

Euro wrap-up

Overview

- Bunds made substantive gains, pushing 10Y yields to -0.10% for the first time since 2016, despite data confirming solid growth in German GDP and euro area employment in Q1.
- Gilts also made significant gains after the Government committed to call a Parliamentary vote on its Brexit legislation in early June.
- Thursday brings euro area trade data for March while Theresa May will discuss a timetable for her resignation with senior Conservative MPs.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.637	-0.004
OBL 0 04/24	-0.513	-0.026
DBR 0¼ 02/29	-0.102	-0.033
UKT 1½ 01/21	0.710	-0.009
UKT 1 04/24	0.813	-0.026
UKT 1½ 10/28	1.063	-0.042

*Change from close as at 4.00pm BST.
Source: Bloomberg

Euro area

Acceleration in German GDP in Q1 confirmed

The first estimate of German GDP in Q1, released today, predictably confirmed positive economic growth in the euro area's largest member state for the first time in three quarters. The pace of expansion matched the consensus expectation of 0.4%Q/Q, which followed zero growth in Q4 and a dip in economic output of 0.2%Q/Q in Q3. That, however, left GDP up a tepid 0.7%Y/Y, only 0.1ppt firmer than Q4. The detailed expenditure breakdown has yet to be released. But the German statistical agency reported that growth came primarily from final private domestic demand, with a second successive strong quarterly rise in fixed investment in equipment, machinery and construction, and an acceleration in household consumption too. In contrast, government consumption appears to have declined for the first time in more than six years. And while both exports and imports picked up significantly from Q4, the contribution to GDP growth from net trade appears to have been limited. Economic surveys suggest that the quarterly rate of growth in Q1 will not be sustained. So, we forecast a moderation to 0.2%Q/Q in Q2, and full-year growth of just 0.7%Y/Y in 2019, half the rate of 2018.

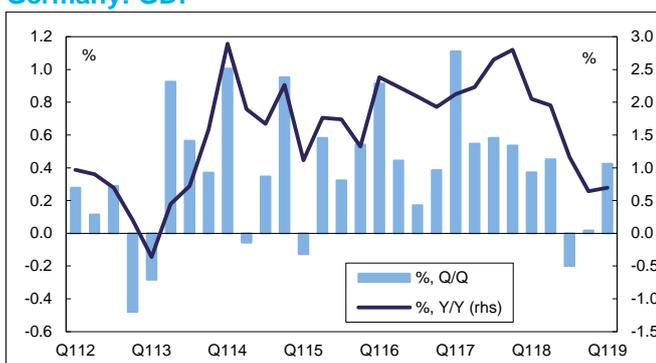
Euro area job growth rate steady

With no surprises out of Germany, the second estimate of euro area Q1 GDP confirmed the initial estimate of growth of 0.4%Q/Q, 1.2%Y/Y, which also represented the best quarter's performance since Q218. (To two decimal places the quarterly growth rate was slightly firmer than originally estimated, up 0.02ppt to 0.40%Q/Q.) Despite that acceleration in GDP, however, euro area employment growth was steady at the rates of 0.3%Q/Q, 1.3%Y/Y recorded in Q4, and thus again somewhat softer than the average rates over from early 2015 through to the first half of 2018. Nevertheless, the number of people in employment rose more than 550k in Q1 to a new record high close to 160mn, more than 10.75mn above the post-crisis trough almost six years ago. Although the full country breakdown has yet to be published and growth in employment was seemingly widespread, almost half of all new jobs created appear again to have come from Germany and Spain. Given the further deterioration in business sentiment recorded in the first quarter, the labour market performance in Q1 was probably as strong as might have been hoped, with the pace of decline in unemployment again seemingly faster than anticipated by the ECB. And rising real household disposable incomes thanks to continued job creation and increased growth in labour earnings helps explain why private consumption likely again made a significant contribution to GDP growth in Q1.

The coming two days in the euro area and US

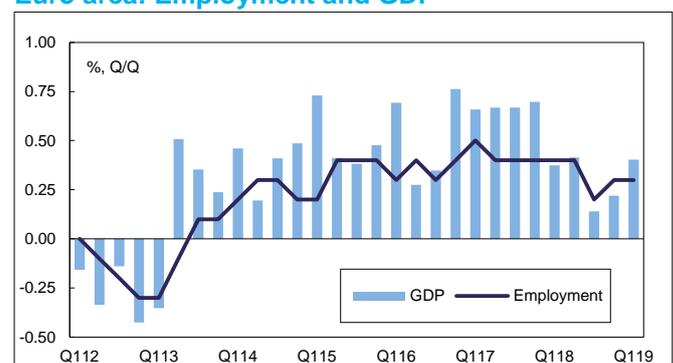
Thursday will be less eventful for economic data from the euro area with the March goods trade report arguably most notable. Final Italian inflation numbers for April, for which the flash estimate on the EU-harmonised measure came in at 1.2%Y/Y, up

Germany: GDP



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Employment and GDP



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



0.1ppt from March, are also due. In the markets, France will sell 3Y and 5Y regular bonds as well as a range of inflation-linked bonds. Friday will bring data for European new car registrations in April and construction output in March, as well as the final estimates for euro area CPI in April. Despite an upwards revision from the preliminary readings in France, we expect the flash figures for headline (1.7%Y/Y) and core inflation (1.2%Y/Y) to be confirmed.

