

Euro wrap-up

Overview

- Bunds followed USTs significantly higher while the ZEW survey suggested that investor perceptions of German current economic conditions have deteriorated and inflation expectations have eased slightly.
- Gilts also rallied as a retail sales survey pointed to a further weakening of demand on the UK high street.
- Wednesday will bring the final estimates of German inflation in April with the first estimate of UK GDP in Q1 to follow on Thursday.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	0.151	-0.067
OBL 0 04/27	0.682	-0.080
DBR 0 02/32	0.999	-0.091
UKT 1 04/24	1.295	-0.068
UKT 1½ 07/27	1.469	-0.098
UKT 4½ 06/32	1.840	-0.113

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

Euro area

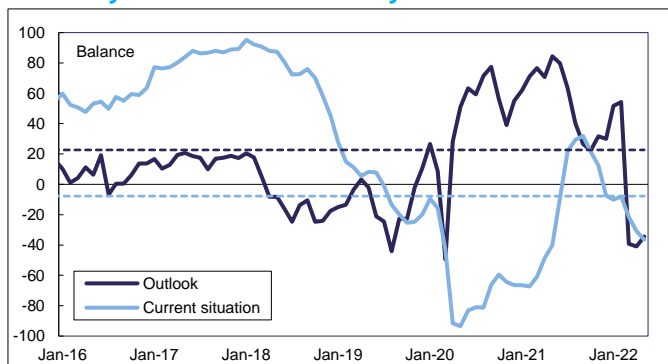
ZEW signals worsening perceptions of current conditions, slight tempering of pessimism in outlook

While surveys suggest that sentiment in many sectors – particularly business-facing services and manufacturing – remains relatively positive, it has weakened among consumer-facing firms, not least retailers. And investor sentiment remains downbeat. Today's ZEW survey of investors reported a third successive substantive deterioration in perceptions of current German economic conditions in May to the least favourable in a year (the respective index dropped almost 6pts to -36.5). Investors' assessment of the outlook for the coming six months was not quite as bad as in March and April (the index rose almost 7pts on the month to -34.3), and so the survey's composite confidence indicator edged slightly higher. But expectations remain very weak by historical standards and still point to a marked worsening in economic conditions over the coming couple of quarters, suggesting that any recovery from the shock of the Ukraine war could well have to wait at least until next year. Within the detail, the survey's index of inflation perceptions turned negative for the first time in three months, suggesting expectations that price pressures might now have peaked. And while most survey respondents expect an ECB policy rate hike over the coming six months, upwards momentum on long-term yields was judged to be not quite so strong as over the first four months of the year. Investor perceptions of profitability continue to vary markedly from sector to sector – positive for banks, insurers, services and utilities (albeit not as strong as before the Russian invasion of Ukraine), but negative for various manufacturing sub-sectors (e.g. autos, steel, and electronics) and markedly weaker for builders.

Italian IP stagnated in March, but fell sharply in Q1

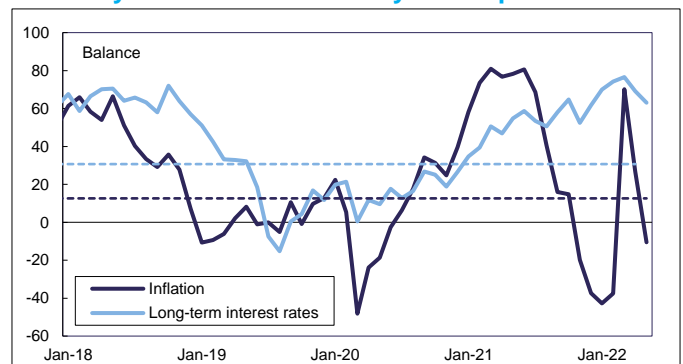
Contrasting with the March industrial production reports from [Germany](#), [Spain](#) and [France](#), today's equivalent figures from Italy beat expectations. Admittedly, industrial output merely moved sideways in March following growth of 4.0%/M/M. And in the absence of an increase in energy production (2.7%/M/M), total IP would have slipped back. Indeed, manufacturing fell 0.2%/M/M as production of intermediate goods fell (-0.7%/M/M) amid renewed weakness in chemicals and metals as supply bottlenecks became more binding. Despite a decline in transport items, production of capital and consumer goods rose in March (0.4%/M/M and 1.0%/M/M respectively). But this still left production of capital goods down ½% over the first quarter as a whole, with a steeper drop in intermediate goods (-1.6%/Q/Q). And so, despite the strength in February, manufacturing output was down for the second successive quarter and by almost 1%/Q/Q, with total IP down by a similar magnitude in Q1. Among the other member states to publish IP data so far this week, there was similar weakness in the Netherlands (-0.2%/M/M), Austria (-1.7%/M/M) and Finland (-1.2%/M/M). But this was countered to some extent by solid growth in Ireland (1.7%/M/M) and Greece (5.0%/M/M). As such, we now expect Friday's data for aggregate euro area industrial production to report a drop of around 0.7%/M/M, which would leave it up almost 1½%/Q/Q in Q1. However, when

Germany: ZEW investor survey confidence indices*



*Dotted lines represent long-run averages.
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: ZEW investor survey rate & price indices*



*Dotted lines represent long-run averages.
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

excluding Ireland – whose data at the turn of the year were extremely volatile seemingly in part due to technical issues with seasonal adjustments – the quarterly increase in euro IP in Q1 would be only about 0.2%Q/Q.

