

# Euro wrap-up

## Overview

- Bunds made gains at the longer end of the curve as the estimate of euro area GDP growth in Q1 was revised down.
- Gilts made gains as data showed that UK construction output continues to decline.
- The coming week will likely bring a downwards revision to the estimate of euro area inflation in April while the latest UK inflation, labour market and retail sales data are scheduled for release.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 03/18	-0.513	-0.001
OBL 0 04/21	-0.380	-0.005
DBR 0½ 02/26	0.129	-0.026
UKT 1¼ 07/18	0.369	-0.015
UKT 1½ 01/21	0.794	-0.027
UKT 2 09/25	1.373	-0.031

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

## Euro area

### Euro area GDP growth in Q1 revised down

Today's second-helping of GDP data for Q1 provided the occasional surprise, for example with euro area growth revised down by 0.1ppt to 0.5%Q/Q. However, rounding accentuated the extent of the revision: to two decimal places growth was just 0.03ppt lower than previously thought and Q1 was still the firmest quarter for a year. And while there is still no detailed breakdown, the national data make clear that domestic demand was the driver. But consistent with the slight slowing in the annual rate to 1.5%Y/Y, we expect euro area quarterly GDP growth to moderate to 0.3%Q/Q in Q2. Despite the softer Q1 euro area number, among the member states there was an upside surprise from Germany with an acceleration to 0.7%Q/Q, the strongest rate in two years, propelled particularly by fixed investment, not least with construction being boosted by the mild weather at the start of 2016, as well as increased household and government spending. Meanwhile, Italy met expectations with its firmest growth in three years (0.3%Q/Q). But while Spain (0.8%Q/Q) and Cyprus (0.9%Q/Q) continue to recover steadily from their respective crises, Portugal remains very much in the slow lane with growth coming almost to a halt (just 0.1%Q/Q) and Greece chalked up another quarter of contraction (-0.4%Q/Q).

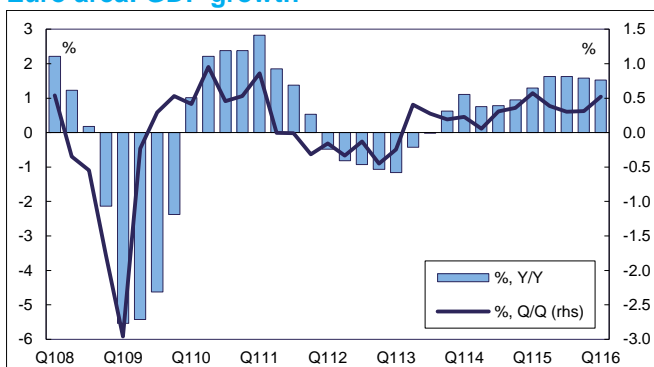
### New car registration growth slows

One reason for our expectation of a moderation in euro area GDP growth in Q2 is the weakening in activity seen in the monthly figures towards the end of the first quarter. And the first hard data released for April – new car registrations – added to evidence of a loss of momentum. At face value, car registration growth appeared vigorous at almost 10%Y/Y in April and more than 9%Y/Y in the first four months of the year. However, the strong annual growth rates reflect the significant gains throughout the course of 2015, and new registrations have effectively levelled off over recent months. And on a seasonally adjusted basis, April's level was below that at the end of 2015, with the 3M/3M rate falling from 3.0% in March to just 0.5%, the lowest in nine months.

### Euro area inflation in April set to be revised down

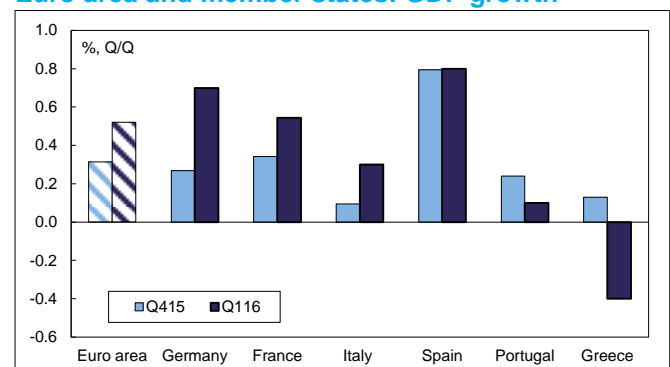
Finally, the flash estimates of inflation on the EU-harmonised measure in Germany (down 0.4ppt from March to a fifteen-month low of -0.3%Y/Y) and Spain (down 0.2ppt to a fourteen-month low of -1.2%Y/Y) were confirmed today. But the Italian figure was revised down 0.1ppt to a fifteen-month low of -0.4%Y/Y, down 0.2ppt from March. As a result, the euro area figure due on Wednesday is likely to be revised down 0.1ppt to a fourteen-month low of -0.3%Y/Y. And, despite the recent increase in the oil price, we expect euro area inflation to remain in negative territory for a further three months, before rising gradually thereafter.

