

# Euro wrap-up

## Overview

- Euro area government bonds made modest losses as a French survey suggested that manufacturers were relatively unperturbed by the new US tariffs and that overall business sentiment was broadly steady in April.
- Despite stronger-than-expected UK retail sales data, Gilts were little changed as consumer confidence weakened to a 17-month low.
- The coming week will bring the first estimates of Q1 GDP in the euro area and large member states as well as flash euro area April inflation data.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	1.718	+0.040
OBL 2.4 04/30	2.018	+0.033
DBR 2½ 02/35	2.471	+0.026
UKT 3% 03/27	3.861	-0.003
UKT 4% 03/30	3.984	-0.003
UKT 4½ 03/35	4.493	-0.008

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

Source: Bloomberg

## Euro area

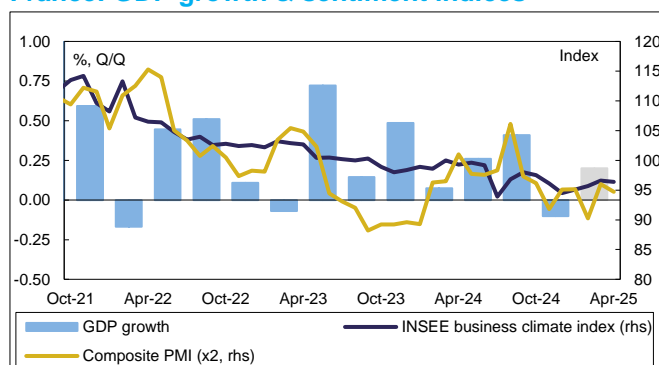
### French business sentiment subdued but steady with manufacturers relatively unfazed by US tariffs

Like yesterday's [German ifo indices](#), today's French INSEE survey results suggested that overall business sentiment remained broadly steady in April albeit at a historically weak level and with contrasting fortunes between the major sectors. The headline INSEE business climate index fell just 0.2pt to 96.4, still above the range from November to March but nevertheless a chunky 3½% below the long-run average. Perhaps counterintuitively in light of the new US tariff regime, and providing a more upbeat assessment than the [flash PMIs](#), the INSEE indices suggested that French manufacturing confidence was much improved, with the respective index up 3pts in April to 99, just shy of the long-run average. Notably, new orders from at home and abroad rose firmly to be, in aggregate, back in line with the long-run average. But while firms' own production prospects were judged also to have improved to a 13-month high, they considered the broader industrial production outlook to have deteriorated. Among the various sub-sectors, food and drink producers, who are exposed to fluctuations in US demand, were more upbeat with sentiment closer in line with the long-run average. Firms in the transport equipment sector were particularly optimistic. But while sentiment among producers of machinery and equipment was stable, the chemicals sector – which also depends non-negligibly on US demand and had increased shipments to the US at the start of the year – was particularly downbeat.

### As in Germany, French retail sentiment takes a dive but services unperturbed

In services, the INSEE survey often provides a more reliable guide than the PMIs. So, while the April flash services PMI signalled a deterioration this month, the INSEE services business climate index provided greater comfort, rising to a five-month high just 2% below the long-run average. Nevertheless, the business outlook in the sector remained subdued and was judged to have deteriorated a touch in hospitality and professional services. In construction, sentiment was slightly softer too. And tallying with the findings of yesterday's German ifo indices, the INSEE survey suggested a marked deterioration in retail sentiment to be 5% below the long-run average. That reflected a downgrade to retailers' assessment of the business outlook as well as weaker signals on orders. It also tallied with downbeat [consumer confidence](#), which yesterday's INSEE household survey suggested remained some 8% below the long-run average as workers' concerns about unemployment rose. However, the same survey reported improved willingness to spend. So, as we think was the case in Q1, and despite greater pessimism among retailers, we expect the French consumer to continue to support economic growth in Q2. We note also that French goods exporters are significantly less reliant on the US than their German counterparts. And with a few exceptions, they appear to have frontloaded shipments to the US in Q1 to a lesser extent too. We also think that French GDP grew about 0.2%Q/Q in Q1. And while uncertainty remains high, we currently think that a pause to French GDP growth this quarter is more likely than a significant retrenchment.