In the US, Thursday will bring April housing start and building permits data as well as the May Philly Fed business outlook survey and usual weekly claims numbers. And the week in the US will come to a close with the preliminary May University of Michigan survey of consumer confidence and the Conference Board's composite coincident and leading indices for April.

UK

A final roll of the dice from May

After weeks of disintegrating support for the Prime Minister and resulting policy vacuum – with no votes held in the House of Commons since 10 April – the Government last night confirmed its latest strategy to try to deliver Brexit and perhaps keep Theresa May in her job through the summer. In particular, the Withdrawal Agreement Bill – the domestic legislation required to implement Brexit – will supposedly be submitted to the House of Commons for a vote in the week commencing 3 June, coinciding with the controversial state visit of Donald Trump to the UK. The timing of the announcement partly reflects the need for May to give Conservative MPs the pretence of progress before she meets her party's key 1922 Committee Executive tomorrow to discuss a timetable for her resignation. And the timing of the planned vote reflects the fact that, with time running out, the PM has no alternative if the UK is to be able to leave the EU in an orderly way before the current Article 50 deadline of 31 October. May will hope that the dire performances in the European Parliament elections on 23 May expected by both Conservative and Labour parties will focus minds among backbench MPs and persuade them to support the Bill at the initial stage. She will also suggest the Government's willingness to accept subsequent amendments to the legislation after it passes the first vote next month.

Withdrawal Agreement Bill to be rejected next month?

We do not, however, expect the Withdrawal Agreement Bill to pass. When it is published, the Bill is likely to contain numerous provisions unpalatable to MPs from both main parties. Certainly, Conservative hardliners will maintain their opposition to the Irish backstop arrangements, while new concessions made to Labour will also be opposed by many Tories. And Labour's concerns that a future Conservative leader might reverse any commitments negotiated with Theresa May might prove an insurmountable obstacle to its support. Indeed, not helped by numerous statements in recent days from Conservative MPs and Cabinet Ministers seeking to replace the Prime Minister, there are increasing signs that the cross-party talks could be close to collapse, perhaps as soon as tomorrow. It remains possible that, rather than vote against, Labour could abstain on the first vote on the Bill before proposing numerous amendments. However, if and when it is indeed submitted to MPs next month, we currently strongly expect Labour to vote against the Withdrawal Agreement Bill and ensure its defeat, triggering the resignation of Theresa May before the summer.

The coming two days in the euro area and US

With no new economic data to distract attention over the remainder of the week, politics will remain centre-stage in the UK on Thursday and Friday. Most notably, tomorrow Theresa May is set to meet her Conservative party's key backbench 1922 Committee Executive to discuss a timetable for her resignation. With the Government having announced yesterday its plans for a vote on the Withdrawal Agreement Bill in the first week of June, the 1922 will likely insist that a defeat on that legislation should trigger a formal announcement of her resignation. Beyond politics, BoE external MPC member Jonathan Haskel will speak publicly on the implications for monetary policy of technological change.

In the absence of significant news, the next edition of the Euro wrap-up will be published on 17 May 2019.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 GDP – second estimate Q/Q% (Y/Y%)	Q1	0.4 (1.2)	0.4 (1.2)	0.2 (1.2)	-
	 Employment Q/Q% (Y/Y%)	Q1	0.3 (1.3)	-	0.3 (1.3)	-
Germany	 GDP – first estimate Q/Q% (Y/Y%)	Q1	0.4 (0.7)	0.4 (0.7)	0.0 (0.6)	
France	 Final EU-harmonised CPI Y/Y%	Apr	1.5	1.4	1.3	-

Auctions

Country	Auction
Germany sold 	€806.1bn of 1.25% 2048 bonds (15-Aug-2048) at an average yield of 0.53%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's and Friday's data releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Thursday 16 May 2019					
EMU	 10:00	Trade balance €bn, s.a.	Mar	19.4	19.5
France	 06:30	ILO Unemployment rate %	Q1	8.7	8.8
Italy	 07:45	Final EU-harmonised CPI Y/Y%	Apr	1.2	1.1
	 10:00	Trade balance €bn	Mar	-	3.3
Friday 17 May 2019					
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)

Auctions and events

Country	BST	Auction / Event
Thursday 16 May 2019		
EMU	 08:30	ECB's Praet scheduled to moderate a panel in Brussels
	 13.30	ECB's Vice President 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)
	 10:50	Auction: to sell 0.1% 2036 index-linked bonds (25-Jul-2036)
UK	 18:30	BoE's Jonathan Haskel scheduled to speak in York
Friday 17 May 2019		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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