

# Euro wrap-up

## Overview

- Bunds made substantive gains as German factory orders pointed to ongoing weakness in the manufacturing sector.
- Gilts also made notable gains as data confirmed another drop in UK new car registrations and cross-party talks on Brexit resumed.
- Wednesday will bring industrial production data from Germany and a retail sales survey from the UK, where politics will continue to dominate.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.611	-0.012
OBL 0 04/24	-0.457	-0.031
DBR 0¼ 02/29	-0.035	-0.042
UKT 1½ 01/21	0.756	-0.037
UKT 1 04/24	0.900	-0.047
UKT 1½ 10/28	1.162	-0.057

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

## Euro area

### German factory orders disappoint again

Today's most notable economic data, concerning German factory orders in March, maintained the flow of downbeat economic news from the sector. Following declines in January and February of 2.1%M/M and 4.0%M/M respectively, the modest rebound in March of only 0.6%M/M suggested no underlying improvement in momentum. Indeed, domestic orders were very weak, down 4.2%M/M, weighed in particular by orders for motor vehicles, which plunged more than 10%M/M to the lowest level since end-2015. And while overseas orders rose 4.2%M/M, they were flattered by much stronger demand from other euro area member states, with orders from these countries up 8.6%M/M but only due to exceptional 'major' orders – excluding those items, euro area orders were down 2.5%M/M to leave total orders on this basis down almost 2.0%M/M.

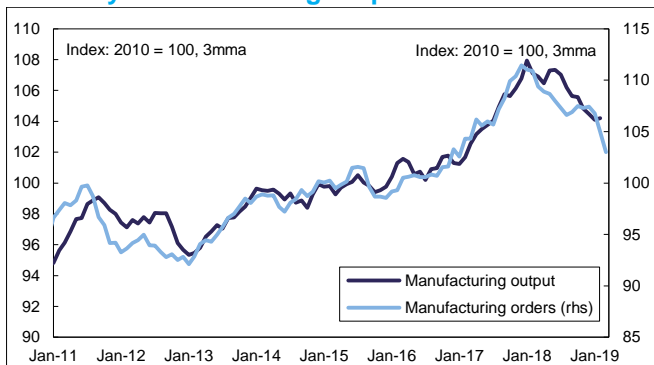
### Worst performance in more than seven years

Looking at Q1 as a whole, total German factory orders fell 4.1%3M/3M, the steepest drop since November 2011, with orders for capital goods (including autos) down 5.2%3M/3M, orders of intermediate goods down 3.1%3M/3M, but those of consumer goods up 0.2%3M/3M. Excluding major items, orders dropped 3.4%3M/3M, the steepest on the series dating back to 2010. So, with recent surveys having suggested no improvement in April, Q2 looks set to be another challenging quarter for German manufacturing. Slightly more positively, however, manufacturing turnover rose 0.2%M/M in March to be up 1.2%3M/3M, and so tomorrow's data for manufacturing output might well show positive growth in March. However, having declined five times in the previous six months, production in the sector seems highly likely to have declined in Q1 as a whole, with prospects for recovery in Q2 now highly uncertain too.

### Firm growth in retail sales in Q1 confirmed

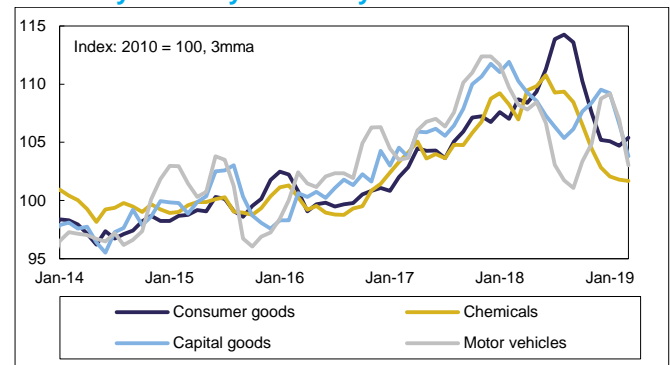
Economic data released at the start of the week had centered on services, where the recent picture has been brighter thanks to firmer domestic demand. Most notably, euro area retail sales were unchanged in real terms in March following two consecutive months of gains to be up a respectable 1.9%Y/Y. Over Q1 as a whole, retail sales rose 0.7%Q/Q, just 0.1ppt softer than in Q4, suggestive of relatively firm growth in private consumption. And sales of core (i.e. non-food and non-fuel) items rose 1.2%Q/Q in Q1, the best quarterly performance for such items since Q218. Thanks to ongoing growth in employment and accelerating wages, we expect another quarter of steady if not especially strong growth in retail sales and private consumption in Q2.

