

Euro wrap-up

Overview

- Bunds made gains as euro area consumer confidence deteriorated sharply amid rising economic uncertainties.
- Gilts made larger gains as previously hawkish BoE policymaker Greene warned that US tariffs posed disinflationary risks for the UK.
- Wednesday will bring the flash April PMIs and euro area goods trade data for February, while various ECB and BoE policymakers are due to speak publicly.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	1.647	-0.031
OBL 2.4 04/30	1.975	-0.041
DBR 2½ 02/35	2.435	-0.032
UKT 3¾ 03/27	3.819	-0.086
UKT 4¾ 03/30	3.972	-0.068
UKT 4½ 03/35	4.544	-0.023

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

Euro area

Consumer confidence falls sharply as economic uncertainties rise

The impact of persisting uncertainties surrounding US tariffs and geopolitical risks was again evident in today's consumer confidence survey results, which reported a further significant hit to household sentiment at the start of Q2. According to the Commission's flash estimates, consumer confidence in the euro area deteriorated for a second successive month in April, by larger-than-expected 2.2pts to -16.7, the lowest since November 2023. And while this was comfortably above the trough in 2022 at the peak of the recent inflation shock, the index was almost 1 standard deviation below the long-run average. While today's release provided no additional detail, consumer surveys from the Netherlands and Belgium reported that households judge that the economic outlook is becoming increasingly unfavourable, as firms pause or cancel hiring and investment plans. As such, we expect the detailed Commission survey results (to be published a week today) to signal an ongoing preference among consumers to save rather than spend. And we suspect that private consumption will provide little to no support to GDP growth this quarter.

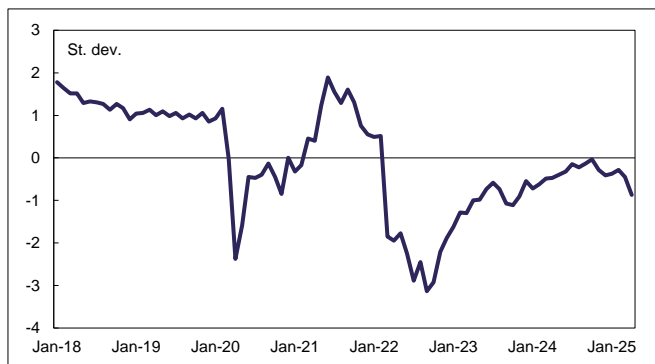
Higher defence spending expected to partially offset US tariffs, but risks skewed to downside

While the 90-day postponement of the implementation of the 20% US reciprocal tariff rate on EU goods might see firms continue to front-load exports over the near term, we suspect that euro area economic output will contract slightly in Q2 and again in Q3 in part due to payback for the strength in exports in Q1 and as downbeat sentiment takes its toll. As a result, we recently revised down our full-year euro area GDP forecast for 2025 to 0.6%YY. The ECB's Survey of Professional Forecasters (SPF) – published today and conducted between 1-4 April – also reported a downward revision to the mean forecast of euro area GDP growth in 2025, albeit of just 0.2ppt to 0.9% for 2025, in line with the March ECB staff projection and 0.1ppt above the IMF's new projection. Supported in part by higher German government spending, the SPF mean growth projection for 2026 was also in line with the ECB and IMF projections at 1.2%, but some ½ppt above our own. But today's survey also reported an increasingly downward skew to the distribution for GDP growth expectations. And not least given the marked turn to the worse for sentiment, we suspect that growth forecasts this year and next will in due course be revised lower.

