

Euro wrap-up

Overview

- Bunds followed US10s higher even as euro area consumer confidence rose for a third consecutive month to its highest level since Russia's invasion of Ukraine.
- Gilts also made gains on a quiet day for UK economic news.
- Focus tomorrow will be on the flash April PMIs, with the surveys likely to point to a further gradual improvement in economic conditions in both the euro area and the UK.

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/26	2.959	-0.035
OBL 2.1 04/29	2.492	-0.030
DBR 2.2 02/34	2.484	-0.014
UKT 0½ 01/26	4.302	-0.062
UKT 0½ 01/29	4.076	-0.047
UKT 4½ 01/34	4.204	-0.025

*Change from close as at 5.00pm BST.
Source: Bloomberg

Euro area

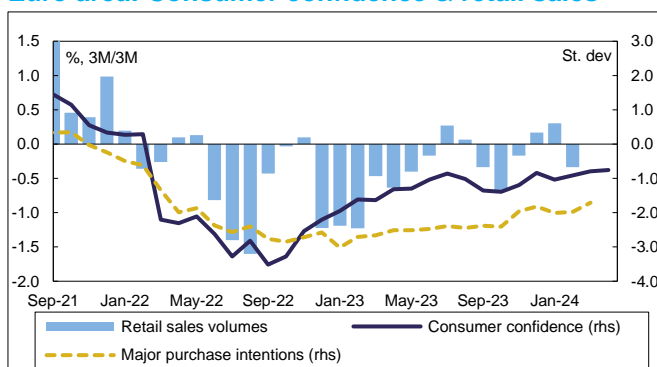
Consumer confidence rises to highest since February 2022

Today's flash Commission consumer confidence index for April signalled a further modest improvement in sentiment in April, raising cautious optimism that household consumption – which rose in nine out of eleven quarters through to Q423 – might pick up momentum at the start of the second quarter as households benefit from rising real disposable incomes. Admittedly, the headline index rose a smaller-than-expected 0.2pt in April to -14.7, but that was nevertheless the highest since the Russian invasion of Ukraine in February 2022 and 0.8pt above the Q1 average. We will have to await the final release next Monday for a detailed survey breakdown. And the equivalent surveys from Belgium and the Netherlands today were mixed and so provided few clues. Consumer sentiment in Belgium fell slightly to an eight-month low as fears of unemployment rose amid the recent announcements of bankruptcies and closure of several firms including high-profile retailers. In contrast, Dutch consumers were less downbeat, with the headline index rising for an eighth consecutive month, by 1pt to -21, the highest since September 2021. While households expressed somewhat greater pessimism about the economic outlook for the coming twelve months, they were more upbeat about the twelve-month outlook for their own financial situation – with the respective index the highest for 2½ years – likely reflecting not least the recent marked easing in price pressures. This notwithstanding, the share of households considering making large purchases in April was unchanged on the month, with the respective index the joint highest for more than two years but nevertheless still well below the long-run average and suggesting that demand for goods will remain subdued for a while yet.

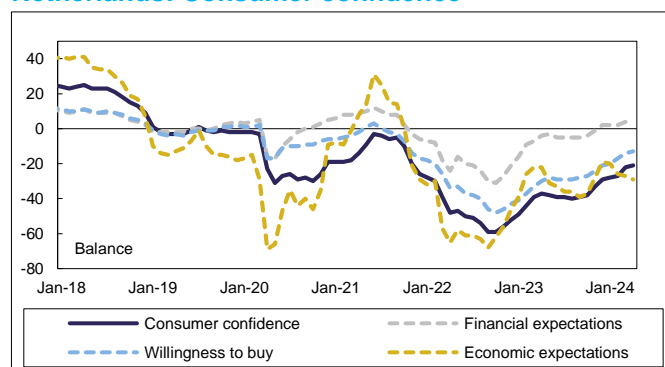
French retail sales posts modest growth in Q1 despite slump in new car sales