### Germany: Manufacturing output and orders



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Germany: Factory orders by sub-sector\*



\*Capital goods include motor vehicles. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



## Final services PMIs consistent with moderate expansion into Q2

Yesterday's final services PMIs for April were also consistent with ongoing economic growth, albeit probably somewhat softer than in Q1. The headline euro area services PMI was revised up 0.3pt from the flash estimate to 52.8, down 0.5pt from March but still above the Q1 average. And, encouragingly, within the detail the new business PMI was revised up 0.4pt from the flash to 52.9, a five-month high. At the country level, the services PMIs of both Germany (also revised up, to 55.7) and France (confirmed at 50.5) were also the highest since November. But the equivalent figures for Italy (down 2.7pts to 50.4) and Spain (down 3.7pts to 53.1) fell back significantly. The upwards revision to the services index saw the euro area composite PMI revised up slightly to 51.5, bang in line with the Q1 average but consistent with a moderation in GDP growth to about 0.2%Q/Q from 0.4%Q/Q in the first quarter. Among the member states, the French composite PMI (revised up slightly to 50.1) was almost 1pt above the Q1 average while the equivalent German figure (revised up to 52.2) was little different to the Q1 average. But the Italian (49.5) and Spanish (a seven-month low of 52.9) composite PMIs suggested a softening of GDP growth this quarter after a pickup in both countries in Q1.

## The day ahead in the euro area and US

Wednesday will bring German industrial production figures for March. Having declined in five of the previous six months, we expect a modest increase in manufacturing output, not least also given the positive growth in turnover recorded over the first quarter in the sector. However, having risen by more than 7½% over the first two months of the year, construction output seems highly likely to have fallen back. And so, having risen by 0.7%M/M in February, total German IP might well have declined in March. That, however, will still likely leave it up over Q1 as a whole, consistent with a return to positive GDP growth last quarter too. Meanwhile, ECB President Draghi will speak publicly at a "Youth Dialogue". In the markets, Germany will sell 5Y Bunds.

In the US, Wednesday is set to be uneventful for new economic data, although Fed Governor Brainard will speak publicly and the Treasury will sell 10Y Notes.

## UK

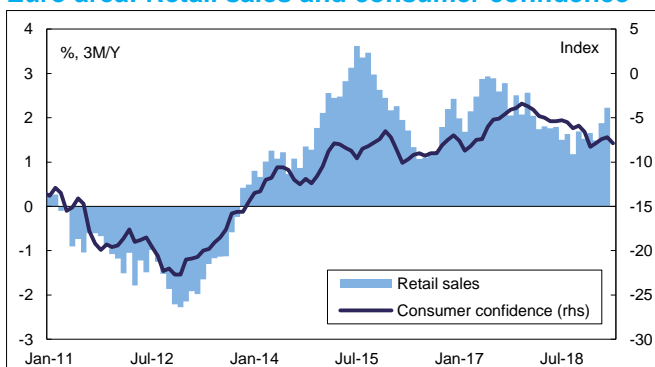
### New car registrations continue to decline

