

Euro wrap-up

Overview

- Bunds followed US10s lower, while German consumer confidence rose to a two-year high amid an improvement in income expectations.
- Gilts also made losses even as a UK retail survey suggested a weak start to Q2 for sales and orders.
- Tomorrow will bring the ECB's bank lending figures and consumer expectations survey, as well as UK consumer confidence indices.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	2.998	+0.047
OBL 2.1 04/29	2.625	+0.040
DBR 2.2 02/34	2.623	+0.037
UKT 0% 01/26	4.459	+0.030
UKT 0½ 01/29	4.247	+0.031
UKT 4% 01/34	4.355	+0.023

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

Euro area

German consumer confidence rises to 2-year high

After the [flash PMIs](#) and [ifo indices](#) earlier this week flagged an improvement in business sentiment, today's GfK survey results suggested that German consumers were also more upbeat at the start of Q2. That reinforces our own confidence that the German economy will register positive growth this quarter supported by a modest pickup in consumer spending. In particular, the headline consumer sentiment index – presented as a forecast for May – rose for a third consecutive month and by 3.1pts – the most in twelve months – to -24.2, the highest since April 2022. While this remains well below the long-run average (+2), it was almost 19pts above the trough in October 2022 to be trending more than 2pts above the Q1 average. The improvement in confidence was bolstered by a decline in household inflation expectations to a five-month low despite the recent pickup in petrol prices and the end of the reduced VAT rate on heating gas, which rose from 7% to 19% this month.

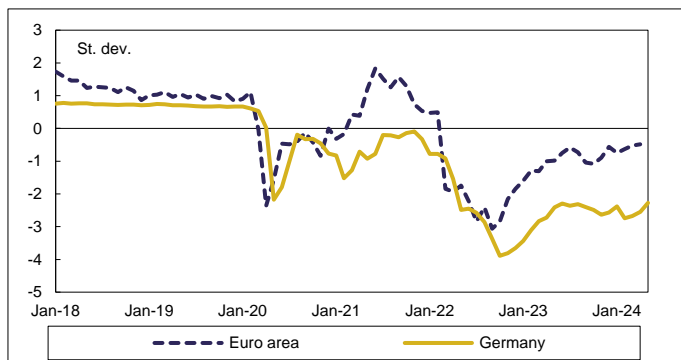
Income expectations improve notably but spending intentions remain subdued

Households were the most upbeat about the outlook for their own incomes since the start of 2022, with the respective index rising close to the long-run average. And also reflecting greater confidence that the euro area's largest economy has finally reached a turning point, consumers were the most optimistic about the general economic outlook for nine months. So, while households aimed to save a little more in April, with real incomes rising the survey also suggested that households' willingness to spend improved at the start of Q2. Indeed, the survey's purchase-intentions component rose to a four-month high in April to be roughly 2½pts above the Q1 average. Admittedly, that index remains at an historically low level, well below the values recorded in two Covid-related lockdowns and still a whopping 67pts below the pre-pandemic five-year average. As such, we expect household consumption to remain relatively subdued over coming quarters, providing only moderate support to GDP growth.

French business confidence slips back in April but remains consistent with positive GDP growth

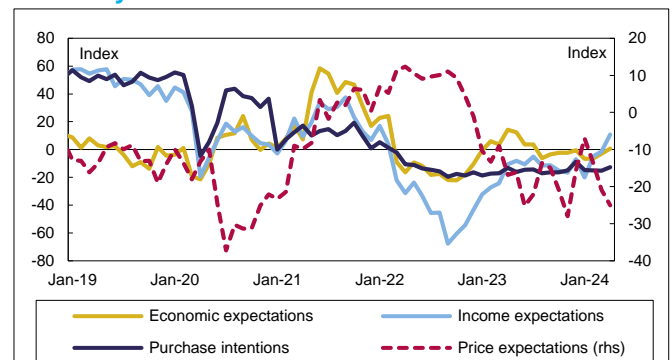
While the French flash PMIs reported improved conditions at the start of Q2, the message from today's INSEE survey was more mixed. Contrasting expectations of a further modest increase, the headline business climate indicator suggested that conditions were slightly less favourable in April, slipping back from March's six-month high to 99, a touch below the long-run average (100). But this still left it in line with the average in Q1 and 1pt above the Q4 average suggesting ongoing moderate GDP growth at the start of Q2. The survey also reported a further improvement in employment intentions, supported by a pickup in the services sector. Conversely, however, the drop in the headline sentiment index was also led by services,

Euro area: Consumer confidence indices*



*Commission index for euro area and GfK index for Germany. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Consumer confidence indices



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

reflecting a weakening in recent and expected activity in the sector. But having risen to an eleven-month high in March, this left the services business climate index (100) in line with the long-run average. The moderation principally reflected payback for a significant jump in sentiment in the information and communications subsector last month. In contrast, conditions reportedly improved in a range of other services subsectors, including in hospitality, where the respective index leapt to a nine-month high likely reflecting an increase in tourism activity. French retailers were also more upbeat, tallying with the recent pickup in [sales](#). Consistent with the flash PMIs, however, the INSEE survey suggested that the French manufacturing climate deteriorated slightly at the start of Q2, as export orders fell further, with significant weakness reported in demand in the autos sector. But having previously risen to a twelve-month high, this still left the manufacturing sentiment index bang in line with the long-run average and therefore not as downbeat as the respective PMI. Meanwhile, INSEE also reported an ongoing downtrend in construction where demand remained constrained by elevated borrowing costs and declining house prices. Indeed, the business climate (101) in the sector was judged to be the least favourable since November 2020 and 2016 when excluding the pandemic lockdowns, suggesting that construction will restrain overall economic growth for the time being.

