

# Euro wrap-up

## Overview

- Bunds made modest gains as the final estimates of euro area inflation in April strongly suggested that the rise in the core rate was due principally to the timing of Easter.
- Gilts were little changed as the UK and EU announced a limited 'reset' deal encompassing closer relations on defence and security, veterinary and fisheries policies, energy and carbon trading, and the movement of people.
- Tuesday will bring updates on consumer confidence, job vacancies, labour costs and construction output in the euro area.

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### Daily bond market movements

Bond	Yield	Change
BKO 1.7 06/27	1.828	-0.018
OBL 2.4 04/30	2.134	-0.018
DBR 2½ 02/35	2.574	-0.014
UKT 3¾ 03/27	3.991	-0.004
UKT 4¾ 03/30	4.145	+0.003
UKT 4½ 03/35	4.653	+0.006

\*Change from close as at 4:00pm BST.  
Source: Bloomberg

## Euro area

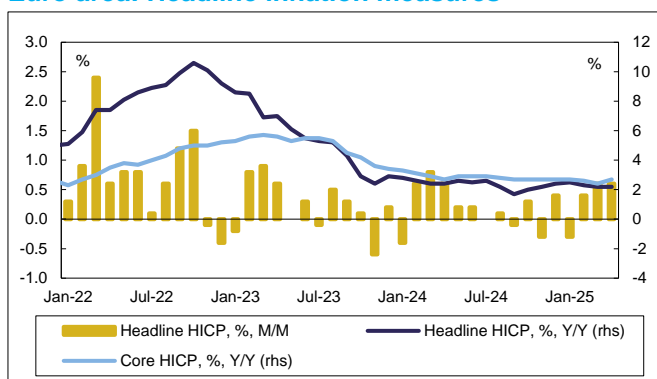
### Rise in core inflation in April explained by services prices affected by shift in timing of Easter

As expected, the final estimates of euro area inflation in April confirmed the flash figures. So, the headline HICP rate was unchanged at 2.2%Y/Y, the bottom of the range since November albeit 0.5ppt above September's four-year low. The rise of 0.3ppt in the main core measure (which excludes food, energy, alcohol and tobacco) to a three-month high of 2.7%Y/Y was also reaffirmed. And as previously reported, inflation of core goods was unchanged at 0.6%Y/Y for a third successive month. But services inflation rose a chunky 0.5ppt – more than initially estimated – to a four-month high of 4.0%Y/Y as prices rose the most in any April since the euro was introduced. A jump of that magnitude in the services component might normally ring alarm bells among the ECB's hawks. But as we suspected, today's detailed data made clear that temporary effects related to the timing of Easter was the cause. Indeed, the increases in the services and core rates were fully explained by a few vacation-related items. In particular, inflation of airfares jumped more than 18ppts to add almost 0.2ppt to the headline inflation rate, while the components for package holidays and hotels also rose significantly. In contrast, inflation of many other services that had previously been subject to high rates of inflation – such as restaurants and insurance – were steady or continued to decline. Meanwhile, among the non-core items, the 0.7ppt jump in unprocessed food inflation to a 15-month high of 4.9%Y/Y was confirmed. But thanks to lower prices of petrol, gas and electricity, energy inflation fell a touch further than previously thought, by more than 2½ppts to a six-month low of -3.6%Y/Y.

