

# Euro wrap-up

## Overview

- Bunds were little changed as the account of the ECB's April meeting gave few insights into the likely future path of PEPP asset purchases.
- Gilts followed USTs higher on a quiet end to the week for economic news from the UK.
- The coming week brings the flash May PMIs along with the latest UK data for inflation, retail sales and the labour market.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.666	-
OBL 0 04/26	-0.518	-0.003
DBR 0 02/31	-0.126	-0.004
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.078	-0.016
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.384	-0.021
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.863	-0.032

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

Source: Bloomberg

## Euro area

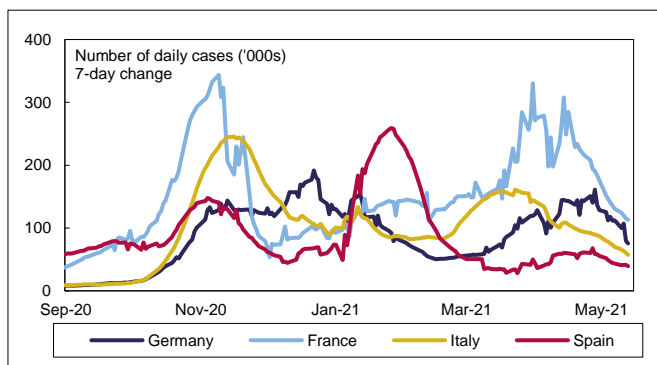
### ECB unsure about future path of household spending

Just as the [post-meeting press conference](#) had been largely unilluminating, today's account of the 22 April Governing Council meeting similarly failed to provide much additional insight into the likely path of ECB asset purchases beyond the end of the current quarter. Indeed, with the policy decision to be determined at the next meeting on 10 June based upon assessments of the inflation outlook and financial conditions, the issue appears simply not to have been addressed. Instead, by and large, the discussion among the policymakers last month appears to have been focused largely on economic conditions. Among other things, it was agreed that "the current situation remained fragile and subject to a high degree of uncertainty" and "that the risks surrounding the euro area growth outlook over the near term continued to be on the downside while medium-term risks remained more balanced". But, like the other major central banks, the ECB is particularly unsure quite how vigorous consumer spending will be once pandemic restrictions are lifted. In its baseline forecasts, it assumed that the household saving ratio would gradually return to its pre-crisis level but also that there would not be any substantial unwinding of the excess savings accumulated during the pandemic. That would seem to leave scope for an upside surprise if households decide to spend some of those extra savings. Indeed, the account noted that at least one member now judged the medium-term risks to be "marginally tilted to the upside".

### Governing Council looking through rise in inflation unless expectations pick up

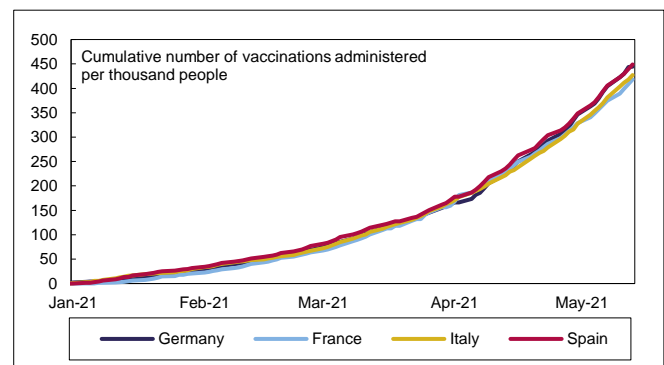
Meanwhile, although the ECB's inflation outlook for 2021 and 2022 had been revised up, the Governing Council "generally agreed on the importance of looking through the increase in inflation in the short term – which was expected to be temporary – as well as the heightened volatility expected over the coming 12 months." While it was acknowledged that there could be some extra upward pressures on inflation in the short run resulting from supply chain disruptions coinciding with a recovery in demand, underlying inflation was judged generally to have remained subdued. Notably, there was clearly still a meaningful degree of slack in the labour market and no evidence that wage-setting was picking up significantly. But while there was also "no risk seen, at present, that inflation expectations would become unanchored to the upside... the implications of higher headline inflation during 2021 for inflation expectations and possible second-round effects would need to be monitored." Meanwhile, there was agreement that euro area financing conditions had remained broadly stable across the whole monetary transmission chain since the March policy meeting. And while recent strength in the prices of risky assets raised concerns, the overall constellation of financial conditions was "widely" judged to have validated the Governing Council's decision to "significantly increase" the pace of net PEPP purchases, "effectively insulating euro area financing conditions from global spillovers and preventing a premature tightening".

