

Euro wrap-up

Overview

- Having initially made losses following upside surprises to data on euro area GDP and German inflation, Bunds subsequently followed USTs to close little changed on the day.
- Gilts made losses despite some further subdued UK consumer and business survey results.
- Wednesday will bring the UK's manufacturing PMIs for April.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.591	-
OBL 0 04/24	-0.416	+0.004
DBR 0¼ 02/29	0.013	+0.009
UKT 1½ 01/21	0.764	+0.021
UKT 1 04/24	0.908	+0.031
UKT 1½ 10/28	1.185	+0.028

*Change from close as at 4.30pm BST.

Source: Bloomberg

Euro area

Better news for the ECB as Q1 GDP beats expectations

Recent economic data from the euro area have tended to disappoint, with top-tier surveys most notably signalling a further loss of momentum since the start of the year. Nevertheless, today's first estimates of Q1 GDP suggested that the economy performed better than sentiment indicators had implied. In particular, euro area GDP rose 0.4%Q/Q, twice the rate of Q4 and the strongest in three quarters. That, however, left the annual rate unchanged at 1.2%Y/Y, matching Q4, which represented the weakest growth on this basis in more than five years. No detail was provided on the expenditure breakdown, but the results so far from the member states suggest that domestic demand probably remained the principal driver. Most notably perhaps, euro area GDP growth of 0.4%Q/Q in Q1 was double the ECB's forecast. However, we suspect that this rate was flattered by temporary factors, including a rebound in new car registrations from the dip that followed the introduction of new emissions regulations in September. As such, we expect GDP growth in Q2 to return to the 0.2%Q/Q rate of the fourth quarter.

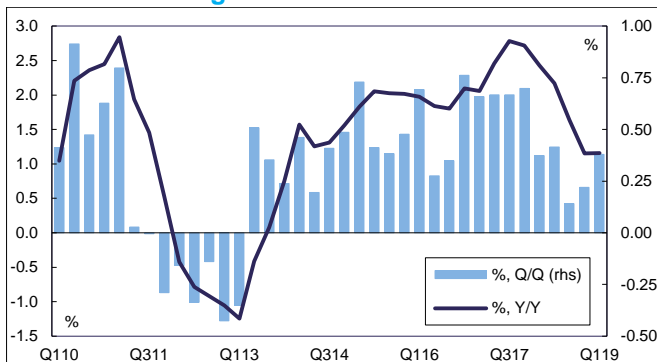
Italy out of recession, Spain accelerates

At the country level, French economic growth aligned with our forecast of 0.3%Q/Q, the same as Q3 and Q4, pushing the annual rate up 0.1ppt to 1.1%Y/Y. Private consumption and investment made solid positive contributions as did inventories, but net trade subtracted the most in six quarters. Elsewhere, an end to Italy's recession was confirmed, with GDP up 0.2%Q/Q, the strongest rate in five quarters, albeit leaving the annual rate unchanged at a still-paltry 0.1%Y/Y. No detail was published on the Italian breakdown, although domestic demand reportedly shrank from Q4 and so net trade made a positive contribution. Spanish GDP also beat expectations with an acceleration to 0.7%Q/Q, up 0.1ppt from Q4 and the strongest for five quarters, pushing up the annual rate by 0.1ppt to 2.4%Y/Y. Household consumption slowed a touch but fixed investment was strong. And, with imports falling further than exports, net trade made a modest positive contribution to Spanish growth. No Q1 GDP data were provided from Germany, but given the euro area figure, we have pushed up our forecast to 0.3%Q/Q, which would represent the first growth in three quarters. We note also that, given the vagaries of the data, Irish GDP might well also have made a significant contribution to euro area growth in Q1.

