

Euro wrap-up

Overview

- Gilts made gains as the UK manufacturing PMI fell into contractionary territory for the first time in three years.
- Bunds followed Gilts higher on a quiet day for euro area economic news.
- Tomorrow brings final services and composite PMIs from the euro area and member states, as well as euro area retail sales figures for March. In the UK, the latest construction PMI is due.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 03/18	-0.498	-0.022
OBL 0 04/21	-0.335	-0.049
DBR 0½ 02/26	0.196	-0.071
UKT 1¼ 07/18	0.478	-0.053
UKT 1½ 01/21	0.917	-0.059
UKT 2 09/25	1.523	-0.073

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

UK

Manufacturing PMI points to a slowdown

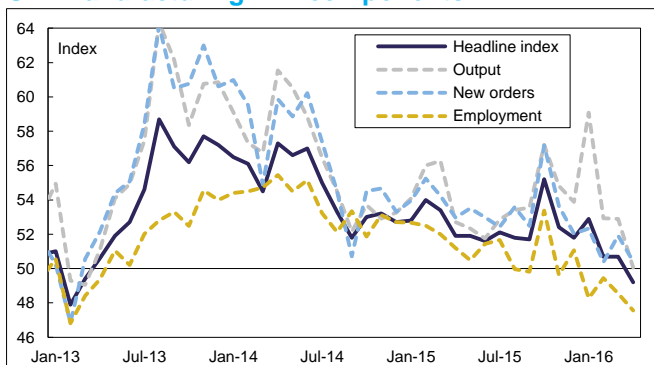
Continuing the recent flow of weak economic data in the UK, today's release of the manufacturing PMI signalled a further loss of momentum in the sector in April, with the headline indicator dropping by 1.5pts to 49.2, to register the first sub-50 reading in more than three years. The weakness was evident across the subcomponents, with the indices for output, new orders and employment all dropping. Indeed, having averaged 55.0 in Q1, the output indicator fell to 50.1 at the start of Q2 suggesting that no recovery in manufacturing production can be expected this quarter after the 0.4%Q/Q fall in Q1.

Euro area

Final PMIs signal steady manufacturing expansion

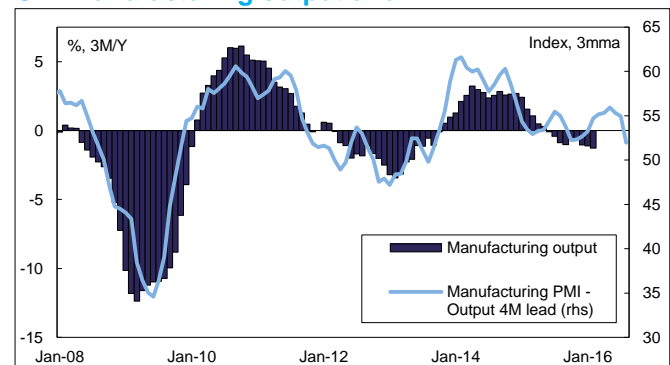
Recent economic data suggest that euro area industrial output expanded in the first quarter for the sixth consecutive quarter and by its firmest rate for at least one year. And the final euro area manufacturing PMIs, published yesterday, signalled ongoing steady expansion in the sector, as the headline index was revised up 0.2pt from the flash estimate to 51.7, 0.1pt above the levels for March and Q1 as a whole. Compared to the previous month, the survey suggested a moderation in growth of output with the respective index remaining close to the bottom of the range of the past year. However, new export orders were reportedly firmer and deflationary pressures in the sector seemingly a touch less acute. Among the member states, the Italian headline manufacturing PMI was firmest, up to 53.9, the highest reading so far this year, with improved readings for output, new orders and employment in the sector. The Spanish headline manufacturing PMI was a touch stronger too (53.5), back to the middle of the range of the past twelve months. Meanwhile, although it was revised down from the flash estimate, the German PMI rose more than 1pt from March to 51.8, also close to the average of the past year. But the French manufacturing PMI was revised down 0.3pt from the preliminary figure to a twelve-month low of 48.0, contrasting with the findings of certain other recent French surveys, such as that produced by INSEE. Perhaps reassuringly, the PMIs have provided a less reliable guide to developments in the French economy over recent quarters.

