6%Q/Q, the strongest in one year, with the annual rate maintained at 1.6%Y/Y and the level of output exceeding the pre-crisis peak for the first time. No expenditure breakdown was provided for the euro area. However, domestic demand was highly likely to be the main driver, which was the case in France, the largest member state to release a growth figure and the only one to provide detail on the components. In particular, French GDP also rose 0.5%Q/Q, the most in a year, with final domestic demand contributing 0.9ppt. Household consumption in France rose 1.2%Q/Q, the strongest rate in more than a decade, while fixed investment rose 0.9%Q/Q, the strongest in five years. Meanwhile, French exports fell to leave net trade subtracting 0.2ppt, and changes in inventories subtracted the same amount.

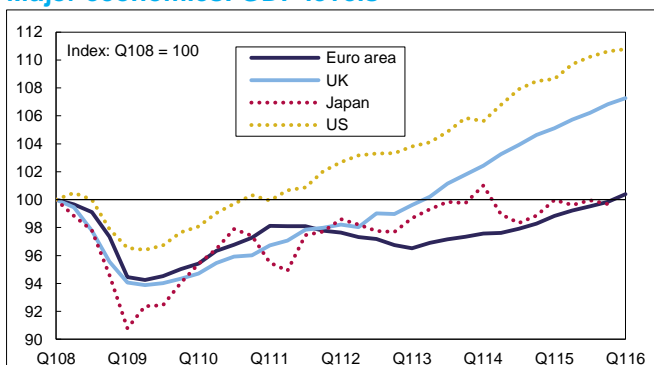
Soft German retail data not a concern

Spanish GDP also beat expectations, maintaining the 0.8%Q/Q pace of Q415 to leave output a still-impressive 3.4% higher than a year earlier. And while no preliminary German GDP figure was released, we expect an acceleration from growth of 0.3%Q/Q in the previous two quarters to close to 0.6%Q/Q, despite today's disappointing retail sales figures. Contrary to expectations of a moderate increase in March, retail sales in Germany fell 1.1%M/M, the most in eighteen months, to leave them up just 0.2%Q/Q in Q1. These data are notoriously volatile and not a particularly reliable guide to the strength of German consumption. And not least given the notable improvement in German consumer confidence at the start of Q2, we have few concerns about the near-term outlook for spending in the euro area's largest member state.

Inflation back in negative territory, but unemployment down too

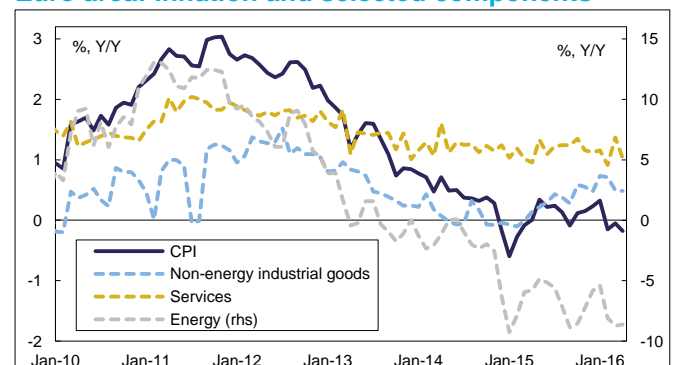
In contrast to the GDP data, the flash euro area inflation figures for April came in weaker than expected, with headline CPI falling back into negative territory, down 0.2ppt to -0.2%Y/Y. With inflation of food and energy little changed from the previous month, core inflation similarly dropped 0.2ppt to 0.8%Y/Y, the low end of the range of the past year. The principal cause was a 0.4ppt decline in services inflation, all-but-reversing the increase in March related to the timing of the Easter holiday. (The German flash estimate of CPI on the EU-harmonised measure, meanwhile, was revised down 0.2ppt from the figure released yesterday to -0.3%Y/Y, the lowest in more than a year, as the national statistical office admitted to an error!) But the ECB won't be overly concerned, as inflation looks a touch firmer than it expected even last month. And given the recent rise in the oil

Major economies: GDP levels



Source: Datastream and Daiwa Capital Markets Europe Ltd.

Euro area: Inflation and selected components*



*Flash estimates for April 2016.
Source: Datastream and Daiwa Capital Markets Europe Ltd.



price well above its assumption (on average \$34.9bbl in 2016), the next set of ECB forecasts could well see its inflation forecast of 0.1% in 2016 revised up. Of course, following today's upside surprise to GDP growth in Q116, as well as a significant downside surprise to the unemployment rate – which fell a further 0.2ppt in March to a four-and-a-half-year low of 10.2%, 1ppt lower than a year earlier with declines in most member states including the four largest – the ECB will also likely revise up its 2016 economic growth forecast (currently 1.4%) too.

