

Euro wrap-up

Overview

- Bunds made significant gains at the short end of the curve despite a further pickup in German consumer confidence.
- Gilts made losses as a survey pointed to a firm rebound in UK retail sales in April.
- Thursday will bring the Commission's business and consumer survey results for April.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	2.721	-0.063
OBL 2.2 04/28	2.382	-0.022
DBR 2.3 02/33	2.384	+0.005
UKT 0% 06/25	3.713	+0.002
UKT 1% 10/28	3.565	+0.017
UKT 3¼ 01/33	3.709	+0.022

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

Euro area

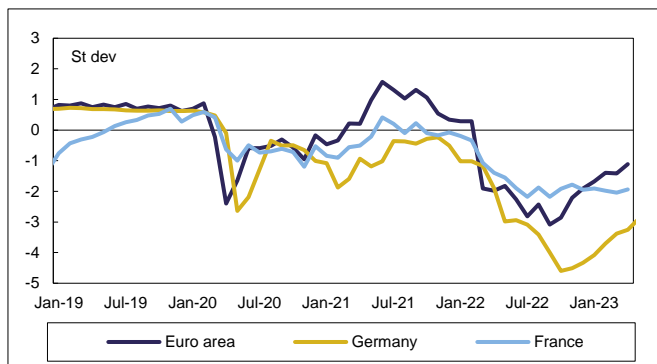
German household confidence beats expectations to signal return to consumption growth in Q2

At last month's ECB monetary policy meeting, Governing Council members noted that lower energy prices had been supporting a pickup in confidence among both businesses and households. But they cautioned that had yet to translate into greater willingness to spend. They were also wary that the financial market turbulence triggered by the collapse of SVB and Credit Suisse could significantly dampen confidence going forward. Thankfully, however, there is no evidence (at least so far) of a material impact of that market volatility on sentiment. Indeed, according to last week's flash [Commission](#) index, consumer confidence in the euro area rose above expectations this month to the highest since the Russian invasion of Ukraine in February 2022. And today's GfK survey suggested a similar trend in Germany, where the headline survey measure – presented as a forecast for May – was also stronger than anticipated, rising for the seventh successive month and by a firm 3.6pts to a thirteen-month high of -25.7. The rise was driven by the biggest improvement in expectations for both income and the economic outlook in almost two years, suggesting that higher pay settlements might also be playing a role in boosting sentiment. And encouragingly, the index of consumers' willingness to buy increased for a third consecutive month, reaching an eleven-month high. So, while German private consumption appears to have contracted again in Q1, and the headline GfK index remains closer to the series low reached last autumn than the long-run average, this survey points to a return to modest expansion in household spending in the current quarter.

But French consumer confidence little improved as willingness to spend deteriorates further

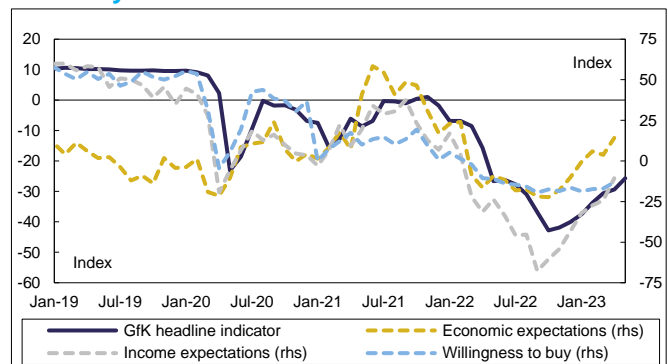
According to the INSEE survey, consumer confidence also picked up this month in France. However, here the rise in the headline sentiment index was minimal, up just 1pt to 83, to be a mere 4% above September's near-ten-year low but 17% below the long-run average. And the overall French trend still appears to be broadly sideways rather than one of significant improvement. Admittedly, by historical standards, French consumers appear relatively less downbeat than their German counterparts. And there were also some noteworthy positives within the INSEE survey detail. Tallying with comments yesterday from BoF Governor Villeroy – who judged that French inflation should decline to around 4%Y/Y by year-end thanks to lower food prices, and would “probably” be back to 2.0%Y/Y by end-2024 – the index of consumers' future price expectations dropped to the lowest since March 2021 and a level close to the long-run average. In addition, as in Germany, the economic outlook was judged to be the best since the Russian invasion of Ukraine. However, while on average real disposable income has been relatively resilient over the past year or so thanks not least to fiscal support, households' own financial situations were expected to improve only modestly over coming months. And strikingly, their major purchase intentions worsened to a level that has only been lower during a couple months of the first wave of Covid-19. So, French

Euro area: Consumer confidence*



*Normalised indices. Source: EC, GfK, INSEE, Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Consumer confidence



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

households appear spooked by President Macron's decision to sign into law the two-year increase in the retirement age. And French private consumption appears at risk of ongoing weakness this quarter.

