

Euro wrap-up

Overview

- Bunds made gains particularly at the shorter end of the curve as surveys suggested a marked deterioration in German and French consumer sentiment.
- Longer-dated Gilts made relatively modest losses despite a downbeat UK retail survey suggesting that sales were well below seasonal norms in April.
- Tomorrow brings flash April CPI estimates from Germany and Spain, alongside UK car production numbers for March.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	0.086	-0.049
OBL 0 04/27	0.525	-0.044
DBR 0 02/32	0.802	-0.007
UKT 1 04/24	1.479	-0.006
UKT 1½ 07/27	1.570	+0.003
UKT 4¼ 06/32	1.814	+0.021

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

Source: Bloomberg

Euro area

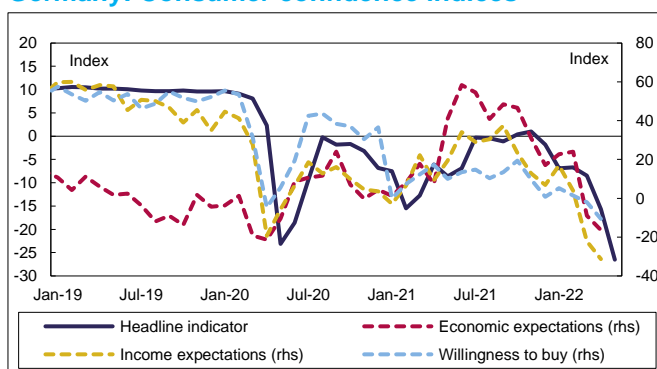
German consumer sentiment plunges to series low as willingness to buy falls sharply

While last week's flash Commission euro area consumer confidence indicator for April posted a surprising (albeit modest) improvement, today's German GfK consumer survey fell well short of expectations. Contrasting the recent business surveys, which suggest that a rebound in services activity is offsetting weakness in other sectors, households have become extremely downbeat about the impact of the Ukraine war and, in particular, high inflation. Indeed, the headline consumer sentiment indicator fell significantly for the second successive month, by a whopping 10.8pts – the second-largest drop on the series – to a record low of -26.5. This was almost 3½pts below the trough at the start of the pandemic and well below the long-run average (5.0). There was another hefty decline in households' income expectations as high inflation continued to erode consumers' purchasing power, with the relevant balance falling to -31.3 in April, the weakest reading since February 2003. And expectations for the overall economic outlook took another notable step down in April too – the index fell a further 7.5pts to -16.4, some 75pts lower than last summer's peak and well below the long-run average (7.7). As such, households' willingness to buy fell sharply for the third consecutive month, with the relevant indicator dropping 8.5pts on the month to -10.5, the lowest since the global financial crisis and some 23pts below the long-run average, suggesting that private consumption will provide little, if any, support to near-term GDP growth. While wholesale energy prices remain well below the spike in early March, the jump of more than 10% today in European natural gas prices as Gazprom cut supplies to Poland and Bulgaria, as well as further steps by Germany's government to cease imports of Russian oil, provide a reminder of additional downside risks to household sentiment posed by events in Ukraine and their impact on energy markets.

