

Euro wrap-up

Overview

- While German producer price inflation again exceeded expectations, Bunds made gains at the shorter end of the curve, as euro area consumer confidence remained weak.
- While UK consumer confidence hit a record low, Gilts made losses as retail sales surprisingly rose in April.
- The coming week's European data calendar will be dominated by May sentiment surveys, with the flash PMIs the most noteworthy on Tuesday.

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Daily bond market movements

Bond	Yield	Change
BKO 0.2 06/24	0.337	-0.005
OBL 0 04/27	0.659	-0.026
DBR 0 02/32	0.950	+0.005
UKT 1 04/24	1.485	+0.021
UKT 1½ 07/27	1.594	+0.019
UKT 4¼ 06/32	1.896	+0.033

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

Euro area

Euro area consumers still downbeat despite modest increase in headline sentiment index

Consumer confidence in the euro area has fallen sharply since the Russian invasion of Ukraine. And with inflation now at a euro-era high, wage growth still subdued and uncertainty about the global economic outlook elevated, today's flash Commission survey indicator suggested only very modest improvement in May. Admittedly, the headline sentiment indicator rose 0.9pt to -21.1, a three-month high. Nevertheless, it was still some 11½pts lower than the pre-war level and more than 19pts below last summer's peak. While there was no detailed breakdown published with today's release, households are likely to have remained pessimistic about expectations for the economic outlook and their future financial situation, and so willingness to make major purchases seems bound to have remained very weak. So, despite greater opportunities to spend, given elevated prices and uncertainty about the near-term inflation outlook, we expect households to continue to exhibit a degree of caution in their near-term spending decisions, with any growth in Q2 likely to be modest.

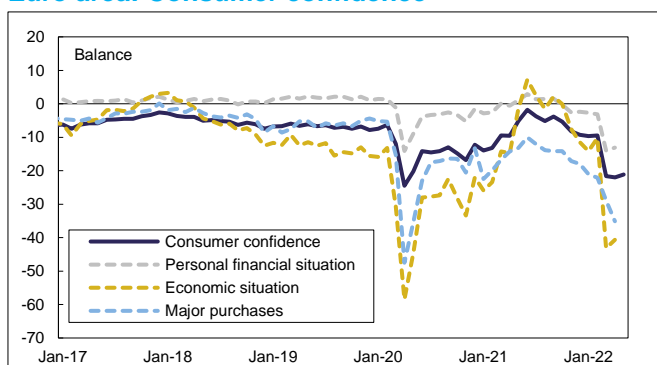
French retail sales slip back in April as spending on big-ticket items decline

After household consumption fell in France in the first quarter of the year, by more than 1%Q/Q, the Bank of France retail survey today suggested that sales of goods had a subdued start to the second quarter too. In particular, retail sales fell for the first month in three in April by 0.8%M/M. Admittedly, this still left sales some ¼% higher than the Q1 average, but almost 3½% lower than in February 2020. Consistent with the latest French consumer confidence survey that saw the share of households assessing it to be a good time to make major purchases slump to its lowest since May 2020, spending on big-ticket items reportedly fell sharply in April. Indeed, sales of new cars fell 6.9%M/M and sales of furniture were down 7.5%M/M, to leave them still some 33% and 20% below the respective pre-pandemic levels. The weakness was countered to some extent by food sales, which rose 1.9%M/M. And the weakness in overall sales might in part reflect increased opportunities to spend on services as the sector continues to normalise as well as impediments to the supply of various items. Nevertheless, with households' budgets set to remain squeezed by high inflation for the time being, any near-term recovery in consumption seems bound to be gradual.