The day ahead in the euro area

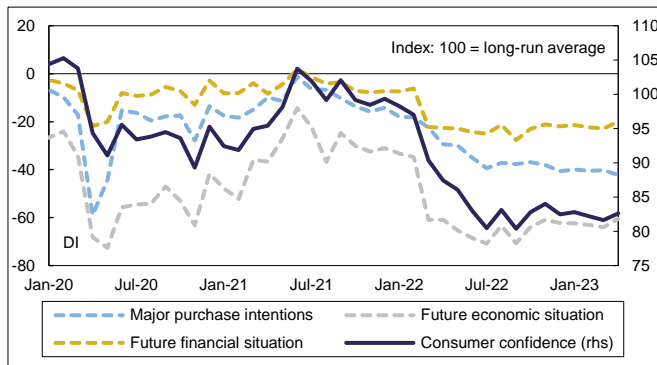
This week's flow of European economic sentiment survey results for April concludes tomorrow with the release of the Commission's business and consumer indices. The final consumer confidence index is highly likely to align with the flash release, which rose 1.6pts to -17.5, a fourteen-month high. With the German ifo and French INSEE indicators reporting a modest deterioration in current conditions, albeit the former reporting an improvement in the outlook, the Commission's business confidence indices are likely to signal a somewhat more lacklustre performance at the start of Q2 than implied by the flash PMIs. The Italian ISTAT business and consumer surveys are also due, while the first of the April consumer price inflation estimates will be published by Belgium.

UK

Retail survey suggests above-norm growth in sales in April

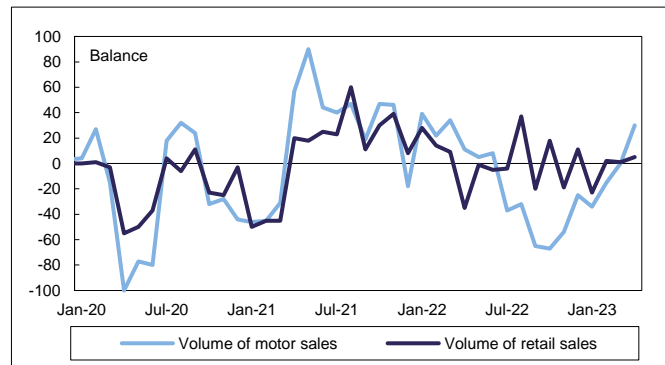
After [retail sales](#) dropped in March in the UK, today's CBI distributive trades survey suggested that household spending on goods held up relatively well at the start of the second quarter despite the ongoing squeeze on real disposable income. Broadly in line with expectations, the headline sales balance rose 4pts to 5, a four-month high. While this was still well below the long-run average (17), the survey suggested that the share of retailers assessing sales to be above the seasonal norm was the highest since August 2021. As such, the survey's index for the volume of inventories compared with expected demand fell into negative territory (-2) for the first time in a year. The strongest growth in sales was again seen in car dealerships, where the corresponding index jumped 30pts to the highest in seventeen months as pandemic-related backlogs continued to be fulfilled. And demand for motor vehicles was expected to accelerate in May too. But while households purchase intentions in the latest GfK consumer confidence survey improved in April, they remained historically weak. Against this backdrop, retailers' expectations for sales volumes more generally were less upbeat. Certainly, while we might well see a boost to sales of certain items in May from the additional bank holiday, record high food inflation will continue to erode household purchasing power for a while yet.

