

Euro wrap-up

Overview

- Bunds made gains, with 10Y yields briefly touching record lows, despite an upwards revision to euro area Q1 GDP growth.
- Gilts were little changed as a survey suggested that UK retail sales growth remains on a slowing trend.
- Wednesday will bring UK industrial production data for April and the results of the Bank of France business sentiment survey for May.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/18	-0.539	+0.004
OBL 0 04/21	-0.415	-0.007
DBR 0½ 02/26	0.053	-0.033
UKT 1¼ 07/18	0.364	+0.027
UKT 1½ 01/21	0.753	+0.004
UKT 2 09/25	1.269	-0.011

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

Euro area

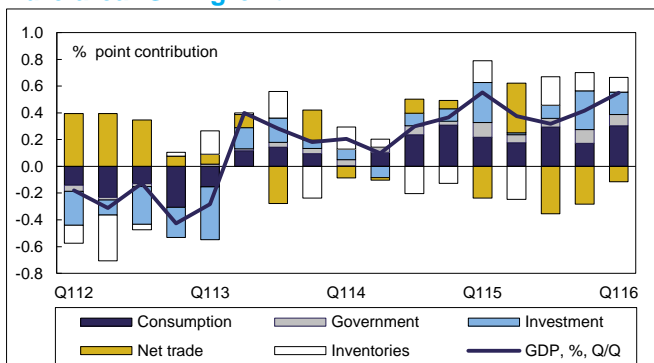
Euro area GDP growth in Q1 revised up

Today's euro area GDP figures for Q116 brought a small upwards surprise as growth was revised from the previous estimate by 0.1ppt to 0.6%Q/Q, matching the multi-year high reached one year earlier. To two decimal places, however, the upwards revision was minimal, just 0.03ppt. And if GDP had been just 0.0005% lower, growth would again have rounded to 0.5%Q/Q. Meanwhile, there was nothing surprising about the expenditure breakdown, which was released for the first time. Predictably, the expansion was again underpinned by domestic demand, with consumption remaining the principal driver, up at its firmest rate since Q414 and accounting for half of GDP growth. In addition, investment rose for the third consecutive quarter, albeit a touch softer than in the previous quarter and supported not least by construction thanks to the mild German winter. Inventory accumulation also added to GDP growth for the third quarter in a row. In contrast, net trade subtracted from GDP growth for the fourth quarter out of the past five. Recent economic data suggest a moderation in euro area GDP growth in the current quarter to about 0.3%Q/Q, broadly in line with the average of the past three years.

German IP set for moderate growth in Q2

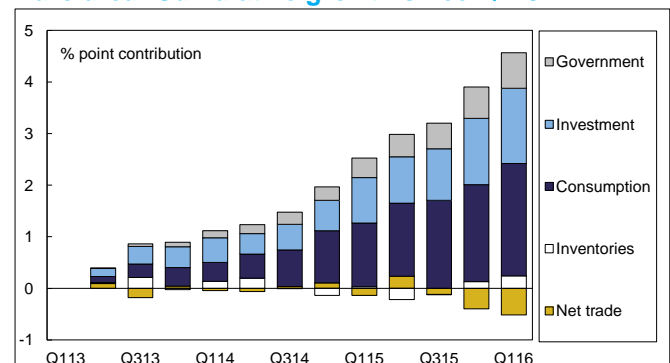
The latest German production data, meanwhile, suggest that a moderate growth trend persists in the country's industrial sector. In particular, German industrial production rose 0.8%M/M in April, the first gain since January's surge, to stand 1.2% higher than a year earlier. Given the declines in the preceding two months, however, growth in the sector on a three-month basis eased to 0.6%3M/3M, the softest rate since December. Growth in the latest month was driven primarily by manufacturing output, up 1.1%M/M to a level marginally above the Q1 average thanks particularly to a rebound in production of capital goods, which rose 2.2%M/M following two months of steep decline. While energy output also rose 1.1%M/M, construction output fell 1.7%M/M, the second successive monthly drop, as firms took a step back following a surge in activity in the first two months of the year when weather was unseasonably mild. There are some reasons to feel uneasy about the near-term outlook for the German industrial sector. For example, factory orders fell more than expected in April, down 2%M/M, the most since July due to a marked decline in orders from overseas, leaving the three-month growth rate of orders at 0.5%3M/3M, the softest since November. Moreover, recent floods, felt most acutely in the southern states of Bavaria and Baden-Württemberg, might also be expected to weigh on production in the current month. However, surveys provide cause for greater optimism, e.g. Germany's manufacturing PMI rose in May to the highest since December with notable improvements in the output and orders indices. So, overall, we continue to expect German production to post another quarter of growth in Q2 albeit at a rate well below the multi-year high of 1¼%Q/Q registered in Q1.

Euro area: GDP growth



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Cumulative growth since Q113



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



The day ahead in the euro area and US

Wednesday is set to be quieter on the data front in the euro area, with the Bank of France May business sentiment survey arguably the most notable new release. In the markets, Germany will sell 2Y Bunds while Portugal will sell 5Y and 10Y Bonds. In the US, April JOLTS job opening figures are due while the Treasury will sell 10Y Notes.

