

# Euro wrap-up

## Overview

- Bunds ended the day little changed while data confirmed that German GDP growth in Q1 was fully explained by the weather-assisted boost to construction and the INSEE French business survey was consistent with modest GDP growth in Q2.
- Gilts were also little changed despite a significant downside surprise to UK retail sales in April, while a consumer survey suggested purchase intentions remained weak despite a boost to income expectations.
- The data highlight in the coming week will be the flash May estimate of euro area inflation (Friday), while April bank lending figures are also due.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	3.079	+0.006
OBL 2.1 04/29	2.647	-0.008
DBR 2.2 02/34	2.585	-0.010
UKT 0½ 01/26	4.480	-0.002
UKT 0½ 01/29	4.172	+0.006
UKT 4½ 01/34	4.259	+0.001

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

## Euro area

### French business sentiment subdued but not as weak as suggested by PMIs

While yesterday's [flash PMIs](#) for May were broadly encouraging, suggestive of GDP growth of around 0.3%Q/Q in the euro area and Germany in Q2, the French indices were an exception. Indeed, the French composite PMI fell back below the key 50 level to flag risks of a contraction in the second quarter. However, we have long noted that the French PMIs often provide a poor guide to GDP growth. Indeed, the French composite PMI averaged just 47.0 in Q1 when GDP rose 0.2%Q/Q, while a very modest expansion throughout the second half of last year coincided with an average composite PMI of just 45.1. And the more comprehensive INSEE business survey, which is usually a better guide to overall economic activity, continues to be consistent with positive, albeit sub-par, growth. Indeed, today's survey results for May reported little change in the business climate in the middle of Q2, with the headline composite index down a negligible 0.3pt to 98.5. That was a three-month low 1½% below the long-run average. But it was still ½pt above the average in the five months to February and – in contrast to the composite PMI – consistent with modestly positive GDP growth in Q2.

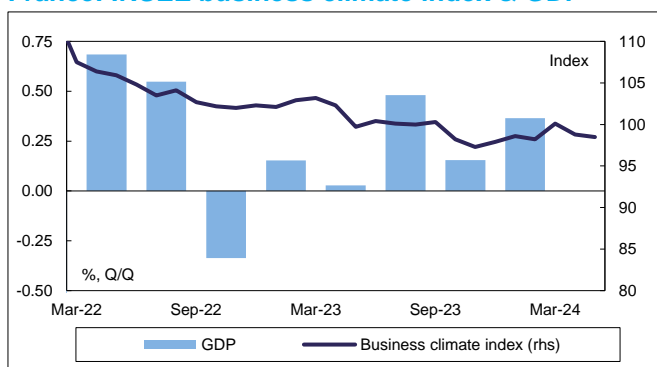
### Improvement in services offsets deterioration in industry and retail

Admittedly, the INSEE survey reported a deterioration in sentiment in industry to below the long-run average for the first time since January, albeit by just 0.8%. In particular, firms revised down their expectations for future general production and – more encouragingly for consumers – prices. Retail sentiment also slipped below the long-run average, by 0.6%, on weaker recent activity and lower orders expectations. But supported by stronger repair and maintenance activity, the business climate in construction was judged still to be slightly better than average. And while firms in the sector also revised down their selling-price expectations, services were more upbeat in May – with the respective business climate index rising to 1.2% above the long-run average – thanks to upward revisions to assessments of both recent and future activity. In part, we associate the deterioration in the flash PMIs and certain components of the INSEE survey to the timing of national holidays this year. And overall, we think that evidence currently points to a slowdown in growth in Q2 to a modest 0.1%Q/Q. However, in part buoyed by activity surrounding the Paris Olympics, we anticipate a slight pickup in growth in Q3. And stronger real incomes as well as a pickup in external demand should allow the economic recovery to gain a little more traction towards year-end. Overall, we forecast full-year French GDP growth at a relatively tepid 0.7%Y/Y in 2024.

