

# Euro wrap-up

## Overview

- Bunds followed the global trend lower, while ECB surveys flagged a tightening of financial conditions and a moderation in firms' wage expectations, but a deterioration in the near-term inflation expectations.
- While a UK survey suggested that weak demand continues to suppress retailer pricing powers, Gilts made losses amid ongoing political pressures on PM Starmer.
- Wednesday will bring flash April inflation estimates from Germany and Spain, the Commission's latest economic survey and euro area bank lending data.

## Economic Research Team

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### Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.632	+0.064
OBL 2½ 04/31	2.759	+0.043
DBR 2.9 02/36	3.060	+0.030
UKT 4% 03/28	4.430	+0.047
UKT 4% 03/31	4.518	+0.036
UKT 4¾ 10/35	5.001	+0.032

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

## Euro area

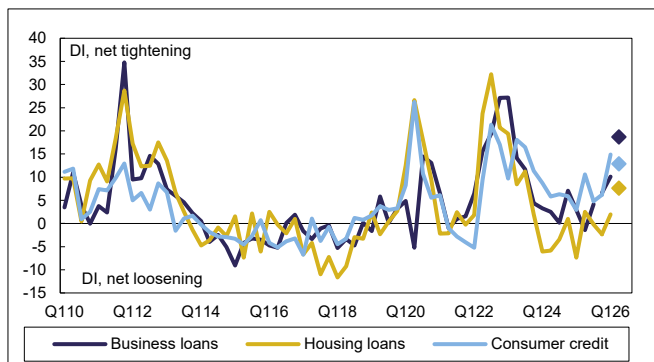
### ECB surveys flag tightening of financial conditions in Q1 & expectation of further tightening in Q2

Predictably, the ECB's Bank Lending Survey (BLS) and Survey on Access to Finance of Enterprises (SAFE) both flagged how events in the Middle East and their market impact are tightening broader financial conditions across the euro area and reducing loan demand. As such, ahead of this week's ECB Governing Council meeting, they diminished the case for near-term monetary policy tightening and underscored the appropriateness of caution. The BLS reported that banks had already tightened credit standards across all loan categories last quarter and, for business loans (a net balance of +10.1) and consumer credit (+14.9) by the most since 2023. And a larger share of banks reported an intention this quarter to tighten credit standards further on business loans (+18.7) citing events in the Middle East, energy markets and higher funding costs as drivers. The BLS also reported that credit conditions on housing loans, which appear to have been relatively unscathed last quarter, are also set to be tightened materially this quarter and by the most in three years (+7.6). And the SAFE reported that availability of bank loans deteriorated in Q1 and is expected to worsen again in Q2. However, despite increased business needs for liquidity and inventories, the BLS reported that banks expect firms to reduce their demand for loans further due to lower fixed investment needs. According to the SAFE, however, businesses have no intention of revising down their capex plans, instead surprisingly suggesting the opposite.

### Surveys flag higher selling-price expectations but near-term wage expectations moderate

As well as providing insights into bank loan supply and demand, the SAFE gave a guide to firms' revisions to price and wage expectations following the new energy shock. Notably, while firms expect their non-wage costs, own selling prices and broader inflation to rise more than previously expected over the coming 12 months, their wage expectations moderated slightly. Firms revised up their selling-price growth expectations by 0.6ppt to 3.5%, but their expected input cost inflation by a steeper 2.2ppt to 5.8%. By contrast, wage growth expectations moderated 0.3ppt to 2.8%. Firms' median one-year ahead inflation expectations rose 0.4ppt to 3.0%. But three- and five-year ahead median inflation expectations remained unchanged, albeit also at an above-target 3.0% and with an increased upside skew. Meanwhile, among the business surveys from the member states, the ifo indices signalled that German services selling-price expectations also remained well contained at the start of Q2, perhaps suggesting that wage expectations have moderated too. But a wide range of manufacturing subsectors as well as wholesalers and retailers plan to pass on higher operating costs to customers, with selling-price expectations up to a three-year high. Overall, however, as for the signals on financial conditions, recent business surveys suggest no cause for the ECB to panic about a de-anchoring of inflation expectations or risks of a wage-price spiral.

