

# Euro wrap-up

## Overview

- Bunds followed USTs lower while euro area industrial production beat expectations to signal the likelihood of growth in Q1.
- Gilts also made losses on a quiet day for economic news in the UK.
- A busy coming week for economic data will bring the flash euro area PMIs for April as well as reports on UK employment, inflation and retail sales.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.571	+0.017
OBL 0 04/24	-0.374	+0.052
DBR 0¼ 02/29	0.055	+0.064
UKT 1½ 01/21	0.782	+0.043
UKT 1 04/24	0.931	+0.049
UKT 1½ 10/28	1.210	+0.061

\*Change from close as at 4.30pm BST.

Source: Bloomberg

## Euro area

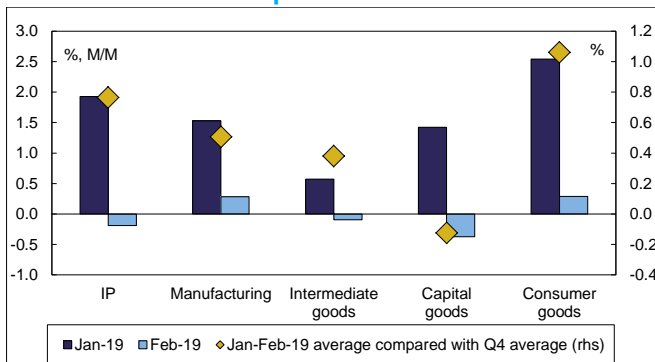
### Euro area IP exceeds expectations

While sentiment surveys have suggested a further notable deterioration in conditions in the euro area manufacturing sector since the start of the year, output data, so far at least, have proved less discouraging. Admittedly, February's figures suggested a mixed production performance among member states, with strength in France and Italy contrasting with weakness in Germany and Spain. And today's aggregate euro area IP figures reported a modest decline that month of 0.2%M/M. But this followed a surge in output in January, with the 1.9%M/M increase (upwardly revised by 0.5ppt) the largest for fourteen months. And the weakness was more than accounted for by energy production, which declined 3.0%M/M, more than offsetting the increase in January. Encouragingly, manufacturing output rose for the second successive month in February, with growth of 0.3%M/M following an increase of 1.5%M/M. This reflected another strong showing from production of non-durable consumer goods, while output of intermediate, capital and consumer durable goods slipped back slightly. But, with the exception of capital goods, on average in the first two months of Q1 output in all main subsectors was higher than the average in Q4. And overall, manufacturing output was trending ½% higher than the average in Q4, with the equivalent increase in total industrial production even stronger at 0.8%. So, in marked contrast to the message from recent PMIs, which in Q1 saw the manufacturing output index slip into contractionary territory for the first time since Q213, today's release strongly suggests that industrial production provided a boost to GDP growth in Q1.

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

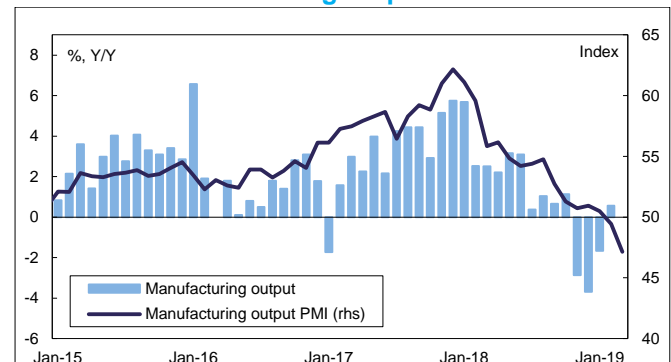
The coming week will bring several euro area releases of note, including the final estimate of March inflation (Wednesday) and the flash PMIs for April (Thursday). With respect to the former, today's final CPI figures from Spain fully aligned with their flash readings confirming a headline rate on the EU measure of 1.3%Y/Y up 0.2ppt from February. But with the equivalent German and French rates yesterday both confirming declines in March, the final euro area inflation data should also match the earlier readings of 1.4%Y/Y for the headline rate (down 0.1ppt from February) and 0.8%Y/Y for the core rate (down 0.2ppt). Wednesday will also bring euro area trade data for February and new car registration figures for March, while euro area construction output numbers will be published on Tuesday. But arguably of most interest in the coming week will be sentiment survey results for April, to be scrutinised for hints of a pickup in economic momentum at the start of the second quarter. While a modest improvement is anticipated in the manufacturing PMI, it seems bound to remain in contractionary territory. And with the services PMI likely to have moved broadly sideways, the composite PMI is expected to be little changed from the 51.6 reading in March, still close to the bottom of the range of recent years but consistent with ongoing expansion nonetheless. Other sentiment indices include Germany's ZEW survey of financial analysts on Tuesday and the Italian consumer and business confidence indicators on Friday. In the bond market, Germany will issue 25Y Bunds on Wednesday.

