

Euro wrap-up

Overview

- Bunds followed US10s higher, even as a Reuters report suggested that a majority of ECB Governing Council members want to end net asset purchases as soon as possible and raise rates no later than September, while the April German ifo survey beat expectations.
- Gilts also made gains while a UK manufacturing survey reported much weaker optimism amid subdued orders and higher prices.
- Wednesday brings German and French consumer confidence indices, alongside a UK retail survey.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	0.137	-0.132
OBL 0 04/27	0.589	-0.159
DBR 0 02/32	0.841	-0.125
UKT 1 04/24	1.553	-0.148
UKT 1½ 07/27	1.624	-0.130
UKT 4¼ 06/32	1.841	-0.122

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

Euro area

German ifo indices beat expectations as services rebound offsets weakness elsewhere

Today's German ifo survey beat expectations, with the headline business climate index unexpectedly rising in April by 1pt from the prior month's 20-month low to 91.8. Among other things, the survey suggested that conditions were broadly stable this month. As implied by Friday's [flash PMIs](#), the reopening of the services sector following the easing of pandemic restrictions gave a boost – the relevant index rose in April to a five-month high. And that offset the negative impact of the Ukraine war on firms in other sectors, as construction firms assessed conditions this month to be the least favourable since 2016 while retailers were the most downbeat for more than a year. Looking ahead, the ifo survey's expectations index even posted a surprising, if relatively modest, improvement, as services firms and manufacturers were more upbeat about the outlook for the coming six months. In contrast, with three out of four firms in the sector concerned about rising cost burdens and assessing supply constraints to have become more binding, construction firms expressed much greater pessimism about the outlook, with the relevant index falling to a new series low in April. And despite the improvement in April, the manufacturing expectations index was still some 35pts lower than in February ahead of the Russian invasion, with the equivalent services index also still down around 19pts from February.

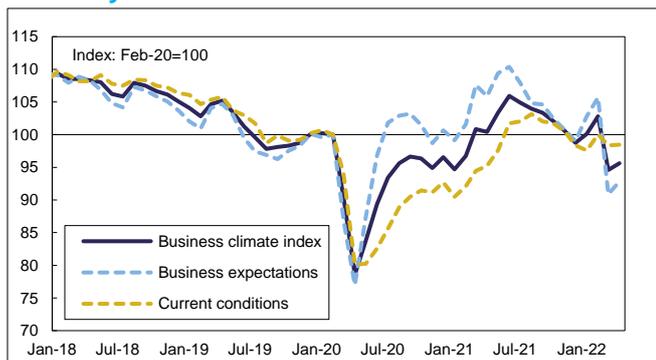
But still consistent with subdued economic outlook

Overall, the ifo survey suggested some resilience in the economy after the initial shock from the Ukraine conflict, suggesting that the euro area's largest member state should avoid a recession in the first half of 2022 even though growth will remain subdued. Indeed, we expect the first estimate of Q1 GDP (due Friday) to report that the economy merely moved sideways in the first quarter (a touch weaker than the Bloomberg consensus forecast for growth of 0.2%Q/Q) following the contraction of 0.3%Q/Q in Q4. But not least reflecting the normalisation in the services sector flagged by the flash PMIs and ifo survey, we currently expect modestly positive growth in Q2 of around ½%Q/Q. Of course, risks to the outlook remain skewed to the downside, with the ifo institute acknowledging that renewed lockdowns in China were likely to exacerbate supply bottlenecks over coming months. The impact of such supply-chain disruption on the manufacturing sector was illustrated today as a BMW plant in Regensburg halted production for at least a week due to a lack of chip supplies.

Construction sector supported euro area GDP growth in Q1

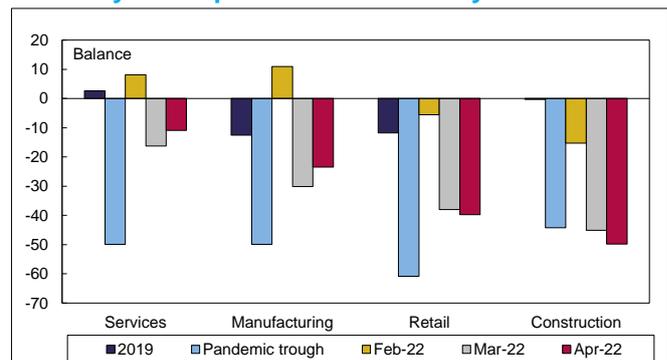
Notwithstanding growing concerns about the adverse impact of supply disruption and cost pressures reflected in the ifo survey, the construction sector looks to have made a positive contribution to euro area GDP growth in Q1. In particular, euro area construction output rose 1.9%M/M in February following growth of 3.9%M/M to be 3.7% above the pre-pandemic level

Germany: Headline ifo business indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: ifo expectations indices by sector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

in February 2020 and trending 4.1% above the Q4 level in the first quarter. Building work rose 2.0%M/M while civil engineering output was up 1.4%M/M. While German construction output fell back 0.7%M/M following a surge of almost 6% in January, most other member states registered positive growth in February, among them France (2.7%M/M), Italy (3.9%M/M) and Spain (0.5%M/M). The hit to broader economic sentiment from events in Ukraine, high energy prices and other cost pressures is likely to weigh significantly on business investment in Q2. But public investment should benefit from Next Generation EU projects. And not least given the strong increases in house prices over the past year (up a series-high 9.4%Y/Y in Q421) – and despite the likelihood of a moderation in house price growth in 2022 due to squeezed real household incomes, tighter credit standards and higher mortgage rates – housing construction should remain firm. Indeed, with order books still ample by historical standards, and notwithstanding risks of some payback for recent strength, construction sector activity could yet remain a source of growth as long as supply constraints do not bind too tightly.

