Euro wrap-up

Overview

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- Bunds were little changed while the ECB confirmed gross PEPP purchases of €25.0bn last week – the second highest since June – amid modest redemptions, while Italian business confidence rose to a pandemic high.
- Gilts made modest losses despite an upbeat UK retail survey.
- Wednesday will bring consumer confidence survey results from Germany and France and a survey of UK retail prices.

Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.699	+0.001
OBL 0 04/26	-0.603	+0.001
DBR 0 02/31	-0.253	+0.001
UKT 0¹/₈ 01/23	0.055	+0.013
UKT 0¹/₈ 01/26	0.337	+0.015
UKT 4¾ 12/30	0.769	+0.015

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

Euro area

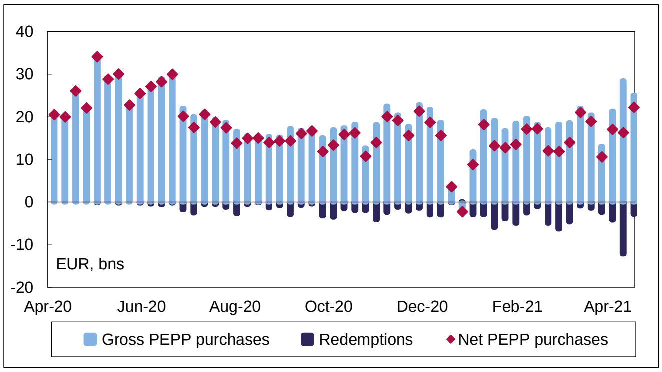
Broad-based improvement in Italian confidence points to return to growth in Q2

Following Friday's flash PMIs and yesterday's German ifo survey, today's ISTAT Italian economic sentiment indices – the first survey indicators for April to be released from the euro area's third largest member state – further illustrated the likelihood of a pickup in GDP in the region this quarter. Indeed, amid a broad-based improvement across the sectors, the ISTAT survey suggested an increase in Italian business confidence by the most since December to the best since the onset of the pandemic in February 2020. Among other things, the survey reported a particularly strong rebound in the manufacturing sector, for which the headline confidence index rose for a third successive month to 105.4, firmly above the long-run average and the highest since September 2018. The detail pointed to improved assessments of factory orders and future production expectations while de-stocking continued to underscore the likelihood of ongoing firm growth in the sector. In addition, conditions in construction were judged to be extremely favourable, with the respective confidence index up for a fourth successive month to 148.5, the highest since 2003. Confidence in services and retail also picked up to the respective highest levels since October, albeit still well down on pre-pandemic levels, as firms revised down their assessment of current activity due to the recent lockdown restrictions but revised up their forecasts of future sales as economic reopening proceeds. Finally, consumer confidence improved to 102.3, the best since September and above the long-run average, albeit still some way below the pre-pandemic level of 110.9.

Draghi's recovery plan reinforces hopes of sustainable rebound

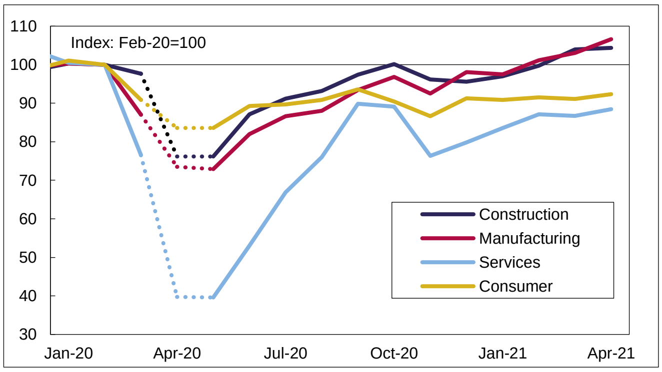
There are plenty of good reasons to expect a rebound in Italian GDP growth from this quarter on. The pickup in economic sentiment reported in the ISTAT survey coincides with an improved trend in new coronavirus cases. That allowed an easing of restrictions – including reopening of non-essential retail, outdoor bars and restaurants, and cultural facilities – in fourteen of Italy's twenty regions, including cities such as Rome and Milan, from the start of this week. Improved progress in vaccination programmes – broadly in line with that in the two largest member states – should help to sustain recovery into the summer. And looking further ahead, together with Spain, Italy will be the big winner from the EU's Next Generation EU (NGEU) recovery programme. Italy's lower house of parliament today approved the Draghi government's National Recovery and Resilience Plan (PNRR), which proposes extra investments of €191.5bn (more than 10% of 2019 GDP) financed through the EU's Recovery and Resilience Facility, to be complemented by a further €30.6 billion from the government's own budget, over the coming five years. More than one third of the EU funds will come in the form of grants. As might be expected from Mario Draghi, the programme is credible. Overall, 40% of the package is aimed at investments relevant to combat climate change; 27% for digitization (including 5G and ultra-fast broadband); and more than 10% to social cohesion. In line with the terms of NGEU, projects aimed at transport infrastructure including connectivity between North and South,

ECB: Weekly PEPP purchases



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

Italy: Economic sentiment indicators



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

education, R&D, and health also feature. And the government has also pledged to tackle other long-term obstacles to growth, including the flawed judicial system. The government estimates that the plan will boost the level of Italian GDP in 2026 by some 3.6% relative to what it otherwise would be. That's debatable. However, by relaxing Italy's budget constraint via use of EU funds and boosting Italy's potential growth rate, GDP growth of more than 4.0%Y/Y in each of 2021 and 2022, and of more than 2.0%Y/Y in 2023, looks perfectly feasible. And continued above-trend growth into the medium term should be within reach too.

