

Euro wrap-up

Overview

- Bunds made losses at the short end of the curve and BTPs underperformed as the April flash PMIs suggested that the boost to GDP from rebounding services activity is more than offsetting manufacturing weakness.
- Gilts made gains as UK retail sales and consumer confidence fell more sharply than expected and the flash April PMIs suggested a moderation of growth momentum in services.
- The coming week brings the first euro area estimates of Q1 GDP and April inflation.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	0.232	+0.052
OBL 0 04/27	0.710	+0.014
DBR 0 02/32	0.937	-0.006
UKT 1 04/24	1.662	-0.065
UKT 1½ 07/27	1.721	-0.064
UKT 4½ 06/32	1.936	-0.074

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

Euro area

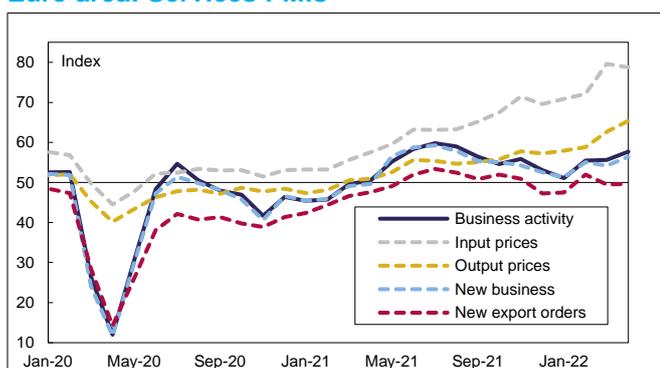
Flash PMIs suggest services rebound more than offsets slowdown in manufacturing

Mindful of downside risks to activity posed by events in Ukraine, ECB policymakers – including President Lagarde again yesterday – continue to insist that the forthcoming decisions on asset purchases and interest rates in the second half of the year will be data-dependent. However, judging from this week's economic survey indicators for April – including yesterday's preliminary estimate of [consumer confidence](#) and today's flash PMIs – activity currently appears firm enough to give cover to the Governing Council to end net asset purchases in July and raise rates for the first time in Q3. Indeed, contrary to expectations of a drop to a three-month low, the flash euro area composite activity PMI rose in April, by almost 1pt to a seven-month high of 55.8, more than 1.5pts above the Q1 average. The driver was the ongoing rebound in services, which continues to benefit from ongoing relaxation of pandemic restrictions and a desire for normalisation. Indeed, the activity PMI for the sector rose more than 2pts to an eight-month high of 57.7, almost 4pts above the Q1 average. In contrast, the euro area manufacturing output PMI dropped 2.7pts to just 50.4 the lowest since June 2020 and a level suggesting that growth in the sector has ground to a halt weighed by ongoing supply strains. Although delivery times lengthened at a slower pace, stocks were more adequate and backlogs eased again, input costs in the sector accelerated again. And the PMIs suggested that manufacturers and services firms alike passed on the pressures in their output prices at a record rate, suggestive of upside risks to core inflation over the near term, which pose downside risks to future activity as real disposable incomes will be further eroded.

New orders and employment stronger, but reliance on manufacturing weighs in Germany

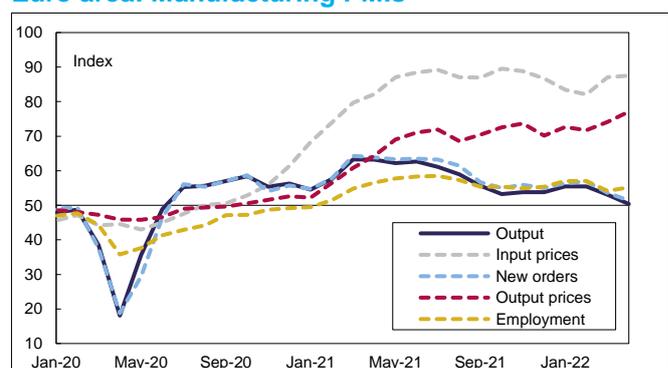
Notwithstanding the signals of additional price pressures, and weakening in manufacturing, much of the other detail of the PMI survey was broadly upbeat. While external demand appeared to soften further, and new goods orders were the weakest since June 2020, total new orders accelerated thanks to increased domestic demand for services. Job recruitment reportedly rose at the strongest pace in five months, with hiring growth reported across the sectors. And while it remained below last year's range, optimism regarding output over the coming twelve months picked up too. Admittedly, there were differences among the member states, as Germany's greater reliance on industry saw the country's composite PMI soften to a three-month low (54.5), as manufacturing output dropped for the first time since mid-2020. In contrast, consistent with yesterday's INSEE survey, the French composite PMI (57.5) pointed to the strongest growth since the start of 2018 as a vigorous recovery in services combined with modest expansion in manufacturing. Additionally, according to S&P Global, output accelerated across the rest of the euro area to the fastest rate in five months thanks to a notable pickup in services, which for Southern Europe no doubt included the all-important tourism sector.

