

# Euro wrap-up

## Overview

- Despite a further improvement in consumer confidence to the best level since Russia's invasion of Ukraine, and a sharp narrowing in the euro area's goods trade deficit to a 16-month low, Bunds followed USTs higher.
- On a quiet day for UK economic news, Gilts also made significant gains.
- Friday will bring the April flash PMIs as well as updates on UK retail sales and consumer confidence.

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### Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	2.872	-0.074
OBL 2.2 04/28	2.479	-0.081
DBR 2.3 02/33	2.440	-0.071
UKT 0% 06/25	3.704	-0.090
UKT 1% 10/28	3.610	-0.089
UKT 3¼ 01/33	3.759	-0.090

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

## Euro area

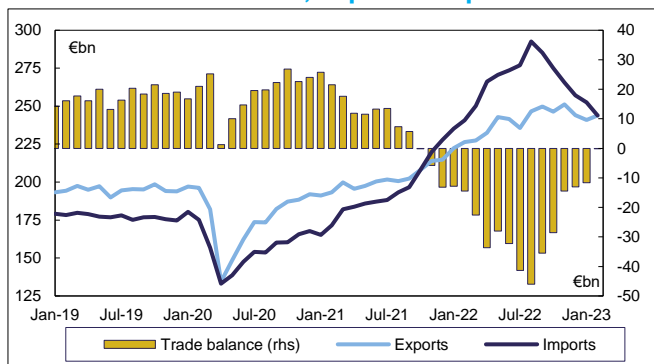
### Euro area trade deficit narrows sharply on lower import prices

As last year's hit to the terms of trade continued to unwind, today's euro area goods trade report showed a further substantial narrowing in the nominal deficit in February, by €11.5bn to just €0.1bn, the smallest since October 2021. Encouragingly, the value of exports rose for the first month in four, by 1.2%M/M to leave them up 7.8%Y/Y. This notwithstanding, given the weakness at the turn of the year, export values were still down 2½%3M/3M, the steepest decline since July 2020. So, thanks to the ongoing drop in energy prices, the improvement in the deficit in February was again principally due to a decline in the value of imports. Indeed, imports fell for the sixth consecutive month and by 3.4%M/M, to leave them up just 1.3%Y/Y, down from a peak of more than 50%Y/Y in August and trending in the first two months of the year more than 6½% below the Q4 average. Admittedly, the data for import prices – which fell 1.9%M/M in February – also suggest that the weakness might have in part also reflected softer demand. Indeed, import volumes in January fell to their lowest level in seventeen months to be more than 6% below the Q4 average. Despite a partial rebound in export volumes at the start of the year, they were also 2½% below the Q4 level. And while the manufacturing export orders PMI rose in March to a nine-month high, at 45.5 it suggested still very subdued external demand. But although exports might well have contracted in Q1 for the first quarter in eleven, we continue to expect a slightly steeper drop in import volumes to leave net trade offering support to GDP growth for a second successive quarter.

### Consumer confidence continues to improve to suggest pickup in spending in Q2

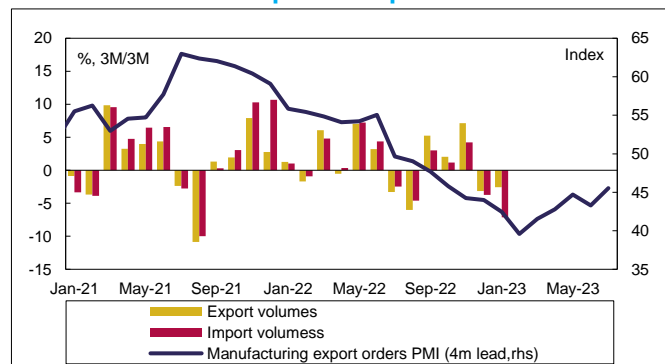
After a brief pause last month amid concerns about banking sector stability, household sentiment has resumed its gradual improvement trend. According to today's flash estimate, the European Commission's index of euro area consumer confidence rose in April for the sixth month out of the past seven. And the increase of 1.6pts took the index to -17.5, a fourteen-month high and a little better than equidistant between last year's trough in September and the level at the start of last year, before the Russian invasion of Ukraine, that was close to the long-run average. Of course, the improvement since the autumn largely reflected the drop in energy prices, which enabled consumers to feel better about their financial situation and more upbeat about the economic outlook. With inflation still high, however, they have continued to consider conditions to be inconsistent with making major purchases. Nevertheless, while there was no detail published with today's Commission index for the euro area, the equivalent Dutch survey – which also reported an improvement in consumer confidence to the best since February 2022 and might provide a helpful guide to the state of play in the euro area as a whole – signalled a third successive monthly increase in willingness to spend on durable goods to an eleven-month high. Overall, while we see a significant risk of a second successive contraction in private consumption in Q1, this component of demand looks on track to make a positive contribution to GDP growth in Q2.

