

Euro wrap-up

Overview

- Bunds were little changed as data confirmed a firm first quarter of the year for euro area retail sales.
- Gilts were also little changed as a construction survey added to evidence of weakening economic growth in the UK.
- Thursday brings the UK services PMI but should be relatively uneventful in the euro area not least due to national holidays.

Chris Scicluna
+44 20 7597 8326

Mantas Vanagas
+44 20 7597 8318

Daily bond market movements

Bond	Yield	Change*
BKO 0 03/18	-0.496	+0.002
OBL 0 04/21	-0.334	-0.002
DBR 0½ 02/26	0.203	+0.002
UKT 1¼ 07/18	0.457	-0.028
UKT 1½ 01/21	0.910	-0.012
UKT 2 09/25	1.534	-0.005

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

Euro area

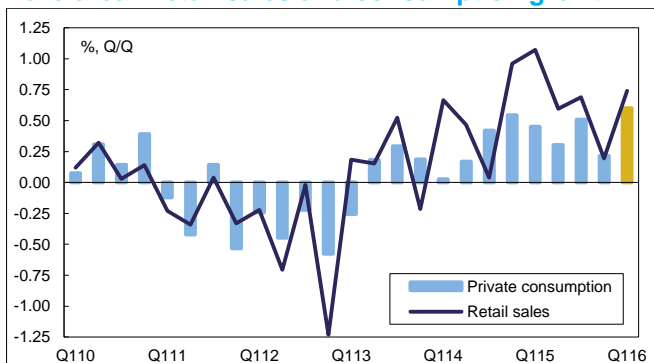
Retail sales growth in Q1 strongest in a year

Having risen in each of the previous four months, it was no great surprise that euro area retail sales retreated in March. While the magnitude of that dip, 0.5%M/M, was a touch larger than expected, it still left sales up more than 2%Y/Y for the sixteenth successive month. And the March figures meant that retail sales rose in Q116 by ¾%Q/Q, the most in one year, suggesting that consumer spending contributed at least half of the 0.6%Q/Q growth in euro area GDP at the start of 2016. The growth in retail sales was particularly strong in France, up more than 4½%Y/Y in March and more than 1½%Q/Q in Q116, reflected in the gain of 1.2%Q/Q in household consumption reported in last week's national preliminary GDP release. The trend in spending similarly looks firm in Spain, with retail sales also up more than 4½%Y/Y in the latest month and 0.8%Q/Q in Q116. In contrast, however, German consumer spending appears to have slowed, with retail sales up just 0.5%Y/Y in March and 0.2%Q/Q in Q116. With employment continuing to rise, wage growth also likely set to accelerate, and consumer confidence having rebounded in April, we expect that slowdown in spending in the euro area's largest member state to prove temporary. (The Italian figures will not be released for another three weeks.)

Services PMIs consistent with steady growth in Q2

The final euro area services PMI for April was revised down just 0.1pt from the flash estimate to 53.1, matching March's fourteen-month low but still a level consistent with continued moderate expansion in the sector. With the manufacturing output PMI, released at the start of the week, having been revised up by 0.1pt to 52.6, the euro area composite PMI was left unchanged from the flash estimate of 53.0, matching February's thirteen-month low and so hinting at a moderation in GDP growth momentum after the surprisingly vigorous start to the year. Within the detail, however, there was certainly no cause for alarm, with the composite new orders index rising above the Q1 level and close to the average for the past year. And among the large member states, the PMIs suggest that little has changed from recent trends. Admittedly, the German composite PMI was revised down slightly from the flash estimate to an eleven-month low. But at 53.6, the German PMIs appear consistent with continued moderate economic growth. And although the equivalent French figure was similarly revised down to 50.2, a level seemingly consistent with little better than stagnation, the PMIs failed to predict the strong French Q1 GDP reading of 0.5%Q/Q so might be taken with a pinch of salt for that member state. Meanwhile, the Italian and Spanish figures rose in April closer to the average levels of the past six months, suggesting that economic recoveries in those countries continue.

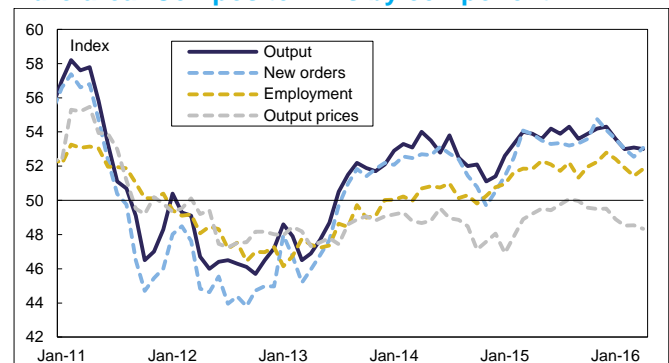
Euro area: Retail sales and consumption growth*



*Consumption growth forecast for Q116.

Source: Datastream and Daiwa Capital Markets Europe Ltd.

Euro area: Composite PMIs by component



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



The day ahead in the euro area and the US

Not least given the Ascension Day holiday being celebrated in much of the region, Thursday is set to be a very quiet day for economic news from the euro area, with just the Irish services and composite PMIs due. In the bond markets, Spain will sell 10Y, 15Y and 25Y bonds.

