

# Euro wrap-up

## Overview

- While ECB Vice President Luis de Guindos suggested that a rate cut in June is now almost a 'fait accompli', Bunds made losses as the flash PMIs suggested a pickup in growth momentum at the start of Q2.
- Gilts also made losses as the UK flash PMIs pointed to accelerated economic growth momentum and a notable increase in cost pressures in services, while BoE Chief Economist Huw Pill said there is still a 'reasonable way to go' before he is ready to support a rate cut.
- Wednesday will bring further economic sentiment survey results from Germany, Italy and the UK.

Chris Scicluna

+44 20 7597 8326

Emily Nicol

+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	2.903	-
OBL 2.1 04/29	2.663	+0.018
DBR 2.2 02/34	2.503	+0.020
UKT 0½ 01/26	4.339	+0.036
UKT 0½ 01/29	4.129	+0.053
UKT 4½ 01/34	4.249	+0.045

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

## Euro area

### Euro area PMIs signal accelerated recovery momentum at start of Q2

Following yesterday's modest improvement in [consumer confidence](#), today's flash PMIs also signalled a pickup in recovery momentum in the euro area at the start of the second quarter. Indeed, the headline composite PMI exceeded expectations, rising in April for a fifth month out of six and by 1.1pts to an eleven-month high of 51.4. This was more than 2pts above the Q1 average and a level that would, if sustained, imply GDP growth of around 0.2%Q/Q this quarter. The survey suggested that the recovery remains services-led, with the respective activity index rising 1.4pts to an eleven-month high of 52.9. And while today's survey suggests that manufacturing remains a drag, that sector's output PMI (up 0.2pt to 47.3) was nevertheless the highest in a year. While we wonder whether these flash output PMIs were to some extent flattered by the early timing of Easter this year, they reassuringly tally with the ECB's (and our own) forecast of economic growth in Q2.

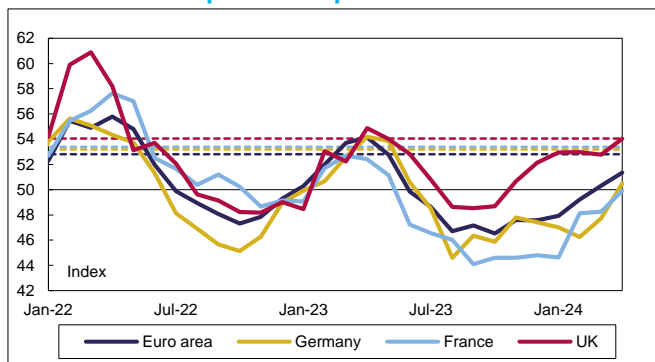
### German PMIs signal return to services-led growth; expansion still firmest at the periphery

Most encouragingly, the German survey suggested a return to growth in the euro area's largest member state in April for the first time since June, with the country's composite PMI jumping 2.8pts – the most since January 2022 – to 50.5, some 3½pts above the Q1 average. As in the rest of the euro area, the German recovery appears to be services-driven, with the respective activity index rising for a third consecutive month and by the most in more than two years to a ten-month high (53.3). The German manufacturing output PMI also suggested a smaller contraction in April (up 1.9pts to 45.0, the second-highest level since last May). Meanwhile, although the PMIs have recently underestimated the strength of French economic activity, today's release similarly reported an eleven-month high in that country's composite PMI (up 1.6pts to 49.9), with the services index more than 3pts above the Q1 average at 50.5. And while the composite PMI for the rest of the region fell back in April, at 53.0, it was still some 0.6pt above the Q1 level suggesting that GDP growth remains strongest at the periphery.

### Services outlook buoyed by demand, manufacturers more upbeat despite ongoing drop in orders

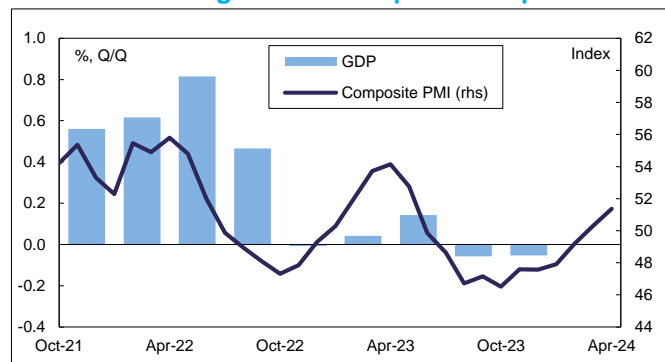
The survey detail offered further encouragement with respect to the near-term outlook in services, with the boost to demand from higher real wages seemingly helping the new business component rise to an eleven-month high (52.1). Firms in the sector also reportedly added to headcount by the most since last June. Admittedly, the near-term outlook for the manufacturing sector remains clouded by ongoing weakness in demand, with the new orders index falling to a four-month low in April (43.8) due to a steeper pace of decline in Germany and France. And factories reportedly looked to scale back their workforces for an eleventh successive month. More positively, firms indicated that supplier delivery times had shortened to the greatest extent since August, suggesting limited impact from the re-routing of cargo around the Red Sea. And with