Euro area: Services PMIs



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

Euro area: Manufacturing PMIs



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

The week ahead in the euro area

Focus over the weekend turns to the second-round vote in the French Presidential election. Since his successful first-round performance, polls suggest that Emmanuel Macron's head-to-head lead over his far-right opponent Marine Le Pen has rebounded to roughly 10ppts. Indeed, yesterday POLITICO's Poll of Polls gave him a share of 55% against Le Pen's 45%. So, not least given the strong track record of French pollsters, Macron looks well set to be re-elected for a second term – the first President to achieve that since Jacques Chirac two decades ago. However, his victory this time around will be less convincing than in 2017 when he took 66% of the vote.

Turning to the economic data, it will be a busy week ahead for top-tier euro area releases, concluding on Friday with the flash Q1 GDP and April inflation estimates. Activity in the euro area will have been given a boost by the lifting of Covid-related restrictions and reopening of the services sector. But the recovery will have been curbed to some extent by the Russian invasion in Ukraine in late February, with the subsequent worsening of supply constraints and higher cost burdens likely to have weighed on spending by businesses and households alike. So, we expect only a moderate increase in aggregate euro area GDP in Q1, by 0.2%Q/Q, in line with the ECB's March baseline projection. Admittedly, we would expect significant differences in performance among the larger member states, with Germany set to have been more adversely impacted by supply-chain disruptions and hence more susceptible to contraction in the first quarter. We expect only modest growth in France (0.3%Q/Q) and Italy (0.1%Q/Q), with Spain (0.7%Q/Q) benefitting somewhat more from a recovery in tourism. There will be plenty of April sentiment surveys published in the coming week too, with the Commission's consumer and business surveys – arguably the best guide to euro area economic activity – to give an update on conditions at the start of Q4 on Thursday. Germany's ifo business and GfK consumer confidence surveys will be published on Monday and Wednesday respectively.

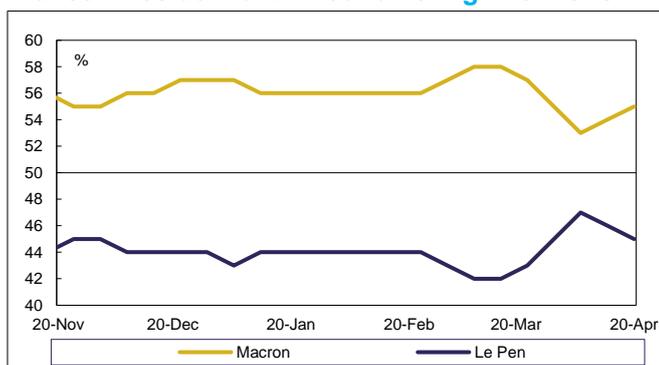
Meanwhile, the flash consumer price estimates for April should suggest that inflation has – at least for the time being – passed its peak led by a drop in energy inflation due not least to lower prices of gasoline at the pump. So, despite further upwards pressures from services and food price inflation, we expect the headline CPI rate to ease by 0.4ppt to 7.1%Y/Y. However, we forecast core inflation to rise further, by 0.3ppt to a new record high of 3.3%Y/Y. Preliminary inflation figures from Germany and Spain will be published on Thursday, with the equivalent numbers from France and Italy on Friday. Other releases include euro area bank lending (Friday) and construction output figures (Monday).

