

Euro wrap-up

Overview

- Bunds were little changed despite better-than-expected German IP data.
- While a survey suggested strong UK retail sales in April, Gilts made gains as Theresa May's future as Prime Minister remained unclear and Brexit talks between the Government and Labour party appeared fruitless.
- While politics will continue to dominate in the UK, the coming two days will bring IP data from Spain (Thursday), France and Italy (both Friday), and the first estimate of UK Q1 GDP (also Friday).

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Daily bond market movements

| Bond | Yield | Change* |
|--------------|--------|---------|
| BKO 0 12/20 | -0.621 | -0.009 |
| OBL 0 04/24 | -0.465 | -0.007 |
| DBR 0¼ 02/29 | -0.045 | -0.008 |
| UKT 1½ 01/21 | 0.743 | -0.009 |
| UKT 1 04/24 | 0.876 | -0.019 |
| UKT 1½ 10/28 | 1.135 | -0.023 |

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

Euro area

German IP data beat expectations

Germany's industrial sector remained in focus today with production figures for March the most notable new data. With some relief after a run of downbeat sentiment and orders releases, the headline production figure beat expectations, with total IP up for the second successive month and by 0.5%M/M, albeit following downwardly revised growth of 0.4%M/M in February. Within the detail, manufacturing output rose 0.3%M/M in March, similarly representing a second monthly increase in a row. Output of consumer goods rose 1.1%M/M while output of intermediate goods rose for the first time this year, up 0.4%M/M. But production of capital goods was flat. Meanwhile, tallying with the elevated level of confidence in the sector, construction output increased for a fifth successive month, up 1.0%M/M following (downwardly revised but still highly vigorous) growth of 4.0%M/M to leave it up almost 10%Y/Y. In contrast, despite the increase on the month, total IP was still down 0.8%Y/Y in March, with manufacturing down 2.2%Y/Y.

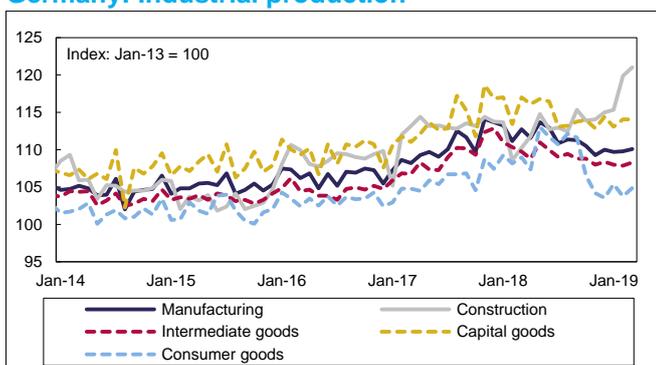
Best quarter for German IP since Q218

Looking at the first quarter as a whole, total IP was up 0.5%Q/Q in Q1, a sharp turnaround from the declines of 1.0%Q/Q in Q3 and Q4 and thus a key driver of the return to positive GDP growth last quarter. Manufacturing output, however, was down 0.1%Q/Q, nevertheless still an improvement from the declines of more than 1.0%Q/Q in each of the previous two quarters. Construction activity, meanwhile, rose a whopping 3.9%Q/Q to mark the best quarter for the sector in three years. Of course, such a rate seems impossible to sustain, and so we expect negative payback in construction in Q2. More importantly, factory orders declined 4.1%Q/Q in Q1, with notable further falls in key sub-sectors such as autos and chemicals. And survey indicators from the sector remain weak, e.g. April's manufacturing PMI was firmly in contraction territory at 44.4 while the new orders PMI was just 40.8. So, we would not be surprised to see manufacturing production decline once again in Q2, contributing to a renewed softening of GDP growth in the current quarter too.

The coming two days in the euro area and US

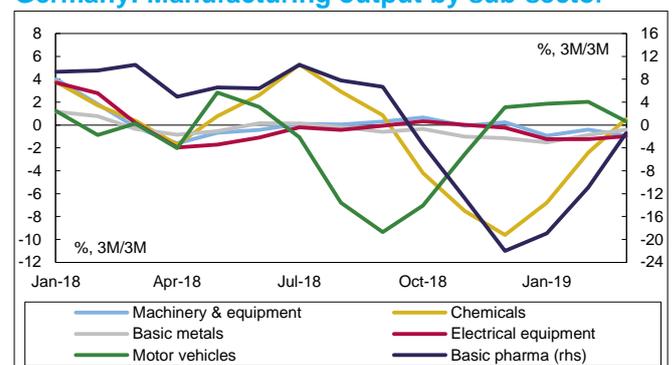
Thursday should be a quiet day for economic news from the euro area with Spanish IP data for March most notable and expected to report modest growth of less than ½%M/M following a drop of more than 1.0%M/M the previous month. Friday brings the equivalent data from France and Italy, both of which are expected to show declines in production in March. However, given solid growth in each of the previous two months, the figures should confirm positive growth in IP in both countries over Q1 as a whole. Data for German goods trade and Italian retail sales in March are also due on Friday. On the

Germany: Industrial production



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing output by sub-sector



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



political front, EU leaders will gather on Thursday for an informal meeting in Sibiu, Romania, to discuss a “Strategic Agenda” for the coming five years. In the bond markets, Spain will sell 5Y, 10Y and 30Y bonds on Thursday.

