

Euro wrap-up

Overview

- Shorter-dated Bunds made losses as ECB hawk Schnabel reiterated that another 50bps hike was possible in May, while the Bundesbank revised up its assessment of Germany's economic performance in Q1.
- Gilts also made losses on a quiet day for UK economic data.
- Tuesday will bring a UK industrial survey, while Wednesday will bring survey results on German and French consumers and UK retailers.

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	2.940	+0.040
OBL 2.2 04/28	2.534	+0.021
DBR 2.3 02/33	2.487	+0.011
UKT 0% 06/25	3.792	+0.052
UKT 1% 10/28	3.639	+0.022
UKT 3¼ 01/33	3.766	+0.010

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

Euro area

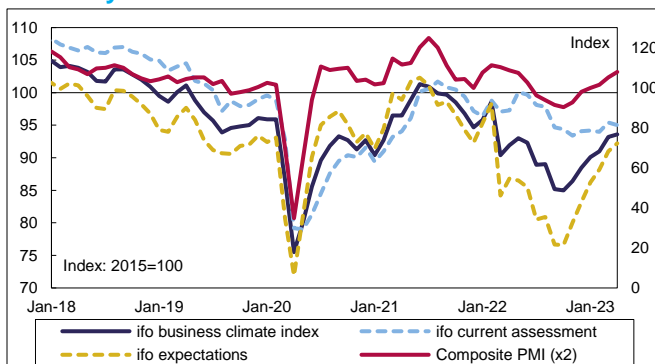
German ifo survey a little less upbeat than the flash PMIs

While last Friday's flash PMIs pointed to accelerated recovery momentum, today's German ifo indicators were consistent with a slight weakening in activity at the start of the first quarter, albeit improved optimism about the outlook. The current assessment balance fell 0.4pt to 95.0, with deterioration seen across the subsectors and construction firms the most downbeat since end-2015. Nevertheless, conditions were still judged to be close to the long-run average, and out of the past eight months only bettered in March. Moreover, looking ahead to the coming six months, firms were the most upbeat since Russia's invasion of Ukraine, with the respective index rising for the sixth consecutive month, by 1.1pts to 92.2, to be 3.7pts above the Q1 average. While the PMIs had suggested persisting challenges in manufacturing, the ifo indices signalled that optimism in that sector rose to the highest in fourteen months amid improved production expectations. Retailers and construction firms were similarly the least downbeat since February 2022. Less positively but also contrasting markedly with the PMIs, according to the respective ifo index, services firms reported a slight worsening in the current situation as well as increased pessimism regarding the outlook. Overall, the composite ifo business climate index rose 0.4pt to 93.6 in April, to the highest since February 2022 to be more than 2pts higher than the Q1 average. But with that index still below the long-run average, it also suggested that the economy still lacked dynamism.

Bundesbank upwardly revises its view on Q1 GDP amid stronger manufacturing and construction

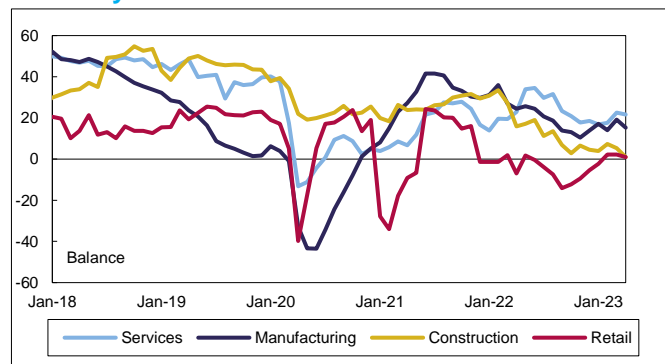
The findings of the ifo indices were broadly consistent with the latest monthly assessment from the Bundesbank, which judged that Germany's economy had fared better than it previously expected in Q1 due to a stronger manufacturing performance amid reduced supply constraints and lower energy costs. Indeed, manufacturing output rose in February to its highest level in three years to be trending more than 2% above the Q4 average, with production in energy-intensive subsectors up 2½% on the same basis. Export volumes rose 4½%M/M that month to be some 1.7% above the Q4 average. And contrasting the message from various survey indicators, construction activity surged too – to be almost 8% above the Q4 average in the first two months of the year – thanks to unseasonably mild weather. Providing some offset, the ongoing squeeze on household purchasing power and historically weak consumer confidence appears to have continued to weigh on consumption, including of consumer-facing services. For example, while significantly higher than a year earlier, activity in the hospitality sector fell more than 2½%M/M in February to be trending some 0.5% below the Q4 level. Moreover, the end of government subsidies for purchases of hybrid and electric cars appears to have had a significantly negative impact on car sales. Nevertheless, when the first estimate of Q1 GDP is published on Friday, the Bundesbank now expects the economy to have expanded slightly, having only last month anticipated further contraction.