German producer price inflation jumps to a new series high

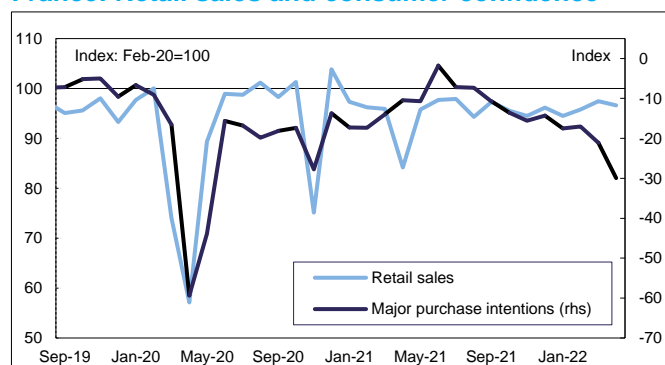
In terms of inflation, today's German PPI numbers for April continued to illustrate the intensification of price pressures resulting from Russia's invasion of Ukraine. Producer prices rose a stronger-than-expected 2.8%M/M in April, the fourth highest monthly increment this cycle, to leave the annual PPI rate up 2.6ppts to 33.5%Y/Y, a new series high. Unsurprisingly, energy remained a source of substantial inflationary pressure, with prices up 2.5%M/M to be up a whopping 87.3%Y/Y,

Euro area: Consumer confidence*



*Flash estimate for headline sentiment in May-22. Source: Refinitiv, European Commission and Daiwa Capital Markets Europe Ltd.

France: Retail sales and consumer confidence



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

accounting for roughly half of producer inflation. Prices of natural gas distribution were up 154.8%Y/Y, with power plants paying four times as much as they did a year ago, and electricity prices up 87.7%Y/Y. But there were signs of more intensified inflation further along the supply chain too, as prices of intermediate goods rose the most on record (4.1%M/M) to be up 26.0%Y/Y. This was partly due to higher metals prices (5.8%M/M), as well as a significant increase for fertilisers and nitrogen compounds (14.5%M/M), pushed up by supply-chain disruptions associated with the Ukraine war. Capital goods price inflation (6.7%Y/Y) rose to the highest since 1975, with consumer goods inflation up 3.4ppts to 12.7%Y/Y, with Covid lockdowns across China continuing to exacerbate price pressures associated with supply bottlenecks.

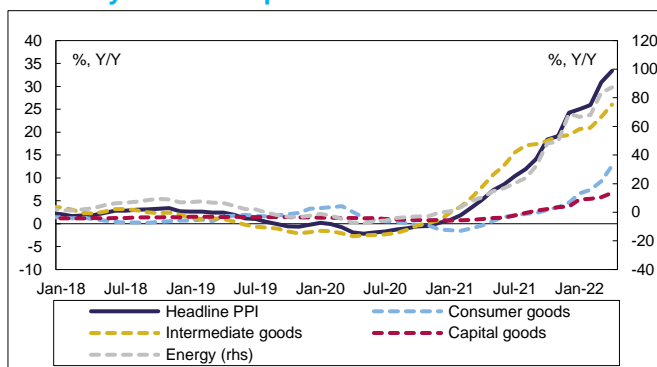
Firm US demand for German exports offsets Russian slump

Destatis also published preliminary figures for German exports in April to non-EU countries, which account for roughly half of all its exports. These suggested that an increase of 4.1%M/M failed fully to reverse the 5%M/M drop in March, but still left them up 4.5%Y/Y. Shipments to the US, Germany's largest non-EU trading partner, continued to trend higher (19%Y/Y), while exports to the UK were up a little more than 5½%Y/Y. But exports to China fell around 1%Y/Y, a drop which might arguably have been much steeper given widespread lockdowns across the country that month. Perhaps inevitably, German shipments to Russia were a down a steeper 63.1%Y/Y (to €0.9bn). As a result, Russia dropped to fourteenth (from fifth in February) in the pecking order of Germany's largest export markets beyond the EU.

