

Euro wrap-up

Overview

- Bunds followed US Treasuries slightly higher despite a jump in euro area inflation in April.
- Gilt yields rose despite another subdued UK services PMI survey at the start of Q2.
- The coming week will bring euro area retail sales and German IP data for March and the first estimate of UK GDP for Q1.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.598	-0.003
OBL 0 04/24	-0.417	-0.006
DBR 0% 02/29	0.020	-0.011
UKT 1½ 01/21	0.795	+0.027
UKT 1 04/24	0.944	+0.032
UKT 1½ 10/28	1.215	+0.031

*Change from close as at 4.30pm BST.

Source: Bloomberg

Euro area

Euro area inflation jumps in April on Easter effect

After the first estimate of euro area GDP earlier this week came in stronger than expected – with growth of 0.4%Q/Q double the pace anticipated by the ECB – today's flash inflation release for April might have raised hopes in some quarters that the euro area's economy has also been performing better than previously thought in other respects too. Indeed, the headline CPI rate jumped 0.3ppt to 1.7%Y/Y, a five-month high, while core inflation rose 0.4ppt – the most in eleven months – to 1.2%Y/Y, a six-month high. And to two decimal places, the increase in the core measure was even stronger than it appeared, taking the rate to its highest for two years (1.24%Y/Y). But the improvement principally reflected temporary factors related to the timing of the Easter holiday – an effect possibly exacerbated by a revised statistical treatment of tourism prices – rather than a meaningful upwards shift in the inflation outlook. Indeed, services prices jumped 0.9%M/M – the most for any April since the introduction of the euro – pushing their annual inflation rate up by 0.7ppt to 1.9%Y/Y, an eleven-month high. In contrast, the pickup in non-energy industrial goods inflation was more muted, by 0.1ppt to 0.2%Y/Y, while energy inflation similarly increased 0.1ppt to 5.4%Y/Y. And food inflation fell 0.3ppt to 1.5%Y/Y, a fourteen-month low.

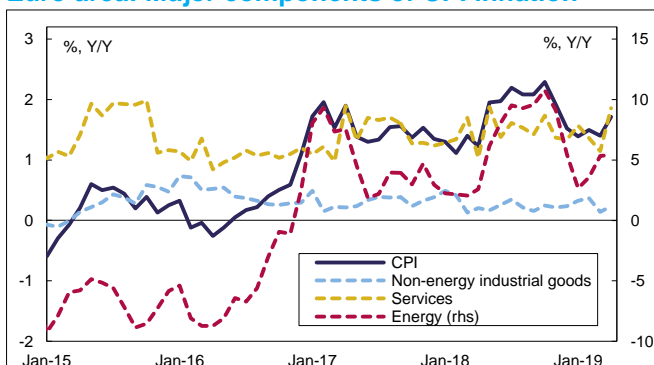
Expect it to fall back again in May

As in previous years, as the Easter effect wears off, we expect most of the increases in headline and core inflation to reverse – we currently forecast declines in May to 1.3%Y/Y and 1.0%Y/Y respectively. Thereafter, we expect core inflation to move broadly sideways over the remainder of the year. And, with energy set to provide a diminishing contribution, headline CPI inflation should decline gradually back close to 1.0%Y/Y by the final quarter. The boost to euro area GDP growth in Q1 also likely reflected the reversal of temporary factors relating to demand and supply late last year. And recent surveys point to a downside skew to risks at the start of Q2. So, on the whole, the past week's data have not led us to significantly revise our assessment of the economic outlook. Moreover, the Governing Council also seems unlikely to get overly excited by the latest figures – while the Q1 GDP reading might trigger a modest upward revision to its full-year GDP growth forecast when it is updated on 6 June, the ECB will highly likely continue to forecast headline inflation remaining below target over the coming three years. So, while the pricing of the forthcoming TLTRO-III operations should be generous, we expect no material change to be made to the ECB's overall policy stance, or forward guidance, next month.

