

# Euro wrap-up

## Overview

- While the April German ifo survey beat expectations and French consumers revised up their purchase intentions, Bunds followed USTs higher.
- Gilts also made gains while a UK survey suggested that manufacturers cut capex and hiring intentions due to weak demand and heightened uncertainty.
- Friday will bring April survey results for French business and UK consumer confidence, as well as UK retail sales figures for March.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	1.671	-0.070
OBL 2.4 04/30	1.979	-0.067
DBR 2½ 02/35	2.441	-0.054
UKT 3¾ 03/27	3.855	-0.044
UKT 4% 03/30	3.980	-0.049
UKT 4½ 03/35	4.490	-0.062

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

## Euro area

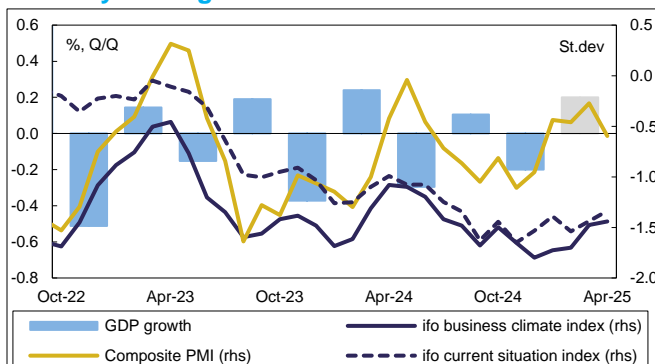
### Slightly improved ifo survey suggests German firms see no cause for panic

While yesterday's flash German [PMIs](#) for April disappointed with a drop in the composite index back below the key 50 mark, today's ifo indices beat expectations with the headline business climate index edging up marginally to a nine-month high (86.9). That rise reflected an improvement in perceptions of current conditions (86.4), also to the best since July. But while the expectations index was slightly softer (87.4), it remained above the range from November to February to suggest that firms are not yet panicking in the face of Trump's tariffs. Indeed, perhaps benefiting from ongoing frontloading of production, manufacturers judged current conditions to be the best since August. And while their expectations for the coming six months unsurprisingly deteriorated following the imposition of new US trade barriers, manufacturers were still more upbeat about the outlook than over the six months to February. Moreover, while the flash PMIs had suggested that services activity had weakened significantly at the start of Q2, the ifo indices for the sector pointed to a pick up in growth in the sector and the brightest outlook for six months. According to the ifo institute, however, differences exist within the sector, with hospitality firms more upbeat but certain subsectors whose fortunes are tied to the manufacturing sector – e.g. transport and logistics – more pessimistic. Meanwhile, perhaps buoyed by the prospect of further ECB rate cuts as well as the government's plans for extra infrastructure spending, construction firms were the most upbeat since the Russian invasion of Ukraine. But with consumers seemingly preferring to save than spend, retailers reported the worst current conditions in seven months, with their assessment of the outlook one of the most downbeat of the past two years.

### We expect a modest drop in German GDP in Q2 & Q3 before momentum is restored into 2026

Although the April ifo survey was certainly better than expected, we caution that the indices for both current conditions and expectations were still well below their long-run averages. Indeed, while the German composite PMI suggested that economic activity tracked broadly sideways at the start of Q2, the ifo indices remain at levels that would normally be consistent with mild contraction. And after a return to positive growth in Q1, we expect German GDP to decline slightly in the current quarter due to a pullback in exports and a loss of momentum in final domestic demand. But despite the current elevated level of uncertainty, assuming that a global recession is avoided, we would envisage a turn for the better before year-end. That probably won't be sufficient to avoid a slight drop in German GDP in 2025, a scenario only marginally softer than the government's updated forecast of zero growth. More happily, however, assuming the government transforms its plans into reality, extra infrastructure and military spending, coupled with a renewed pick up in external demand, should provide a significant boost to German GDP growth in 2026, close to (but probably still slightly below) 1.0%Y/Y.

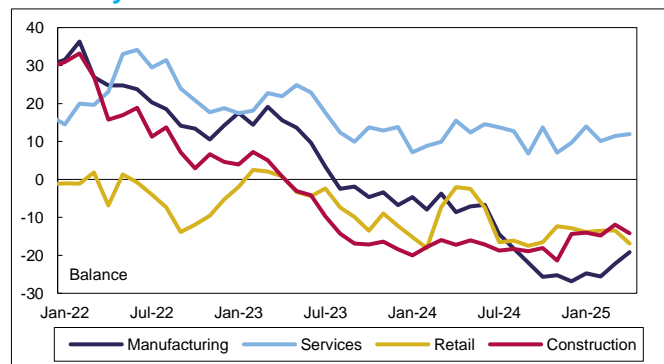
### Germany: GDP growth\* & sentiment indices



\*Grey bar is Daiwa's forecast for Q125.