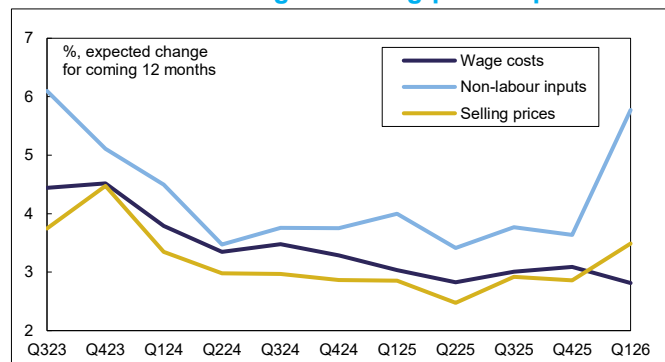
### Euro area: Credit conditions\*



\*Diamonds represent survey forecast for Q226.

Source: ECB BLS, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Firms' wage & selling-price expectations



Source: ECB SAFE, Macrobond and Daiwa Capital Markets Europe Ltd.

## Consumer inflation expectations jump in March, but longer-term expectations still anchored

Like the bank and business surveys, the ECB's consumer survey results also flagged expectations of a significant pickup in price pressures, e.g. with 12-month ahead inflation expectations jumping 1.5ppts in March to 4.0%Y/Y, a rise comparable in scale to the surge after Russia's invasion of Ukraine, albeit some way below the 2022 peak (5.8%Y/Y). Some policymakers might also be concerned by perceptions of a deterioration in the medium-term outlook, with three-year expectations up 0.5ppt to 3.0%Y/Y, just shy of the peak in 2022. But this was exaggerated by a substantial jump in Southern Europe, notably Italy (up 1.0ppt to 4.1%Y/Y), Portugal (also up 1.0ppt to 5.0%Y/Y) and Greece (up 2.3ppts to 7.4%Y/Y), while expectations in Germany (2.5%Y/Y) and France (2.3%Y/Y) remained contained. Longer-term expectations were also little changed, with the expected five-years ahead rate up just 0.1ppt to 2.4%Y/Y, and the share of respondents expecting inflation to rise over this period no higher than in February. And tallying with the SAFE survey results for firms, consumer expectations for wages and employment growth also remained broadly stable.

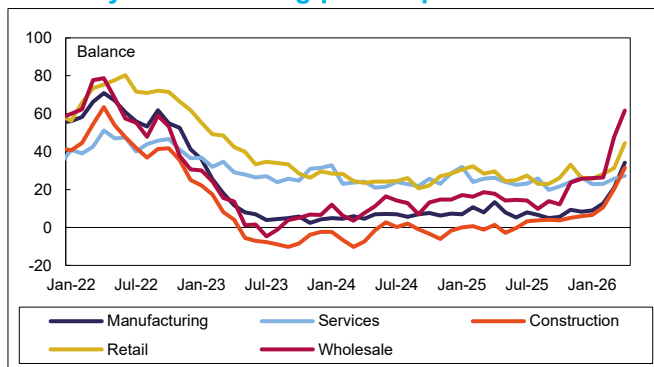
## German consumers most downbeat in three years; euro area growth expectations revised lower

Yesterday's more timely German consumer survey results for April suggested that, after an initial spike in March, household price expectations moved only marginally higher this month. This probably reflects a slight decline in fuel prices at the pump over recent weeks as well as the temporary cut to petrol and diesel taxes to come in May and June. Even so, German households signalled the lowest willingness to spend in two years. And coupled with a sharp deterioration in income expectations, the headline confidence index fell a hefty 5.2 points to -33.3, its weakest level in more than three years and around 2½ standard deviations below its long-run average. Except in Iberia, meanwhile, households are increasingly downbeat about the outlook for growth. Indeed, the ECB's survey showed that euro area consumers have revised down significantly their expectation for economic growth in the region over the coming 12 months by 1.2ppts to -2.1%Y/Y, the weakest since late-2022.

## The day ahead in the euro area

While Thursday's headlines are set to be dominated by monetary policy, it will also bring several top-tier data releases including April's flash euro area inflation estimates. We expect those figures to show that the euro area headline HICP rate picked up a further 0.4ppt to 3.0%Y/Y. Once again, that rise was likely driven by the energy components while core components should have been well behaved. Ahead of those data, Wednesday's flash estimates from Germany and Spain will provide some early insights. HICP inflation rose sharply in each of those member states last month, to 2.8%Y/Y and 3.4%Y/Y respectively, to be up almost 1ppt from February and hence to a slightly greater extent than in the euro area as a whole. A much smaller increase – perhaps of just 0.3ppt – is likely in Germany this time. And fiscal support to combat rising