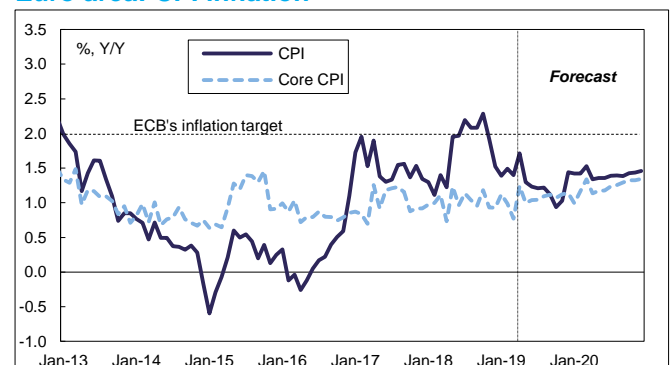
The week ahead in the euro area and US

The key euro area data release in the coming week will come on Monday with retail sales figures for March, which should provide further insight into the strength of household consumption in the first quarter. Given the solid readings in the first two months of the year, and the modest decline in German retail sales in March, we expect euro area sales to have slipped back at the end of the quarter. Nevertheless, this should still leave retail sales up by more than 1%Q/Q in Q1. Monday will also bring the final services and

Euro area: Major components of CPI inflation



Euro area: CPI inflation



composite PMIs for April from the euro area and member states, which are likely to broadly align with the disappointing outcome in the preliminary release. In particular, the aggregate composite PMI fell 0.3pt to 51.3 in April, only marginally higher than the 5½-year lows at the start of the year. The remainder of the week will be focussed at the national level with manufacturing and trade figures for March due. In particular, Germany's factory orders (Tuesday) will be followed by IP data (Wednesday), with output expected to have declined around 0.5%M/M but still posted a modest rise over the first quarter as a whole. IP figures are also due from Spain (Thursday), France and Italy (Friday), while Italian retail sales are also due that day. Monthly trade data will also be released from Germany (Friday) and France (Tuesday). Supply-wise, Germany will sell index-linked bonds on Tuesday and 5Y bonds on Wednesday.

In the US, it should be quieter for economic releases in the coming week, with the highlight April's CPI release on Friday. After inflation in the first quarter of the year was restrained by transitory factors – e.g. large declines in airfares, prices of portfolio management services and clothing – prices are expected to have ticked higher at the start of Q2, pushing the headline CPI rate up 0.2ppt to 2.1%Y/Y and the core rate up 0.1ppt to 2.1%Y/Y. Producer price inflation figures are due on Thursday, alongside April's full trade report, March wholesale trade data and weekly initial claims numbers. The first half of the week, meanwhile, will bring consumer credit and JOLTS job opening figures for March on Tuesday. Various FOMC members will be in action in the coming week, including Harker (Monday), Kaplan and Quarles (Tuesday), Brainard (Wednesday), Powell and Evans (Thursday) and Williams (Friday). In the markets, the US Treasury will sell 3Y notes on Tuesday, 10Y notes on Wednesday and 30Y bonds on Thursday.

UK

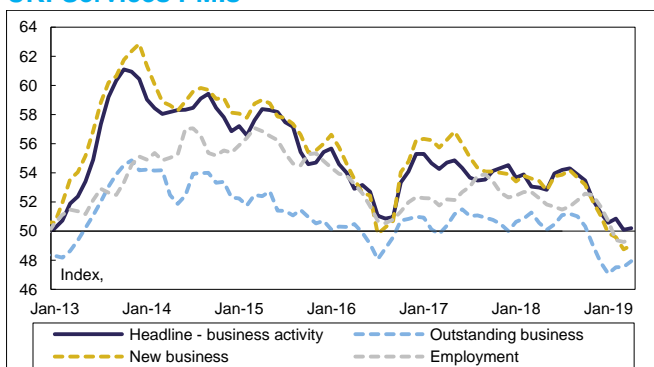
PMIs suggest growth stalled at the start of Q2