### Euro area: Goods trade, export & import values



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Goods export & import volumes

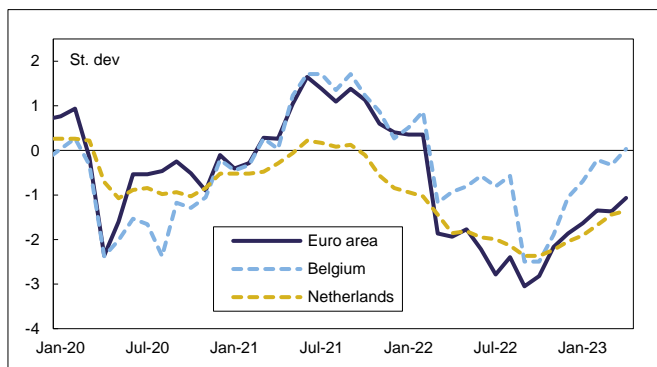


Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

## French business survey points to slight loss of momentum, but retail sales jump in Q1

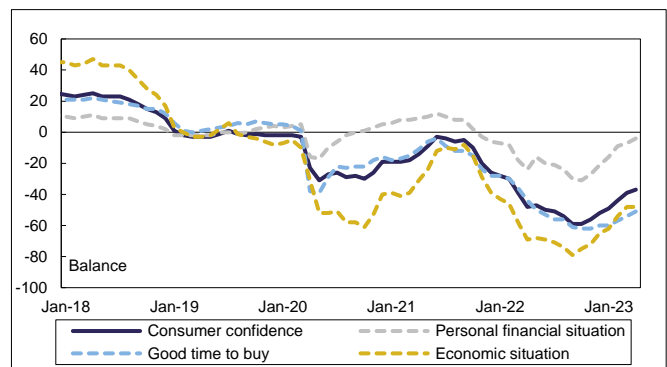
Offering a possible guide to the findings of the flash PMIs due tomorrow, the French INSEE business survey suggested a slight loss of momentum at the start of the second quarter. In particular, the headline business climate index fell for the second successive month, by 1pt to 102, to be broadly in line with the level seen through the second half of 2022, but nevertheless still a touch above the long-run average (100). The weakening trend was evident in manufacturing, where the respective sentiment index fell to a five-month low of 101, as firms' production expectations deteriorated to their lowest since November 2020 amid a worsening in order book levels. But while it also remained above the long-run average, the services index (down 2pts to 103) suggested that business managers in the sector were the least optimistic for two years as lower expected demand in ICT services, professional, scientific and technical activities and support subsectors offset an ongoing rebound in current and expected future conditions in hospitality. Retailers were a touch more downbeat too, with the respective index dropping to a four-month low. This was despite a stronger showing from the BoF's estimate for retail sales in March, which reported growth of 1.8%M/M, to leave them up 1½%Q/Q in Q1. Admittedly, this was driven principally by sales of new autos, which accelerated 5.4%M/M, 9.4%Q/Q. In contrast, sales at furniture and DIY stores reportedly fell sharply, while the volume of food sales in March declined to the lowest level since 1998, likely reflecting the particularly acute price pressures in the subsector.

