

Euro wrap-up

Overview

- Bunds made losses as the flash euro area PMIs suggested strengthening economic growth momentum led by services.
- Despite a drop in UK retail sales, Gilts made losses at the short end of the curve as the flash UK PMIs also beat expectations to point to strengthening demand, and as consumer confidence rose to a 14-month high.
- The coming week brings the first estimates of Q1 GDP in the euro area and its larger member states, as well as flash April inflation data from Germany, France and Spain.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	2.903	+0.029
OBL 2.2 04/28	2.518	+0.033
DBR 2.3 02/33	2.481	+0.041
UKT 0% 06/25	3.721	+0.017
UKT 1% 10/28	3.606	-0.005
UKT 3¼ 01/33	3.755	-0.007

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

Euro area

Flash April PMIs suggest growth at an 11-month high thanks to services rebound

The flash April PMIs for the euro area beat expectations, suggesting an acceleration in the region's recovery momentum at the start of the second quarter. The data might embolden the hawks on the ECB's Governing Council as they argue that demand-led pressures are now fueling inflation persistence even as supply pressures subside. Most notably perhaps, the headline euro area composite output PMI rose 0.7pt in April to an eleven-month high of 54.4, a level that, prior to the pandemic, would have suggested GDP growth of about 0.5%Q/Q if sustained over the entire quarter. The improvement was thanks entirely to an accelerated recovery in services, for which the activity index increased 1.4pts to 56.6, a twelve-month high and a level almost 4pts above the Q1 average. And new business in services rose at the strongest pace since the summer of 2021 to suggest ongoing firm growth in the sector. In contrast, despite evidence a further easing of supply-chain strains – e.g. the respective PMI suggested the sharpest fall in delivery times on the series – the manufacturing output PMI pointed to renewed weakness in April, dropping 1.8pts to 48.5, a four-month low. Factory orders from both at home and abroad fell more sharply too, as did order backlogs, while inventories rose at the fastest pace since late 2020 to suggest a weak outlook for production. Nevertheless, against the backdrop of a still-tight labour market, the flash PMIs suggested a pickup in hiring intentions in manufacturing as well as in services.

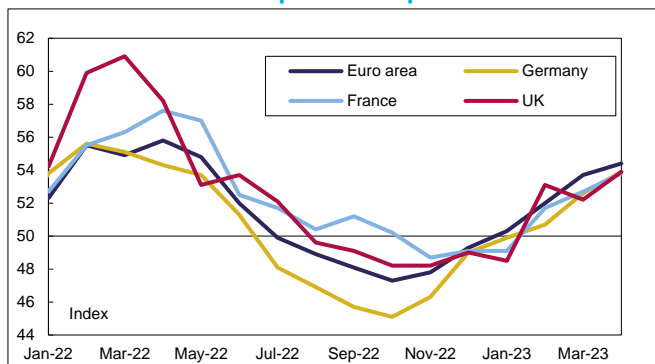
Price pressures persisting in services but fading in the factory sector

In terms of inflation, the euro area flash PMIs had some relatively encouraging news. After yesterday's PPI data reported a sixth successive monthly decline in German producer prices in March – with a drop in prices of intermediate goods as well as energy – the respective PMI for April flagged the steepest decline in manufacturing input prices (43.6) in the euro area since the first wave of Covid-19 in May 2020. So, given also the improved supply-demand balance in the sector, the factory output price PMI also eased for the sixth month out of the past seven to 51.8, a 29-month low and a level close to the long-run average. But while they continued to moderate to 18- and 15-month lows for input costs and prices charged respectively, the flash euro area PMIs still suggested that price pressures in services remain highly elevated by historical standards. And so, the composite input cost (61.1) and output price (56.5) indices were still well above their long-run averages even though they were at two-year lows.

