

# Euro wrap-up

## Overview

- While the flash estimates of April inflation saw the headline rates in Germany and Spain tick slightly higher, Bunds made gains as the respective core rates fell to the lowest in more than two years and the Commission's survey was less upbeat than the PMIs.
- Gilts followed the global trend higher on a quiet day for top-tier UK data.
- Tomorrow's highlights include the flash estimates of euro area inflation in April and GDP in Q1, while bank lending figures will be published in the UK.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	2.947	-0.031
OBL 2.1 04/29	2.542	-0.042
DBR 2.2 02/34	2.526	-0.047
UKT 0% 01/26	4.427	-0.034
UKT 0½ 01/29	4.196	-0.038
UKT 4% 01/34	4.289	-0.033

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

## Euro area

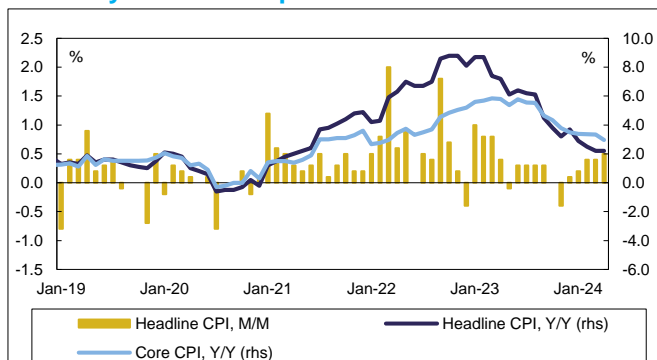
### German inflation boosted by higher energy costs, but core inflation falls to more than 2-year low

Ahead of tomorrow's flash estimate of euro area inflation in April, the figures published so far by the member states have been mixed. But while headline inflation was pushed up in many countries by higher energy costs – related to rising petrol prices and the continued withdrawal of government energy support measures – today's data also strongly suggest that underlying inflationary pressures continue to ease. In line with expectations, German consumer price inflation ticked slightly higher on the EU-harmonised measure in April, by 0.1ppt to 2.4%Y/Y. That, however, was still some 0.3ppt below the Q1 average and more than 9ppts below the peak in October 2022. And the German national CPI rate merely moved sideways at 2.2%Y/Y, the joint-lowest rate since May 2021. The detail on the national measure flagged that upwards pressure came principally from energy costs, with petrol prices in the first three weeks of April trending some 3½% above the March level, while gas prices were boosted by the reversal of the temporary VAT reduction (7% to 19%) at the start of the month. As such, the drag from energy inflation (-1.2%Y/Y) was the softest in seven months. Food inflation also rose slightly, albeit remaining historically subdued at 0.5%Y/Y. But core goods inflation was better behaved at the start of Q2, with our estimate for the non-energy industrial goods CPI rate easing to a two-year low of 2.0%Y/Y, with the regional breakdown highlighting softer pressures in furniture and clothing amid lacklustre domestic demand. Moreover, having risen to a five-month high in March – due principally to the early timing of Easter – services inflation fell 0.3ppt to be back at 3.4%Y/Y for the third month out of the past four, with regional data flagging a moderation in package holidays and hotels components. So, German core CPI inflation (excluding food and energy) fell 0.3ppt to 3.0%Y/Y, almost half the peak a year ago and the lowest for more than two years.

