

Euro wrap-up

Overview

- Bunds followed the global trend higher as euro area retail sales fell in April and revised Irish GDP estimates reported a record contraction.
- Gilts also made gains as the UK construction PMI fell to a six-year low, but new car registrations in May were the best since 2019.
- Friday will bring updated euro area Q1 GDP estimates, French industrial production data and a BoE business inflation expectations survey.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.655	-0.010
OBL 2½ 04/31	2.736	-0.015
DBR 2.9 02/36	3.020	-0.014
UKT 4¾ 03/28	4.239	-0.037
UKT 4¾ 03/31	4.450	-0.034
UKT 4¾ 10/35	4.897	-0.033

*Change from close as at 5.00pm BST.
Source: Bloomberg

Euro area

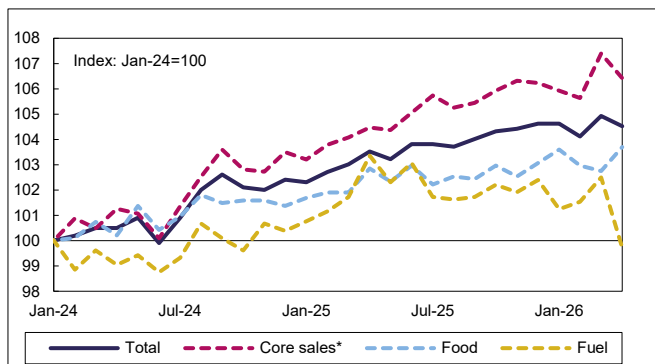
After a bounce in March, retail sales fell in April on declining confidence & purchasing power

Today's euro area retail sales data were not as weak as might have been feared given the recent deterioration in consumer confidence and squeeze on purchasing power from higher fuel prices. Admittedly, sales volumes fell in April, by 0.4%M/M, with increases in just three of the 19 reporting member states – France, Belgium and Malta. But that partly reflected payback for the strength in sales in March, which were upwardly revised from a small decline to an increase of 0.8%M/M, the fastest rate since August 2024. The improvement in the March figures partly reflected much stronger sales of auto fuel as households brought forward purchases in fear of further hikes in petrol prices. But given that frontloading, those sales inevitably fell back sharply in April, by the most since August 2023 (-2.7%M/M). Meanwhile, after rising the most in 4½ years in March (1.7%M/M), core sales (i.e. non-fuel and non-food) also fell back at the start of Q2 (-0.9%M/M). But bucking the negative trend, food sales leapt (0.9%M/M), perhaps reflecting a shift away from eating out as well as the recent moderation in food inflation to the lowest levels in almost two years. While surveys suggest that purchase intentions remained weak in May, fundamentals in the household sector remain broadly encouraging so that private consumption is unlikely to pose a meaningful drag on GDP growth over the near term. The euro area unemployment rate remains near record lows and household balance sheets are relatively robust. Fiscal measures, particularly in Germany and Spain, have capped petrol prices and should have offered some support in May and June. And the positive carryover from March will mechanically also limit the decline in sales this quarter.

The day ahead in the euro area

The third and final estimates of GDP growth in Q1 will provide the highlight of Friday's euro area dataflow. Preliminary estimates thus far have pointed towards a slowdown at the start of the year, to 0.1%Q/Q, the softest since Q224. To two decimal places, however, growth in the latest estimate was 0.15%Q/Q. And owing to modest revisions in some member states, earlier this week a markup to 0.2%Q/Q looked like a real possibility. But today's figures from Ireland have comprehensively shifted the narrative away from any potential upside. Indeed, Q1 GDP growth in Ireland was revised down by a whopping 10ppts, to -12.1%Q/Q, the steepest on the series and taking output to levels consistent with the first half of 2024. Unsurprisingly, the Irish statistical office attributed this sharp contraction to output in multinational-dominated sectors (-27.1%Q/Q), particularly manufacturing (-36.3%Q/Q). Underlying activity, on the other hand, reportedly grew 0.6%Q/Q. But if Eurostat takes the Irish number at face value, then it will knock off an extra 0.4ppt from euro area GDP growth in Q1. So, a contraction – the first in three years and, at roughly 0.2%Q/Q, the largest since the first pandemic lockdowns – would not be surprising. For what it's worth, the ECB should mostly ignore any Irish distortion in the data. And in terms of expenditure contributions, we still expect domestic demand to have contributed positively to GDP growth despite a probable contraction