### Euro area: Composite output PMIs\*



\*Dashed lines represent pre-pandemic 20-year average. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

### Euro area: GDP growth & composite output PMI



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

firms having made progress in reducing excess inventory over the past year or so, and also looking forward to lower borrowing costs, manufacturers' output expectations for the coming year were the strongest since last February.

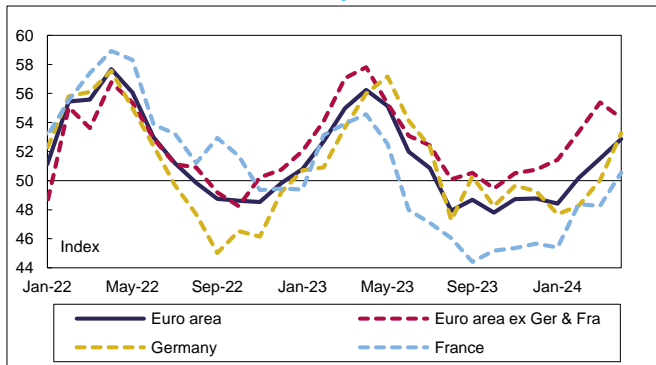
**PMIs point to increased costs in services, but ongoing disinflation in goods**

Amid reduced supply-side challenges and persisting lack of demand, today's survey again flagged an absence of any meaningful pricing pressures in the manufacturing sector, with selling prices reportedly declining for a twelfth consecutive month. And while the input cost PMI rose to its highest in fourteen months (48.7), likely reflecting the recent uptick in oil prices, it remained consistent with persisting disinflation in the sector. Of course, more important for ECB policy decisions are price developments in the services sector. In that respect, today's survey was somewhat less encouraging, suggesting a modest pickup in cost pressures this month amid higher wage growth and energy prices and therefore risked inflation persistence in the sector. But while the input price PMI (61.8) remained above the long-run average it was still almost 5½pts below the level a year ago and a touch softer than the Q1 average. And while the prices charged index rose 0.6pt to an above-average 55.7, it too was a marginally lower compared with Q1, suggesting that firms are seeking to absorb cost pressures within their margins. So, today's survey should not alter the ECB's expectation that core inflation should continue to moderate this quarter.

**The day ahead in the euro area**

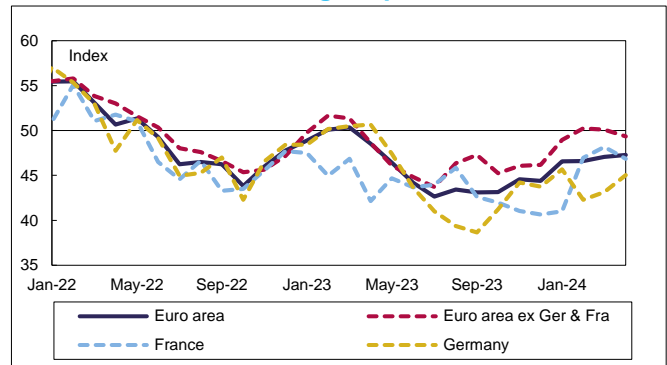
The flow of April sentiment indicators continues tomorrow with the German ifo and Italian ISTAT survey results, which will provide additional insight into retail and construction sector conditions at the start of Q2. Consistent with today's PMIs, we expect the ifo survey to signal a pickup in recovery momentum in April, with the headline business climate index set to rise to its highest level since last May supported not least by greater optimism about the outlook over the coming six months as the first ECB rate cut comes closer into view. Despite the moderation in the composite PMI for the euro area excluding Germany and France, the Italian ISTAT business sentiment indices should remain consistent with expansion in April. The ISTAT consumer confidence survey will provide an update on the household sector and purchase intentions at the start of Q2 and should similarly point to positive growth this month.

