

# Euro wrap-up

## Overview

- Bunds were little changed even as the euro area flash April PMIs beat expectations to signal a further pickup in economic activity.
- Gilts were also little changed despite stronger-than-expected UK flash PMIs and retail sales data.
- The coming week brings the first estimates of Q1 GDP and April inflation in the euro area and large member states.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.703	-0.002
OBL 0 04/26	-0.608	-0.005
DBR 0 02/31	-0.259	-0.004
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.026	-0.006
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.304	-0.006
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.742	+0.004

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

Source: Bloomberg

## Euro area

### Flash April PMIs beat expectations to point to resilience to pandemic and growth in Q2

At yesterday's [press conference](#), ECB President Lagarde remained confident about the prospects for GDP growth in the current quarter and beyond. Optimism should have been bolstered by today's euro area flash PMIs, which beat expectations. In particular, the euro area composite output PMI rose 0.5pt in April to 53.7, a nine-month high well within expansion territory for a second month. It was also the second-highest reading since September 2018. While the euro area manufacturing output PMI rose just 0.1pt, at 63.4 that represented a series high. And the euro area services activity PMI rose 0.7pt to 50.3, the best (and first reading above 50) since August, to suggest significant resilience to the tightening of pandemic restrictions. The detail of the survey pointed to further growth ahead, with the flash PMIs implying the strongest growth in new orders since September 2018, with a record gain in manufacturing and near-stability in services. Moreover, backlogs of work grew the most in more than three years, and at a record rate in manufacturing where supply-chain problems continue to bite. Firms also stepped up recruitment at the fastest pace since late 2018. And the composite future output index rose 2pts to 68.8, a series high, to underscore expectations of a firm rebound in activity over the coming twelve months.

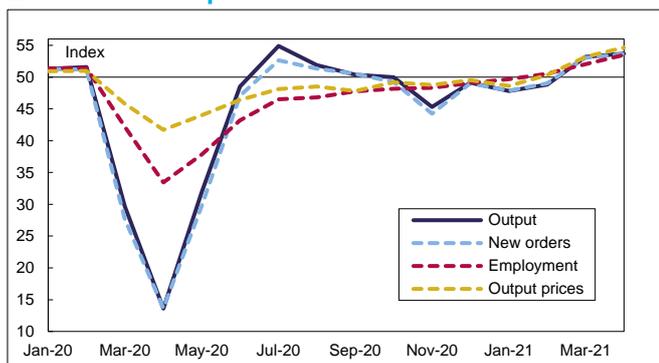
### Widespread recovery in manufacturing while services anticipate imminent easing of restrictions

At the country level, the flash PMIs suggested that Germany's manufacturers are still leading the way. Even though the respective output PMI moderated by more than 1pt from March's series high, it remained historically elevated at 67.7. Similarly, contradicting yesterday's [INSEE indices](#), France's manufacturing output PMI eased back, but at 57.6 was still second-highest in more than three years. And Markit suggested that factory output in the rest of the euro area expanded at a record pace this month. Inevitably, the flash PMIs suggested that the recovery in services remains impacted by the pandemic, and that growth in the sector in Germany effectively petered out this month. However, despite the tightening of containment measures, Markit reported that the rest of the euro area, including France, is now seeing growth in the sector as firms anticipate an easing of the pandemic and associated restrictions over coming months.

### Higher factory input costs increasingly passed on to customers

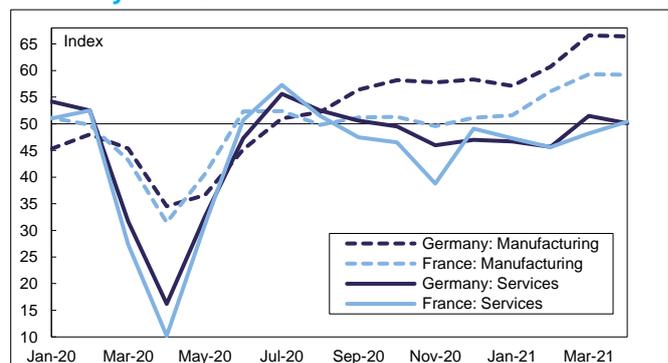
Once again, the fly in the ointment of the survey was increased pipeline price pressures. If the flash PMIs are to be believed, average prices of inputs to manufacturing are now rising at the fastest rate for ten years and the second highest rate on the series. Against the backdrop of continued supply shortages, firms in that sector also reportedly passed on higher costs to customers by the most on the series. In services, however, the pressures appear still to be significantly less marked, with the output price PMI merely up to the highest since the start of the pandemic.

