

# Euro wrap-up

## Overview

- Bunds were little changed as German export data beat expectations but French and Italian production figures posted declines.
- Gilts were also little changed as UK Q1 GDP data confirmed an acceleration driven partly by precautionary Brexit-related stock-building.
- The coming week brings new data for German GDP and the UK labour market, and updated estimates of euro area GDP and CPI, while UK politics will remain closely watched.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.622	+0.005
OBL 0 04/24	-0.471	-0.002
DBR 0¼ 02/29	-0.047	-0.001
UKT 1½ 01/21	0.730	-0.008
UKT 1 04/24	0.856	-0.009
UKT 1½ 10/28	1.125	-

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

## Euro area

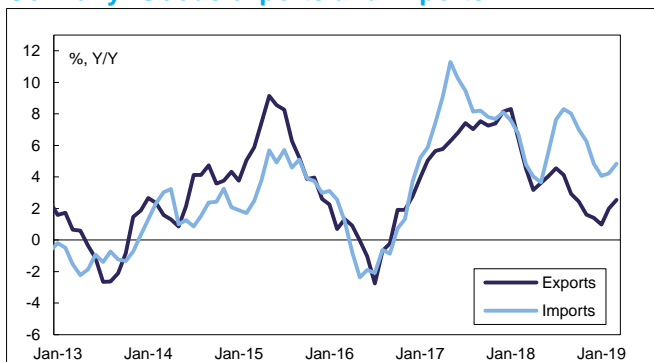
### German exports ended Q1 on a high

The euro area dataflow ended the week with renewed focus on the manufacturing sector. Following the better-than-expected German production data for March released earlier this week, the merchandise trade figures for the same month were also stronger. Indeed, on an unadjusted basis, goods exports rose by 1.9%Y/Y to reach a new series high level. And while import growth was still firmer on this basis, up 4.4%Y/Y, the unadjusted trade surplus rose to €22.7bn, the highest for a year. Adjusting for seasonal factors, the monthly rise in exports of 1.5%M/M was the third-best since the start of last year. In contrast, imports were up only 0.4%M/M, matching the average rate of the past twelve months, and so Germany's goods trade surplus on this basis rose to a ten-month high of €20bn. Adjusting also for relative shifts in prices, growth in exports in March (1.3%M/M) was also significantly stronger than imports (0.4%M/M). However, looking at Q1 as a whole, Bundesbank data suggest that import volume growth (1.9%Q/Q) outpaced that of exports (1.0%Q/Q), thus implying that net goods trade subtracted from economic growth in Q1. The first estimates of Germany's national accounts for Q1, due on Wednesday, will confirm whether this was indeed the case.

### French production down in March but up firmly in Q1

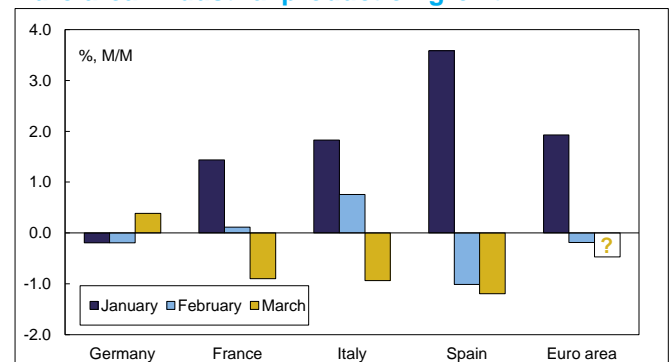
In contrast to the German data, French industrial production figures, also released this morning, showed a disappointing drop in total output of 0.9%M/M in March. Manufacturing output was down 1.0%M/M, with output of coke and refined oil, pharmaceuticals, chemicals and textiles among the main sources of weakness. Mining and energy production also dropped. And, unsurprisingly following a jump in of 4.7%M/M in February, construction activity was down too, albeit by a relatively moderate 0.9%M/M. On an annual basis, however, manufacturing production was up 0.5%Y/Y, still well above November's trough of -4.0%Y/Y, and construction was up a robust 6.2%Y/Y, the best since December 2017. And despite the softer showing in March, French production growth in the first quarter as a whole was respectable. Indeed, total output was up by 0.9%3M/3M while manufacturing rose 1.1%3M/3M, both representing the steepest quarterly increases since Q417. Construction output also rose a firm 1.2%3M/3M. By type of good, production of capital goods led the way, up 2.0%3M/3M, with output of intermediate goods up 1.6%3M/3M. However, production of consumer goods fell 0.1%3M/3M. Looking ahead, we expect negative payback in Q2 for the strength in Q1, not least with recent survey indicators (e.g. the manufacturing output and new orders PMIs below the key 50 level in April) having suggested a soft start to the quarter.