Fiscal updates flag euro area's favourable fundamentals as global portfolios rebalance

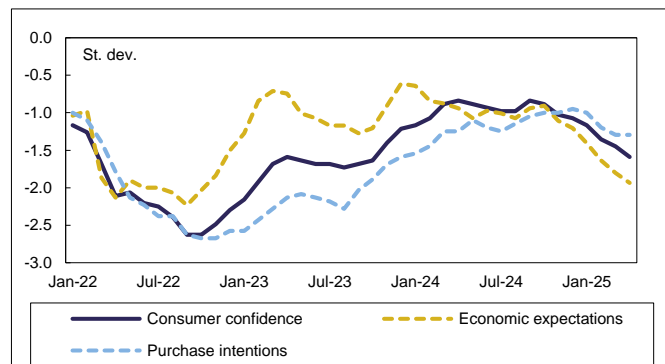
As global portfolios appear to rebalance in response to increased perceptions of US risk, today's first EU member state fiscal notifications for 2024 flagged the more favourable budgetary fundamentals in the euro area. Indeed, the data confirmed that the euro area general government budget deficit narrowed 0.4ppt to a five-year low of 3.1% of GDP, just 10bps above the

Euro area: Consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

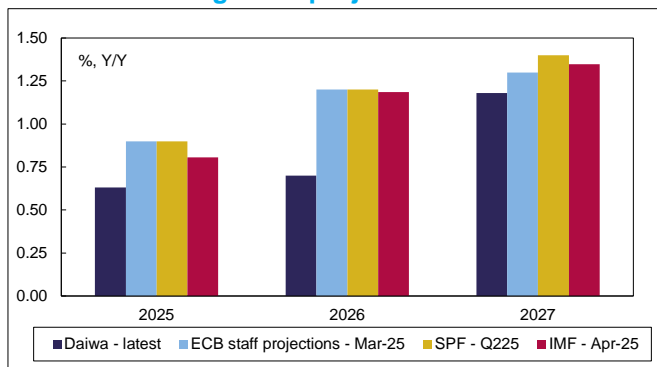
Netherlands: Consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

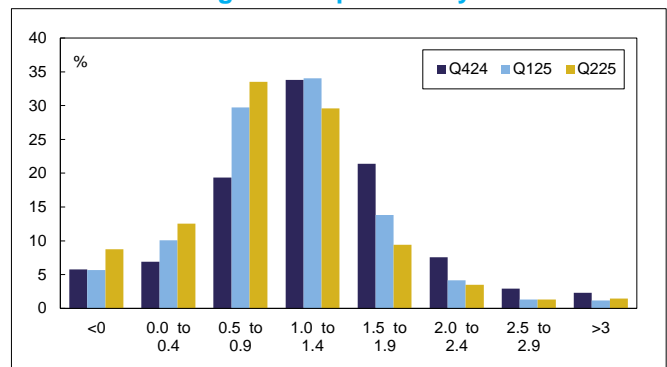
Treaty limit and some 4.2ppts below the IMF's equivalent estimate for the US. That left euro area general government gross debt little changed from the prior year at 87.4% of GDP, more than 33ppts below the equivalent estimate for the US. Among the member states, Portugal, Ireland and Greece posted budget surpluses last year. And as it withdrew some of its temporary support measures from the energy price shock, Italy's budget deficit more than halved to 3.4% of GDP, also a five-year low. Among the member states to increase government borrowing last year, Germany's deficit edged up 0.3ppt to a three-year high of 2.8% of GDP as the previous government took initial steps to boost military spending. And France's deficit rose 0.4ppt to a three-year high of 5.8% of GDP due to post-election policy paralysis. Given the new government's pledge to increase public spending on defence and infrastructure, the IMF's updated projections, also published this afternoon, foresee the German deficit rising above 4.0% of GDP by 2028. And in the absence of corrective action, the French deficit is projected to rise above 6.0% of GDP from 2027 on. Nevertheless, given the strength of public finances in many other member states, the IMF still forecasts aggregate euro area borrowing to remain below 4.0% of GDP over the horizon with the general government debt stock rising to 80% of GDP only in 2029. In contrast, the IMF projects US general government deficit to remain firmly above 5.0% of GDP over the horizon, pushing the debt stock to above 125% of GDP by 2027 and higher still by the end of the decade.