#### Euro area: Composite PMIs\*



\*Flash PMIs for April 2021. Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Germany & France: Selected PMIs\*



\*Flash PMIs for April 2021. Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

## The week ahead in the euro area

The coming week will bring plenty of top-tier economic data from the euro area, with the most noteworthy being the first estimates of Q1 GDP and April inflation. In particular, Friday will bring Q1 GDP figures for the euro area, Germany, France, Italy and Spain. Following a smaller-than-feared contraction of 0.7%Q/Q in Q4, we forecast a further decline in euro area GDP of 0.8%Q/Q in Q1 due to the intensification of the pandemic and re-imposition of lockdown measures. But the range of possible outturns is wide, and probably skewed to the downside. Among the member states, we forecast declines of around 1.0%Q/Q in Germany and Spain, where GDP held up in Q4. After a fall of 1.4%Q/Q in Q4, French GDP might be little better than flat. And we forecast a contraction in Italian GDP of around 0.5%Q/Q following the steeper drop of 1.9%Q/Q in Q4.

In terms of the flash estimates of inflation in April, the German and Spanish data will be published on Thursday, followed by the euro area, French and Italian numbers on Friday. We forecast the headline euro area CPI rate to rise 0.2ppt to 1.5%Y/Y in April but core inflation to drop 0.2ppt to 0.7%Y/Y as pandemic restrictions continue to weigh on prices of consumer-facing services. The risks to those forecasts, however, are skewed to the upside. Thursday will also bring the release of the European Commission's sentiment survey for April, which will provide further clues as to how the euro area economy is faring in the face of stricter containment measures. In a similar vein, Germany's ifo business climate survey for April will be published on Monday. And among other noteworthy releases, labour market data from Germany (for the current month) and euro area (for March) are due on Thursday and Friday respectively.

## UK

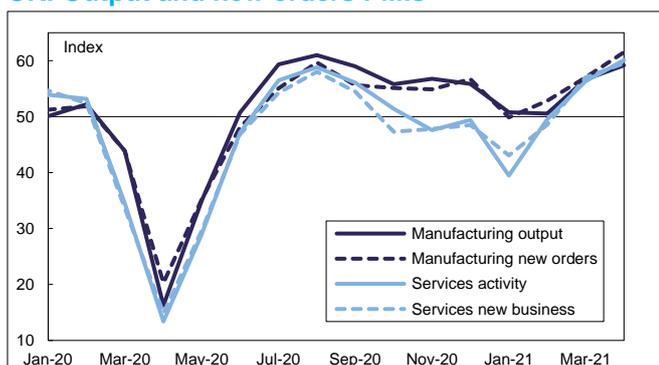
### Flash PMIs smash expectations suggesting strongest momentum for seven years

While the gradual easing of lockdown measures meant that they were bound to pick up, the UK's April flash PMIs comfortably beat expectations. Indeed, the composite output PMI rose a hefty 3.6pts to 60, the highest in more than seven years. The services activity PMI similarly jumped to 60.1, to match the highest level since August 2014. And manufacturing output (which has up to now lagged that in the euro area this year) reportedly accelerated too, with the respective PMI up to 59.1, an eight-month high albeit lagging services for the first time during the pandemic. Among the detail, the flash PMIs also indicated the fastest increase in new orders since 2014, led by domestic demand. Indeed, growth in forward bookings for hotels, restaurants and other consumer services was reportedly very strong, highlighting the desire of households to return to a normal way of life and also pointing to a strong domestic tourist season this summer. While export demand reportedly continued to lag, growth in new factory orders from abroad was the strongest since the end of the Brexit transition and Markit reported that some UK manufacturers saw a "gradual willingness to spend among EU clients". Export orders in services, however, remained subdued, in part due to pandemic-related restrictions on travel. Business expectations for the coming twelve months remained close to March's record high. And the composite employment PMI rose to the highest since August 2017, with Markit reporting that many firms were adding to headcount rather than just recalling workers from furlough. Overall, therefore, the results point to firm growth ahead as pandemic restrictions continue to be lifted.