Inflation jumps on Easter effect

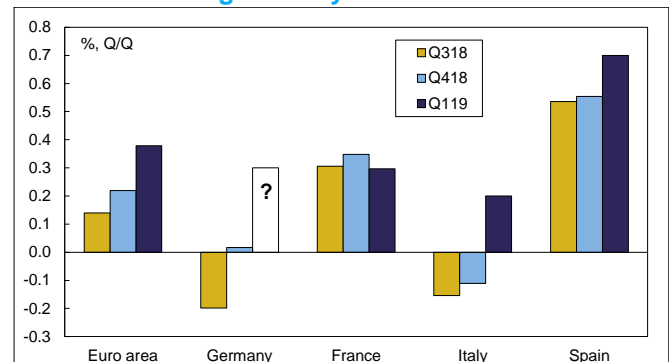
Just as much of today's Q1 GDP figures beat expectations, so did today's flash inflation data from the large member states. On the EU-harmonised measure, headline inflation rose a marked 0.7ppt to a five-month high of 2.1%Y/Y in Germany, 0.3ppt to 1.6%Y/Y in Spain, and 0.1ppt in France and Italy to 1.4%Y/Y and 1.2%Y/Y respectively. Where published, the detail on the

Euro area: GDP growth



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: GDP growth by member state*



*Q119 figure for Germany is Daiwa forecast. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



national measures suggest the increases were associated with core components, in particular services prices, on account of higher inflation of items related to tourism. And this suggests that the timing of the Easter holiday was the principal driver. So, we expect data on Friday to reveal a rise in euro area headline inflation of 0.3ppt to 1.7%Y/Y and a pickup of the same amount in core inflation to 1.1%Y/Y, with the risks to both figures skewed to the upside. However, as the Easter effect reverses, we also forecast both measures to fall back significantly in May and remain relatively stable and subdued over the remainder of the year.

Unemployment falls again

The latest labour market figures capped off a trilogy of Good News stories from today's economic releases. In particular, unemployment in the euro area fell for the fifth consecutive month in March and by 174k – the largest monthly drop for ten months – to 12.63mn, to leave the unemployment rate falling 0.1ppt to 7.7%, down 0.8ppt on a year earlier, the lowest since September 2008 and 0.2ppt below the ECB's full-year projection for 2019. There was also a further drop in youth unemployment in March taking the rate to 16.0%, 1.4ppts lower than a year earlier and the lowest since July 2008. Among the larger member states, the decline in the total unemployment rate was driven principally by Italy (down 0.3ppt to 10.2%, albeit on an admittedly volatile series) and Spain (down 0.2ppt to 14.0%, the lowest since late 2008). The unemployment rate in the Netherlands also fell 0.1ppt to 3.3%, a new series low. And this was only bettered by the German rate, which was unchanged at 3.2% in March, while the French figure also moved sideways at 8.8%. Moreover, the one-month ahead national figures from Germany – also published today – showed a further fall in jobless claims in April for the 22nd consecutive month to leave the respective rate at the post-reunification low of 4.9%.

The day ahead in the euro area and US

With many member states celebrating national holidays for May Day, Wednesday will be very quiet for economic news in the euro area with the April manufacturing PMIs from the Netherlands and Ireland the only new data releases. ECB Vice President Luis de Guindos will speak publicly in London.

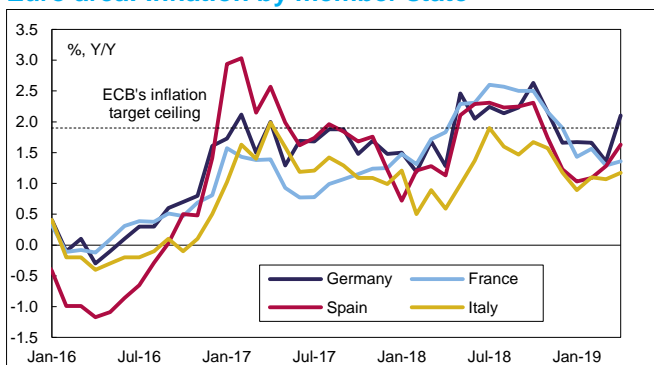
The main event on Wednesday, of course, will come in the US, where the Fed's latest policy meeting will conclude. However, despite the upside surprise to Q1 US GDP and strong showing of stock markets since the start of the year, there is virtually no prospect of a change in policy settings while the Bank's 'patient' stance is very unlikely to have changed either. Data-wise, the April manufacturing ISM and PMI reports are due, together with March construction spending data and April's auto sales and – ahead of Friday's official labour market report – ADP employment report.

