

Euro wrap-up

Overview

- Bunds made significant losses, as ECB Vice President De Guindos stated that a July rate hike is possible, the latest euro inflation data suggested broader price pressures and consumer confidence unexpectedly improved.
- Gilts also made losses as BoE external member Mann stated that she was considering the case for a 50bps rate hike at May's policy-setting meeting.
- Tomorrow brings the flash European April PMIs, along with the latest UK consumer confidence and retail sales figures.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	0.157	+0.124
OBL 0 04/27	0.669	+0.093
DBR 0 02/32	0.917	+0.066
UKT 1 04/24	1.721	+0.139
UKT 1½ 07/27	1.767	+0.111
UKT 4¼ 06/32	1.982	+0.066

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

Euro area

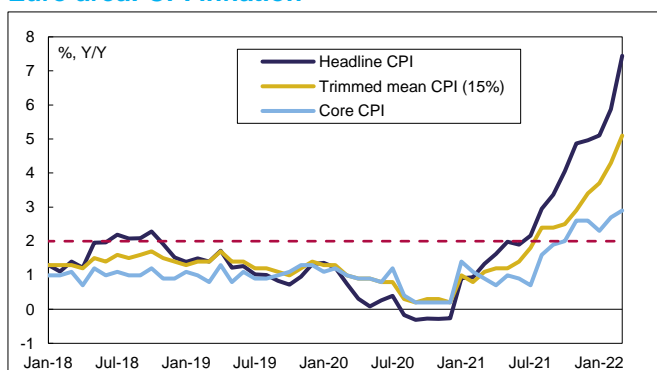
Euro area inflation revised down but still at record high, with signs of broader price pressures

Today's final euro area consumer price inflation data brought an unexpected, albeit very modest, downwards surprise to the March outturn, with the headline HICP rate revised down by 0.1ppt to 7.4%Y/Y. Inevitably, this still clearly represented a series high and was a striking 1.5ppts higher than in February, with prices up a record 2.4%M/M. Despite being a touch softer than initially estimated, energy prices were still up a record 12.2%M/M to leave them 44.4% higher than a year ago and accounting for almost 60% of headline inflation. This reflected a near-39%M/M surge in prices of liquid fuels, with electricity and gas up around 7%M/M too. Meanwhile, non-energy industrial goods inflation was confirmed at the series-high 3.4%Y/Y, with further notable upwards pressures from those items more acutely impacted by supply bottlenecks – e.g. second-hand car inflation rose 1.5ppts to 9.9%Y/Y. Services inflation was unrevised at 2.7%Y/Y, up 0.2ppt on the month, as a modest downwards influence from package holidays (down 2.5ppts to 6.7%Y/Y) was more than offset by a solid increase in accommodation services (up 1.5ppts to 10.0%Y/Y). So, while core inflation was revised marginally lower from the flash, it still rose 0.2ppt to 2.9%Y/Y, a series high. And there were increasing signs of broadening price pressures, with the 15% trimmed mean CPI up a striking 0.8ppt to 5.1%Y/Y, just 0.9ppt lower than the equivalent US measure.

ECB members hinting at Q3 rate lift-off

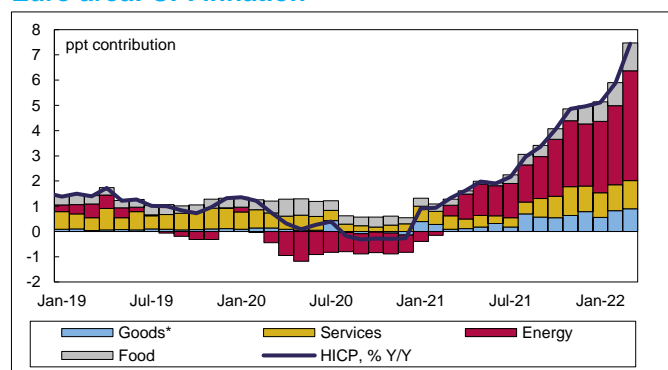
While the near-term inflation outlook remains highly uncertain, not least given the impact of the ongoing Ukraine war, due to recent developments in wholesale energy markets, headline inflation might well be close to or (as we currently think) already at its peak. Certainly, the latest Commission weekly consumer petrol prices figures suggest that in the first two weeks of April, they were trending almost 6½% lower than in March, while heating gas oil prices were down 10% on an equivalent basis. Vice President Luis de Guindos also noted today that the ECB believes inflation is close to the peak, and will start to decline in the second half of the year albeit still probably remaining above 4%Y/Y in the final quarter of this year. Given recent shifts in indicators of inflation expectations, he also judged that, in the medium term, inflation will be much closer to the ECB's 2% target. As such, while he acknowledged the significant downside risks to demand associated with the Ukraine war, he saw no obvious reason why the Governing Council should not cease net asset purchases in July. And he also considered that interest rate lift-off as soon as July was possible. We continue to expect GDP growth to come in softer than anticipated by the ECB and think that September is now – on balance – a more likely meeting to bring the first hike, which would take the deposit rate to -0.25%. And then a further 25bps hike in the deposit rate to 0.00%, as well as a 25bps hike in the refi rate to 0.25%, would likely follow in December.