The UK PMIs for April have been downbeat. The manufacturing PMIs suggested a slowdown in the sector as firms had lesser need for precautionary stockpiling. The construction PMIs suggested only a very marginal pickup following two consecutive readings in contractionary territory. And today's services PMIs carried a similar tone, with the headline index increasing from 48.9, which was the first sub-50 reading since the Brexit referendum, to 50.4, a level consistent with only very minimal growth in the sector. The details of the survey were underwhelming too, with the new business indicator remaining below 50 for a fourth consecutive month, marking the longest period of falling demand on this measure since 2009. The outstanding business index also fell, while employment in this sector was assessed to be broadly unchanged for a second month in a row. Today's figures left the composite PMI at 50.9, up very slightly from 50.0 in March and the average of 50.6 in Q1 as a whole. And taking stock of all three sets of PMIs, collectively the data were consistent with zero growth in economic activity at the start of Q2. Of course, it is worth noting that PMIs have underestimated GDP growth in recent quarters, and we think that underlying momentum in the UK economy might currently be slightly stronger. But given the likely negative contribution from stock building, we currently expect an increase of just 0.1%Q/Q in Q2, well down on Q1.

The week ahead in the UK

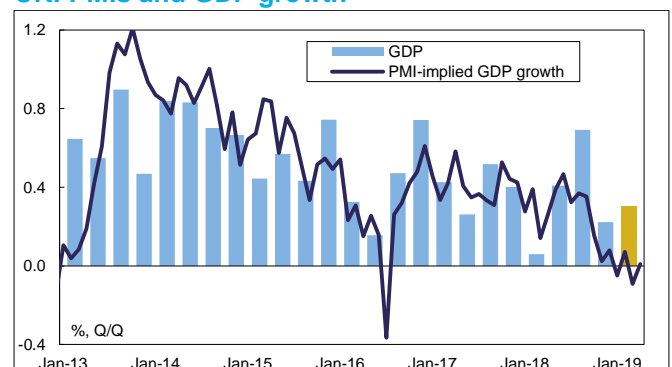
The data highlight of the coming week will be the first estimate of Q1 GDP due on Friday. According to yesterday's Inflation Report, the BoE thinks that growth picked up to 0.5%Q/Q, as precautionary stock building boosted economic activity. We are a little less optimistic and fear that more subdued growth in other sectors, most notably construction and some services, will have 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 continue falling to record a fifth consecutive quarterly decline. Net exports should also provide a negative contribution, but there is little doubt that inventory accumulation will have supported growth. Other days in the coming week are set to be less eventful. After Monday's Bank Holiday, new car registrations for April will be the most notable release on Tuesday. Wednesday brings the BRC Retail Sales Monitor, while the RICS Residential Market survey, which will probably suggest that housing market momentum remained very subdued last month, is out on Thursday. On the policy front, speeches by MPC members Cunliffe, Haldane (both on Tuesday) and Ramsden (on Wednesday) will be worth keeping an eye on for further clues about the BoE's reaction function to Brexit and changes in the UK's economic outlook. And, perhaps most importantly, talks on Brexit will continue between the Conservative and Labour leadership, with a focus on whether agreement can be reached between the two parties on some form of customs partnership and enhanced regulatory alignment with the EU. In the markets, the DMO will sell 5Y Gilts on Thursday.

UK: Services PMIs


















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

UK: PMIs and GDP growth*






*Daiwa GDP forecast for Q119. Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

		2019				2020				2018	2019	2020
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q												
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		0.3	0.1	0.3	0.4	0.3	0.3	0.3	0.3	1.4	1.2	1.1
Inflation forecasts %, Y/Y												
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
Monetary policy												
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
EMU	 Flash CPI (core CPI) estimate Y/Y%	Apr	1.7 (1.2)	<u>1.7 (1.1)</u>	1.4 (0.8)	
	 PPI M/M% (Y/Y%)	Mar	-0.1 (2.9)	0.1 (3.0)	0.1 (3.0)	
UK	 Services PMI (composite PMI)	Apr	50.4 (50.9)	50.3 (50.6)	48.9 (50.0)	-
Auctions						
Country	Auction					
- Nothing to report -						