### New Covid-19 cases



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Covid-19 vaccine doses administered



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Marked improvement in pandemic trend since April ECB meeting

Since that April policy meeting, the near-term economic outlook has improved materially. Encouragingly, the vaccination rollout has accelerated, with the total number of doses administered in Germany, France and Italy up by more than 50%. And by the time of the Governing Council's next meeting, some 50% of the population might well have received at least one dose. Moreover, the incidence rate of Covid-19 has fallen significantly, with the weekly incidence of new cases in the three largest member states having near-halved. According to the Robert Koch Institute, German new infections per 100k people over the past seven days today dropped below the key 'emergency brake' threshold of 100 level for the first time in almost two months, which should open the door to an easing of restrictions over coming days after some states (Schleswig-Holstein and Baden-Wuerttemberg) already moved to reopen certain services. In France, from next Wednesday, outdoor service will be permitted at cafes and restaurants, and some cultural and entertainments will also be able to reopen, while indoor service in hospitality will resume from 9 June. And in Italy, where outdoor service has already been allowed in most regions, the government today relaxed quarantine measures on visitors from other EU countries, the UK and Israel. It anticipates that many regions will see the new case-count drop below 50 cases per 100k to allow further easing of restrictions in June.

## Financial conditions still accommodative despite rising nominal yields

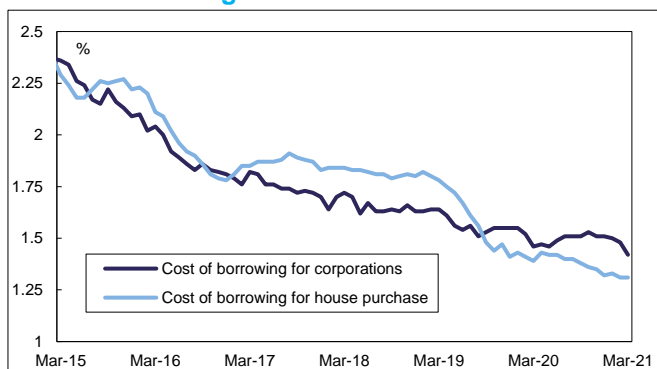
With ongoing easing of restrictions anticipated, economic survey indicators – such as the flash May PMIs due a week today – should point to a firm pickup in activity this quarter, and acceleration into Q3. So, when it meets again next month, the Governing Council seems highly unlikely to see the near-term risks as skewed still to the downside. It might well revise up its near-term GDP forecast too. The inflation outlook from Q2 to Q4 is also likely to be revised up. Moreover, despite recent further increases in nominal sovereign yields, pushing 10Y Bund yields to two-year highs and the euro area GDP-weighted 10Y yield up almost 20bps since the March meeting, financial conditions do not appear to have tightened to the extent that they will weigh unduly on the medium-term inflation outlook. Indeed, real sovereign yields are not significantly higher, credit spreads remain tight, and the main European equity indices haven't weakened significantly since the April meeting. And recent bank data have suggested no major tightening of credit conditions, with a [surge in new lending](#) to firms in March while average interest rates on both corporate loans and mortgages remain historically low. In June, the doves on the Governing Council will still fear that market developments – in response to the growth outlook abroad or fears of higher inflation in the euro area itself – might yet cause an unwarranted tightening of financial conditions. But the hawks seem highly likely to argue for a moderation in the pace of PEPP purchases back to the average rate close to €60bn per month registered from July 2020 to March 2021. And it is not yet clear which camp will win the day.

## The week ahead in the euro area

The most notable new data of the coming week will come on Friday in the shape of May's flash PMIs. These are expected to point to an acceleration in the pace of expansion in services with the euro area activity PMI for the sector forecast to rise about 1.5pts to 52.0, the highest since July 2020. That would illustrate the impact of an easing in lockdown measures across certain member states, the moderation in the number of new coronavirus cases, and the accelerated vaccination programme now firmly underway. Meanwhile, the euro area manufacturing output PMI is expected to remain close to the record highs above 63 recorded in March and April. But the survey will also likely report backlogs close to record highs and continued very strong price pressures in the sector too. The euro area composite PMI is expected to rise from 53.8 in April to close to 55, which would be the highest since the first half of 2018, underscoring the likelihood of a firm return to positive GDP growth in Q2. Other May survey indicators due in the coming week include the European Commission's preliminary consumer confidence survey on Friday, which seems likely to report an improvement in optimism this month.

