

# Euro wrap-up

## Overview

- Bunds followed US10s lower even as an ECB survey signalled that households are more optimistic about the inflation outlook.
- Despite UK surveys signalling a further easing in retail selling prices, Gilts also made modest losses as sales volumes reportedly returned to seasonal norms in May.
- Wednesday will bring the flash German inflation estimate for May, along with ECB monetary data and consumer confidence survey results from Germany, France and Italy.

Emily Nicol

+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	3.051	+0.021
OBL 2.1 04/29	2.641	+0.033
DBR 2.2 02/34	2.591	+0.045
UKT 0½ 01/26	4.483	+0.002
UKT 0½ 01/29	4.181	+0.007
UKT 4½ 01/34	4.279	+0.019

\*Change from close as at 5.00pm BST.

Source: Bloomberg

## Euro area

### ECB survey suggests households more optimistic about inflation outlook

While [euro area headline inflation](#) moved sideways in April, it nevertheless matched the lowest rate since mid-2021. Core inflation (2.7%Y/Y) also fell to its lowest since February 2022, with other measures of underlying inflation moderating further at the start of Q2 too. Today's ECB consumer survey also illustrated that the risk of inflation persistence continues to diminish. Indeed, according to the latest survey results, the median expectation for inflation twelve months ahead fell for a third consecutive month in April, down 0.1ppt to 2.9%Y/Y, the lowest since September 2021. Among the largest member states, the median rate dropped 0.4ppt to 2.5%Y/Y in Germany and France, with the former similarly the softest since September 2021 and the latter the lowest since February 2022. Expectations moved sideways in Italy and Spain (3.0%Y/Y), the joint-lowest since 2021, but ticked up in the Netherlands (+0.4ppt to a four-month high of 2.9%Y/Y). Of course, what matters more for the ECB's monetary policy decision is inflation expectations over the medium term. And in this respect, today's survey was more encouraging too. The median expectation for euro area inflation in three years' time fell for the first month in five, by 0.1ppt to 2.4%Y/Y, matching the bottom of the range of the past two years. It also fell in Germany and France to be just 0.1ppt above the ECB's 2% target and was unchanged in Spain and the Netherlands (2.5%Y/Y). And while it edged slightly higher in Italy (2.5%Y/Y), it was just 0.1ppt above the bottom of the range of the past year.

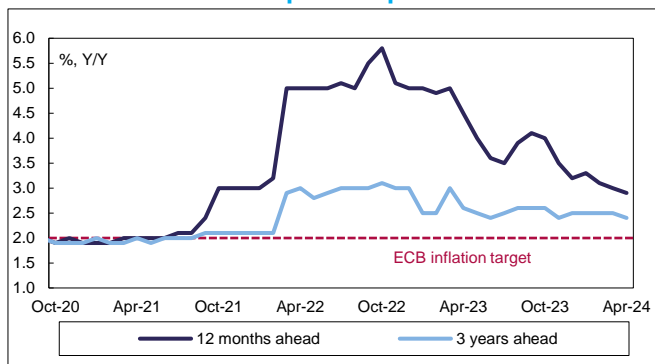
### Consumer expectations of income, spending and economic growth still subdued

Among the ECB consumer survey's other findings, despite the modest improvement in inflation expectations, household remained relatively downbeat about their income expectations, with the median forecast of nominal incomes in the twelve months ahead unchanged at just 0.1%Y/Y. The median forecast for spending (2.4%Y/Y) was also judged to have worsened slightly. And while expectations for economic output over the coming year were the best for nine months, households on average still expected GDP to contract 0.8%Y/Y. However, the Commission's preliminary [consumer confidence](#) index for May rose further to the highest since February 2022, consistent with a gradual pickup in real private spending growth over coming quarters. In addition, the [flash PMIs](#) this month also signalled the strongest recovery momentum in a year.

### German ifo survey signals mixed messages about recovery momentum

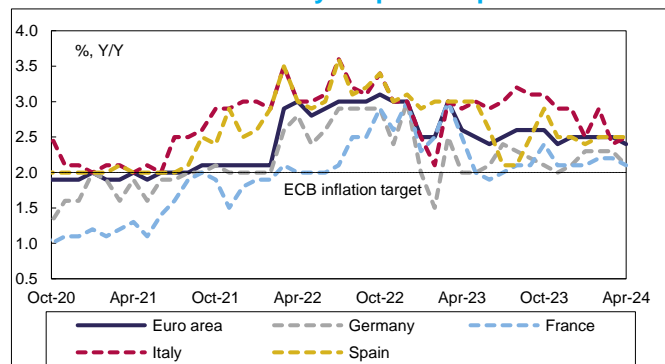
While the PMIs were more encouraging with respect to Germany's recent economic performance, yesterday's ifo business survey results offered a somewhat less rosy assessment of business conditions in the middle of Q2. Indeed, having risen to an eleven-month high in April, the headline business climate index moved sideways in May at a below-average 89.3. Nevertheless, this still left the index trending a little more than 3pts above the Q1 average and therefore – like the PMIs –