Euro area: CPI inflation



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

Euro area: CPI inflation



*Non-energy industrial goods.
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

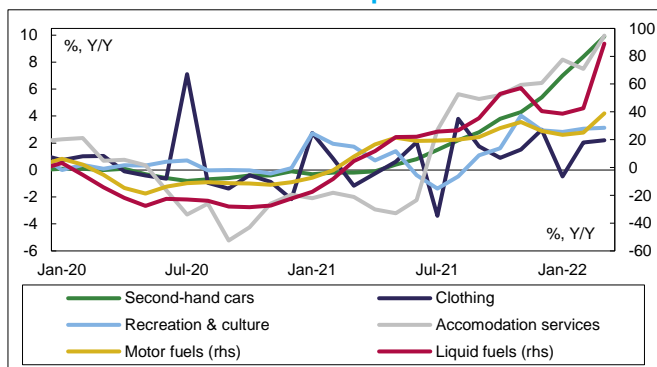
Consumer confidence improves unexpectedly, but remains at very weak level

While there will be plenty more data to be considered when forming the ECB's economic projections in June, the latest sentiment surveys perhaps offered some tentative encouragement that conditions have started to stabilise at the start of Q2 following the marked deterioration in March. Certainly, the European Commission's flash consumer confidence indicator, published today, unexpectedly increased in April by 1.8pts to -16.9, perhaps reflecting an easing in unemployment concerns and recent government initiatives to soften the impact of higher energy prices on consumers. Admittedly, this still remains an exceptionally weak level, some 6pts below the long-run average and the second-lowest reading since November 2020, still suggestive of subdued household spending. This notwithstanding, high frequency Google mobility data for travel to recreation and retail, while still lower than ahead of the latest pandemic wave, has picked up over the past week or so, supportive of the ECB's view that the ongoing easing of Covid-related restrictions will help counter the negative impact associated with the Ukraine conflict.

French business confidence holds up relatively well despite deterioration in retail

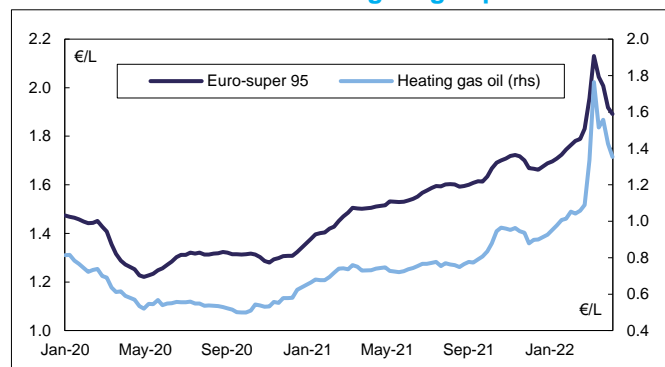
Today's French INSEE business survey suggested that, on the whole, economic activity has held up relatively well at the start of the second quarter. In particular, the headline business climate index fell just 1pt in April to 106. And while this was some 7pts lower than November's peak, it remained comfortably above the long-run average (100) and more than double the pandemic trough (48). The weakening largely reflected a further deterioration in retailers' conditions, with the equivalent index down 6pts to 93, its lowest level for a year. Indeed, after another month of solid growth in retail sales in March – which according to the Bank of France rose 1.4%M/M for the second successive month to leave them up 0.4%Q/Q – retailers were notably more downbeat about expected sales, which fell to the lowest since November 2020. At the same time, with pandemic restrictions relaxed, increased opportunities for consumers to spend supported sentiment in services, with the respective business climate index stable at an above-average 109, not least reflecting favourable conditions in accommodation and food services (120). There was also a slight uptick in the equivalent manufacturing indicator (up 1pt to 108) to leave it comfortably above the long-run average but still some 5pts lower than in January. While there was an improvement in order books, manufacturers remained concerned about the outlook for production, with one in every two firms reporting supply difficulties as a limiting factor on output, matching the highest share on record. There was a particularly marked increase in the food sub-sector, which rose from 26% to 41%, and supply constraints were most acute for autos manufacturers (82%).

