

Euro wrap-up

Overview

- Bunds made losses at the short end as euro area inflation aligned with the flash estimates that showed the headline rate edge slightly higher in April, but underlying price pressures ease slightly.
- Gilts made losses as BoE Governor Bailey reiterated that monetary policy would be tightened further if there was evidence of more persistent inflationary pressures.
- After a day bereft of top-tier European data tomorrow, Friday will bring German producer price figures and a UK consumer confidence survey.

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2.8 06/25	2.670	+0.045
OBL 2.2 04/28	2.308	+0.007
DBR 2.3 02/33	2.329	-0.019
UKT 0% 06/25	3.823	+0.035
UKT 1% 10/28	3.656	+0.041
UKT 3% 01/33	3.819	+0.010

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

Source: Bloomberg

Euro area

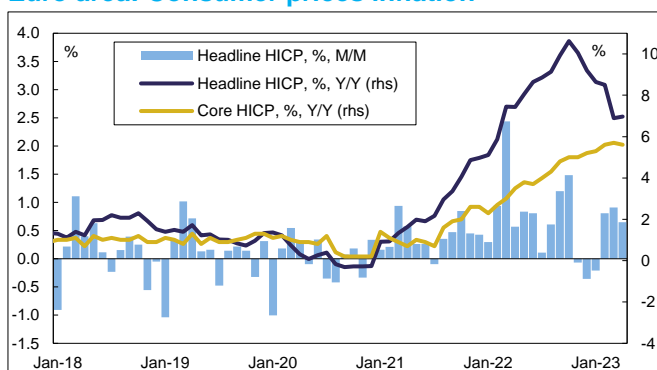
No surprises from final inflation estimates, with headline rate slightly higher but core rate down

There were no surprises in the final estimates of euro area consumer price inflation in April. In line with the flash readings, the headline rate ticked higher for the first time in six months, albeit by just 0.1ppt to 7.0%Y/Y, to be still some 3.6ppts below October's peak. The pickup in the headline rate in April principally reflected a modest increase in energy inflation (up 3.3ppts to 2.4%Y/Y), which was due to a rise in petrol prices last month compared with drop of 6½%M/M in the same month a year earlier. But energy inflation was still down some 23ppts from December and more than 40ppts below last year's peak. And as reported in the preliminary release, the news regarding food prices was more favourable, suggesting that the impact of the significant supply shock in the sector might be starting to abate. Indeed, prices of unprocessed food fell for the first time since November and by 1.4%M/M, the most since July 2020, to push the respective inflation rate down almost 5ppts to an eleven-month low of 10.0%Y/Y. Meanwhile, the monthly increase in prices of non-energy industrial goods was only marginally above the norm for the month of April. As such, the annual rate of that component also fell for the second successive month, by 0.4ppt to 6.2%Y/Y, reflecting not least a moderation in inflation of clothing, furniture and household appliances. So, while services inflation edged up to a series high of 5.2%Y/Y, due to higher accommodation and financial services costs, the main core rate of inflation (excluding food and energy) eased for the first time in ten months, by 0.1ppt to 5.6%Y/Y. Of course, the range of inflation rates among the member states remains very wide, with the extremely elevated rates in many of the smaller member states helping to explain the hawkishness of the respective national central bank governors. However, even in the country with the highest rate (Latvia), inflation at 15.0%Y/Y in April was 7ppts below its peak in September.

Tentative signs that underlying price pressures have already peaked

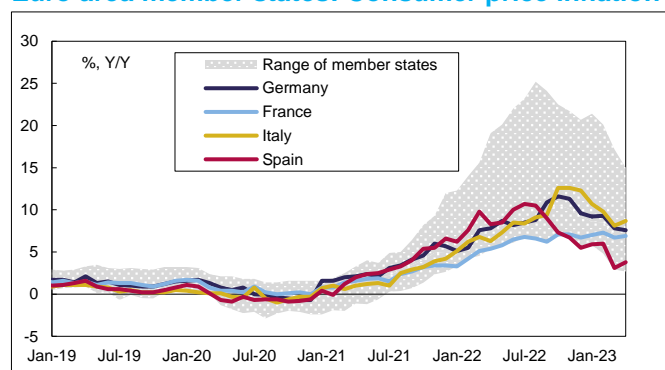
At the ECB's early-May policy-setting meeting, the Governing Council reiterated that the "inflation outlook remains too high and for too long". And the hawks will want to see a more convincing and sustained decline in core inflation before they are willing to agree to a halt to the tightening cycle. For the time being, the accelerated momentum in services prices – which jumped back up more than 1ppt than to 5.8%3M/3M annualised in April – suggests that demand in the sector remains sufficiently strong to allow firms to continue to pass on increased input costs, including higher wages, for a while yet. But several measures of underlying price pressures are beginning to show improvement. For example, the 15% trimmed mean HICP inflation fell a further 0.5ppt in April to 6.7%Y/Y, an eleven-month low and 1.3ppts below February's peak. And while the share of items in the CPI basket with inflation of 3% or more remains historically high, it was down for the third consecutive month from the peak in January. Looking ahead, developments in wholesale markets and base effects strongly suggest that energy and food inflation components will fall steadily over coming months. And as the pass-through to core