Fewer French consumers judge it to be a good time to make major purchases

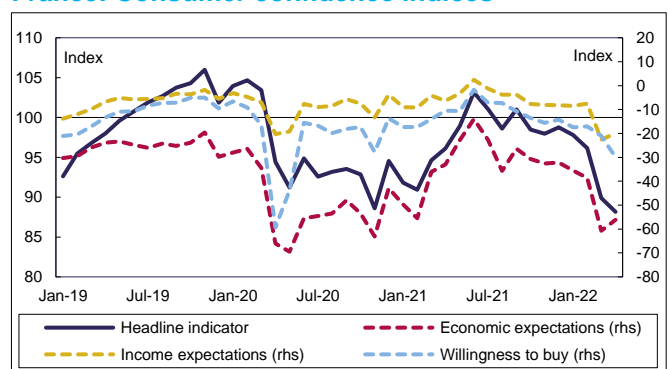
The French INSEE consumer survey similarly reported a further deterioration in confidence at the start of Q2, albeit to a lesser degree than in Germany. In particular, the headline index fell for the fourth consecutive month in April, by 2pts to 88, the weakest reading since the "yellow vest" protests in late 2018. This left the index some 15pts lower than last year's peak and well below the long-run average (100). There was, however, a very modest improvement in households' expectations of their future financial situation, admittedly from a low level, as consumers anticipated an easing in inflation over the coming twelve months and fears about future unemployment remained well contained. Nevertheless, the share of households assessing it a good time to make major purchases fell sharply in April, with the corresponding balance down 9pts to -30. While this was still comfortably above the lows recorded at the start of the pandemic (-59), it was well below the long-run average (-14), suggesting a subdued outlook for spending on goods over the near term. While this weakness might to some extent be offset by greater spending on services, risks to French household consumption also remain skewed to the downside.

Germany: Consumer confidence indices



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

France: Consumer confidence indices



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

The day ahead in the euro area

A key focus tomorrow will be the first of the flash April CPI estimates, with data due from Germany and Spain. Reflecting a likely easing in energy inflation, the headline HICP rate in Germany is forecast to edge very slightly lower this month, by 0.1ppt to 7.5%Y/Y, with a more substantial drop in the equivalent Spanish rate, by 0.8ppt to 9.0%Y/Y. Tomorrow will also bring the first of the Q1 GDP estimates from the member states, with figures from Belgium and Latvia scheduled for release.

UK

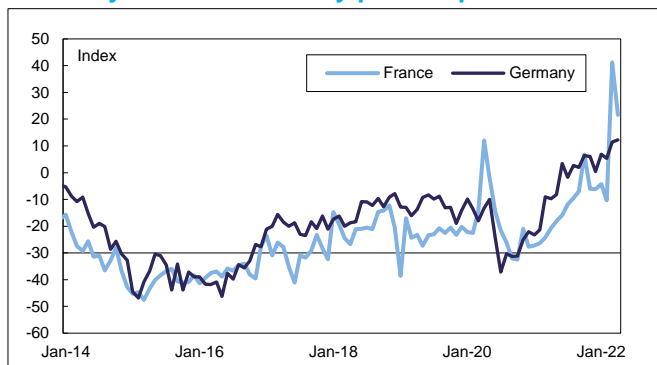
CBI survey points to weakening retail performance

Following last Friday's weak UK [retail sales](#) figures for March, today's CBI distributive trades survey offered an even gloomier assessment of activity on the high street over the past month. The survey suggested that retail sales fell sharply in the year to April, with the relevant index down 44pts – one of the steepest monthly declines since the series began in 1983 – to -35, the lowest reading since the strict lockdown at the start of last year when non-essential stores were closed, and considerably lower than the long-run average (18). Moreover, retailers were equally downbeat about the outlook for May, with sales anticipated to remain below seasonal norms and maintain a downwards trend, albeit at a more modest pace than in April. While some of this weakness might be attributed to increased opportunities to spend on services, principally it likely reflects the increasing squeeze on household budgets from high inflation.