### German GDP growth in Q1 was fully explained by the weather-assisted boost to construction

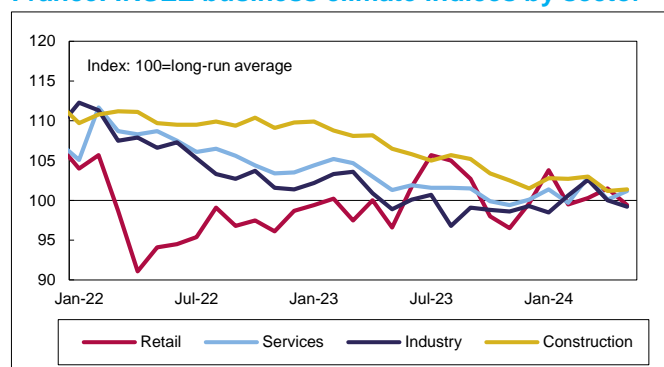
As expected, today's German national accounts confirmed the 0.2%Q/Q rise in GDP in Q1. While that was stronger than initial expectations and the best result in four quarters, it was still insufficient to reverse the drop of 0.5%Q/Q at the end of

#### France: INSEE business climate index & GDP



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: INSEE business climate indices by sector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

last year. And it left the level of economic output on a calendar-adjusted basis down 0.2%Y/Y, the same annual pace as in Q4. Today's expenditure breakdown, which was published for the first time, confirmed that the mild winter weather was the prime driver of GDP growth in Q1. Indeed, the 2.7%Q/Q rise in construction investment was the strongest in two years and accounted for 0.25ppt of GDP growth. And four-fifths of that growth in building work came from the dwellings component despite the adjustment in the residential real estate market. Overall, fixed investment rose 1.2%Q/Q, also the best since Q122, as a rebound in spending on machinery investment – seemingly driven by the public sector– broadly offset a decline in transport equipment and other capex.

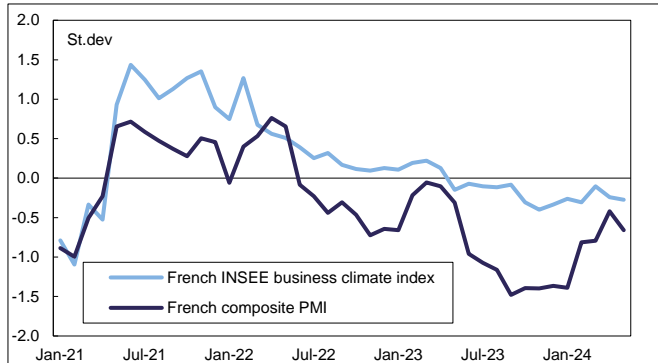
**Exports rose most in six quarters but consumption fell despite jump in disposable income**

In addition to fixed investment, net trade also made a positive contribution to GDP growth in Q1. Export volumes rose 1.1%Q/Q, the most in six quarters, to reverse more than fully the drop in Q4. And shipments outpaced imports, which nevertheless also returned to growth for the first time in three quarters and by the most in six (0.6%Q/Q). In contrast, government consumption declined for the first time in a year. And most notably, household consumption fell 0.4%Q/Q to reverse the growth in Q4 and be unchanged from a year earlier. The impact of strong growth in employee compensation (6.2%Y/Y), and hence real disposable income (2.0%Y/Y), was more than offset by a rise in the household savings ratio to an 11-quarter high. Rather than be passed onto customer prices, the higher unit labour costs were seemingly absorbed within profit margins, allowing the GDP deflator to fall to an 11-quarter low (4.5%Y/Y).