Euro area periphery again outpacing the core member states

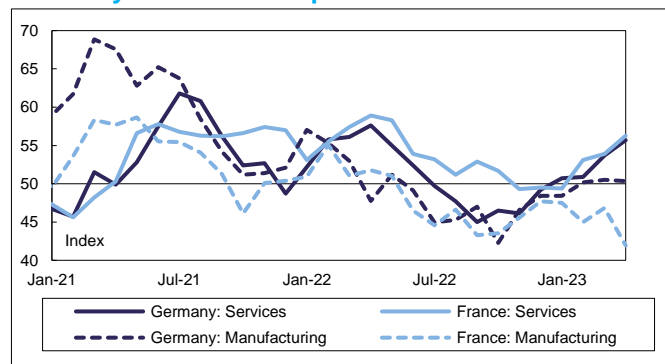
At the country level, like the euro area figures, the flash composite PMIs from Germany and France also surprised on the upside, suggesting an acceleration in activity at the start of Q2 as well as partial moderation in price pressures. In particular,

Euro area & UK: Composite output PMIs



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

Germany & France: Output PMIs



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

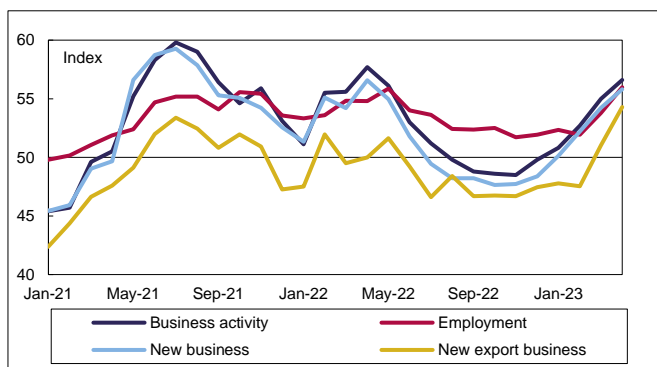
the German composite output PMI jumped 1.3pts in April to 53.9, a twelve-month high, reflecting an accelerated recovery in services, for which the headline activity index jumped 2pts to 55.7. But conditions for German manufacturers remained challenging, with the output PMI (50.2) suggesting little better than stagnation in the sector. Contrasting with the findings of yesterday's [INSEE survey](#), which we caution can often provide a more reliable guide, the French composite PMI also rose 1.1pts to 53.8, the highest for eleven months. Once again, that reflected a considerable acceleration in services, for which the activity index rose for the third consecutive month and by 2.4pts to 55.5. But the weakness in manufacturing in France was much more striking than in Germany, with the output index plunging almost 5pts in April to 41.9, the lowest since May 2020, with widespread strike action reportedly taking its toll. S&P Global reported that growth was stronger in the rest of the euro area than in Germany and France – with manufacturing soft across the region, we suspect that the release of pent-up demand for tourism, hospitality and other recreational activities is acting as a key driver of growth, particularly in Southern Europe.

The week ahead in the euro area

It will be a busy week ahead for top-tier economic data, concluding on Friday with the preliminary estimates of Q1 GDP for the euro area and member states, as well as the flash April inflation estimates from Germany, France and Spain. Despite some mixed messages in March – when the PMIs pointed to an accelerated recovery but the Commission's indices signalled a slight loss of momentum – surveys on the whole suggest that the euro area's economy returned to modest growth in Q1. In line with the Bloomberg survey consensus, we forecast GDP growth of 0.1%Q/Q to leave output up 1.3%Y/Y and 2.5% above the pre-pandemic level in Q419. Among the larger member states, we expect Germany and Italy similarly to post modest growth (circa 0.1%Q/Q) to avoid a technical recession at the turn of the year, while growth will likely be marginally firmer than that in France and Spain. In terms of inflation, having fallen sharply in March thanks not least to energy price base effects associated with the Russian invasion of Ukraine, the headline HICP rates in Germany (7.8%Y/Y) and France (6.7%Y/Y) are expected to be little changed this month. But Spanish inflation is expected to have risen from the 20-month low of 3.1%Y/Y last month.

