

# Euro wrap-up

## Overview

- Bunds made modest gains today as Spanish GDP in Q1 was unrevised from the first estimate, signalling continued strong growth.
- Gilts followed Treasuries higher as the second estimate of UK Q1 GDP showed that business investment was weaker than expected and the BBA figures reported a notable drop in mortgage lending in April.
- Tomorrow brings the latest consumer confidence indicators from France, Italy and the UK.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 06/18	-0.522	-0.009
OBL 0 04/21	-0.378	-0.014
DBR 0½ 02/26	0.142	-0.010
UKT 1¼ 07/18	0.444	-0.036
UKT 1½ 01/21	0.896	-0.033
UKT 2 09/25	1.416	-0.040

\*Change from close as at 4.30pm BST.

Source: Bloomberg

## Euro area

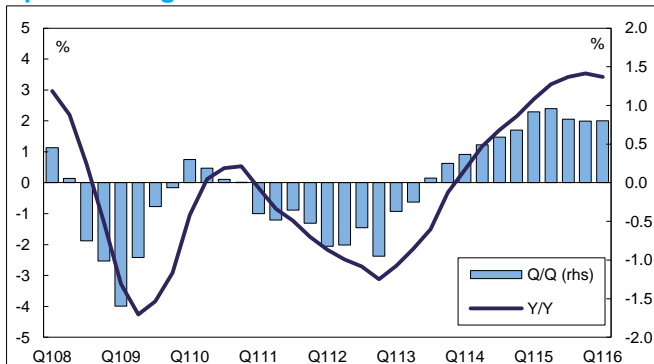
### Spanish GDP growth driven by consumption

On a relatively quiet day for economic news from the euro area, the Spanish GDP data for Q1 arguably represented the most notable release today. But as expected this affirmed the flash estimate of growth of 0.8%Q/Q, unchanged at that rate for the third consecutive quarter and once again the strongest performance of the larger member states. Today's release did, however, provide the first expenditure breakdown, which similarly confirmed our expectations that the expansion was more than fully accounted for by domestic demand. In particular, household consumption continued to provide the greatest support, rising 0.9%Q/Q to account for 0.5ppt of growth, while government spending also provided a positive contribution to growth (0.2ppt) for the fifth consecutive quarter. Admittedly, private sector investment was a touch weaker than expected, rising at its softest pace for two years (0.4%Q/Q) in part reflecting a contraction in construction investment at the start of the year. And with exports having declined for the first quarter in ten and the most since Q212 and imports having risen for the fifth consecutive quarter, net trade was predictably a drag on growth. With GDP additionally boosted by stock building (0.3ppt), and surveys on average having pointed to a modest slowdown at the start of Q2, there remains some uncertainty about the strength of domestic demand going forward – indeed, we expect GDP growth to have moderated to 0.6%Q/Q in Q2, albeit still likely outperforming other member states.

### The day ahead in the euro area and the US

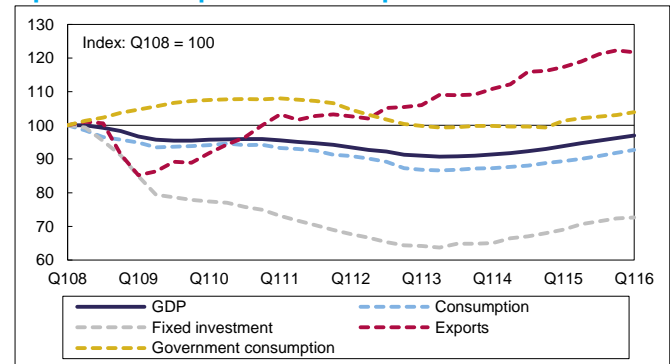
The end of the week will resume the flow of national sentiment surveys, with the French consumer confidence and Italian consumer and business sentiment indicators expected to point to a modest improvement in conditions in May. Friday also brings Spanish retail sales figures for April. In the US, meanwhile, tomorrow brings revised Q1 GDP figures, which are expected to bring a modest upward revision to annualised growth of ½ppt to 1.0%Q/Q, albeit this would still be the softest pace for a year. But with several FOMC members having recently signalled that a tightening of policy at June's meeting remains on the table, Fed Chair Janet Yellen's remarks at Harvard should be watched closely although the nature of the event might limit the scope for market-moving revelations.

### Spain: GDP growth



Source: Datastream and Daiwa Capital Markets Europe Ltd.

### Spain: GDP expenditure components



Source: Datastream and Daiwa Capital Markets Europe Ltd.



