

Euro wrap-up

Overview

- While euro area consumer confidence improved to a fourteen-month high, Bunds were little changed as the ECB left policy unchanged and gave few clues as to the likely pace of PEPP purchases this quarter or beyond.
- Gilts were also little changed despite a strong survey of UK manufacturers.
- Friday will bring the April flash PMIs along with new data for UK retail sales, consumer confidence and public finances.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.698	+0.007
OBL 0 04/26	-0.603	+0.007
DBR 0 02/31	-0.258	+0.006
UKT 0 ¹ / ₈ 01/23	0.035	+0.009
UKT 0 ¹ / ₈ 01/26	0.313	+0.004
UKT 4 ³ / ₄ 12/30	0.740	+0.002

*Change from close as at 4:30pm BST.

Source: Bloomberg

Euro area

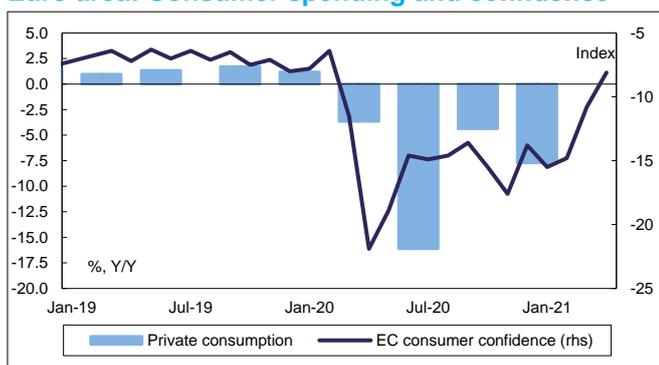
ECB repeats expectation to accelerate PEPP purchases despite recent underwhelming pace

Unsurprisingly, the ECB had very little new to say when its latest monetary policy meeting concluded. There was certainly no material change in its policy settings or guidance, with the statement almost identical to last month's, albeit with the order rejigged and perhaps a little more importance placed on the TLTROs than before. Most notably, the statement reasserted that "the Governing Council expects purchases under the PEPP over the current quarter to continue to be conducted at a significantly higher pace than during the first months of the year". Unfortunately, once again, Lagarde refused to define what that "significantly higher pace" would actually be. However, she claimed that the acceleration had started already, noting in particular the pickup in gross purchases last week to the highest since end-June. Nevertheless, as the ECB had already committed to reinvest fully the proceeds of maturing securities purchased under the PEPP through to at least the end of 2023, the pace should ideally be evaluated in terms of net purchases. And, on that basis, purchases slowed last week. Moreover, the average weekly volume of net purchases since the March meeting (€16.8bn) is less than €3bn higher than the average amount from the start of the year up to when that commitment to accelerate purchases was made. So, at this point, the ECB's commitment to accelerate the pace of purchases has proved highly underwhelming. Lagarde did, however, briefly allude to the pace of buying last July, which, at an average of more than €18.5bn in net terms, would represent a much clearer acceleration if eventually fulfilled.

Net PEPP purchases to continue into 2022 despite recent commentary from the hawks

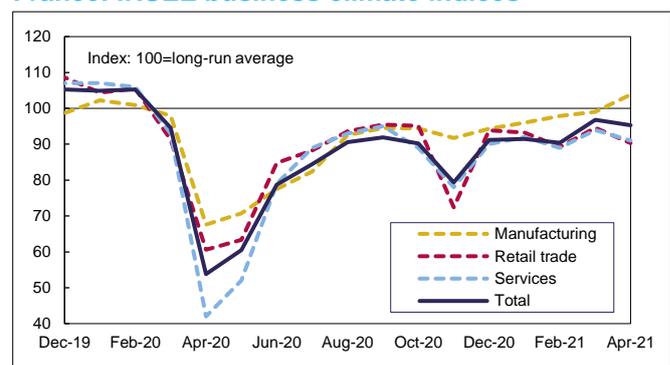
In an otherwise unilluminating press conference, Lagarde repeated that the pace of asset purchase would be reviewed again at the June meeting on the basis of an assessment of financial conditions and the ECB's updated economic projections. She was never going to prejudge the outcome of that meeting. But she assessed that financial conditions – in terms of bond yields as well as rates and conditions on loans to households and businesses – had remained broadly stable and, by inference, broadly favourable since the March meeting. And although she acknowledged that GDP growth in Q1 might be negative, and the outlook remained highly uncertain, Lagarde also judged the ECB's March economic projections, which foresaw firm recovery from the second half of the year, to have remained valid. So, that suggested satisfaction with the current pace of purchase. By the time of the June policy meeting when the pace of buying will be reviewed, greater progress with vaccinations and a reopening from lockdown measures will likely mean that euro area economic activity will have started to pick up. But the inflation outlook will remain inconsistent with the ECB's target and far weaker than that in the US. Moreover, the risks of an undesirable tightening of euro area financial conditions resulting from events in bond markets – particularly if and when UST yields resume their upwards trend on stronger US data and eventual Fed tapering – will remain.

