

Euro wrap-up

Overview

- With the latest euro area economic activity data decidedly mixed, Bunds followed USTs higher despite a new high in German PPI inflation.
- Gilts also made gains on a quiet day for UK economic news.
- Thursday will bring updates on euro area consumer confidence and French business sentiment, the final estimates of euro area inflation in March, and public commentary from Christine Lagarde and Andrew Bailey.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	0.044	-
OBL 0 04/27	0.587	-0.018
DBR 0 02/32	0.862	-0.044
UKT 1 04/24	1.567	-0.002
UKT 1¼ 07/27	1.651	-0.022
UKT 4¼ 06/32	1.919	-0.046

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

Euro area

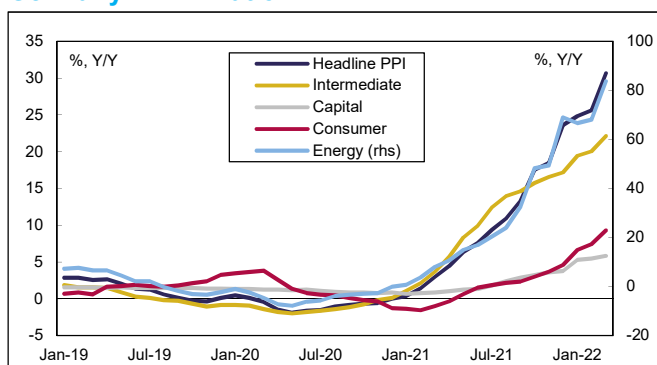
German PPI at series high in March but perhaps nearing the peak?

Following the record monthly rise in German consumer prices in March, today's German PPI figures offered further insights into inflationary pressures stemming from the impact of the Russian invasion. In particular, producer prices leapt 4.9%M/M in March, just shy of the series high recorded in December. This left the annual PPI rate 5ppts higher at 30.9%Y/Y, a new series high. Once again, energy prices were the main driver, up a further 10.4%M/M. And a near-50%M/M acceleration in heating oil prices left them up almost 70% since the start of the year and more than 120%Y/Y. Electricity and gas prices rose 9.4%M/M, to be up 95.6%Y/Y. So, overall, producer energy price inflation surged 15.7ppts to 83.8%Y/Y. There were signs of higher inflation further along the supply chain too, with prices of intermediate goods up a further 3.5%M/M, to be up 23.3%Y/Y. This was partly due to higher metals prices (6%M/M), as well as significant increases for fertilisers and nitrogen compounds (13.1%M/M), and prepared animal feed (19.0%M/M), all pushed higher by supply-chain disruptions associated with the Ukraine war. Capital goods price inflation (5.8%Y/Y) rose to the highest since 1975, with consumer goods inflation up 1.9ppts to 9.3%Y/Y. While supply constraints will continue to apply upwards pressure on prices for the time being, there are signs that – for the time being at least – German energy prices might well have peaked. Despite the recent tick higher, the price of Brent crude was today down some 15% from the early March peak, with wholesale natural gas futures more than 50% lower than the March high. And so, even ahead of the implementation of the proposed fuel duty cut – most likely from the beginning of June to the end of August – weekly German petrol prices have fallen by a cumulative 10% in the four weeks to 11 April, with the price of consumer heating oil down by a third over the equivalent period.

German activity indicator down for ninth consecutive week, euro car registrations down in Q1

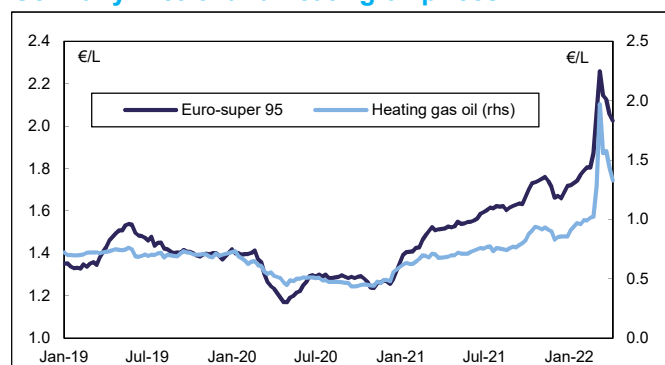
Nevertheless, high inflation and a marked deterioration in economic confidence now appears to be weighing on activity in the largest member state. The Bundesbank's weekly activity index (WAI) – a composite index of nine high-frequency observations including electricity, truck toll mileage, flights, and credit card payments, as well as the most recent monthly IP and quarterly GDP readings – that compares the level of activity over the past 13 weeks relative to that of the previous 13 weeks, recorded a ninth consecutive decline in the week ending 17 April, and by 0.57%, the most for more than a year, suggesting a continued weakening in trend-adjusted activity. Indeed, the WAI-implied GDP growth rate fell to -0.8%, implying a sizeable contraction over the past quarter. Meanwhile, the ECB's seasonally-adjusted car registration numbers, published today, suggested that German auto sales plummeted 17.3%M/M in March. While declines were somewhat more moderate in France (-7.7%M/M) and Italy (-8.1%M/M), Spanish registrations slumped 31.6%M/M. Aggregate euro area registrations were down a striking 13.4%M/M in March and 5.0%Q/Q over the first quarter as a whole. New car registrations in France were