### Services inflation to drop back in May & ECB likely to revise down its inflation projection in June

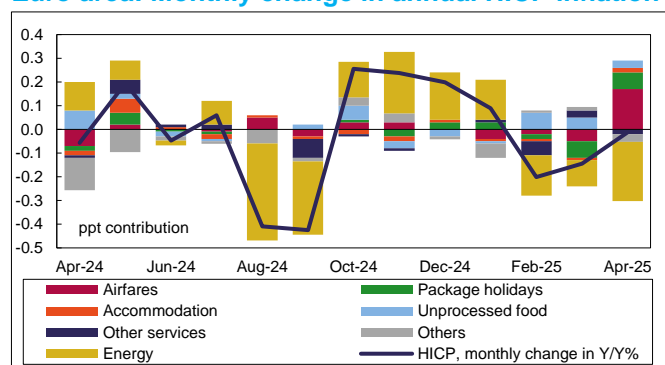
Many measures of euro area underlying inflation appear to have worsened in April. For example, services inflation momentum jumped 0.8ppt to an eight-month high of 4.1%3M/3M annualised. So, while momentum in core goods fell to just 0.6%3M/3M ann., the lowest so far this year, core inflation momentum overall jumped to 2.8%, arguably inconsistent with achievement of the inflation target on a sustained basis. Likewise, all main trimmed mean estimates ticked a little further above 2.0% while the weighted median rose 0.2ppt to a 15-month high of 2.9%Y/Y. We are not overly concerned, however, attributing such pressures to the aforementioned increases in vacation-related services. Indeed, as we expect such items to correct, we forecast a reversal in services inflation to 3½%Y/Y in May. And while food inflation is likely to rise further over the near term and base effects likely point to a pick up in the energy component, we expect the headline HICP rate to drop back to 2.0%Y/Y this month and remain close to or below target through to the end of the year and beyond. Indeed, with the trade-weighted euro stronger, energy prices lower, economic activity likely slowing after production was brought forward to Q1, and uncertainties with respect to US tariffs on imports from the EU unresolved, we expect the ECB to nudge down its baseline inflation projection for 2026 and 2027 to below target in both years, justifying a further 25bps rate cut next month.

### Euro area: Headline inflation measures



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Monthly change in annual HICP inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

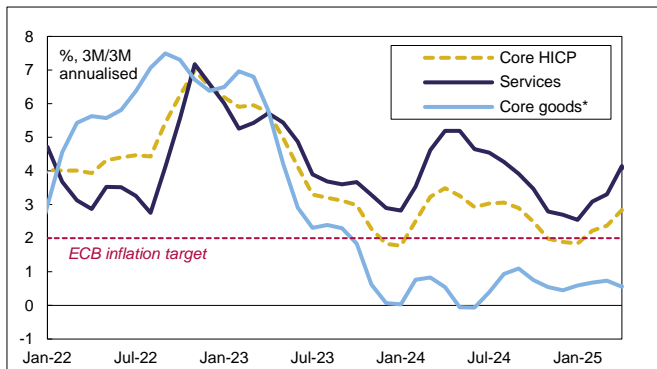
### The day ahead in the euro area

Having slumped to a 17-month low in April (-16.7), tomorrow's flash Commission consumer confidence indicator will provide an update on the mood among euro area households in May. With the initial shock of last month's trade news now in the rear view, we expect confidence to have improved from that lowpoint. However, minimal progress on the part of the EU-US negotiations will limit that rebound. At least in part, some of the recent deterioration in sentiment relates to growing concerns about the outlook for the labour market. As implied by recent survey indicators, an ongoing downtrend in job vacancies in Q1, likely to the lowest level in 15 quarters, and a further slowdown in labour costs should suggest that labour market conditions continued to loosen in Q1. Meanwhile, in terms of activity, aggregate euro area construction output data for March should confirm a second consecutive quarterly increase in Q1. Growth was likely in the region of 1%Q/Q, with the recovery led by Germany and Italy.

### The day ahead in the UK

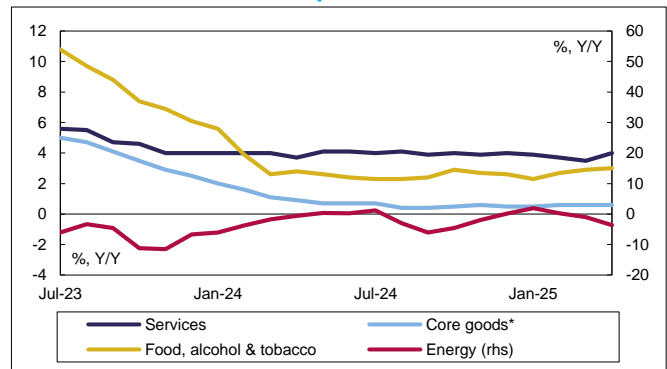
After a quiet start to the week for UK economic data, there are similarly no top-tier releases due tomorrow. However, BoE Chief Economist Pill – currently among the more hawkish policymakers on the MPC, voting for no change in Bank Rate at the 8 May meeting – is due to give a speech on Tuesday morning on 'The monetary policy outlook'.