The day ahead in the euro area

The flow of economic sentiment surveys continues tomorrow with the latest German and French consumer confidence indicators. In Germany, the GfK headline measure of consumer confidence, to be presented as a forecast for May, is expected to rise 2pts to an eight-month high of -4.2, still nevertheless well down from the pre-pandemic level of 9.1. In contrast, INSEE's measure of French consumer confidence is expected to dip 1pt in April to 93, which would remain in the top half of the range since the onset of the pandemic while remaining well down on the pre-Covid level of 105. ECB comments might also attract attention with President Lagarde due to speak in the afternoon, while Executive Board Member Schnabel will be taking part in a Twitter Q&A session.

UK

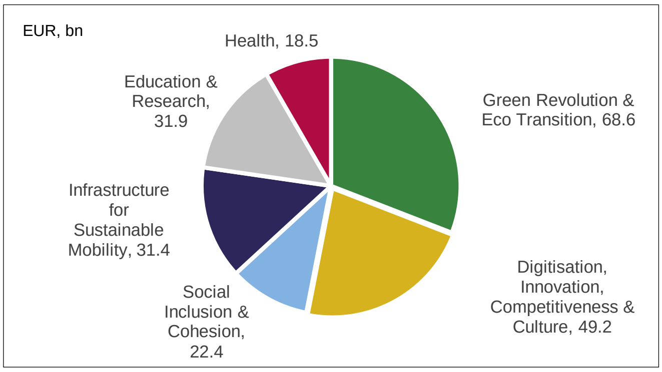
CBI survey reports best sales for time of year since mid-2018

After official data last week reported a stronger-than-expected rebound in sales in March, and with non-essential stores having reopened from the twelfth of the month, today's CBI distributive trades survey was always likely to report a further pickup in sales in April. But the report was more upbeat than anticipated, stating that sales volumes were good for the time of year for the first time in 2021, with the respective net balance leaping from -37% in March to +16%, the highest since June 2018. In addition, sales were expected to remain above seasonal norms in the year to May supported not least by continued strong growth in internet sales as well as sales in bricks-and-mortar stores. With consumers continuing to spend more on their homes, DIY-related items as well as furniture and related hardware were reported to be particularly strong in April, but sales of clothing and footwear remained below seasonal norms despite improved weather. Orders placed by retailers were broadly unchanged in the year to April, with the inventories-to-expected-sales ratio judged to be broadly adequate, albeit with the survey balance the lowest since 2009. Like retailers, auto traders (a net balance of +21%) and wholesalers (a net balance of +11%) reported that sales were good for the time of year in April for the first time in six months and five months respectively. However, both sectors reported stock levels in relation to expected sales as inadequate, the former at least likely reflecting supply-chain disruption. Separately, Springboard reported that retail footfall in the week ending 17 April had jumped more than 30ppts to 75% of its level in the same week of 2019, similar to that seen in early September. Coupled with today's survey, that reinforces our expectation of a further rise in the official retail sales figures in April back to the range of the second half of last year.

The day ahead in the UK

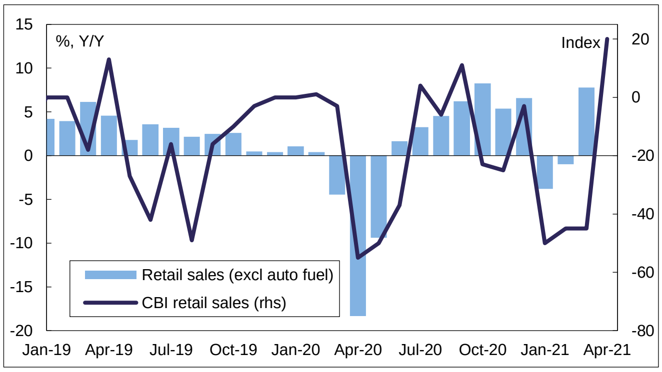
Tomorrow should be uneventful in the UK, bringing only the release of the BRC shop price index for April, which will give an indication as to whether shops responded to stronger demand this month by rebuilding margins.

Italy: National Recovery and Resilience Plan



Source: Italian Government and Daiwa Capital Markets Europe Ltd.

UK: Retail sales indicators



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country		Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
France		Total jobseekers '000s	Q1	**3561**	-	3574	**3573**
Italy		ISTAT economic confidence	Apr	**97.3**	-	93.9	**94.2**
		ISTAT consumer confidence (manufacturing)	Apr	**102.3 (105.4)**	101.8 (102.1)	100.9 (101.2)	**- (101.9)**
UK		CBI distributive trades, reported sales	Apr	**30**	-	-28	**-**

Auctions

Country		Auction
Germany		sold €3.253bn of 0% 2028 bonds at a yield of -0.41%
Italy		sold €3.75bn of 0% 2022 bonds at a yield of -0.3%
		sold €1.00bn of 0.65% 2026 index-linked bonds at a yield of -0.92%
		sold €750mn of 0.15% 2051 index-linked bonds at a yield of 0.39%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country		BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
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

Auctions and events

Country		BST	Event
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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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