**Euro area: Services activity PMIs**



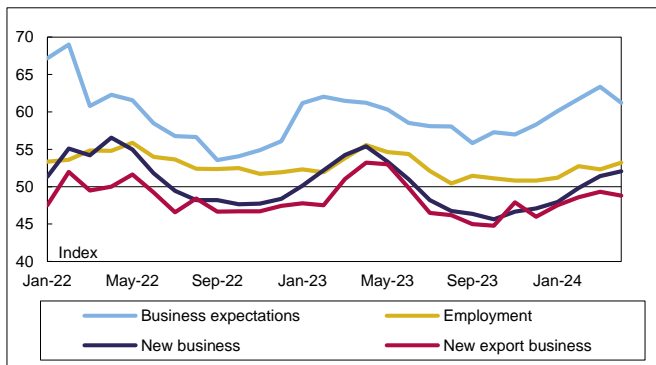
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

**Euro area: Manufacturing output PMIs**



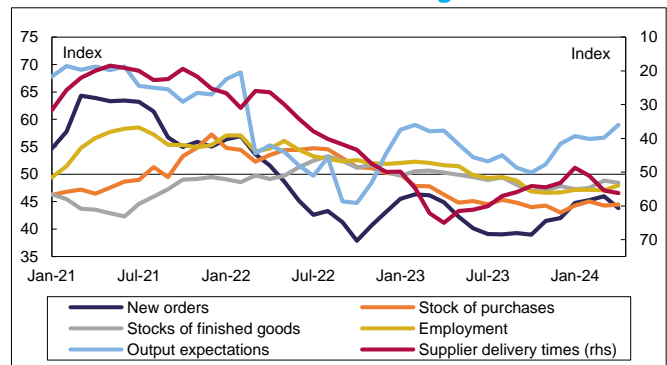
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

**Euro area: Selected services PMIs**



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

**Euro area: Selected manufacturing PMIs**



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

## UK

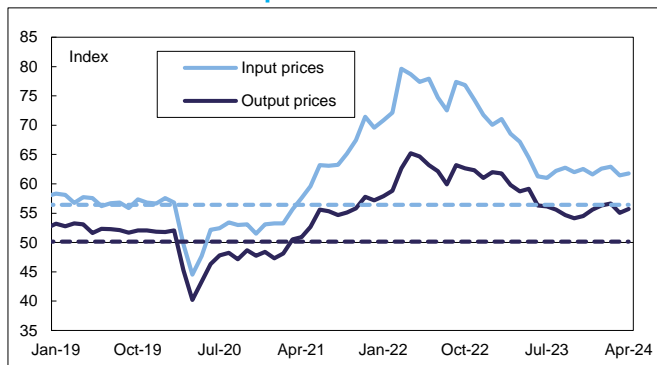
### Flash PMIs signal firm pickup in growth momentum centred on services

According to the flash PMIs, UK economic momentum at the start of Q2 picked up further led predictably by the services sector. Most notably, the composite PMI jumped in April by 1.2pts, well above expectations and the most since December, to an 11-month high of 54.0. This was more than 1pt above the Q1 average and 3.5pts above the Q4 average. And it was bang in line with the average in the two decades before the pandemic and a level that would previously have been consistent with GDP growth of 0.3-0.4%Q/Q. The services activity PMI rose 1.8pts - the most in four months - to 54.9, also the highest since last May. New orders in the sector also reportedly grew the most in almost one year, with external demand for services the strongest in 13 months. And with firms in the sector optimistic about the outlook for the coming year, they also reportedly looked to increase headcount by the most in nine months. In contrast, having risen to a 13-month high in March, the manufacturing output PMI slipped back into mild 'contractionary' territory at 49.1. Firms in the sector continued to look to destock. And a renewed fall in new factory orders, led by weakness from abroad, saw firms aim to cut jobs in the sector for a 19<sup>th</sup> successive month.