### Germany: Goods exports and imports



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: Industrial production growth



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

## Italian output shows a similar pattern

Italy's production data for March painted a similar picture to the French report. In particular, manufacturing output fell 1.0%M/M with production of consumer goods particularly weak. However, thanks to growth in excess of 1.0%M/M in each of the previous two months, Italian manufacturing output was still up 0.9%Q/Q, to mark the best quarter for growth in the sector since Q417. That, however, did little more than reverse the dip in Q4. And as in France and Germany, survey indicators point to renewed weakness in Q2. Meanwhile, with output down in March in France, Italy and Spain, despite an increase in Germany, figures due on Tuesday look set to show a drop of about ½%M/M in euro area industrial production (excluding construction) at the end of Q1.

## The week ahead in the euro area and US

Aside from the aforementioned euro area IP data (Tuesday), the coming week will bring a handful of other notable releases, including euro area and German GDP, euro area employment (all for Q1 and due Wednesday) and final euro area inflation (for April and due Friday). While the updated estimate of euro area GDP growth is expected to align with the flash estimate of 0.4%Q/Q, Germany will publish its Q1 data for the first time. Given the rebound in retail sales, industrial and construction output in the first quarter, we expect Germany's economy to have returned to growth in Q1, with our expectation for an increase of 0.3%Q/Q and risks to that estimate to the upside. Notwithstanding the acceleration in economic growth, euro area labour market figures might well show a moderation in employment growth in Q1 from 0.3%Q/Q in Q4.. Euro area inflation, meanwhile, is likely to align with the preliminary release showing a marked rise in April, with the headline CPI rate up 0.3ppt to 1.7%YY, a five-month high, and core inflation up 0.4ppt to 1.2%YY, a six-month high.

Friday will also bring euro area new car registrations figures for April, as well as construction output data for March. Meanwhile, the euro area's trade report for March is due on Thursday. With respect to national releases, the latest business surveys from the Bank of France and ZEW are due on Monday and Tuesday respectively, while final April inflation numbers are due from Germany and Spain (Tuesday), France (Wednesday) and Italy (Thursday). In the markets, Germany will sell 30Y bonds on Wednesday.

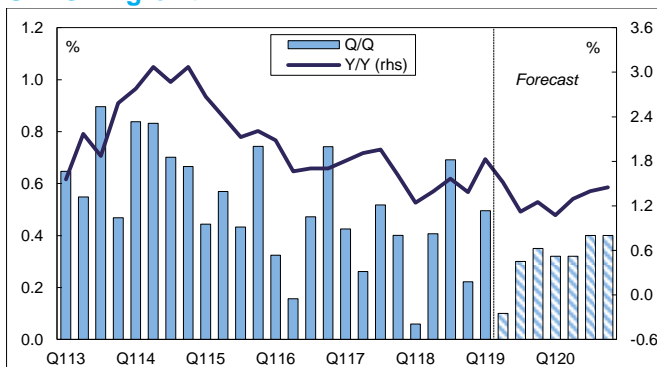
In the US, Wednesday will bring the likely data highlights of the week, with industrial production and retail sales figures for April due. Following a surprise drop in March, IP should post a modest increase at the start of Q2. In contrast, after a surprisingly strong end to the first quarter, underlying retail sales growth is expected to be much softer last month. That day will also bring the Empire Manufacturing index for May, which follows Tuesday's release of April's NFIB small business survey and precedes May's Philly Fed index (Thursday) and the Conference Board's leading index for April (Friday). Friday also brings the preliminary University of Michigan consumer sentiment survey. And housing market indicators due include May's NAHB housing index on Wednesday and April's housing starts figures on Thursday. There are no UST bond auctions scheduled in the coming week.