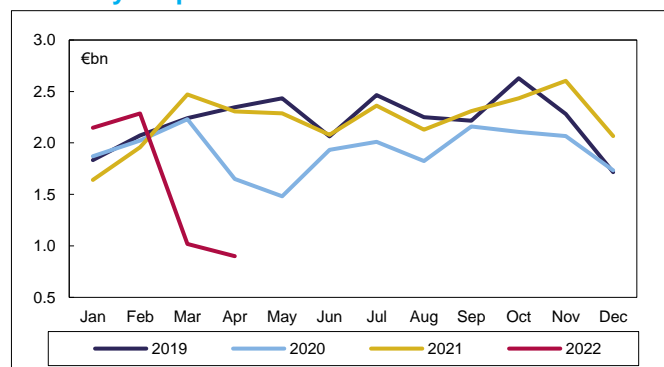
The week ahead in the euro area

The coming week's euro area data calendar focuses on May sentiment surveys, including most notably the preliminary PMIs for May on Tuesday. The headline services activity PMI might well point to an accelerated pace of recovery this month as the sector continues to normalise after the latest pandemic wave and international travel picked up further. In contrast, the manufacturing output index is likely to imply still challenging conditions amid persisting supply constraints and elevated costs. Overall, the composite PMI is forecast to fall 0.8pt to 55.0, still nevertheless consistent with ongoing expansion. Ahead of this, the week brings the German ifo business survey (Monday), followed by the French INSEE business confidence survey (Tuesday). Focus on Wednesday turns to the consumer sector with the release of the German GfK and French INSEE consumer confidence reports, followed by the Italian consumer and business confidence indices from ISTAT (Thursday). Contrasting with the business surveys, households have become extremely downbeat in the face of series-high inflation. In particular, the headline German GfK consumer confidence dropped to a record low of -26.5 in May and the forward-looking index is expected to point to little improvement in June. Other data published in the coming week include updated German Q1 GDP numbers (Wednesday) and euro area bank lending figures for April (Friday). The German GDP data, which will include a detailed expenditure breakdown of growth, are expected to confirm that output rose 0.2%Q/Q in Q1

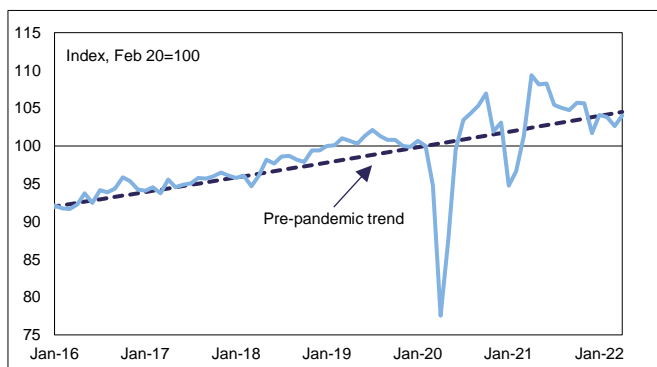
Germany: Producer price inflation



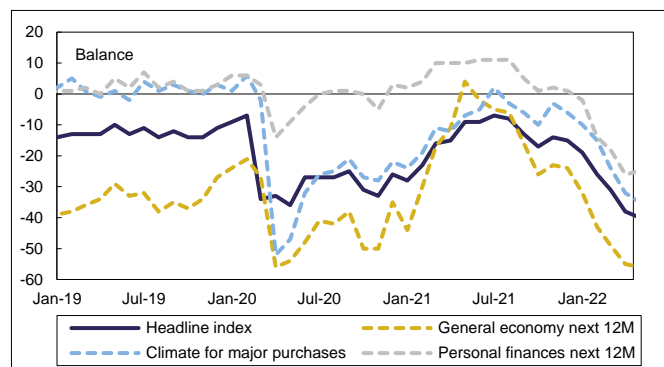
Germany: Exports to Russia



UK: Real retail sales



UK: Consumer confidence



(4.0%Y/Y), supported principally by private sector capex including investment in buildings and structures. Meanwhile, the ECB will publish its latest bi-annual Financial Stability Review on Wednesday, while ECB President Lagarde is due to speak at Davos that day.