**German growth at risk of temporary payback in Q2 before consumer spending drives rebound in H2**

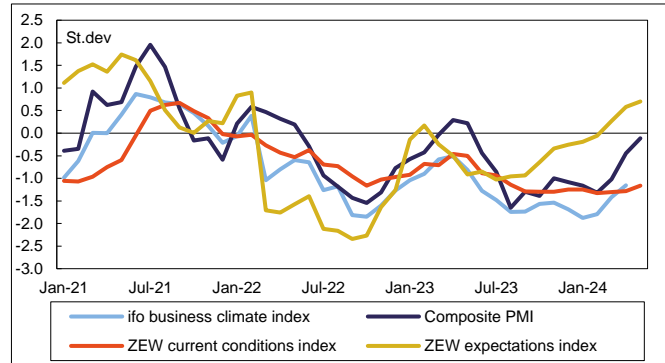
Looking ahead, the ifo survey results, due Monday, will act as a cross-check on the encouraging German flash May PMIs. While those business climate indices should maintain an uptrend, by historical standards they will not be quite as upbeat as the flash PMIs. And we see significant risks of a moderation in German GDP growth in Q2 to 0.1%Q/Q, principally due to payback for the temporary surge in construction in Q1. However, continued strong growth in employee compensation should fuel a pickup in private consumption in the second half of the year, particularly if households feel sufficiently confident to reducing their precautionary saving. So, we also anticipate a step up in German GDP growth on a sequential basis in H224 and 2025. Nevertheless, given the negative carry-over from the end of 2023, full-year German growth in 2024 is likely to be barely, if at all, above zero.

**France: Normalised business sentiment indices**



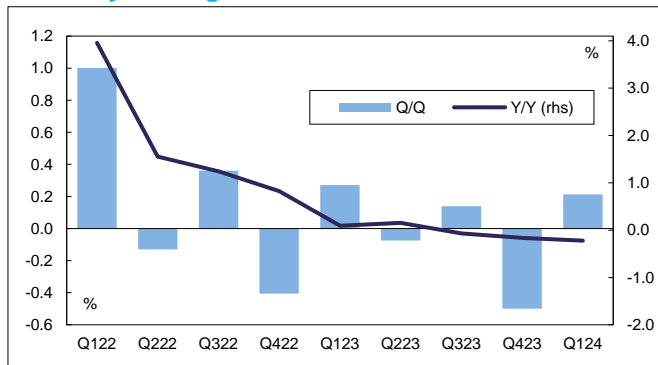
Source: INSEE, S&P Global, Macrobond & Daiwa Capital Markets Europe Ltd.

**Germany: Normalised business sentiment indices**



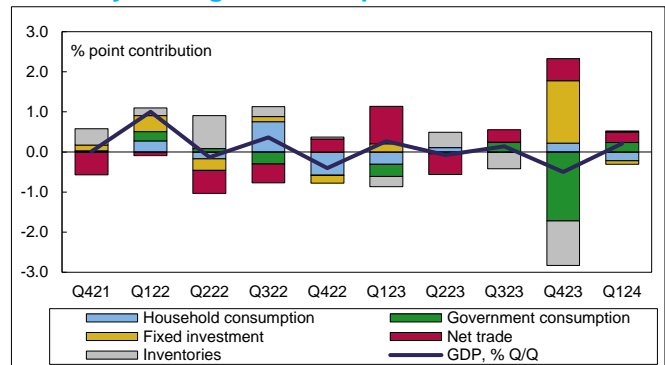
Source: ifo, ZEW, S&P Global, Macrobond & Daiwa Capital Markets Europe Ltd.

**Germany: GDP growth**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Germany: GDP growth & expenditure contributions**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## The week ahead in the euro area

The main focus in the coming week will be the flash May estimate of euro area consumer price inflation due Friday. Having fallen over the first few months to 2.4%Y/Y in March, the headline HICP rate was unchanged at that level in April. And we expect it to pick back up in May to 2.6%Y/Y, which would point to a slight overshoot of the ECB's projection for Q2. However, the increase would in part be related to unfavourable base effects. Despite a fall in auto fuel and heating oil prices this month, energy inflation is likely to rise back into positive territory for the first time since April 2023. And not least due to a fall in prices a year ago, we expect no decline in food inflation either. Among core items, goods inflation should ease a touch further to the lowest since mid-2021. However, given the base effect associated with the introduction of the subsidized Deutschland public transport ticket in May 2023, services inflation is likely to rise. As such, we currently expect core inflation to be unchanged at 2.7%Y/Y, with the risks skewed to the upside, which would similarly leave the ECB's projection for Q2 at risk of being overshoot. The flash data from Germany (Wednesday) and Spain (Thursday) will provide a guide as to what to expect from the euro area figures.