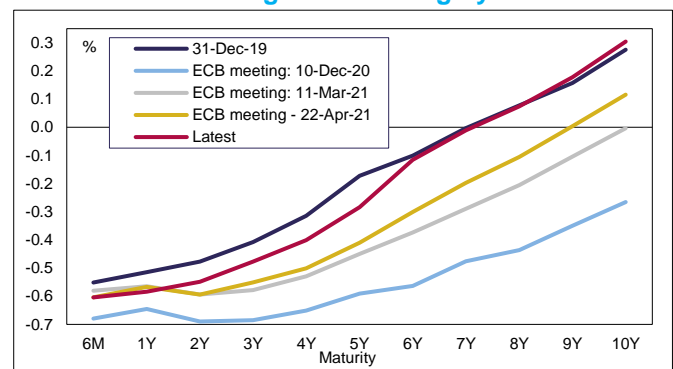
The data calendar will kick off with final inflation figures for April, with the Italian data out on Monday, followed by the euro area numbers on Wednesday. The flash estimate of euro area inflation in April rose 0.3ppt to 1.6%Y/Y, the highest since April 2019. The rise was driven principally by energy inflation, which – largely due to base effects – accelerated to the highest since October 2018. In contrast, food inflation fell to the lowest since November 2016. Prices of non-energy industrial goods rose 0.5%Y/Y, up from March but still a subdued rate to suggest that supply-side pressures continue to be largely absorbed by producers' and retailers' margins. And services inflation fell to a four-month low of 0.9%Y/Y. As a result, core inflation

### Euro area: Average interest rates on bank loans



Source: ECB and Daiwa Capital Markets Europe Ltd.

### Euro area: GDP-weighted sovereign yield curve



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

moderated to 0.8%Y/Y. We expect the flash estimates to be confirmed – while earlier this week French HICP inflation was revised down by 0.1ppt from the flash estimate to 1.6%Y/Y, today's Spanish figures revised up the equivalent rate by 0.1ppt to 2.0%Y/Y, marking a rise of 0.8ppt on the month and the highest since October 2018. Meanwhile, the updated estimate of euro area Q1 GDP (due Tuesday) will likely reaffirm the modest drop of 0.6%Q/Q to be down 1.8%Y/Y, while employment data for the first quarter are also due that day. Euro area activity data due in the coming week will include March figures for goods trade (Tuesday) and construction output (Thursday), while April's total new car registrations figures for the region will be published on Wednesday. Finally, beyond the data, euro area finance ministers will meet on Friday for an informal discussion about macroeconomic and fiscal developments and to share insights from the Covid-19 pandemic. EU finance ministers and central bank governors will also meet subsequently to exchange views at the same event in Portugal.

## UK

### RICS survey reports significant house price momentum amid supply shortage

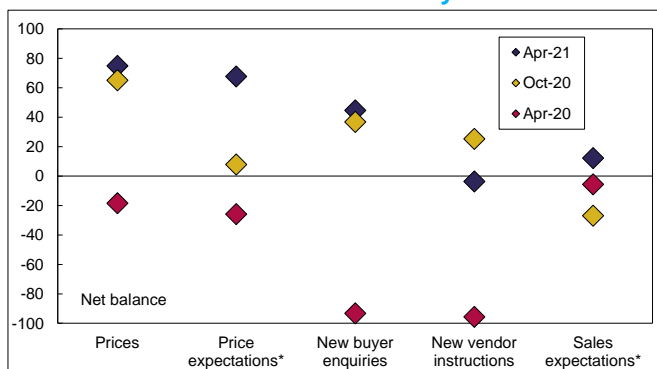
With UK house prices on the official ONS series having risen in February by 8.6%Y/Y, the most since 2014, yesterday's RICS residential market pointed to additional pressure in April against the backdrop of a shortage of supply. Indeed, the RICS survey net balance of surveyors reporting house price growth rose 13ppts to +75%, the highest in 31 years, with gains reported in every region of the UK. RICS also reported that an increased number of surveyors expect home prices to continue to rise over the coming quarter, with the respective net balance up 4ppts to +47%. And a net balance of +68% of surveyors expect prices to rise over the coming year. The price rises come against the backdrop of a pickup in demand, with the net balance of new buyer enquiries up to +44% the highest since September, as economic reopening progresses in line with the easing of the pandemic. Policy measures have also played a role, not least the extension of the increase in the stamp duty threshold (from £125k to £500k) to June before tapering through to September, and a new 95% mortgage guarantee scheme. The large amount of extra household savings accumulated throughout the pandemic is also likely playing a role, with a BoE survey having suggested that some 12.5% of households were considering putting those funds towards a deposit on the purchase of a new property. At the same time, however, the net balance of new instructions from owners looking to sell-up dropped to -4%, down 25ppts while the stock of unsold homes reported by estate agents fell too.