UK

Household confidence flat

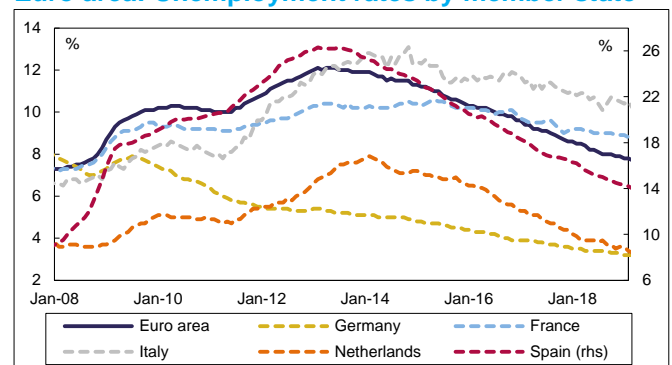
Ahead of April's Markit PMIs, due over the remainder of the week, today brought updates on consumer and business sentiment from the GfK and Lloyds. As expected, the GfK consumer sentiment survey showed that confidence was stable but still subdued in April, with the headline indicator remaining at -13 for a third consecutive month. Indeed, overall, the index has been very little changed for the past six months, repeatedly signalling the weakest consumer sentiment since 2013 and suggesting that spending is likely to remain on a relatively underwhelming growth path ahead. Within the GfK survey detail, there was, however, a small improvement in indicators related to the general economic situation, perhaps as the Article 50 extension provided consumers with more confidence that a no-deal Brexit scenario will not materialise. With these risks having receded, the survey also reported a notable decline in consumers' motivation to save – the relevant index showed the biggest drop since the Brexit referendum. However, despite the fact that the labour market remains quite firm, with employment and wages continuing to grow at a decent pace, consumers' assessment of their personal financial situation weakened, with both backward-looking and forward-looking indicators inching down to the lowest level since the end of last

Euro area: Inflation by member state*



*Flash estimates for April 2019. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Unemployment rates by member state



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

year. The climate for major purchases also deteriorated slightly to a five month-low. So, while retail sales growth in Q1 surprised on the upside, with consumers still quite reluctant to make major purchases, we should expect a moderation in consumer spending this quarter.

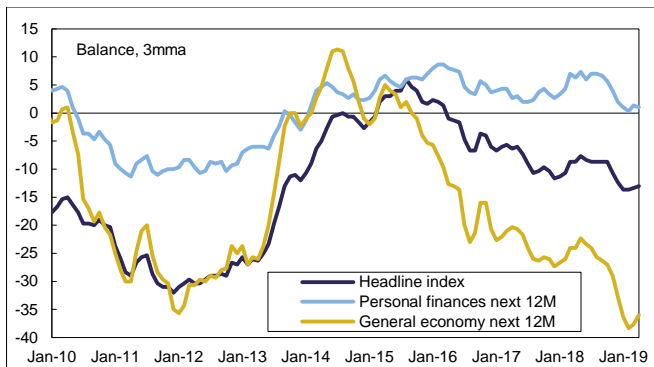
Business sentiment remains subdued

Meanwhile, today's news about business confidence was slightly more positive, with the Lloyds Business Barometer showing a second consecutive improvement this month, by 4pts to 14%. This, however, was still only a touch above the seven-year low seen in February, and well below its values in recent years. Looking at the details, firms were more confident about their own trading prospects and the general economy alike, although the latter indicator was only marginally positive at 3%. Among the sectors, sentiment rose in services, manufacturing and construction, but retailers were reportedly less optimistic, reinforcing our expectations of weaker consumer spending in the months ahead.