Recent data regarding UK household behavior have been mixed. Against the uncertain political and economic backdrop, consumer sentiment has been subdued but virtually unchanged for six months, while housing market activity has been weak. However, retail sales were stronger than expected in Q1, rising 1½%Q/Q. As is often the case, figures from the new car market have been more aligned with consumer confidence, with sales volumes down on a year-on-year basis. Indeed, today's SMMT new car registration data suggested that this trend continued at the start of Q2. Headline growth in new car registrations eased by 0.7ppt to -4.1%Y/Y, the weakest this year, while registrations by private buyers were even more subdued, down more than 10%Y/Y, the steepest drop since September when the market contracted very sharply following the introduction of new emissions-testing standards. Within the detail, weakness was relatively wide-spread. Most notably, perhaps, while registrations of alternatively-fueled vehicles had been growing particularly rapidly in recent years, the SMMT noted that, following the removal of purchase incentives, registrations of plug-in hybrid vehicles had plunged 34%Y/Y. Overall, the ongoing declines in new car registrations add to evidence that consumers remain reluctant to commit to big-ticket purchases even if they are happy to spend more on smaller items on the High Street.

### The day ahead in the UK

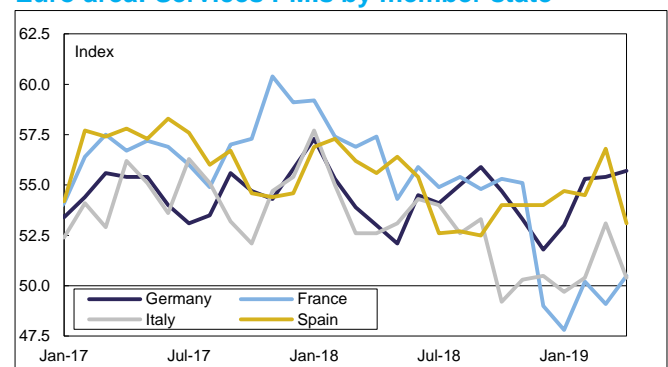
Politics will be centre-stage in the UK once again on Wednesday. After Thursday's local elections saw the ruling Conservative party suffer its worst results since 1995, a meeting was set to be held today between Theresa May and Sir Graham Brady, Chair of the 1922 Committee of backbench Tory MPs, to discuss demands for the PM to set a date to resign. Depending on

### Euro area: Retail sales and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: Services PMIs by member state



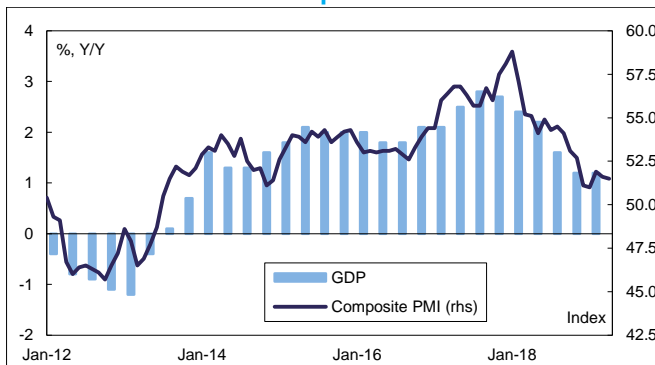
Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

the outcome of that meeting, the 1922 Committee Executive will decide tomorrow whether to amend the Conservative Party's rules to allow a binding no-confidence vote in May's leadership in June.

Meanwhile, the Brexit negotiations between the Government and Labour party leadership are set to continue, with reports having suggested that Theresa May could be close to offering a 'compromise' deal based on a temporary customs partnership and certain commitments to close regulatory alignment with the EU. However, with those reports suggesting that the longer-term relationship between the UK and EU would not be determined until after the next General Election – currently scheduled for 2022 – it is difficult to see how this offer would appeal to the Labour leadership, which rightly remains concerned about the intentions of the main candidates to be the next Conservative leader. Moreover, we would expect a large number of Conservative MPs to reject such a proposal too. As such, even if a deal is agreed, getting Parliamentary approval for it would be far from certain. If, as we expect, the talks between the Government and Labour leadership eventually break down, a further set of indicative votes in the House of Commons on various Brexit options would be the likely next step. However, momentum now appears to be increasing for a second referendum. In the meantime, Theresa May's effective Deputy PM David Lidington today confirmed that the UK will now certainly have to hold elections to the European Parliament on 23 May,