### The week ahead in the UK

The coming week will be a busy one for UK economic data bringing, among other releases, the latest labour market report (Tuesday) and inflation figures (Wednesday), as well as retail sales data, the GfK consumer confidence survey and flash PMIs (Friday). With the government's Job Retention Scheme still in operation alongside pandemic restrictions, but GDP growth at the end of Q1 having been firm at 2.1%M/M, the unemployment rate could nudge down 0.1ppt to 4.8% in the three months to March. Meanwhile, we expect the inflation data to report a leap of 0.9ppt in the headline CPI rate to a fourteen-month high of 1.6%Y/Y in April, thanks in particular to further upward pressure from energy prices, including higher domestic fuel bills. However, we also expect a pick-up in inflation of clothing and footwear as well as services to be reflected in an increase in the core CPI measure to 1.5%Y/Y, the highest since July 2020. With surveys such as that of the [BRC](#) having been upbeat, consumer confidence improving and non-essential stores having reopened in England from the 12<sup>th</sup> of the month, we expect to see growth of about 5%M/M in retail sales (both including and excluding auto fuel) in April, to push the level of sales close to October's pandemic-era high, up about 6½% from the pre-pandemic level in February 2020 and some 38% above the level a year earlier. And with the economy continuing steadily to reopen – and from Monday, pubs, restaurants and cafes will be able to serve indoors while many indoor entertainment and leisure facilities will also be allowed to reopen – the flash PMIs should remain consistent with firm growth this month, with the composite PMI likely to remain close to April's high of 60.7, thanks not least to ongoing improvement in the services sector.

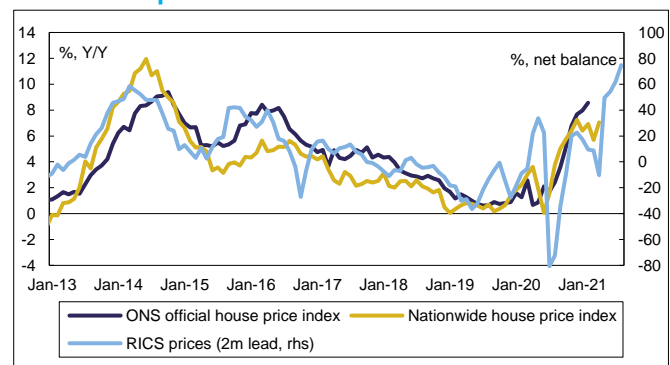
The next edition of the Euro wrap-up will be published on 18<sup>th</sup> May 2021

### UK: RICS residential market survey indicators


















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

### UK: House price indicators





Source: Refinitiv 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	-0.6	1.4	1.8	1.2	1.0	-6.7	3.9	4.3
Germany		0.5	-1.7	1.8	1.5	1.4	1.0	-5.1	2.7	4.4
France		-1.4	0.4	1.0	1.4	1.2	1.2	-8.2	5.9	4.4
Italy		-1.8	-0.4	1.5	1.7	1.4	1.3	-8.9	4.3	5.1
Spain		0.0	-1.0	1.6	2.0	1.6	1.5	-10.8	4.9	6.2
UK		1.3	-1.5	3.5	3.2	2.5	1.0	-9.8	6.6	6.2
<b>Headline and Core CPI</b>										
Euro area										
Headline CPI		-0.3	1.1	1.7	1.9	2.1	1.0	0.3	1.7	1.1
Core CPI		0.2	1.2	0.7	0.8	1.2	0.4	0.7	1.0	0.8
UK										
Headline CPI		0.5	0.6	1.6	1.8	2.4	2.3	0.9	1.6	1.9
Core CPI		1.3	1.1	1.5	1.7	2.0	1.9	1.4	1.6	1.7
<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/ Daiwa forecast	Previous	Revised	
Spain	 Final CPI (EU-harmonised CPI) Y/Y%	Apr	<b>2.2 (2.0)</b>	2.2 (1.9)	1.3 (1.2)	-	
Auctions							
Country	Auction						
Italy	 sold €4.5bn of 0.5% 2028 bonds at an average yield of 0.69%						






























Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
UK	 RICS house price balance %	Apr	<b>75</b>	62	59	<b>62</b>	
Auctions							
Country	Auction						
Italy	 sold €3bn of 0% 2024 bonds at an average yield of -0.06%						
	 sold €1.75bn of 1.7% 2051 bonds at an average yield of 2.06%						