UK

Retail sales post surprise rise in April as consumers stock up on alcohol and cigarettes

Defying downbeat expectations, real retail sales in the UK bucked their negative trend in April, rising for the first month in three and by 1.4%M/M to reverse the revised drop of 1.2%M/M (previously -1.4%M/M) in March. While sales were 4.0% above the pre-pandemic level, they remained roughly ½% below the pre-pandemic trend. And they were also down 0.3%3M/3M and a hefty 6.1% below the peak in April last year. Within the detail, growth in April was led by food store sales, which rose 2.8%M/M. According to the ONS, this was largely due to higher spending on alcohol and tobacco in supermarkets. While this might suggest that consumers sought to drown their sorrows in the face of sharply higher bills for household energy and other items, we suspect that expectations of further price rises to come led many households to stock-build such costly and durable “essentials”. In contrast, non-food store sales dropped 0.6%M/M, weighed in part by furniture and other durable items. But non-store sales (i.e. those largely online) were stronger, up 3.7%M/M on higher clothes sales. And auto fuel sales rebounded 1.4%M/M after plunging 4.8%M/M the prior month in response to record petrol prices to be up 2.2%3M/3M. So, excluding auto fuel, retail sales were down a larger 0.8%3M/3M.










Drop in sales in Q2 still likely as consumer confidence drops to record low

Looking ahead, the downtrend in real retail sales seems highly likely to reassert itself in May. Certainly, we expect payback for the strength in food sales and rebound in auto fuel sales, while declining real disposable incomes are likely to take a toll. Admittedly, savings accumulated throughout the pandemic could help to provide some support to spending. However, given weak consumer sentiment, households might seem likely to wish to hold on to their savings as much as possible. Not least due to the increase of more than 50% in the household energy price cap last month, according to the GfK's latest survey, consumer confidence dropped for a sixth successive month in May and by 2pts to hit the lowest level on the 48-year series. Within the detail, the economic outlook for the coming twelve months was judged to have deteriorated to the worst since the first wave of Covid in spring 2020 as were perceptions of the climate for making major purchases. So, with June's sales also set to be constrained by the special bank holiday for the Queen's Platinum Jubilee early in the month, we expect retail sales to drop for a fourth successive quarter in Q2.

The week ahead in the UK

The UK's economic data calendar in the coming week is somewhat quieter than of late, with only Tuesday bringing any releases of note. Like in the euro area, that day sees the publication of the flash manufacturing and services PMIs for May, which are expected to suggest some loss of recovery momentum – albeit continuing to point to a steady expansion in activity – as the cost of living crisis and heightened global economic uncertainty took their toll. In particular, the headline services index is expected to fall further in May, after declining to a three-month low of 58.1 in April. Overall, the composite PMI is forecast to have declined almost 2pts to 56.5. Similarly, following the surprise pickup in retail sales in April, the latest CBI distributive trades survey (also Tuesday) is likely to point to weakening activity on the high street this month given the increasing squeeze on household budgets from high inflation. Meanwhile, public finance figures for April are also due to be published that day. In terms of BoE-speak, Monday sees Governor Bailey appear on a panel at a conference at Austria's National Bank discussing the return of inflation.

Daiwa economic forecasts






	2021 Q4	2022 Q1 Q2 Q3 Q4				2023 Q1	2022	2023	2024
		%, Q/Q							
GDP									
Euro area 	0.3	0.3	0.1	0.6	0.5	0.5	2.7	1.9	1.6
UK 	1.3	0.8	-0.1	0.3	-0.6	0.0	3.5	-0.3	0.9
Inflation, %, Y/Y									
Euro area									
Headline HICP 	4.6	6.1	7.4	7.0	5.7	3.4	6.5	2.2	1.8
Core HICP 	2.4	2.7	3.5	3.3	2.7	2.0	3.1	1.8	1.8
UK									
Headline CPI 	4.9	6.2	8.9	8.8	9.5	8.5	8.4	4.8	1.7
Core CPI 	3.9	5.1	6.1	6.0	5.7	4.7	5.7	3.3	1.7
Monetary policy, %									
ECB									
Refi Rate 	0.00	0.00	0.00	0.25	0.75	1.00	0.75	1.00	1.00
Deposit Rate 	-0.50	-0.50	-0.50	0.00	0.50	0.75	0.50	0.75	0.75
BoE									
Bank Rate 	0.25	0.75	1.25	1.50	1.50	1.50	1.50	1.25	1.25