### Inflation in Spain and Belgium similarly boosted by energy, but core measures maintain downtrend

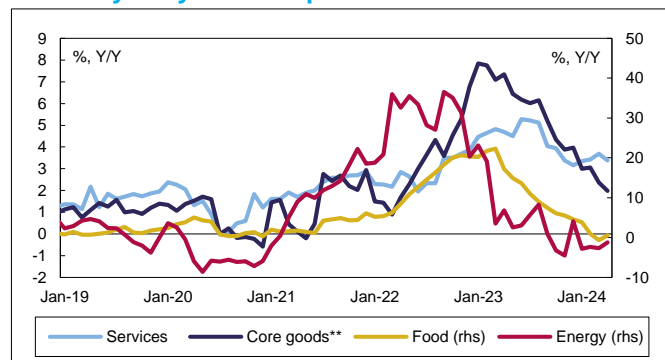
Like in Germany, Spanish inflation also reported a modest uptick in the headline rate in April, with the EU-harmonised HICP and national CPI measures up 0.1ppt a piece at 3.4%Y/Y and 3.3%Y/Y respectively. But Spain's statistical office (INE) attributed the rise to higher gas and food prices, while an 11ppt VAT increase on electricity bills to 21% also came into effect this month. So, when excluding fresh foods and energy, the national core CPI rate fell a larger-than-expected 0.4ppt to a 27-month low of 2.9%Y/Y. The withdrawal of energy support also played a significant role in Belgium in April, with natural gas prices up a whopping 87.5%Y/Y and electricity inflation higher too to push energy inflation up almost 11ppts at 9.2%Y/Y. Admittedly, in part thanks to a drop in food inflation, the national headline CPI rate rose just 0.2ppt to 3.4%Y/Y. And when excluding energy and unprocessed foods, core inflation eased for an eleventh successive month, by 0.4ppt to 3.4%Y/Y, the lowest since February 2022. Due to methodological differences, however, the HICP measure was up a chunky 1.1ppts to a thirteen-month high of 4.9%Y/Y. So, while the Irish HICP rate eased 0.1ppt to 1.6%Y/Y, the lowest since June 2021, the risks

### Germany: Consumer price inflation\*



\*National measure. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Key CPI components\*



\*National measure. \*\*Non-energy industrial goods. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

to tomorrow's euro area headline inflation estimate appear skewed to the upside. On balance, with inflation in France and Italy expected to have eased slightly further, we maintain our forecast that the euro area HICP rate moved sideways at 2.4%Y/Y. And we also still expect core inflation to drop a sizeable 0.4ppt to 2.5%Y/Y, which would be the lowest rate since January 2022, benefiting in part from a significant base effect in services inflation.

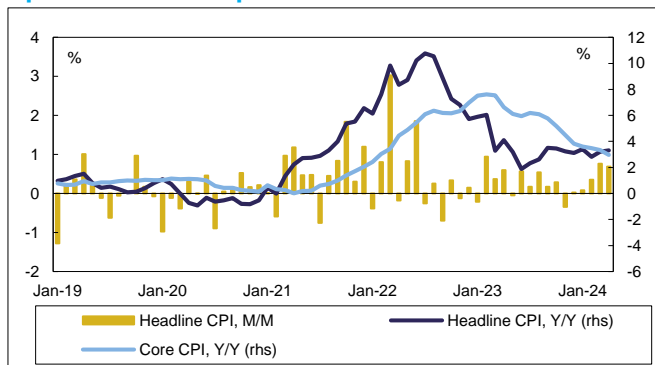
### Commission survey suggests moderating price expectations in services & retail

Looking ahead, today's Commission survey results for April gave an update on firms' expectations for selling prices in three months' time. Notably, the euro area indices for services and retail both declined for a third successive month, to their lowest levels for two and a half and three years respectively, suggesting much diminished pass-through of costs to consumer prices. Both indices are also now much closer to their long-run averages than their 2022 peaks, implying that risks of inflation persistence have significantly diminished. Although the survey index for selling-price expectations in industry improved only marginally in April, it thus remained only slightly above its pre-pandemic average, suggesting only modest pipeline pressures in the factory sector. In addition, selling-price expectations in construction edged up just a touch from March's three-year low but were also close to their long-run average. Meanwhile, consumer price expectations twelve months ahead fell to a four-month low to remain below their pre-pandemic average. Like the ECB's latest survey results, therefore, the Commission survey suggested that consumer inflation expectations are well anchored and consistent with a return of inflation to target over the coming year.

