

Euro wrap-up

Overview

- Bunds made modest losses while today's German figures showed a slight moderation in producer price deflation.
- Following a lacklustre UK retail sales report for March, Gilts made gains as BoE Deputy Governor Ramsden judged that risks to the inflation outlook are tilted to the downside and expressed greater confidence that inflation persistence should ease.
- April sentiment surveys will dominate the European coming week's dataflow, with the flash PMIs and consumer confidence most notable.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/26	2.999	+0.024
OBL 2.1 04/29	2.524	+0.016
DBR 2.2 02/34	2.498	+0.003
UKT 0½ 01/26	4.359	-0.080
UKT 0½ 01/29	4.126	-0.058
UKT 4½ 01/34	4.231	-0.040

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

Euro area

German producer prices suggest consumer goods inflation should remain subdued for now

Reflecting the downtrend in global goods price pressures and better balance between supply and demand, today's German producer price figures suggested that core consumer goods inflation should remain very subdued over coming months even if PPI deflation is moderating. While producer prices rose in March for a second month in six (0.2%M/M), that left the annual PPI rate still firmly in negative territory at -2.9%Y/Y, albeit the softest pace of decline since July and 6.3ppts above September's trough. Core producer prices (excluding energy) rose for a third successive month and by a slightly firmer 0.3%M/M. But reflecting base effects, annual core PPI inflation was unchanged at February's near-eight-year low of -0.8%Y/Y, suggesting still very weak underlying pressure.

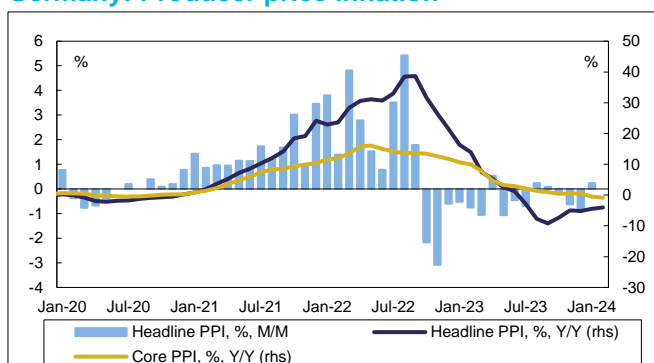
Producer food prices picked up in March but other components were well behaved

Within the detail, the pickup in German producer prices on the month in March was principally driven by non-durable consumer goods prices, which rose 0.6%M/M – the most in thirteen months – amid a second monthly rise out of ten in food prices (0.9%M/M). Nevertheless, this merely pushed up the respective annual rate by 0.1ppt above February's three-year low to 0.3%Y/Y. Meanwhile, durable consumer goods inflation fell ½ppt to 1.0%Y/Y, the capital goods component (2.8%Y/Y) was unchanged at a 2½-year low and intermediate goods inflation (-3.7%Y/Y) remained a drag for an eleventh consecutive month. Today's release also suggested that producer energy prices were unchanged in March, following five consecutive monthly declines, as lower natural gas and heating oil charges offset higher mineral oil and electricity costs. This left the annual energy PPI rate still highly negative at -7.0%Y/Y, albeit some 3.1ppts softer than the pace of decline in February and the smallest drag since last June.

Soft demand to restrain firms pricing power despite higher energy costs

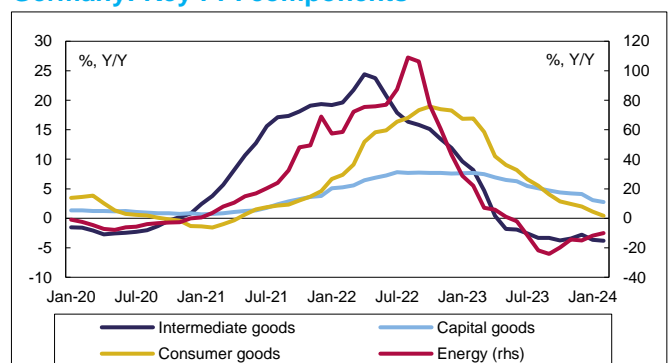
Looking ahead, prices won't be immune to recent geopolitical events. Increases in shipping costs due to the rerouting of cargo ships to avoid the Red Sea should be modest. But average prices of Brent crude oil and wholesale gas in April have been some 5% and 8% above the respective March levels. And, for consumers, petrol prices have so far risen more than 3½% so far this month, while the ending of a reduced VAT rate will increase household gas and district heating bills by about 11%. But lacklustre demand for German goods should constrain firms' ability to pass on their additional energy costs to consumers. And while demand for services appears to be gradually improving – hospitality sales in January and February trended some 0.7% above the Q4 level – significant base effects mean that inflation of that component, and core consumer price inflation overall, should ease back further over coming months.