### Euro area: Consumer price expectations



Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumer 3-year price expectations



Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

signalling another quarter of positive GDP growth in Q2. But tallying also with the [ZEW investor survey](#), there was a slight worsening in current assessments. Admittedly, the deterioration in current conditions reflected a drop in services sentiment from April's nine-month high, which might have been flattered by the timing of Easter this year. But this still left the respective survey index trending so far in Q2 some 5pts above the Q1 average, suggesting that services activity continued to support Germany's recovery. And while retailers reported little improvement in May, the current situation balance was still averaging some 11½pts above Q1. Having provided a significant weather-assisted boost to GDP growth in Q1, construction firms were unsurprisingly only marginally more satisfied about current conditions so far in Q2. And although manufacturers were less downbeat about current conditions than in April, the respective balance was still trending some 2pts below the Q1 average. While pessimists continued to outweigh the optimists with respect to the near-term outlook, the expectations component nevertheless rose to a 13-month high in May, up 0.7pt to 90.4. And the survey detail suggested that the improvement was widespread across sectors, as firms look set to benefit from a cut in interest rates and the forthcoming Euro 2024 football championships. So, while the pace of GDP growth might well moderate in Q2, we also expect it to step up over the summer.

**The day ahead in the euro area**

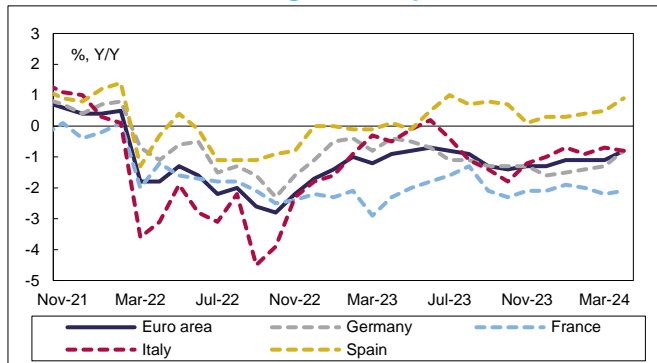
Ahead of the flash May euro area inflation estimate on Friday, the main focus tomorrow will be the equivalent German figures. Having fallen in March (2.3%Y/Y) to its joint-lowest reading since June 2021, Germany's EU-harmonised measure of headline inflation is forecast to have ticked slightly higher for a second successive month in May, by 0.3ppt to 2.7%Y/Y. However, the increase will in part be related to unfavourable base effects associated with the introduction of the subsidized Deutschland public transport ticket in May 2023. And while non-energy industrial goods inflation should ease a touch further, we suspect that core inflation will temporarily edge higher from 2.9%Y/Y in April. Wednesday will also bring the ECB's monetary data for April, which might provide further evidence of a cyclical upswing, although lending to corporations is likely to remain relatively subdued. And survey-wise, consumer confidence survey results for May will be published in Germany, France and Italy, with ISTAT business sentiment indicators also due.

**UK**

**CBI survey suggest retail sales back in line with seasonal norms in May, but outlook uncertain**

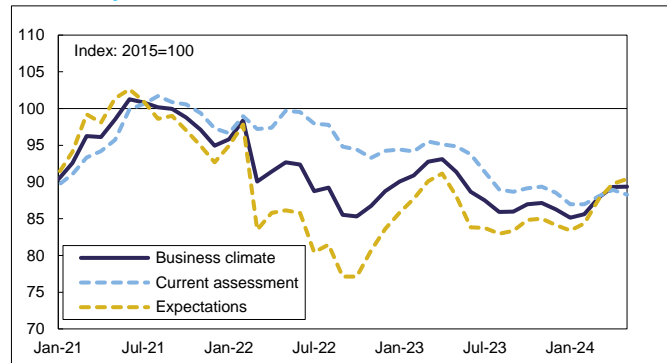
While retail sales provided a solid contribution to [UK GDP](#) in Q1 thanks to strong growth at the start of the year, the fell sharply in April as heavy rainfall dampened demand for summer apparel and garden furniture. But today's CBI distributive trades survey offered cautious optimism that sales might return to growth this month. In particular, the survey's measure of retail sales volumes in the year to May jumped 52ppts to 8%, the highest net balance since December 2022. But this was