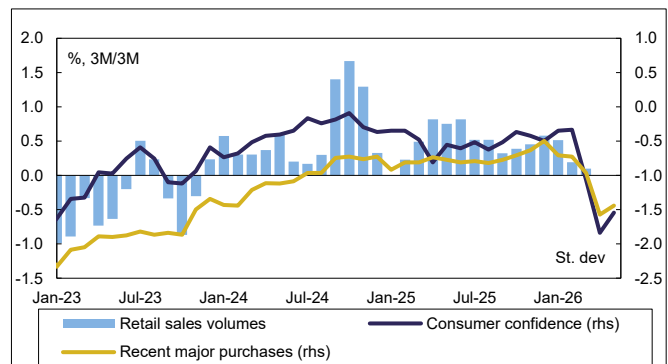
Euro area: Retail sales volumes



*Non-fuel & non-food sales.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales & consumer confidence



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

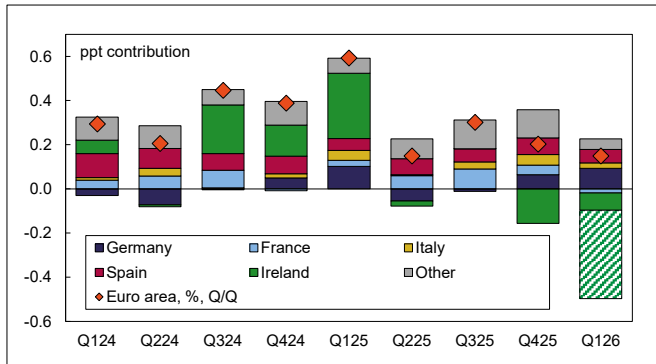
in fixed investment. Admittedly, today's Irish data pose a threat to our previous call for a first positive contribution from net trade since Q125. In terms of Q2 activity data, French IP and goods trade data for April will also be in focus.

UK

Construction PMI signals steepest contraction since first Covid-lockdown

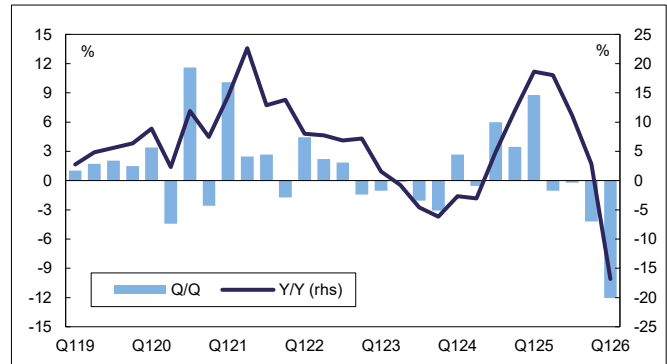
While yesterday's final [services PMIs](#) suggested that activity in the sector was not quite as weak as initially thought in the middle of Q2, today's construction survey was extremely downbeat, indicating the sharpest contraction in activity in the sector in six years as persisting economic uncertainty, higher input costs and tighter financial conditions hit demand. In particular, the headline activity index fell in May by a further 1.5pts to 38.2, the lowest level since the global financial crisis when excluding the first Covid-lockdown in Q220, tracking so far in Q2 some 6.6pts below the Q1 average and more than 1½ standard deviations below the long-run average. Given unfavourable market conditions, expected headwinds from the recent jump in borrowing costs and associated delays to investment plans, residential and commercial builders signalled the lowest output in 17 years outside the initial Covid shutdown. And while civil engineering was off the lows in late 2025, the respective index remained consistent with falling activity. Given decreasing new orders and a further rise in costs – by the most since June 2022 – input purchases fell sharply. Moreover, supply-chain challenges were reflected in a lengthening of