The coming two days in the euro area

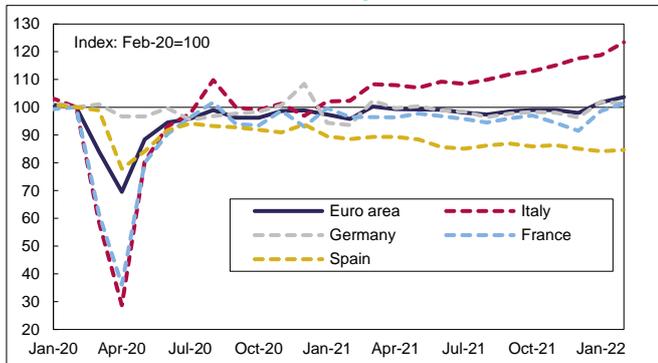
Tomorrow will be a quiet day on the euro area economic data front, with no key releases scheduled. On Wednesday, the focus returns to economic sentiment surveys with German and French consumer confidence reports due. Germany’s forward-looking GfK consumer confidence index is expected to dip slightly in May, taking it close to the low levels recorded at the beginning of the pandemic. Meanwhile, French consumer confidence is expected to edge higher in April, albeit to just above the pandemic low of 89 recorded in November 2020 as the second pandemic wave took off.

UK

CBI industrial survey reported much weaker optimism amid softer orders and higher prices

While the UK’s flash manufacturing output PMI reported a modest uptick in April, today’s CBI industrial trends survey reported a marked slowdown in output growth in the three months to April compared with the three months to March. And while expectations for output growth over the coming three months remained above the long-run average, the relevant survey index was the lowest for more than a year. This coincided with a moderation in new orders compared with March, with renewed weakness in overseas demand. And firms expected orders to slow further over the coming three months, not least reflecting greater pessimism regarding exports. Taken together with the fastest rising average costs since 1975, and growing concerns about supply availability amid the Ukraine war and lockdowns in China, overall business optimism in the sector fell at the sharpest pace since the onset of the pandemic. And while manufacturers were still expecting to increase staff recruitment over the coming three months, investment intentions for the year ahead weakened notably, despite government tax incentives.

Euro area: Construction output



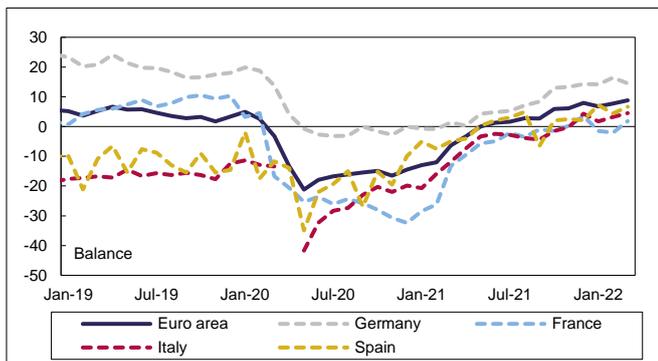
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: House price inflation



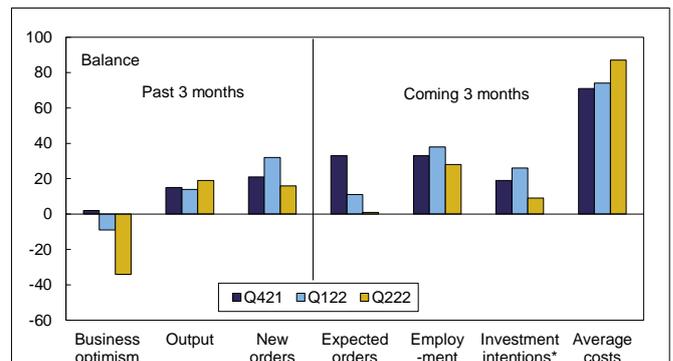
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Construction order books*



*No results for Italy’s April 2020 survey. Source: Refinitiv, EC and Daiwa Capital Markets Europe Ltd.

UK: CBI industrial trends indices



*Over coming twelve months. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

The coming two days in the UK

Tomorrow we will get UK 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. Meanwhile, following Friday's weak [retail sales](#) figures for March, Wednesday's CBI distributive trades survey is expected to point to a further fall in retail sales this month, as the cost-of-living crisis was worsened by the big jump in household energy bills, rising inflation of other goods and services, and the increase in national insurance contributions.

The next edition of the Euro wrap-up will be published on 27 April 2022

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Construction output M/M% (Y/Y%)	Feb	1.9 (9.4)	-	3.9 (4.1)	-
Germany	ifo business climate index	Apr	91.8	88.0	90.8	-
	ifo current assessment (expectations) index	Apr	97.2 (86.7)	95.0 (82.0)	97.0 (85.1)	97.1 (84.9)
Spain	PPI M/M% (Y/Y%)	Mar	6.6 (46.6)	-	1.9 (40.7)	2.1 (41.2)
UK	Rightmove house price index M/M% (Y/Y%)	Apr	1.6 (9.9)	-	1.7 (10.4)	-
	CBI industrial trends indices, total orders (selling prices)	Apr	14 (71)	-	26 (80)	-

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
UK		07.00 Public sector net borrowing, ex banking groups £bn	Mar	19.8	13.1

Auctions and events

Italy		10.00 Auction: €2.75bn of 0% 2023 bonds
		10.00 Auction: €1bn of 0.65% 2026 index-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany		07.00 GfK consumer confidence	May	-16.0	-15.5
France		07.45 INSEE consumer confidence	Apr	92	91
UK		11.00 CBI distributive trades indices, reported retail sales	Apr	-5	9

Auctions and events

Germany		10.30 Auction: €2bn of 0.0% 2038 bonds
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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