

Euro wrap-up

Overview

- Bunds followed USTs lower while the euro area trade surplus narrowed to a 9-month low on higher energy prices.
- Despite another soft UK labour market report, Gilts also made losses.
- Wednesday will bring updates on inflation in the UK and euro area.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.744	+0.043
OBL 2½ 04/31	2.884	+0.042
DBR 2.9 02/36	3.186	+0.040
UKT 4¾ 03/28	4.504	+0.034
UKT 4¾ 03/31	4.664	+0.039
UKT 4¾ 10/35	5.128	+0.031

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

Source: Bloomberg

Euro area

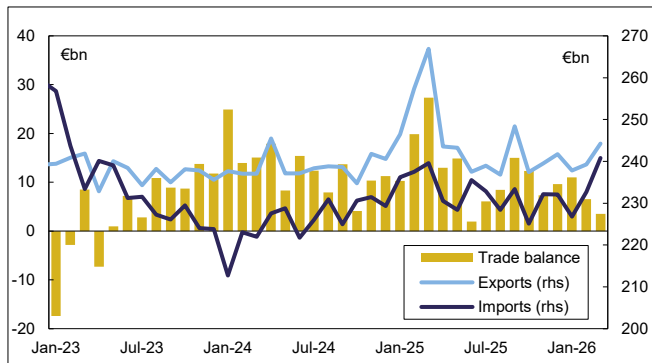
Trade surplus narrows sharply on higher energy prices while deficit with China widens further

The euro area goods trade surplus declined significantly for a second successive month in March, dropping €3bn to a 9-month low of €3.5bn as higher energy prices boosted the value of imports. Indeed, the deterioration in the trade balance was more than fully accounted for by a widening of the energy deficit to a 12-month high of €24.5bn as the value of mineral fuel imports jumped on the month by more than one fifth. Overall, goods import values rose 3.5%M/M, the most in more than two years, to be up 4.4%Y/Y. Goods exports also registered stronger growth, rising 2.1%M/M, the most in six months. But that was flattered by shipments of fuels and other commodities, including precious metals, to the UK, while exports of chemicals, machinery and transport goods all fell back. And given the surge a year earlier as firms frontloaded shipments to try to dodge higher US tariffs, overall goods exports were still down 5.5%Y/Y. By destination, having dropped to a six-month low the prior month, exports to China rose almost 5%M/M. But with imports, particularly of machinery and transport goods, also higher, the euro area's bilateral trade deficit with China widened slightly further to a 3½-year high of €25.9bn. Imports from the US were also higher due to increased deliveries of LNG and other mineral fuels. But as exports of machinery and transport across the Atlantic were also higher, the euro area surplus with the US increased from February. At slightly less than €10bn, however, that bilateral surplus was more than €25bn lower than a year earlier and the smallest for the month in a decade. Exports to the UK were also stronger in March, rising almost 5%M/M to the highest level in almost two years, thanks to growth in machinery and transport, fuels and other commodities including precious metals.

The day ahead in the euro area

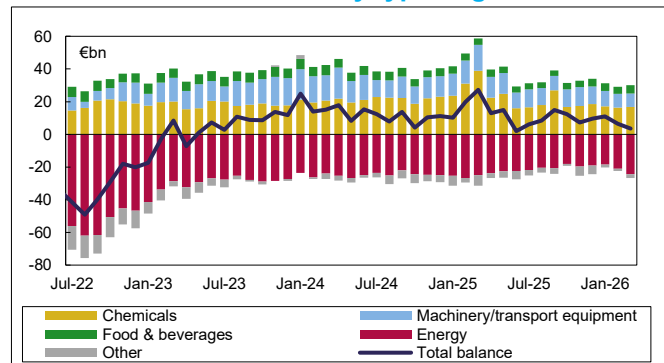
Wednesday will bring a couple of inflation-related releases from the euro area including April's final HICP detail. As most member states affirmed their own flash estimates, the headline inflation figures should be unsurprising. Indeed, we expect those to validate the 0.4ppt rise in the headline rate to 3.0%Y/Y, a 28-month high, reported in the flash estimate. The accompanying detail will confirm that the pressure again came from the energy components. Again in line with the initial estimate, core inflation should moderate slightly to 2.2%Y/Y, helped by a near-four-year low in services inflation (3.0%Y/Y). While the apparent absence of pass-through from cost pressures to broader consumer prices might offer some temporary reassurance, the detail will likely show that some of that softness merely reflects favourable base effects in areas like airfares and package holidays relating to the later timing of Easter last year. German PPI data for April – the first from the member states – will also be watched for insights into pipeline price pressures.