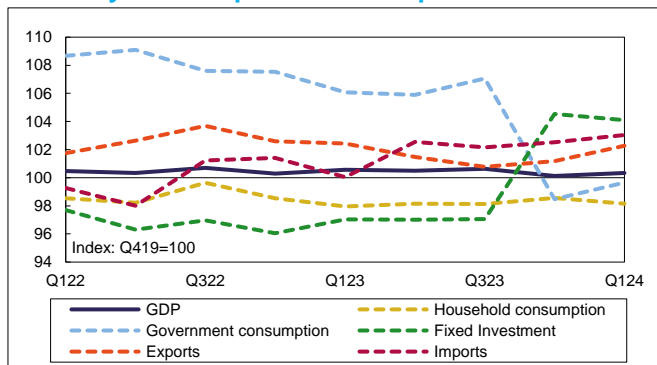
Among other notable data due in a busy week, labour market figures (Thursday) are likely to show that the euro area unemployment rate remained at its series low of 6.5% for a sixth successive month in April. In addition, the ECB's monetary data (Wednesday) might provide further evidence of a cyclical upswing, although lending to corporations is likely to remain relatively subdued. Survey-wise, the German ifo indices (Monday) and Commission economic sentiment indicators (Thursday) will provide a cross-check on yesterday's upbeat [flash May PMIs](#). While its flash consumer confidence index rose in May to the highest since Russia's invasion of Ukraine, we note that the Commission's business indices were more downbeat than the PMIs in April. Meanwhile, the ECB's April consumer survey (Tuesday) should suggest again that household inflation expectations remain well anchored.

## UK

### Retail sales slump at start of Q2 as heavy rainfall dampened demand

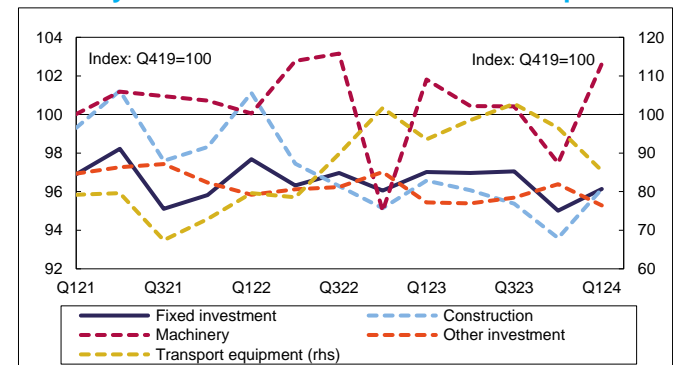
Despite the boost to household budgets at the start of Q2 from the cut to National Insurance Contributions and 12% reduction in household energy prices, retail sales slumped in April, by a larger than expected 2.3%M/M, the most since the 3.9%M/M drop in December. The estimate of sales growth in March was also revised slightly lower, by 0.2ppt to -0.2%M/M. While this still left sales up 0.7%3M/3M, that figure is flattered by the extreme volatility at the turn of the year. Indeed, today's outturn left sales down 3%Y/Y and more than 3% below the Q1 average suggesting that they are highly to drop over Q2 as a whole. Heavy rainfall seemingly dampened demand on the High Street at the start of Q2 while the early timing of Easter this