It should also be relatively quiet for economic news from the US, with just the usual weekly claims figures and April Challenger job cuts figures due for release.

UK

Construction to remain a drag on growth

Adding to the evidence of weakening growth in the UK, the construction PMI for April came in lower than expected, falling by more than 2pts to 52.0, its lowest level in nearly three years. The weakness was mainly due to lower commercial and civil engineering activity, while the housing indicator recovered slightly from a multi-year low in March. The slowdown seen in the construction sector therefore looks set to continue. The preliminary Q1 GDP figures reported a 0.9%Q/Q fall in output in this sector, and with today's new orders PMI dropping to effectively a neutral level of 50, a recovery in the near term is not on the cards, not least given the uncertainty about the UK's future in the EU.

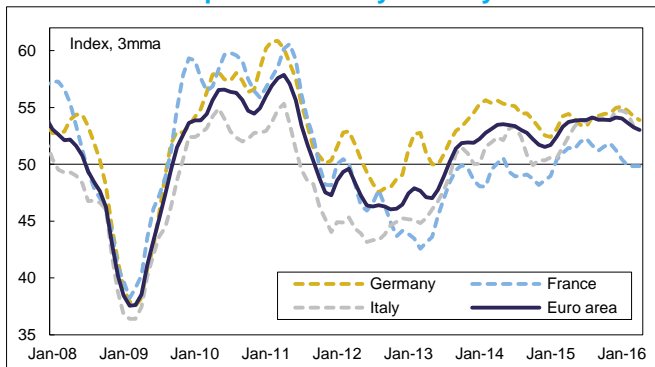
Retail prices continue to fall

Meanwhile, the BRC retail price survey suggested that deflation on the High Street remained unchanged in April, with the headline index continuing to report an annual decline of 1.7%Y/Y, the steepest pace since August. Within the detail, an increase in food price inflation from -0.4%Y/Y to 0.1%Y/Y was offset by an easing in non-food prices, most notably, electrical goods and furniture. Overall, despite a gradual recovery in headline CPI, retail prices look set to continue falling, not least thanks to a highly competitive retail market.

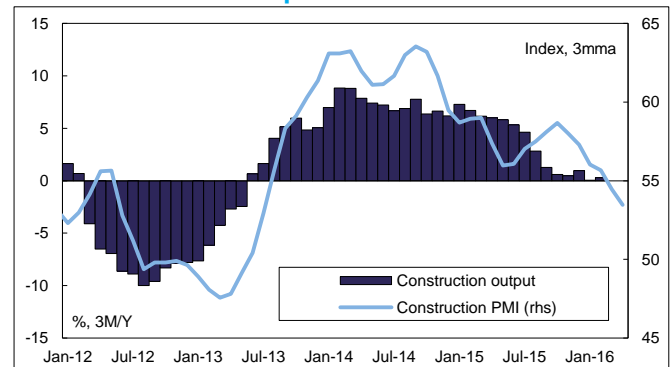
The day ahead in the UK

Tomorrow's survey for services ends the flow of April PMIs in the UK. The headline indicator looks set to fall from 53.7 in March, to leave the composite index moderating too.

Euro area: Composite PMIs by country













UK: Construction output and construction PMI








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	53.1 (53.0)	53.2 (53.0)	53.1 (53.1)	-
	 Retail sales M/M% (Y/Y%)	Mar	-0.5 (2.1)	-0.1 (2.6)	0.2 (2.4)	0.3 (2.7)
Germany	 Final services PMI (final composite PMI)	Apr	54.5 (53.6)	54.6 (53.8)	55.1 (54.0)	-
France	 Trade balance €bn	Mar	-4.4	-4.2	-5.2	-5.1
	 Final services PMI (final composite PMI)	Apr	50.6 (50.2)	50.8 (50.5)	49.9 (50.0)	-
Italy	 Services PMI (composite PMI)	Apr	52.1 (53.1)	51.9 (-)	51.2 (52.4)	-
Spain	 Unemployment M/M '000s	Apr	-83.6	-81.7	-58.2	-
	 Services PMI (composite PMI)	Apr	55.1 (55.2)	55.0 (54.8)	55.3 (55.1)	-
UK	 BRC shop price index Y/Y%	Apr	-1.7	-1.7	-1.7	-
	 Construction PMI	Apr	52.0	54.0	54.2	-


Auctions

Country	Auction
Germany sold	 €3.2bn of 2021 zero-coupon bonds (09-Apr-2021) at an average yield of -0.33%
France sold	 €1.8bn of 6% 2025 bonds (25-Oct-2025) at an average yield of 0.39%
	 €4.1bn of 0.5% 2026 bonds (25-May-2026) at an average yield of 0.57%
	 €2.0bn of 1.5% 2031 bonds (25-May-2031) at an average yield of 1.02%
UK sold	 £2.75bn of 1.5% 2021 bonds (22-Jan-2021) at an average yield of 0.919%






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
UK		09.30 Services PMI (composite PMI)	Apr	52.5 (52.1)	53.7 (53.6)

Auctions and events

Country	BST	Auction / Event
EMU		09.00 ECB publishes Economic Bulletin
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)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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