Euro wrap-up

Overview

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- Shorter-dated Bunds made modest losses even as the German ZEW survey suggested that investors were more downbeat regarding the outlook.
- Despite a rise in the UK unemployment rate, and further declines in inactivity and vacancies, Gilts made losses as pay growth exceeded expectations.
- Wednesday will bring March inflation estimates from the euro area and UK, while ECB Executive Board members Lane and Schnabel are due to speak.

Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	2.878	+0.024
OBL 2.2 04/28	2.503	+0.017
DBR 2.3 02/33	2.466	-0.001
UKT 0⅝ 06/25	3.657	+0.077
UKT 1⅝ 10/28	3.569	+0.075
UKT 3¼ 01/33	3.738	+0.054

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

Euro area

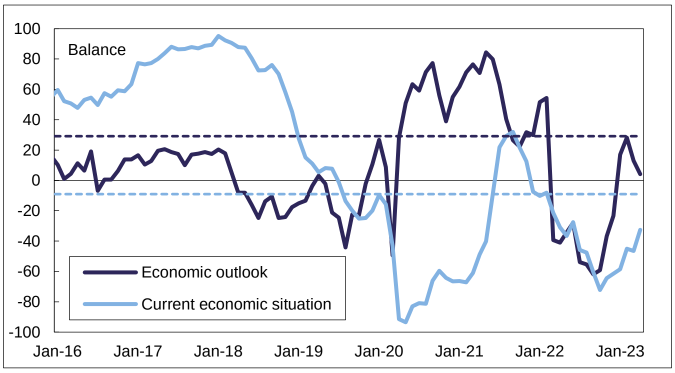
ZEW survey suggests investors more downbeat regarding the outlook

Ahead of the flash PMIs on Friday, today's German ZEW survey suggested that, on the whole, investors remained pretty gloomy about the outlook for the euro area's largest member state at the start of the second quarter. Admittedly, with concerns associated with the takeover of Credit Suisse and collapse of several US banks having receded somewhat, the survey's index for the current situation rose a larger-than-expected 14pts in April to a ten-month high of -32.5. But while this is some 40pts above October's trough, the index remains firmly negative and well below the long-run average (-9). Moreover, investors were again more downbeat about their expectations for the outlook over the coming six months. In particular, the respective index fell for a second successive month in April, by 8.9pts to 4.1, some 15pts below the Q1 average. This still remains more than 50pts higher than the average seen through the second half of last year, perhaps in part reflecting the improvement in expectations for inflation over the coming six months. And medium-term forecasts for 10Y bund yields were back below the long-run average. This notwithstanding, ZEW noted that the subdued outlook in part reflected expectations for tighter financing conditions amid restrictive monetary policy. And while earnings expectations for banks and insurance firms increased compared with March and remained in positive territory, the share expecting profits to improve remained notably softer than in February. Moreover, assessments of profitability in a range of other sectors, including construction, autos, steel and retail, remained firmly in negative territory.

The day ahead in the euro area

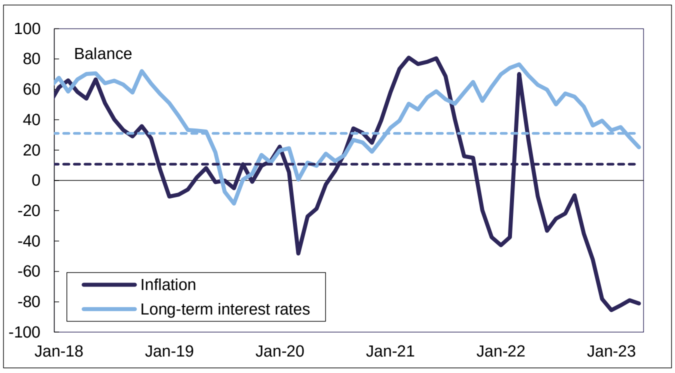
Tomorrow brings the final March estimates of inflation for the euro area as a whole, which are likely to align with the initial estimates. These reported a drop of 1.6ppts in the headline euro area HICP rate to a 13-month low of 6.9%Y/Y, largely thanks to lower energy prices. And while core goods inflation moderated somewhat, increased pressures in services meant that core inflation (excluding all food and energy) edged up to a new series high of 5.7%Y/Y. As that was 5.65%Y/Y to two decimal places, however, we cannot exclude a downwards revision to the core rate in the final estimate. We will also get euro area new car registrations data for March and construction output figures for February. The most noteworthy ECB speakers tomorrow include Chief Economist Lane and hawkish Executive Board member Schnabel.

