

Euro wrap-up

Overview

- While ECB President Lagarde stated that the ECB needs to have “sustainably high interest rates”, Bunds made gains at the long end of the curve as German producer price inflation fell to its lowest rate in more than two years.
- Gilts largely made losses as UK consumer confidence rose to a fifteen-month high. The coming week will bring the flash PMIs for May and UK inflation data for April.

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Daily bond market movements

Bond	Yield	Change
BKO ½ 03/25	2.735	+0.003
OBL 2.2 04/28	2.401	-0.008
DBR 2.3 02/33	2.425	-0.016
UKT 0 ⁵ / ₈ 06/25	3.934	+0.008
UKT 1 ⁵ / ₈ 10/28	3.815	+0.033
UKT 3 ¹ / ₄ 01/33	4.003	+0.052

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

Source: Bloomberg

Euro area

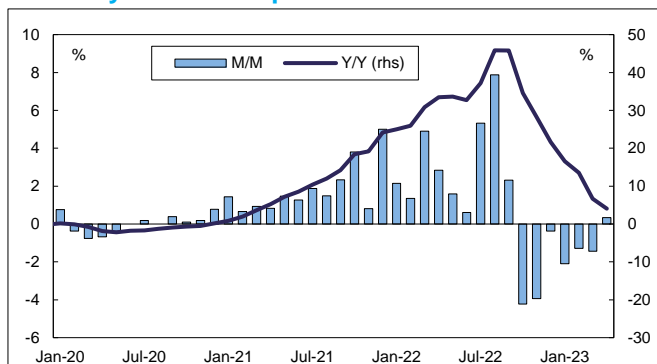
German producer price inflation falls to the lowest in more than two years

Consistent with the recent downtrend seen in various survey measures of manufacturing input costs, today's German producer price inflation figures reported a further notable easing in pressures in April. Admittedly, producer prices rose slightly on the month, by 0.3%M/M, but this merely marked the first increase since September, to leave the cumulative decline since that month at almost 12½%. As such, the annual rate still fell sharply in April, by 2.6ppts to 4.1%Y/Y, the lowest since February 2021 and more than 40ppts below last year's peak. The monthly increase in April in part reflected the first rise in energy prices in seven months, although this left the annual rate down a further 1.5ppts to 2.8%Y/Y. Admittedly, the pickup also reflected an accelerated increase in capital goods prices (0.6%M/M), amid upwards pressures in autos and parts, general machinery and steel products. Food prices also maintained an upwards trend in April, but this nevertheless left the annual rate of that component (13.6%Y/Y) at the lowest for fourteen months. And tallying with the marked improvement in supply constraints, for which the latest manufacturing PMIs reported a survey-record shortening in suppliers' delivery times, intermediate goods prices fell in April (-0.4%M/M), to push the annual rate down 4½ppts to just 0.2%Y/Y, the lowest since November 2020. As such, even when excluding energy, core producer price inflation also moderated sharply, by more than 3ppts to just 4.8%Y/Y, the lowest for two years. And so, while the full pass-through to CPI will come with a lag, we expect consumer goods inflation to continue to moderate over coming quarters too.

The week ahead in the euro area

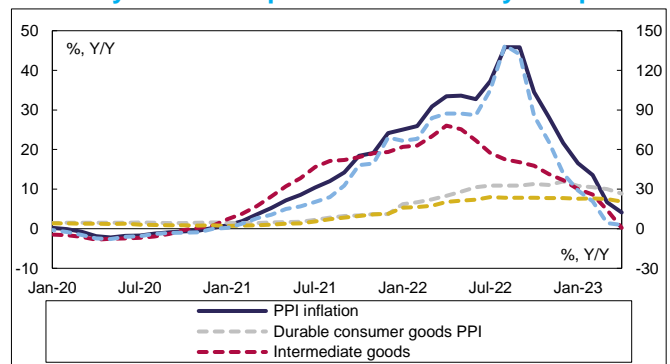
The dataflow in the euro area in the coming week will be dominated by May sentiment surveys, for which Tuesday's flash PMIs will be a notable focus. Following surprising strength over recent months in the services indices, among which the activity index rose to an eleven-month high of 56.2 in April, we might well see some payback in May. And the manufacturing survey seems likely to signal ongoing stagnation in the sector. Overall, the composite PMI is forecast to slip back very slightly in May, but remain comfortably above the Q1 average (52.0) and consistent with a solid pace of expansion in Q2. The prices PMIs should also be consistent with a further moderation in cost pressures. Meanwhile, the Commission's flash consumer survey (due Monday) is expected to report a seventh monthly rise out of the past eight in the headline sentiment index from -17.5 in April, taking it to a fifteen-month high, but nevertheless still well below the 2021 average (-7.5). National survey results to be published include the German ifo (Wednesday), German GfK and French INSEE (Thursday) and Italian ISTAT indices (Friday). The start of the week will also bring the latest euro area construction output figures for March. In line with the declines already confirmed in Germany (-4.6%M/M) and France (-0.9%M/M), and consistent with the sharp decline in manufacturing production that month, these are likely to report some payback for the strength seen earlier in the year.