### ESI counters optimism generated by the flash PMIs reporting deterioration in business sentiment

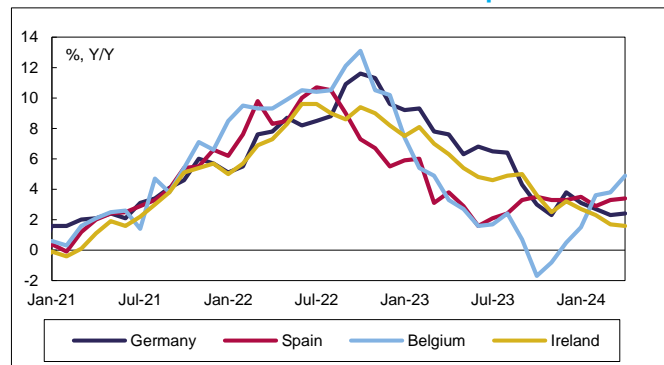
In terms of economic activity, the Commission survey provided a much more downbeat message than last week's [flash PMIs](#). Indeed, contrary to the consensus expectation of a further rise to an eleven-month high, the headline euro area Economic Sentiment Index (ESI) almost fully reversed its increase the prior month to fall 0.6pt to 95.6, the second-lowest reading in five months. That left it below the Q1 average and almost 4½% below the long-run average. We note, however, that the deterioration was centered on France, Belgium and Italy, with confidence in Germany, Spain and several other member states firmer. Notably too, all major business sectors reported a deterioration in sentiment at the start of Q2. Weighed particularly by pessimism in the autos, chemicals and machinery subsectors, confidence in industry weakened most strikingly, with the respective ESI dropping more than 1½pts to the lowest level since the first wave of Covid, as firms judged order books to be the thinnest since 2020, revised down their assessment of the recent production trend and also judged that inventories had risen, most likely inadvertently. In addition, services sentiment matched the lowest level since November as firms' expectation for future demand was the weakest since July. Consistent with the preliminary estimate, however, consumer confidence rose for a third successive month to the highest level since the Russian invasion of Ukraine.

#### Spain: Consumer price inflation\*



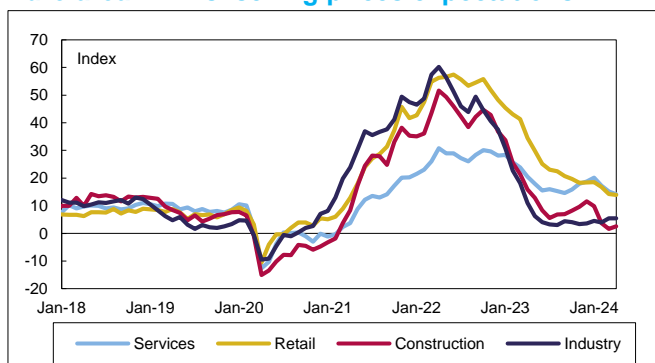
\*National measure. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area member states: Consumer price inflation\*



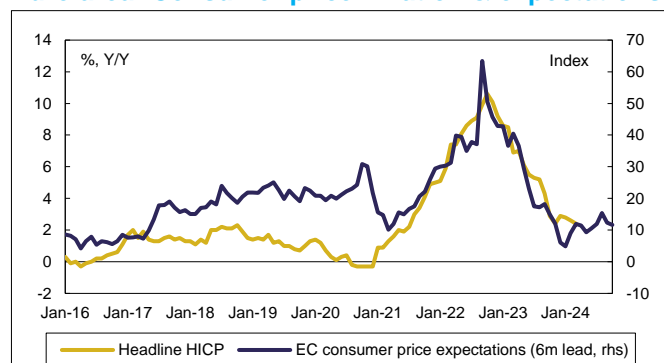
\*EU-harmonised measure. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Firms' selling prices expectations\*



\*Three months ahead. Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Consumer price inflation & expectations\*



\*Twelve months ahead. Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

While households were not so upbeat about the general economic outlook, their own income expectations were revised up and their willingness to make major purchases – while still relatively low by historical standards – rose to a two-year high.

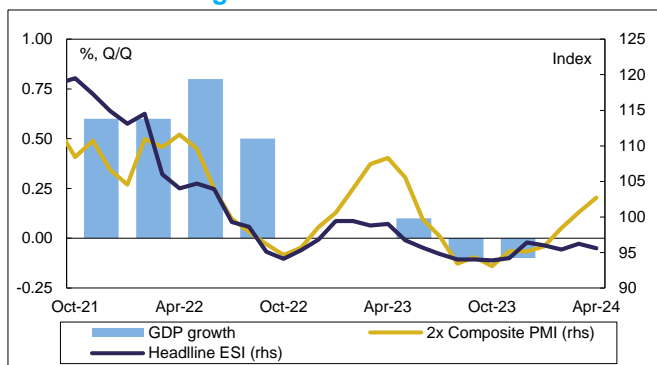
### Employment intentions softening while a larger share of firms judge demand to be inadequate

Among the other findings of the Commission survey, firms on average were less upbeat about their hiring intentions in April. Indeed, while it declined for only the first time since January, the Employment Expectations Index (EEI) fell to a three-year low, with firms in services less inclined to recruit and those in retail and industry seemingly looking to cut headcount. Firms in Germany, Italy and Spain were all less upbeat about their employment intentions. And the more restrained attitude to recruitment tallies with businesses' more downbeat assessment of demand. Indeed, the largest share of firms in services in three years (30.9%) judged that a shortage of demand was a key constraint on activity, while the equivalent share for industry (37.5%) was the highest since Q420. That pessimistic assessment of demand, which is likely to be restraining firms' ability to pass on cost pressures to consumers, should strengthen the argument of the ECB's doves that a series of rate cuts over coming quarters will still be appropriate even if economic activity continues gradually to pick up.