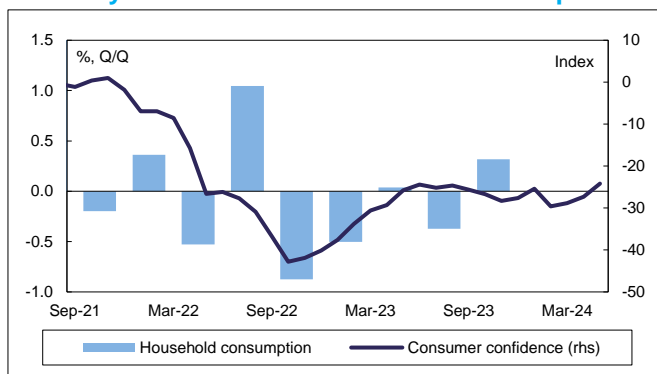
French selling price expectations ease at the start of Q2

Today's INSEE survey suggested that, perhaps due to the recent rise in energy costs, manufacturers expect to increase their selling prices slightly over the coming three months. But the respective index remained below the long-run average, illustrating ongoing restrained pricing powers. Meanwhile, retailers' selling price expectations retreated sharply at the start of Q2 to the lowest since end-2020 to be back below the long-run average. Of course, the ECB is watching services pricing most closely. And in this respect the survey was more encouraging. Indeed, having risen for four consecutive months to an eleven-month high in March, services price expectations resumed a downwards path, easing to a four-month low. And while this index remains above the long-run average, it raises hope that the stickiness in French services inflation will start to fade over coming months.

The day ahead in the euro area

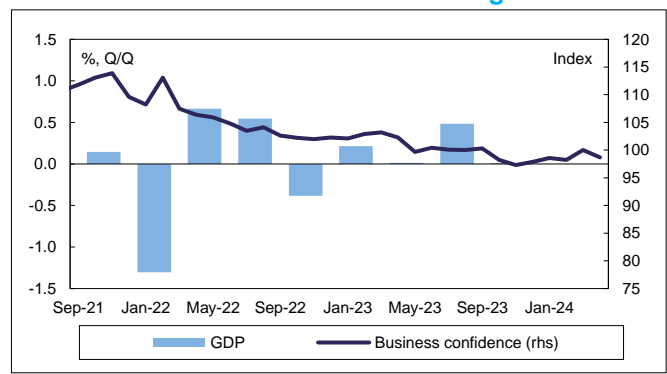
The end of the week will bring further insight into near-term inflation expectations from the ECB's consumer survey for March. In the previous survey, household expectations for inflation in twelve months' time dropped to a two year-low. But what matters more for the ECB's monetary policy decision is 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. Meanwhile, the ECB's bank lending figures are also due and likely to suggest that loans to businesses and for house purchase remained relatively subdued in March as elevated borrowing costs continued to weigh on demand. The French

Germany: Consumer confidence & consumption



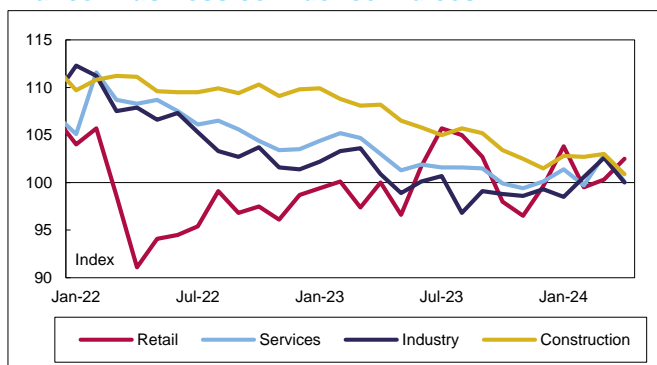
Source: GfK, Macrobond and Daiwa Capital Markets Europe Ltd.

France: Business confidence & GDP growth



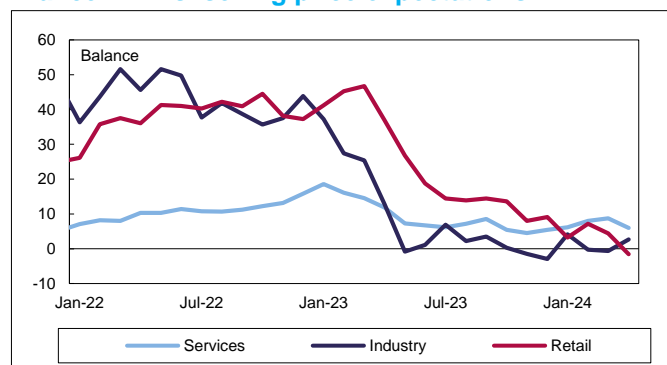
Source: INSEE, Macrobond and Daiwa Capital Markets Europe Ltd.