UK

Retail sales fall sharply in March as spending habits start to change amid high inflation

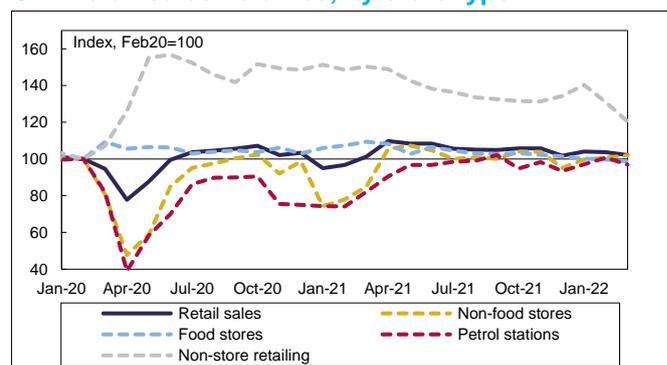
Given the increasing squeeze on UK household budgets and greater opportunities for consumers to spend on services since the relaxation of Covid-related restrictions, retail sales in March were always anticipated to have been weak. But today's figures came in well below expectations, with the volume of retail sales down 1.4%M/M following a steeper than initially estimated decline in February (-0.5%M/M). So, that left sales down 1%Q/Q in Q1, the largest quarterly drop in a year. And while they were still more than 2% higher than the pre-pandemic level, they were almost 7% lower than the pandemic peak and well below the pre-pandemic trend. The most significant negative contribution came from non-store retailing, which fell a further 7.9%M/M in March, perhaps reflecting easing concerns about the pandemic and a return to the High Street. But the rise in non-food store sales (1.3%M/M) suggested only minimal substitution between spending online and in store, implying that the cost of living crisis had started to lead to a change in spending habits. Certainly, tallying with the spike in petrol prices last month, today's figures suggested that non-essential road travel had been reduced last month, with fuel sales down 3.8%M/M. And food store sales also fell (-1.1%M/M), seemingly impacted by increased spending in pubs and restaurants, as well as rising prices. Indeed, given higher retail inflation, the value of retail sales fell a much smaller 0.2%M/M in March, to be up almost 1%Q/Q in Q1 and broadly unchanged from the level a year ago.

France: Presidential 2nd round voting intentions



Source: POLITICO Poll of Polls and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes, by store type



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

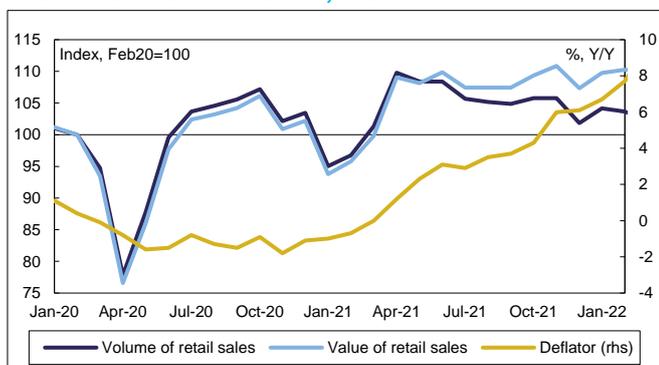
Plunge in consumer confidence points to weakness in spending ahead

Looking ahead, the downtrend in goods sales volumes looks set to continue. Today's GfK consumer confidence survey results for April certainly offered an extremely downbeat assessment. In particular, the headline sentiment index dropped sharply for a fourth successive month and by a larger-than-expected 7pts in April to -38. This left it 4pts lower than the initial pandemic trough, way below the long-run average (-9) and only marginally above the global financial crisis low (-39). Within the detail, every component was weaker in April, with an inevitable marked deterioration in households' expectations for their financial situations over the coming twelve months, with the associated index down 8pts to -26, a new series low. As such, households' perceptions of the climate for making major purchases dropped to the worst since the start of the pandemic, suggesting the outlook for private consumption is very weak indeed.

