Euro wrap-up

Overview

Emily Nicol
+44 20 7597 8331

- Bunds followed USTs lower as euro area flash inflation data for April surprised on the upside due to a jump in the services component.
- Ahead of Monday's UK Bank Holiday, Gilts closed little changed on the day.
- In the coming week we expect the BoE to cut Bank Rate, revise down its inflation projection and emphasise the uncertainty of the economic outlook, while the data-flow will bring updates on euro area retail sales and German factory output and orders.

Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	1.748	+0.068
OBL 2.4 04/30	2.064	+0.081
DBR 2½ 02/35	2.515	+0.074
UKT 3¾ 03/27	3.813	+0.005
UKT 4⅜ 03/30	3.946	+0.006
UKT 4½ 03/35	4.477	-0.002

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

Euro area

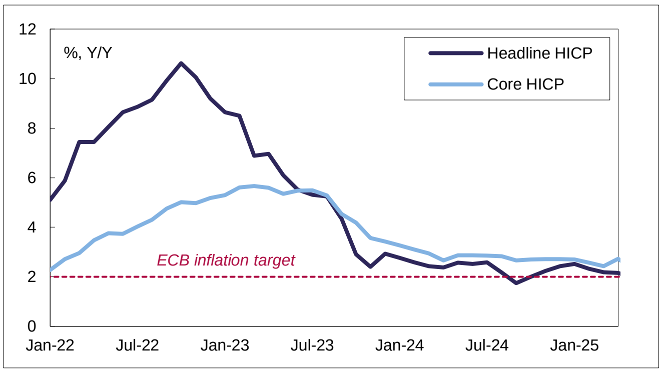
Euro area inflation surprises to the upside due to jump in services inflation

The flash estimates of euro area consumer inflation in April were stronger than expected, with the headline HICP rate holding steady at 2.2%Y/Y (albeit at the low end to two decimal places at 2.16%Y/Y) to be in line with the ECB's projection for Q2 as a whole. Upwards pressure came principally from the Netherlands, where inflation jumped 0.8ppt to a 21-month high of 4.1%Y/Y. In contrast, among the other larger member states, HICP inflation was close to target in Germany, Italy and Spain and more than 1ppt below it in France. The pick up in core inflation was more widespread across the member states. As a result, the aggregate euro area core HICP rate rose 0.3ppt from March's more than three-year low of 2.4%Y/Y to align with the 2.7%Y/Y average for the second half of 2024. The upside surprise among the major components was driven by services inflation, which jumped 0.4ppt to a three-month high of 3.9%Y/Y, in line with the average over the past 18 months. While there was no detailed breakdown published with today's figures, we attribute this to the impact of the timing of Easter this year on holiday-related items. Nevertheless, the ECB's seasonally adjusted data – which aims to adjust for such effects – might provide concerns for some of the more hawkish members on the Governing Council, with services prices jumping 0.7%M/M in April, a pace exceeded only once (September 2022) since the series began in the late 1990s. This took momentum on a three-month basis to an eight-month high of 4.1%3M/3M annualised. But, like the ECB, we expect services inflation to resume a disinflationary trend this month as the Easter effect passes, price-setting behaviour normalises and base effects become more favourable.

Core goods prices well behaved, decline in energy prices to remain a drag

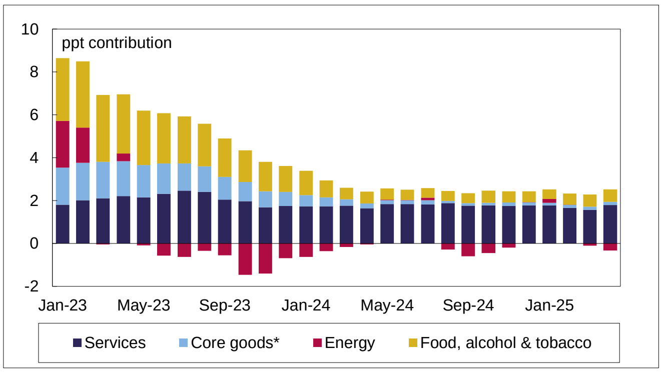
While the services component grabbed the attention, today's release also illustrated an ongoing absence of meaningful goods price pressures. Indeed, on an adjusted basis, prices of non-energy industrial goods fell for the first time in 13 months in April, to leave the annual rate at just 0.6%Y/Y. And while food inflation edged up to a 14-month high, prices in this component were better behaved than in recent months. Moreover, a third consecutive monthly drop in energy prices – and the most since December 2022 – pushed the annual rate down to -3½%Y/Y, the steepest decline since October. The weaker demand outlook in the face of economic uncertainty, the stronger euro exchange rate, as well as the possible influx of cheap Chinese goods diverted from the US, will all likely weigh further on goods prices over the near term. As such, we expect core inflation to fall back close to 2% by the end of this quarter and remain there or below over coming quarters too. And with wholesale gas futures and oil prices continuing to decline, we expect the energy component to become an increasing drag over the near term. Overall, we forecast headline inflation to fall below the 2% target by the end of Q2 and remain thereabouts through to the end of the forecast horizon. Indeed, our full-year forecast for headline inflation of 2.0%Y/Y in 2025