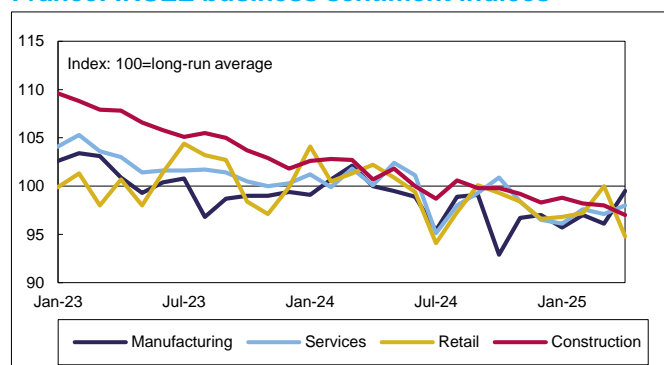
### France: GDP growth & sentiment indices\*



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

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

### France: INSEE business sentiment indices



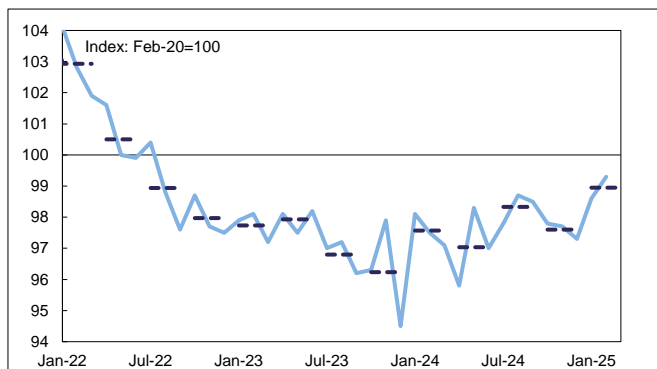
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## The week ahead in the euro area

It will be a busy week ahead for top-tier euro area economic data, bringing the first estimates of HICP inflation in April (on Friday) and GDP in Q1 (Wednesday). Having eased in March to a five-month low of 2.2%Y/Y, we expect headline HICP inflation to take a further step down this month to 2.0%Y/Y, to be back at or below the ECB's target for just the third time in almost four years. The moderation will largely reflect the energy component due to a sharp drop in petrol and heating oil prices. Services inflation could also ease slightly to the softest level since mid-2022, although the late timing of Easter this year will boost certain holiday-related components. But in part due to base effects, non-energy industrial goods inflation will likely pick up, albeit remaining sub-1%Y/Y. As a result, the core HICP rate is likely to edge up slightly from March's near-three-year low to 2.5%Y/Y. Flash inflation estimates from Germany, France, Italy (Wednesday) and Spain (Tuesday) will provide further insight. Meanwhile, the ECB's consumer survey (Wednesday) will be watched for signs of upward shifts to inflation expectations possibly induced by tariff talk. February's survey suggested that expectations for headline HICP inflation one year ahead held steady at 2.6%Y/Y and remained relatively well anchored at 2.4%Y/Y for three years ahead too.

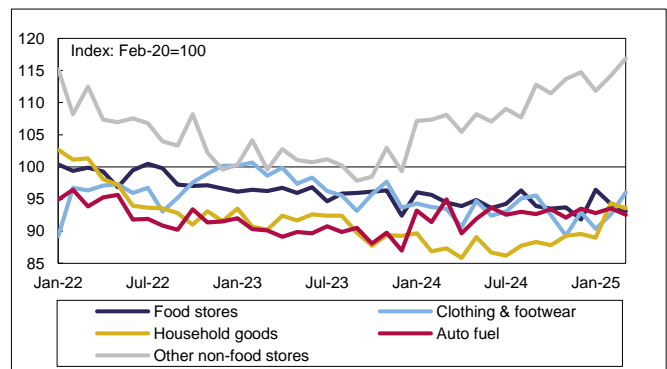
In terms of economic activity, Q1 GDP figures will benefit from the front-loading of production and exports in the face of uncertainty surrounding US trade policy. In particular, we forecast euro area GDP growth of 0.3%Q/Q. While no expenditure breakdown will be published with this estimate, there were likely positive contributions from consumption and net trade, more than offsetting a possible decline in business investment and inventories. We also forecast positive growth across the larger member states. In particular, German economic output likely reversed the 0.2%Q/Q decline in Q4, albeit this would leave output no stronger than the pre-pandemic level. French GDP is also expected to return to positive growth of 0.2%Q/Q, with a similar pace of expansion anticipated in Italy. But the Spanish economy likely outperformed again in Q1 (0.7%Q/Q), while Ireland is also set to provide a non-negligible boost to euro area GDP growth reflecting its more than doubling in exports to the US in the first two months of the year (data for both member states are due Tuesday). The Commission's sentiment survey (Tuesday) will provide a further update on economic conditions at the start of Q2. But while national releases suggest that business confidence has held up relatively well this month, the flash estimate of consumer confidence fell to its weakest for almost two years. The ECB's monetary figures for March (also Tuesday) might well report a further rise in mortgage lending as borrowing rates continue to fall, but business loan growth might be hampered by increased uncertainty. But labour market data (Friday) are likely to show that the euro area unemployment rate remained in March at February's series low of 6.1%.