The coming two days in the euro area

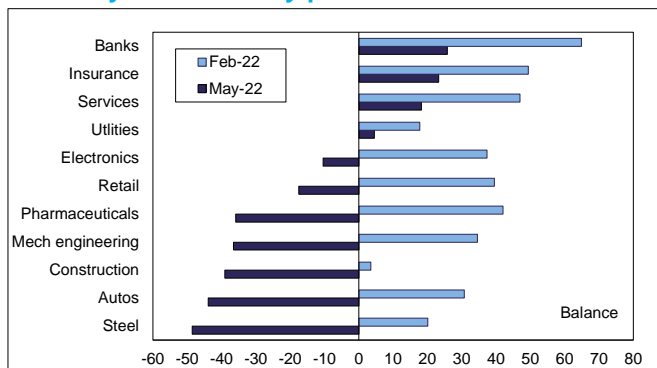
It should be a relatively quiet couple of days for euro area economic data, with just final German CPI inflation figures for April due tomorrow. The preliminary estimate showed that, despite an easing in energy price inflation (albeit to a still-lofty 35.3%Y/Y), headline CPI on the national measure increased a further 0.1ppt to 7.4%Y/Y. And the HICP inflation rate rose 0.2ppt to 7.8%Y/Y, with the core CPI measures on both bases having likely shifted higher too. Meanwhile, there are plenty of Governing Council members in action tomorrow, including ECB President Lagarde at Slovenia central bank event, while Executive Board member Schnabel will speak at Austria's central bank.

UK

Retail spending hit by the surge in cost of living

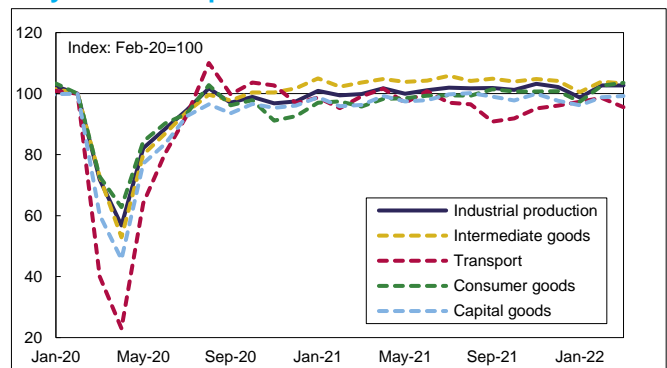
As the UK's cost of living crisis intensified in April, today's BRC survey and Barclaycard card data for that month predictably painted a gloomy picture for the retail sector and household spending more generally at the start of Q2. According to the BRC, the value of retail sales fell (-0.3%Y/Y) for the first time since the start of 2021, with the steepest drop in like-for-like sales (-1.7%Y/Y) since March 2020. Spending on big-ticket items appears to have been hit hardest as consumers scaled back expenditure on furniture, electrical items and hardware. And given the recent surge in prices – the [BRC's shop price index](#) jumped to the highest since September 2011 – the decline in volume terms was even larger. Admittedly, part of the weakness likely reflects ongoing supply issues, which have been exacerbated by the re-imposition of pandemic restrictions across key parts of China. But there have also been increased opportunities to spending on services. Certainly, today's Barclaycard consumer spending report suggested that spending on international travel had the best month since before the pandemic, while spending on domestic accommodation rose at the fastest pace since September, as consumers made plans for the extra national holiday and resulting long weekend in June to mark the Queen's Platinum jubilee. But this report also suggested slightly softer growth in spending in a number of other categories, including subscriptions, takeaways and fuel. Overall, consumer credit spending on Barclaycard grew 18.1% in April above the same period in 2019, a touch firmer than in March (17.7%) and the strongest growth since October. Of course, like the BRC survey, these figures are in nominal terms and therefore will reflect a substantive boost from the recent surge in inflation.