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	
Monday 06 May 2019						
EMU		09:00	Final services PMI (composite PMI)	Apr	<u>52.5 (51.3)</u>	53.3 (51.6)
		10:00	Retail sales M/M% (Y/Y%)	Mar	-0.1 (1.8)	0.4 (2.8)
Germany		08:55	Final services PMI (composite PMI)	Apr	<u>55.6 (52.1)</u>	55.4 (51.4)
France		08:50	Final services PMI (composite PMI)	Apr	<u>50.5 (50.0)</u>	49.1 (48.9)
Italy		08:45	Services PMI (composite PMI)	Apr	51.8 (50.6)	53.1 (51.5)
Spain		08:00	Unemployment M/M '000	Apr	-	-34.0
		08:15	Services PMI (composite PMI)	Apr	54.9 (54.3)	56.8 (55.4)
Tuesday 07 May 2019						
Germany		07:00	Factory orders M/M% (Y/Y%)	Mar	1.5 (-5.4)	-4.2 (-8.4)
France		07:45	Trade (current account) balance €bn	Mar	-4.5 (-)	-4.0 (-0.8)
UK		08:30	Halifax house price index M/M% (3M/Y%)	Apr	0.1 (4.5)	-1.6 (2.6)
		09:00	New car registrations Y/Y%	Apr	-	-3.4
Wednesday 08 May 2019						
Germany		07:00	Industrial production M/M% (Y/Y%)	Mar	-0.5 (-2.7)	0.7 (-0.4)
UK		00:01	BRC like-for-like sales Y/Y%	Apr	2.4	-1.1
Thursday 09 May 2019						
Spain		08:00	Industrial production M/M% (Y/Y%)	Mar	0.6 (-1.0)	-1.1 (-0.3)
UK		00:01	RICS house price balance %	Apr	22	-24
Friday 10 May 2019						
Germany		07:00	Trade (current account) balance €bn	Mar	18.9 (25.5)	18.0 (16.3)
		07:00	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 (0.0)	0.4 (0.6)
		07:45	Manufacturing production M/M% (Y/Y%)	Mar	-	1.1 (2.8)
Italy		07:45	Preliminary wages Q/Q%	Q1	-	0.2
		09:00	Industrial production M/M% (Y/Y%)	Mar	-0.7 (-0.9)	0.8 (0.9)
UK		10:00	Retail sales M/M% (Y/Y%)	Mar	- (0.7)	0.1 (0.9)
		09:30	Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>0.3 (1.6)</u>	0.2 (1.4)
		09:30	Monthly GDP estimate M/M% (3M/3M%)	Mar	<u>-0.4 (0.3)</u>	0.2 (0.3)
		09:30	Industrial production M/M% (Y/Y%)	Mar	0.1 (0.4)	0.6 (0.1)
		09:30	Manufacturing production M/M% (Y/Y%)	Mar	0.0 (1.1)	0.9 (0.6)
		09:30	Construction output M/M% (Y/Y%)	Mar	-0.9 (4.5)	0.4 (3.3)
		09:30	Services activity M/M% (3M/3M%)	Mar	0.1 (0.4)	0.1 (0.4)
		09:30	Trade balance (goods trade balance) £bn	Mar	-4.6 (-13.8)	-4.9 (-14.1)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country	BST	Event / Auction	
Monday 06 May 2019			
EMU		16:00	ECB's Praet scheduled to speak in Frankfurt
Tuesday 07 May 2019			
Germany		10:30	Auction: to sell €400mn of 0.1% 2026 index-linked bonds (15-Apr-2026)
		10.30	Auction: to sell €300mn of 0.1% 2046 index-linked bonds (15-Apr-2046)
UK		09.00	BoE's Cunliffe scheduled to speak in London
		17:30	BoE's Haldane scheduled to speak in Sheffield
Wednesday 08 May 2019			
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
Thursday 09 May 2019			
UK		10:30	Auction: to sell £3bn of 1% 2024 gilts (22-Apr-2024)
Friday 10 May 2019			
- Nothing scheduled -			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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