Almost 4 in 10 found it difficult to afford energy bills in March

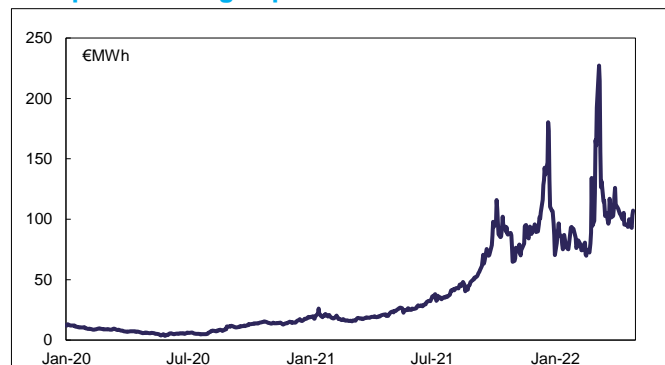
Even before the increase of more than 50% in household energy bills and hike in national insurance contributions in April, the ONS' latest Opinions and Lifestyle Survey (OPN) published earlier this week suggested that around 9 out of 10 adults saw an increase in their cost of living in March. Perhaps unsurprisingly, households cited higher prices of food (88%), energy (83%) and auto fuel (77%) as the most common drivers. Indeed, 43% considered that it would be very or somewhat difficult to afford their energy bills in March, with that share rising to 57% in the most deprived areas of England where around 1 in 10 adults were already in arrears with gas or electricity bills. So, it was hardly surprising that the OPN showed that more than half of all respondents reported spending less on non-essential goods and services last month, with roughly 43% of adults noting that the ability to save over the coming year had been eroded by the cost of living crisis, the highest share since the question was first asked in March 2020 and one that seems bound to increase further. Indeed, although natural gas prices

Germany & France: Survey price expectations



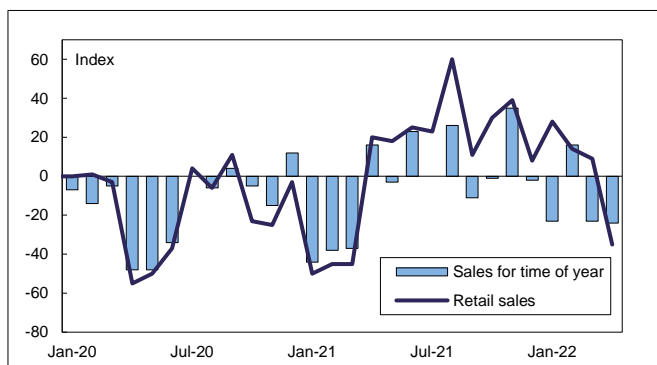
Source: Refinitiv, GfK, INSEE and Daiwa Capital Markets Europe Ltd.

Europe: Natural gas price futures



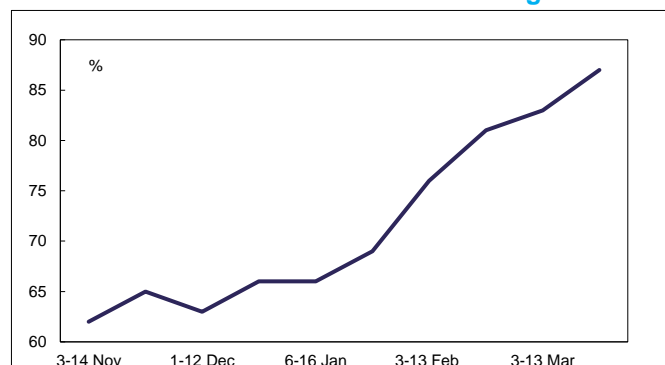
Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

UK: CBI retail sales indices



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

UK: Increase in households' cost of living*



*Compared with previous month. Source: ONS OPN survey and Daiwa Capital Markets Europe Ltd.

have roughly halved from the March peak and so the increase in the Ofgem regulated energy price cap in October might not be as big as initially feared, real disposable incomes still appear set to fall this year by the most since the 1950s.

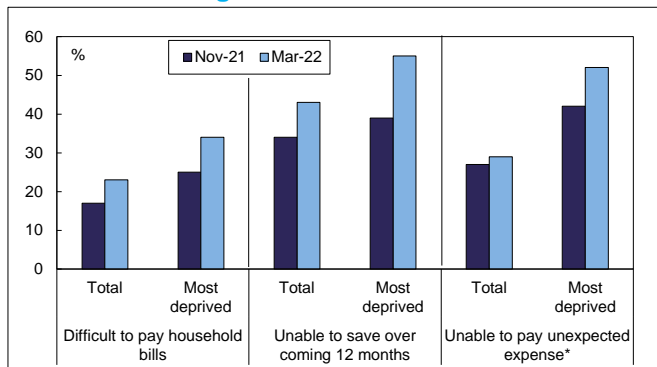
Public net borrowing more than halved in FY21/22, leaving room to offer new support to households