### The day ahead in the euro area

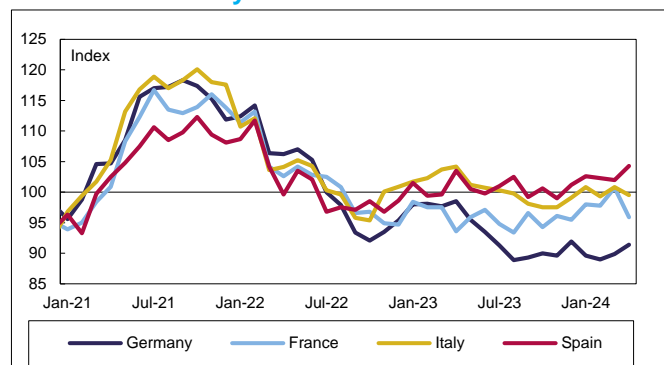
While most attention tomorrow might well be on the aforementioned flash estimates of euro area inflation in April, Tuesday will also bring the first estimates of Q1 GDP from the euro area and various member states, which are also expected to be relatively encouraging. Following a (revised) contraction of 0.1%Q/Q in the fourth quarter, euro area GDP looks to have returned to positive growth in Q1, and probably by 0.2%Q/Q, 0.1ppt above the ECB's projection. Growth in Q1 appears to have been flattered by a rebound in construction output, particularly in Germany, where GDP looks to have edged up 0.1%Q/Q following the drop of 0.3%Q/Q in Q4. We also think that growth in France ticked up 0.1ppt in Q1 to 0.2%Q/Q. But while growth in Italy and Spain might have moderated from Q4 to 0.1%Q/Q and 0.3%Q/Q respectively, today's figures from Ireland were more encouraging. In particular, Irish GDP rose for the first quarter in five in Q1, by 1.1%Q/Q. While this left output down 0.8%Y/Y, it should also add around 0.05ppt to euro area GDP growth on the quarter. The data from Belgium (0.3%Q/Q) and Latvia (0.8%Q/Q) were also positive. Tomorrow will also bring German retail sales figures for March and labour market numbers for April.

#### Euro area: GDP growth & sentiment indices



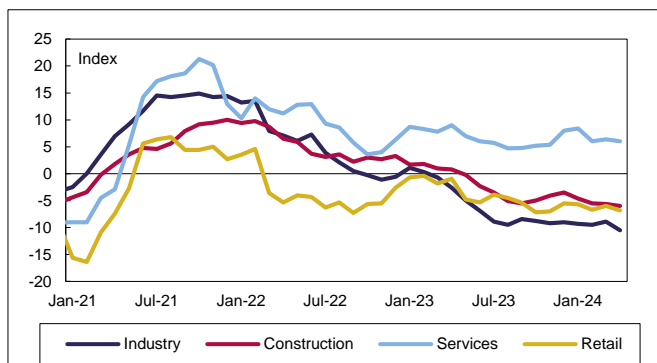
Source: EC, S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: ESIs by member state



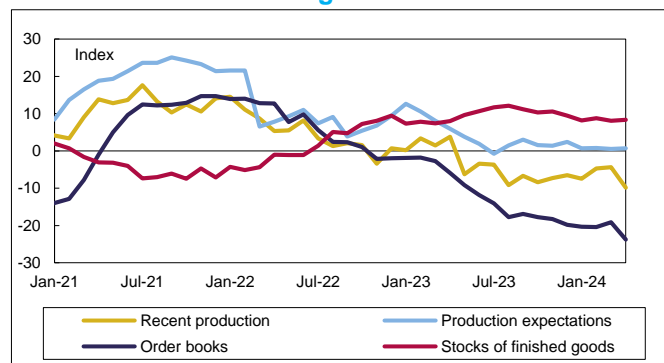
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: EC business sentiment indices