#### Euro area: Inflation momentum\*\*



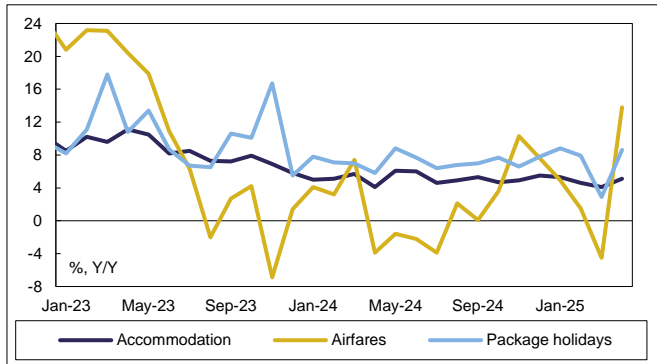
\*Non-energy industrial goods. \*\*Seasonally adjusted data.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Inflation components



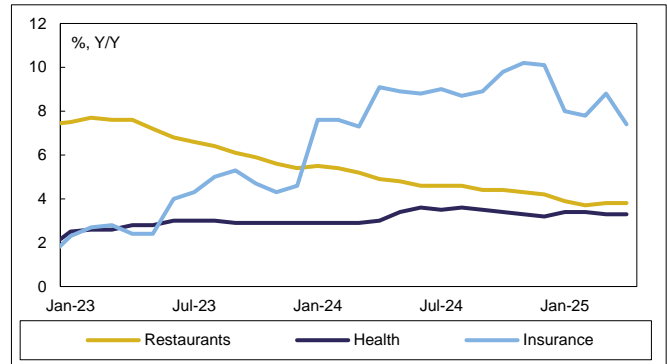
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Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Selected services inflation components



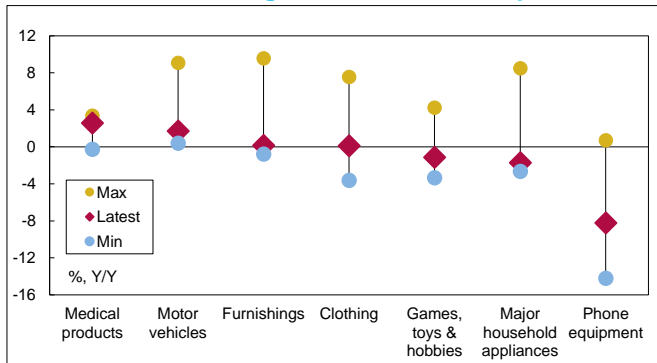
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#### Euro area: Selected services inflation components



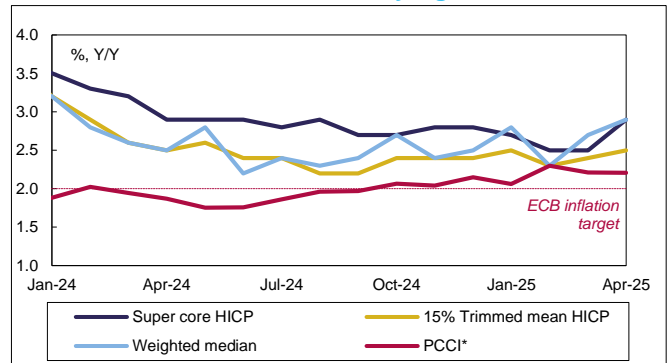
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Selected goods inflation components\*



\*Min/Max since Jan-20.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Measures of underlying inflation





\*Persistent and common component of inflation.  
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	 Final headline (core) HICP Y/Y%	Apr	<b>2.2 (2.7)</b>	<u>2.2 (2.7)</u>	2.2 (2.4)	-
UK	 Rightmove house prices M/M% (Y/Y%)	May	<b>0.6 (1.2)</b>	-	1.4 (1.3)	-







#### 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	
Euro area		09.00	Current account balance €bn	Mar	-	34.3
		10.00	Construction output M/M% (Y/Y%)	Mar	-	-0.5 (0.2)
		10.00	Preliminary labour costs Y/Y%	Q1	-	3.7
		10.00	Preliminary job vacancy rate %	Q1	-	2.5
		15.00	Preliminary Commission consumer confidence indicator	May	-16.0	-16.7
Germany		07.00	PPI Y/Y%	Apr	-0.6	-0.2

#### Auctions and events

Germany		10.30	Auction: to sell up to €1bn of 0% 2030 green bonds			
		10.30	Auction: to sell up to €1bn of 1.8% 2053 green bonds			
UK		09.00	BoE Chief Economist Pill to speak at briefing hosted by Barclays, London			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd

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