### Euro area: Consumer confidence indices



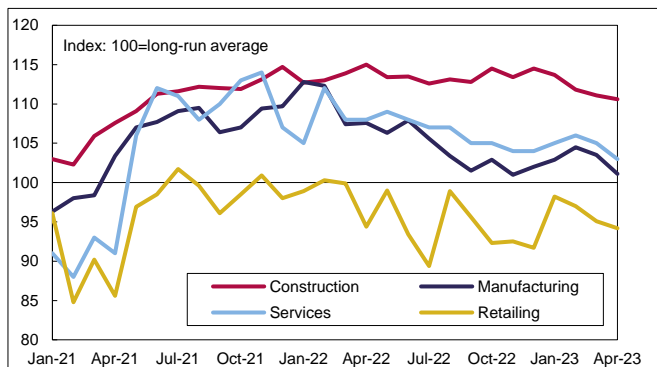
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Netherlands: Consumer confidence indices



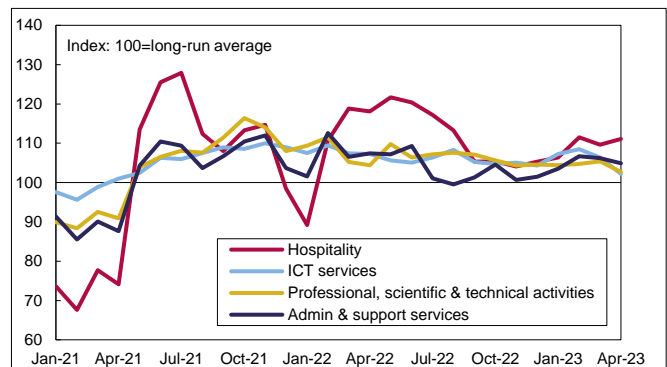
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### France: Business confidence indices



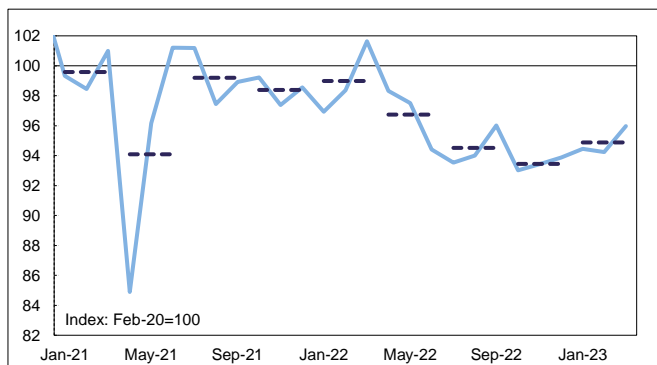
Source: INSEE, Refinitiv and Daiwa Capital Markets Europe Ltd.

### France: Services confidence indices



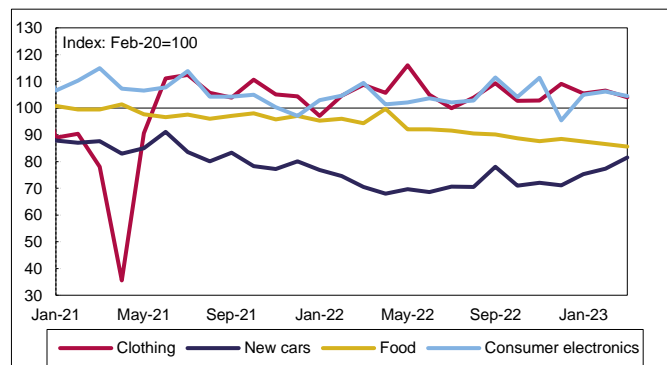
Source: INSEE, Refinitiv and Daiwa Capital Markets Europe Ltd.

### France: Retail sales\*



\*Dashed dark blue lines represent quarterly averages. Source: BoF, Refinitiv and Daiwa Capital Markets Europe Ltd.

### France: Retail sales



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

## The day ahead in the euro area
















The main focus in the euro area tomorrow will be the flash PMIs for April. In March, the final euro area services activity PMI index rose 2.3pts to a ten-month high of 55.0, while the manufacturing output PMI rose 0.3pt to 50.4, suggestive of stagnation in the sector but also the best reading since May 2022. As such, the euro area composite output PMI rose 1.5pts to 53.7, a level consistent with moderate economic growth heading towards Q2. While we expect little change to the output PMIs in April, the French INSEE survey points to slight downside risks. Meanwhile, the price indices are likely to suggest a moderation of input and output inflation pressures in manufacturing and – more importantly perhaps – services.