Data released yesterday revealed that UK public net borrowing excluding public sector banks (PSNB ex) in FY21/22 fell to £151.8bn (about 6.4% of GDP), down by more than half from the £317.6bn (14.8% of GDP) borrowed in the previous fiscal year and more than £80bn lower than originally predicted by the OBR during the height of the pandemic. The marked improvement in the state of the UK public finances in large part reflects the much stronger-than-expected rebound in tax revenues, with current receipts up more than £100bn to a record high. But while government debt interest payments rose more than £30bn due to the impact of high inflation on linkers, central government current expenditure fell more than £50bn from FY20/21. Overall, notwithstanding the government's desire to maintain a war chest of funds for eventual pre-election tax cuts, there appears ample scope for it – like many of its major EU counterparts – to provide additional much-needed financial support to households to offset the impact of high inflation on real incomes.

The day ahead in the UK

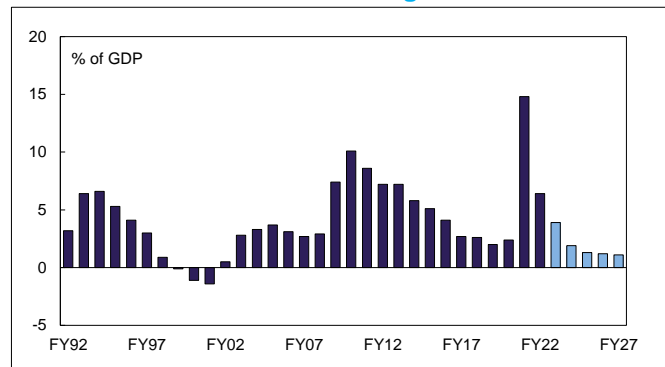
A relatively quiet day for UK economic releases tomorrow brings the SMMT car production numbers for March. While the annual decline in output is likely to be exaggerated by base effects, ongoing weakness in production will also reflect additional supply-side challenges related not least to the Ukraine war and Covid-related lockdowns in China.

UK: Cost of living indicators



*£850. Source: ONS OPN survey and Daiwa Capital Markets Europe Ltd.

UK: Public sector net borrowing*



*Light blue bars represent OBR forecast, March 2022. Source: ONS, OBR 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
Germany	 GfK consumer confidence	May	-26.5	-16.0	-15.5	-15.7
France	 INSEE consumer confidence	Apr	88	92	91	90
UK	 CBI distributive trades indices, reported retail sales	Apr	-35	-5	9	-


Auctions

Country	Auction
Germany	 sold €1.70bn of 1% 2038 bonds at an average yield of 0.99%



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 Public sector net borrowing, ex banking groups £bn	Mar	18.1	19.8	13.1	10.6









Auctions

Country	Auction
Italy	 sold €2.75bn of 0% 2023 bonds at an average yield of 0.48%
	 sold €1bn of 0.65% 2026 index-linked bonds at an average yield of -1.52%



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany		13.00 Preliminary CPI M/M% (Y/Y%)	Apr	0.5 (7.2)	2.5 (7.3)
		13.00 Preliminary EU-harmonised CPI M/M% (Y/Y%)	Apr	0.4 (7.5)	2.5 (7.6)
Italy		09.00 ISTAT business (manufacturing) confidence	Apr	- (109.0)	105.4 (110.3)
		09.00 ISTAT consumer confidence	Apr	100.0	100.8
		09.00 Hourly wages M/M% (Y/Y%)	Mar	-	0.1 (0.7)
Spain		08.00 Preliminary CPI M/M% (Y/Y%)	Apr	0.4 (9.1)	3.0 (9.8)
		08.00 Preliminary EU harmonised CPI M/M% (Y/Y%)	Apr	0.4 (9.0)	3.9 (9.8)
UK		00.01 SMMT car production Y/Y%	Mar	-	-41.3

Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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