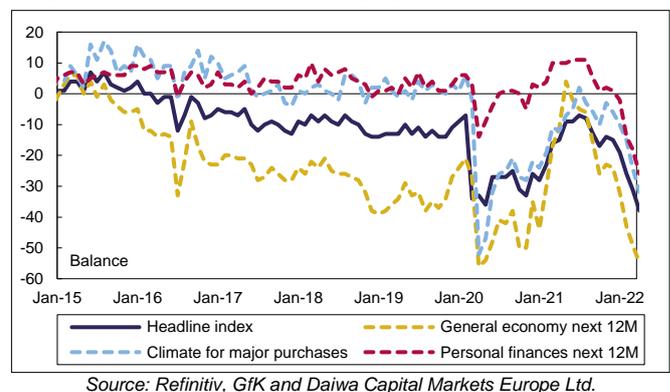
Flash PMIs still relatively strong, but suggest loss of recovery momentum

The flash April PMIs suggested some loss of recovery momentum in the services sector at the start of the second quarter, as the cost of living crisis and economic uncertainty related to the Ukraine war weighed somewhat on consumer demand. Indeed, the headline services activity index fell 4.3pts to 58.1, a three-month low, while the new business component was down a more striking 5.8pts to 54.6, the second-lowest reading for fourteen months. But given a modest pickup in the manufacturing output PMI, by 2pts to 53.8, the decline in the headline composite activity index was somewhat more limited, down 3.3pts to 57.6, a three-month low but nevertheless still consistent with steady expansion. Like in the services sector, the near-term outlook for manufacturers was more downbeat, with orders having slowed further in April – the relevant PMI (51.2) was the lowest since the start of 2021 – amid the fastest contraction in overseas sales since July 2020. Cost burdens continued to mount too, with some 84% of manufacturers citing an increase this month, to leave the composite input price PMI (82.9) at its second-highest level on the series. But while manufacturers' selling prices were considerably stronger than in March, they eased back slightly in the services sector, perhaps reflecting subdued demand. And while firms were cautiously optimistic that economic normalisation from the pandemic would continue to support sales, overall business optimism dropped for the third consecutive month and was the lowest since October 2020. So, while the PMIs still point to steady expansion at the start of Q2, given the weak outlook for household consumption we maintain our forecast of a contraction in UK GDP this quarter. And although recent developments in wholesale energy markets might suggest that the increase in household energy bills in October will prove smaller than previously feared, this year will still see a decades-high hit to households' disposable incomes. And so, BoE Governor Bailey yesterday evening acknowledged the risk that the UK economy could slip into recession and today noted the "huge uncertainty" surrounding the path ahead for monetary policy.

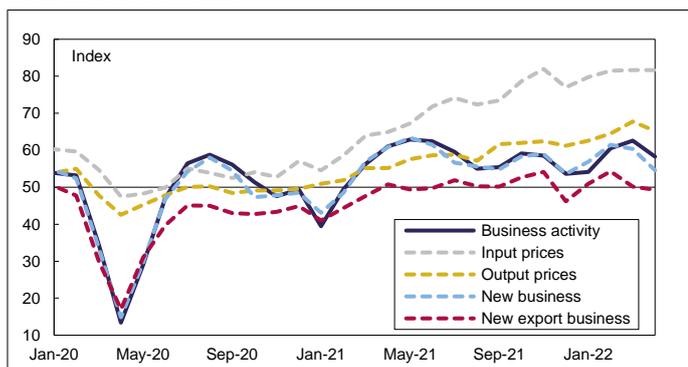
UK: Retail sales volumes, values and deflator