### Firms appear to be absorbing increase in input costs from minimum wage, commodities and freight

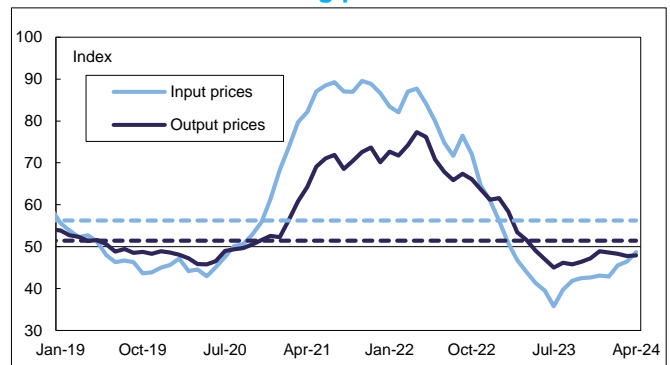
While the April flash PMIs suggested that economic growth has picked up, they also signalled a significant increase in cost pressures. Indeed, the composite input cost PMI jumped a whopping 4.8ppts – the most since October 2021 – to an 11-month high of 66.6, well above the long-run average. While firms in manufacturing and services alike reported increased costs, the latter sector appeared to bear the brunt. Given the greater importance of wages in costs in services than manufacturing, the National Living Wage of approximately 10% from this month appears a key driver. But factory sector costs still rose the most in more than a year. Shorter supplier delivery times suggested a limited impact of disruption to freight transit via the Red Sea, likely thanks in part to cover provided by still-ample inventories. But events in the Middle East appeared to resonate via higher prices of raw materials and transportation. The implications of the pickup in input costs in April will merit close attention at the BoE. However, so far, firms appear on average to be absorbing the higher costs in their margins, as the composite output price PMI fell 0.5pt to an eight-month low of 55.9. Notably, the services index fell to a three-year low (56.4) albeit still above the long-run average. And while the equivalent price gauge in manufacturing ticked higher, it remained below the long-run average. The need to monitor the implications of the pickup in costs, particular those related to the National Living Wage, is one reason why we expect Bank Rate to be left unchanged in May. However, if firms continue to refrain from passing them onto customers, then the MPC should still be able to start easing policy from June.

#### Euro area: Services price PMIs\*



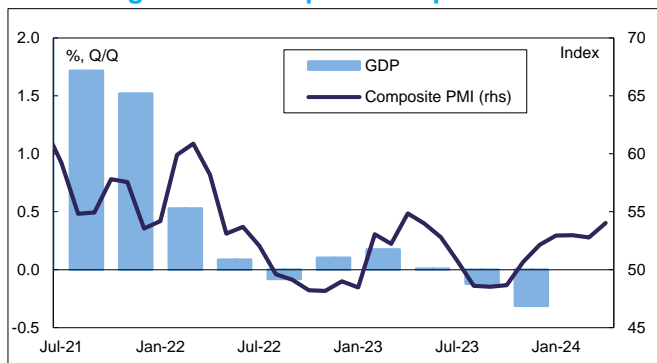
\*Dashed lines represent pre-pandemic 5-year average. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### Euro area: Manufacturing price PMIs\*



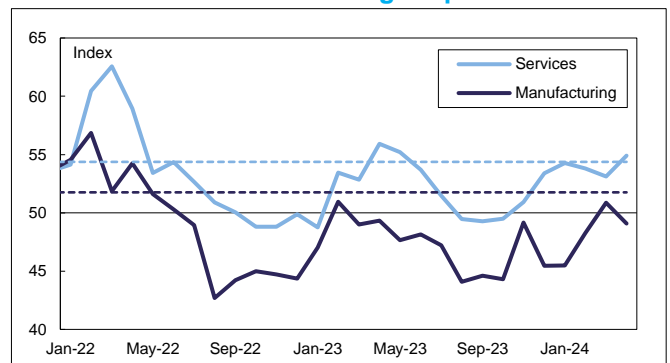
\*Dashed lines represent pre-pandemic 5-year average. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### UK: GDP growth & composite output PMI