#### Germany: GDP expenditure components



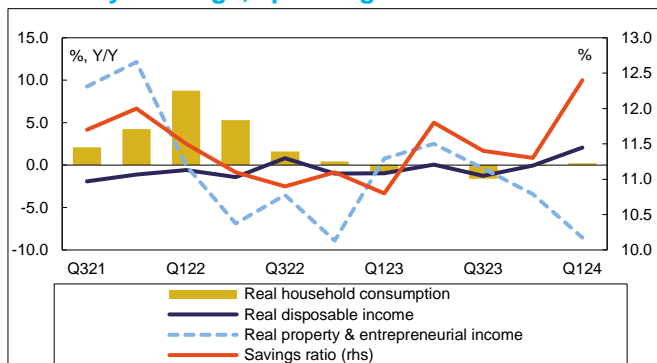
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Fixed investment & selected components



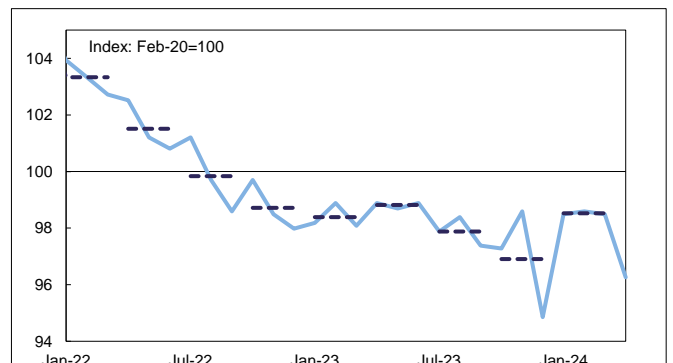
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Savings, spending & income\*



\*Consumption & income series adjusted by household consumption deflator.  
 Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Retail sales\*



\*Dashed dark blue line represents quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

year also likely played a role. Certainly, sales at clothing stores fell a striking 5.1%M/M – the most since December 2022 – while sales of household goods declined 5.4%M/M – the most since September 2021 – as demand for summer apparel and garden furniture was lacklustre. Food store sales also dropped for a third successive month (-0.8%M/M). And given a further jump in petrol prices in April, auto fuel sales fell the most since autumn 2021 (-4.9%M/M). Indeed, the only source of growth last month came from non-store retailing, with the 1.1%M/M rise partly reversing the decline in March. So, having provided a significant boost to GDP growth in Q1, household spending on goods looks odds-on to be a non-negligible drag in Q2.

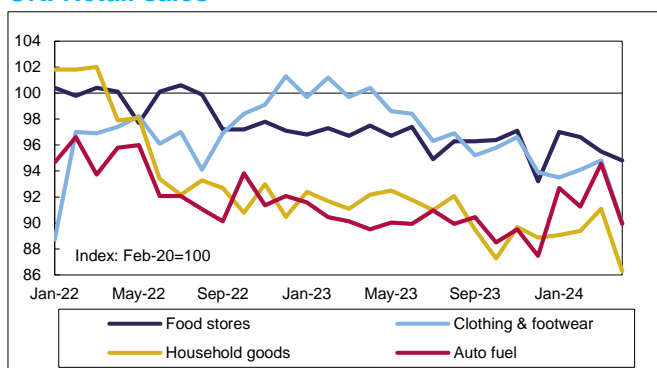
### Consumers most upbeat for more than two years, but purchase intentions remain weak

At face value, today's GfK consumer confidence survey results point to an improved spending outlook over the near term. In particular, the headline sentiment index rose a further 2pts in May to -17, the highest level since December 2021. And while that level remains some way off the pre-pandemic five-year average (-6), it is nevertheless significantly higher than the pandemic trough (-49) in September 2022. But while households are seemingly the most upbeat about the prospects for their own incomes since August 2021 – the respective survey index (7) is currently above both the pre-pandemic five-year and long-run averages – they continued to judge the climate for major purchases to be unfavourable, preferring instead to bolster their savings. The regulator Ofgem announced today that the energy price cap will be cut by a further 7% from the start of July to give a further boost to disposable incomes in Q3. However, recent developments in wholesale energy prices could see the price cap hiked as much as 12% at the start October with risks of a further modest increase in January too. And given the recent decline in job vacancies and employment growth, and strong likelihood that the first BoE rate cut will now not come before August, we expect households to remain reluctant to spend on big-ticket items over coming months.