Euro area: Consumer spending and confidence*



*Flash estimate for April 2021. Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

France: INSEE business climate indices



Source: INSEE, Refinitiv and Daiwa Capital Markets Europe Ltd.

Therefore, despite recent eye-catching comments from hawks such as Dutch Governor Knot, the Governing Council will maintain its commitment to purchase securities under its PEPP programme in a flexible manner at least until the end of March 2022. And there will be a good case to maintain the pace at least broadly in line with the rate this quarter.

Consumer confidence up again, while French business sentiment varies between the sectors

Data-wise, today's sentiment surveys were somewhat mixed. The European Commission's flash estimate of consumer confidence in April unexpectedly rose a further 2.7pts to -8.1, the highest since February 2020, only 0.1pt below the bottom of the range in 2019 and a level thus seemingly consistent with positive growth in household spending. Meanwhile, the INSEE French business survey suggested only a slight deterioration in overall sentiment this month. In particular, the headline business climate index dropped a modest 2pts to 95, nevertheless still therefore firmly below the long-run average (100). The decline reflected more significant weakening in the tertiary sector, with the business climate indices for retail and services declining 5 and 3pts to 90 and 91 respectively, due not least to a weakening in forward-looking indicators. However, the survey also reported a significant improvement in manufacturing, for which the business climate index rose 5pts to 104, comfortably above the long-run average and the best in almost two years. The detail reported increased factory orders and production expectations. In addition, construction firms remained relatively upbeat, with confidence above its long-run average. And the INSEE employment index remained stable at 92, at the top of the range since the start of the pandemic, albeit still well below the range of between 100 and 110 prevailing in the prior five years.

The day ahead in the euro area

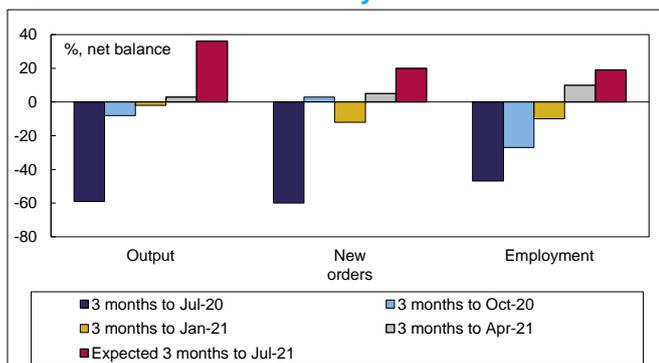
The week will end with the flash April PMIs for the euro area and the two largest member states. Last month's survey registered significant improvements, with the euro area composite PMI returning to expansionary territory for the first time since October and rising a hefty 4.4pts to an eight-month high of 53.2. The April PMIs are expected to come in close to the March readings. However, as suggested by today's French INSEE survey, further increases in the manufacturing output indices will probably be tempered by softening in services due to the renewed tightening of pandemic containment measures.

UK

CBI survey flags rebound in manufacturing optimism and investment intentions

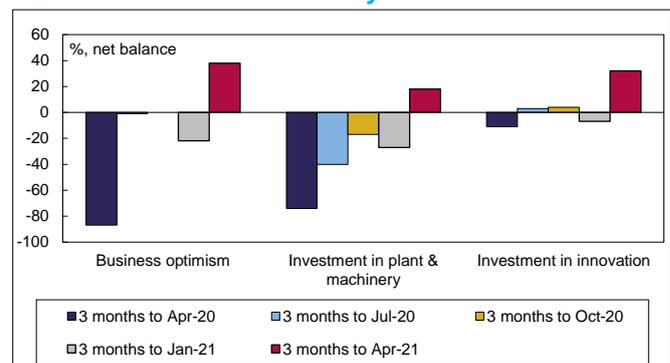
The latest CBI Industrial Trends Survey suggested that UK manufacturing output was broadly flat in the three months to April, with weakness in autos and food, drink and tobacco offsetting growth in most other subsectors. However, many of the other main findings from the survey were extremely upbeat. Total new orders grew at the quickest pace since April 2019 with domestic orders up the most since mid-2018 and new export orders broadly stable. And growth in output and orders is expected to pick up rapidly over the coming quarter. Indeed, the survey reported the biggest improvement in manufacturing optimism since the early 1970s. Encouragingly, therefore, investment intentions also rebounded firmly. Likely in part responding to the government's "super-deduction" policy offering 130% capital allowances for qualifying investments, firms expect to increase capex on plant and machinery in the coming year at the strongest rate since 1997, with spending on buildings, innovation and human capital also set to rise. Moreover, employment in the sector rose the most in two years, with headcount expectations for the coming quarter the strongest since 1974. Unsurprisingly, however, as in other recent surveys, the CBI survey flagged significant cost pressures, with average cost growth in the three months to April the steepest in a decade, and expected to grow at a similarly rapid rate next quarter. Meanwhile, average domestic prices in the quarter to April grew at their fastest pace since July 2018 and are expected to accelerate further next quarter.