Euro area: Goods trade



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Trade balance by type of good



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK

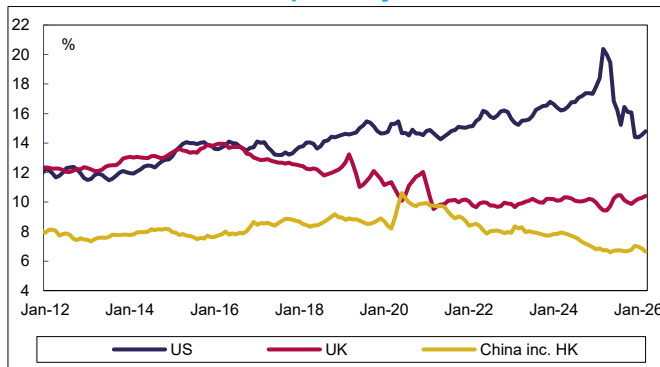
Labour market softens as payrolls & job vacancies fall while redundancies rise

In contrast to the upside surprise to Q1 [GDP](#), today's labour market report was soft, reporting a steep drop in payrolls, rising unemployment and slower wage growth. So, while the GDP data seemed to strengthen the case for higher rates, today's numbers call for monetary policy caution, perhaps raising the probability that the next move in rates will be down. At the very least, today's figures reinforce our expectation that Bank Rate will be left unchanged at the June MPC meeting. Certainly, the payrolls data were weak, declining for a third month in April and by the most since the first Covid lockdown (-100k). While roughly a quarter of the drop related to wholesale trade, hefty declines in headcount were reported in construction, hospitality and professional and scientific sectors. Admittedly, initial payroll estimates at the start of the fiscal year are typically revised higher, a result that would tally with survey signals of more modest cuts to headcount at the start of Q2. Nevertheless, the labour market undeniably had an underwhelming first quarter. The LFS measure of employees declined in Q1 by more than 50k, with the 148k increase in total employment in the three months to March only reflecting higher self-employment. This left the unemployment rate in the three months to March at 5.0%, a touch lower than Q4 but above the BoE's forecast and its estimate of the equilibrium rate (4¾%). Moreover, the single-month unemployment rate leapt 0.9ppt in March to 5.5%, the highest in 11 years. Job vacancies declined for a fourth successive month in April to the lowest level in five years, while redundancy notices submitted so far in May have trended at the highest level since Autumn 2020. So, we expect the unemployment rate to rise further over coming months, and labour slack should continue to provide a restraint on pay.

Private regular wage growth softest in 5½ years, with real pay growth back in negative territory

