

Euro wrap-up

Overview

- Bunds made losses despite a slight weakening of German consumer confidence.
- Gilts also made losses as a survey of UK retail prices pointed to a reduction in downward price pressure in April.
- Thursday will bring the first estimates of German and Spanish inflation in April as well as the Commission's latest economic sentiment indices.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.694	+0.003
OBL 0 04/26	-0.589	+0.012
DBR 0 02/31	-0.234	+0.017
UKT 0 ¹ / ₈ 01/23	0.050	-0.007
UKT 0 ¹ / ₈ 01/26	0.351	+0.012
UKT 4 ³ / ₄ 12/30	0.795	+0.023

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

Source: Bloomberg

Euro area

German consumer confidence slips back, but improved vaccine rollout offers happier outlook

Last week's [flash Commission estimate](#) reported further improvement in euro area consumer confidence in April to a fourteen-month high. But while yesterday's [ISTAT survey](#) also reported improvement in Italy, the firming of sentiment appears to have occurred away from the euro area's two largest member states. Certainly, today's German and French consumer survey results disappointed, illustrating the harmful impact on sentiment of the intensification of the pandemic and associated restrictions over the past month. Contrary to expectations of little change, the headline GfK German consumer confidence index – presented as a forecast for May – dropped for the first time in three months and by a non-negligible 2.7pts to -8.8, still well down on pre-pandemic levels, albeit above February's low (-15.5) and the even deeper trough last May (-23.1). Within the detail, the survey's index of income expectations weakened, as did perceptions of the business outlook and price expectations. But willingness to buy rose for a third month, sustaining its recent rebound from a steep drop in January following the reversal of last year's VAT cut. With Germany's vaccination programme now proceeding more smoothly – administering between 500k-700k doses per day so that 23% of the population has now received a first shot and 7% has had both doses, and all adults to be offered the vaccine by the end of June – we expect a pickup in consumer confidence and willingness to spend next month, when restrictions should be eased too.

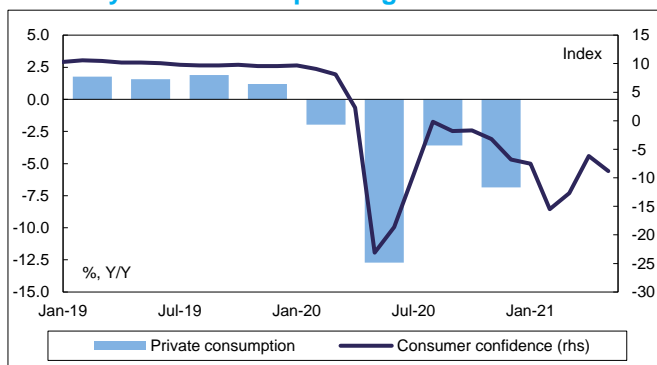
French consumer sentiment steady but subdued

According to the latest INSEE survey, French consumer confidence was steady but still subdued in April. The headline indicator was unchanged at 94, matching March's three-month high and close to the top of the pandemic range, albeit still well down on the pre-pandemic level (105) and the long-run average (100). As in Germany, the French indices of expectations of consumers' future financial situation and price expectations weakened. But willingness to spend improved to the highest since December. Similarly, we look for a further pickup next month, not least with travel between regions to be permitted from 3 May and reopening of non-essential stores, outdoor café and restaurant space, and certain cultural attractions likely to proceed from mid-month too. In addition, like in Germany, France's vaccine programme has recently gained momentum, with about 22% of the population having received a first shot and 9% having received both doses. From mid-May, vaccinations will be open to all over-50s, with availability to be extended to all other adults from mid-June.

The day ahead in the euro area

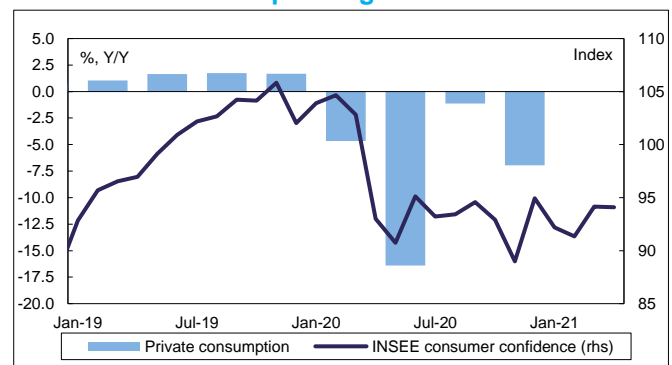
Tomorrow brings the release of German and Spanish preliminary inflation figures for April. The upward trend in the EU-harmonised measure of German inflation is expected to pause this month, although at 2.0%Y/Y, it will still match the highest

Germany: Consumer spending and confidence



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: Consumer spending and confidence



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

rate since April 2019. The same measure of Spanish inflation is expected to rise 0.5ppt to 1.7%Y/Y in April, which would be the highest rate since October 2018. Other hard economic data releases due to be published tomorrow include German labour market figures for April, as well as euro area M3 money supply numbers for March.