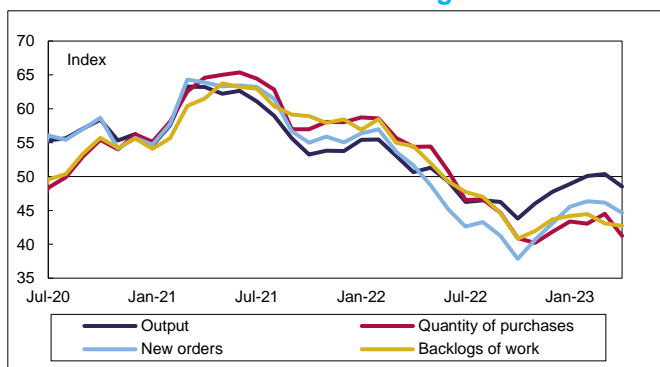
Ahead of the GDP and inflation figures, further economic survey results, including the Commission's latest sentiment indices (Thursday) and the German ifo indices (Monday), will provide an update on economic conditions at the start of the second quarter. While today's flash PMIs pointed to an accelerated recovery momentum, we caution that the Commission and ifo indicators have been less upbeat over recent months. Meanwhile, following the improvement registered in yesterday's flash Commission [consumer confidence](#) index, the latest German and French household survey results are due on Wednesday.

Euro area: Selected services PMIs



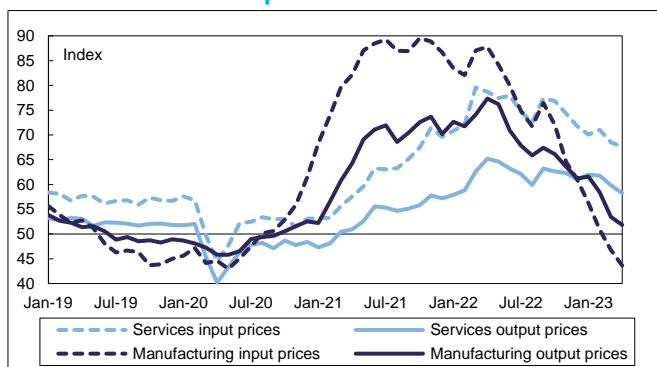
Source: S&P Global, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Selected manufacturing PMIs



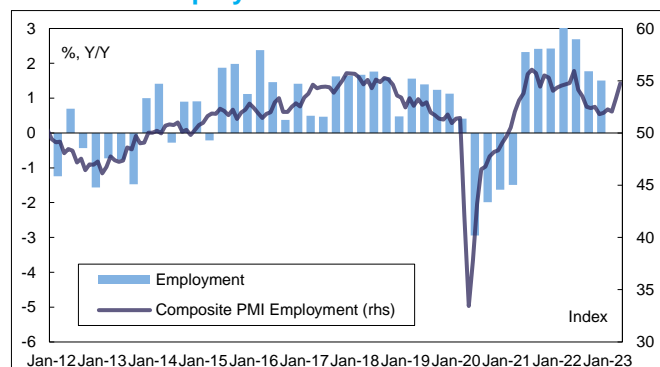
Source: S&P Global, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Selected price PMIs



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

Euro area: Employment indices



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

UK

PMIs beat expectations as services recovery regains momentum

Like in the euro area, today’s flash UK PMIs came in ahead of expectations, suggesting renewed recovery momentum at the start of the second quarter that will further bolster the case for at least one more rate hike at the BoE. The headline composite output PMI jumped 1.7pts in April to 53.9, the best in twelve months, more than 2½pts above the Q1 average and a level that, prior to the pandemic, would have suggested GDP growth of about 0.2%Q/Q if sustained over the quarter. Again as in the euro area, the recovery signalled by the PMIs was also driven by the services sector, for which the activity index rose 2pts to 54.9, a twelve-month high, amid an ongoing pickup in spending on consumer-facing services such as travel, leisure and entertainment. And new business in services rose at the strongest pace in thirteen months despite a slight moderation in overseas demand. But S&P Global suggested that business services continued to struggle. Moreover, the manufacturing output PMI was consistent with contraction, down 0.5pt to a three-month low of 48.5. New orders reportedly fell sharply in April, as manufacturers flagged client destocking and subdued demand for big-ticket consumer goods. And so, today’s survey suggested that producers continued to scale back their workforces. This, however, was offset by ongoing jobs growth in the services sector.