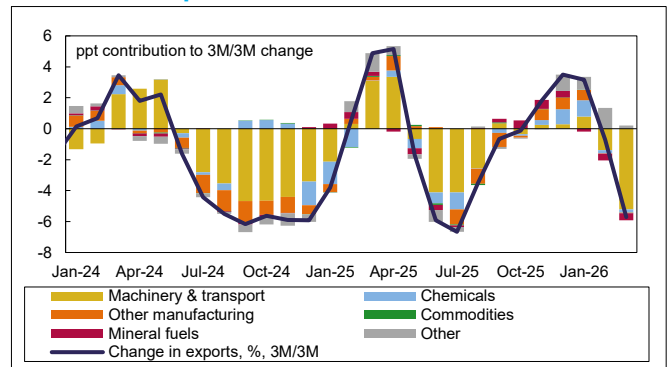
Today's data confirmed that underlying wage pressures had already eased significantly at the onset of the war in Iran. Total pay growth edged slightly lower by 0.1ppt over the quarter to 4.1%3M/Y in March. This was some 1.3ppts lower than a year ago and almost 5ppts lower than the peak almost five years ago. Excluding bonuses, total regular pay growth fell more than ½ppt over the quarter to 3.4%3M/Y, bang in line with the long-run average. This partly reflected a favorable base effect in public sector pay, which slowed 2.4ppts to 4.8%3M/Y. More importantly, growth in private regular pay – the BoE's preferred measure – eased to 3.0%3M/Y, the softest since October 2020 and a touch below the BoE's projection for Q1 presented at the April meeting. The moderation was broad-based, with regular pay growth in services, manufacturing and construction all at multi-year lows. Given higher inflation, real regular pay growth turned negative for the first time in nearly three years. With momentum on a six-month annualised basis now below 3%, we expect further moderation in private pay growth over the near term. So, with inflation set to rise to 4%Y/Y or more by the autumn, real wages look set to decline significantly likely weighing on household spending over coming quarters.

Euro area: Share of exports by destination



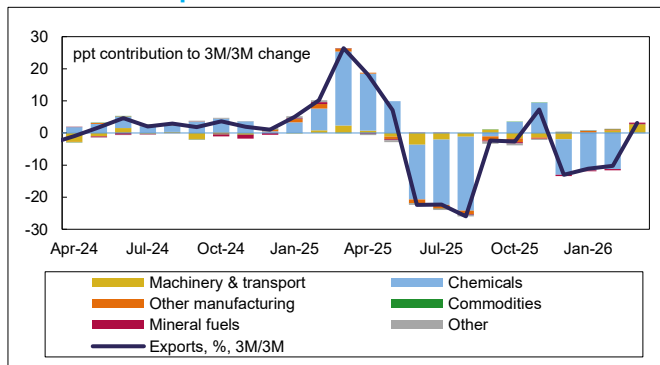
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Exports to China



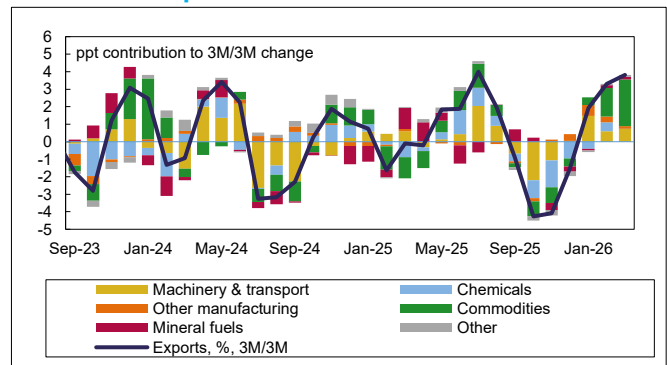
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Exports to the US



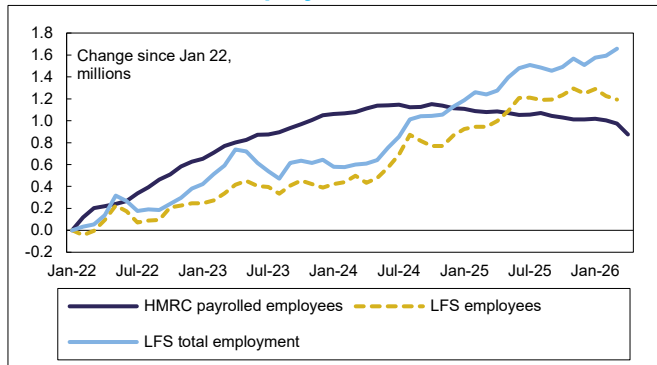
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Exports to the UK



