

Euro wrap-up

Overview

- While data confirmed that euro area IP returned to growth in Q1, Bunds made modest gains and BTPs made significant losses as Italy's Deputy PM Salvini stated he could breach EU fiscal rules to boost employment.
- Gilts also made modest gains as data showed a moderation in UK jobs growth.
- Wednesday will bring the first estimate of German GDP and euro area employment in Q1.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.639	-0.004
OBL 0 04/24	-0.492	-0.010
DBR 0¼ 02/29	-0.076	-0.006
UKT 1½ 01/21	0.707	-0.004
UKT 1 04/24	0.827	-0.008
UKT 1½ 10/28	1.093	-0.008

*Change from close as at 4.30pm BST.

Source: Bloomberg

Euro area

Industrial production rebound in Q1 to prove temporary?

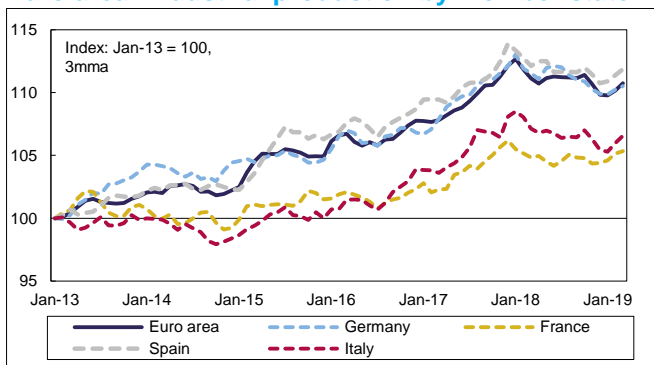
Sentiment surveys have suggested a significant deterioration in conditions in the euro area industrial sector over recent months, e.g. the manufacturing PMI has been below the key 50 level since February. However, output data have been less troubling. Admittedly, today's figures – which were no surprise as the data from the large member states had already been released – reported a second successive decline in total industrial production in March. But the drop in the latest month was modest, down just 0.3%M/M following a (revised) decline of 0.1%M/M in February. And these falls followed a surge of 2.0%M/M at the start of the year. So, over Q119 as a whole, total IP rebounded 0.8%Q/Q, marking the best quarter since Q417 albeit not sufficient to reverse the decline of more than 1.0%Q/Q in Q418. Within the detail, the pattern for manufacturing was similar, with a small decline in output in March (-0.2%M/M) following growth earlier in the quarter leaving output over Q1 as a whole up 0.8%Q/Q after a dip of 1.0%Q/Q the prior quarter. Production of consumer goods was strongest (up 1.4%Q/Q) with output of intermediate items up a more moderate 0.4%Q/Q and capital goods up 0.25%Q/Q, weighed by a drop of 1.1%Q/Q in production of autos. At the country level, manufacturing output was up 1.0%Q/Q or more in France, Italy and Spain, but was essentially unchanged on the quarter in Germany.

On an adjusted basis, euro area manufacturing output was up 0.5%Y/Y in March, a second successive annual increase, which contrasted starkly with the negative readings around the turn of the year and December's trough of -3.6%Y/Y. So, it would be tempting to believe that the worst for the sector is now behind it. But new orders in February were down 3.0%3M/3M, the most since 2011, weighed by a sharp fall in demand from beyond the euro area. And surveys, such as those of the European Commission and the PMIs, suggest that order books shrank further into Q2. So, while the May flash PMIs and national business surveys from Germany and France, all due next Thursday, will be closely watched for clues, we forecast renewed weakness in production in the manufacturing sector in the second quarter, contributing to a slowdown in GDP too.