### Retail sales rebound beats expectations but consumer confidence disappoints

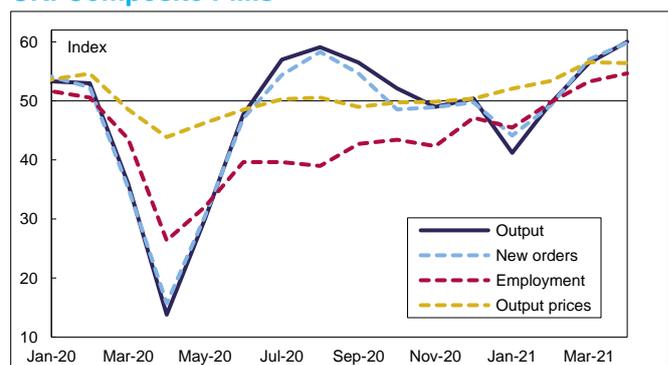
UK retail sales rebounded ahead of expectations in March despite the continued closure of non-essential stores that month. Total sales jumped 5.4%M/M – the most since June – to be up 7.2%Y/Y and 1.6% above the pre-pandemic level in February 2020. Sales were still, however, below the levels prevailing through the second half of last year. And weakness earlier in the quarter meant that sales were still down 5.8%Q/Q in Q1, underscoring the likelihood of a contraction in GDP. Non-food stores saw strongest growth in March, thanks not least to a long-awaited pickup in sales of clothes (up 17.5%M/M) as households prepared for the end of lockdown. Sales of such items still have a lot of lost ground to make up, however, being still down more than 40% from the pre-pandemic level. Meanwhile, food sales rose another 2.5%M/M to a series high, in part likely due to the continued closure of much of the hospitality sector over the Easter period. And with some travel restrictions having eased later in the month, auto fuel retailers' sales grew 11.1%M/M. With the continued relaxation of restrictions, including the reopening of non-essential stores in England and Wales from 12 April, we look for further solid growth in sales

#### UK: Output and new orders PMIs\*



\*Flash PMIs for April 2021. Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Composite PMIs\*



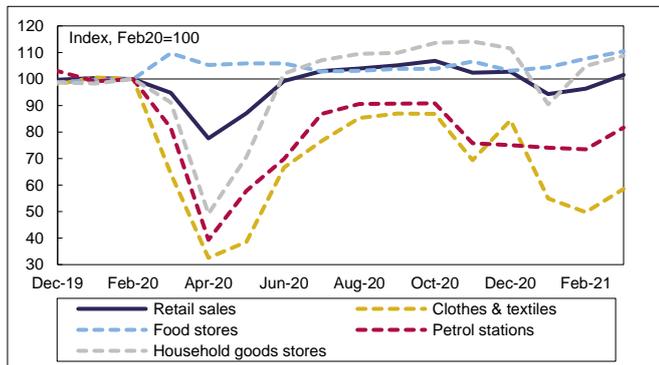
\*Flash PMIs for April 2021. Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

this month back to the range of the second half of last year. But after a big improvement in March, the GfK survey points to only a modest increase in consumer confidence this month. The headline index rose just 1pt to -15, still some 6pts below the level last March, with a slight worsening reported in the climate for making major purchases. Admittedly, UK households have amassed extra savings well in excess of £100bn over the past year, and about half of the population has now received one vaccine dose. Nevertheless, many consumers seem likely to remain cautious in their spending on big-ticket items, even as they gear up for extra spending on services, not least in hospitality.

**The week ahead in the UK**

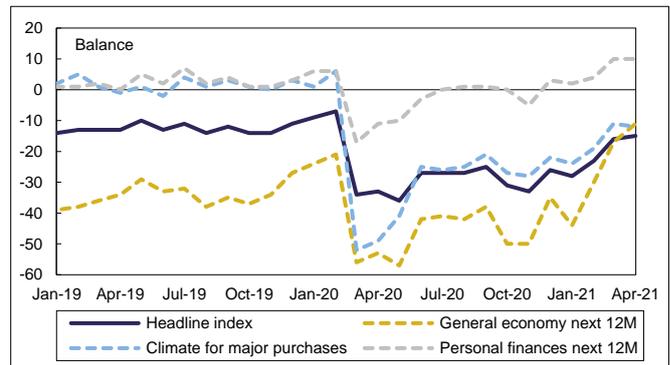
The coming week will be relatively quiet on the UK economic data front, with no top-tier releases scheduled. Nonetheless, Tuesday’s CBI distributive trades survey for April will be of some interest. With Covid containment measures gradually easing – and non-essential stores having reopened from the twelfth of the month – the survey should point to further strong growth in sales this month. Other April releases due in the coming week include the BRC shop price index on Wednesday, the Lloyds business barometer on Friday and the Nationwide house price index on a day yet to be confirmed.