Germany: Producer price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Key PPI components



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Construction made positive contribution to GDP growth in Q1 thanks to mild weather

Having contracted in each of the prior three quarters, the construction sector appears to have made a positive contribution to euro area GDP growth in Q1. Indeed, yesterday's data showed that construction output rose for the third successive month in February and by 1.8%M/M, the most in twelve months, to a twelve-month high. While it was still down 0.4%Y/Y, production was some 4.5% above the pre-pandemic level. Growth was broad-based across the sector. Building work (3.5%M/M) rose to a five-month high, albeit remaining 4.6% below the pre-pandemic level. And civil engineering (4.1%) rose to the highest level since 2009, some 8.7% above the pre-pandemic benchmark. While the strength in civil engineering in part reflects the boost from NextGenerationEU funds, output in February was clearly exaggerated by unseasonably mild winter weather. Indeed, the average temperature for the month was the warmest on record in Germany (7.9%M/M), Netherlands (4.3%M/M), Belgium (2.3%M/M), Austria (9.3%M/M), Slovakia (5.4%M/M) and Slovenia (6.3%M/M), as well as Italy for which the data have not yet been published. Vigorous growth in construction output in February took the average level in the first two months of the year 1.3% above the Q4 average. So, while there was likely negative payback in March, construction output certainly grew in Q1. And the strength of activity in the sector in Germany, which was trending 4.6% above the Q4 level, is one reason why the Bundesbank now thinks that GDP in the euro area's largest member state grew modestly in Q1 following the contraction in Q4.

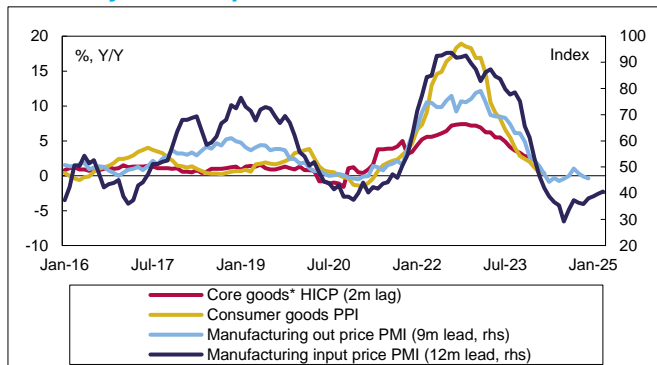
Expect construction output to slip back in Q2 with only modest growth at best in H2

Looking ahead, the rise in building permits in December to a ten-month high hinted at further growth in the not-too-distant future. And improved home affordability following the past year's price falls, as well as a slight drop in mortgage rates, might raise hopes of a turnaround in the house-building sector. However, NextGenerationEU and associated civil engineering projects appears to have remained the key driver in growth in building permits, with residential permits were still down more than 10%Y/Y at year-end. Survey indicators of construction sector confidence and order books, particularly in housing, remain very subdued. So, we expect to see a renewed drop in output in Q2 as the weather boost last quarter wears off. And with interest rates set to fall only gradually, and thus likely to continue to weigh on both residential and commercial building demand, growth in the second half of the year will likely be soft at best.