Meanwhile, this week's flow of economic confidence surveys concludes tomorrow with the release of the European Commission's sentiment survey for April. Improvement is expected to be broad-based across all sectors of the euro area economy, albeit with services and retail still impaired by lockdown measures and – as illustrated by today's survey results from Germany and France – consumer confidence still below pre-pandemic levels.

UK

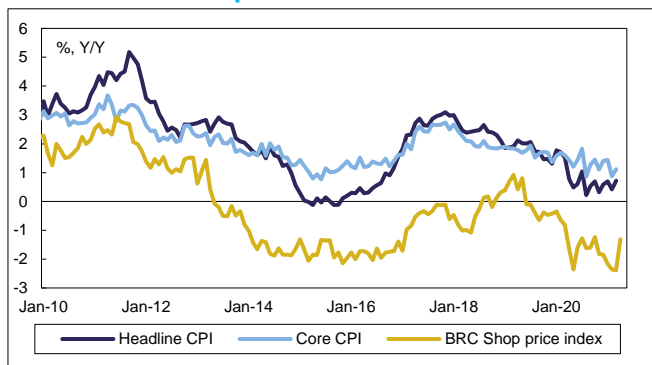
BRC suggests a moderation of downwards pressure on retail prices in April

While surveys such as yesterday's from [the CBI](#) point to further solid growth in UK retail sales over the past month as non-essential stores reopened, this morning's BRC survey suggested that, in aggregate, prices on the high street remained well down on levels a year ago. Indeed, the survey's measure of food prices fell into negative territory in April (-0.6%Y/Y from +0.3%Y/Y in March) for the first time since January 2017. But that principally reflected base effects associated with last year's panic-buying and stock-piling by consumers at the onset of lockdown. In contrast, the pace of decline of non-food items moderated significantly by 1.7ppts to -1.7%Y/Y. Some retailers (e.g. of furniture) reportedly sought to pass on the costs of recent supply-chain disruption and Brexit, and/or rebuild margins as demand firmed. However, ongoing discounting of many other items (e.g. clothing) reflected continued intense competition as well as attempts to clear stock ahead of this month's new seasonal goods. Overall, the BRC retail price index rose 1.1ppts to a thirteen-month high of -1.3%Y/Y. While that figure significantly understates overall consumer price inflation due to its exclusion of services, fuel and other items not found on the high street, the CPI components of food and non-energy industrial goods are likely to move in April as the BRC survey suggested. And overall, we look for further upwards pressure on non-food retail prices over coming months as the economy reopens fully and increased demand allows retailers to pass on increased costs to consumers.

The day ahead in the UK

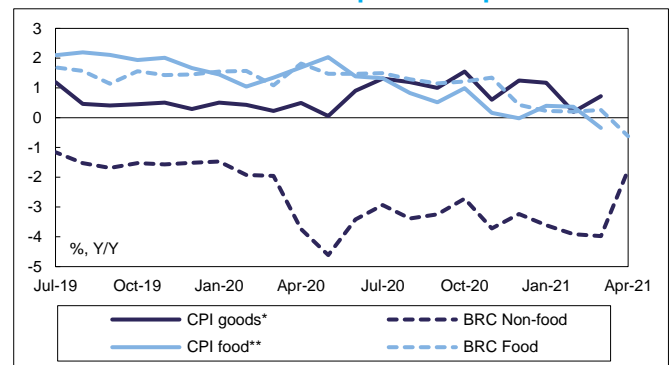
Tomorrow's UK economic data calendar is a quiet one, with no key releases scheduled. However, the BoE will publish the latest capital issuance statistics.

UK: CPI and BRC price indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Selected CPI and BRC price components






*Excluding food and energy. **Including alcohol and tobacco. Source: Refinitiv 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 	GfK consumer confidence	May	-8.8	-4.8	-6.2	-
France 	INSEE consumer confidence	Apr	94	93	94	-
UK 	BRC shop price index Y/Y%	Apr	-1.3	-	-2.4	-




Auctions

Country	Auction
Germany 	sold €2.13bn of 0% 2036 bonds at an average yield of 0.06%
UK 	sold £900mn of 0.125% 2031 index-linked bonds at an average yield of -2.537%




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU 	09.00	M3 money supply Y/Y%	Mar	10.2	12.3
	10.00	European Commission economic confidence	Apr	102.0	100.9
	10.00	European Commission final consumer confidence	Apr	-8.1	-10.8
	10.00	European Commission industrial confidence (services)	Apr	4.0 (-8.7)	2.0 (-9.3)
Germany 	08.55	Unemployment rate % (change '000s)	Apr	6.0 (-10.0)	6.0 (-8.0)
	13.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	1.9 (2.0)	1.7 (2.0)
Spain 	08.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	1.9 (1.7)	1.3 (1.2)
	08.00	Unemployment rate %	Q1	16.5	16.1

Auctions and events

EMU 	08.30	ECB's de Guindos participates in webinar
Italy 	10.00	Auction: €2.75bn of 0% 2026 bonds
	10.00	Auction: €2bn of 0.9% 2031 bonds
	10.00	Auction: €1.25bn of 2026 floating rate bonds
UK 	09.30	BoE publishes capital issuance statistics

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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