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> <i>forecast/actual</i>	Previous
<b>Monday 17 May 2021</b>					
Italy		09.00 Final CPI (EU-harmonised CPI) Y/Y%	Apr	1.1 (1.0)	0.8 (0.6)
UK		00.01 Rightmove house price index M/M% (Y/Y%)	May	-	2.1 (5.1)
<b>Tuesday 18 May 2021</b>					
EMU		10.00 GDP Q/Q% (Y/Y%)	Q1	-0.6 (-1.8)	-0.7 (-4.9)
		10.00 Preliminary employment Q/Q% (Y/Y%)	Q1	-	0.3 (-1.9)
		10.00 Trade balance €bn	Mar	19.1	18.4
UK		07.00 Unemployment claimant count rate % (change '000s)	Apr	-	7.3 (10.1)
		07.00 Average earnings including bonuses (excluding bonuses)	Mar	4.5 (4.6)	4.5 (4.4)
		07.00 ILO unemployment rate 3M	Mar	4.9	4.9
		07.00 Employment change 3M/3M, '000s	Mar	48	-73
<b>Wednesday 19 May 2021</b>					
EMU		07.00 EU27 new car registrations	Apr	-	87.3
		10.00 Final CPI (Core CPI) Y/Y%	Apr	1.6 (0.8)	1.3 (0.9)
UK		07.00 CPI (Core CPI) Y/Y%	Apr	1.5 (1.3)	0.7 (1.1)
		07.00 PPI input prices (output prices) Y/Y%	Apr	8.5 (3.4)	5.9 (1.9)
		09.30 House price index Y/Y%	Mar	7.7	8.6
<b>Thursday 20 May 2021</b>					
EMU		09.00 ECB current account balance €bn	Mar	-	25.9
		10.00 Construction output M/M% (Y/Y%)	Mar	-	-2.1 (-5.8)
Germany		07.00 PPI Y/Y%	Apr	5.2	3.7
UK		- CBI industrial trends survey, total orders	May	0	-8
<b>Friday 21 May 2021</b>					
EMU		09.00 Preliminary manufacturing (services) PMI	May	62.5 (52.4)	62.9 (50.5)
		09.00 Preliminary composite PMI	May	55.1	53.8
		15.00 European Commission's preliminary consumer confidence	May	-6.5	-8.1
Germany		08.30 Preliminary manufacturing (services) PMI	May	65.9 (52.0)	66.2 (49.9)
		08.30 Preliminary composite PMI	May	57.2	55.8
France		08.15 Preliminary manufacturing (services) PMI	May	58.5 (53.0)	58.9 (50.3)
		08.15 Preliminary composite PMI	May	53.7	51.6
UK		00.01 GfK consumer confidence	May	-12	-15
		07.00 Retail sales including fuel M/M% (Y/Y%)	Apr	4.5 (36.5)	5.4 (7.2)
		07.00 Retail sales excluding fuel M/M% (Y/Y%)	Apr	4.5 (32.0)	4.9 (7.9)
		09.30 Preliminary manufacturing (services) PMI	May	60.7 (62.2)	60.9 (61.0)
		09.30 Preliminary composite PMI	May	62.0	60.7

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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

Country	BST	Event / Auction
<b>Monday 17 May 2021</b>		
UK	 15.00	BoE Chief Economist Haldane scheduled to speak
<b>Tuesday 18 May 2021</b>		
EMU	 15.00	ECB President Lagarde participates in Generation Euro Students Awards, with Q&A
Germany	 10.30	Auction: €6bn of 0% 2023 bonds
UK	 10.00	Auction: £3.25bn of 0.125% 2024 bonds
	 11.30	Auction' £2.25bn of 1.25% 2041 bonds
<b>Wednesday 19 May 2021</b>		
EMU	 08.20	ECB's Panetta gives pre-recorded speech at the Finnish Payments Forum
	 09.00	ECB publishes its Financial Stability Review – May 2021
	 16.50	ECB Chief Economist Lane participates in the Dublin Climate Dialogues
Germany	 10.30	Auction: €4bn of 2031 bonds
UK	 10.00	Auction: £2.5bn of 0.625% 2035 bonds
<b>Thursday 20 May 2021</b>		
EMU	 10.00	ECB Chief Economist Lane participates in a panel discussion at the Institute of International and European Affairs
	 13.00	ECB President Lagarde participates in a panel discussion on 'Gender, Money and Finance'
France	 10.50	Auction: fixed rate and index-linked bonds
Spain	 09.30	Auction: 3Y, 7Y and 10Y bonds
UK	 10.05	Deputy BoE Governor Cunliffe to speak at the Law Society
<b>Friday 21 May 2021</b>		
EMU	 -	Euro area finance ministers meet (two-day event)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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