### The week ahead in the UK

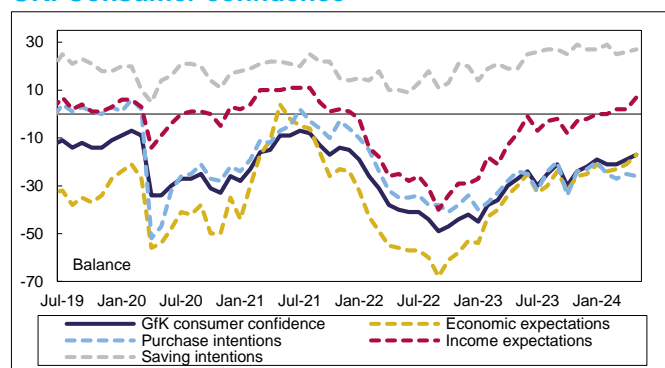
After Monday's Bank Holiday, the remainder of the coming week in the UK will be very light for top-tier economic data. The CBI Distributive Trades survey results (Tuesday) will give insights into the strength of retail sales in May, while the BRC shop price survey the same day will do likewise for inflation on the high street. And the BoE's monetary data (Friday) should report a pickup in mortgage approvals in April to a two-year high while growth in consumer credit is likely to remain firm close to 9%Y/Y.

#### UK: Retail sales












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Consumer confidence






Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## Daiwa economic forecasts

	2024				2025		2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2			
<b>GDP</b>	<b>%, Q/Q</b>						<b>%, Y/Y</b>		
Euro area 	0.3	0.2	0.2	0.3	0.3	0.4	0.5	0.6	1.3
UK 	0.6	0.3	0.3	0.2	0.2	0.3	0.1	0.7	1.0
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline HICP 	2.6	2.5	2.2	2.5	2.1	1.7	5.4	2.4	1.8
Core HICP 	3.1	2.7	2.5	2.8	2.3	1.6	4.9	2.8	1.7
UK									
Headline CPI 	3.5	2.1	2.2	2.8	2.4	2.0	7.3	2.7	2.1
Core CPI 	4.6	3.5	3.2	3.2	2.7	1.7	6.2	3.6	1.9
<b>Monetary policy, %</b>									
ECB									
Deposit Rate 	4.00	3.75	3.50	3.25	3.00	2.75	4.00	3.25	2.25
Refi Rate 	4.50	4.25	3.65	3.40	3.15	2.90	4.50	3.40	2.40
BoE									
Bank Rate 	5.25	5.25	5.00	4.75	4.50	4.25	5.25	4.75	3.75

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	
Germany 	GDP – second estimate Q/Q% (Y/Y%)	Q1	<b>0.2 (-0.2)</b>	0.2 (-0.2)	-0.5 (-0.2)	-	
France 	INSEE business (manufacturing) sentiment indicator	May	<b>99 (99)</b>	100 (100)	99 (100)	-	
UK 	GfK consumer confidence indicator	May	<b>-17</b>	-18	-19	-	
	Retail sales, including auto fuel sales M/M% (Y/Y%)	Apr	<b>-2.3 (-2.7)</b>	-0.6 (-0.3)	0.0 (0.8)	-0.2 (0.4)	
	Retail sales, excluding auto fuel sales M/M% (Y/Y%)	Apr	<b>-2.0 (-3.0)</b>	-0.8 (-1.2)	-0.3 (0.4)	-0.6 (0.0)	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.