Germany: ifo and PMI indices



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

Germany: ifo current assessment indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

The two days ahead in the euro area

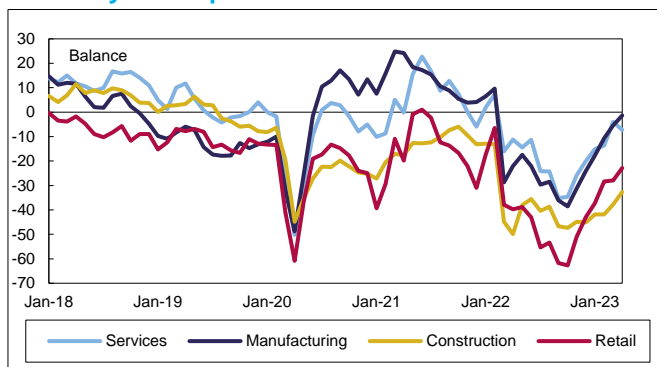
After a day bereft of key euro area economic data releases tomorrow, Wednesday will bring the latest German and French household sentiment survey results, which are likely to register a modest improvement in line with last week's flash Commission [consumer confidence](#) index.

UK

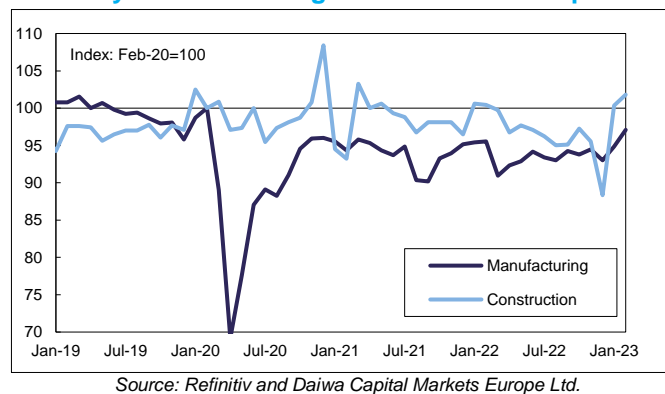
The two days ahead in the UK

Following Friday's downbeat manufacturing [PMIs](#), the CBI industrial trends survey tomorrow 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 on Wednesday will shed some light on retail and wholesale activity in April. Separately, the March public finances data, also to be published tomorrow, will enable calculation of the overall 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). Likely of most interest tomorrow will be Deputy BoE Governor Ben Broadbent's speech on 'Monetary policy: prices vs quantities'.

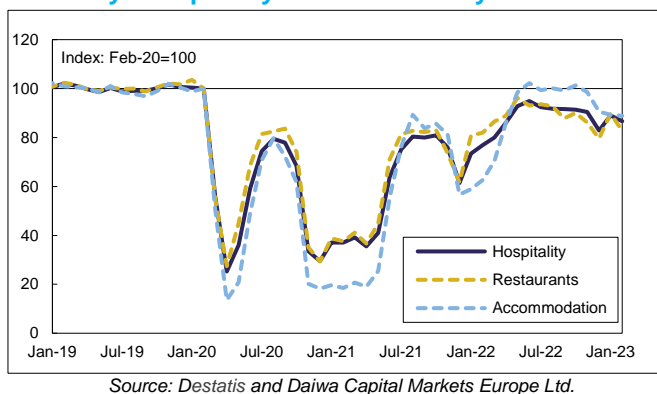
Germany: ifo expectations indices



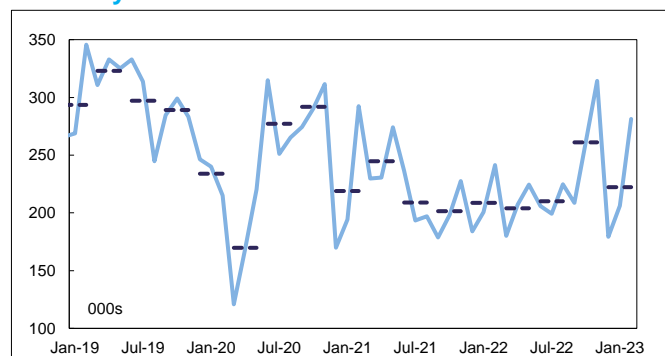
Germany: Manufacturing & construction output



Germany: Hospitality services activity



Germany: New car sales*






The next edition of the Euro wrap-up will be published on 26th April 2023

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 ifo business climate	Apr	93.6	93.4	93.3	93.2
	 ifo current assessment (expectations) balance	Apr	95.0 (92.2)	96.0 (90.5)	95.4 (91.2)	- (91.0)
UK	 Rightmove house price index M/M% (Y/Y%)	Apr	0.2 (1.7)	-	0.8 (3.0)	-




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
UK		07.00 Public sector net borrowing excl. banks £bn	Mar	21.3	16.7
		11.00 CBI industrial trends survey, total orders (selling prices)	Apr	-21 (20)	-20 (25)
		11.00 CBI industrial trends survey, business optimism	Apr	-	-5

Auctions and events

Germany		10.30 Auction: €6bn of 0.00% 2025 bonds
UK		10.00 BoE Deputy Governor Broadbent scheduled to give speech on 'Monetary policy: Prices versus quantities'




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesdays releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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	-0.1	0.9
		11.00 CBI distributive trades survey, reported retail sales	Apr	4	1

Auctions and events

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
		10.30 Auction: €1.5bn of 1.0% 2038 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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