### UK: Retail sales\*



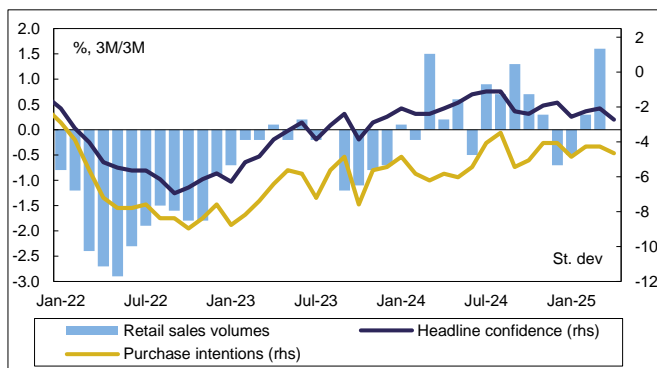
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Retail sales



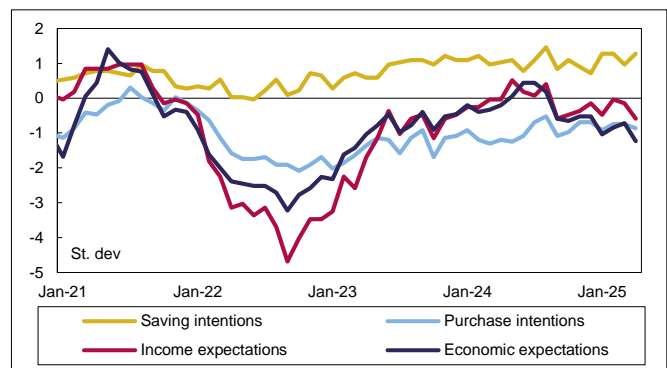
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Retail sales & consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Consumer confidence indices



Source: GfK, Macrobond and Daiwa Capital Markets Europe Ltd.

## UK

### UK retail sales beat expectations as warmer weather boost sales of clothing and gardening supplies

Today's UK retail sales figures beat expectations, suggesting that the return of the sunshine and rising real wages boosted spending at the end of the first quarter. In particular, contrary to an expected decline, sales volumes rose for a third successive month in March, by 0.4%M/M. So, despite a downwards revision to growth in February (to a still-healthy 0.7%M/M), sales were up a striking 2.6%Y/Y and 1.6%3M/3M in March. This marked the strongest quarterly rise since July 2021 and August 2018 outside of the periods impacted by lockdowns in 2020 and 2021. Moreover, when excluding auto fuels, sales were up a firmer 0.5%M/M and 1.9%3M/3M. Having jumped in January by the most since March 2020 and with the warmer weather likely encouraging an increase in eating out, sales at food stores fell for a second successive month in March. Meanwhile, the strongest growth was reported at clothing stores (3.7%M/M) which reportedly benefitted from higher sales of summer attire. And sales at garden centres and second-hand stores also accelerated. While sales of household goods slipped back slightly last month, this followed a surge in February to leave growth over the quarter in this category more than double that in Q4 and the strongest for a decade outside of the pandemic. Given today's data, retail sales likely added 0.1ppt to Q1 GDP growth, with spending on services overall likely providing a contribution of around ½ppt. And with GDP now forecast to have risen 0.7%Q/Q in Q1, the case for a jumbo 50bps BoE rate cut in May has significantly diminished.