Germany: PPI inflation



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Germany: Petrol and heating oil prices



Source: European Commission and Daiwa Capital Markets Europe Ltd.

down 5.8%Q/Q with those in Spain plunging 28.5%Q/Q. Perhaps surprisingly, quarterly registrations in Germany (up 2.4%Q/Q) and Italy (0.8%Q/Q) still managed to grow in Q1.

Industrial production and exports on track for growth in Q1

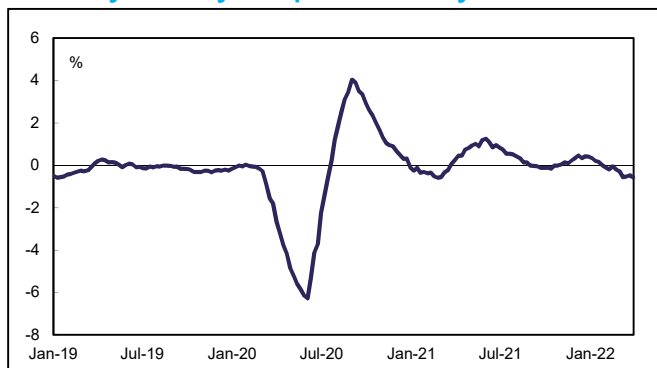
Before the impact of the Ukraine war started to be felt, euro area industrial production in Q1 appeared well on track for a first quarter of positive growth in a year. Admittedly, IP growth of 0.7%M/M in February merely reversed the drop of 0.7% in January. However, given the profile of activity towards year-end, that left the average level of production in the first two months of Q1 1.5% above the Q4 average. At the country level, production growth in February was led by Italy (4.0%M/M) and Ireland (2.4%M/M), although in both countries that represented a rebound from weakness in the previous month. German industrial output rose for a fifth successive month (0.4%M/M). By type of good, production of durable consumer (2.7%M/M) and intermediate (0.8%M/M) items was strongest in February. But most major categories were on track for growth in Q1, with the notable exceptions of motor vehicles and chemicals, which were trending 1.1% and 0.4% below the Q4 average and still constrained by supply-chain challenges.

Similarly, the latest goods trade figures reported a second successive monthly rise in the value of exports in February, up 0.8%M/M to be trending in the first two months of Q1 some 5.2% above the Q4 average. However, growth in imports was firmer at 1.5%M/M, to push the goods trade deficit up €1.7bn on the month to €9.4bn. That left the average trade deficit over the three months to February at a record high of €9.7bn. And import values in the first two months were trending 6.6% above the Q4 average. To a large extent, however, the value of both exports and imports will have been exaggerated by price changes. Indeed, imported goods prices were up 1.2%M/M and 24.9%Y/Y in February. And while net trade volumes subtracted from GDP growth in Q4, the opposite seems likely to have been the case in Q1.

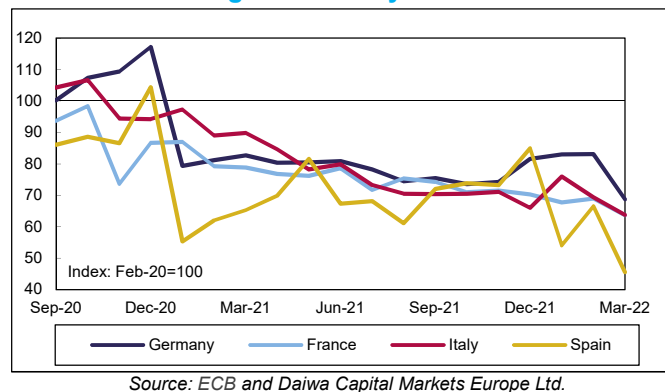
The day ahead in the euro area

Thursday brings new economic sentiment survey results including most notably the European Commission's preliminary consumer confidence indicator for April. A further deterioration in consumer sentiment is expected (-1.3pts to -20.0) to leave the index just above the pandemic trough two years ago as households' financial situations continue to be squeezed by higher prices. Indeed, tomorrow's final euro area inflation figures for March are expected to confirm that the headline HICP rate jumped 1.6ppt to a series high of 7.5%Y/Y. Inevitably, the preliminary data revealed that the biggest contribution to the rise came from energy prices, although higher inflation of non-energy industrial goods and to a lesser extent services pushed the core rate up 0.3ppt to a new series high of 3.0%Y/Y. This release will provide additional granular detail. Meanwhile, the French INSEE business survey results for April will provide a guide to what to expect from the flash PMIs due on Friday.