In the US, Thursday will bring producer price data for April along with the full March trade report, wholesale trade and inventory data for the same month, and the usual weekly jobless claims figures. Friday will bring April CPI inflation data, which are expected to report a pickup on the core measure to 0.2%M/M and 2.1%Y/Y, and the headline measure to 0.4%M/M and 2.1%Y/Y. There are plenty of senior Fed officials set to speak publicly including Chair Powell on Thursday and Vice Chair Williams on Friday. In the bond markets, the Treasury will sell 30Y bonds on Thursday.

UK

Rules to change to oust May by the summer?

Politics remained centre-stage in the UK once again today. At the time of writing, the Executive of the 1922 Committee of Conservative backbench MPs was meeting, for the second time in less than a month, to discuss a possible change to party rules to allow a new binding no-confidence vote in May’s leadership. Last month, by a margin of nine to seven, it voted not to change the rules that currently prevent a challenge to May’s party leadership before December. However, the terrible performance of Conservatives in last week’s local elections, which saw more than 1300 councillors lose seats in the worst result for the party since 1995, and yesterday’s (inevitable) confirmation that the UK will have to participate in the EU Parliament elections later this month, has ratcheted up even further the pressure on the Prime Minister. Many Tory MPs have openly fumed at suggestions that she is not prepared to announce her resignation before the summer recess in the second half of July, which would probably give insufficient time for the party to select a new leader before MPs return to Parliament in September. So, a decision today to allow a binding challenge to her party leadership as early as next month, defeat in which would see her step down as Prime Minister in the summer once a new leader has been elected, would come as no surprise.

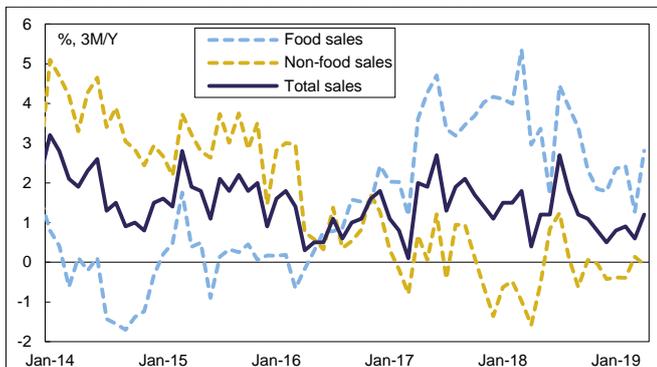
Talks with Labour going nowhere

Meanwhile, the Brexit negotiations between the Government and Labour party leadership continue. But comments from the Labour team last night reaffirm our central view that these talks remain a charade, with little prospect of tangible progress towards a compromise. If, as we expect, these negotiations soon break down, a further set of indicative votes in the House of Commons on various Brexit options would be the likely next step. But we would expect that process to be inconsequential, unless MPs were given the opportunity, by the PM or the Speaker, to vote for a second referendum

Warm weather over Easter boosted consumer spending

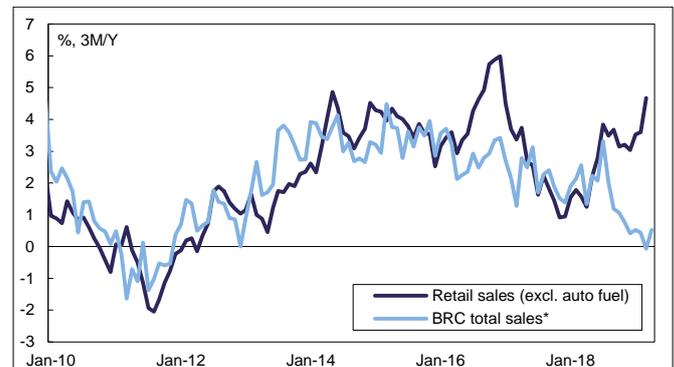
Today’s BRC Retail Sales Monitor suggested that UK retailers had a decent month in April. Warm weather over the Easter weekend helped to lift overall spending. But while food, children’s toys and furniture got a boost, some categories such as clothing and footwear, and various items from department stores, suffered as shoppers turned their attention to outdoor activities. Overall spending in nominal terms rose by a seemingly robust 4.1%Y/Y on the survey’s measure. And on a like-for-like basis, growth was a touch lower at 3.7%Y/Y, similarly the strongest in two years. Both these rates, however, were distorted by the timing of Easter and therefore do not reflect true momentum in the retail sector. Indeed, the three-month growth rate of total sales of 1.2%3M/Y, broadly in line with its longer-term average, probably provides a more reliable guide. However, it is worth noting that the findings of this survey have diverged significantly from the official ONS data in recent months. Indeed, the ONS figures showed a steep increase in retail sales volumes in Q1 in March leaving them 6.7% higher compared to a year ago. But with consumer sentiment remaining subdued and housing market indicators showing few signs of a recovery, we think underlying growth on the High Street will soon moderate to levels more consistent with the BRC data.