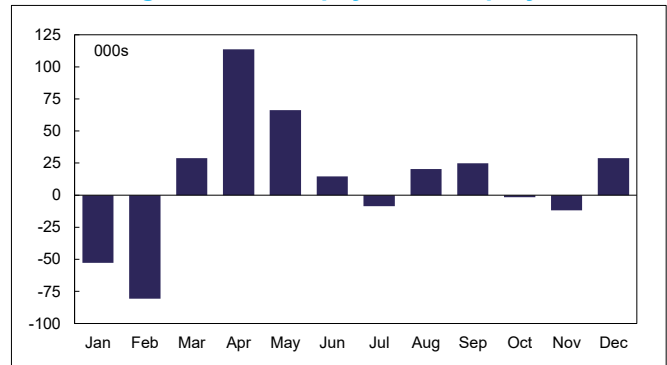
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Measures of employment



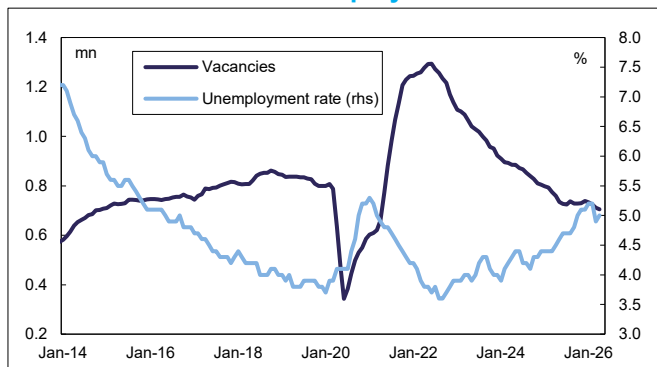
Source: HMRC, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Average revision to payrolled employment*



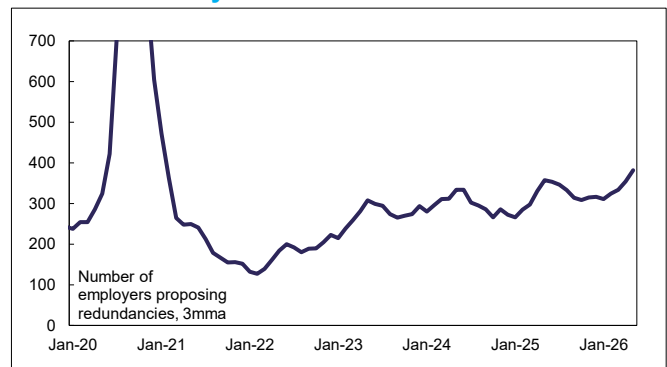
*Average revision to payrolled employment from the initial and current estimates between 2021 & 2026. Source: HMRC, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Job vacancies & unemployment rate



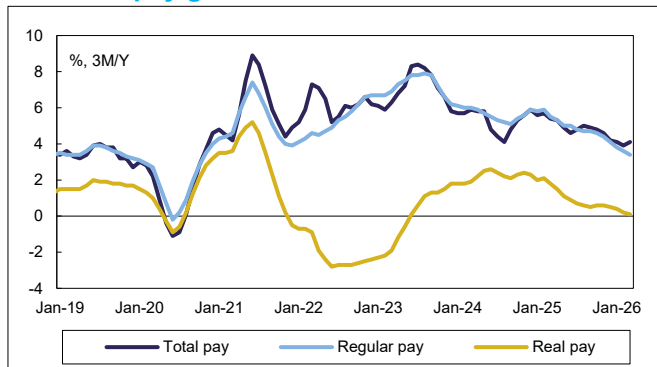
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Redundancy notices



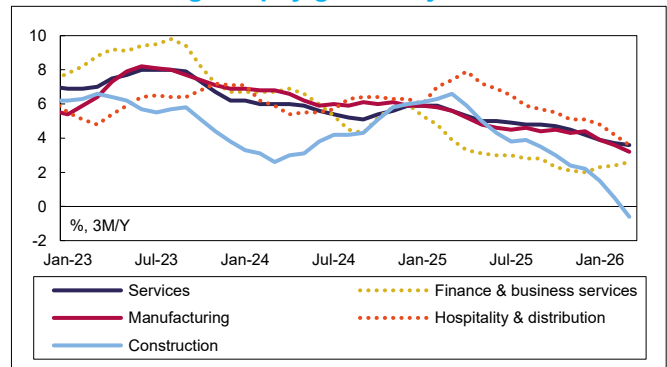
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Total pay growth



Source: Macrobond & Daiwa Capital Markets Europe Ltd.