CBI Industrial Trends Survey: Selected indicators*



*3-month outcome or expectations. Source: CBI, Refinitiv and Daiwa Capital Markets Europe Ltd.

CBI Industrial Trends Survey: Selected indicators*



*Expectations for the coming 12 months. Source: CBI, Refinitiv and Daiwa Capital Markets Europe Ltd.

The day ahead in the UK

It will be a very busy end to the week for UK economic data, bringing March reports for retail sales and the public finances along with the April flash PMIs and GfK consumer confidence survey. Overall the picture should be upbeat. With consumer confidence improving, we expect to see further growth of about 1½%M/M in retail sales (both including and excluding auto fuel) in March, to push total sales up about 4%Y/Y albeit still down from December's level. And with the UK economy reopening gradually, the flash PMIs are likely to report an acceleration in growth this month, with the composite PMI likely to rise at least 2pts from March's six-month high of 56.5 thanks to improvements in both services and – as suggested by today's CBI survey – manufacturing.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 ECB main refinancing rate %	Apr	0.00	<u>0.00</u>	0.00	-
	 ECB marginal lending facility %	Apr	0.25	<u>0.25</u>	0.25	-
	 ECB deposit facility rate %	Apr	-0.50	<u>-0.50</u>	-0.50	-
	 European Commission preliminary consumer confidence	Apr	-8.1	-11.0	-10.8	-
France	 INSEE business confidence	Apr	95	95	97	-
	 INSEE manufacturing confidence (production outlook)	Apr	104 (2)	99 (7)	98 (6)	99 (5)
Italy	 Industrial sales M/M% (Y/Y%)	Feb	0.2 (0.9)	-	2.5 (-1.6)	2.6 (83.9)
UK	 CBI industrial trends, total orders	Apr	-8	2	-5	-
	 CBI business optimism	Apr	38	20	-22	-

Auctions

Country	Auction
France	 sold €3.04bn of 0% 2024 bonds at an average yield of -0.61%
	 sold €4.30bn of 0% 2027 bonds at an average yield of -0.36%
	 sold €3.66bn of 0.5% 2029 bonds at an average yield of -0.18%
	 sold €1.20bn of 0.1% 2026 index-linked bonds at an average yield of -1.77%
	 sold €393mn of 0.1% 2036 index-linked bonds at an average yield of -1.1%
	 sold €406mn of 0.1% 2047 index-linked bonds at an average yield of -0.9%
Spain	 sold €1.79bn of 0% 2024 bonds at an average yield of -0.411%
	 sold €1.24bn of 1.5% 2027 bonds at an average yield of -0.132%
	 sold €2.3bn of 0.1% 2031 bonds at an average yield of 0.368%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU		09.00 Preliminary manufacturing PMI (services)	Apr	62.0 (49.1)	62.5 (49.6)
		09.00 Preliminary composite PMI	Apr	52.9	53.2
Germany		08.30 Preliminary manufacturing PMI (services)	Apr	65.8 (51.0)	66.6 (51.5)
		08.30 Preliminary composite PMI	Apr	57.0	57.3
France		08.15 Preliminary manufacturing PMI (services)	Apr	59.0 (46.7)	59.3 (48.2)
		08.15 Preliminary composite PMI	Apr	49.4	50.0
UK		00.01 GfK consumer confidence	Apr	-12	-16
		07.00 Retail sales including auto fuel M/M% (Y/Y%)	Mar	1.5 (3.5)	2.1 (-3.7)
		07.00 Retail sales excluding auto fuel M/M% (Y/Y%)	Mar	2.0 (4.5)	2.4 (-1.1)
		07.00 Public sector net borrowing, excluding banks £bn	Mar	22.0	19.1
		09.30 Preliminary manufacturing PMI (services)	Apr	59.0 (58.9)	58.9 (56.3)
		09.30 Preliminary composite PMI	Apr	58.1	56.4

Auctions and events

EMU		09.00 ECB publishes Survey of professional forecasters
		15:30 ECB President Lagarde participates in a panel on climate change

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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