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Alex Fusté

[@AlexfusteAlex](#)

alex.fuste@andbank.com

The Eurozone economy regains momentum

What follows is a summary of the situation in Europe.

Economy

- The Eurozone economy regained some lost momentum with growth increasing by an annualized 1.5% in Q1 as French growth steadied and Spanish growth accelerated.
- Weakness in exports during Q1 had fed pessimism among manufacturers, but businesses that sell mostly to Eurozone consumers are in a more upbeat mood as unemployment continues to fall and wages rise more rapidly.
- The Italian economy also moved out of recession, with growth coming in at 0.2% in Q1, which was better than the 0.1% consensus.
- On the industrial front, we could be closer to witnessing some relief. We do not envisage a steep rebound, rather a stabilization from the industrial side in the coming months.
- This, together with continued supportive signs from the service sector, could put an end to the long phase of downward revisions for European growth.

Markets

- The euro picked up after stronger-than-expected growth data, together with robust inflation reading from Germany's industrial heartlands.
- This helped to ease the worst of investors' concerns about the currency area's lackluster economy.
- Government bonds reacted with timid increases in yields, but the amount of negative-yielding government bonds outstanding is a 20% higher than last year (bonds with negative yield amount to ~€9.5T, the highest level since 2016).
- The gap between yields in US Treasuries and similar maturities in Germany is at nearly 3%, about what foreign investors pay on an annualized basis to hold against FX fluctuations, causing many investors in Europe to opt for continuing buying negative-yielding European debt (and pushing those yields even lower).

Politics (EU)

- German chancellor Merkel and French president Macron have suggested to six western Balkan countries aspiring to EU membership that there is little immediate prospect of their joining the bloc.
- European leaders told them “to get their houses in order first”, with an emphasis on these countries to pursue political stability before they could join the bloc.

Best regards