### Euro area: Industrial production



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: Manufacturing output and PMI



Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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In the US, the data flow will begin with the NY Fed's manufacturing survey for April on Monday, followed by the IP report for March and NAHB housing index for April on Tuesday. On Wednesday, the trade report and wholesale inventory data for February will be released. Further light on Q1 GDP growth will be cast by Thursday's retail sales data for March, while the preliminary PMI readings and Philadelphia Fed manufacturing survey for April are also released that day, as are the Conference Board's leading index for March and the business inventory report for February. The data flow will conclude on Friday with the housing starts and building permit reports for March. The coming week will also bring a small number of speeches from FOMC members and the release of the Fed's latest Beige Book, concluding the Fed's communication ahead of the monetary policy meeting on 1 May. The US corporate earnings season also heats up, with 9% of the S&P500 companies due to report their results. In the bond market, the US Treasury will auction 5Y TIPS on Thursday.
















## UK

### The week ahead in the UK

With the extension to the Article 50 process having removed the pressure to find an urgent solution to the Brexit impasse, the focus in the coming week is set to shift back to economic data. After a quiet start to the week, the flow of top-tier economic data will pick up on Tuesday, with the announcement of the latest labour market figures. In January employment increased by 222k3M/3M, the biggest rise in more than three years. But with business sentiment surveys having signalled weakening in labour market conditions in recent months, the February data are likely to show a moderation in jobs growth to around 165k3M/3M. The unemployment rate is expected to remain at 3.9%, but there is a significant risk of a rise of 0.1ppt. Finally, average weekly earnings growth will likely be little changed from January when it posted a rise of 3.4%3M/Y, one of the steepest in recent years. On Wednesday, we will receive the March inflation figures. The CPI rate ticked higher in February to 1.9%Y/Y, but that increase was driven solely by higher energy prices as the core inflation rate decreased by 0.1ppt to 1.8%Y/Y. We expect that both the headline and the core rates will have remained unchanged. The holiday-shortened week will end on Thursday with the release of March retail sales data. The figures in January and February suggested that the retail sector had a strong start to the year with the average level of sales in these two months up by 1.0% compared to Q4. But, in line with the downbeat sentiment surveys from this sector seen recently, we expect the latest figures to be much weaker, showing a monthly drop in the volume of sales. Supply-wise, on Tuesday the DMO will issue £2.25bn of 2037 Gilts.



*In the absence of significant news, the next edition of the Euro wrap-up will be published on 16 April 2019.*

## Daiwa economic forecasts

	2019				2020				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP forecasts %, Q/Q</b>											
Euro area 	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.2	1.8	1.0	1.1
Germany 	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.4	0.6	1.2
France 	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.6	1.2	1.2
Italy 	0.1	0.2	0.1	0.2	0.1	0.2	0.0	0.0	0.8	0.1	0.4
Spain 	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	2.6	1.9	1.7
UK 	0.2	0.0	0.3	0.4	0.3	0.3	0.3	0.3	1.4	1.0	1.0
<b>Inflation forecasts %, Y/Y</b>											
Euro area											
Headline CPI 	1.4	1.3	1.1	1.0	1.4	1.4	1.4	1.4	1.8	1.2	1.4
Core CPI 	1.0	0.9	0.9	1.0	1.0	1.2	1.3	1.3	1.0	1.0	1.2
UK											
Headline CPI 	1.9	1.9	1.8	1.8	2.0	1.9	1.8	1.8	2.5	1.8	1.9
Core CPI 	1.9	2.0	2.0	2.0	2.0	2.0	1.9	1.8	2.1	1.9	1.9
<b>Monetary policy</b>											
ECB											
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate % 	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
Net asset purchases* 	0	0	0	0	0	0	0	0	15	0	0
BoE											
Bank Rate % 	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Net asset purchases** 	0	0	0	0	0	0	0	0	0	0	0





























\*Monthly target €bn, end of period. \*\*Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE 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 	Industrial production M/M% (Y/Y%)	Feb	<b>-0.2 (-0.3)</b>	<u>-0.1 (-0.5)</u>	1.4 (-1.1)	<b>1.9 (-0.7)</b>	
Spain 	Final EU-harmonised CPI Y/Y%	Mar	<b>1.3</b>	1.3	1.1	-	
Auctions and events							
Country	Auction						
- Nothing scheduled -							