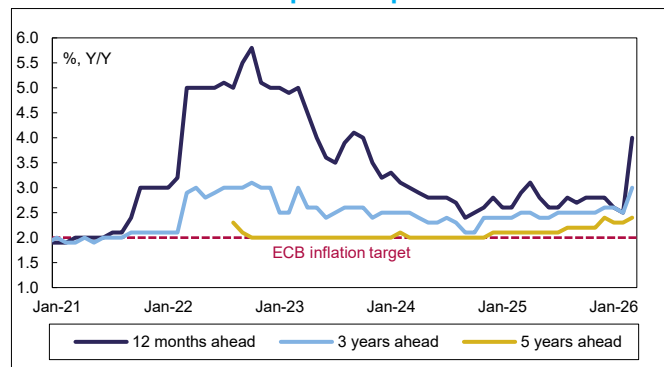
### Germany: Firms' selling-price expectations\*



\*Three months ahead.

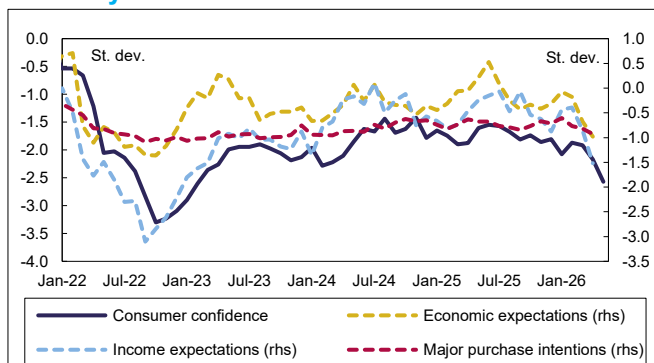
Source: ifo institute, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumer price expectations



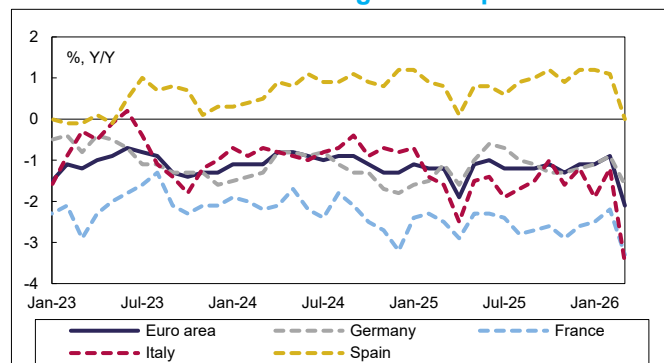
Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumer GDP growth expectations\*



\*12 months ahead.

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

energy prices in Spain means that HICP rate could merely move sideways, or perhaps even fall. Meanwhile, the Commission's ESIs will follow the trends from other business surveys to confirm a further deterioration in consumer and business confidence this month. Further cost pressures also seem bound to have pressured firms' selling-price expectations. But the evidence of the ifo and INSEE surveys suggests that the contemporaneous signals on manufacturing production will be resilient. Finally, euro area bank lending figures for March will show to what extent tighter financial conditions and heightened uncertainty dented consumer credit and business lending growth at the onset of the oil shock.

## UK

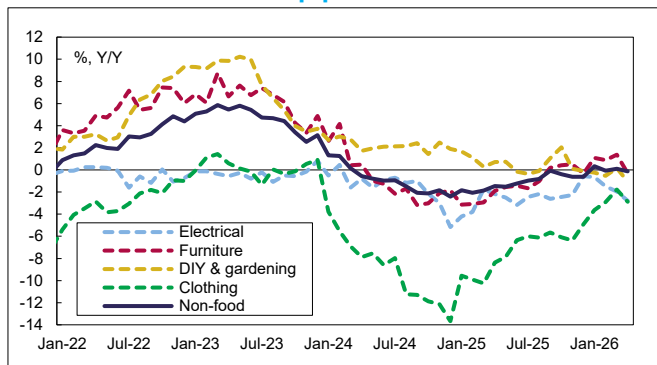
### Soft inflation & retail surveys suggest BoE doesn't need to rush to hike rates