Germany: Producer price inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Producer price inflation – key components



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK

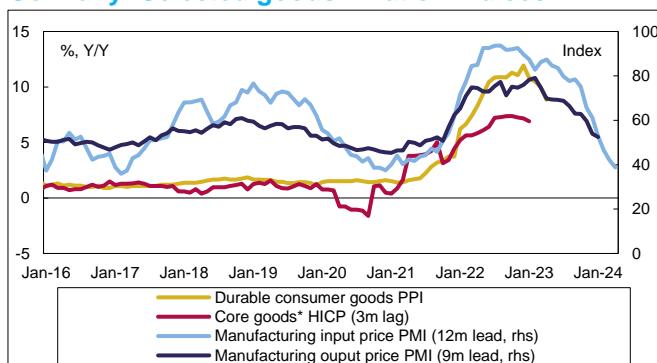
Consumer confidence rises for the fourth consecutive month, but remains historically weak

According to the latest GfK consumer confidence survey, the recovery in UK household sentiment was maintained in May. In particular, the headline sentiment indicator rose for the fourth successive month, by 3pts to -27, a fifteen-month high. But while this left the index trending some 11pts above the Q1 average and 22pts above last summer's trough, it remained 16pts below the long-run average. Despite persisting double-digit inflation and declining real wage growth, households were encouragingly the least downbeat about their expected financial situation for the coming twelve months since the start of 2022, perhaps reflecting ongoing labour market resilience and expectations of easing pressures on real disposable income over the horizon. Households were also the least downbeat about the general economic outlook since end-2021. As such, the survey reported a further improvement in the climate for making major purchases, with the respective index rising to its highest since March 2022 and trending some 11pts above the Q1 average, suggesting that household consumption returned to modest growth in Q2. Notwithstanding the recent recovery, consumer confidence remains historically weak, suggesting that the pickup in consumer spending will be gradual.

The week ahead in the UK

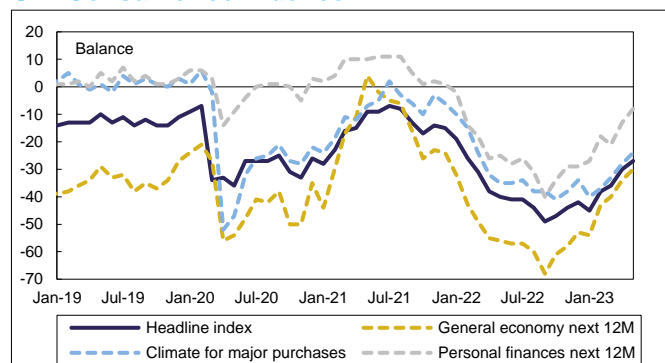
The key focus in the UK in the coming week will be the release on Wednesday of April's consumer price inflation report. We expect to see a significant decline in the headline CPI rate, by around 2ppts to 8.0%Y/Y, due principally to base effects associated with the spike in wholesale energy prices after the Russian invasion of Ukraine and the associated jump in Ofgem's household energy price cap in April 2022. Indeed, we expect energy inflation to fall almost 30ppts from 40.5%Y/Y in March. In addition, like in the euro area, food price inflation might also have passed its peak, in line with the recent downtrend in producer food price inflation. But prices of core items, particularly services, are likely to have remained stickier, with risks to our forecast for a slight moderation – down 0.1ppt to 6.1%Y/Y – perhaps skewed to the upside. In terms of activity, the flash PMIs (Tuesday) are likely to report little change in the composite output index in May (54.9) to imply solid economic expansion in the middle of Q2. Services activity might have been boosted by the additional bank holiday that month. In contrast, the CBI's distributive trades survey (Thursday) is likely to show that retailers were negatively impacted by a decline in footfall around the King's coronation. And while official retail sales figures for April (Friday) will likely report some bounce back for the weather-dampened weakness in March, the expected increase of around ½%M/M will reverse just half the decline previously. Separately, BoE Governor Bailey, Chief Economist Pill and external MPC members Mann and Tenreiro will testify on the BoE's latest Monetary Policy Report before the Treasury Select Committee.

Germany: Selected goods inflation indices












*Non-energy industrial goods. Source: S&P Global, Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence



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

Daiwa economic forecasts



	2022	2023				2024	2023	2024	2025	
		Q4	Q1	Q2	Q3					Q4
GDP		%, Q/Q					%, Y/Y			
Euro area 	0.0	0.1	0.2	0.2	0.2	0.2	0.8	1.1	1.5	
UK 	0.1	0.1	0.0	0.2	0.2	0.2	0.3	0.7	0.9	
Inflation, %, Y/Y										
Euro area										
Headline HICP 	10.0	8.0	6.2	4.5	2.8	2.7	5.3	2.3	1.7	
Core HICP 	5.1	5.5	5.4	4.7	3.9	3.2	4.9	2.5	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	4.25	4.25	4.25	4.25	3.25	3.00	
Deposit Rate 	2.00	3.00	3.50	3.75	3.75	3.75	3.75	2.75	2.50	
BoE										
Bank Rate 	3.50	4.25	4.75	4.75	4.75	4.50	4.75	3.75	3.25	

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Germany 	PPI Y/Y%	Apr	4.1	4.3	7.5	6.7
UK 	GfK consumer confidence	May	-27	-27	-30	-

Auctions


Country Auction

- Nothing to report -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.





Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Spain 	Trade balance €bn	Mar	-0.2	-	-2.5	-

Auctions

Country Auction

Spain 	sold €1.60bn of 0.00% 2025 bonds at an average yield of 3.05%					
	sold €1.31bn of 0.00% 2027 bonds at an average yield of 3.03%					
	sold €1.48bn of 1.40% 2028 bonds at an average yield of 3.09%					
	sold €2.12bn of 3.45% 2043 bonds at an average yield of 3.99%					

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 22 May 2023					
Euro area	10.00	Construction output M/M% (Y/Y%)	Mar	-	2.3 (2.3)
	15.00	Preliminary consumer confidence	May	-16.7	-17.5
France	-	Retail sales Y/Y%	Apr	-	-5.6
UK	00.01	Rightmove house price index M/M% (Y/Y%)	May	-	0.2 (1.7)
Tuesday 23 May 2023					
Euro area	09.00	Preliminary manufacturing (services) PMI	May	46.0 (55.5)	45.8 (56.2)
	09.00	Preliminary composite PMI	May	53.5	54.1
Germany	08.30	Preliminary manufacturing (services) PMI	May	45.0 (55.0)	44.5 (56.0)
	08.30	Preliminary composite PMI	May	53.0	54.2
France	08.15	Preliminary manufacturing (services) PMI	May	46.0 (54.0)	45.6 (54.6)
	08.15	Preliminary composite PMI	May	52.0	52.4
UK	07.00	Public sector net borrowing (ex banks) £bn	Apr	- (22.4)	20.7 (21.5)
	09.30	Preliminary manufacturing (services) PMI	May	47.9 (55.7)	47.8 (55.9)
	09.30	Preliminary composite PMI	May	54.7	54.9
Wednesday 24 May 2023					
Germany	09.00	ifo business climate index	May	93.0	93.6
	09.00	ifo current assessment (expectations) balance	May	94.5 (91.7)	95.0 (92.2)
UK	07.00	CPI (core CPI) Y/Y%	Apr	<u>8.0 (6.1)</u>	10.1 (6.2)
	07.00	PPI output (input) prices Y/Y%	Apr	-	8.7 (7.6)
	09.30	House price index Y/Y%	Mar	-	5.5
	11.00	CBI industrial trends survey, total orders (selling prices)	May	-	-20 (23)
Thursday 25 May 2023					
Germany	07.00	Final GDP Q/Q% (Y/Y%)	Q1	<u>0.0 (-0.1)</u>	-0.4 (0.9)
	07.00	GfK consumer confidence	Jun	-24.8	-25.7
France	07.45	INSEE business confidence	May	101	102
	07.45	INSEE manufacturing confidence (production outlook)	May	100 (-)	101 (-4)
Spain	08.00	PPI Y/Y%	Apr	-	-1.0
UK	11.00	CBI distributive trades (reported retail sales)	May	10	5
Friday 26 May 2023					
France	07.45	INSEE consumer confidence	May	84	83
Italy	09.00	ISTAT consumer confidence	May	106.0	105.5
	09.00	ISTAT business (manufacturing) confidence	May	- (102.0)	110.5 (103.0)
UK	07.00	Retail sales including auto fuels M/M% (Y/Y%)	Apr	0.2 (-2.8)	-0.9 (-3.1)
	07.00	Retail sales excluding auto fuels M/M% (Y/Y%)	Apr	0.2 (-3.0)	-1.0 (-3.2)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 22 May 2023		
Euro area	 10.00	ECB Vice President de Guindos scheduled to speak – 'Policy options to reduce the climate insurance protection gap'
	 15.15	ECB Chief Economist Lane scheduled to participate in a panel at Austrian National Bank event
	 15.15	ECB's Villeroy scheduled to speak at a conference in Paris
Tuesday 23 May 2023		
Germany	 10.30	Auction: €6.00bn of 2.800% 2025 bonds
UK	 10.00	Auction: £750mn of 0.125% 2051 index-linked bonds
	 10.15	BoE Governor Bailey and MPC members to testify on May Monetary Policy Report to Treasury Select Committee
Wednesday 24 May 2023		
Germany	 10.30	Auction: €1.50bn of 1.000% 2038 bonds
	 10.30	Auction: €1.00bn of 4.750% 2040 bonds
UK	 11.30	Auction: £3.00bn of 0.875% 2033 bonds
Thursday 25 May 2023		
Euro area	 10.00	ECB's de Guindos scheduled to present ECB Annual Report 2022 to European Parliament's Economic Committee
Italy	 10.00	2Y fixed rate and index-linked bonds
UK	 17.30	BoE's Haskel scheduled to speak
Friday 26 May 2023		
Euro area	 10.00	ECB Chief Economist Lane to participate in panel discussion on "How quickly will inflation return to target?"

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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