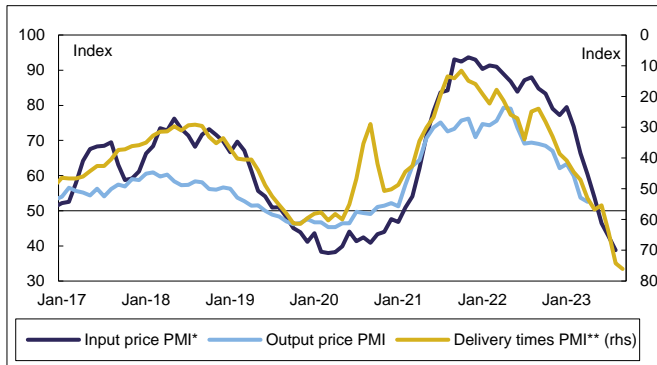
Manufacturing price pressures continue to ease, but remain sticky in services

In terms of inflation, again the picture in the UK was similar to that in the euro area. Amid moderating supply-side pressures, factory input costs reportedly maintained a downtrend in April, with the respective index falling further below the long-run average to its lowest in almost three years. And so, while the pace of increase in output prices charged by manufacturers remained above the long-run average, the respective survey index was also at the lowest since end-2020. But while input cost inflation in the services sector continued to moderate to a near-two-year low, the respective PMI remained extremely elevated by historical standards with firms continuing to flag wage-related pressures. Moreover, the BoE might be disappointed to see a pickup in the services prices charged index in April, by 1.7pts to 60.8, some 9pts above the long-run average.

Retail sales fell in March as heavy rainfall dampened demand, but sales rose for 1st quarter in 7

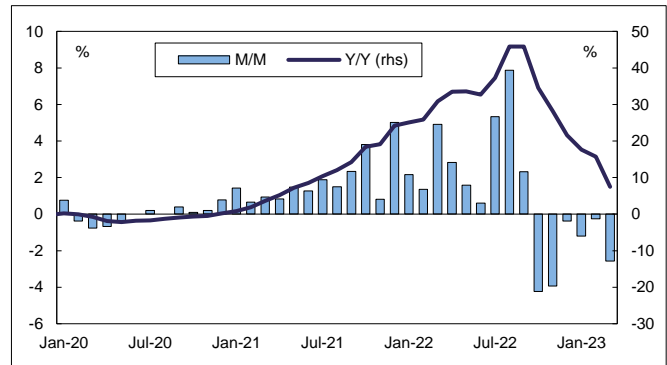
Today’s UK retail sales figures came in slightly softer than the consensus expectation, with the drop of 0.9%M/M almost twice the median forecast on the Bloomberg survey and largely reversing the downwardly revised increase in February (1.1%M/M). But while sales volumes were still down 3.1%Y/Y, they recorded the first quarterly increase since Q221, by

Germany: Selected manufacturing PMIs



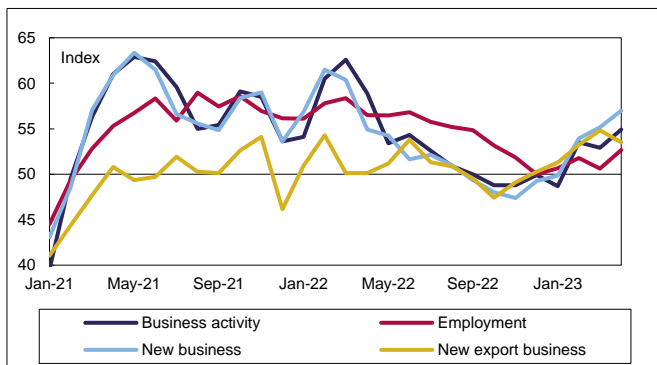
*Input prices have four-month lead. **Delivery times have five-month lead. Source: S&P Global, Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Industrial producer price inflation



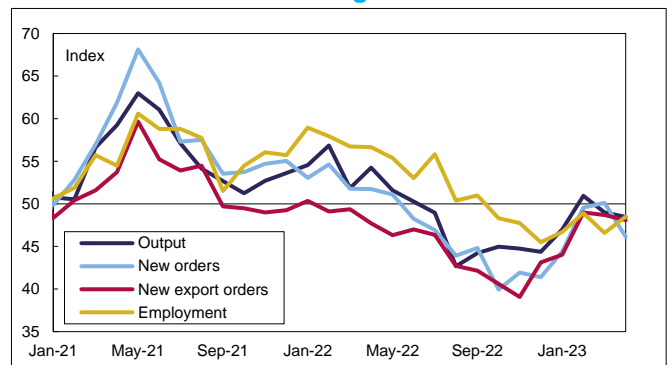
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Selected services PMIs



