

# Euro wrap-up

## Overview

- Euro area govies made sizeable losses as German inflation exceeded expectations in April on higher prices of services, food and other non-energy items, while Spanish core CPI rose to its highest since 1995.
- Gilts also made losses despite the weakest UK car production figures for the month of March since 2009.
- Tomorrow brings the euro area's flash estimates of April CPI and Q1 GDP, along with preliminary Q1 GDP data from the largest member states.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	0.187	+0.101
OBL 0 04/27	0.634	+0.111
DBR 0 02/32	0.902	+0.105
UKT 1 04/24	1.526	+0.051
UKT 1¼ 07/27	1.617	+0.052
UKT 4¼ 06/32	1.875	+0.075

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

## Euro area

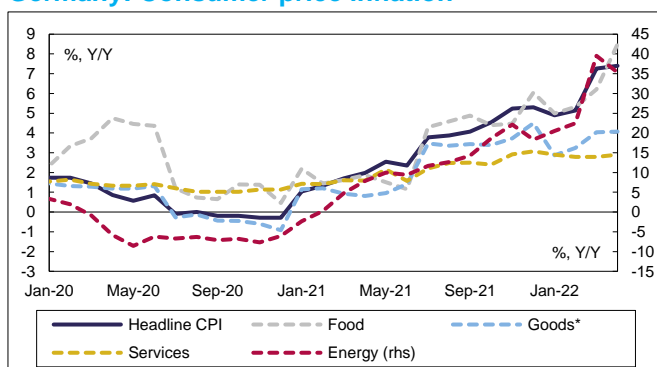
### German inflation edges up in April on higher prices of services, food and other non-energy items

Ahead of tomorrow's euro area flash CPI estimates for April, the equivalent inflation figures from Germany and Spain published today differed markedly. German inflation came in a touch stronger than expected, with the EU-harmonised HICP rate rising 0.2ppt to 7.8%Y/Y and the national CPI measure up 0.1ppt to a new post-reunification high of 7.4%Y/Y in contrast to the Bloomberg consensus of a small decline. Unlike recent months, German energy inflation fell back in April, down more than 4ppts on the national measure to an admittedly still-astronomical 35.3%Y/Y. But other components accelerated, most strikingly food inflation, which rose 2.3ppts to a fourteen-year high of 8.5%Y/Y. Core components were slightly stronger too, with services inflation edging up 0.1ppt to a three-month high of 2.9%Y/Y. And our estimate of non-energy goods inflation also rose by 0.1ppt, to a four-month high of 4.1%Y/Y, with the data from the states suggesting that higher prices of clothes and electrical appliances played an important role. Looking ahead, notwithstanding uncertainty about the future path of wholesale energy and other commodity prices, the planned cut in German petrol (by 29.55 cents per litre) and diesel duty (14.04 cents per litre) from June to August, as well as the introduction of a nationwide flat price of €9 per month for public transport, should provide downward pressure on inflation over the summer months.