As it awaits clarity on the likely trajectory of events in the Middle East and its economic consequences, the BoE will hold rates this week. But this week's (admittedly thin) data support arguments that weak demand will contain risks of second-round effects on inflation from the energy price shock. For starters, April's BRC measure of high street inflation was encouragingly soft. The headline rate moderated to a four-month low of just 1.0%Y/Y, reflecting an easing in both food (3.1%Y/Y, down 0.3ppt) and non-food (-0.1%Y/Y, down 0.2ppt) categories. The official CPI rate is also expected to take a modest step down in April in part due to smaller resets than a year ago in administered components like water services and train fares, and as many price rises related to last year's employer NICs rise fall out of the annual comparison. The cut to Ofgem's energy price cap will also temporarily lower electricity and gas inflation in Q2, although a further rise in auto fuel inflation will nullify its effect. Nevertheless, as April often brings repricing of a large share of items, and notwithstanding distortions related to the timing of Easter, the BRC survey arguably provided a favourable signal for inflation of food and certain goods. Indeed, it suggested an initial reluctance among retailers' hesitancy to pass along higher costs to an already-downbeat consumer, prompting discounting in categories such as clothing and furniture. And while it provides an imperfect guide to retail sales volumes, yesterday's CBI survey reported its sharpest drop in the net balance of sales compared with a year ago (-68%) on the series dating back more than four decades. Expectations of sales next month were also the worst since Russia's invasion of Ukraine (-60%), which suggests that retailers will take a cautious approach to pricing over the near term too.

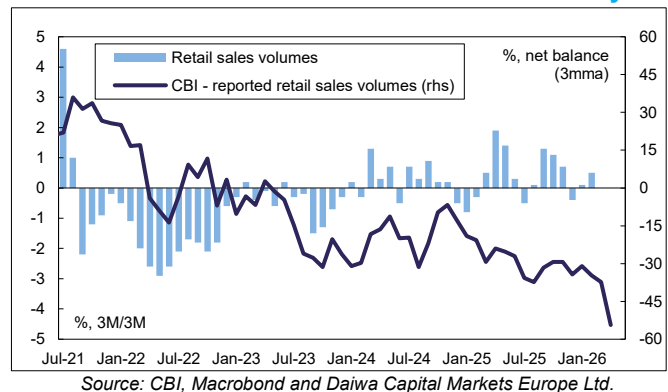
### The day ahead in the UK

With no economic data or events scheduled before Friday, the focus of UK markets will be split between the ongoing political pressures on Prime Minister Starmer and the coming days' monetary policy announcements.

#### UK: BRC non-food shop price inflation









#### UK: Retail sales & CBI distributive trades survey





## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 ECB consumer expectations survey – 1Y (3Y) ahead CPI Y/Y%	Mar	<b>4.0 (3.0)</b>	2.8 (2.6)	2.5 (2.5)	-
France	 Total jobseekers mns	Q1	<b>3.30</b>	-	3.35	3.33
Italy	 PPI Y/Y%	Mar	<b>5.4</b>	-	-3.7	-
Spain	 Retail sales Y/Y%	Mar	<b>4.1</b>	-	2.2	2.3
	 Unemployment rate %	Q1	<b>10.83</b>	9.80	9.93	-
UK	 BRC shop price index Y/Y%	Apr	<b>1.0</b>	1.4	1.2	-



#### Auctions

Country	Auction
UK	 sold £1bn of 0.125% 2028 bonds at an average yield of 4.219%
	 sold £1.25bn of 4.25% 2032 bonds at an average yield of 4.575%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Monday's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 GfK consumer confidence indicator	May	<b>-33.3</b>	-30.0	-28.0	-28.1
UK	 CBI distributive trades survey – reported retail sales net balance %	Apr	<b>-68</b>	-40	-52	-










#### 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 M3 money supply Y/Y%	Mar	3.1	3.0
		10.00 Commission economic sentiment indicator	Apr	95.1	96.6
		10.00 Commission services (industrial) confidence indicator	Apr	3.2 (-7.0)	4.9 (-7.0)
		10.00 Final Commission consumer confidence indicator	Apr	<u>-20.6</u>	-16.3
Germany		13.00 Preliminary HICP (CPI) Y/Y%	Apr	3.1 (2.9)	2.8 (2.7)
Italy		09.00 Istat economic (manufacturing) confidence indicator	Apr	-	97.3 (88.8)
		09.00 Istat consumer confidence indicator	Apr	91.3	92.6
		10.00 Hourly wages M/M% (Y/Y%)	Q1	-	0.2 (2.9)
Spain		08.00 Preliminary HICP (CPI) Y/Y%	Apr	3.4 (3.5)	3.4 (3.4)

#### Auctions and events

Germany		10.30 Auction: to sell up to €5bn of 2.9% 2036 bonds
Italy		10.00 Auction: to sell up to €4bn of 3.15% 2031 bonds
		10.00 Auction: to sell up to €1.5bn of 3.35% 2035 bonds
		10.00 Auction: to sell up to €3.5bn of 2036 floating-rate bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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