Euro area: Selected CPI components



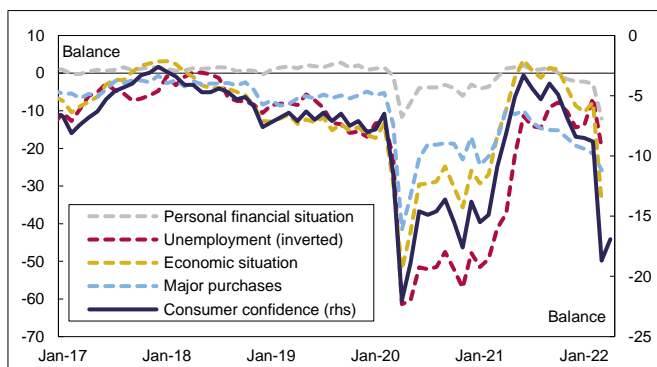
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Petrol and heating oil gas prices



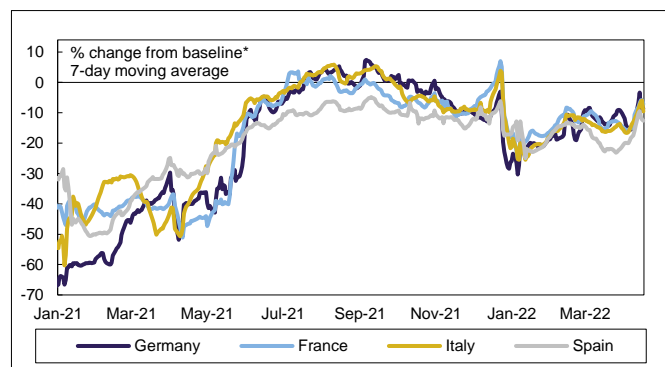
Source: European Commission and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer confidence



Source: Refinitiv, European Commission and Daiwa Capital Markets Europe Ltd.

Euro area: Travel to recreation and retail



*The baseline is the median value, for the corresponding day of the week during the five-week period 3 Jan – 6 Feb 2020. Source: Google, Our World in Data and Daiwa Capital Markets Europe Ltd.

German exports to Russia plunge in March, but US demand compensates

Germany's preliminary March data for goods trade beyond the EU – which accounts for roughly half of all its exports – gave a first indication of the impact of the Ukraine war and associated sanctions on exports. In particular, on a seasonally-adjusted basis, German exports to countries outside the EU fell 7.2%M/M, admittedly leaving them up a respectable 3.0%Q/Q in Q1. On an unadjusted basis in March, exports to countries outside the EU were up 3.2%Y/Y, with a marked contrast in performance to different markets. In particular, German exports to Russia dropped a whopping 57.5%Y/Y (to €1.1bn). As a result, Russia dropped from fifth to twelfth in the pecking order of Germany's largest export markets beyond the EU, slipping below countries such as Mexico, India and Australia. In marked contrast, exports to the US – Germany's number one market outside of the EU – were up 21.0%Y/Y (to €13.5bn), more than compensating for the drop in shipments to Russia. However, while other important markets such as Switzerland, Turkey and Japan also registered positive growth, Germany's exports to China and the UK were down 1.0%Y/Y and 0.3%Y/Y respectively, seemingly reflecting a loss of momentum in both countries.

The day ahead in the euro area

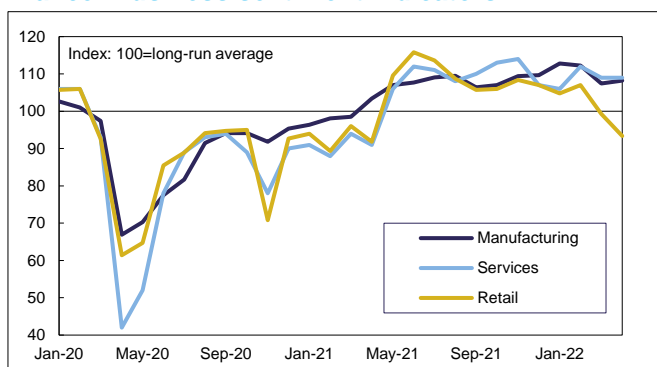
Tomorrow's data highlight will be the flash April PMI surveys for the euro area and two largest member states, which – in contrast to today's better French INSEE survey results – might well suggest a further deterioration in manufacturing conditions at the start of Q2, particularly in Germany. The euro area manufacturing PMI is expected to fall 1.6pts, to 54.9 in April, the lowest in fifteen months, as supply constraints become increasingly binding. But with services likely to see a further boost from the reopening of the tourism sector (the euro area services PMI is expected to come in little changed from March at 55.0) the decline in the euro area's composite PMI is expected to prove modest and remain consistent with ongoing expansion. The Bloomberg consensus is for a decline of 1pt to a three-month low of 53.9. In terms of ECB-speak, President Lagarde will give a keynote speech at the Peterson Institute's Macro event.