The coming week in the euro area

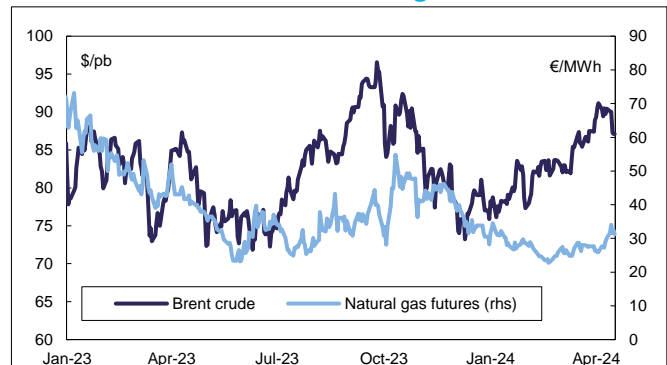
April sentiment surveys will dominate the euro area data flow in the coming week, with the most notable release the flash PMIs on Tuesday. The euro area's composite index signalled a further stabilisation in the economy at the end of Q1, rising to

Germany: Goods price indicators



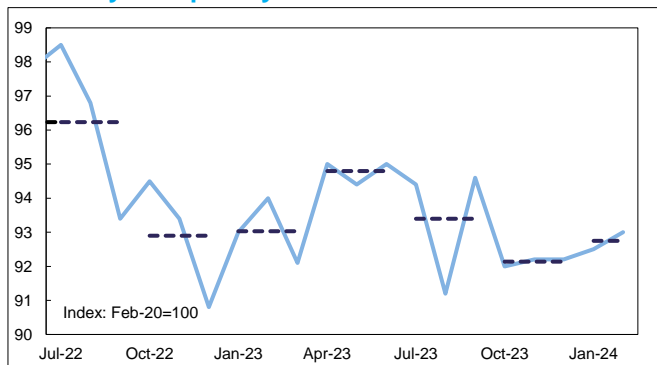
*Non-energy industrial goods. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Brent crude oil & Dutch natural gas futures



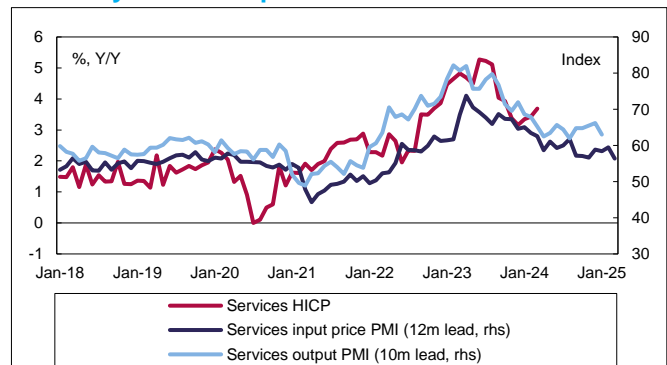
Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Germany: Hospitality sales*



*Dashed dark blue line represents quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Services price indicators



Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

a ten-month high in March (50.3). The recovery momentum was more convincing in the services sector, where the respective activity PMI rose to a nine-month high (51.5). And while the manufacturing output index was still consistent with ongoing contraction, at 47.1 it was nevertheless the highest since last April. Admittedly, given more acute manufacturing weaknesses signalled in the respective German and French indices, and relatively subdued demand in services, the German and French composite PMIs remained firmly below the key-50 'stagnation' level in March. But with sentiment expected to have improved slightly further in the larger member states at the start of Q2 while steady expansions continued elsewhere in the region, the euro area composite PMI is forecast to rise for a fifth month out of the past six in April to 50.8. The German Ifo, Italian ISTAT (both Thursday) and French INSEE (Thursday) business surveys will also provide an update on conditions in the retail and construction subsectors. Meanwhile, ahead of the PMIs, the Commission's preliminary consumer confidence index for April is due (Monday). Having risen to a more than two-year high in March (-14.9), the headline sentiment index is expected to improve slightly further at the start of Q2, albeit remaining well below the levels ahead of Russia's invasion of Ukraine. The German GfK, Italian ISTAT (Thursday) and French INSEE (Friday) consumer confidence surveys will provide a more detailed assessment of sentiment.