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 15 April 2019</b>						
UK		00:01 Rightmove house prices M/M% (Y/Y%)	Apr	-	0.4 (-0.8)	
<b>Tuesday 16 April 2019</b>						
EMU		10:00 Construction output M/M% (Y/Y%)	Feb	-	-1.4 (-0.7)	
		10:00 ZEW expectations indicator	Apr	-	-2.5	
Germany		10:00 ZEW current situation (expectations) indicator	Apr	8.5 (0.5)	11.1 (-3.6)	
UK		09:30 Claimant count rate % (change '000s)	Mar	-	2.9 (27.0)	
		09:30 Average weekly earnings (excl. bonuses) 3M/Y%	Feb	<u>3.4 (3.4)</u>	3.4 (3.4)	
		09:30 ILO Unemployment rate 3M%	Feb	<u>3.9</u>	3.9	
		09:30 Employment change 3M/3M '000s	Feb	<u>165</u>	222	
<b>Wednesday 17 April 2019</b>						
EMU		07:00 EU27 new car registrations Y/Y%	Mar	-	-1.0	
		09:00 Current account balance €bn	Feb	-	36.8	
		10:00 Trade balance €bn	Feb	-	17.0	
		10:00 Final CPI (core CPI) Y/Y%	Mar	<u>1.4 (0.8)</u>	1.5 (1.0)	
Italy		09:00 Current account balance €bn	Feb	-	0.0	
		09:00 Final EU-harmonised CPI Y/Y%	Mar	1.1	1.1	
		10:00 Trade balance €bn	Feb	-	0.3	
UK		09:30 CPI (core CPI) Y/Y%	Mar	1.9 (1.8)	1.9 (1.8)	
		09:30 UK House Price Index Y/Y%	Feb	1.3	1.7	
<b>Thursday 18 April 2019</b>						
EMU		09:00 Preliminary manufacturing PMI	Apr	48.0	47.5	
		09:00 Preliminary services PMI (composite PMI)	Apr	53.1 (51.8)	53.3 (51.6)	
Germany		08:30 Preliminary manufacturing PMI	Apr	45.0	44.1	
		08:30 Preliminary services PMI (composite PMI)	Apr	55.0 (51.7)	55.4 (51.4)	
France		08:15 Preliminary manufacturing PMI	Apr	50.0	49.7	
		08:15 Preliminary services PMI (composite PMI)	Apr	49.8 (49.6)	49.1 (48.9)	
UK		09:30 Retail sales excluding auto fuel M/M% (Y/Y%)	Mar	-0.3 (4.0)	0.2 (3.8)	
		09:30 Retail sales including auto fuel M/M% (Y/Y%)	Mar	-0.3 (4.6)	0.4 (4.0)	
<b>Friday 19 April 2019</b>						
Italy		09:00 Consumer confidence indicator	Apr	111.2	111.2	
		09:00 Manufacturing confidence indicator	Apr	101.0	100.8	
		09:00 Economic sentiment indicator	Apr	-	99.2	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Coming week's events/auctions calendar

Key events & auctions			
Country	BST	Event / Auction	
<b>Monday 15 April 2019</b>			
UK		17:00	BoE's Haskel scheduled to speak in Warwick
<b>Tuesday 16 April 2019</b>			
UK		10:30	Auction: to sell £2.3bn of 1.75% 2037 bonds (07-Sep-2037)
<b>Wednesday 17 April 2019</b>			
Germany		10:30	Auction: to sell €1bn of 2.5% 2044 bonds(04-Jul-2044)
UK		14:00	BoE's Carney scheduled to speak in Paris
<b>Thursday 18 April 2019</b>			
France		09:50	Auction: to sell 2025 bonds (25-Mar-2025)
		09:50	Auction: to sell 1.75% 2023 bonds (25-May-2023)
		10:50	Auction: to sell 0% 2022 bonds (25-Feb-2022)
		10:50	Auction: to sell up to €1bn of 1.1% 2022 inflation-linked bonds (25-Jul-2022)
		10:50	Auction: to sell 0.1% 2028 inflation-linked bonds (01-Mar-2028)
		10:50	Auction: to sell 0.1% 2047 inflation-linked bonds (25-Jul-2047)
UK		09:30	BoE publishes Credit Conditions and Bank Liabilities surveys
<b>Friday 19 April 2019</b>			
- Nothing scheduled -			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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