

# Euro wrap-up

## Overview

- Gilts made gains as the UK services and composite PMIs suggested that UK economic growth has slowed sharply.
- Bunds also made gains on a quiet day for economic news from the euro area.
- A relatively quiet end to the week for European releases, with just Spanish IP and UK new car registrations data due, seems bound to be overshadowed by the US labour market report.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 03/18	-0.509	-0.015
OBL 0 04/21	-0.363	-0.031
DBR 0½ 02/26	0.162	-0.041
UKT 1¼ 07/18	0.427	-0.035
UKT 1½ 01/21	0.874	-0.040
UKT 2 09/25	1.470	-0.056

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

## UK

### PMIs suggest growth was barely positive in April

After the release earlier in the week of disappointing manufacturing and construction PMIs, today's survey for services made it a hat-trick of poor PMIs. The headline index plunged 1.4pts to 52.3, the lowest level since February 2013. When taken together with the manufacturing output index, this left the composite PMI falling from 53.6 to 51.9, also the lowest since early 2013. And when the construction PMI is included, the latest PMIs were consistent with quarterly growth of only 0.1%. While the timing of Easter might to some extent be exacerbating the weakness, there appears to be little doubt that the heightened uncertainty ahead of the EU referendum is playing a major role in driving the surveys lower. For now, given the noise in the data thanks to the looming referendum, the MPC will not react. However, the UK economy had already started to slow before the referendum headwinds started, so if the recovery after a Remain vote is sluggish, or there is a Leave vote, a monetary policy loosening will be firmly on the cards.

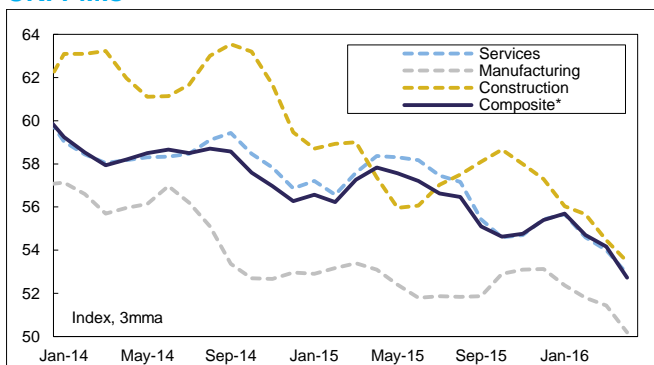
## Euro area

### The day ahead in Europe and the US

A quiet day for euro area economic news today saw just the release of the Irish services and composite PMIs. And these suggested that the economic growth momentum softened somewhat in April, with the headline services activity index down 3pts on the month to a more-than two-year low of 59.8 to leave the composite output PMI down more than 2½pts on the month. Nevertheless, at 58.1, that index is still the highest of all member states and Ireland is likely to continue to see the firmest economic growth rates in the region for the foreseeable future. If the latest PMIs are anything to go by, Spain's economy looks set to remain one of the stronger performers too. In March, however, the Spanish manufacturing output PMI declined by 1½pts, albeit the quarterly average in Q1 was up more than 2pts compared to Q4 at its firmest level for a year. And tomorrow's release of Spanish industrial production figures for March – the first of the national releases for that month – looks set to suggest that manufacturing output picked up at the end of last quarter. The consensus forecast is for Spanish industrial production to have increased about ½M/M, which would leave it up around ½% over the quarter as a whole, representing the sixth consecutive quarterly gain in the sector.

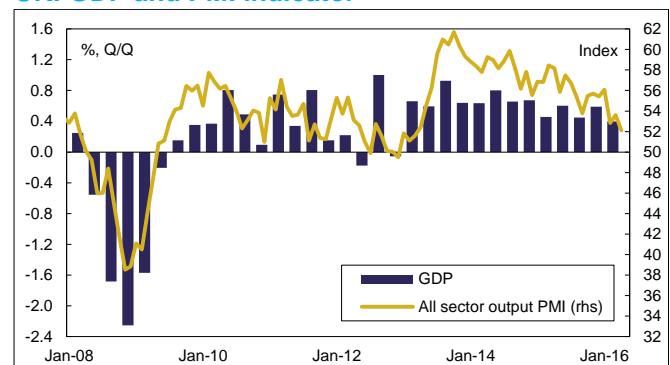
A quiet end to the week in the UK brings only the new car registration figures for April. All eyes tomorrow, however, will be on the US with the latest labour market report expected to show that non-farm payrolls increased by 200k in April, a touch below the average seen over the past year or so, but likely consistent with a 0.1pt drop in the unemployment rate back to its eight-year low of 4.9% hit earlier in the year. Meanwhile, average hourly labour earnings growth is expected to have edged slightly higher to 2.4%Y/Y in April. Friday also brings consumer credit figures for March.

### UK: PMIs



\*Composite of services activity and manufacturing output PMIs.  
Source: Markit, Datastream and Daiwa Capital Markets Europe Ltd.







### UK: GDP and PMI indicator





Source: Markit, 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
UK	 Services PMI (composite PMI)	Apr	52.3 (51.9)	52.5 (52.1)	53.7 (53.6)	-
Auctions						
Country	Auction					
Spain sold	 €489mn of 1.95% 2026 bonds (30-Apr-2026) at an average yield of 1.592%					
	 €851mn of 1.95% 2030 bonds (30-Jul-2030) at an average yield of 2.032%					
	 €684mn of 4.90% 2046 bonds (30-Jul-2040) at an average yield of 2.640%					
	 €1.9bn of 0.30% 2021 index-linked bonds (30-Nov-2021) at an average yield of -0.108%					
UK sold	 £2.5bn of 1.5% 2026 bonds (22-Jul-2026) at an average yield of 1.656%					

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	
Spain		08.00	Industrial production M/M% (Y/Y%)	Mar	0.3 (1.5)	-0.2 (2.2)
UK		09.00	New car registrations Y/Y%	Apr	-	5.3
Auctions and events						
Country	BST	Auction / Event				
- Nothing scheduled -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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