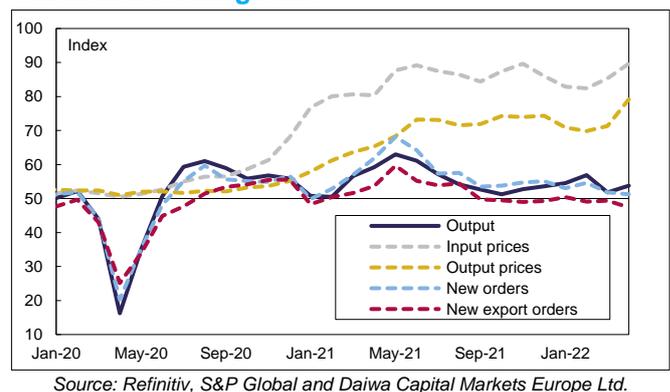
UK: Consumer confidence indices



UK: Services PMIs



UK: Manufacturing PMIs



The week ahead in the UK

The flow of UK economic sentiment indicators continues in the coming week, kicking off on Monday with the CBI's industrial trends survey for April, which will be followed by the CBI's sister distributional trade report on Wednesday. The industrial survey will provide insights into the impact of the Ukraine conflict on manufacturers, who are likely to flag increasingly binding supply constraints and higher cost burdens. After today's disappointing March retail sales numbers, the CBI's distributive trades survey is expected to point to a further fall in retail sales this month, as the cost-of-living crisis was worsened this month by the big jump in household energy bills, rising inflation of other goods and services, and the increase in national insurance contributions. Meanwhile, on Tuesday, we will get the public finance figures for March, the final month of FY21-22. Public sector net borrowing excluding banks came in at £13.1bn in February, taking the total in the first eleven months of the financial year to £138.4bn, less than half the amount in the equivalent period a year earlier. And last month, the OBR revised down its forecast of net public sector borrowing in FY21-22 by £55bn to £128bn (5.4% of GDP) thanks in particular to strong growth in personal income and corporation tax revenues. While government departmental spending and local authority spending has come in lower than expected, government debt interest costs have significantly exceeded earlier expectations due to the impact of high inflation on index-linked Gilts.

Daiwa economic forecasts

	2021		2022				2022	2023	2024
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q									
Euro area 	2.3	0.3	0.2	0.7	0.8	0.7	3.2	2.4	1.8
UK 	0.9	1.3	1.0	-0.1	0.3	0.1	3.9	1.0	1.3
Inflation									
Euro area									
Headline CPI 	2.8	4.6	6.1	6.8	6.4	5.0	6.1	2.0	1.7
Core CPI 	1.4	2.4	2.6	3.1	2.8	2.2	2.7	1.6	1.7
UK									
Headline CPI 	2.8	4.9	6.2	8.4	7.8	7.8	7.6	3.8	1.7
Core CPI 	2.6	3.9	5.1	5.6	5.0	4.0	4.9	2.2	1.6
Monetary policy									
ECB									
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.50	0.50
Deposit Rate % 	-0.50	-0.50	-0.50	-0.50	-0.25	0.00	0.00	0.25	0.25
BoE									
Bank Rate % 	0.10	0.25	0.75	1.00	1.25	1.25	1.25	1.00	1.00