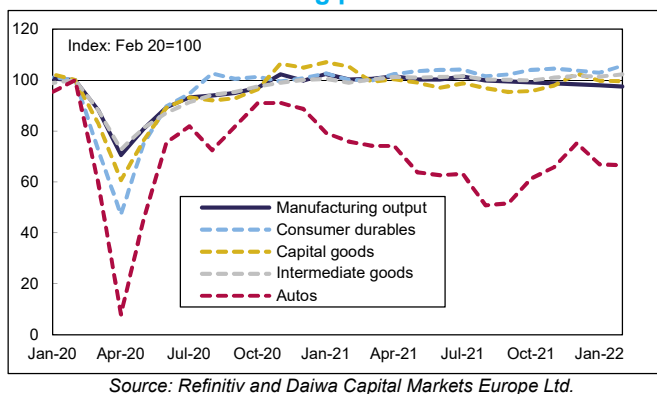
Germany: Weekly composite activity index



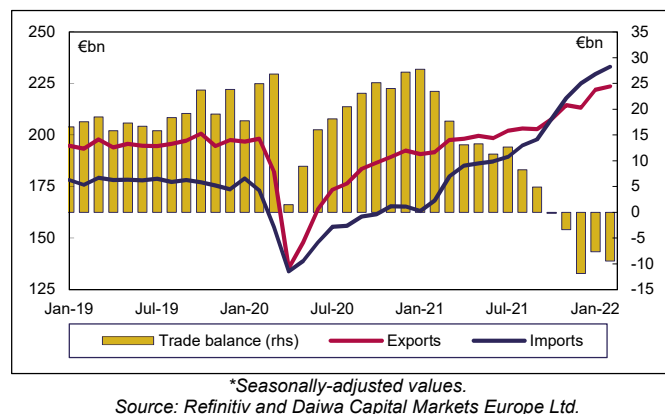
Euro area: Car registrations by member state



Euro area: Manufacturing production



Euro area: Goods trade*



Later in day tomorrow, ECB President Lagarde will take part in a panel discussion with Fed Chairman Powell on the global economy at the IMF Spring Meetings.

UK






The day ahead in the UK

After a day bereft of UK economic data today, it should be another quiet day for UK releases tomorrow. During the afternoon, we will hear from BoE Governor Bailey and external MPC member Mann who are speaking at separate events. Bailey is taking part in a panel discussion on inflation dynamics in a fragile global economy, while Mann will be discussing the issues surrounding monetary policy decision-making in an uncertain environment.



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 EU27 new car registrations Y/Y%	Mar	-20.5	-	-6.7	-
	 Industrial production M/M% (Y/Y%)	Feb	0.7 (2.0)	<u>1.0 (1.5)</u>	0.0 (-1.3)	-0.7 (-1.5)
	 Trade balance €bn	Feb	-9.4	-	-7.7	-
Germany	 PPI M/M% (Y/Y%)	Mar	4.9 (30.9)	2.7 (30.0)	1.4 (25.9)	-
Italy	 Trade balance €bn	Feb	-1.7	-	-5.1	-





Auctions

Country	Auction
Germany	 sold €859mn of 2.5% 2046 bonds at an average yield of 0.95%
UK	 sold £2bn of 1.125% 2039 bonds at an average yield of 2.162%













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	Final CPI (core CPI) Y/Y%	Mar	7.5 (3.0)	5.9 (2.7)
	 15.00	European Commission's preliminary consumer confidence	Apr	-20.0	-18.7
France	 07.45	INSEE business confidence	Apr	105	107
	 07.45	INSEE manufacturing confidence (production outlook)	Apr	104 (-5)	106 (-2)

Auctions and events

Euro area	 18.00	ECB President Lagarde and Fed Chair Powell to take part in panel discussion on the global economy
France	 09.50	Auction: 0% 2025 bonds
	 09.50	Auction: 0% 2027 bonds
	 09.50	Auction: 2.5% 2030 bonds
	 09.50	Auction: 0.1% 2031 index-linked bonds
	 09.50	Auction: 0.1% 2036 index-linked bonds
	 09.50	Auction: 0.1% 2053 index-linked bonds
Spain	 09.30	Auction: 0.0% 2025 bonds
	 09.30	Auction: 5.75% 2032 bonds
	 09.30	Auction: 2.70% 2048 bonds
UK	 14.00	BoE's Mann to speak on 'Monetary Policy: Decision-making facing uncertainties'
	 17.30	BoE Governor Bailey to speak at a Peterson Institute for International Economics event

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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

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