## UK

### Strong consumption growth continued to drive the UK economy in Q1

The second release of Q1 GDP today confirmed the preliminary reading of 0.4%Q/Q growth. The details of different sector performance were little changed as well – construction output growth was revised down slightly, by 0.1ppt to -1.0%Q/Q, but estimates for production and services remained at -0.4%Q/Q and 0.6%Q/Q respectively. In terms of the expenditure breakdown, the figures were consistent with recent trends. For example, GDP growth continued to be driven by domestic demand, in particular private consumption, which increased by 0.7%Q/Q in Q1, broadly in line with the average pace over recent years. But while total investment growth was stronger, business investment was disappointing, falling 0.5%Q/Q, having decreased by 2.0%Q/Q in Q4. Meanwhile, net trade subtracted 0.4ppt from growth, providing its fourth negative contribution over the last five quarters. Looking ahead, both business investment and trade look unlikely to have improved in the current quarter, and with consumer confidence and other economic indicators signalling a loss of economic momentum ahead of the EU referendum, GDP growth is expected to have moderated further in Q2.

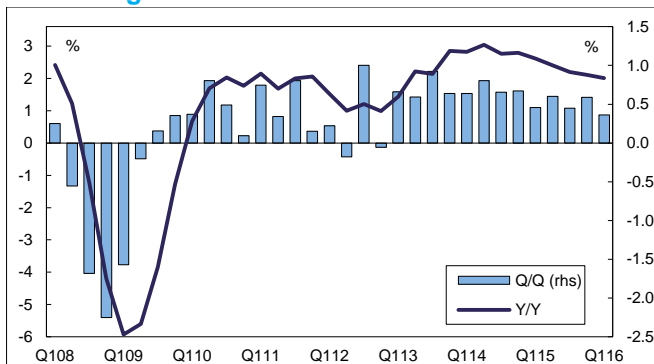
### Mortgage lending fell in April after Stamp Duty tax rise

After residential property transactions surged by 40%M/M in March ahead of an increase in Stamp Duty on second properties, a sharp drop in housing market activity in April was inevitable. And the BBA data from the major High Street banks today provided the first indications of the mortgage market reaction, showing that mortgage lending declined significantly that month. Indeed, gross new loans fell back to December's level and mortgage approvals hit the lowest level in more than a year. Looking ahead the housing market looks set to remain sluggish as uncertainty remains elevated around the EU referendum.

### The day ahead in the UK

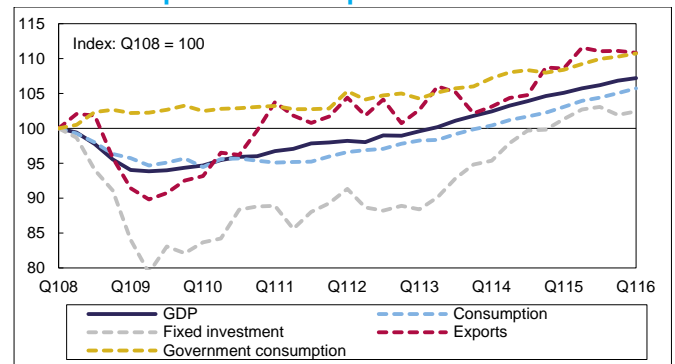
The end of the week brings the GfK consumer confidence survey. Having decreased sharply in April, the headline indicator is expected to have fallen further in May.

#### UK: GDP growth









Source: Datastream and Daiwa Capital Markets Europe Ltd.

#### UK: GDP expenditure components








Source: Datastream 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
Italy	 Retail sales M/M% (Y/Y%)	Mar	<b>-0.6 (2.2)</b>	-	0.3 (2.7)	-
Spain	 GDP – second release Q/Q% (Y/Y%)	Q1	<b>0.8 (3.4)</b>	<u>0.8 (3.4)</u>	0.8 (3.5)	-
UK	 GDP – second release Q/Q% (Y/Y%)	Q1	<b>0.4 (2.0)</b>	<u>0.4 (2.1)</u>	0.6 (2.1)	-
	 Index of services M/M% (3M/3M%)	Mar	<b>-0.1 (0.6)</b>	<u>0.2 (0.6)</u>	0.1 (0.7)	<b>-(0.8)</b>
	 BBA loans for house purchase 000s	Apr	<b>40.1</b>	44.7	45.1	<b>43.9</b>
Auctions						
Country	Auction					
Italy sold	 €2.5bn of 2018 zero-coupon bonds (28-Mar-2018) at an average yield -0.137%					

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	
France	 07.45	Consumer confidence survey	May	94	94	
Italy	 09.00	Consumer confidence indicator	May	114.5	114.2	
	 09.00	Manufacturing (economic) confidence	May	103.0 (-)	102.7 (102.7)	
Spain	 08.00	Retail sales Y/Y%	Apr	-	4.4	
UK	 00.05	GfK consumer confidence survey	May	-4	-3	
Auctions and events						
Country	BST	Auction / Event				
- Nothing scheduled -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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