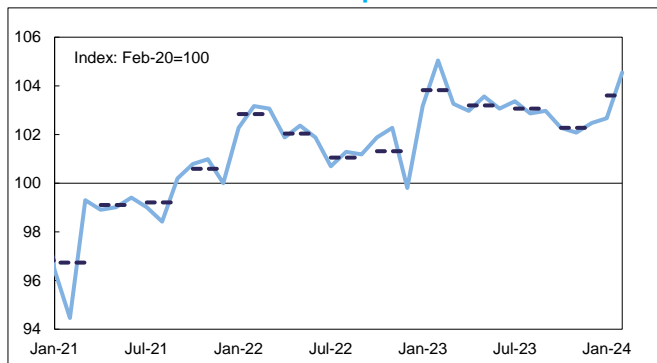
Attention at the end of the week will also be on the ECB's bank lending figures, which are likely to suggest that loans to businesses and for house purchase remained relatively subdued in March as elevated borrowing costs continue to weigh on demand. Meanwhile, the ECB's consumer expectations survey will be watched for a further moderation in inflation expectations. In the previous survey, household expectations for inflation in twelve months' time dropped to a two year-low. But what matters more for the ECB's monetary policy decision is expectations over the medium term, and the respective median forecast for three years ahead merely moved sideways for a third consecutive month at an above-target 2.5%Y/Y.

UK

While February & March were lacklustre, retail sales growth in Q124 was strongest since Q221

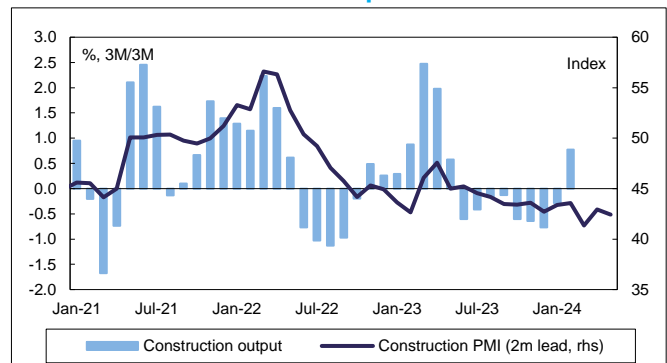
Retail sales volumes fell short of expectations in March, being flat on the month compared to the consensus expectation of moderate growth. The rise in February of 0.1%M/M represented a modest upwards revision from the previous estimate. But thanks to the rebound in January (3.7%M/M, the strongest in almost three years) from the sharp drop the prior month, sales volumes rose 1.9%Q/Q in Q1 to mark the strongest quarter of growth since Q221. Nevertheless, given the significant weakness of sales through the second half of 2023, the level of sales in Q1 was no higher than in Q2 last year, while the level in March was just 0.2% above that in November and still 1.1% below the pre-pandemic benchmark. Sales were given a boost by petrol stations (up 3.2%M/M) while food sales fell for a second successive month (-0.7%M/M). While those at

Euro area: Construction output*



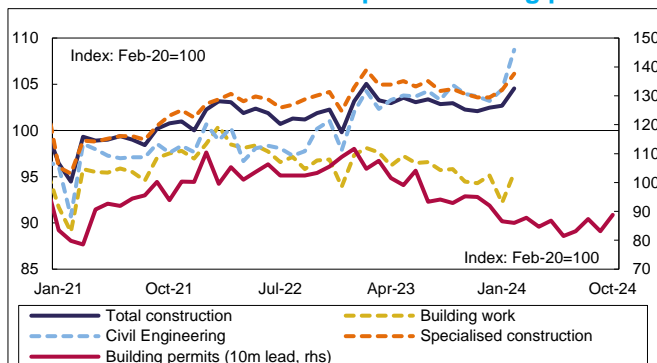
*Dashed dark blue line represents quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Construction output & PMI