Euro area: Consumer prices inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area member states: Consumer price inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

goods and services prices of past increases in prices of energy, food, other commodities and intermediate inputs fades, and wage growth does not accelerate significantly, we continue to expect core inflation to follow a gradual downwards trend over coming quarters to end the year below 4%Y/Y. That could allow headline inflation to be back close to 3%Y/Y by year-end and close to target by mid-2024. Over the very near term, we expect both headline and core inflation to be clearly falling by September. So, we continue to expect the ECB to raise rates just twice more (in June and July), with a terminal deposit rate of 3.75%.

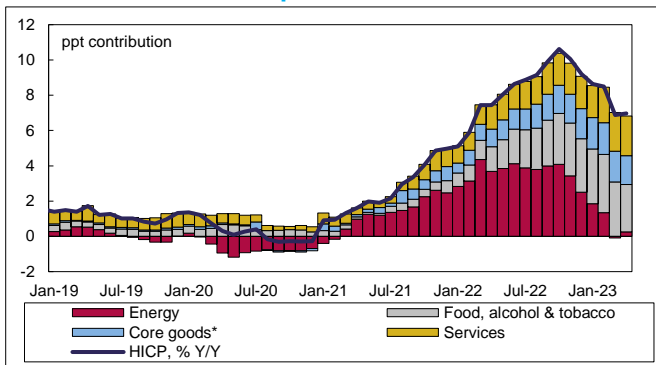
The coming two days in the euro area

It should be relatively quiet end to the week for euro area economic news, with just German producer price figures for April due for release on Friday. These are expected to report a further moderation in the headline annual PPI rate due to lower energy prices, although they will also include updated estimates for the first three months of the year to reflect the government's price brake on electricity and natural gas.

The coming two days in the UK

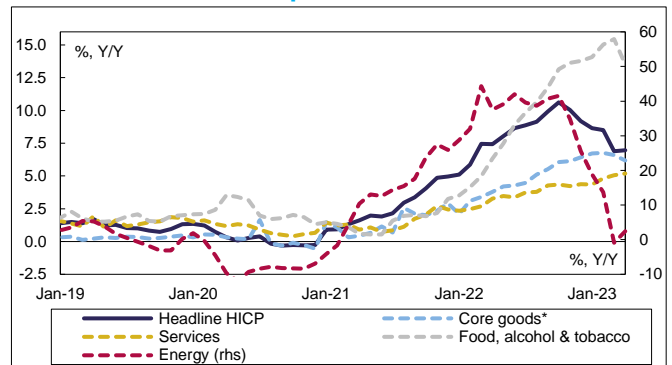
It will also be a relatively quiet end to the week for UK economic releases, with just the GfK consumer confidence survey for May due on Friday. While the headline sentiment index is expected to have risen for the fourth consecutive month, by 3pts to -27, the would still remain low by historical standards and consistent with ongoing subdued consumer spending.

Euro area: Consumer price inflation



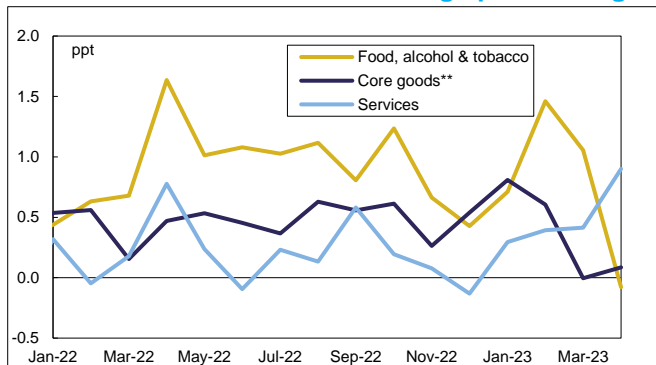
*Non-energy industrial goods. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer price inflation