France: Business confidence indices



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

France: Firms' selling price expectations



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

INSEE consumer survey indices are expected to show that confidence rose to the highest level since February 2022 amid improved income expectations.

UK

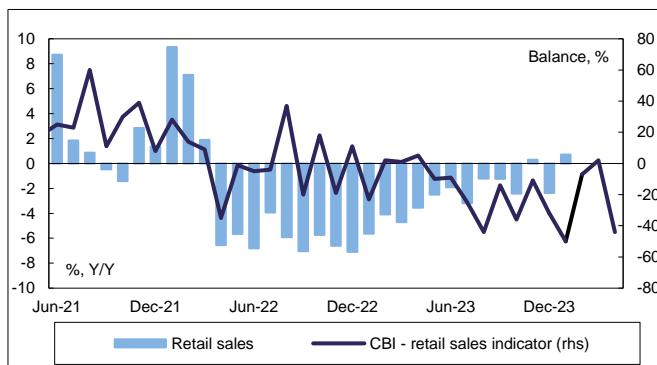
CBI survey points to weak start to Q2 for retail sales and orders

Retail sales made a significant contribution to economic growth in Q1, with volumes up 1.9%Q/Q according to the official ONS data. However, that principally reflected a rebound in January, which merely reversed a steep drop in December. Over the following two months, sales volumes were broadly flat. And today's CBI Distributive Trades Survey pointed to renewed weakness in April, reporting that sales fell sharply from a year earlier. Indeed, the survey measure of sales volumes in the year to April plunged 46ppts to -44%, matching the second-weakest reading of the past twelve months and some 25ppts below the average over that period. In addition, a net 20% of respondents judged that sales were weaker than usual for the time of year, having the previous month considered sales to be in line with the seasonal norm. While the early timing of Easter this year contributed to the drop in April, according to the CBI, sales were still weaker than expected. And orders placed on suppliers reportedly also plunged, with the survey net balance falling to -49%, the second-weakest reading since the first wave of pandemic. In part, that reflects the judgement that inventories are more than adequate for current requirements even though they appear relatively low by historical standards. However, it also suggests that retailers expect sales to remain relatively subdued over the near term. Not least due to stronger real income growth, particularly among lower earners, we still expect sales to trend higher over coming months. However, while we acknowledge that the CBI survey does not often provide the most reliable guide to the official retail sales data – and indeed it gave a false signal to sales growth in January – today's figures suggest that the trend will lack vigour. And retailers are set to provide much less support to GDP growth in Q2 than in Q1

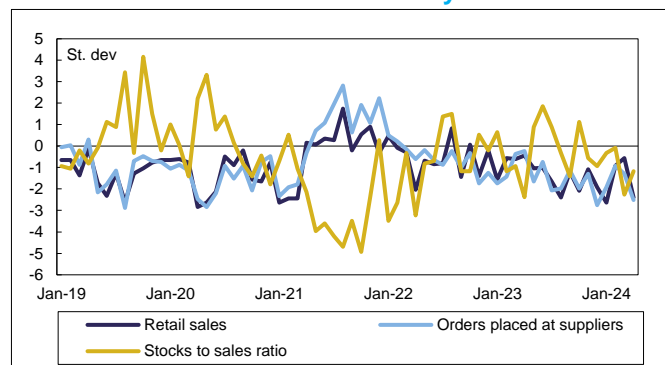
The day ahead in the UK

Tomorrow will bring the release of the GfK consumer confidence survey results for April. Not least reflecting the further improvement in households' disposable incomes amid the near-10% rise in the National Living Wage, further cut to National Insurance Contributions and reduction in the energy price cap this month, we expect to see pickup in headline confidence in April. But this will still leave sentiment well below average. And so, tallying with the downbeat message in today's CBI retail survey, households are likely to remain cautious with respect to their purchase intentions for a while yet.

UK: Retail sales indices






UK: CBI Distributive Trades Survey - retail indices



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany 	GfK consumer confidence index	May	-24.2	-26.0	-27.4	-27.3
France 	INSEE business (manufacturing) index	Apr	99 (100)	101 (103)	100 (102)	- (103)
UK 	CBI distributive trades survey – reported retail sales balance %	Apr	-44	5	2	-





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	M3 money supply Y/Y%	Mar	0.6	0.4
	09.00	ECB CPI expectations 1Y (3Y) ahead Y/Y%	Mar	-	3.1 (2.5)
France 	07.45	Consumer confidence index	Apr	92	91
Spain 	08.00	Retail sales Y/Y%	Mar	2.2	1.9
UK 	00.01	GfK consumer confidence index	Apr	-20	-21

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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.