

Euro wrap-up

Overview

- Bunds were little changed while reports suggested that the German government is set to revise up its 2021 GDP forecast and the ifo survey suggested that business conditions continue to improve.
- Gilts followed USTs slightly lower on a quiet day for economic data from the UK.
- Tuesday will bring surveys of Italian economic sentiment and UK retail sales.

Chris Scicluna

+44 20 7597 8326

Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.701	+0.002
OBL 0 04/26	-0.607	+0.004
DBR 0 02/31	-0.258	+0.003
UKT 0 ¹ / ₈ 01/23	0.038	+0.015
UKT 0 ¹ / ₈ 01/26	0.320	+0.018
UKT 4 ³ / ₄ 12/30	0.751	+0.010

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

Source: Bloomberg

Euro area

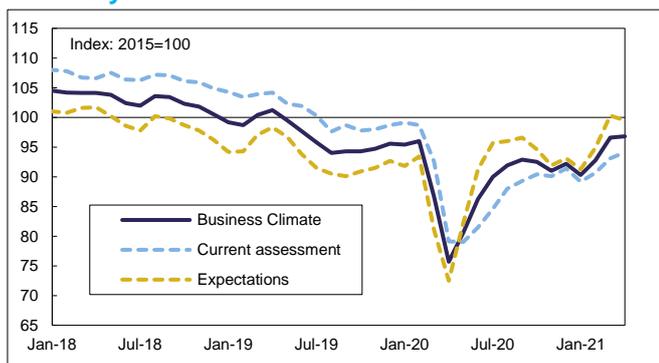
German government to upgrade forecast as ifo survey remains consistent with upswing

While the first estimate of Q1 GDP, due Friday, will likely confirm a second successive contraction, expectations of a clear return to positive growth in Q2 were bolstered by Friday's [flash April PMIs](#), for which the euro area composite output PMI rose to a nine-month high well into expansion territory. While they weakened from March, Germany's flash PMIs were also consistent with growth this quarter, with the composite output index respectable at 56.0. And although somewhat mixed, today's ifo business survey indices similarly suggested growth in economic activity in April. Indeed, despite the extension of pandemic restrictions and a still unfavourable trend of new coronavirus cases, the ifo index of current conditions rose for the third month in a row, up 1.0pt to a fourteen-month high of 94.1. While the index of expectations for the coming six months slipped back from March's near-three-year high, at 99.5 it was still the second-highest reading since September 2018 and suggestive of an imminent significant upswing in economic output. And the survey's headline business climate index edged up 0.2pt to 96.8, the highest since June 2019. Reports suggest that the German government will tomorrow revise up its forecast for GDP growth this year by 0.5ppt to 3.5%Y/Y, with a similar rate of 3.6%Y/Y also penciled in for next year. The April flash PMIs and ifo survey would seem to merit such an upgrade.

Manufacturing climate continues to improve despite supply-side disruption

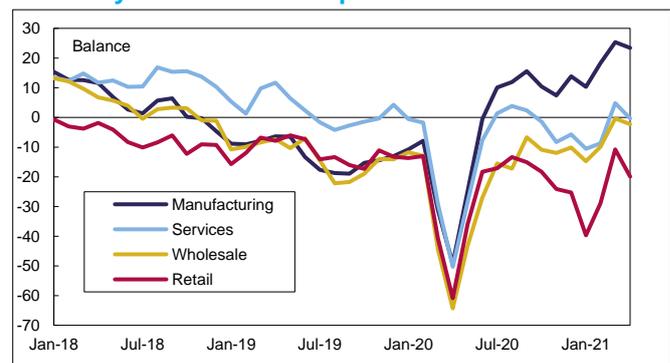
The ifo survey inevitably highlighted contrasting fortunes between the various sectors, with conditions in manufacturing still judged to be highly favourable. Indeed, the manufacturing business climate index rose further above the long-run average to its highest value since May 2018 with the assessment of current conditions revised up for a tenth successive month to the best since March 2019. Firms in the sector reported a further pickup in demand and a big rise in capacity utilization to above the long-run average for the first time in almost two years. Optimism with the regard to the outlook was tempered by supply-chain disruption, with the ifo institute stating that 45% of firms – the most since 1991 – experienced bottlenecks in receipt of intermediate goods. However, the index for manufacturing expectations for the coming six months was still the second best since 2010. Given ongoing pandemic restrictions, which continue to hit hospitality and tourism, the business climate indicator for services took a step back following a steep rise in the previous month. But it was still the second best in six months and logistics firms were reportedly benefiting significantly from the upswing in manufacturing. Although retail expectations weakened, the business climate in wholesale trade was judged to have improved to the best in two years. And the ifo institute reported a significant improvement in mood among car dealerships. In construction, the business climate was judged to have weakened somewhat. But while firms in the sector also reported increased shortages of various materials, the index of current conditions was still firmly above the long-run average.

Germany: ifo business climate indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: ifo business expectations indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

Tomorrow brings the release of Italy's ISTAT economic sentiment indicators for April. The manufacturing index is expected to suggest strongly that firms in that sector are increasingly optimistic, with the headline index forecast to rise from 101.2 in March to above 102, which would be the highest since the first half of 2019. Sentiment in services should also improve as pandemic containment measures gradually started to ease from today. Likewise, the consumer confidence index is also expected to edge up this month, albeit remaining below the pre-Covid level of 110.8.

UK

The day ahead in the UK

In an otherwise very quiet week for UK economic data releases, tomorrow's CBI distributive trades survey for April will be of interest. With Covid containment measures gradually easing – and non-essential stores having reopened from the twelfth of this month – the survey should point to further strong growth in sales this month back within the range of the second half of 2020.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 ifo business climate	Apr	97.8	96.8	96.6	-
	 ifo current assessment (expectations)	Apr	94.1 (99.5)	94.5 (101.2)	93.0 (100.4)	93.1 (-)
Spain	 PPI Y/Y%	Mar	6.3	-	0.8	0.6

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
France	 11.00	Total jobseekers '000s	Q1	-	3574
Italy	 09.00	ISTAT economic confidence	Apr	-	93.9
	 09.00	ISTAT consumer confidence (manufacturing)	Apr	101.8 (102.1)	100.9 (101.2)
UK	 11.00	CBI distributive trades, reported sales	Apr	-	-28

Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are MiFID 2 Professional (or equivalent) Clients and should not therefore be distributed to such Retail Clients. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.