**Euro area: Consumer growth expectations**



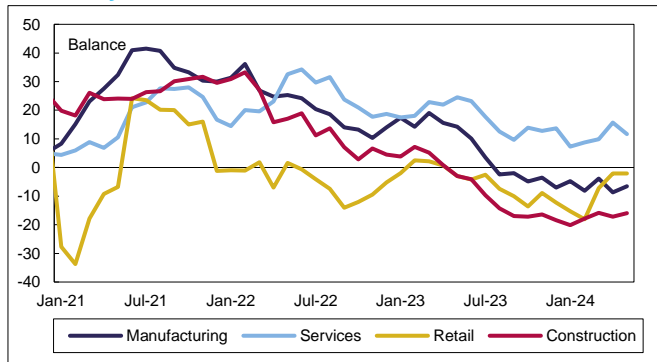
Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

**Germany: ifo business sentiment indices**



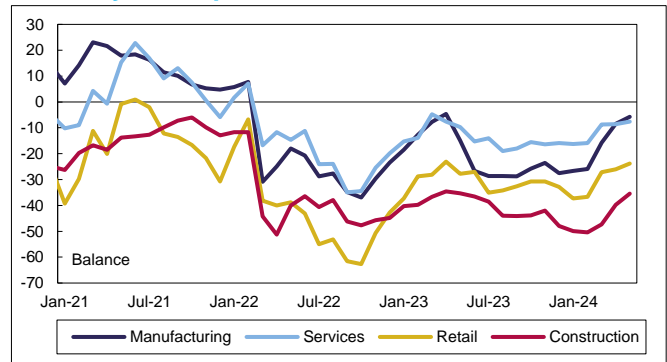
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Germany: ifo current assessment indices**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Germany: ifo expectations indices**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

still below the long-run average, while retailers merely considered sales to be in line with the average for the month of May. And, on balance, they expected sales volumes to fall slightly in June in line with seasonal norms, supporting our view that the retail sector is likely to provide a drag on GDP growth this quarter. Not least due to stronger real income growth and the recent improvement in consumer confidence, we still expect sales to trend slightly higher over coming months. Certainly, orders placed on suppliers reportedly declined at the softest pace in thirteen months in May, while retailers judged excess inventories to be broadly in line with the long-run average. This notwithstanding, retailers seemingly remain unconvinced by the near-term outlook, with hiring intentions reportedly declining for the seventh consecutive quarter, while investment intentions also deteriorated.

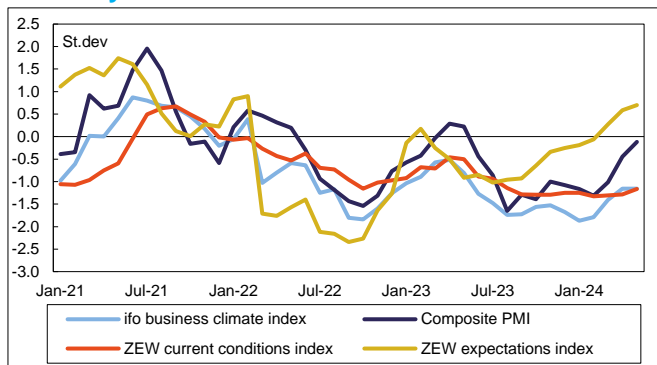
### Shop price inflation drops to lowest since November 2021

Despite the rise in cost burdens at the start of the second quarter associated with the near-10% rise in the national living wage, today's CBI survey suggested that retailer selling prices moderated sharply compared with three months ago, with the respective net balance dropping 34ppts to 20%, its lowest level since August 2020 and back below its long-run average. This tallied with the finds from today's BRC shop price release, which suggested that inflation on the high street eased further in May amid fierce competition and subdued demand. Overall, shop price inflation fell a further 0.2ppt to 0.6%Y/Y, the lowest since November 2021, more than 8ppts below last year's peak and finally back in line with 'normal' rates. Despite still sticky ambient food inflation (4.8%Y/Y), there was a further disinflationary trend in food prices, with the BRC's measure (3.2%Y/Y) down to its lowest rate since November 2021. The downtrend in non-food inflation also continued, slipping further into negative territory (-0.8%Y/Y), with steep discounting in clothing (-7.5%Y/Y), electrical products (-1.6%Y/Y) and furniture (-1.0%Y/Y). Given the weakness in demand and still relatively subdued purchase intentions, we expect the disinflationary trend in core goods to be maintained over coming months.