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

#### Euro area: Manufacturing sentiment indices



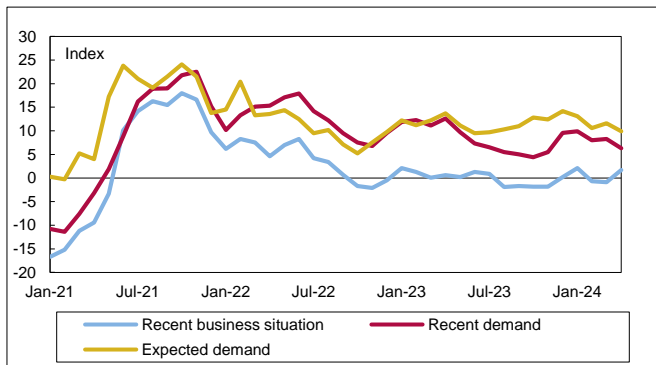
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

# UK

## The day ahead in the UK

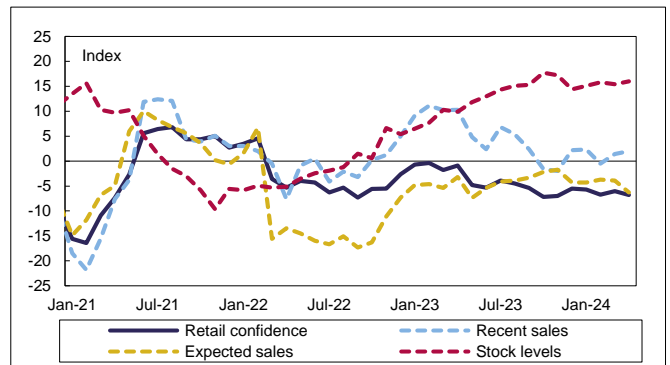
Tomorrow will bring the Bank of England's latest bank lending figures for March. Having risen to a 17-month high in February, mortgage approvals are expected to have increased slightly further on the back of improved demand amid signs of a turnaround in the housing market. But while net mortgage lending is expected to have increased for a second successive month (£1.5bn), this would still leave it little changed compared with a year earlier and well down on levels in 2022. Meanwhile, the BRC's measure of shop price inflation for April is forecast to move sideways at a relatively subdued 1.3%Y/Y amid fierce competition and soft demand.

### Euro area: Services sentiment indices



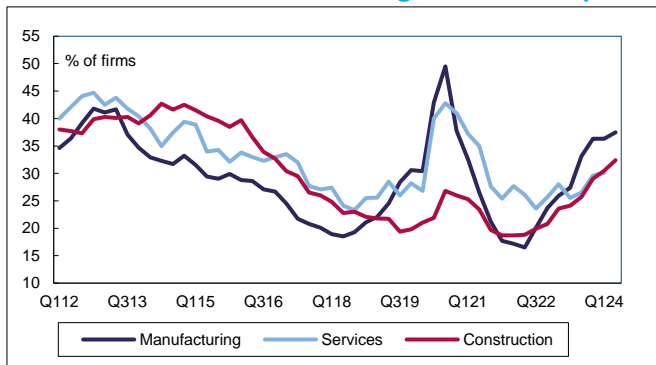
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Retail sentiment indices



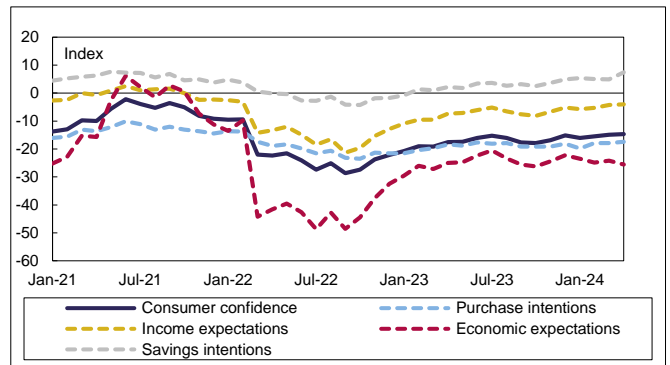
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Demand as a limiting factor on output