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

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Euro area 	Flash European Commission consumer confidence	May	-21.1	-22.0	-22.0	-
Germany 	PPI M/M% (Y/Y%)	Apr	2.8 (33.5)	1.4 (30.4)	4.9 (30.9)	-
UK 	GfK consumer confidence	May	-40	-38	-38	-
	Retail sales including fuel M/M% (Y/Y%)	Apr	1.4 (-4.9)	-0.3 (-7.2)	-1.4 (0.9)	-1.2 (1.3)
	Retail sales excluding fuel M/M% (Y/Y%)	Apr	1.4 (-6.1)	-0.3 (-8.5)	-1.1 (-0.6)	-0.9 (-0.2)























Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg 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> <i>forecast/actual</i>	Previous
Monday 23 May 2022					
Germany		09.00 Ifo business climate index	May	91.4	91.8
		09.00 Ifo current assessment (expectations) balance	May	96.8 (86.5)	97.2 (86.7)
UK		00.01 Rightmove house price index M/M% (Y/Y%)	May	-	1.6 (9.9)
Tuesday 24 May 2022					
Euro area		09.00 Preliminary manufacturing (services) PMI	May	54.7 (57.5)	55.5 (57.7)
		09.00 Preliminary composite PMI	May	55.1	55.8
Germany		08.30 Preliminary manufacturing (services) PMI	May	54.0 (57.2)	54.6 (57.6)
		08.30 Preliminary composite PMI	May	53.8	54.3
France		07.45 INSEE business confidence	May	105	106
		07.45 INSEE manufacturing confidence (production outlook)	May	107 (-7)	108 (-5)
		08.15 Preliminary manufacturing (services) PMI	May	55.2 (58.5)	55.7 (58.9)
		08.15 Preliminary composite PMI	May	57.0	57.6
UK		07.00 Public sector net borrowing, excluding banks £bn	Apr	18.9	18.1
		09.30 Preliminary manufacturing (services) PMI	May	55.2 (57.0)	55.8 (58.9)
		09.30 Preliminary composite PMI	May	56.5	58.2
		11.00 CBI distributive trades survey, reported sales	May	-30	-35
Wednesday 25 May 2022					
Germany		07.00 GDP – second estimate Q/Q% (Y/Y%)	Q1	0.2 (4.0)	-0.3 (1.8)
		07.00 GfK consumer confidence	Jun	-25.5	-26.5
France		07.45 INSEE consumer confidence	May	89	88
Spain		08.00 PPI M/M% (Y/Y%)	Apr	-	6.6 (46.6)
Thursday 26 May 2022					
Italy		09.00 ISTAT business (manufacturing) confidence	May	- (109.0)	105.5 (110.0)
		09.00 ISTAT consumer confidence	May	99.9	100.0
Friday 27 May 2022					
Euro area		09.00 M3 money supply Y/Y%	Apr	6.3	6.3
Spain		08.00 Retail sales Y/Y%	Apr	-2.0	-4.2

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 23 May 2022		
Euro area 	-	ECB President Lagarde and Panetta attend Eurogroup meeting
Euro area 	15.15	ECB's Nagel and Holzmann and BoE Governor Bailey scheduled to speak on a panel – 'The return of inflation'
Tuesday 24 May 2022		
Euro area 	19.00	ECB President Lagarde gives opening remarks at Europe's Global Role dinner, Davos
Germany 	10.30	Auction: €2bn of 1% 2038 bonds
UK 	10.00	Auction: £750mn of 0.125% 2039 index-linked bonds
Wednesday 25 May 2022		
Euro area 	08.00	ECB's Panetta scheduled to speak on the 'Normalisation of Monetary Policy'
Euro area 	09.00	ECB President Lagarde participates in World Economic Forum, Davos
Euro area 	10.45	ECB Chief Economist Lane participate in panel – 'Macroeconomic policies in a time of disruption'
Euro area 	-	ECB publishes Financial Stability Review
Thursday 26 May 2022		
Italy 	10.00	Auction: Fixed-rate and index-linked bonds
Friday 27 May 2022		
Euro area 	12.35	ECB Chief Economist Lane takes part in policy panel discussion – 'New dimensions and frontiers in central banking'

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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