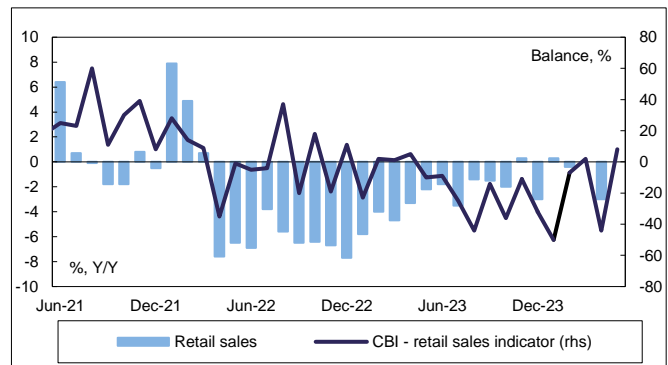
### The day ahead in the UK

Wednesday should be a relatively quiet day for economic releases.

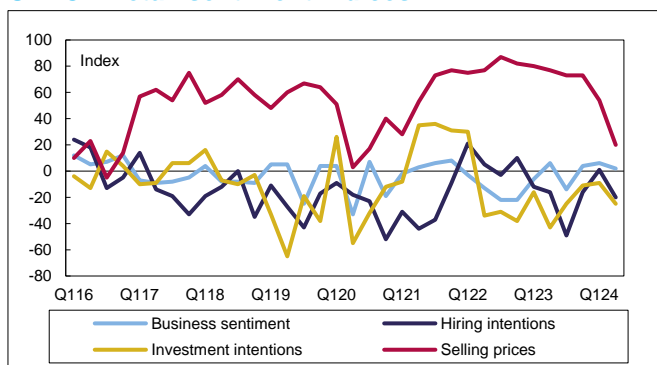
#### Germany: Business sentiment indices



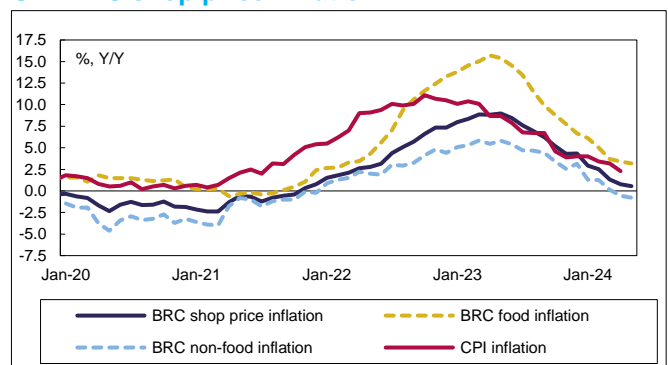
#### UK: Retail sales



#### UK: CBI retail sentiment indices






#### UK: BRC shop price inflation








## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Apr	<b>2.9 (2.4)</b>	-	3.0 (2.5)	-
UK	 BRC shop price index Y/Y%	May	<b>0.6</b>	-	0.8	-
	 CBI distributive trades survey – reported retail sales balance %	May	<b>8</b>	-	-44	-




#### Auctions

Country	Auction
Germany	 sold €986mn of 2.1% 2029 green bonds at an average yield of 2.6%
	 sold €846mn of 2.3% 2033 green bonds at an average yield of 2.51%
Italy	 sold €1.75bn of 0% 2024 bonds at an average yield of 3.48%
	 sold €2.75bn of 3.2% 2026 bonds at an average yield of 3.51%
	 sold €1.5bn of 2033 index-linked bonds at an average yield of 1.72%

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
Germany	 Ifo business climate indicator	May	<b>89.3</b>	90.5	89.4	89.3
	 Ifo current assessment (expectations) indicator	May	<b>88.3 (90.4)</b>	89.8 (90.8)	88.9 (89.9)	- (89.7)
France	 BoF retail sales M/M% (Y/Y%)	May	<b>-0.5 (0.0)</b>	-	0.5 (0.3)	0.7 (0.9)








#### 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
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	96.0	95.2
	 09.00	ISTAT business (manufacturing) confidence indicator	May	-	95.8 (87.6)
Spain	 08.00	Retail sales Y/Y%	Apr	-	0.6

#### Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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 DCME'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://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit\\_ratings.pdf](https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf). If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

#### **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.