UK: Private regular pay growth by sector



Source: Macrobond & Daiwa Capital Markets Europe Ltd.









The day ahead in the UK

Prices will also be the focus of the UK dataflow on Wednesday. After CPI inflation rose 0.3ppts in March to a three-month high of 3.3%Y/Y, it should moderate slightly at the start of Q2. Prior to the oil shock, the BoE expected April's CPI data to bring welcome news on the disinflation process. Favourable base effects – reflecting past rises in partially administered prices and last year's employer NICs hike – as well as new disinflationary policies looked set to mechanically shift inflation lower by as much as 1ppt back close to target. But now the BoE expects inflation in April to fall merely to 3.0%Y/Y, down just 0.3ppt on the month. Our own forecast of 3.1%Y/Y is less optimistic than that. Predictably, the upwards shift in the near-term profile relates principally to higher fuel prices. Auto fuel prices likely rose in April by more than 14%M/M, eclipsing their pickup in March which marked the sharpest acceleration since September 2022. By virtue of the Ofgem price cap, a drop in regulated electricity prices (-6.7%M/M) will provide some offset. But energy inflation will still rise by around 2ppts to almost 7%Y/Y. Higher energy costs, and related supply constraints, are also likely to have had a further inflationary impact on industrial input prices. But the freeze to national rail fares and, most notably, a smaller rise in water bills will relieve some underlying pressure from services inflation. As in the euro area, the early timing of Easter might also result in a temporary decline in often-volatile categories such as airfares, although upside risks from jet fuel and broader price indexation remains. Overall, we see services inflation slowing to its softest rate since Russia's invasion of Ukraine. And we expect core inflation to fall to 2.8%Y/Y, to represent a first sub-3% print since late-2021.



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Trade balance €bn	Mar	3.5	-	7.0	6.5
UK	 Average wages (excluding bonuses) 3M/Y%	Mar	4.1 (3.4)	3.8 (3.4)	3.8 (3.6)	3.9 (-)
	 Private sector regular wages 3M/Y%	Mar	3.0	3.1	3.2	-
	 Unemployment rate 3M%	Mar	5.0	4.9	4.9	-
	 Employment 3M/3M change 000s	Mar	148	101	24	-
	 Payrolled employees M/M change 000s	Apr	-100	-10	-11	-28
	 Claimant count rate % (change 000s)	Apr	4.4 (26.5)	-	4.4 (26.8)	-(4.9)
	 Output per hour Y/Y%	Q1	0.4	-	-0.5	-0.4



Auctions

Country	Auction
Germany	 sold €3.844bn of 2.5% 2031 bonds at an average yield of 2.85%
UK	 sold £1.25bn of 0.125% 2031 inflation-linked bonds at an average yield of 0.676%

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
Italy	 Trade balance €bn	Mar	4.7	-	4.9	5.0
UK	 Rightmove house prices M/M% (Y/Y%)	May	1.2 (-0.3)	-	0.8 (-0.9)	-






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	 10.00	Final headline (core) HICP Y/Y%	Apr	<u>3.0 (2.2)</u>	2.6 (2.3)
Germany	 07.00	PPI Y/Y%	Apr	-	-0.2
UK	 10.00	Headline (core) CPI Y/Y%	Apr	<u>3.1 (2.8)</u>	3.3 (3.1)
	 06.30	PPI – output (input) prices Y/Y%	Apr	-	2.6 (5.4)
	 07.45	House price index Y/Y%	Mar	-	1.2

Auctions and events

Germany	 10.30	Auction: to sell up to €5bn of 2.9% 2036 bonds
France	 08.00	Banque de France Governor-nominee Emmanuel Moulin to speak before the Senate's finance committee

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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