### Spanish headline CPI rate drops sharply due to energy inflation but core measure rises

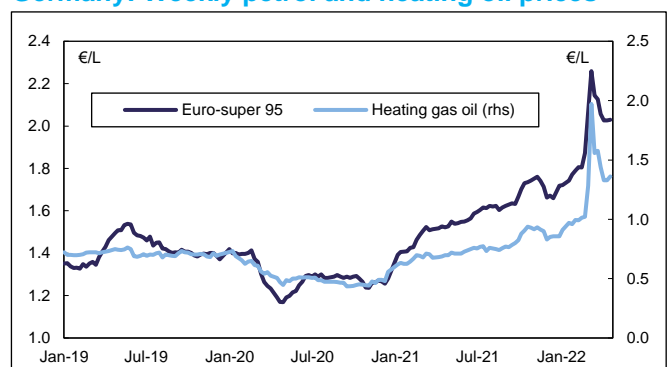
In marked contrast to the German figures, Spanish inflation fell much further than expected in April. Following a record increase in March (3.0M/M), the overall price index fell marginally in April, so the drop on the national measure (admittedly just 0.1M/M) was the first in any April since 1992. As a result, Spain's headline HICP inflation rate fell a much larger-than-expected 1.5ppts to 8.3%Y/Y, with the national measure down a similar 1.4ppts to 8.4%Y/Y. Spain's statistical office (INE) noted that the drop principally reflected a decline in electricity and fuel prices, not least reflecting the faster pass-through of wholesale energy market developments than in other member states, as well as the government's support package including the 20 cents per litre reduction in petrol duty. Given the subsequent agreement with the European Commission earlier this week to cap gas prices for Spanish (and Portuguese) electricity producers for twelve months from May, which should lead to lower household energy bills, Spanish energy inflation should ease notably further over coming months too. Nevertheless, as in Germany, INE also noted a further increase in Spanish food inflation, which in March rose to 6.8%Y/Y, the highest since September 2008. And only in part reflecting base effects from the trough a year earlier, core CPI rose a steep 1ppt to 4.4%Y/Y, the highest since 1995. Overall, with Belgian CPI inflation unchanged in April at 8.3%Y/Y but the core rate up 0.3ppt to 4.1%Y/Y, today's data suggest a drop tomorrow in euro area headline inflation of about 0.1ppt to 7.4%Y/Y but a rise in the core rate of 0.4ppt to 3.3%Y/Y.

### Germany: Consumer price inflation



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

### Germany: Weekly petrol and heating oil prices



Source: European Commission and Daiwa Capital Markets Europe Ltd.

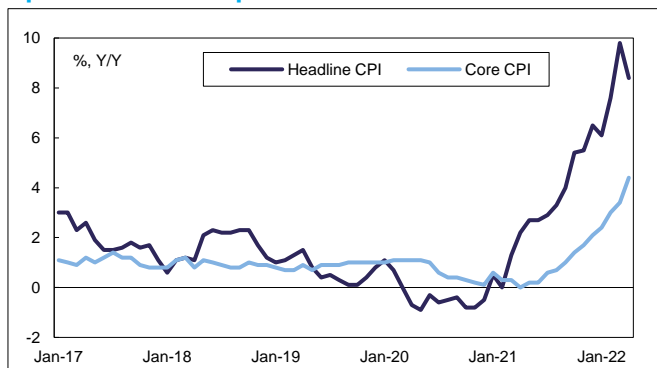
## Italian consumers less willing to spend, but business sentiment stabilised

Consistent with yesterday's downbeat [German and French](#) consumer confidence surveys, today's equivalent ISTAT release reported a further deterioration in the Italian household mood at the start of Q2. Indeed, the headline sentiment index fell for the fourth consecutive month in April, by 0.8pt to 100.0, the weakest reading since November 2020 at the onset of the second pandemic wave. This reflected a further sizeable drop in households' assessment of current conditions, with the respective balance down almost 5pts to 100.8, a twelve-month low. And so, the survey's measure of consumer intentions to purchase durable goods fell sharply in April to the lowest since June 2020, albeit broadly in line with the long-run average. Admittedly, households were seemingly less downbeat about the outlook, although the 5.4pt increase in the relevant survey index still left it some 27pts below last summer's peak and almost 10pts below the long-run average. However, like in Germany and France, today's ISTAT surveys suggested that business sentiment has stabilised somewhat after the initial shock from the Russian invasion in Ukraine. The headline index rose 0.2pt to 105.5 in April, as greater optimism about future retail sales, as well as a further improvement in sentiment among construction firms for which the respective index rose to a new series high, was offset by a deterioration in service sector conditions. Manufacturing conditions were judged to be little changed, with headline sentiment comfortably above the long-run average but still some 5pts lower than last year's peak. Overall, today's surveys suggested still very weak GDP growth in the third largest member state at the start of the second quarter.