### Consumers the most downbeat in 17 months suggesting some pullback in sales in Q2










The near-term consumption outlook remains uncertain, however. While the later timing of Easter this year likely brought renewed growth in spending at food stores in April, household budgets have been hit by increases in a range of costs including energy, water and council tax bills. And given rising concerns about growth prospects in the face of global trade uncertainties, consumers might tighten their purse strings over coming months. Just as the flash [PMIs](#) flagged a worsening in business conditions at the start of Q2, today's GfK confidence survey signalled that consumers were the most downbeat in 17 months. Indeed, the headline index fell 4pts to -23, some 10pts below the high in 2024 and 13pts below the long-run average. Consumers were the most downbeat about the economic outlook for more than two years. And despite the increase in the National Living Wage this month, they also reported a weakening in income expectations. As such, households were once again more inclined to save than spend on goods. While consumer sentiment provided a poor guide to retail sales in the first quarter, we see a strong likelihood that purchases of non-essential big-ticket items will be put off for the time being. And we expect retail sales to decline in Q2, in part as payback for the strength in Q1.

### The week ahead in the UK

In a relatively quiet week ahead for UK economic releases, the data calendar will kick off with the April CBI distributive trades survey (Monday). Given the deterioration in consumer confidence and likely payback for the strength in Q1, we expect retailers to signal a notable weakening in sales growth in April. But while the BRC shop price monitor (Tuesday) might well report some pass-through of additional costs associated with the increase in employers National Insurance Contributions and a seasonal increase of certain food items, upwards pressures on prices will be limited by subdued demand on the High Street. Meanwhile, BoE monetary figures (Thursday) will likely report a further notable increase in new mortgage lending in March, ahead of the increase in Stamp Duty thresholds at the start of this month. But given a near-three-month lag on completions and recent weakening in housing market indicators, new mortgage approvals are likely to have fallen back in March. And given heightened uncertainties, we wouldn't be surprised to see a softening in business loan growth too. Finally, the updated April manufacturing PMIs (Thursday) will likely confirm a notable deterioration in conditions, with the flash release implying the steepest drop in output in the sector for almost three years.





*The next edition of the Euro wrap-up will be published on 29 April 2025*

## Daiwa economic forecasts

		2025				2026		2025	2026	2027
		Q1	Q2	Q3	Q4	Q1	Q2			
GDP								%, Q/Q		
Euro area		0.3	-0.1	-0.1	0.2	0.2	0.3	0.6	0.7	1.3
UK		0.7	-0.1	0.1	0.2	0.3	0.3	0.9	1.0	1.4
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.3	1.8	1.7	1.7	1.5	1.7	1.9	1.7	1.8
Core HICP		2.6	2.1	1.8	1.8	1.6	1.4	2.0	1.6	1.6
UK										
Headline CPI		2.8	3.3	3.4	3.2	2.7	1.9	3.2	2.2	2.0
Core CPI		3.6	3.3	3.2	3.2	2.9	2.1	3.3	2.1	1.8
Monetary policy, %										
ECB										
Deposit Rate		2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Refi Rate		2.65	2.15	1.90	1.90	1.90	1.90	1.90	1.90	1.90
BoE										
Bank Rate		4.50	4.25	4.00	3.75	3.50	3.25	3.75	3.25	3.00

Source: Bloomberg, ECB, BoE 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
France		INSEE manufacturing (business) confidence indicator	Apr	99 (96)	96 (95)	96 (97)	-
UK		GfK consumer confidence indicator	Apr	-23	-21	-19	-
		Retail sales, including auto fuel M/M% (Y/Y%)	Mar	0.4 (2.6)	-0.4 (1.7)	1.0 (2.2)	0.7 (1.8)
		Retail sales, excluding auto fuel M/M% (Y/Y%)	Mar	0.5 (3.3)	-0.7 (2.0)	1.0 (2.2)	0.7 (1.8)
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.