Germany: ZEW survey sentiment indices*



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

Germany: ZEW inflation and interest rate indices*



*Expectations for the coming six months. Dashed lines represent long-run average. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK

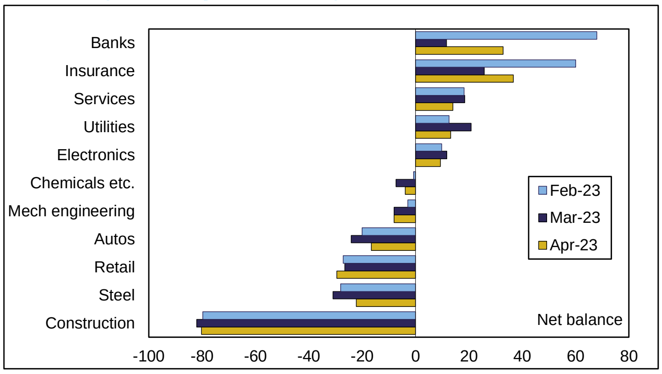
Balance between labour supply and demand becomes a little less tight

This week's economic data from the UK might well make the outcome of next month's BoE monetary policy decision a little clearer. But while the market-implied probability of a further rate hike in May rose today, the latest labour market figures left the judgement still finely balanced. In particular, there was evidence of a further loosening of conditions and moderation in private sector pay growth, although wage growth slowed less than expected and perhaps not quite sufficiently to allay concerns of inflation persistence. Among the various details, employment rose a larger-than-expected 169k in the three months to February. But that reflected an increase in the number of part-time and self-employed workers while the number of full-time employees fell. And the total number of people in work was still more than 100k below its pre-pandemic level. In addition, the headline ILO unemployment rate edged up 0.1ppt in the three months to February to 3.8%, to be 0.3ppt above the trough last summer, the highest since the three months to June, and back in line with the rate at the end of 2019 before the pandemic. The higher unemployment rate reflected a further welcome decline in inactivity, of 0.4ppt on the quarter. While that might suggest an easing of labour shortages, the inactivity rate remained some 0.9ppt above the pre-pandemic level. And the decline related to fewer younger people in education while the number of long-term sick rose to a new record high and there was also little improvement in the participation of workers over 50 years old. Meanwhile, further evidence of a moderation in labour demand was seen in the number of vacancies, which fell in the three months to March for the ninth consecutive quarter. It was still, however, more than 300k above the level at the onset of the pandemic.

Private sector pay growth moderates but remains elevated

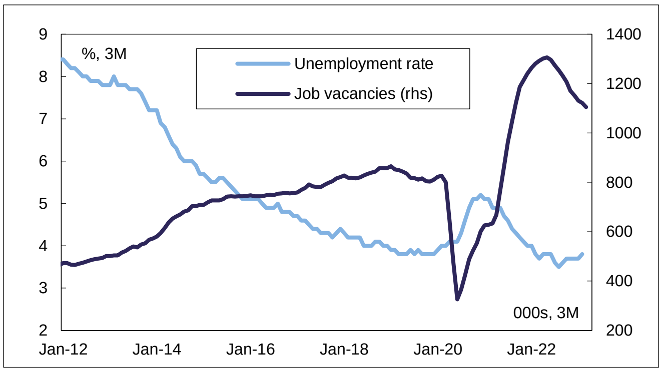
For the BoE, probably the most important labour market data currently relate to pay. And, at face value, those figures might have fuelled fears of second-round effects on inflation from wages. In particular, total average pay rose 5.9%3M/Y in February, unchanged from an upwardly-revised figure the prior month and some 0.8ppt above the median forecast on the Bloomberg survey. Excluding bonuses, basic pay growth was also stronger than expected and unchanged from an upwardly revised 6.6%3M/Y. However, that masked a continued significant narrowing of differentials between the private sector where basic pay eased 0.4ppt on the quarter to 6.9%3M/Y, and the public sector where basic pay rose almost 2ppts on the quarter to 5.3%3M/Y against the backdrop of increased strike action. Indeed, on the 3M/3M annualised basis, which probably best illustrates the current trend, private sector regular pay slowed 0.8ppt to 5.4%, the softest since the start of 2022 and more than 3ppts below the peak last summer. It remains to be seen whether that private sector wage trend is still a little too hot for the BoE's comfort or whether the MPC has confidence in the softening trend. But in real terms, total pay was down 3.0%3M/Y – the most since the Global Financial Crisis in early 2009 – with regular pay down 2.3%3M/Y, providing a