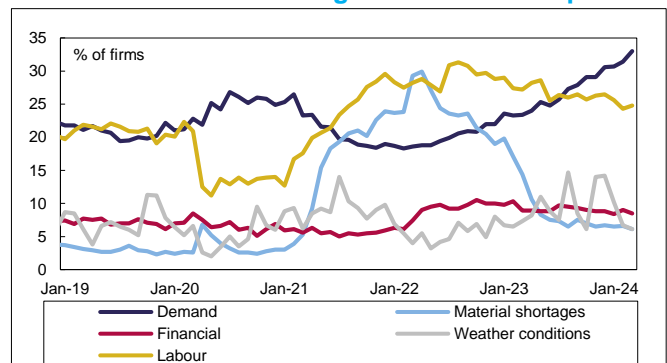
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Construction output & building permits



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Factors limiting construction output



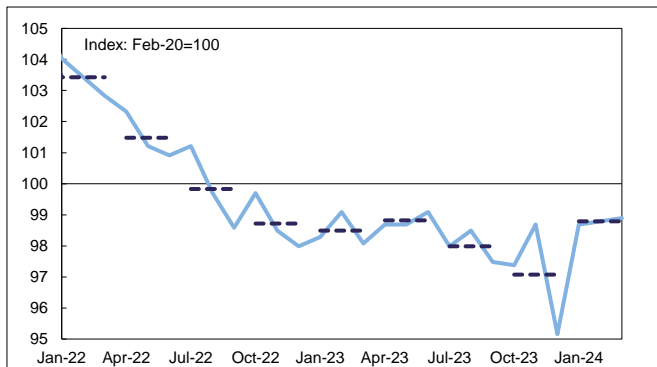
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

specialist stores for items such as clothing, furniture and household goods were all firmer in March, they remained several percentage points below the respective pre-pandemic levels. And sales at department stores and online both fell. With prices on average flat in March, like volumes, sales values were also unchanged on the month in March to be up 1.7%Q/Q in Q1. That, however, was merely the strongest rate in three quarters illustrating how consumers spent more to buy less due to high inflation earlier last year. Looking ahead, positive growth in household real incomes should support growth over coming quarters. However, with consumer purchase intentions still historically low, the lacklustre performance of sales in February and March is likely to be far more representative of the trend than the strong headline growth rate of the first quarter as a whole.

The coming week in the UK

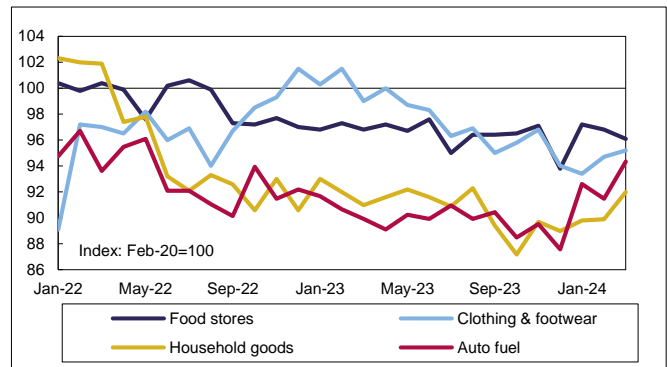
Like in the euro area, the most noteworthy release in the UK in the coming week will be the flash April PMIs on Tuesday. Despite moderating slightly in February and March, the composite PMI in Q1 (53.7) signalled a return to positive GDP growth at the start of 2024, following the recession in the second half of last year. Despite easing for a second successive month in March, the services PMI (53.1) was consistent with steady expansion amid an improvement in domestic demand. And the manufacturing survey pointed to further stabilisation at the end of Q1 too, with the respective index rising for a third successive month in March, by 2.8pts to 50.3, the highest in 13 months. Overall, the composite PMI is expected to move broadly sideways in April, suggesting ongoing recovery momentum at the start of Q2. Ahead of the PMIs, the CBI's industrial trends survey (Monday) will provide further insight into manufacturing conditions in April, with the additional quarterly indices to offer an update on firms' investment and employment intentions. Meanwhile, the CBI's distributive trades survey (Thursday) will give insight into current retail trends, although given the early timing of Easter this year, this might well suggest a slowdown in annual sales growth at the start of Q2. And the latest consumer confidence survey is due on Friday.