# The coming week's data calendar

## The coming few week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
<b>Monday 27 May 2024</b>					
Germany		09.00 Ifo business climate indicator	May	90.5	89.4
		09.00 Ifo current assessment (expectations) indicator	May	89.8 (90.8)	88.9 (89.9)
France		- BoF retail sales* M/M% (Y/Y%)	May	-	0.5 (0.3)
<b>Tuesday 28 May 2024</b>					
Euro area		09.00 ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Apr	-	3.0 (2.5)
UK		00.01 BRC shop price index Y/Y%	May	-	0.8
		11.00 CBI distributive trades survey – reported retail sales balance %	May	-	-44
<b>Wednesday 29 May 2024</b>					
Euro area		09.00 M3 money supply Y/Y%	Apr	1.4	0.9
Germany		07.00 GfK consumer confidence indicator	Jun	-22.0	-24.2
		13.00 Preliminary HICP (CPI) Y/Y%	May	2.7 (2.4)	2.4 (2.2)
France		07.45 INSEE consumer confidence indicator	May	91	90
Italy		09.00 ISTAT consumer confidence indicator	May	-	95.2
		09.00 ISTAT business (manufacturing) confidence indicator	May	-	95.8 (87.6)
Spain		08.00 Retail sales Y/Y%	Apr	-	0.6
<b>Thursday 30 May 2024</b>					
Euro area		10.00 Commission's Economic Sentiment Indicator rate %	May	96.1	95.6
		10.00 Commission's industrial (services) confidence indicator	May	-9.7 (6.7)	-10.5 (6.0)
		10.00 Commission's final consumer confidence indicator	May	-14.3	-14.7
		10.00 Unemployment rate %	Apr	6.5	6.5
Spain		08.00 Preliminary HICP (CPI) Y/Y%	May	3.7 (3.6)	3.4 (3.3)
<b>Friday 31 May 2024</b>					
Euro area		10.00 Preliminary headline (core) HICP Y/Y%	May	<u>2.6 (2.7)</u>	2.4 (2.7)
Germany		07.00 Retail sales M/M% (Y/Y%)	Apr	-	2.3 (-2.2)
France		07.45 Preliminary HICP (CPI) Y/Y%	May	2.7 (2.4)	2.4 (2.2)
		07.45 PPI Y/Y%	Apr	-	-7.5
		07.45 Consumer spending M/M% (Y/Y%)	Apr	0.2 (1.4)	0.4 (0.5)
		07.45 GDP – 2 <sup>nd</sup> estimate Q/Q% (Y/Y%)	Q1	0.2 (1.1)	0.1 (0.8)
Italy		09.00 GDP – 2 <sup>nd</sup> estimate Q/Q% (Y/Y%)	Q1	0.3 (0.6)	0.1 (0.7)
		10.00 Preliminary HICP (CPI) Y/Y%	Apr	0.8 (0.8)	0.9 (0.8)
UK		00.01 Lloyds business barometer (own price expectations)	May	-	42 (60)
		07.00 Nationwide house price index M/M% (Y/Y%)	May	0.1 (0.8)	-0.4 (0.6)
		09.30 Net consumer credit £bn (Y/Y%)	Apr	-	1.6 (8.8)
		09.30 Mortgage lending £bn (approvals 000s)	Apr	0.5 (61.5)	0.3 (61.3)

\*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 27 May 2024</b>		
Euro area	 12.00	ECB Chief Economist Lane scheduled to speak about inflation in the euro area
<b>Tuesday 28 May 2024</b>		
Euro area	 05.55	ECB's Schnabel to participate in panel discussion on 'price dynamics and monetary policy challenges' at BoJ conference
Germany	 10.30	Auction: €1.0bn of 2.1% 2029 green bonds
	 10.30	Auction: €1.0bn of 2.3% 2033 green bonds
Italy	 10.00	Auction: €1.75bn of 0% 2024 bonds
	 10.00	Auction: €2.75bn of 3.2% 2026 bonds
	 10.00	Auction: €1.5bn of 2033 index-linked bonds
<b>Wednesday 29 May 2024</b>		
Germany	 10.30	Auction: €500mn of 1% 2038 bonds
	 10.30	Auction: €1.5bn of 2.6% 2041 bonds
UK	 10.00	Auction: £1.0bn of 0.125% 2039 index-linked bonds
<b>Thursday 30 May 2024</b>		
- Nothing scheduled -		
<b>Friday 31 May 2024</b>		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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