**UK: Retail sales**



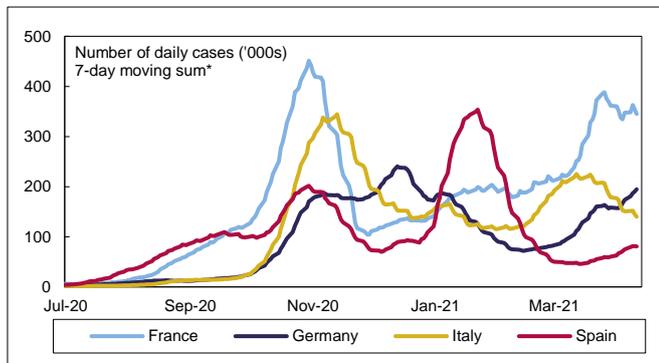
Source: ONS, Refinitiv and Daiwa Capital Markets Europe Ltd.

**UK: Consumer confidence**



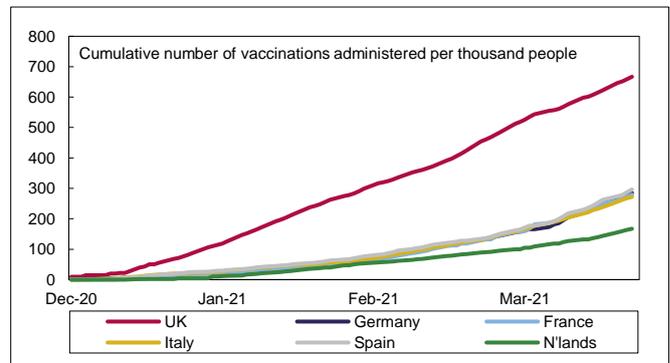
Source: GfK, Refinitiv and Daiwa Capital Markets Europe Ltd.

**New coronavirus cases**



\*7-day average. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

**Coronavirus vaccines administered**



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Daiwa economic forecasts

		2020	2021				2022	2020	2021	2022
		Q4	Q1	Q2	Q3	Q4	Q1			
<b>GDP growth, %, Q/Q</b>										
Euro area		-0.7	-0.8	1.4	1.4	1.3	1.1	-6.7	3.5	4.4
Germany		0.3	-1.0	0.8	1.5	1.2	1.0	-5.3	2.4	4.0
France		-1.4	0.0	0.7	1.4	1.2	1.2	-8.2	5.2	4.3
Italy		-1.9	-0.5	1.5	1.5	1.4	1.2	-8.9	4.0	4.7
Spain		0.0	-1.0	1.5	1.4	1.2	1.2	-10.8	3.9	5.0
UK		1.3	-1.5	2.8	2.6	2.2	1.5	-9.8	5.6	6.5
<b>Headline and Core CPI</b>										
Euro area										
Headline CPI		-0.3	1.1	1.6	1.8	2.0	0.8	0.3	1.6	1.0
Core CPI		0.2	1.2	0.7	0.8	1.1	0.3	0.7	0.9	0.8
UK										
Headline CPI		0.6	0.6	1.7	1.7	2.2	2.1	0.9	1.5	2.0
Core CPI		1.3	1.2	1.6	1.6	1.7	1.6	1.4	1.5	1.8
<b>ECB</b>										
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
PEPP envelope* (€bn)		1850	1850	1850	1850	1850	1850	1850	1850	1850
<b>BoE</b>										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases** (€bn)		895	895	895	895	895	895	895	895	895

\*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	 Preliminary manufacturing PMI (services)	Apr	<b>63.3 (50.3)</b>	62.0 (49.1)	62.5 (49.6)	-	
	 Preliminary composite PMI	Apr	<b>53.7</b>	52.9	53.2	-	
Germany	 Preliminary manufacturing PMI (services)	Apr	<b>66.4 (50.1)</b>	65.8 (51.0)	66.6 (51.5)	-	
	 Preliminary composite PMI	Apr	<b>56.0</b>	57.0	57.3	-	
France	 Preliminary manufacturing PMI (services)	Apr	<b>59.2 (50.1)</b>	59.0 (46.7)	59.3 (48.2)	-	
	 Preliminary composite PMI	Apr	<b>51.7</b>	49.4	50.0	-	
UK	 GfK consumer confidence	Apr	<b>-15</b>	-12	-16	-	
	 Retail sales including auto fuel M/M% (Y/Y%)	Mar	<b>5.4 (7.2)</b>	1.5 (3.5)	2.1 (-3.7)	<b>2.2 (-3.6)</b>	
	 Retail sales excluding auto fuel M/M% (Y/Y%)	Mar	<b>4.9 (7.9)</b>	2.0 (4.5)	2.4 (-1.1)	<b>2.5 (-1.0)</b>	
	 Public sector net borrowing, excluding banks £bn	Mar	<b>28.0</b>	22.0	19.1	<b>16.0</b>	
	 Preliminary manufacturing PMI (services)	Apr	<b>60.7 (60.1)</b>	59.0 (58.9)	58.9 (56.3)	-	
	 Preliminary composite PMI	Apr	<b>60.0</b>	58.1	56.4	-	
Auctions							
Country	Auction	- Nothing to report -					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