The day ahead in the euro area and US

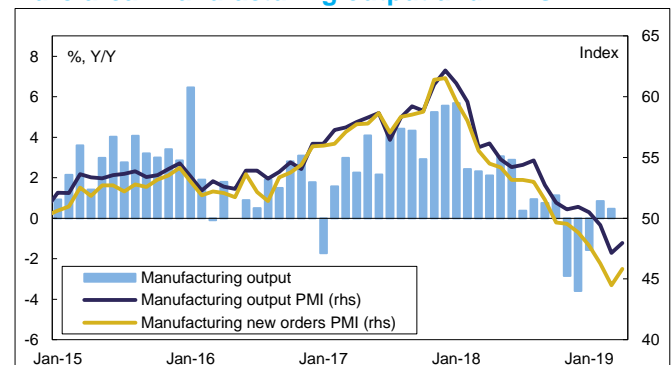
Wednesday will bring estimates of Q1 GDP in the euro area and Germany. The updated estimate of euro area growth is highly likely to align with the flash estimate of 0.4%Q/Q. The German figure, however, will be published for the first time. And thanks to the rebound in retail sales, car registrations, industrial and construction output already reported, Germany's economy is bound to have returned to growth in Q1 with the risks to our forecast of 0.3%Q/Q skewed to the upside. In addition to the GDP figures, euro area employment data for Q1 are also due. Despite the firmer economic growth, job growth might well have moderated slightly from 0.3%Q/Q, 1.3%Y/Y in Q4. Meanwhile, after today's final figures of April inflation in Germany and Spain aligned with their flash

Euro area: Industrial production by member state



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output and PMIs



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



estimates (2.1%Y/Y and 1.6%Y/Y respectively on the EU-harmonised measures, up sharply from March principally due to the impact of the timing of Easter), the equivalent data from France (1.4%Y/Y for the flash) are also due tomorrow. In the markets, Germany will sell 30Y Bunds.

In the US, Wednesday will bring industrial production and retail sales figures for April. Following a slight drop in March, IP likely struggled to gain traction at the start of Q2 with a modest increase in manufacturing, subdued activity in mining, and a drop in utilities likely. After a surprisingly strong end to the first quarter, underlying retail sales growth is expected to be softer last month although the headline rate will likely be inflated by higher prices of gasoline. The Empire manufacturing and NAHB housing indices, both for May, and business inventory data for March, are also due tomorrow.

UK

Job growth moderating somewhat

While GDP accelerated in Q1, up 0.3ppt to 0.5%Q/Q, the pace of job creation moderated somewhat. In particular, employment growth eased to 99k3M/3M in March, still relatively strong but a five-month low, below the Bloomberg consensus forecast, and down from 167k3M/3M in December. The annual rate of increase in employment remained buoyant at 354k3M/Y, due entirely to an increase in full-time jobs (up 372k) while the number working part-time fell slightly. The number of women in employment rose to a new series high, as did (perhaps more surprisingly given Brexit) the number of EU nationals working in the UK. Moreover, the employment rate matched the record high of 76.1% while the unemployment rate (ILO basis) edged down by 0.1ppt to 3.8%, a level that has not been lower since 1974.

Wage growth slips back too

In line with the norm in most other major economies, however, there were still few signs that labour market tightness is generating significant domestic cost pressures: average weekly earnings slowed 0.3ppt to a six-month low of 3.2%3M/Y in total terms and 0.1ppt to a five-month low of 3.3%3M/Y when bonuses are excluded – rates that are somewhat below those likely to be required to meet the inflation target on a sustained basis. And after adjusting for inflation, that left average real earnings growth at 1.5%3M/Y (or 1.3%3M/Y excluding bonuses), supportive of moderate (and certainly not vigorous) growth in private consumption. Meanwhile, the number of vacancies in the economy slipped back for the third consecutive month, albeit remaining elevated at 846k in the three months to April.

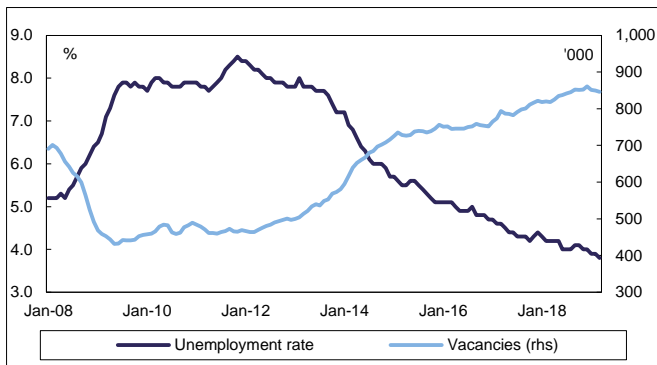
Brexit uncertainty to weigh more heavily on labour market?