UK: Manufacturing PMI components



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

UK: Manufacturing output and PMI



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



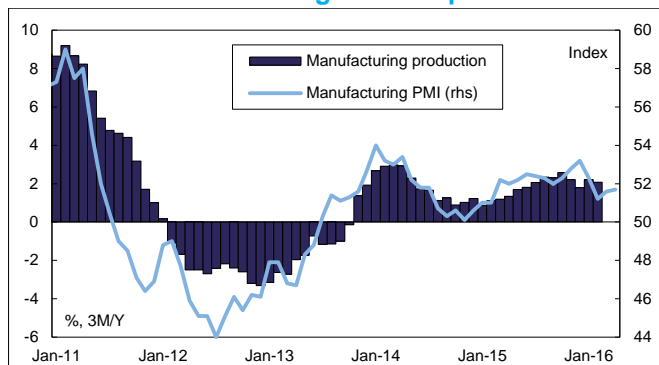
The day ahead in Europe and the US

Wednesday brings the final April services and composite PMIs for the euro area and the member states. According to the flash estimates, the euro area services PMI rose 0.1pt from March's thirteen-month low to 53.2, with the composite PMI falling 0.1pt to match February's twelve-month low of 53.0. 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 bonds while France will sell 10Y and 15Y bonds.

The flow of April PMIs from the UK also continues tomorrow with the release of the survey for construction. The headline indicator is expected to have declined from 54.2 in March. In addition, the BRC's retail price index is also due.

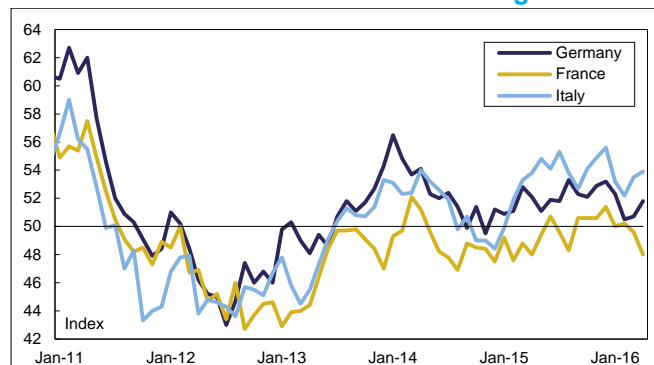
In the US, a busy day for new economic data will bring the April non-manufacturing ISM survey, the final March trade and durable goods orders reports, and – ahead of Friday's labour market report – the April ADP employment figures.

Euro area: Manufacturing PMI and production



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

Euro area member states: Manufacturing PMIs



Source: Datastream, Markit 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
UK	Manufacturing PMI	Apr	49.2	51.2	51.0	50.7

Auctions

Country	Auction
- Nothing to report -	

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
EMU	Final manufacturing PMI	Apr	51.7	51.5	51.6	-
	ECB QE net purchases €bn	Weekly	17.6	19.5	19.9	-
Germany	Final manufacturing PMI	Apr	51.8	51.9	50.7	-
France	Final manufacturing PMI	Apr	48.0	48.3	49.6	-
Italy	Manufacturing PMI	Apr	53.9	53.0	53.5	-
Spain	Manufacturing PMI	Apr	53.5	53.0	53.4	-











Auctions

Country	Auction
- Nothing to report -	






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		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	51.9 (-)	51.2 (52.4)
Spain		08.00 Unemployment M/M '000s	Apr	-81.7	-58.2
		08.15 Services PMI (composite PMI)	Apr	55.0 (54.8)	55.3 (55.1)
UK		00.01 BRC shop price index Y/Y%	Apr	-1.7	-1.7
		09.30 Construction PMI	Apr	54.0	54.2

Auctions and events

Country	BST	Auction / Event
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)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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