UK: Retail sales volumes*



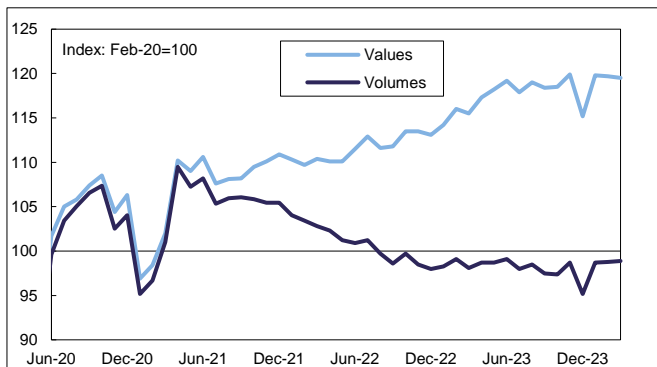
*Dashed dark blue line represents quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes & values



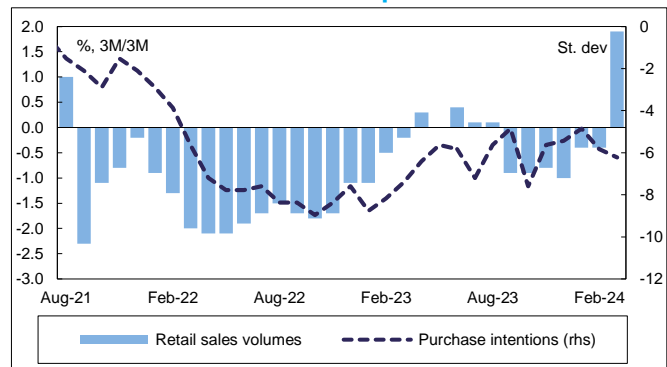
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes & values












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales & consumer purchase intentions





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

Daiwa economic forecasts

	2024				2025		2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	Q/Q%						%, Y/Y		
Euro area 	0.1	0.2	0.2	0.3	0.3	0.4	0.5	0.4	1.3
UK 	0.4	0.2	0.2	0.2	0.2		0.1	0.4	1.0
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.6	2.4	2.2	2.8	2.5	2.1	5.4	2.5	1.8
Core HICP 	3.1	2.3	2.1	2.5	2.1	1.8	4.9	2.3	1.7
UK									
Headline CPI 	3.5	1.9	1.9	2.3	1.9	1.8	7.3	2.5	1.8
Core CPI 	4.6	3.1	2.7	2.7	2.2	1.7	6.2	3.3	1.8
Monetary policy, %									
ECB									
Deposit Rate 	4.00	3.75	3.50	3.25	3.00	3.00	4.00	3.25	2.25
Refi Rate 	4.50	4.25	3.65	3.40	3.15	3.15	4.50	3.40	2.40
BoE									
Bank Rate 	5.25	5.00	4.75	4.50	4.25	4.25	5.25	4.50	3.50

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	
Germany 	PPI Y/Y%	Mar	-2.9	-3.2	-4.1	-	
UK 	Retail sales, including auto fuel M/M% (Y/Y%)	Mar	0.0 (0.8)	0.3 (1.0)	0.0 (-0.4)	0.1 (-0.3)	
	Retail sales, excluding auto fuel M/M% (Y/Y%)	Mar	-0.3 (0.4)	0.4 (1.0)	0.2 (-0.5)	0.3 (-0.4)	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.