UK

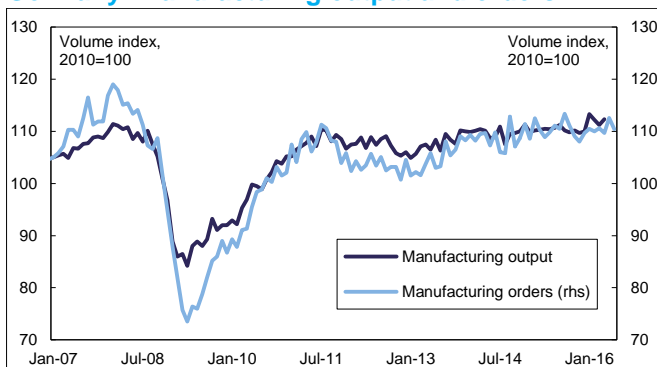
Retail sales growth remains on a slowing trend

A relatively quiet day for top-tier UK data brought the release of the BRC's latest retail sales survey for May, which suggested that overall sales increased by 1.4%Y/Y in May, following two months of flat growth on an annual basis, to be broadly in line with the average over the last twelve months. Growth on a like-for-like basis also picked up, to 0.5%Y/Y from -0.9%Y/Y, reportedly supported by the warmer weather. However, overall, these data remain consistent with a recent moderation in the underlying trend for spending growth. And increased economic uncertainty might well mean that consumers will remain more cautious with their spending over coming months too, with the latest evidence from the new car sales suggesting that some consumers are already holding off making major purchases. Indeed, although the new car sales increased by 2.5%Y/Y in May, this was only half the average pace over the last six months.

The day ahead in the UK

The latest industrial production figures are released tomorrow. Consistent with recent surveys of business sentiment, which took a notable step down at the start of Q2, industrial output in April is expected to have fallen at a faster rate than the 0.2%Y/Y recorded in March, with manufacturing production expected to have fallen 1.5%Y/Y. Meanwhile, the release of the NIESR GDP estimate for May is also worth keeping an eye on tomorrow.

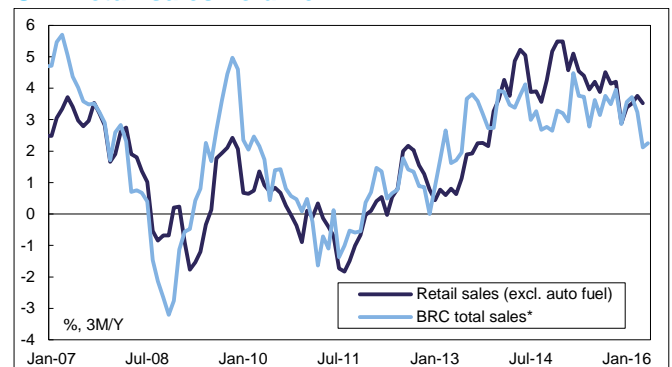
Germany: Manufacturing output and orders*



*Orders data have two-month lead.

Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volume








*Adjusted using BRC-Nielsen Shop price index

Source: Thomson Reuters 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	 GDP – second estimate Q/Q% (Y/Y%)	Q1	0.6 (1.7)	<u>0.5 (1.5)</u>	0.3 (1.6)	-
Germany	 Industrial production M/M% (Y/Y%)	Apr	0.8 (1.2)	0.7 (1.0)	-1.3 (0.3)	-1.1 (0.4)
France	 Trade balance €bn	Apr	-5.2	-4.5	-4.4	-4.2
Spain	 Industrial production M/M% (Y/Y%)	Apr	0.0 (2.7)	0.0 (2.4)	1.2 (2.8)	1.3 (2.9)
UK	 BRC like-for-like sales Y/Y%	May	0.5	0.3	-0.9	-




Auctions

Country	Auction
Germany sold	 €0.8bn of 0.1% 2026 index-linked bonds (15-Apr-2026) at an average yield of -0.81%
UK sold	 £1.5bn of 4.25% 2046 bonds (07-Dec-2046) at an average yield of 2.095%

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	 ECB QE net purchases €bn	Weekly	17.6	<u>18.2</u>	19.3	-
Germany	 Factory orders M/M% (Y/Y%)	Apr	-2.0 (-0.5)	-0.5 (0.6)	1.9 (1.7)	2.6 (2.4)
UK	 New car registrations Y/Y%	May	2.5	-	2.0	-





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
France	 07.30	Bank of France business sentiment indicator	May	100	99
UK	 09.30	Industrial production M/M% (Y/Y%)	Apr	0.0 (-0.4)	0.3 (-0.2)
	 09.30	Manufacturing production M/M% (Y/Y%)	Apr	-0.1 (-1.5)	0.1 (-1.9)
	 15.00	NIESR GDP 3M/3M%	May	-	0.3

Auctions and events

Country	BST	Auction / Event
Germany	 10.30	Auction: To sell €5bn of 2018 zero-coupon bonds (15-Jun-2018)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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