There was, however, somewhat more encouraging signs about spending on goods in France at the end of Q1 from the central bank's retail survey. In particular, this suggested that French sales volumes rose for a second successive month in March, by 0.5%M/M, to a seven-month high. While this left them up just 0.3%Y/Y, it marked the first positive annual growth since May 2022. And sales in Q1 posted the first quarterly increase since Q321, albeit by a modest 0.2%Q/Q. While food sales fell for a second successive month in March to be down 0.3%Q/Q, sales of manufactured goods rose a firmer 0.5%Q/Q in Q1 and reached the highest level since July. Solid growth in spending on consumer electronics, clothing, footwear and other transport equipment was partly offset by weakness in demand for furniture, DIY stores and household appliances. Moreover, the survey measure of new car sales fell to the lowest level since January 2023 to be down almost 10%Q/Q, suggesting ongoing reluctance to spend on big-ticket items in the face of persisting economic uncertainties and elevated borrowing costs. Admittedly, in seasonally adjusted terms, the decline in new car registrations across the euro area as a whole was more modest at 1½%3M/3M in March, to leave them up 3%Y/Y. But this still marked the lowest level in nine

Euro area: Consumer confidence & retail sales



Netherlands: Consumer confidence



months. And we continue to expect household spending on big-ticket items to offer little support to GDP growth over the near term.

The day ahead in the euro area

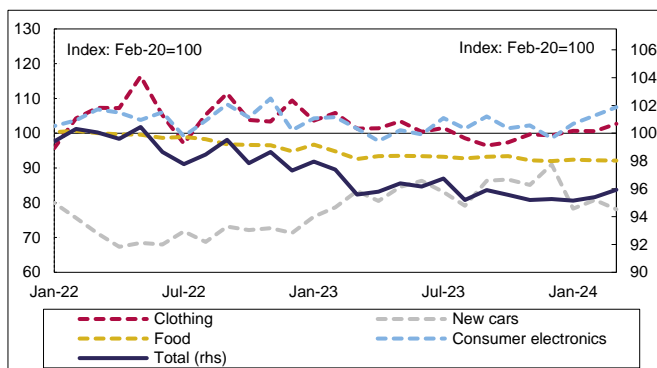
The main focus in the euro area tomorrow will be the flash April PMIs. The region's composite PMI signalled a further stabilisation in the economy at the end of Q1, rising to a ten-month high in March (50.3). And it is expected to rise for the fifth month out of the past six in April, by around ½pt, to suggest a pickup in growth momentum at the start of the Q2. After rising to a nine-month high in March (51.5), the PMIs will also suggest that services continue to drive the recovery, benefiting not least from ongoing steady expansion at the periphery. But given more acute weaknesses in manufacturing, and relatively subdued demand in services, the improvement in the respective German and French composite PMIs will likely remain more limited, probably remaining below the key-50 'stagnation' level in April.

UK

The day ahead in the UK

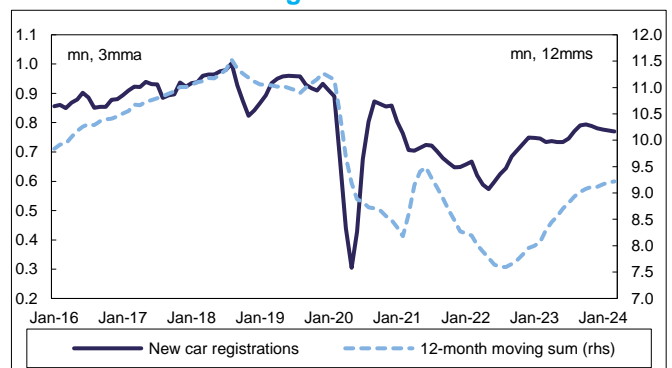
Like in the euro area, tomorrow will bring flash April PMIs from the UK. Despite moderating slightly in February and March, the composite PMI in Q1 (53.7) signalled a return to positive GDP growth at the start of 2024, following the recession in the second half of last year. Overall, the composite PMI is expected to move broadly sideways in April, led by steady growth in services, suggesting ongoing recovery momentum at the start of Q2. The manufacturing PMIs will, however, likely flag ongoing challenges in the sector amid subdued demand. Aside from the data, speeches from the BoE's Chief Economist Pill and external MPC member Haskel will be watched closely for further insights into the near-term monetary policy outlook.

France: BoF retail sales indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: New car registrations





Source: ECB 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
Euro area	 Preliminary Commission's consumer confidence index	Apr	-14.7	-14.3	-14.9	-
UK	 Rightmove house price index M/M% (Y/Y%)	Apr	1.1 (1.7)	-	1.5 (0.8)	-










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
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

Auctions and events

Germany	 10.30	Auction: €5bn of 2.9% 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, Booth School of Business, London

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME 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 derivatives 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 DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME 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 only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME'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.

DCME 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>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at:

https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.