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

### Germany: ifo current conditions indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## French consumers increase purchase intentions as they judge conditions to be little changed

Contrasting the deterioration in the [Commission confidence](#) survey indicator in April that suggested euro area households were the most downbeat for almost two years, according to today's INSEE survey results French consumers judged conditions to be little changed at the start of Q2. Indeed, the headline INSEE index was unchanged at 92 for a third month out of the past four. Admittedly this remains some 8pts below the long-run average. But it is nevertheless still a touch higher than the average in 2024 when private consumption rose a relatively solid 0.9%Y/Y. Within the survey detail, French households unsurprisingly considered the economic outlook to have worsened again in April, with concerns about unemployment close to recent highs. But with households judging their current income situation to be broadly in line with the long-run average, they were reportedly less inclined to add to their savings for a second successive month. As a result, the share of respondents considering it a good time to make major purchases rose to the highest for three years, albeit remaining below the long-run average. So, with retail sales in the first two months of the year trending some ½% above the Q4 average, today's survey suggests that consumer spending on goods should continue to contribute positively to GDP growth at the start of Q2 too.

### The day ahead in the euro area

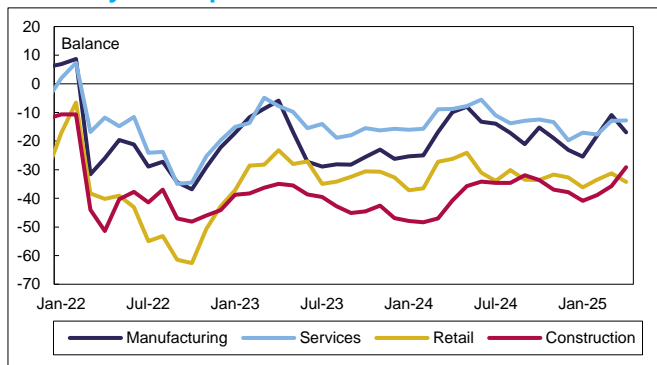
A relatively quiet end to the week will bring the release of the French INSEE business survey results, which will provide a cross-check on yesterday's flash PMIs and also include updates on conditions in the retail and construction sectors. While the INSEE survey has provided a better guide to French business activity than the PMIs over recent quarters, both surveys signalled an improvement in sentiment March. And like yesterday's French PMIs but in contrast to today's German ifo survey results, we expect the INSEE indices to report a modest deterioration in the French business climate at the start of Q2.

## UK

### Manufacturers to cut capex and hiring intentions as demand set to remain weak

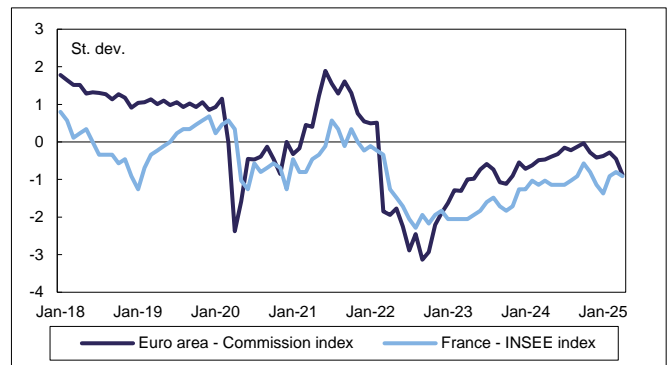
Contrasting the marked deterioration in yesterday's manufacturing PMIs, the headline numbers from today's CBI industrial trends survey suggested that conditions in the sector were arguably as good as to be expected amid the current economic uncertainty. For example, the headline output index jumped to a ten-month high in the three months to April – up 16pts to -2 – as manufacturers seemingly front-loaded production against the backdrop of US trade policy uncertainty. So, firms were seemingly less downbeat about business conditions than in the three months to January. Admittedly, still less than 30% of respondents reported an increase in output during that period. On balance, firms expected production to fall slightly in the

#### Germany: ifo expectations indices



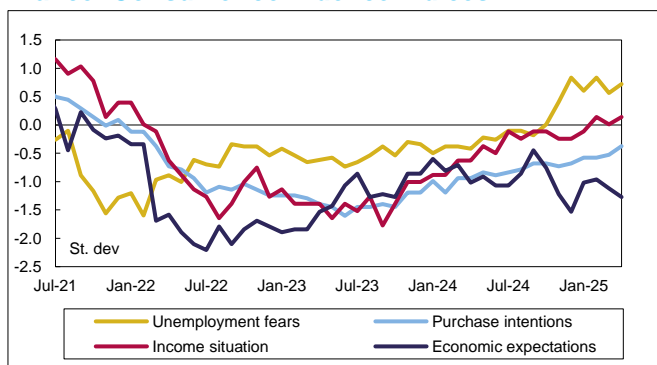
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area & France: Consumer confidence



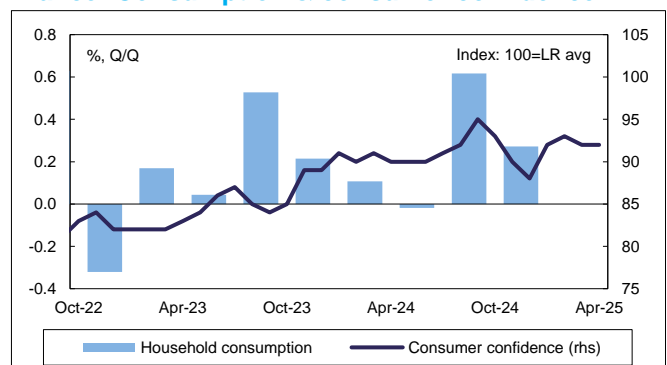
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: Consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: Consumption & consumer confidence