## UK

### GDP accelerated in Q1

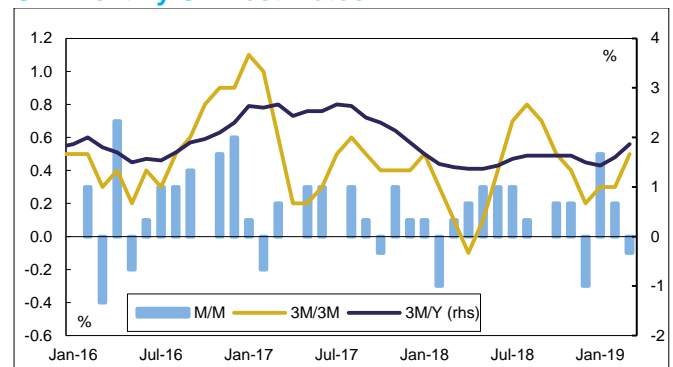
The UK economy regained some momentum at the start of the year. Despite the small drop in economic activity of 0.1%M/M in March, the first release of Q1 GDP figures showed a pickup of 0.3ppt in growth last quarter to 0.5%Q/Q, a pace matching the latest BoE forecast. The expenditure breakdown, however, suggested that the acceleration was no reason for cheer. Instead, the stronger growth principally reflected the significant distortions to behavior caused by Brexit, and in particular the original Article 50 deadline of end-March. And so, the boost seems likely to prove temporary.

#### UK: GDP growth



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

#### UK: Monthly GDP estimates



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

## Stronger consumption and investment lifted growth

Admittedly, household consumption was stronger than the consensus had expected given the low level of consumer sentiment and weakness in the housing market of late. Expenditure in this category was up 0.7%Q/Q, a pace last seen two years ago. While very strong retail sales that quarter had suggested that consumer spending growth had picked up, they are not always a reliable guide to changes in overall household consumption. However, the extent to which the acceleration in household spending was driven by consumers bringing forward purchases for fear of post-Brexit disruption to supply is not clear. Meanwhile, business investment also surprised on the upside: after four consecutive quarterly declines last year, it finally rose 0.5%Q/Q although that still left it down a hefty 1.4%Y/Y. And government investment rose an extremely strong 8.1%Q/Q. However, these capex figures seem prone to future revisions as the ONS noted that new accounting standards introduced at the beginning of the year raised uncertainty about their accuracy.

## Inventory accumulation also provided a boost to GDP

The biggest Brexit-related distortion to the pattern of growth in Q1, however, related to other categories. Ahead of the original Article 50 deadline, business surveys strongly suggested that companies were stockpiling goods as a precaution in the event of a disorderly withdrawal from the EU and today's figures highlighted that activity. Indeed, business inventories contributed a whopping 1.3ppts to growth. Acquisitions less disposals of valuables, mainly capturing changes in the holdings of non-monetary gold, also added 1.5ppts. The flipside of both of these components was a huge boost to imports. Indeed, the inflow of goods was up by an astonishing 11.0%Q/Q, the most in thirteen years, to leave total imports up by 6.8%Q/Q. In contrast, exports were flat as the rise in goods exports of 4.5%Q/Q was offset by a decrease in services exports of 5.0%Q/Q. So, Q1 was an exceptionally bad quarter from the perspective of net trade, which subtracted 2.1ppts from GDP growth.

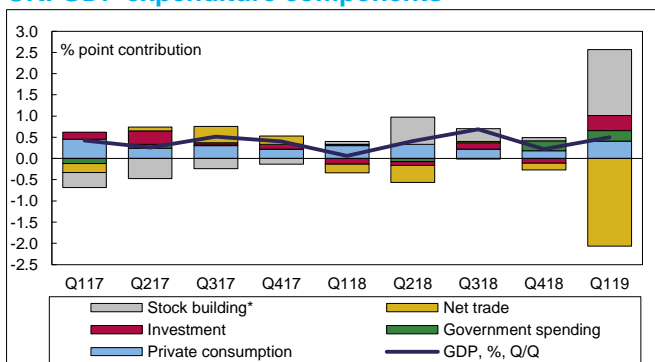
## Manufacturing surged ahead of the expected Brexit