## The day ahead in the euro area

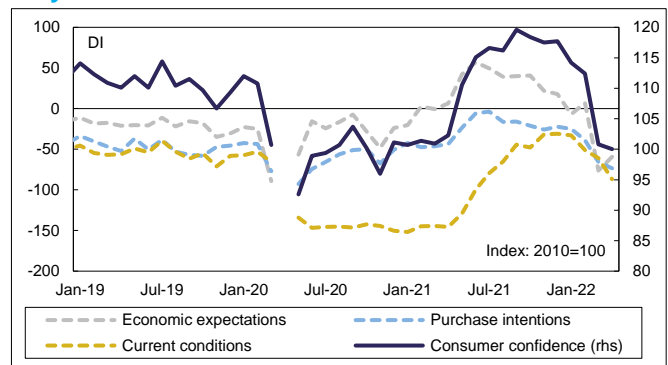
Tomorrow will be a busy day for top-tier euro area releases, with the aforementioned flash CPI and Q1 GDP estimates due to be published. Activity in the euro area will have been given a boost by the lifting of Covid-related restrictions and reopening of the services sector. But the recovery will have 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 (data also due tomorrow), 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. With respect to euro area inflation, in the absence of a significant surprise to the anticipated French (unchanged at 5.1%Y/Y) and Italian (down 0.2ppt to 6.6%Y/Y) HICP rates, we expect headline euro area inflation to have dropped 0.1ppt to 7.3%Y/Y. However, we forecast core inflation to rise further, by 0.3ppt to a new record high of 3.3%Y/Y. Friday also brings the latest euro area bank lending data.

### Spain: Consumer price inflation



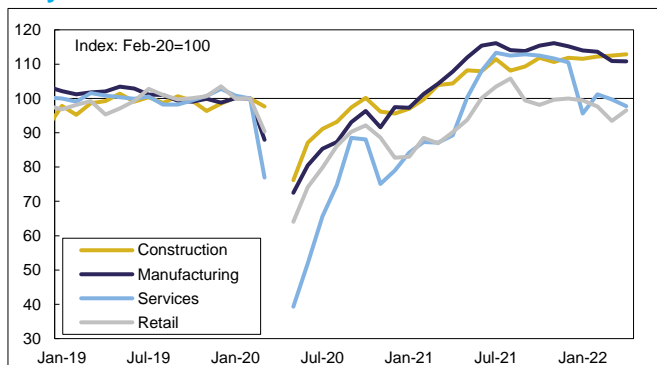
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Italy: Consumer confidence indices



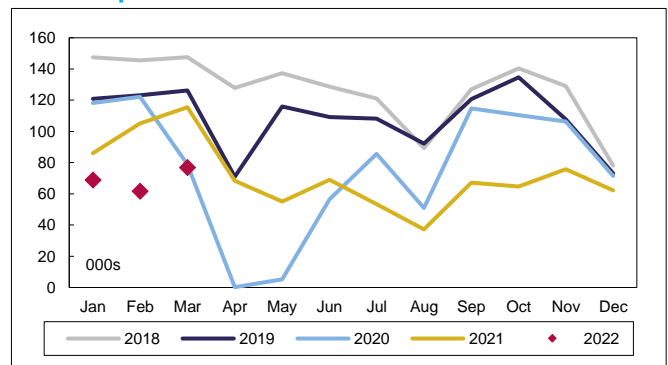
No survey results for April 2020. Source: Refinitiv, ISTAT and Daiwa Capital Markets Europe Ltd.

### Italy: Business confidence indices



No survey results for April 2020. Source: Refinitiv, ISTAT and Daiwa Capital Markets Europe Ltd.