The coming week's data calendar

The coming few week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 22 April 2024					
Euro area	10.00	Preliminary Commission's consumer confidence index	Apr	-14.3	-14.9
UK	07.00	Rightmove house price index M/M% (Y/Y%)	Apr	-	1.5 (0.8)
	11.00	CBI industrial trends survey – total orders (selling prices) balance %	Apr	-16 (-)	-18 (21)
Tuesday 23 April 2024					
Euro area	09.00	Preliminary manufacturing (services) PMI	Apr	46.5 (51.8)	46.1 (51.5)
	09.00	Preliminary composite PMI	Apr	50.7	50.3
Germany	08.30	Preliminary manufacturing (services) PMI	Apr	42.7 (50.5)	41.9 (50.1)
	08.30	Preliminary composite PMI	Apr	48.5	47.7
France	08.15	Preliminary manufacturing (services) PMI	Apr	46.8 (48.9)	46.2 (48.3)
	08.15	Preliminary composite PMI	Apr	49.0	48.3
UK	07.00	Public sector net borrowing £bn	Mar	8.8	7.5
	09.30	Preliminary manufacturing (services) PMI	Apr	50.4 (53.0)	50.3 (53.1)
	09.30	Preliminary composite PMI	Apr	52.6	52.8
Wednesday 24 April 2024					
Germany	08.30	ifo business climate index	Apr	88.8	87.8
	08.30	ifo business current conditions (expectations) index	Apr	88.7 (88.9)	88.1 (87.5)
Italy	09.00	ISTAT business (manufacturing) confidence index	Apr	-	97.0 (88.6)
	09.00	ISTAT consumer confidence index	Apr	96.7	96.5
Thursday 25 April 2024					
Germany	07.00	GfK consumer confidence index	May	-26.0	-27.4
France	07.45	INSEE business (manufacturing) index	Apr	101 (103)	100 (102)
UK	11.00	CBI distributive trades survey – reported retail sales balance %	Apr	5	2
Friday 26 April 2024					
Euro area	09.00	M3 money supply Y/Y%	Marr	0.6	0.4
	09.00	ECB CPI expectations 1Y (3Y) ahead Y/Y%	Marr	-	3.1 (2.5)
France	07.45	Consumer confidence index	Apr	92	91
Spain	08.00	Retail sales Y/Y%	Mar	-	1.9
UK	00.01	GfK consumer confidence index	Apr	-20	-21

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.


The coming week's key events & auctions

Country	BST	Event / Auction
Monday 22 April 2024		
Euro area 	16.30	ECB President Lagarde to give lecture at Yale University
Tuesday 23 April 2024		
Germany 	10.30	Auction: €5bn of 0% 2026 bonds
Italy 	10.00	Auction: €2.5bn of 3.2% 2026 bonds
	10.00	Auction: €1.25bn of 1.5% 2029 index-linked bonds
	10.00	Auction: €1.25bn of 1.8% 2036 index-linked bonds
UK 	09.00	BoE's Haskell scheduled to speak on a panel about inflation, expectations and the real economy
	12.15	BoE Chief Economist Pill scheduled to give keynote speech at University of Chicago
Wednesday 24 April 2024		
Germany 	10.30	Auction: €4bn of 2.2% 2034 bonds
Thursday 25 April 2024		
Euro area 	13.00	ECB's Schnabel scheduled to give opening speech at research conference on challenges for monetary transmission
Friday 26 April 2024		
- Nothing scheduled -		



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area 	EU27 new car registrations Y/Y%	Mar	-5.9	-	10.1	-
	Construction output M/M% (Y/Y%)	Feb	1.8 (-0.4)	-	0.5 (0.8)	0.2 (-0.3)

Auctions

Country	Auction
France 	sold €3.24bn of 2.5% 2027 bonds at an average yield of 2.83%
	sold €2.64bn of 0% 2027 bonds at an average yield of 2.85%
	sold €5.17bn of 2.75% 2030 bonds at an average yield of 2.79%
	sold €1.37bn 2.5% 2032 bonds at an average yield of 2.83%
	sold €573mn of 0.1% 2029 index-linked bonds at an average yield of 0.44%
	sold €680mn of 0.6% 2034 index-linked bonds at an average yield of 0.60%
	sold €445mn of 0.55% 2039 index-linked bonds at an average yield of 0.84%
	sold €287mn of 0.1% 2039 index-linked bonds at an average yield of 0.73%
Spain 	sold €1.5bn of 2.5% 2027 bonds at an average yield of 2.986%
	sold €1.53bn of 1.95% 2030 bonds at an average yield of 2.95%
	sold €2.08bn of 3.25% 2034 bonds at an average yield of 3.251%
	sold €1.04bn of 3.45% 2066 bonds at an average yield of 3.865%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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