The week ahead in the euro area and the US

The coming week will be a relatively quiet one for economic news from the euro area. Monday brings the final manufacturing PMIs for April, with the equivalent services and composite indices due on Wednesday: the flash euro area composite PMI fell 0.1pt to match February's twelve-month low. In addition, euro area retail sales figures for March are also due on Wednesday: a positive growth figure would represent the fifth consecutive month of expansion adding to evidence of a sizeable contribution to economic growth from private consumption in Q116. In the bond markets, Germany will sell 5Y Bunds on Wednesday while France will also sell bonds that day and Spain will sell bonds on Thursday.

In contrast to the euro area, the coming week in the US looks set to be a busy one for top-tier releases, kicking off on Monday with April's manufacturing ISM survey and March construction spending figures. Tuesday brings the latest vehicle sales data, followed by a raft of releases on Wednesday including April's non-manufacturing ISM, March's full trade report and factory orders figures, and the latest ADP employment report. And the week will conclude with the release of the comprehensive labour market report on Friday, which is expected to show that non-farm payrolls increased by 200k in April to leave the unemployment rate unchanged at 5.0%. There are no UST bond auctions scheduled in the coming week.

UK

Consumer confidence deteriorates ahead of the Brexit vote

The GfK survey showed that consumer confidence weakened by more than expected in April, suggesting that household spending growth might have slowed further at the start of Q2. The headline index fell from 0 to -3, posting its first negative reading in fifteen months. All components came in lower too, with the index for major purchases showing the steepest fall of all. Overall, as the EU referendum draws closer and news headlines highlight the economic risks of Brexit, consumer sentiment looks set to deteriorate further in the near term.

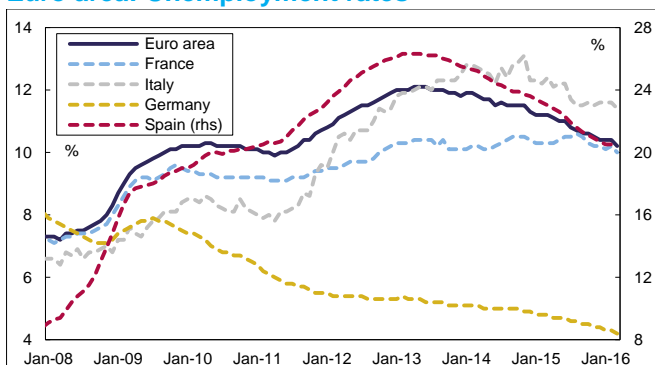
Lending surges in March

Consistent with the data from the housing sector, which suggested that the buy-to-let market was particularly active ahead of the Stamp Duty tax change in April, the BoE lending figures for March showed a surge in mortgage lending in March. Net new lending more than doubled to £7.4bn, the highest level since the crisis, while growth in mortgages outstanding jumped from 2.9%Y/Y to 3.4%Y/Y. However, the coming months look set to see mortgage lending fall significantly and, consistent with this view, mortgage approvals for house purchase decreased notably in March, from 73.2k to 71.4k. Meanwhile, growth of consumer credit also took a step up in March, rising from 9.5%Y/Y to 9.7%Y/Y, the highest pace since the end of 2005.

The week ahead in the UK

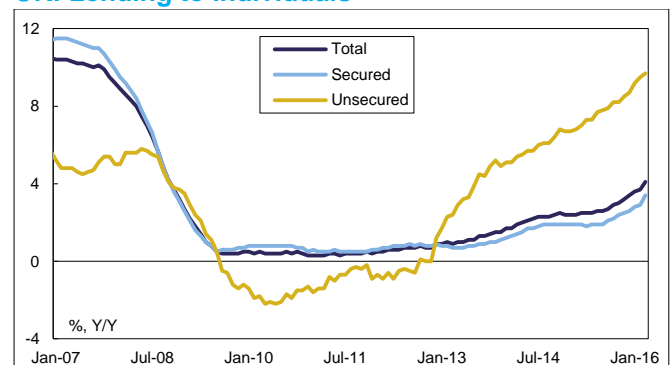
The holiday-shortened week in the UK brings the latest PMIs for April. The index for manufacturing, due on Tuesday, is expected to have edged up by 0.2pt to 51.2, while the construction and services indicators, out on Wednesday and Thursday respectively, are expected to have fallen by a similar amount to 54.0 and 53.5 respectively. Otherwise, it should be very quiet, with only the BRC retail price index and new car registration data due for release.

Euro area: Unemployment rates



Source: Datastream and Daiwa Capital Markets Europe Ltd.