Within the output breakdown, there was a notable slowdown in services, which rose by 0.3%Q/Q, 0.2ppt slower than in Q4 and the weakest in a year. Consistent with strong sales growth in the retail sector and the recovery in car sales that quarter, wholesale, retail and motor trade growth picked up from just 0.3%Q/Q in Q4 to 1.2%Q/Q to account for almost half of total growth in services. Transport and storage services, however, were down on the quarter and therefore inconsistent with other evidence of precautionary stockpiling. However, industrial production rose 1.4%Q/Q following a decline of 0.8%Q/Q the previous quarter, with manufacturing up 2.2%Q/Q, the strongest since 1988. The ONS attributed higher growth in this sector to the Brexit effect. Indeed, the largest growth was recorded in industries – pharmaceuticals, food (thanks to strong whisky exports) and weapons and ammunitions – that appear to be very susceptible to disruption in a no-deal Brexit scenario. And, overall, given the extent of the temporary effects related to Brexit, we strongly expect adverse payback to growth this quarter. Of course, despite the further extension to Article 50, Brexit uncertainty remains elevated, and so it remains difficult to estimate to what extent the Brexit preparations will be unwound in Q2. But we currently think that GDP growth will be barely positive this quarter, perhaps just 0.1%Q/Q.

## May's premiership gradually approaching its end

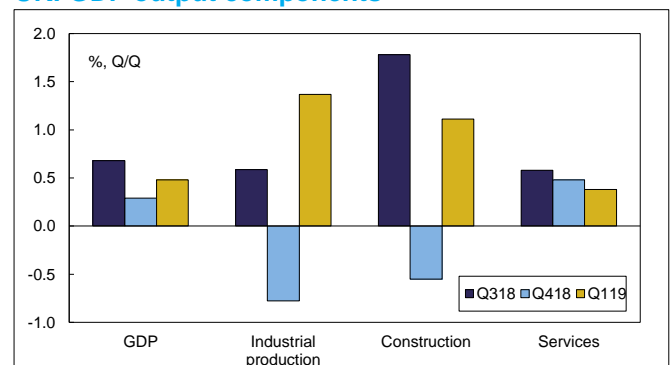
On the political front, meanwhile, Theresa May's premiership continues to disintegrate in slow motion. On Wednesday evening, the Prime Minister was given some temporary relief, as the key 1922 Committee Executive of Conservative backbench MPs postponed a decision to change party rules to facilitate an early leadership challenge. Instead, it agreed to meet the PM in the coming week to discuss a precise timetable for her resignation. The Committee's decision partly reflected her insistence that there has been progress in the cross-party Brexit talks. And it also reflected her suggestion, in a private meeting with the 1922 Chair, that she would submit the Withdrawal Agreement Bill (or WAB, required to implement Brexit in UK law) for a 'second reading' vote by MPs before the European Parliament elections on 23 May. However, comments from the Labour leadership suggest that a deal is highly unlikely to emerge from the cross-party talks. Indeed, for tactical reasons,

### UK: GDP expenditure components



\*Includes acquisitions less disposals of valuables and a statistical alignment.  
 Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### UK: GDP output components



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Labour would seem to have no incentive to make an explicit deal with May, or support the passage of the WAB through the House of Commons.

### May to make one final attempt for approval of her Brexit legislation?
















With insufficient support for her Brexit deal within her own party and main opposition, it was no surprise that – contrary to May's indications – the coming week's order of business for the House of Commons did not include any consideration of the WAB. However, the 1922 Executive's position means that, if she has still failed to gain MPs' approval in a vote at the start of the following week, it would seem to feel bound to change the party rules to facilitate May's removal as party leader in June or July and her departure as Prime Minister before the autumn. Her replacement as PM would seem bound to be a leading Brexiteer. However, with Parliament likely to continue to reject a no-deal Brexit, we would still strongly expect the Article 50 deadline to be extended beyond end-October and a General Election and/or second Brexit referendum to follow in the months thereafter.

### The week ahead in the UK

With the Government-Labour Brexit talks continuing and an ever-increasing number of Tory MPs expressing their dissatisfaction with Theresa May's leadership, politics will remain in the spotlight in the coming week. Indeed, all eyes should be on the outcome of the aforementioned meeting between the PM and the backbench 1922 Committee Executive to discuss a timetable for her resignation. The only notable new economic data will be Tuesday's employment figures for March. While business sentiment surveys suggested some weakening in the labour market, jobs growth remained strong in the first two months of the year, reporting 222k3M/3M and 179k3M/3M increases. A further moderation in growth to around 140k3M/3M is on the cards this time, but that level would still be above the average of the last twelve months. The three-month unemployment rate should remain unchanged at 3.9%, the lowest level since mid-1970s, for a third consecutive month. But growth in average weekly earnings might inch slightly lower from the post-global-financial-crisis high of 3.5%3M/Y seen in the previous three months. Among other noteworthy events, MPC member Jonathan Haskel, who joined the Committee last September, is scheduled to speak on Thursday, and the DMO will issue 35Y Gilts on Monday.