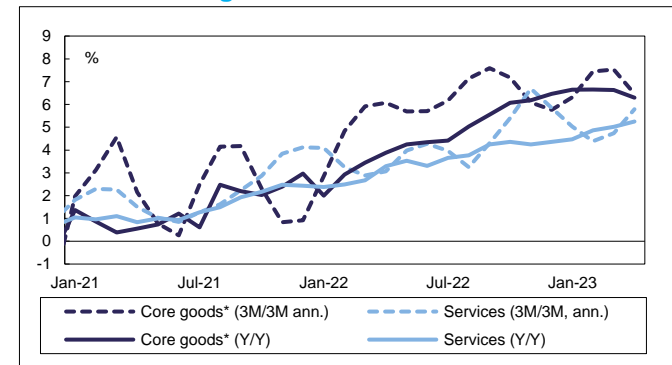
*Non-energy industrial goods. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Deviation from I-r average price change*



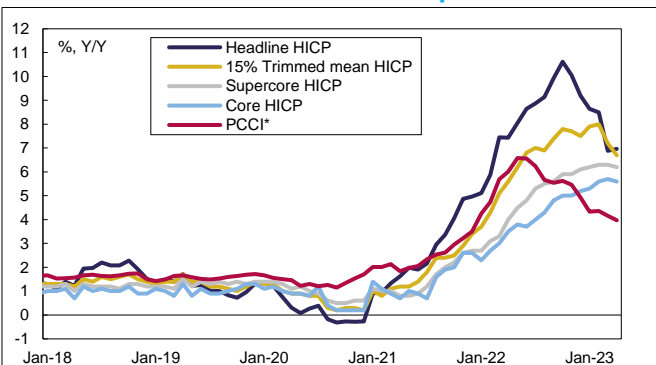
*Deviation from long-run monthly price change. **Non-energy industrial goods. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Core goods and services momentum



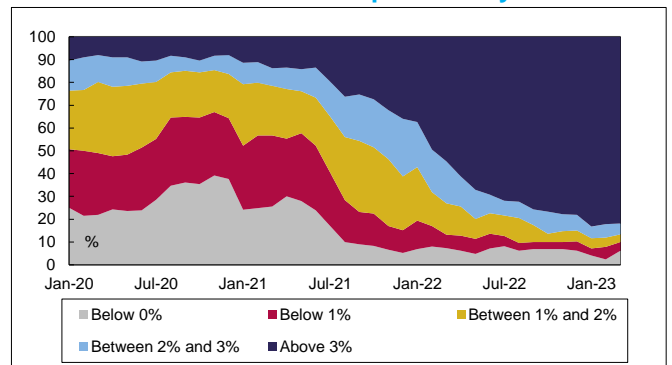
*Non-energy industrial goods. Source: ECB and Daiwa Capital Markets Europe Ltd.

Euro area: Measures of consumer price inflation



*Persistent and Common Component of Inflation. Source: ECB, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Share of CPI components by inflation rate







Source: Eurostat 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	 EU27 new car registrations Y/Y%	Apr	17.2	-	28.8	-
	 Final HICP (core HICP) Y/Y%	Apr	7.0 (5.6)	7.0 (5.6)	6.9 (5.7)	-
France	 ILO unemployment rate %	Q1	6.9	7.0	7.0	6.9
Italy	 Trade balance €bn	Mar	7.5	-	2.1	-


Auctions

Country	Auction
Germany	 sold €3.31bn of 2.30% 2033 bonds at an average yield of 2.31%
France	 sold €5.22bn of 2.5% 2026 bonds at an average yield of 2.69%
	 sold €2.72bn of 1% 2027 bonds at an average yield of 2.63%
	 sold €3.06bn of 2.75% 2029 bonds at an average yield of 2.68%
	 sold €1.10bn of 0.1% 2029 index-linked bonds at an average yield of 0.28%
	 sold €421mn. of 1% of 2036 index-linked bonds at an average yield of 0.6%
	 sold €470mn of 0.1% 2053 index-linked bonds at an average yield of 0.6%
UK	 sold £3.75bn of 4.125% 2027 bonds at an average yield of 3.958%






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Spain	 09.00	Trade balance €bn	Mar	-	-2.5



Auctions and events

Euro area	 09.00	ECB publishes its latest Economic Bulletin
Spain	 09.30	Auction: 0% 2025 bonds
	 09.30	Auction: 0% 2027 bonds
	 09.30	Auction: 1.4% 2028 bonds
	 09.30	Auction: 3.45% 2043 bonds



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	 07.00	PPI Y/Y%	Apr	4.8	7.5
UK	 00.01	GfK consumer confidence	May	-27	-30

Auctions and events

Euro area	 14.55	ECB's Schnabel scheduled to give speech on 'Financial stability and monetary policy'
UK	 10.45	BoE's Haskel scheduled to give speech on measuring productivity

The next edition of the Euro wrap-up will be published on 19 May 2023

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: <https://zone.daiwa.co.jp/1-zone/disclaimer/creditratings.pdf>

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.