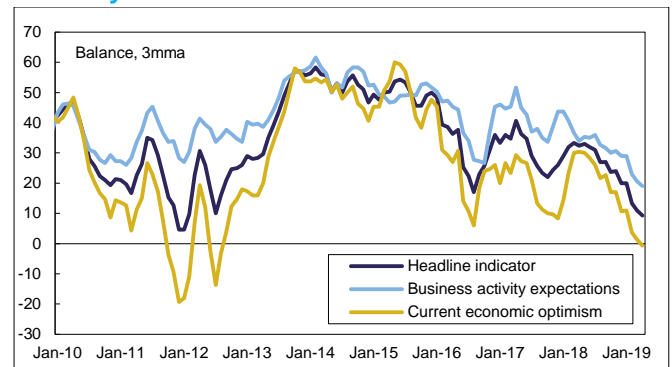
The day ahead in the UK

Tomorrow we will get more insights into business activity in April with the release of the manufacturing PMIs. In March, the headline manufacturing PMI rose by 3pts to a thirteen-month high of 55.1 as many companies increased production in order to accumulate more stocks ahead of a possible disorderly Brexit. With Article 50 extended until the end of October and companies likely readjusting their production back to more normal levels, the survey will most likely suggest a sharp slowdown this month. Among other economic data, the BoE will release its lending figures for March. Consumer credit growth has eased gradually in recent years and it remains to be seen if that trend gets extended. But the mortgage data seem bound to remain consistent with subdued momentum in the housing market. The Nationwide house price index will probably bring a similar message. The BRC Shop Price index for April is due for release too.

UK: GfK Consumer Confidence



















UK: Lloyds Business Barometer







European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 GDP – first estimate Q/Q% (Y/Y%)	Q1	0.4 (1.2)	<u>0.2 (1.0)</u>	0.2 (1.1)	- (1.2)
	 Unemployment rate %	Mar	7.7	7.8	7.8	-
Germany	 GfK Consumer confidence indicator	May	10.4	10.3	10.4	-
	 Unemployment change 000s (rate %)	Apr	-12 (4.9)	-7 (4.9)	-7 (4.9)	-
	 Preliminary EU-harmonised CPI Y/Y%	Apr	2.1	1.7	1.4	-
France	 GDP – first estimate Q/Q% (Y/Y%)	Q1	0.3 (1.1)	<u>0.3 (1.0)</u>	0.3 (1.0)	-
	 Consumer spending M/M% (Y/Y%)	Mar	-0.1 (-1.9)	0.5 (-1.4)	-0.4 (-1.8)	-
	 Preliminary EU-harmonised CPI Y/Y%	Apr	1.4	1.4	1.3	-
Italy	 Unemployment rate %	Mar	10.2	10.7	10.7	10.5
	 Preliminary EU-harmonised CPI Y/Y%	Apr	1.2	1.3	1.1	-
	 GDP – first estimate Q/Q% (Y/Y%)	Q1	0.2 (0.1)	<u>0.1 (-0.1)</u>	-0.1 (0.0)	-
Spain	 Preliminary EU-harmonised CPI Y/Y%	Apr	1.6	1.5	1.3	-
	 GDP – first estimate Q/Q% (Y/Y%)	Q1	0.7 (2.4)	<u>0.5 (2.2)</u>	0.6 (2.3)	-
	 Retail sales Y/Y%	Mar	1.7	1.4	1.2	1.4
UK	 GfK consumer confidence indicator	Apr	-13	-13	-13	-
	 Lloyds business barometer	Apr	14	-	10	-






Auctions and events

Country	Auction
Germany	 €3.1bn of 2021 zero-coupon bonds (12-Mar-2021) at an average yield of -0.58%
Italy	 €2.5bn of 1.75% 2024 bonds (01-Jul-2024) at an average yield of 1.72%
	 €3bn of 3% 2029 bonds (01-Aug-2029) at an average yield of 2.59%
	 €1bn of 2025 floating-rate bonds (15-Jan-2025) at an average yield of 1.77%

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	 00:01	BRC shop price index Y/Y%	Apr	-	0.9
	 09:30	Manufacturing PMI	Apr	53.1	55.1
	 09:30	Net consumer credit (net mortgage lending) £bn	Mar	1.0 (3.6)	1.1 (3.5)
	 09:30	Mortgage approvals (000's)	Mar	64.5	64.3
Country	BST	Auction / Event			
EMU	 09:30	ECB's De Guindos scheduled to speak in London			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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