*In the absence of significant events, the next edition of the Euro wrap-up will be published on 14 May 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 	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.2	1.8	1.2	1.1
Germany 	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	1.4	0.7	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 	0.2	0.1	0.2	0.1	0.1	0.2	0.0	0.0	0.8	0.3	0.4
Spain 	0.7	0.6	0.5	0.5	0.4	0.4	0.4	0.4	2.6	2.3	1.8
UK 	0.5	0.1	0.3	0.4	0.3	0.3	0.4	0.4	1.4	1.4	1.3
<b>Inflation forecasts %, Y/Y</b>											
Euro area											
Headline CPI 	1.4	1.4	1.2	1.1	1.5	1.4	1.4	1.4	1.8	1.3	1.4
Core CPI 	1.0	1.1	1.1	1.1	1.2	1.2	1.3	1.3	1.0	1.1	1.2
UK											
Headline CPI 	1.9	2.1	1.9	1.6	2.0	1.7	1.6	1.8	2.5	1.9	1.8
Core CPI 	1.9	2.0	1.9	2.0	2.1	2.0	2.0	2.0	2.1	1.9	2.0
<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
Germany	 Trade (current account) balance €bn	Mar	<b>22.7 (30.2)</b>	20.0 (26.0)	17.9 (16.3)	<b>18.0 (17.5)</b>
	 Exports (imports) M/M%	Mar	<b>1.5 (0.4)</b>	-0.4 (0.5)	-1.3 (-1.6)	<b>-1.2 (-)</b>
France	 Industrial production M/M% (Y/Y%)	Mar	<b>-0.9 (-0.9)</b>	-0.5 (-0.1)	0.4 (0.6)	<b>0.1 (0.5)</b>
	 Manufacturing production M/M% (Y/Y%)	Mar	<b>-1.0 (0.5)</b>	-	1.1 (2.8)	<b>0.8 (2.6)</b>
	 Preliminary wages Q/Q%	Q1	<b>0.7</b>	0.3	0.2	-
Italy	 Industrial production M/M% (Y/Y%)	Mar	<b>-0.9 (-1.4)</b>	-0.8 (-0.8)	0.8 (0.9)	-
UK	 Preliminary GDP Q/Q% (Y/Y%)	Q1	<b>0.5 (1.8)</b>	<u>0.3 (1.6)</u>	0.2 (1.4)	-
	 Monthly GDP estimate M/M% (3M/3M%)	Mar	<b>-0.1 (1.8)</b>	<u>-0.4 (0.3)</u>	0.2 (1.4)	-
	 Industrial production M/M% (Y/Y%)	Mar	<b>0.7 (1.3)</b>	0.1 (0.5)	0.6 (0.1)	<b>- (0.4)</b>
	 Manufacturing production M/M% (Y/Y%)	Mar	<b>0.9 (2.6)</b>	0.0 (1.1)	0.9 (0.6)	<b>1.0 (1.2)</b>
	 Construction output M/M% (Y/Y%)	Mar	<b>-1.9 (3.2)</b>	-0.9 (4.5)	0.4 (3.3)	<b>0.5 (3.2)</b>
	 Services activity M/M% (3M/3M%)	Mar	<b>-0.1 (0.3)</b>	0.1 (0.4)	0.1 (0.4)	<b>0.2 (-)</b>
	 Trade balance (goods trade balance) £bn	Mar	<b>-5.4 (13.7)</b>	-4.6 (-13.7)	-4.9 (-14.1)	<b>-6.2 (14.4)</b>
<b>Auctions</b>						
Country	Auction					
- Nothing to report -						

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
Spain	 Industrial production M/M% (Y/Y%)	Mar	<b>-1.2 (-3.1)</b>	0.3 (-1.2)	-1.1 (-0.3)	<b>-1.0 (-0.2)</b>
UK	 RICS house price balance %	Apr	<b>-23</b>	-22	-23	<b>-24</b>
<b>Auction</b>						
Spain sold	 £482mn of 0.7% 2033 inflation-linked bonds (30-Nov-2033) at an average yield of 0.247%					
	 £1bn of 0.25% 2024 bonds (30-Jul-2024) at an average yield of 0.089%					
	 £1.8bn of 1.45% 2029 bonds (30-Apr-2029) at an average yield of 0.936%					
	 £800.mn of 2.7% 2048 bonds (31-Oct-2048) at an average yield of 2.119%					
UK sold	 £3bn of 1% 2024 gilts (22-Apr-2024) at an average yield of 0.849%					