Euro area: Country contributions to GDP growth*



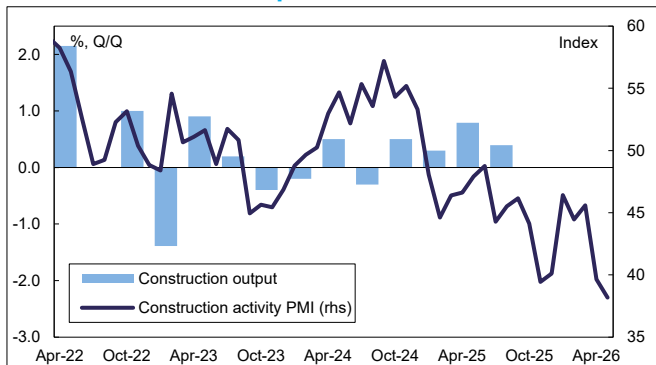
*Shaded green bar for Q126 shows potential effect for updated Irish estimates. Orange diamond for Q126 shows preliminary euro area GDP reading. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Ireland: GDP growth



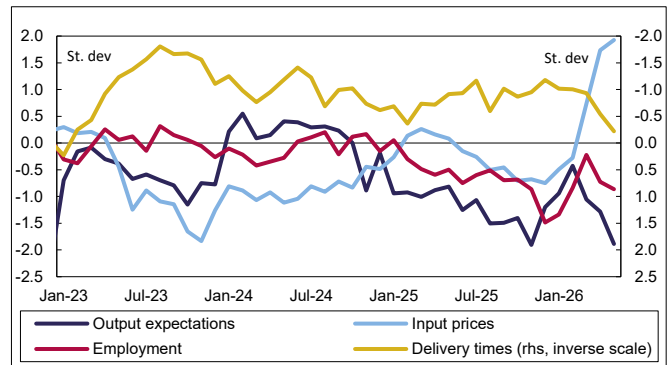
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Construction output & PMI



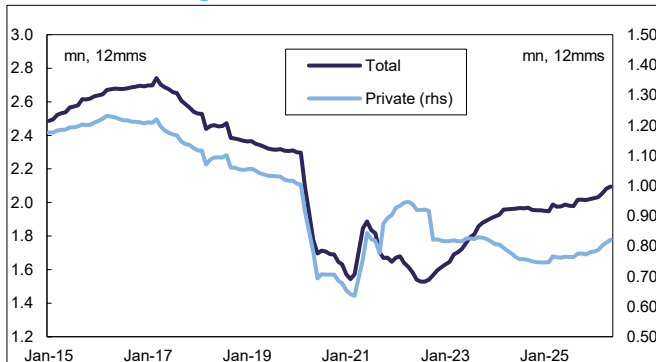
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Selected construction PMIs



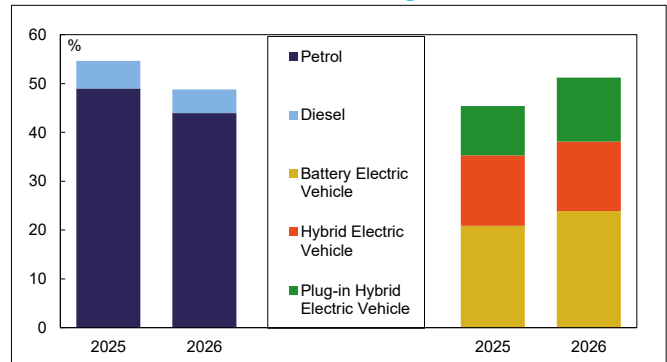
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: New car registrations



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Market share of new car registrations



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

supplier delivery times for a third successive month. As a result, optimism about the outlook has been lower only once since late-2022. And fewer than one third of respondent constructors now expect output to rise over the coming year.

New car registrations in May the best since 2019, supported by higher demand for BEVs

Today's data were not all doom and gloom. According to the automotive association SMMT, new car registrations rose a robust 7.1%Y/Y in May, the strongest growth and highest level for the month since 2019. Sales by private buyers (17.2%Y/Y) continued to recover taking registrations in the year to date up some 12½%Y/Y as consumers responded to increasingly competitive offers from a range of brands. Demand for battery electric vehicle (BEVs) remained a key support, with registrations rising 34%Y/Y in May, and 26% in the year to date to lift the market share to almost one quarter. This strength reflects a combination of greater model availability, government incentives and heightened interest no doubt in part related to the global energy price shock. With increased demand also for plug-ins and hybrid EVs, the combined share of petrol and diesel cars continued to decline below 50%, down almost 6ppts from a year ago and well below the shares of more than 60% over the previous two years.