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> forecast/actual	Previous	
Monday 25 April 2022						
Euro area		10.00	Construction output M/M% (Y/Y%)	Feb	-	3.9 (4.1)
Germany		09.00	ifo business climate index	Apr	88.0	90.8
		09.00	ifo current assessment (expectations) index	Apr	95.0 (82.0)	97.0 (85.1)
Spain		08.00	PPI M/M% (Y/Y%)	Mar	-	1.9 (40.7)
UK		00.01	Rightmove house price index M/M% (Y/Y%)	Apr	-	1.7 (10.4)
		11.00	CBI industrial trends indices, total orders (selling prices)	Apr	-	26 (80)
Tuesday 26 April 2022						
UK		07.00	Public sector net borrowing, ex banking groups £bn	Mar	-	13.1
Wednesday 27 April 2022						
Germany		07.00	GfK consumer confidence	May	-17.0	-15.5
		07.00	Retail sales* M/M% (Y/Y%)	Mar	0.4 (-)	0.2 (6.8)
France		07.45	INSEE consumer confidence	Apr	-	91
UK		11.00	CBI distributive trades indices, reported retail sales	Apr	-	9
Thursday 28 April 2022						
Euro area		10.00	EC economic sentiment indicator	Apr	107.3	108.5
		10.00	Industrial (services) confidence	Apr	8.0 (-)	10.4 (14.4)
		10.00	Final consumer confidence	Apr	-16.9	-18.7
Germany		13.00	Preliminary CPI M/M% (Y/Y%)	Apr	0.6 (7.3)	2.5 (7.3)
		13.00	Preliminary EU-harmonised CPI M/M% (Y/Y%)	Apr	0.5 (7.6)	2.5 (7.6)
Italy		09.00	ISTAT business (manufacturing) confidence	Apr	-	105.4 (110.3)
		09.00	ISTAT consumer confidence	Apr	-	100.8
		09.00	Hourly wages M/M% (Y/Y%)	Mar	-	0.1 (0.7)
		10.00	Industrial sales M/M% (Y/Y%)	Feb	-	2.3 (16.9)
Spain		08.00	Preliminary CPI M/M% (Y/Y%)	Apr	-	3.0 (9.8)
		08.00	Preliminary EU harmonised CPI M/M% (Y/Y%)	Apr	- (9.5)	3.9 (9.8)
UK		-	Nationwide house price index* M/M% (Y/Y%)	Apr	-	1.1 (14.3)
Friday 29 April 2022						
Euro area		09.00	M3 money supply Y/Y%	Mar	-	6.3
		10.00	Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>0.2 (5.0)</u>	0.3 (4.6)
		10.00	Preliminary CPI M/M% (Y/Y%)	Apr	<u>0.2 (7.1)</u>	2.5 (7.5)
		10.00	Preliminary core CPI Y/Y%	Apr	<u>3.3</u>	3.0
Germany		09.00	Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>0.0 (3.5)</u>	-0.3 (1.8)
France		06.30	Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>0.3 (5.5)</u>	0.7 (5.4)
		06.30	Preliminary CPI M/M% (Y/Y%)	Apr	- (4.8)	1.4 (4.5)
		06.30	Preliminary EU-harmonised CPI M/M% (Y/Y%)	Apr	- (5.3)	1.6 (5.1)
		06.30	PPI M/M% (Y/Y%)	Mar	-	1.1 (22.4)
		06.30	Consumer spending M/M% (Y/Y%)	Mar	-	0.8 (-2.3)
Italy		09.00	Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>0.1 (5.9)</u>	0.6 (6.2)
		10.00	Preliminary CPI M/M% (Y/Y%)	Apr	-	1.2 (6.7)
		10.00	Preliminary EU-harmonised CPI M/M% (Y/Y%)	Apr	- (7.2)	2.6 (6.8)
		11.00	PPI M/M% (Y/Y%)	Mar	-	0.2 (41.4)
Spain		08.00	Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>0.7 (6.7)</u>	2.2 (5.5)
		08.00	Retail sales Y/Y%	Mar	-	0.9
UK		00.01	Lloyds business barometer	Apr	-	33

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 25 April 2022		
Euro area 	19.00	ECB's Panetta scheduled to speak at Columbia University
UK 	09.30	BoE publishes its Asset Purchase Facility quarterly report – Q122
Tuesday 26 April 2022		
Italy 	10.00	Auction: €2.75bn of 0% 2023 bonds
	10.00	Auction: €1bn of 0.65% 2026 index-linked bonds
Wednesday 27 April 2022		
Germany 	10.30	Auction: €2bn of 0.0% 2038 bonds
Thursday 28 April 2022		
Euro area 	08.00	ECB Vice President de Guindos presents the ECB's 2021 annual report to the European Parliament's ECON committee
	09.00	ECB to publish its Economic Bulletin
Friday 29 April 2022		
Italy 	10.00	Auction: 5Y and 10Y bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Today's results

Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area 	Preliminary manufacturing (services) PMI	Apr	55.3 (57.7)	54.9 (55.0)	56.5 (55.6)	-
	Preliminary composite PMI	Apr	55.8	53.9	54.9	-
Germany 	Preliminary manufacturing (services) PMI	Apr	54.1 (57.9)	54.5 (55.3)	56.9 (56.1)	-
	Preliminary composite PMI	Apr	54.5	54.1	55.1	-
France 	Preliminary manufacturing (services) PMI	Apr	55.4 (58.8)	53.7 (56.5)	54.7 (57.4)	-
	Preliminary composite PMI	Apr	57.5	55.0	56.3	-
UK 	GfK consumer confidence	Apr	-38	-34	-31	-
	Retail sales including auto fuels M/M% (Y/Y%)	Mar	-1.4 (0.9)	-0.3 (2.8)	-0.3 (7.0)	-0.5 (7.2)
	Retail sales excluding auto fuels M/M% (Y/Y%)	Mar	-1.1 (-0.6)	-0.4 (0.8)	-0.7 (4.6)	-0.9 (4.7)
	Preliminary manufacturing (services) PMI	Apr	55.3 (58.3)	54.0 (60.0)	55.2 (62.6)	-
	Preliminary composite PMI	Apr	57.6	58.7	60.9	-
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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