Looking ahead, surveys suggest that the downtrend in job growth and vacancies will continue over coming months. That's hardly a surprise given the major uncertainty overshadowing the economy from Brexit. And that uncertainty seems highly likely to continue for a long time yet, even as the Cabinet today reportedly discussed options to find a way forward in Parliament, including a vote on the least contentious elements of the Withdrawal Agreement Bill (the domestic legislation required to implement Brexit) and/or a new round of indicative votes. With support for the Conservative Party in free-fall ahead of next week's European Parliament elections (e.g. with a YouGov poll yesterday suggesting the ruling party is now in fifth place behind the Brexit Party, Labour, centrist LibDems and Greens for that vote), Labour has no incentive whatsoever to take the pressure off by collaborating with Theresa May on Brexit in the House of Commons.

The day ahead in the UK

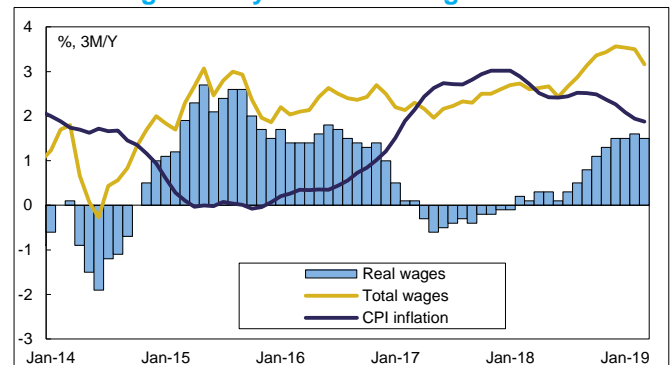
The UK economic data calendar is bare for the rest of the week. But, ahead of Theresa May's meeting on Thursday to discuss her resignation timetable with the key backbench 1922 Committee Executive, politics will be closely watched. Today's Cabinet meeting will likely have a bearing as to whether May proposes a new phase of indicative votes on Brexit scenarios or decides to present elements of the Withdrawal Agreement Bill to Parliament for a vote.

UK: Labour market indicators*



*3-month moving averages. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Average weekly labour earnings












Source: ONS, 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
EMU	 Industrial production M/M% (Y/Y%)	Mar	-0.3 (-0.6)	-0.3 (-0.8)	-0.2 (-0.3)	-0.1 (0.0)
	 ZEW expectations indicator	May	-1.6	-	4.5	
Germany	 ZEW current situation (expectations) indicator	May	8.2 (-2.1)	6.0 (5.0)	5.5 (3.1)	
	 Final EU-harmonised CPI Y/Y%	Apr	2.1	2.1	1.4	-
Spain	 Final EU-harmonised CPI Y/Y%	Apr	1.6	1.6	1.3	-
UK	 Claimant count rate % (change '000s)	Apr	3.0 (24.7)	-	3.0 (28.3)	-(22.6)
	 Average weekly earnings (excl. bonuses) 3M/Y%	Mar	3.2 (3.3)	<u>3.4 (3.3)</u>	3.5 (3.4)	-
	 ILO Unemployment rate 3M%	Mar	3.8	<u>3.9</u>	3.9	-
	 Employment change 3M/3M '000s	Mar	99	<u>140</u>	179	-


Auctions

Country	Auction
Italy sold	 €2.75bn of 1% 2022 bonds (2022) at an average yield of 1.24%
	 €2.5bn of 2.1% 2026 bonds (2026) at an average yield of 2.23%
	 €1.5bn of 3.85% 2049 bonds (2049) at an average yield of 3.65%

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
France	 Bank of France industrial sentiment	Apr	99	100	100	-
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
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

Auctions and events

Country	BST	Auction / Event
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)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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