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

UK: Selected manufacturing PMIs



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

0.6%3M/3M. Retailers attributed weakness in non-food store sales, which fell 1.3%M/M, to unfavourable weather conditions as the sixth wettest March on record since 1836 kept consumers away from the High Street. Nevertheless, this still left them up 0.8%3M/3M, with department store sales up more than 3%3M/3M. Meanwhile, food store sales fell 0.8%M/M to be flat over the first quarter as a whole as particularly acute price pressures continued to bite in the subsector – indeed, in values terms, food sales rose a further 1.8%3M/3M in March and were still almost 10% higher than a year earlier compared with a drop of 3.5%Y/Y in volumes. And despite a decline in petrol prices, the value of retail sales in March rose 1.1%3M/3M and 4.5%Y/Y.

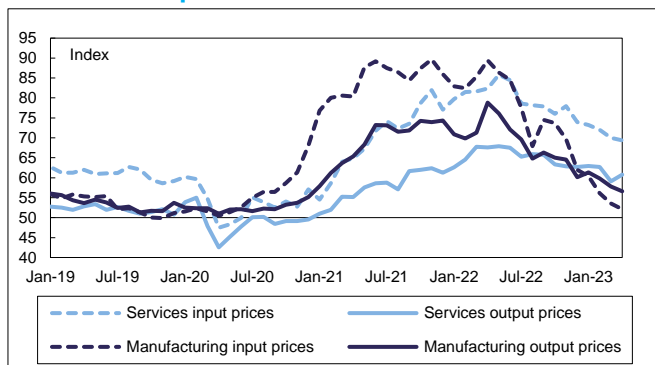
Consumer confidence rises to a 14-month high but remains weak by historical standards

The additional Bank Holiday in May for the king's coronation might well bring a boost to food sales next month. More generally, however, a halt to the squeeze on real incomes and an associated improvement in household sentiment should provide support to consumer spending. Indeed, broadly consistent with yesterday's flash Commission index for the euro area, today's GfK consumer survey pointed to a further pickup in UK consumer confidence in April, with the headline index rising for the third consecutive month and by a stronger-than-expected 6pts to -30, the best in fourteen months and some 19pts above the series low reached last September. The survey index of willingness to make major purchases rose 5pts to -28, the highest level since last March. Consumer expectations for the economy over the coming 12 months also improved to the highest in a year. However, all the survey components remain low by historical standards, with the purchase intentions index still some 26pts below the long-run average, therefore suggesting that overall consumer spending will remain subdued for a while yet as real disposable incomes remain squeezed.

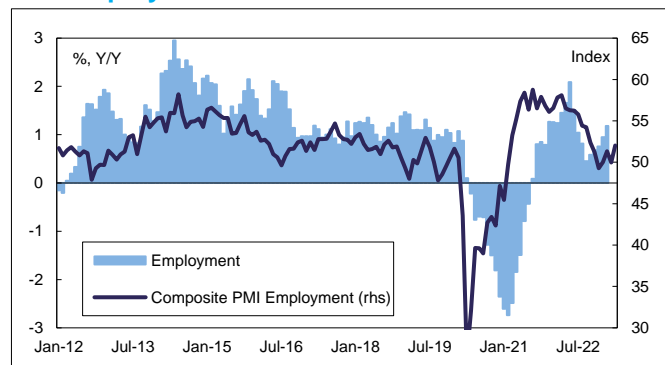
The week ahead in the UK

The coming week will be much quieter on the UK economic data front. Following today's downbeat manufacturing PMIs, the CBI industrial trends survey (Tuesday) also seems likely to suggest a weakening in activity in the industrial sector this month, with selling price expectations similarly likely to trend lower. In addition, the CBI's distributive trades survey (Wednesday) will shed some light on retail and wholesale activity in April. Separately, the March public finances data (also Tuesday) will enable calculation of the deficit for the past financial year. In its latest economic and fiscal outlook report, the OBR revised down significantly its forecast for public sector net borrowing excluding banks (PSNB ex) in FY22/23 from £177bn to £152.4bn. In the first eleven months of the past fiscal year, PSNB ex reached £132.2bn (compared with £122.1bn over the whole of FY21/22). Finally, the Rightmove house asking price index for April is also due (Monday).