Germany: ZEW profitability indices



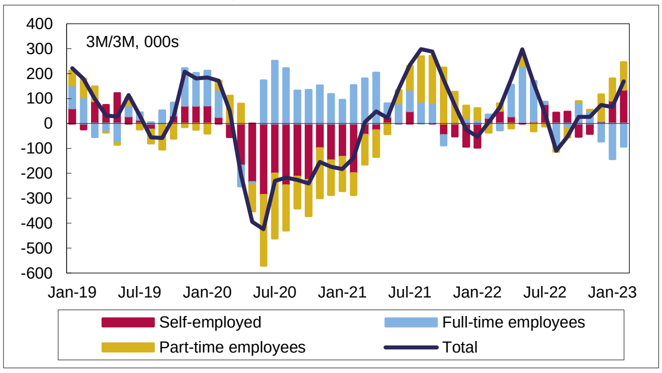
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Unemployment rate and vacancies



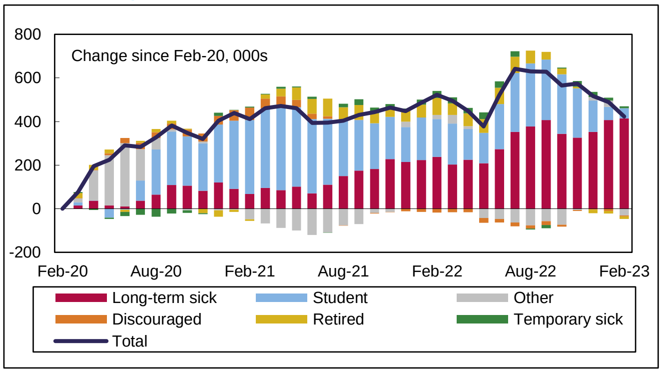
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Employment growth



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Change in labour inactivity since the pandemic



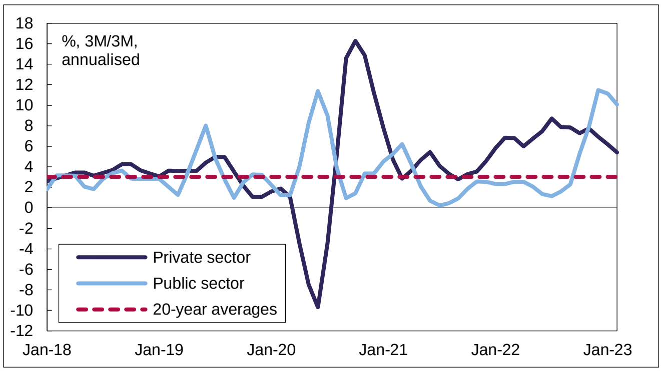
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

reminder to policymakers that the outlook for private consumption remains weak, even if the lengthy recession previously anticipated by the BoE is likely to be avoided.