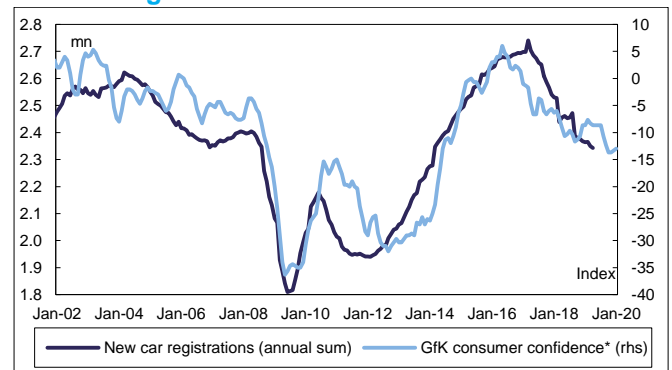
The only UK data release of note tomorrow will be the BRC Retail Sales Monitor for the month of April. The previous survey showed a drop in annual consumer spending growth to negative territory (-0.5%Y/Y), however, to a large extent that reflected the timing of Easter this year. For a similar reason, we expect that the April survey to suggest a notable recovery in sales growth to more than 2%Y/Y.

### Euro area: GDP and composite PMI



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

### UK: Car registrations and consumer confidence



\*Nine month lead. 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
Germany	Factory orders M/M% (Y/Y%)	Mar	<b>0.6 (-6.0)</b>	1.4 (-5.4)	-4.2 (-8.4)	<b>-4.0 (-8.1)</b>
France	Trade (current account) balance €bn	Mar	<b>-5.3 (-1.3)</b>	-4.5 (-)	-4.0 (-0.8)	<b>-4.1 (-0.6)</b>
UK	New car registrations Y/Y%	Apr	<b>-4.1</b>	-	-3.4	-








#### Auctions

Country	Auction
Germany sold	€397mn of 0.1% 2026 index-linked bonds (15-Apr-2026) at an average yield of -1.32%
	€170mn of 0.1% 2046 index-linked bonds (15-Apr-2046) at an average yield of -0.76%

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	 Final services PMI (composite PMI)	Apr	<b>52.8 (51.5)</b>	<u>52.5 (51.3)</u>	53.3 (51.6)	-
	 Retail sales M/M% (Y/Y%)	Mar	<b>0.0 (1.9)</b>	-0.1 (1.8)	0.4 (2.8)	<b>0.5 (3.0)</b>
Germany	 Final services PMI (composite PMI)	Apr	<b>55.7 (52.2)</b>	<u>55.6 (52.1)</u>	55.4 (51.4)	-
France	 Final services PMI (composite PMI)	Apr	<b>50.5 (50.1)</b>	<u>50.5 (50.0)</u>	49.1 (48.9)	-
Italy	 Services PMI (composite PMI)	Apr	<b>50.4 (49.5)</b>	51.8 (50.6)	53.1 (51.5)	-
Spain	 Unemployment M/M '000	Apr	<b>-91.5</b>	-	-34.0	-
	 Services PMI (composite PMI)	Apr	<b>53.1 (52.9)</b>	55.1 (54.5)	56.8 (55.4)	-
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
Germany	 07:00	Industrial production M/M% (Y/Y%)	Mar	-0.5 (-2.6)	0.7 (-0.4)
UK	 00:01	BRC like-for-like sales Y/Y%	Apr	2.5	-1.1
	 08:30	Halifax house price index M/M% (3M/Y%)	Apr	0.1 (4.5)	-1.6 (2.6)
<b>Auctions and events</b>					
Country	BST	Auction / Event			
EMU	 12:30	ECB's Draghi scheduled to speak in Frankfurt			
Germany	 10:30	Auction: to sell €3bn of 0% 2024 bonds (05-Apr-24)			
UK	 09:15	BoE's Ramsden scheduled to speak in London			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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