### Euro area: GDP growth



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

### Euro area and member states: GDP growth



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



## The week ahead in the euro area and the US

The coming week starts quietly for euro area economic data with Monday seeing no top-tier releases and Tuesday bringing just the March trade report, which following the record German figure seems bound to see an increase in the large euro area trade surplus too. Wednesday, meanwhile, brings the aforementioned final euro area CPI figures for April, which are likely to see a downward revision to the headline rate to a fourteen-month low of  $-0.3\%Y/Y$  and the core measure left unchanged at the flash estimate of  $0.7\%Y/Y$ , which was already revised down to correct for initial German errors and would represent a twelve-month low. Finally, Thursday brings euro area construction output for March alongside the ECB's balance of payments report for the same month. In the markets, Germany will sell 10Y Bunds on Wednesday while France and Spain will sell a range of bonds on Thursday.

In the US, the coming week should be busier, with the latest CPI inflation and industrial production figures on Tuesday the most notable, while Wednesday's release of the minutes from the Fed's April FOMC meeting will also inevitably be closely watched. Not least given the bounce back in oil prices in April, headline CPI is expected to have risen  $0.4\%M/M$ , the most since February 2014, to take the annual rate to  $1.1\%Y/Y$ , the highest since January. Core CPI is forecast to have remained in line with the average of the past eighteen months at  $0.2\%M/M$  to leave its annual rate unchanged at  $2.2\%Y/Y$ . Meanwhile, manufacturing output is expected to have posted a modest gain for the first month in three. Other data due in the coming week include the Empire Manufacturing index on Monday and the Chicago Fed national activity and Philly Fed indices on Thursday. Meanwhile, housing market indicators released across the week include the NAHB housing index (Monday), housing starts (Tuesday) and existing homes sales (Friday). In the bond markets, a 10Y TIPS auction will be conducted on Thursday.

## UK

### Construction output data continue to disappoint

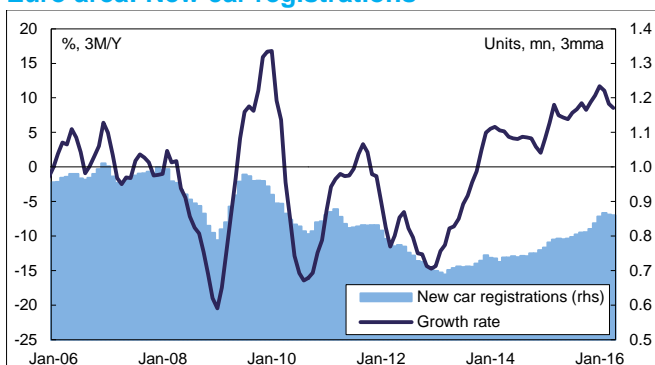
Following the release of preliminary Q1 GDP figures, which suggested that construction output declined by  $0.9\%Q/Q$ , the March figures were always expected to be weak. But today's release showed that the data were even weaker than expected, showing a  $3.6\%M/M$  fall, leaving output down  $1.1\%$  on the quarter and  $4.5\%$  lower than a year ago. In terms of quarterly growth, new housing was the only sector providing a meaningful upward contribution, while growth in most other major categories, including infrastructure, industrial building work and repair and maintenance, was negative. Today's numbers increase the probability of a downward revision to the Q1 GDP number. And, looking ahead, with uncertainty around the EU referendum clearly having a dampening effect on the sector, construction output growth looks set to remain subdued in Q2.

### The week ahead in the UK

A busy week for new economic data in the UK brings inflation, labour market and retail sales figures, due on Tuesday, Wednesday and Thursday respectively. While the headline inflation rate rose by  $0.2\text{ppt}$  to  $0.5\%Y/Y$  in March, this was driven mainly by a temporary rise in air fares around the Easter period. Inflation is therefore expected to have moderated in April, with the core rate also easing from  $1.5\%Y/Y$ . Meanwhile, labour market figures are expected to be downbeat. Employment is expected to have fallen in March, while the unemployment rate is set to have remained unchanged at  $5.1\%$  for the fifth consecutive month. And with earnings growth having fallen to just  $1.1\%Y/Y$  in March, the headline three-month growth rate is unlikely to signal any strengthening in underlying wage pressures. Finally, the figures from the retail sector should continue the flow of generally soft economic indicators. Indeed, having almost halved since the start of the year to  $2.7\%Y/Y$  in March, sales growth might have inched even lower in April. Among second-tier releases in the coming week, the Rightmove house price survey is due on Monday and Friday brings the CBI Industry survey.