# The coming week's data calendar

## The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> forecast/actual	Previous
<b>Monday 26 April 2021</b>					
Germany		09.00 ifo business climate	Apr	98.0	96.6
		09.00 ifo current assessment (expectations)	Apr	94.5 (101.2)	93.0 (100.4)
Spain		08.00 PPI Y/Y%	Mar	-	0.8
<b>Tuesday 27 April 2021</b>					
France		11.00 Total jobseekers '000s	Q1	-	3574
Italy		09.00 ISTAT economic confidence	Apr	-	93.9
		09.00 ISTAT consumer confidence (manufacturing)	Apr	101.6 (102.1)	100.9 (101.2)
UK		11.00 CBI distributive trades, reported sales	Apr	-	-28
<b>Wednesday 28 April 2021</b>					
Germany		07.00 GfK consumer confidence	May	-4.8	-6.2
France		07.45 INSEE consumer confidence	Apr	93	94
UK		00.01 BRC shop price index Y/Y%	Apr	-	-2.4
		- Nationwide house price index* M/M% (Y/Y%)	Apr	0.5 (5.0)	-0.2 (5.7)
<b>Thursday 29 April 2021</b>					
EMU		09.00 M3 money supply Y/Y%	Mar	10.2	12.3
		10.00 European Commission economic confidence	Apr	102.0	100.9
		10.00 European Commission final consumer confidence	Apr	-8.1	-10.8
		10.00 European Commission industrial confidence (services)	Apr	4.0 (-8.8)	2.0 (-9.3)
Germany		08.55 Unemployment rate % (change '000s)	Apr	6.0 (-10.0)	6.0 (-8.0)
		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	1.9 (2.0)	1.7 (2.0)
Spain		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	1.7 (1.7)	1.3 (1.2)
		08.00 Unemployment rate %	Q1	16.6	16.1
<b>Friday 30 April 2021</b>					
EMU		10.00 Preliminary CPI (core CPI) Y/Y%	Apr	<u>1.5 (0.7)</u>	1.3 (0.9)
		10.00 Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>-0.8 (-2.0)</u>	-0.7 (-4.9)
		10.00 Unemployment rate %	Mar	8.3	8.3
Germany		09.00 Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>-1.0 (-2.7)</u>	0.3 (-2.7)
France		06.30 Consumer spending M/M% (Y/Y%)	Mar	0.5 (19.7)	0.0 (-0.1)
		06.30 Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>0.0 (1.0)</u>	-1.4 (-4.9)
		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	1.3 (1.6)	1.1 (0.7)
		07.45 PPI Y/Y%	Mar	-	1.8
Italy		08.00 Preliminary unemployment rate %	Mar	10.3	10.2
		10.00 Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>-0.5 (-1.6)</u>	-1.9 (-6.6)
		10.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	1.0 (0.9)	0.8 (0.6)
Spain		08.00 Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>-1.0 (-4.7)</u>	0.0 (-8.9)
		08.00 Retail sales Y/Y%	Mar	-5.0	-5.9
UK		00.01 Lloyds business barometer	Apr	-	15

\*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 26 April 2021</b>		
EMU		13.00 ECB's Panetta gives opening speech at online conference - 'Spill overs in the post-pandemic, low-for-long world'
		14.00 ECB's Chief Economist Lane gives a keynote speech
<b>Tuesday 27 April 2021</b>		
Germany		10.30 Auction: €4bn of 0% 2028 bonds
Italy		10.00 Auction: €3.75bn of 0% 2022 bonds
		10.00 Auction: €1bn of 0.65% 2026 index-linked bonds
		10.00 Auction: €750mn of 0.15% 2051 index-linked bonds
<b>Wednesday 28 April 2021</b>		
EMU		13.45 ECB's Schnabel to do a Twitter Q&A session
		15.00 ECB President Lagarde scheduled to speak at an online event
Germany		10.30 Auction: €2.5bn of 0% 2036 bonds
UK		10.00 Auction: £900mn of 0.125% 2031 index-linked bonds
<b>Thursday 29 April 2021</b>		
EMU		08.30 ECB's de Guindos participates in webinar
Italy		10.00 Auction: 5Y and 10Y bonds
UK		09.30 BoE publishes capital issuance statistics
<b>Friday 30 April 2021</b>		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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