France: Consumer confidence



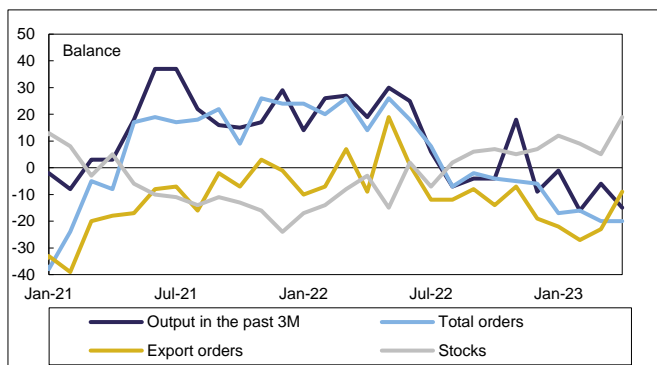
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: CBI retail & motor vehicle sales indices



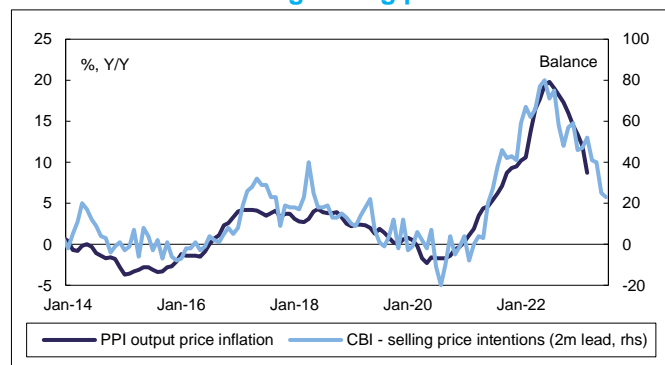
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: CBI industrial indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: CBI manufacturing selling prices & PPI



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.








Manufacturers remain downbeat as production and orders continue to decline

Like the flash PMIs, yesterday's CBI industrial trends survey suggested still challenging manufacturing conditions at the start of the second quarter. The output index recorded the fifth consecutive negative reading (-15) to record the steepest quarterly drop since October 2020. And the orders component moved sideways at the joint-weakest monthly reading since early 2021 (-20), to mark the ninth consecutive negative figure, despite a softer pace of decline in overseas demand. With inventories rising by the most for 2½ years, firms were also less upbeat about production expectations over the coming months. And so, the quarterly index for employment growth fell to the lowest since January 2021. Overall, therefore, it was not surprising to see that the business sentiment index remained in negative territory, albeit rising to the highest since October 2021. This notwithstanding, there was a slight improvement in the survey's investment intentions indicator, to the highest since October. And like the PMIs, the CBI survey signalled a further slowing in manufacturers' prices charged, with the relevant index falling to the lowest in more than two years.





The day ahead in the UK

There are no top-tier UK economic data due tomorrow.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 GfK consumer confidence	May	-25.7	-28.0	-29.5	-29.3
France	 INSEE consumer confidence	Apr	83	81	81	82
	 Total jobseekers '000s	Q1	2801	-	2834	2837
UK	 Final output per hour Y/Y%	Q4	0.0	<u>-0.1</u>	0.9	-
	 CBI distributive trades survey, reported retail sales	Apr	5	4	1	-
Auctions						
Country	Auction					
Germany	 sold €732mn of 4.0% 2037 bonds at an average yield of 2.46%					
	 sold €1.55bn of 1.0% 2038 bonds at an average yield of 2.51%					








Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 Public sector net borrowing excl. banks £bn	Mar	21.5	21.3	16.7	13.3
	 CBI industrial trends survey, total orders (selling prices)	Apr	-20 (23)	-21 (20)	-20 (25)	-
	 CBI industrial trends survey, business optimism	Apr	-2	-	-5	-
Auctions						
Country	Auction					
Germany	 sold €4.90bn of 2.8% 2025 bonds at an average yield of 2.88%					





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		10.00	European Commission Economic Sentiment Indicator	Apr	99.9	99.3
		10.00	European Commission industrial (services) confidence	Apr	0.0 (9.5)	-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	105.0	105.1
		09.00	ISTAT business (manufacturing) confidence	Apr	-(104.0)	110.2 (104.2)
Spain		08.00	Retail sales Y/Y%	Mar	3.5	4.0
		08.00	Unemployment rate %	Q1	13.0	12.9

Auctions and events

Italy		10.00	Auction: €2.5bn of 3.40% 2028 bonds
		10.00	Auction: €5.0bn of 4.35% 2033 bonds
		10.00	Auction: €1.5bn of 2028 floating-rate bonds
UK		-	BoE annual two-day conference – 'Policy challenges and international spill-overs in times of high inflation'

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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