### UK: Car production



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

## UK










### Car production dropped by one third in Q122 after weakest March since 2009

A relatively quiet day for UK economic news today brought the latest car production figures from SMMT. While these implied the strongest month of output in a year in March on a non-seasonally adjusted basis, they remained extremely weak by historical standards. Indeed, output of 76.9k units was a third less than a year earlier, the lowest March outturn since the global financial crisis and almost 50% below the five-year pre-pandemic average for that month. The weakness in part reflects the impact of the closure of the Honda plant in Swindon last July. And as a result, car shipments to the US were down almost 64%Y/Y in March with the number of cars produced for the EU down by almost a quarter compared with last year. And although production for domestic markets was up in March (4.3%Y/Y), it was still down by more than a fifth compared with March 2019. Over the first quarter as a whole, there were almost 100k fewer units made than a year earlier (also representing a drop of almost one third), with production still constrained by the ongoing global shortage of semiconductors and other components. But while the autos sector looks set to have been a drag on activity in Q1, total manufacturing output looks set to have provided modest support to GDP growth for the first quarter in three.

### The day ahead in the UK

A quiet end to the week for UK releases brings the Lloyds business barometer for April and the Nationwide house price index for the same month. The business survey is expected to highlight challenges from the impact of Russia's invasion of Ukraine amid increasing economic uncertainty and ongoing inflationary pressures.

## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Preliminary CPI M/M% (Y/Y%)	Apr	<b>0.8 (7.4)</b>	0.6 (7.3)	2.5 (7.3)	-
	 Preliminary EU-harmonised CPI M/M% (Y/Y%)	Apr	<b>0.7 (7.8)</b>	0.5 (7.6)	2.5 (7.6)	-
Italy	 ISTAT business (manufacturing) confidence	Apr	<b>105.5 (110.0)</b>	-	105.4 (110.3)	<b>105.3 (110.1)</b>
	 ISTAT consumer confidence	Apr	<b>100.0</b>	-	100.8	-
	 Hourly wages M/M% (Y/Y%)	Mar	<b>0.1 (0.7)</b>	-	0.1 (0.7)	-
	 Industrial sales M/M% (Y/Y%)	Feb	<b>2.8 (20.9)</b>	-	2.3 (16.9)	-
Spain	 Preliminary CPI M/M% (Y/Y%)	Apr	<b>-0.1 (8.4)</b>	-	3.0 (9.8)	-
	 Preliminary EU harmonised CPI M/M% (Y/Y%)	Apr	<b>-0.2 (8.3)</b>	0.4 (9.0)	3.9 (9.8)	-
UK	 SMMT car production Y/Y%	Mar	<b>-33.4</b>	-	-41.1	-
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
Euro area	09.00	M3 money supply Y/Y%	Mar	6.2	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>0.4 (7.3)</u>	2.5 (7.4)
	10.00	Preliminary core CPI Y/Y%	Apr	<u>3.3</u>	2.9
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	0.2 (4.6)	1.4 (4.5)
	06.30	Preliminary EU-harmonised CPI M/M% (Y/Y%)	Apr	0.2 (5.1)	1.6 (5.1)
	06.30	PPI M/M% (Y/Y%)	Mar	-	1.1 (22.4)
Italy	06.30	Consumer spending M/M% (Y/Y%)	Mar	-0.2 (-)	0.8 (-2.3)
	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	0.4 (6.4)	1.0 (6.5)
	10.00	Preliminary EU-harmonised CPI M/M% (Y/Y%)	Apr	1.0 (6.5)	2.4 (6.8)
Spain	11.00	PPI M/M% (Y/Y%)	Mar	-	0.2 (41.4)
	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	1.4	0.9
UK	00.01	Lloyds business barometer	Apr	-	33
	07.00	Nationwide house price index M/M% (Y/Y%)	Apr	0.8 (12.6)	1.1 (14.3)

### Auctions and events

Italy	10.00	Auction: €2.5bn of 1.1% 2027 bonds
	10.00	Auction: €4bn of 2.5% 2032 bonds
	10.00	Auction: €1.5bn of 2030 floating rate bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are MiFID 2 Professional (or equivalent) Clients and should not therefore be distributed to such Retail Clients. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

#### Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: <https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>

#### IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Opinions [and/or estimates] reflect a judgment as at the date of publication and are subject to change without notice. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.