The day ahead in the UK

Although the BoE's latest Decision Maker Panel survey will be the standalone release from the UK on Friday, the weight that most MPC members place on the survey means that it will be of particular interest. Since monetary policy is already restrictive, most rate-setters – notably including Governor Bailey – seem content to postpone any rate hikes until circumstances in the Middle East, as well as the strength of any indirect and second-round inflationary effects become less uncertain. No doubt too that external MPC dove Dhingra will use her speech on Friday to communicate her preference to hold Bank Rate. But a hawkish minority will vote for a hike in June, and they will likely cite the DMP in doing so. Indeed, year-ahead inflation expectations had already risen 1ppt since the outbreak of the war, to 4%Y/Y, and seem likely to remain elevated around that mark this month. And three-months ahead selling-price intentions, which are reported as a three-monthly average at the headline release, are primed to rise further this month. On the other hand, while those risks are likely to broaden, the quarterly detail suggested that price pressures in April had been particularly concentrated in the communications sector. Wage-setting intentions and medium-term inflation expectations were also encouragingly stable, the latter just 0.1ppt higher than at the start of the year, suggesting that the risks of second-round effects were still limited. All else equal, a deterioration across those indicators is likely to be required in order to bring forward any expectations of tightening by the BoE.









European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Retail sales M/M% (Y/Y%)	Apr	-0.4 (1.0)	-0.3 (0.3)	-0.1 (1.2)	0.8 (2.1)
	 Construction PMI	May	43.7	-	41.7	-
Germany	 Construction PMI	May	42.4	-	42.1	-
France	 Construction PMI	May	39.6	-	38.1	-
Italy	 Construction PMI	May	49.4	-	44.8	-
Spain	 Industrial production M/M% (Y/Y%)	Apr	-0.4 (2.0)	-0.1 (1.9)	2.3 (1.8)	-
UK	 Construction PMI	May	38.2	40.5	39.7	-
	 New car registrations Y/Y%	May	7.1	-	24.0	-




Auctions

Country	Auction
France	 sold €9.226bn of 3.7% 2036 bonds at an average yield of 3.80%
	 sold €1.971bn of 4% 2038 bonds at an average yield of 3.92%
	 sold €1.711bn of 3.6% 2042 bonds at an average yield of 4.16%
	 sold €1.09bn of 4.4% 2057 bonds at an average yield of 4.55%
Spain	 sold €1.84bn of 2.35% 2029 bonds at an average yield of 2.772%
	 sold €1.58bn of 3.1% 2031 bonds at an average yield of 2.947%
	 sold €1.55bn of 3.5% 2041 bonds at an average yield of 3.813%
	 sold €593mn of 2.05% 2039 inflation-linked bonds at an average yield of 1.57%


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	GDP – final estimate Q/Q% (Y/Y%)	Q1	<u>-0.2 (0.3)</u>	0.2 (1.2)
	10.00	GDP – household consumption Q/Q%	Q1	-	0.4
	10.00	GDP – government expenditure Q/Q%	Q1	-	0.5
	10.00	GDP – fixed investment Q/Q%	Q1	-	0.7
	10.00	Employment – second estimate Q/Q% (Y/Y%)	Q1	<u>0.1 (0.5)</u>	0.2 (0.7)
France 	07.45	Industrial production M/M% (Y/Y%)	Apr	-0.2 (1.8)	1.0 (0.9)
	07.45	Trade balance €bn	Apr	-	-6.9
UK 	08.00	DMP – 3M output price (1Y CPI) expectations Y/Y%	May	<u>4.1 (4.0)</u>	3.8 (4.0)

Auctions and events

UK 	14.40	External MPC member Dhingra to give speech at University College London			
	19.00	BoE Governor Bailey to participate in discussion celebrating the 250 th anniversary of the Wealth of Nations in Kirkcaldy, Scotland			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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