Germany: ZEW survey profit outlook indices



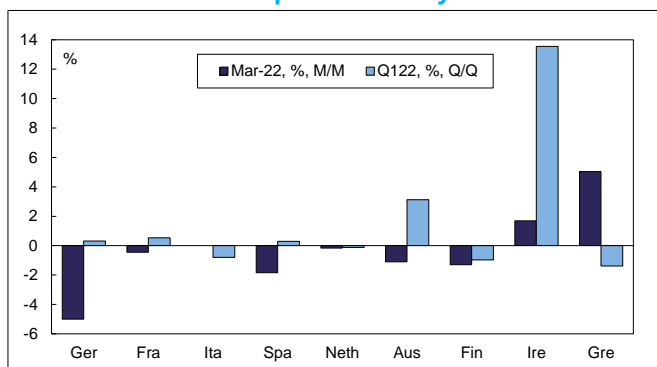
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Italy: Industrial production



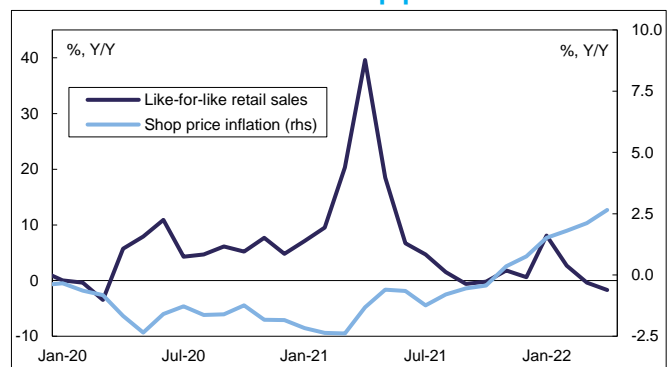
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Industrial production by member state



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: BRC retail sales and shop price inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

The coming two days in the UK




After a day bereft of top-tier UK economic data tomorrow, Thursday will be a busy one with the first estimate of Q1 GDP due along with the monthly update on economic activity in March. Not least given a strong start to the year as services activity increased amid the diminished threat from Omicron, the pace of GDP growth in Q1 is expected to have eased only slightly from Q4, by 0.3ppt to 1.0%Q/Q. We expect the detail to reveal that household consumption was supported to some extent by increased opportunities to spend on services. However, we expect the monthly profile to report no growth whatsoever in March following growth of just 0.1%M/M in February. Indeed, persisting supply bottlenecks likely continued to constrain output in the manufacturing and construction sectors. And while the UK had its sunniest March since 1929, which undoubtedly gave a further boost to hospitality, healthcare services were likely a drag as vaccinations and test-and-trace activity fell further. Thursday will also bring the latest REC/KPMG report on jobs for April, as well as the RICS residential survey for the same month. Both are expected to signal that ongoing supply-demand imbalances continued put upwards pressures on wages and house prices respectively.

The next edition of the Euro wrap-up will be published on 12 May 2022



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 ZEW current situation (expectations) balance	May	-36.5 (-34.3)	-35.0 (-43.0)	-30.8 (-41.0)	-
Italy	 Industrial production M/M% (Y/Y%)	Mar	0.0 (3.0)	-1.5 (1.4)	4.0 (3.3)	- (3.4)
UK	 BRC retail sales monitor, like-for-like Y/Y%	Apr	-1.7	-	-0.4	-



Auctions

Country	Auction
Germany	 sold €2.4bn of 0% 2032 bonds at an average yield of 0.73%
UK	 sold £2.25bn of 0.875% 2033 bonds at an average yield of 1.951%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Sentix investor confidence	May	-22.6	-21.1	-18.0	-
France	 Trade balance €bn	Mar	-12.4	-10.9	-10.3	-10.4





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
Germany		07.00 Final CPI M/M% (Y/Y%)	Apr	0.8 (7.4)	2.5 (7.3)
		07.00 Final EU-harmonised CPI M/M% (Y/Y%)	Apr	0.7 (7.8)	2.5 (7.6)
France		- Bank of France industrial sentiment	Apr	103	103
UK		09.30 Unit labour costs Y/Y%	Q4	-	3.1









Auctions and events

Euro area		08.15 ECB's Nagel scheduled to speak on "Preparing for rising rates"
		09.00 ECB President Lagarde and Vasle scheduled to speak at a Bank of Slovenia event
		09.55 ECB's Knot scheduled to speak
		13.20 ECB's Schnabel scheduled to speak
Germany		10.30 Auction: €4bn of 0% 2032 bonds
UK		10.00 Auction: £2.5bn of 0.5% 2029 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
UK		00.01 RICS house price balance %	Apr	71	74
		07.00 Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>1.0 (9.0)</u>	1.3 (6.6)
		07.00 Monthly GDP M/M%	Mar	<u>0.0</u>	0.1
		07.00 Industrial production M/M% (Y/Y%0	Mar	0.0 (0.5)	-0.6 (1.6)
		07.00 Manufacturing production M/M% (Y/Y%)	Mar	0.0 (2.3)	-0.4 (3.6)
		07.00 Index of services M/M% (3M/3M%)	Mar	0.1 (0.9)	0.2 (0.8)
		07.00 Construction output M/M% (Y/Y%)	Mar	0.2 (2.2)	-0.1 (6.1)
		07.00 Trade in goods balance £bn	Mar	-18.5	-20.6

Auctions and events

Euro area		09.05 ECB's Hernández de Cos scheduled to speak
Italy		10.00 Auction: €2.0bn of 1.2% 2025 bonds
		10.00 Auction: €3.75bn of 2.8% 2029 bonds
		10.00 Auction: €1.0bn of 3.45% 2048 bonds
UK		00.01 REC/KPMG report on Jobs

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

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