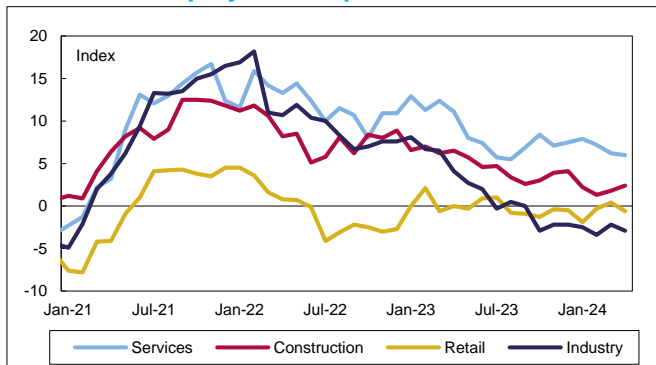
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumer confidence indices



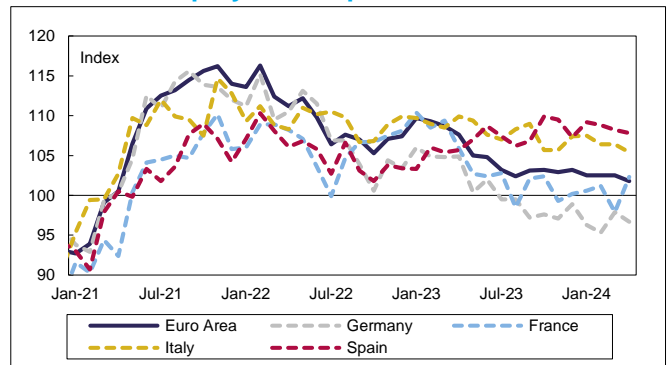
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Employment expectations indices



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

### Euro area: Employment expectations indices








Source: EC, Macrobond 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	 Commission's economic sentiment indicator	Apr	<b>95.6</b>	96.7	96.3	96.2
	 Commission's manufacturing (services) sentiment indicator	Apr	<b>-10.5 (-8.9)</b>	-8.5 (6.9)	-8.8 (6.3)	-8.9 (6.4)
	 Commission's final consumer sentiment indicator	Apr	<b>-14.7</b>	-14.7	-14.9	-
Germany	 Preliminary HICP (CPI) Y/Y%	Apr	<b>2.4 (2.2)</b>	2.4 (2.3)	2.3 (2.2)	-
Spain	 Preliminary HICP (CPI) Y/Y%	Apr	<b>3.4 (3.3)</b>	3.3 (3.4)	3.3 (3.2)	-

















#### Auctions

Country	Auction
Italy	 sold €3.25bn of 3.35% 2029 bonds at an average yield of 3.41%
	 sold €3.5bn of 3.85% 2034 bonds at an average yield of 3.86%
	 sold €3.5bn of floating-rate 2032 bonds at an average yield of 4.9%



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	 10.00	Preliminary HICP (core HICP) Y/Y%	Apr	<u>2.4 (2.5)</u>	2.4 (2.9)
	 10.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (0.2)</u>	-0.1 (0.1)
Germany	 07.00	Retail sales M/M% (Y/Y%)	Mar	-	-1.7 (1.9)
	 08.55	Unemployment change 000s (rate %)	Apr	5.9 (8.0)	5.9 (4.0)
	 09.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.1 (-0.2)</u>	-0.3 (-0.2)
France	 06.30	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (0.9)</u>	0.1 (0.7)
	 07.45	Preliminary HICP (CPI) Y/Y%	Apr	2.2 (2.1)	2.4 (2.3)
	 07.45	PPI Y/Y%	Mar	-	-5.5
Italy	 07.45	Consumer spending M/M% (Y/Y%)	Mar	0.2 (0.1)	0.0 (-0.8)
	 09.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.1 (0.3)</u>	0.2 (0.6)
	 10.00	Preliminary HICP (CPI) Y/Y%	Apr	-	1.2 (1.2)
Spain	 08.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.3 (1.8)</u>	0.6 (2.0)
UK	 00.01	BRC shop price index Y/Y%	Mar	1.3	1.3
	 00.01	Lloyds business barometer (price expectations)	Apr	-	42 (57)
	 09.30	Net consumer credit £bn (Y/Y%)	Mar	-	1.4 (8.7)
	 09.30	Net mortgage lending £bn (mortgage approvals 000s)	Mar	1.5 (61.5)	1.5 (60.4)

#### Auctions and events

Germany	 10.30	Auction: €3bn of 2.1% 2029 bonds
UK	 10.00	Auction: £4.0bn of 4.125% 2029 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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