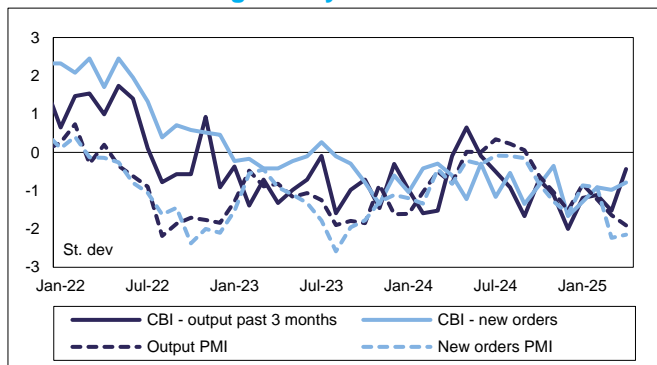
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

three months to July. And almost 80% of businesses suggested that stocks were adequate or more than adequate, while order books continued to shrink. Indeed, tallying with the decision of Jaguar Land Rover to cease shipments to the US, there was a marked drop in the export orders balance in April to one of the lowest readings since 2020 and the global financial crisis before that. And firms expect foreign orders to weaken further in the three months to July. Given subdued demand and weak growth prospects, investment intentions for the year ahead remained very weak too, with manufacturers expecting to cut capex on buildings, plant and machinery, innovation and training. And with the number of people employed in the sector in the quarter to April having reportedly fallen at the steepest pace since October 2020, manufacturers expect headcount to decline again over the coming quarter.

**The day ahead in the UK**

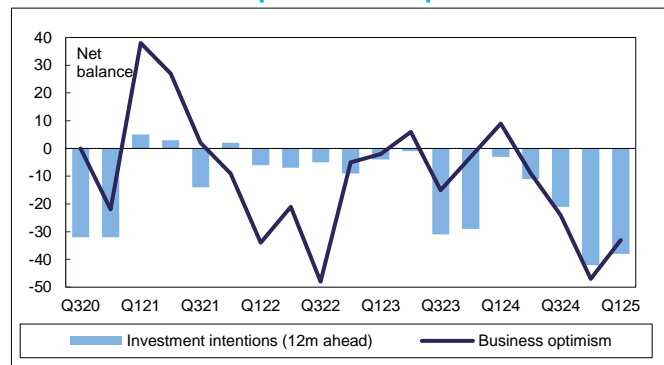
Like the latest business surveys, tomorrow's GfK confidence indices for April are likely to report the first deterioration in UK consumer sentiment this year as households face rising uncertainty, gloomier growth prospects, reduced hiring intentions and an increase in energy and water bills at the start of Q2. But while the consumer survey has signalled an ongoing preference to bolster savings than spend, the latest retail sales figures are likely to confirm solid growth in Q1. Admittedly, owing to their strength over the previous two months and delayed Easter holidays, we expect them to fall back in March. But given favourable weather that month and the signals of firm underlying demand flagged by last week's BRC retail survey, we expect only a moderate decrease of up to ½%M/M, which would leave sales up a vigorous 1½%Q/Q in Q1.

**UK: Manufacturing survey indices**



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

**UK: CBI business optimism & capex intentions**










Source: 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	 New car registrations Y/Y%	Mar	-1.0	-	-3.9	-
Germany	 ifo business climate indicator	Apr	86.9	85.2	86.7	-
	 ifo current assessment (expectations) indicator	Apr	86.4 (87.4)	85.4 (85.0)	85.7 (87.7)	-
France	 INSEE consumer confidence indicator	Apr	92	91	92	-
Spain	 PPI Y/Y%	Mar	4.9	-	6.6	6.7
UK	 CBI industrial trends survey – total orders (selling prices) balance %	Apr	-26 (23)	-35 (20)	-29 (22)	-
	 CBI industrial trends survey – business optimism balance %	Apr	-33	-	-47	-





#### Auctions

Country	Auction
Italy	 sold €3.0bn of 2.55% 2027 bonds at an average yield of 2.0%
UK	 sold £1.75bn of 4.75% 2043 bonds at an average yield of 5.155%


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
France	 07.45	INSEE business (manufacturing) confidence indicator	Apr	96 (95)	97 (96)
UK	 00.01	GfK consumer confidence indicator	Apr	-21	-19
	 07.00	Retail sales, including auto fuel M/M% (Y/Y%)	Mar	-0.4 (1.7)	1.0 (2.2)
	 07.00	Retail sales, excluding auto fuel M/M% (Y/Y%)	Mar	-0.7 (2.0)	1.0 (2.2)

#### Auctions and events

Italy	 10.00	Auction: to sell fixed-rate and index-linked bonds
-------	---	--

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

#### Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: [https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit\\_ratings.pdf](https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf). If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

#### IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.