Euro area: GDP growth projections



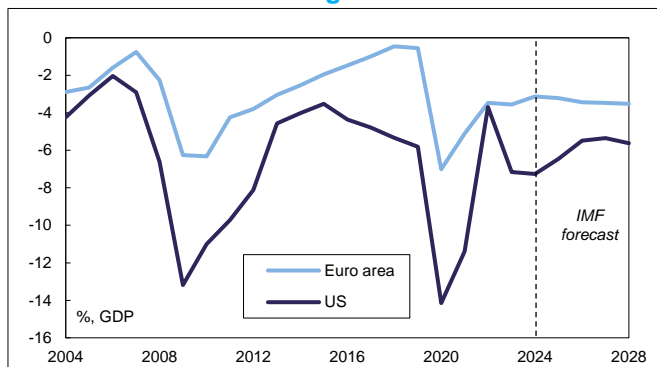
Source: ECB, IMF, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: 2025 growth – probability distributions



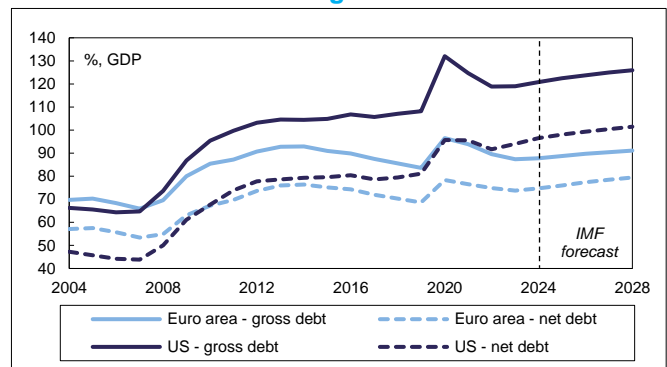
Source: SPF, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area & US: General government balance



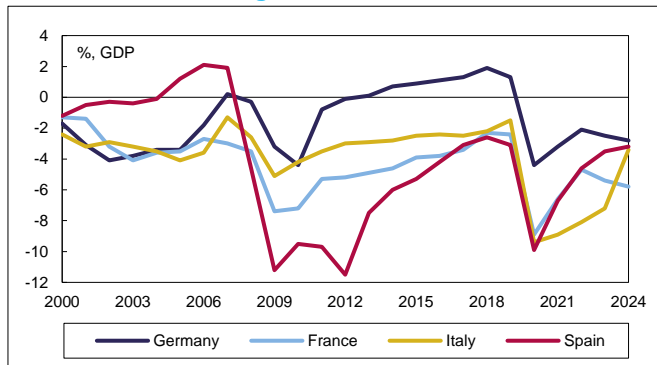
Source: IMF, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area & US: General government debt



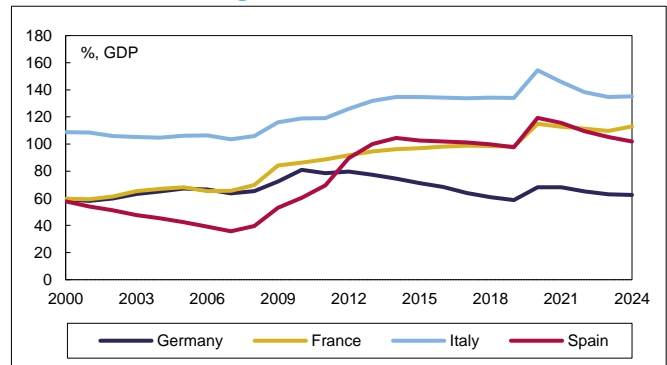
Source: IMF, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: General government balance