## UK

### The day ahead in the UK

A busy end to the week for UK economic releases will include the release of March retail sales data, as well as the April results from the GfK consumer confidence survey and flash PMIs. Consistent with recent signals of firmer economic activity, [retail sales](#) surprised on the upside in both January and February. But with real incomes still squeezed, consumer confidence still relatively subdued, and the month having been the wettest March in decades, we certainly expect payback for that strength at the start of the year. However, while we think sales dropped by more than 1.0%M/M in March, it will take a decline of about 2.0%M/M to extend the number of consecutive quarterly declines in retail sales to seven in Q1. Meanwhile, after the March PMIs suggested a slight loss of momentum at the end of Q1, with the services activity index down 0.6pt to 52.9 and the manufacturing output index down about 2pts to 49.0, like in the euro area, we expect the April flash PMIs to suggest a similar pace of output growth at the start of Q2. However, not least as they exclude activity in the public sector, the PMIs have not provided a particularly reliable guide to GDP over recent months. Again as in the euro area, we will look for a moderation of inflation pressures to be signalled in the input and output price PMIs, with the respective composite indices likely to drop to two-year lows.












## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Trade balance €bn	Feb	<b>-0.1</b>	-	-11.3	<b>-11.6</b>
	 European Commission's preliminary consumer confidence	Apr	<b>-17.5</b>	-18.5	-19.2	<b>-19.1</b>
Germany	 PPI Y/Y%	Mar	<b>7.5</b>	9.8	15.8	-
France	 INSEE business (manufacturing) confidence	Apr	<b>102 (101)</b>	103 (103)	103 (104)	-
	 Bank of France retail sales M/M% (Y/Y%)	Mar	<b>1.8 (-5.6)</b>	-	-0.4 (-4.3)	<b>-0.2 (-4.2)</b>
Spain	 Trade balance €bn	Feb	<b>-2.5</b>	-	-4.0	-
Auctions						
Country	Auction					
France	 sold €4.66bn of 2.50% 2026 bonds at an average yield of 2.93%					
	 sold €4.79bn of 2.75% 2029 bonds at an average yield of 2.88%					
	 sold €2.06bn of 0.00% 2029 bonds at an average yield of 2.83%					
	 sold €802mn of 0.10% 2028 index-linked bonds at an average yield of 0.03%					
	 sold €702mn of 0.10% 2038 index-linked bonds at an average yield of 0.63%					
	 sold €244mn of 0.10% 2053 index-linked bonds at an average yield of 0.59%					
Spain	 sold €2.28bn of 0.80% 2029 bonds at an average yield of 3.257%					
	 sold €2.76bn of 3.15% 2033 bonds at an average yield of 3.509%					
	 sold €1.39bn of 2.70% 2048 bonds at an average yield of 3.926%					



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 Preliminary manufacturing (services) PMI	Apr	48.0 (54.5)	47.3 (55.0)
		09.00 Preliminary composite PMI	Apr	53.7	53.7
Germany		08.30 Preliminary manufacturing (services) PMI	Apr	45.7 (53.4)	44.7 (53.7)
		08.30 Preliminary composite PMI	Apr	52.9	52.6
France		08.15 Preliminary manufacturing (services) PMI	Apr	47.8 (53.5)	47.3 (53.9)
		08.15 Preliminary composite PMI	Apr	52.9	52.7
UK		00.01 GfK consumer confidence	Apr	-35	-36
		07.00 Retail sales incl. auto fuels M/M% (Y/Y%)	Mar	-0.5 (-3.1)	1.2 (-3.5)
		07.00 Retail sales excl. auto fuels M/M% (Y/Y%)	Mar	-0.6 (-3.1)	1.5 (-3.3)
		09.30 Preliminary manufacturing (services) PMI	Apr	48.4 (52.8)	47.9 (52.9)
		09.30 Preliminary composite PMI	Apr	52.2	52.2

### Auctions and events

Italy		10.00 Auction: €2.5bn of 3.4% 2025 bonds
		10.00 Auction: €2.5bn of 1.5% 2029 index-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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