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

#### UK: Services & manufacturing output PMIs

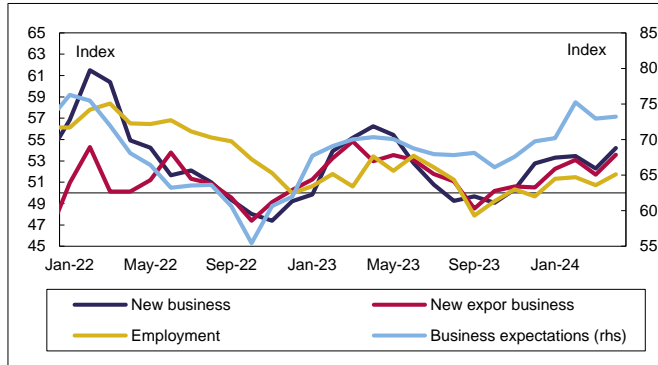


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### The day ahead in the UK

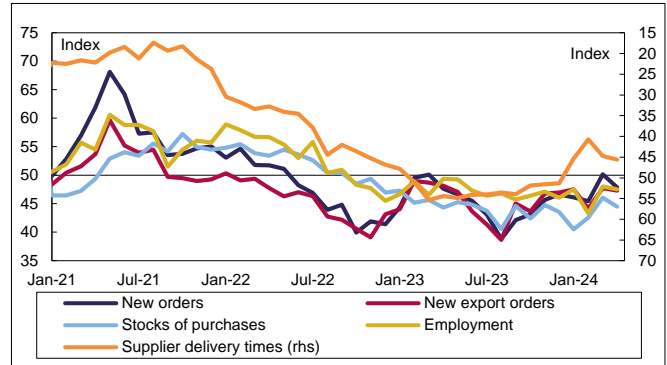
A relatively quiet day for UK releases tomorrow will bring the postponed release of the CBI's industrial trends survey. Consistent with today's PMIs, the CBI indices are likely to signal that output remain weak at the start of the second quarter, amid an ongoing decline in new orders. Tomorrow's survey will also provide a quarterly update on firms' investment and employment intentions for the coming year.

#### UK: Selected services PMIs



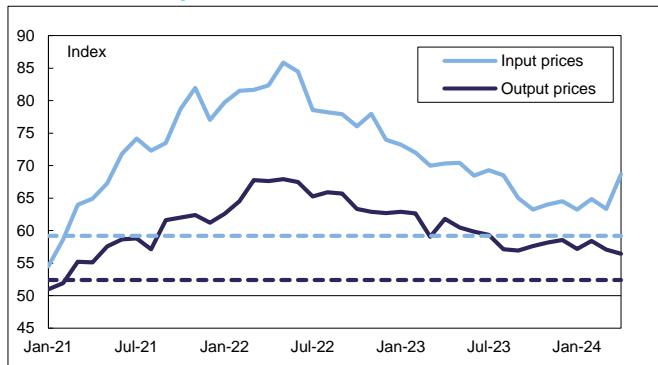
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### UK: Selected manufacturing PMIs



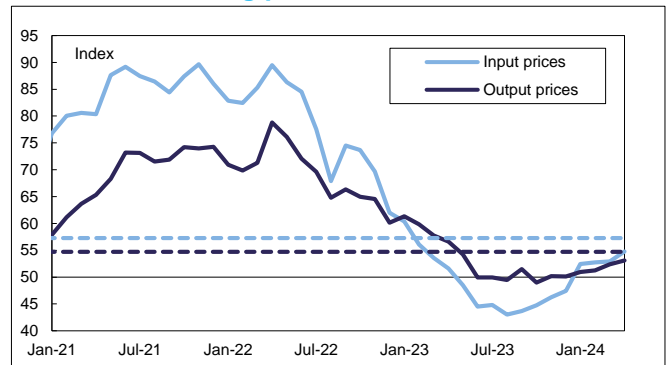
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### UK: Services price PMIs\*



\*Dashed lines represent pre-pandemic 5-year average. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### UK: Manufacturing price PMIs\*












\*Dashed lines represent pre-pandemic 5-year average. Source: Macrobond, S&P Global 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 manufacturing (services) PMI	Apr	<b>45.6 (52.9)</b>	46.5 (51.8)	46.1 (51.5)	-
	 Preliminary composite PMI	Apr	<b>51.4</b>	50.7	50.3	-
Germany	 Preliminary manufacturing (services) PMI	Apr	<b>42.2 (53.3)</b>	42.7 (50.5)	41.9 (50.1)	-
	 Preliminary composite PMI	Apr	<b>50.5</b>	48.5	47.7	-
France	 Preliminary manufacturing (services) PMI	Apr	<b>44.9 (50.5)</b>	46.8 (48.9)	46.2 (48.3)	-
	 Preliminary composite PMI	Apr	<b>49.9</b>	49.0	48.3	-
UK	 Public sector net borrowing £bn	Mar	<b>11.0</b>	8.8	7.5	8.6
	 Preliminary manufacturing (services) PMI	Apr	<b>48.7 (54.9)</b>	50.4 (53.0)	50.3 (53.1)	-
	 Preliminary composite PMI	Apr	<b>54.0</b>	52.6	52.8	-






#### Auctions

Country	Auction
Germany	 sold €4.07bn of 2.9% 2026 bonds at an average yield of 2.91%
Italy	 sold €2.5bn of 3.2% 2026 bonds at an average yield of 3.42%
	 sold €1.25bn of 1.5% 2029 index-linked bonds at an average yield of 1.35%
	 sold €1.25bn of 1.8% 2036 index-linked bonds at an average yield of 1.87%


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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
UK	 11.00	CBI industrial trends survey – total orders (selling prices) balance %	Apr	-16 (-)	-18 (21)

#### Auctions and events

Germany	 10.30	Auction: €4bn of 2.2% 2034 bonds
---------	---	----------------------------------

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](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.