UK: Lending to Individuals


















Source: BoE

European calendar

Today's results

Economic data



Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 GDP – preliminary release Q/Q% (Y/Y%)	Q1	0.6 (1.6)	<u>0.3 (1.3)</u>	0.3 (1.6)	-
	 Flash CPI estimate Y/Y%	Apr	-0.2	<u>-0.1</u>	-0.1	-
	 Flash core CPI estimate Y/Y%	Apr	0.8	<u>0.8</u>	1.0	-
	 Unemployment rate %	Mar	10.2	<u>10.3</u>	10.3	10.4
Germany	 Retail sales M/M% (Y/Y%)	Mar	-1.1 (0.7)	0.4 (2.7)	-0.4 (5.4)	0.0 (5.5)
France	 GDP – preliminary release Q/Q% (Y/Y%)	Q1	0.5 (1.3)	<u>0.3 (0.9)</u>	0.3 (1.4)	-
	 Preliminary EU-harmonised CPI Y/Y%	Apr	-0.1	<u>-0.1</u>	-0.1	-
	 Consumer spending M/M% (Y/Y%)	Mar	0.2 (2.7)	-0.1 (2.1)	0.6 (1.8)	0.5 (1.6)
Italy	 Unemployment rate %	Mar	11.4	11.7	11.7	11.6
	 Preliminary EU-harmonised CPI Y/Y%	Apr	-0.3	<u>-0.1</u>	-0.2	-
Spain	 GDP – preliminary release Q/Q% (Y/Y%)	Q1	0.8 (3.4)	<u>0.6 (3.2)</u>	0.8 (3.5)	-
	 Current account balance €bn	Feb	-1.5	-	-0.7	-
UK	 GfK consumer confidence survey	Apr	-3	-1	0	-
	 Net consumer credit (net lending secured on dwellings) £bn	Mar	1.9 (7.4)	1.3 (3.7)	1.3 (3.6)	1.4 (-)
	 Mortgage approvals `000s	Mar	71.4	<u>75.0</u>	73.9	73.2

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 2 May 2016						
EMU		09.00	Final manufacturing PMI	Apr	<u>51.5</u>	51.6
		14.45	ECB QE net purchases €bn	Weekly	<u>19.5</u>	19.9
Germany		08.55	Final manufacturing PMI	Apr	51.9	50.7
France		08.50	Final manufacturing PMI	Apr	48.3	49.6
Italy		08.45	Manufacturing PMI	Apr	53.0	53.5
Spain		08.15	Manufacturing PMI	Apr	53.0	53.4
Tuesday 3 May 2016						
UK		09.30	Manufacturing PMI	Apr	51.2	51.0
Wednesday 4 May 2016						
EMU		09.00	Final services PMI (final composite PMI)	Apr	53.2 (53.0)	53.1 (53.1)
		10.00	Retail sales M/M% (Y/Y%)	Mar	-0.1 (2.6)	0.2 (2.4)
Germany		08.55	Final services PMI (final composite PMI)	Apr	54.6 (53.8)	55.1 (54.0)
France		07.45	Trade balance €bn	Mar	-4.2	-5.2
		08.50	Final services PMI (final composite PMI)	Apr	50.8 (50.5)	49.9 (50.0)
Italy		08.45	Services PMI (composite PMI)	Apr	-	51.2 (52.4)
Spain		08.00	Unemployment M/M '000s	Apr	-86.5	-58.2
		08.15	Services PMI (composite PMI)	Apr	55.0 (54.8)	55.3 (55.1)
UK		09.30	Construction PMI	Apr	54.0	54.2
Thursday 5 May 2016						
UK		00.01	BRC shop price index Y/Y%	Apr	-1.7	-1.7
		09.30	Services PMI (composite PMI)	Apr	53.5 (53.2)s	53.7 (53.6)
Friday 6 May 2016						
Spain		08.00	Industrial production M/M% (Y/Y%)	Mar	0.3 (1.4)	-0.2 (2.2)
UK		09.00	New car registrations Y/Y%	Apr	-	5.3

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country		BST	Event / Auction
Monday 2 May 2016			
EMU		15.00	ECB's Draghi scheduled to speak in Frankfurt
		18.00	ECB's Lautenschläger scheduled to speak in Switzerland
Tuesday 3 May 2016			
EMU		08.15	ECB's Cœuré scheduled to speak in Paris
		10.00	European Commission publishes its economic forecasts
Wednesday 4 May 2016			
EMU		09.00	ECB publishes Economic Bulletin
Germany		10.30	Auction: To sell €4bn of 2021 zero-coupon bonds (09-Apr-2021)
France		09.50	Auction: To sell 6% 2025 bonds (25-Oct-2025)
		09.50	Auction: To sell 0.5% 2026 bonds (25-May-2026)
		09.50	Auction: To sell 1.5% 2031 bonds (25-May-2031)
UK		10.30	Auction: To sell £2.75bn of 1.5% 2021 bonds (22-Jan-2021)
Thursday 5 May 2016			
Spain		09.30	Auction: To sell 1.95% 2026 bonds (30-Apr-2026)
		09.30	Auction: To sell 1.95% 2030 bonds (30-Jul-2030)
		09.30	Auction: To sell 4.90% 2046 bonds (30-Jul-2040)
UK		10.30	Auction: To sell £2.5bn of 1.5% 2026 bonds (22-Jul-2026)
Friday 6 May 2016			
- Nothing scheduled -			

Source: ECB, BoE, Bloomberg and Daiwa Capital Markets Europe Ltd.

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