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 13 May 2019</b>						
France		07:30 Bank of France industrial sentiment	Apr	100	100	
<b>Tuesday 14 May 2019</b>						
EMU		10:00 Industrial production M/M% (Y/Y%)	Mar	-0.5 (-1.0)	-0.2 (-0.3)	
		10:00 ZEW expectations indicator	May	-	4.5	
Germany		10:00 ZEW current situation (expectations) indicator	May	6.0 (5.0)	5.5 (3.1)	
		07:00 Final EU-harmonised CPI Y/Y%	Apr	2.1	1.4	
Spain		08:00 EU-harmonised CPI Y/Y%	Apr	1.6	1.3	
UK		09:30 Claimant count rate % (change '000s)	Apr	-	3.0 (28.3)	
		09:30 Average weekly earnings (excl. bonuses) 3M/Y%	Mar	<u>3.4 (3.3)</u>	3.5 (3.4)	
		09:30 ILO Unemployment rate 3M%	Mar	<u>3.9</u>	3.9	
		09:30 Employment change 3M/3M '000s	Mar	<u>140</u>	179	
<b>Wednesday 15 May 2019</b>						
EMU		10:00 GDP – second estimate Q/Q% (Y/Y%)	Q1	0.4 (1.2)	0.2 (1.2)	
		10:00 Employment Q/Q% (Y/Y%)	Q1	-	0.3 (1.3)	
Germany		07:00 GDP – first estimate Q/Q% (Y/Y%)	Q1	0.4 (0.7)	0.0 (0.9)	
France		07:45 Final EU-harmonised CPI Y/Y%	Apr	1.4	1.3	
<b>Thursday 16 May 2019</b>						
EMU		10:00 Trade balance €bn	Mar	16.0	19.5	
France		06:30 ILO Unemployment rate %	Q1	8.7	8.8	
Italy		09:00 Final EU-harmonised CPI Y/Y%	Apr	1.2	1.1	
		10:00 Trade balance €bn	Mar	-	3.3	
<b>Friday 17 May 2019</b>						
EMU		07:00 EU27 new car registrations Y/Y%	Apr	-	-3.9	
		10:00 Construction output M/M% (Y/Y%)	Mar	-	3.0 (5.2)	
		10:00 Final CPI (core CPI) Y/Y%	Apr	1.7 (1.2)	1.4 (0.8)	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



## Coming week's events/auctions calendar

Key events & auctions			
Country	BST	Event / Auction	
<b>Monday 13 May 2019</b>			
UK		10:30	Auction: to sell 1.625% 2054 bonds (22-Oct-2054)
<b>Tuesday 14 May 2019</b>			
Italy		10:00	Auction: to sell up to €2.75bn of 1% 2022 bonds
		10:00	Auction: to sell up to €2.5bn of 2.1% 2026 bonds
		10:00	Auction: to sell up to €1.5bn of 3.85% 2049 bonds
<b>Wednesday 15 May 2019</b>			
EMU		15:15	ECB's Cœuré scheduled to speak in Paris
		17:30	ECB's Praet scheduled to speak in Brussels
Germany		10:30	Auction: to sell €1bn of 1.25% 2048 bonds (15-Aug-2048)
<b>Thursday 16 May 2019</b>			
EMU		13:30	ECB's de Guindos scheduled to speak in Brussels
		19:00	ECB's Cœuré scheduled to speak in Geneva
France		09:50	Auction: to sell 0% 2025 bonds (25-Mar-2025)
		09:50	Auction: to sell 0% 2022 bonds (25-Feb-2022)
		10:50	Auction: to sell 2.1% 2023 index-linked bonds (25-Jul-2023)
		10:50	Auction: to sell 0.1% 2029 index-linked bonds (01-Mar-2029)
UK		10:50	Auction: to sell 0.1% 2036 index-linked bonds (25-Jul-2036)
		18:30	BoE's Jonathan Haskel scheduled to speak in York
<b>Friday 17 May 2019</b>			
'- Nothing scheduled -			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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