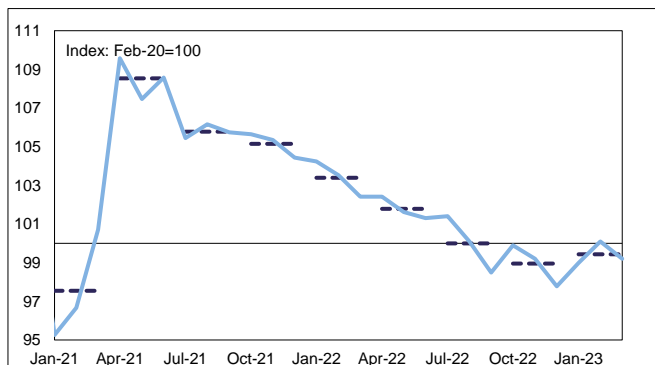
UK: Selected price PMIs



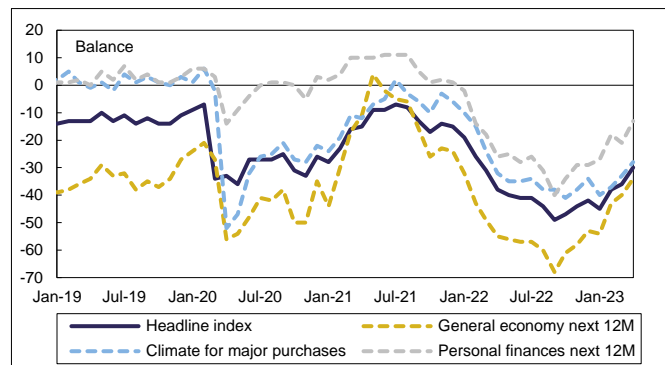
UK: Employment indices












UK: Retail sales*



UK: Consumer confidence
















Daiwa economic forecasts

	2022	2023				2024	2023	2024	2025
		Q4	Q1	Q2	Q3				
GDP		%, Q/Q					%, Y/Y		
Euro area 	0.0	0.1	0.2	0.2	0.2	0.2	0.8	1.1	1.7
UK 	0.1	0.0	0.1	0.2	0.2	0.2	0.3	0.7	0.9
Inflation, %, Y/Y									
Euro area									
Headline HICP 	10.0	8.0	6.1	4.6	2.8	2.7	5.3	2.3	1.7
Core HICP 	5.1	5.5	5.1	4.5	3.7	3.0	4.7	2.4	1.8
UK									
Headline CPI 	10.7	10.2	7.6	6.1	3.7	3.3	6.8	2.2	1.5
Core CPI 	6.4	6.1	5.9	5.1	4.3	3.9	5.3	2.8	1.8
Monetary policy, %									
ECB									
Refi Rate 	2.50	3.50	4.00	4.00	4.00	4.00	4.00	3.25	3.00
Deposit Rate 	2.00	3.00	3.50	3.50	3.50	3.50	3.50	2.75	2.50
BoE									
Bank Rate 	3.50	4.25	4.50	4.50	4.50	4.25	4.50	3.50	2.75

Source: Bloomberg, ECB, BoE 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
Euro area 	Preliminary manufacturing (services) PMI	Apr	45.5 (56.6)	48.0 (54.5)	47.3 (55.0)	-
	Preliminary composite PMI	Apr	54.4	53.8	53.7	-
Germany 	Preliminary manufacturing (services) PMI	Apr	44.0 (55.7)	45.5 (53.2)	44.7 (53.7)	-
	Preliminary composite PMI	Apr	53.9	52.7	52.6	-
France 	Preliminary manufacturing (services) PMI	Apr	45.5 (56.3)	47.8 (53.5)	44.7 (53.7)	-
	Preliminary composite PMI	Apr	53.8	53.0	52.6	-
UK 	GfK consumer confidence	Apr	-30	-35	-36	-
	Retail sales incl. auto fuels M/M% (Y/Y%)	Mar	-0.9 (-3.1)	-0.6 (-3.1)	1.2 (-3.5)	1.1 (-3.3)
	Retail sales excl. auto fuels M/M% (Y/Y%)	Mar	-1.0 (-3.2)	-0.6 (-3.2)	1.5 (-3.3)	1.4 (-3.0)
	Preliminary manufacturing (services) PMI	Apr	46.6 (54.9)	48.5 (52.9)	47.9 (52.9)	-
	Preliminary composite PMI	Apr	53.9	52.3	52.2	-
Auctions						
Country	Auction					
Italy 	sold €2.5bn of 3.4% 2025 bonds at an average yield of 3.58%					
	sold €2.5bn of 1.5% 2029 index-linked bonds at an average yield of 1.70%					