# The coming week's data calendar

## The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast/Actual</i>	Previous
<b>Monday 28 April 2025</b>					
France		11.00 Total jobseekers mn	Q1	-	2.93
Spain		08.00 Retail sales Y/Y%	Mar	-	3.6
		08.00 Unemployment rate %	Q1	10.7	10.61
UK		11.00 CBI distributive trades survey – reported retail sales balance %	Apr	-20	-41
<b>Tuesday 29 April 2025</b>					
Euro area		09.00 ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Mar	2.5 (2.3)	2.6 (2.4)
		09.00 M3 money supply Y/Y%	Mar	4.0	4.0
		10.00 Commission economic sentiment indicator	Apr	94.5	95.2
		10.00 Commission industrial (services) confidence indicator	Apr	-10.4 (2.0)	-10.6 (2.4)
		10.00 Final Commission consumer confidence indicator	Apr	<u>-16.7</u>	-14.5
Germany		07.00 GfK consumer confidence indicator	May	-25.8	-24.5
Italy		09.00 ISTAT consumer confidence indicator	Apr	94.1	95.0
		09.00 ISTAT business (manufacturing) confidence indicator	Apr	- (85.9)	93.3 (86.0)
		11.00 Hourly wages M/M% (Y/Y%)	Mar	-	0.1 (-0.6)
Spain		08.00 GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.7 (3.1)</u>	0.8 (3.4)
		08.00 Preliminary HICP (CPI) Y/Y%	Apr	2.0 (2.0)	2.2 (2.3)
UK		00.01 BRC shop price index Y/Y%	Apr	-0.2	-0.4
<b>Wednesday 30 April 2025</b>					
Euro area		10.00 GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.3 (1.1)</u>	0.2 (1.2)
Germany		07.00 Retail sales M/M% (Y/Y%)	Mar	-0.5 (2.4)	0.3 (0.1)
		08.55 Unemployment claims rate % (change 000s)	Apr	6.3 (15)	6.3 (26)
		09.00 GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (-0.2)</u>	-0.2 (-0.2)
		13.00 Preliminary HICP (CPI) Y/Y%	Apr	2.1 (2.0)	2.3 (2.2)
France		06.30 GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (0.8)</u>	-0.1 (0.6)
		06.30 Consumer spending M/M% (Y/Y%)	Mar	0.0 (-0.4)	-0.1 (0.1)
		07.45 Preliminary HICP (CPI) Y/Y%	Apr	0.7 (0.7)	0.9 (0.8)
Italy		09.00 GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (0.4)</u>	0.1 (0.6)
		10.00 Preliminary HICP (CPI) Y/Y%	Apr	2.0 (2.3)	2.1 (2.0)
UK		00.01 Lloyds business barometer (own price expectations)	Apr	-	49 (61)
		07.00 Nationwide house price index M/M% (Y/Y%)	Apr	-	0.0 (3.9)
<b>Thursday 1 May 2025</b>					
UK		09.30 Net consumer credit £bn (Y/Y%)	Mar	1.2 (-)	1.4 (6.4)
		09.30 Net mortgage lending £bn (mortgage approvals 000s)	Mar	3.2 (64.8)	3.3 (65.5)
		09.30 Final manufacturing PMI	Apr	<u>44.0</u>	44.9
<b>Friday 2 May 2025</b>					
Euro area		09.00 Final manufacturing PMI	Apr	<u>48.7</u>	48.6
		10.00 Preliminary headline (core) HICP Y/Y%	Apr	<u>2.0 (2.5)</u>	2.2 (2.4)
		10.00 Unemployment rate %	Mar	<u>6.1</u>	6.1
Germany		08.55 Final manufacturing PMI	Apr	<u>48.0</u>	48.3
France		08.50 Final manufacturing PMI	Apr	<u>48.2</u>	48.5
Italy		08.45 Manufacturing PMI	Apr	47.0	46.6
Spain		08.15 Manufacturing PMI	Apr	50.1	49.5

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 28 April 2025</b>		
- Nothing scheduled -		
<b>Tuesday 29 April 2025</b>		
Italy		10.00 Auction: to sell up to €3.5bn of 2.95% 2030 bonds
		10.00 Auction: to sell up to €2.0bn of 2033 floating-rate bonds
		10.00 Auction: to sell up to €4.0bn of 3.6% 2035 bonds
UK		10.00 Auction: to sell up to £900mn of 1.25% 2054 inflation-linked bonds
		10.40 BoE's Ramsden scheduled to speak
<b>Wednesday 30 April 2025</b>		
Germany		10.30 Auction: to sell up to €1.5bn of 2.6% 2041 bonds
		10.30 Auction: to sell up to €500mn of 2.5% 2044 bonds
UK		10.00 Auction: to sell up to £4.5bn of 4.375% 2028 bonds
<b>Thursday 1 May 2025</b>		
Labour Day: public holiday in Europe		
<b>Friday 2 May 2025</b>		
Euro area		09.00 ECB to publish Economic Bulletin 3/2025

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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