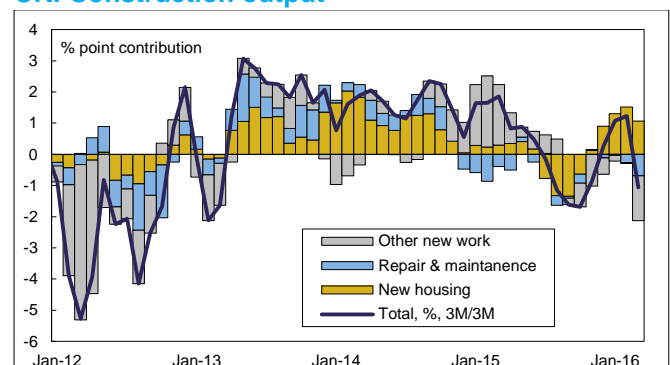
**The next edition of Euro wrap-up will be published on 17 May 2016.**

### Euro area: New car registrations












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

### UK: Construction output






















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	 EU new car registrations Y/Y%	Apr	9.1	-	6.0	-
	 GDP – second estimate Q/Q% (Y/Y%)	Q1	0.5 (1.5)	0.6 (1.6)	0.3 (1.6)	-
Germany	 GDP – preliminary release Q/Q% (Y/Y%)	Q1	0.7 (1.6)	0.6 (1.6)	0.3 (1.3)	-
	 Final EU-harmonised CPI Y/Y%	Apr	-0.3	-0.3	0.1	-
France	 Non-farm payrolls Q/Q%	Q1	0.2	0.2	0.2	-
Italy	 GDP – preliminary release Q/Q% (Y/Y%)	Q1	0.3 (1.0)	0.3 (0.9)	0.1 (1.0)	0.2 (1.1)
	 Final EU-harmonised CPI Y/Y%	Apr	-0.4	-0.3	-0.2	-
Spain	 Final EU-harmonised CPI Y/Y%	Apr	-1.2	-1.2	-1.0	-
UK	 Construction output M/M% (Y/Y%)	Mar	-3.6 (-4.5)	-3.2 (-2.7)	-0.3 (0.3)	-0.9 (-0.4)
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	
<b>Monday 16 May 2016</b>						
EMU	 14.45	ECB QE net purchases €bn	Weekly	18.2	19.8	
UK	 00.01	Rightmove house price index M/M% (Y/Y%)	May	-	1.3 (7.3)	
<b>Tuesday 17 May 2016</b>						
EMU	 10.00	Trade balance €bn	Mar	21.3	20.2	
Italy	 09.00	Trade balance €bn	Mar	-	3.9	
UK	 09.30	CPI (core CPI) Y/Y%	Apr	0.3 (1.2)	0.5 (1.5)	
	 09.30	ONS house price Y/Y%	Mar	-	7.6	
<b>Wednesday 18 May 2016</b>						
EMU	 10.00	Final CPI (core CPI) Y/Y%	Apr	-0.3 (0.7)	0.0 (1.0)	
UK	 09.30	Average earnings incl. bonuses (excl. bonuses) 3M/Y%	Mar	1.7 (2.2)	1.8 (2.2)	
	 09.30	ILO unemployment rate 3M%	Mar	5.1	5.1	
	 09.30	Employment change 3M/3M '000s	Mar	-25	20	
	 09.30	Claimant count rate % (changed 000s)	Apr	2.1 (4.5)	2.1 (6.7)	
<b>Thursday 19 May 2016</b>						
EMU	 09.00	Current account balance €bn	Mar	-	19.0	
	 10.00	Construction output M/M% (Y/Y%)	Mar	-	-1.1 (2.5)	
France	 06.30	Unemployment rate %	Q1	10.2	10.3	
UK	 09.30	Retail sales excluding petrol M/M% (Y/Y%)	Apr	0.7 (2.0)	-1.6 (1.8)	
	 09.30	Retail sales including petrol M/M% (Y/Y%)	Apr	0.6 (2.5)	-1.3 (2.7)	
<b>Friday 20 May 2016</b>						
Italy	 09.30	Current account balance €bn	Mar	-	1.4	
Spain	 09.00	Trade balance €bn	Mar	-	-1.8	
UK	 11.00	CBI Industrial Trends survey, total orders	May	-13	-11	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Coming week's events/auctions calendar

Key events & auctions			
Country	BST	Event / Auction	
<b>Monday 16 May 2016</b>			
- Nothing scheduled -			
<b>Tuesday 17 May 2016</b>			
EMU		08.45	ECB's Praet scheduled to speak in Brussels
<b>Wednesday 18 May 2016</b>			
Germany		10.30	Auction: To sell €4bn of 0.5% 2026 bonds (15-Feb-2026)
UK		09.30	BoE publishes Agents' Summary of Business Conditions
		10.30	Auction: To sell £1.5bn of 4.25% 2036 bonds (07-Mar-2036)
<b>Thursday 19 May 2016</b>			
EMU		12.30	ECB publishes account of the Governing Council meeting
France		09.50	Auction: To sell 2019 zero-coupon bonds (25-Feb-2019)
		09.50	Auction: To sell 2021 zero-coupon bonds (25-May-2021)
		10.50	Auction: To sell 0.1% 2021 index-linked bonds (01-Mar-2021)
		10.50	Auction: To sell 0.1% 2025 index-linked bonds (01-Mar-2025)
		10.50	Auction: To sell 0.7% 2030 index-linked bonds (25-Jul-2030)
Spain		09.30	Auction: To sell 0.25% 2019 bonds (31-Jan-2019)
		09.30	Auction: To sell 4.8% 2024 bonds (31-Jan-2024)
		09.30	Auction: To sell 1.95% 2030 bonds (30-Jul-2030)
<b>Friday 20 May 2016</b>			
- Nothing scheduled -			

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

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