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 24 April 2023						
Germany		09.00	ifo business climate	Apr	93.3	93.3
		09.00	ifo current assessment (expectations) balance	Apr	96.0 (90.5)	95.4 (91.2)
UK		00.01	Rightmove house price index M/M% (Y/Y%)	Apr	-	0.8 (3.0)
Tuesday 25 April 2023						
UK		07.00	Public sector net borrowing excl. banks £bn	Mar	22.8	16.7
		11.00	CBI industrial trends survey, total orders (selling prices)	Apr	-22 (-)	-20 (25)
		11.00	CBI industrial trends survey, business optimism	Apr	-	-5
Wednesday 26 April 2023						
Germany		07.00	GfK consumer confidence	May	-28.0	-29.5
France		07.45	INSEE consumer confidence	Apr	81	81
		11.00	Total jobseekers '000s	Q1	-	2834
UK		09.30	Final output per hour Y/Y%	Q4	<u>-0.1</u>	0.9
		11.00	CBI distributive trades survey, reported retail sales	Apr	-	1
Thursday 27 April 2023						
Euro area		10.00	European Commission Economic Sentiment Indicator	Apr	99.9	99.3
		10.00	European Commission industrial (services) confidence	Apr	0.1 (9.1)	-0.2 (9.4)
		10.00	European Commission final consumer confidence	Apr	<u>-17.5</u>	-19.2
Italy		09.00	ISTAT consumer confidence	Apr	-	105.1
		09.00	ISTAT business (manufacturing) confidence	Apr	- (104.0)	110.2 (104.2)
Spain		08.00	Retail sales Y/Y%	Mar	-	4.0
		08.00	Unemployment rate %	Q1	-	12.9
Friday 28 April 2023						
Euro area		10.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.1 (1.3)</u>	0.0 (1.8)
Germany		08.55	Unemployment claims' 000s (rate %)	Apr	10 (5.6)	16 (5.6)
		13.00	Preliminary HICP (CPI) Y/Y%	Apr	7.7 (7.3)	7.8 (7.4)
France		06.30	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (0.8)</u>	0.1 (0.5)
		07.45	Preliminary HICP (CPI) Y/Y%	Apr	6.7 (5.7)	6.7 (5.7)
		07.45	Consumer spending M/M% (Y/Y%)	Mar	0.3 (-2.1)	-0.8 (-4.1)
		07.45	PPI Y/Y%	Mar	-	15.7
Italy		09.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.1 (1.5)</u>	-0.1 (1.4)
Spain		08.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (2.8)</u>	0.0 (2.7)
		08.00	Preliminary HICP (CPI) Y/Y%	Apr	4.0 (4.0)	3.1 (3.3)
UK		00.01	Lloyds business barometer	Apr	-	32

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 24 April 2023		
Euro area 	09.35	ECB's Villeroy scheduled to speak on 'the role of central banks in relation to climate change'
Tuesday 25 April 2023		
Germany 	10.30	Auction: €6bn of 0.00% 2025 bonds
Wednesday 26 April 2023		
Euro area 	13.00	ECB Vice President de Guindos scheduled to speak at the Delphi economic forum
Germany 	10.30	Auction: €1.0bn of 4.0% 2037 bonds
Germany 	10.30	Auction: €1.5bn of 1.0% 2038 bonds
Thursday 27 April 2023		
Italy 	10.00	Auction: 5Y and 10Y bonds
UK 	-	BoE annual two-day conference – 'Policy challenges and international spill-overs in times of high inflation'
Friday 28 April 2023		
Euro area 	-	ECB President Lagarde participates in press conference following informal meeting of euro area finance ministers

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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