The day ahead in the UK

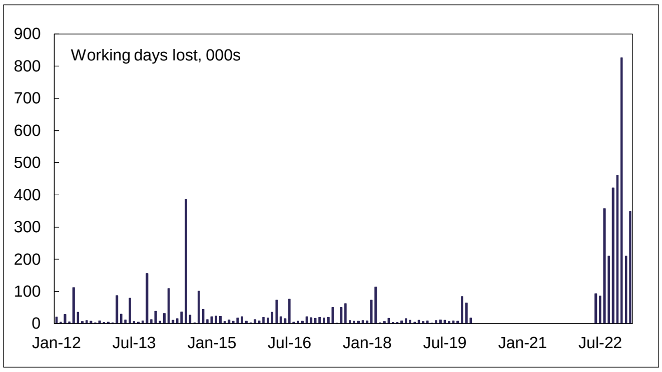
The UK data highlight tomorrow will be the release of March inflation figures, which will also have a bearing on the BoE's May monetary policy decision. CPI inflation in February surprised on the upside, rising 0.3ppt to 10.4%Y/Y. However, the upside surprise largely reflected a record increase in food prices, as well as a likely associated rise in prices in restaurants and cafes, and also higher clothing prices, which are often erratic. The food component is hard to forecast with accuracy. But clothing prices should be better behaved in March. Indeed, we expect a softening of inflation of both non-energy industrial goods and core services to allow the core CPI rate to reverse the 0.4ppt rise to 6.2%Y/Y seen in February. Headline inflation also seems bound to fall thanks in part thanks to an energy-price base effect associated with the Russian invasion of Ukraine. And, overall, we expect the headline CPI inflation rate to fall back 0.7ppt to 9.7%Y/Y, which would be the lowest since June. Meanwhile, the latest UK house price index, also published tomorrow, should reveal the fourth successive slowdown in house price inflation in February, to close to 5.0%Y/Y, which would be the lowest since October 2010. Meanwhile, BoE external MPC member Mann will take part in a panel discussion on climate and monetary policy.

UK: Regular pay growth



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Working days lost to labour disputes



Source: ONS and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country		Release	Period	Actual	Market consensus/ *Daiwa forecast*	Previous	Revised
Germany		ZEW current assessment (expectations) balance	Apr	**-32.5 (4.1)**	-39.4 (15.6)	-46.5 (10.0)	-
Italy		Trade balance €bn	Feb	**2.1**	-	-4.2	-
UK		Payrolled employees monthly change '000s	Mar	**31**	48	98	39
		Unemployment claimant count rate % (change '000s)	Mar	**3.9 (28.2)**	-	3.8 (-11.2)	- (-18.8)
		Average weekly earnings (excl. bonuses) 3M/Y%	Feb	**5.9 (6.6)**	5.1 (6.2)	5.7 (6.5)	5.9 (6.6)
		ILO unemployment rate 3M%	Feb	**3.8**	*3.7*	3.7	-
		Employment change 3M/3M '000s	Feb	**169**	50	65	-

Auctions

Country		Auction
UK		sold £2.25bn of 3.75% 2053 bonds at an average yield of 4.083%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Italy	Final HICP (CPI) Y/Y%	Mar	**8.1 (7.6)**	*8.2 (7.7)*	9.8 (9.1)	-

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/ *Daiwa forecast*	Previous
Euro area	07.00	EU27 new car registrations Y/Y%	Mar	-	11.5
	09.00	Current account balance €bn	Feb	-	17.1
	10.00	Final HICP (core CPI) Y/Y%	Mar	*6.9 (5.7)*	8.5 (5.6)
	10.00	Construction output M/M% (Y/Y%)	Feb	-	3.9 (0.9)
UK	07.00	CPI (core CPI) Y/Y%	Mar	*9.7 (5.8)*	10.4 (6.2)
	07.00	PPI output (input) prices Y/Y%	Mar	8.5 (7.0)	12.1 (12.7)
	09.30	House price index Y/Y%	Feb	5.1	6.3

Auctions and events

Country	BST	Event
Euro area	11.35	ECB Chief Economist Lane gives a keynote speech at Enterprise Ireland Summit
	17.00	ECB's Schnabel scheduled to speak – 'Monetary policy challenges in times of high inflation'
Germany	10.30	Auction: €4bn of 2.3% 2033 bonds
UK	11.30	Auction: £3.75bn of 4.125% 2027 bonds
	17.30	BoE's Mann takes part in a panel discussion – 'Climate policy and monetary policy'

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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