UK

The day ahead in the UK

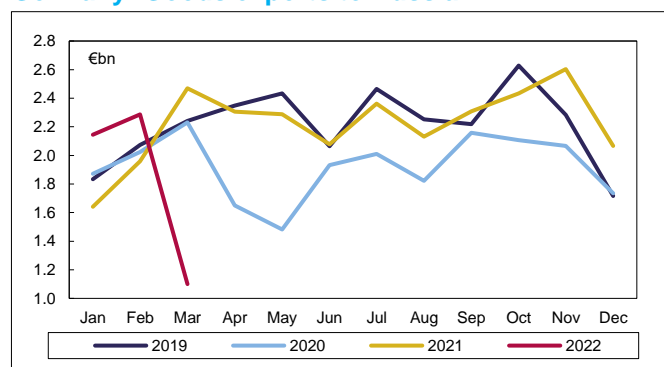
Like in the euro area, tomorrow brings the preliminary UK PMIs for April, which are likely to imply another solid month of services activity (with the index falling 2.6pts to a still respectable 60.0). We expect this to offset some softening of manufacturing output (the index is forecast to fall 0.8pts to 54.0) amid supply-chain disruption and a further increase in cost burdens. Tomorrow will also bring the latest retail sales numbers for March. With [inflation](#) continuing to rise sharply, real incomes falling, and increased opportunities to spend on services, the downtrend in spending on goods is likely to have continued at the end of the first quarter. Including spending on fuel, sales are expected to have fallen 0.3%M/M in March, matching the decline recorded in February, to leave them almost 1% lower over the first quarter as a whole. And the outlook for spending remains weak, with tomorrow's GfK consumer confidence index expected to fall to -34, the lowest since May-20, when confidence plummeted at the onset of the pandemic.

France: Business sentiment indicators



Source: Refinitiv, INSEE and Daiwa Capital Markets Europe Ltd.

Germany: Goods exports to Russia*







*Preliminary data for March 2022. Source: Destatis 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 CPI (core CPI) Y/Y%	Mar	7.4 (2.9)	7.5 (3.0)	5.9 (2.7)	-
	 European Commission's preliminary consumer confidence	Apr	-16.9	-20.0	-18.7	-
France	 INSEE business confidence	Apr	106	105	107	-
	 INSEE manufacturing confidence (production outlook)	Apr	108 (-5)	104 (-5)	106 (-2)	107 (-3)












Auctions

Country	Auction
France	 sold €3.65bn of 0% 2025 bonds at an average yield of 0.58%
	 sold €4.45bn of 0% 2027 bonds at an average yield of 0.88%
	 sold €2.89bn of 2.5% 2030 bonds at an average yield of 1.12%
	 sold €732mn of 0.1% 2031 index-linked bonds at an average yield of -1.63%
	 sold €507mn of 0.1% 2036 index-linked bonds at an average yield of -1.06%
	 sold €259mn of 0.1% 2053 index-linked bonds at an average yield of -0.83%
Spain	 sold €2.38bn of 0.0% 2025 bonds at an average yield of 0.845%
	 sold €1.46bn of 5.75% 2032 bonds at an average yield of 1.737%
	 sold €1.70bn of 2.70% 2048 bonds at an average yield of 2.289%



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	Preliminary manufacturing (services) PMI	Apr	54.9 (55.0)	56.5 (55.6)
	 09.00	Preliminary composite PMI	Apr	53.9	54.9
Germany	 08.30	Preliminary manufacturing (services) PMI	Apr	54.5 (55.3)	56.9 (56.1)
	 08.30	Preliminary composite PMI	Apr	54.1	55.1
France	 08.15	Preliminary manufacturing (services) PMI	Apr	53.7 (56.5)	54.7 (57.4)
	 08.15	Preliminary composite PMI	Apr	55.0	56.3
UK	 00.01	GfK consumer confidence	Apr	-34	-31
	 07.00	Retail sales including auto fuels M/M% (Y/Y%)	Mar	-0.3 (2.8)	-0.3 (7.0)
	 07.00	Retail sales excluding auto fuels M/M% (Y/Y%)	Mar	-0.4 (0.8)	-0.7 (4.6)
	 09.30	Preliminary manufacturing (services) PMI	Apr	54.0 (60.0)	55.2 (62.6)
	 09.30	Preliminary composite PMI	Apr	58.7	60.9

Auctions and events

Euro area	 14.00	ECB President Lagarde to speak at a Peterson Institute for International Economics event
UK	 15.30	BoE Governor Bailey to participate on an IMF panel on "Inflation dynamics in a fragile global economy"

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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