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

Euro area: Gross government debt



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

The day ahead in the euro area

Tomorrow's data flow will also likely be influenced by economic uncertainty relating to US tariffs, with the flash April PMIs to provide an update on economic conditions and growth prospects at the start of Q2, while February's goods trade report will likely flag efforts by manufacturers to front-run tariffs. In terms of the PMIs, March's survey had hinted at a front-loading of production as the manufacturing output PMI rose to the highest in almost three years to push the composite output index up to a seven-month high (50.9). But with Trump's subsequent announcements bringing higher tariffs than anticipated and given ongoing uncertainty surrounding future trade arrangements, we expect the PMIs – for the euro area, Germany and France alike – to point to a notable deterioration at the start of Q2. Meanwhile, the euro area goods trade surplus likely widened in February, with early releases from Ireland and Germany – the primary drivers of the EU's bilateral goods trade surplus with the US – both flagging notable increases in US-bound exports, amid a surge in pharmaceutical and other chemical shipments. By comparison, the risks to construction output in February are skewed to the downside given an apparent pullback in German housebuilding (-7.6%M/M) that month. Separately, a number of Governing Council members – including ECB Chief Economist Lane, Bank of France Governor Villeroy and National Bank of Netherlands President Knot – are likely to reiterate in various speeches their awareness of the increasing downside risks to the euro area growth outlook highlighted by ECB President Lagarde after last week's [monetary policy](#) meeting.



The day ahead in the UK

After a quiet start to the week for UK economic news, the focus tomorrow will be on the flash PMIs for April. After the headline composite PMI notably rose last month, by 1.0pt to a five-month high of 51.5, tomorrow's indices will be closely watched for evidence of any tariff-related blows to UK business activity. As a result of the US actions, we expect March's upturn to be partially reversed. But the respective cost and employment PMIs will also be in focus as higher employers' National Insurance Contributions and minimum wages took effect at the start of this month. Tomorrow will also bring first release of public finance statistics since the Chancellor's Spring Statement. March's data will be benchmarked against the updated forecasts from the OBR, although they should now be of less immediate policy relevance given the extremely uncertain economic outlook. In addition to the data, attention will also turn to speeches from various BoE MPC members, including Governor Bailey, Chief Economist Pill and Deputy Governor Breeden, for any further insights into near-term policy decisions.


European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Preliminary debt-to-GDP %	2024	87.4	-	87.4	87.3
	 Preliminary Commission consumer confidence indicator	Apr	-16.7	-15.1	-14.5	-












Auctions

Country	Auction
Germany	 sold €3.8bn of 1.7% 2027 bonds at an average yield of 1.67%









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	Preliminary manufacturing (services) PMI	Apr	47.5 (50.5)	48.6 (51.0)
	 09.00	Preliminary composite PMI	Apr	50.3	50.9
	 10.00	Trade balance €bn	Feb	15.0	14.0
	 10.00	Construction output M/M% (Y/Y%)	Feb	-	0.2 (0.0)
Germany	 08.30	Preliminary manufacturing (services) PMI	Apr	47.6 (50.3)	48.3 (50.9)
	 08.30	Preliminary composite PMI	Apr	50.6	51.3
France	 08.15	Preliminary manufacturing (services) PMI	Apr	47.6 (47.5)	48.5 (47.9)
	 08.15	Preliminary composite PMI	Apr	47.5	48.0
UK	 07.00	Public sector net borrowing £bn	Mar	16.0	10.7
	 09.30	Preliminary manufacturing (services) PMI	Apr	44.4 (51.6)	44.9 (52.5)
	 09.30	Preliminary composite PMI	Apr	50.6	51.5

Auctions and events

Euro area	 11.00	ECB to publish updated wage tracker
	 11.00	ECB's Knot to speak on "Monetary policy and the euro in an uncertain world" at the Peterson Institute
	 19.00	ECB's Villeroy to speak on safeguarding the euro amid global economic uncertainty
	 20.15	ECB's Lane to participate in a panel discussion on central banking with rapidly changing global financial conditions
Germany	 10.30	Auction: to sell up to €4bn of 2.5% 2035 bonds
UK	 11.30	BoE's Pill to give keynote speech on the central bank's balance sheet at the University of Leeds
	 18.15	BoE's Bailey scheduled to speak at IIF event in Washington
	 19.00	BoE's Breeden to participate in panel discussion about "monetary policy and financial stability in inflationary times"

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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