UK: BRC Retail Sales Monitor indices



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes



*Adjusted using BRC shop price index. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

The coming two days in the UK

The dataflow tomorrow brings only the RICS Residential Market survey for the month of April. In March, this survey's headline price indicator rose slightly from -27%, the lowest in almost eight years, to -24%, and a further modest improvement might be on the cards in the latest release. Nevertheless, the RICS survey will almost certainly suggest that market activity remains weak amid shrinking supply and demand. Meanwhile, the focus at the end of the week will turn to GDP, with the first estimate of Q1 growth due Friday. According to last week's Inflation Report, the BoE thinks that growth picked up from 0.2%Q/Q to 0.5%Q/Q as precautionary stock building boosted economic activity. We are a little less optimistic and fear that more subdued growth in other sectors, most notably construction and some services, left GDP rising by 0.3%Q/Q. In terms of the major expenditure components, private consumption growth appears likely to have inched slightly higher from 0.3%Q/Q in Q418, while business investment is set to fall for a fifth consecutive quarter. Net exports might also provide a negative contribution, but there is little doubt that inventory accumulation will have given a significant boost to overall GDP growth.

In the absence of significant news, the next edition of the Euro wrap-up will be published on 10 May 2019.

European calendar

Today's results

Economic data

| Country | Release | Period | Actual | Market consensus/ <i>Daiwa forecast</i> | Previous | Revised |
|---------|--|--------|-------------------|--|------------|------------------|
| Germany |  Industrial production M/M% (Y/Y%) | Mar | 0.5 (-0.9) | -0.5 (-2.6) | 0.7 (-0.4) | 0.4 (0.2) |
| UK |  BRC like-for-like sales Y/Y% | Apr | 3.7 | 2.5 | -1.1 | - |
| |  Halifax house price index M/M% (3M/Y%) | Apr | 1.1 (5.0) | 0.1 (4.5) | -1.6 (2.6) | - |

Auctions

| Country | Auction |
|--------------|---|
| Germany sold |  €2.4bn of 0% 2024 bonds (05-Apr-2024) at an average yield of -0.46% |

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 |
|---------|---|-----------------------------------|--------|--|-------------|
| Spain |  08:00 | Industrial production M/M% (Y/Y%) | Mar | 0.3 (-1.2) | -1.1 (-0.3) |
| UK |  00:01 | RICS house price balance % | Apr | -22 | -24 |

| Country | BST | Auction / Event |
|---------|---|--|
| UK |  10:30 | Auction: to sell £3bn of 1% 2024 gilts (22-Apr-2024) |
| Spain |  09:40 | Auction: to sell 0.25% 2024 bonds (30-Jul-2024) |
| |  09:40 | Auction: to sell 1.45% 2029 bonds (30-Apr-2029) |
| |  09:40 | Auction: to sell 2.70% 2048 bonds (31-Oct-2048) |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's data releases

Economic data

| Country | BST | Release | Period | Market consensus/ <i>Daiwa forecast</i> | Previous |
|-----------------------|-------|---|--------|--|--------------|
| Germany | 07:00 | Trade (current account) balance €bn | Mar | 20.0 (26.0) | 18.0 (16.3) |
| | | Exports (imports) M/M% | Mar | -0.4 (0.5) | -1.2 (-1.6) |
| France | 07:45 | Industrial production M/M% (Y/Y%) | Mar | -0.5 (-0.1) | 0.4 (0.6) |
| | | Manufacturing production M/M% (Y/Y%) | Mar | - | 1.1 (2.8) |
| | | Preliminary wages Q/Q% | Q1 | - | 0.2 |
| Italy | 09:00 | Industrial production M/M% (Y/Y%) | Mar | -0.8 (-0.8) | 0.8 (0.9) |
| | | Retail sales M/M% (Y/Y%) | Mar | 0.1 (1.0) | 0.1 (0.9) |
| UK | 09:30 | Preliminary GDP Q/Q% (Y/Y%) | Q1 | <u>0.3 (1.6)</u> | 0.2 (1.4) |
| | | Monthly GDP estimate M/M% (3M/3M%) | Mar | <u>-0.4 (0.3)</u> | 0.2 (0.3) |
| | | Industrial production M/M% (Y/Y%) | Mar | 0.1 (0.5) | 0.6 (0.1) |
| | | Manufacturing production M/M% (Y/Y%) | Mar | 0.0 (1.1) | 0.9 (0.6) |
| | | Construction output M/M% (Y/Y%) | Mar | -0.9 (4.5) | 0.4 (3.3) |
| | | Services activity M/M% (3M/3M%) | Mar | 0.1 (0.4) | 0.1 (0.4) |
| | | Trade balance (goods trade balance) £bn | Mar | -4.6 (-13.7) | -4.9 (-14.1) |
| Auctions and events | | | | | |
| Country | BST | Auction / Event | | | |
| - Nothing scheduled - | | | | | |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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