Euro area: Headline & core HICP inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Contributions to headline inflation



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

and 1.8%Y/Y in both 2026 and 2027 remains below the ECB's updated projections in March. And this benign price outlook will justify a further rate cut at the next policy meeting in June, and further easing in Q3.

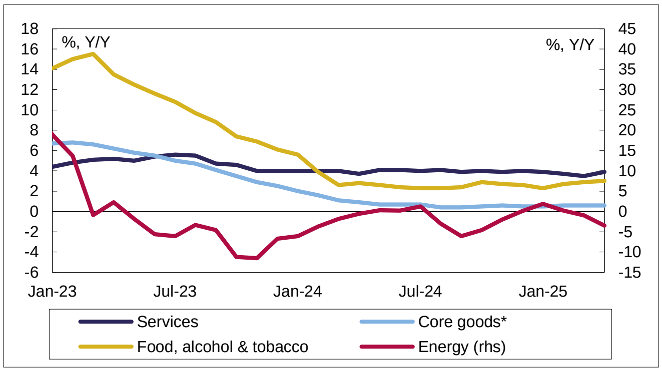
Unemployment rate steady at series low, but number of jobless workers rises to a six-month high

While the inflation and growth outlook remains highly uncertain, one reason why the Governing Council might slow the pace of easing after June is the resilience of the labour market. While surveys have signalled greater willingness among firms in certain sectors to cut headcount, the euro area unemployment rate held steady in March at the upwardly revised series low of 6.2% for a sixth successive month. Admittedly, the number of jobless people in the euro area rose for a third month out of four, by 83k, to a six-month high of 11.82mn. But this was still down almost 300k compared with a year earlier and 1.3mn below the pre-pandemic level. Contrasting the recent trend, the largest increases were reported in Southern Europe, hinting at a turning point in that region. But the respective unemployment rates in Italy (6.0%) and Greece (9.0%) remained close to February's multi-year lows, while the Spanish rate (10.9%) moved sideways. Elsewhere, the German ILO jobless rate was unchanged at 3.5% for a tenth successive month, while the French rate edged slightly lower (7.3%). This notwithstanding, with job vacancies falling and economic output likely to slow over the near term, we expect euro area unemployment to edge higher in due course, further diminishing employees' wage bargaining position and supporting an ongoing slowdown in pay growth back to rates consistent with sustaining inflation at target over the medium term.

The week ahead in the euro area

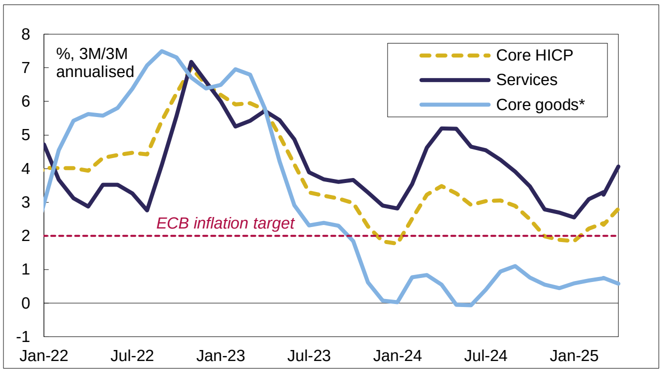
After the past week's Q1 GDP figures showed that euro area growth accelerated in part because some firms front-ran production and shipments ahead of US tariff hikes, the coming week's data flow will provide insight into demand developments at the end of the quarter. Euro area retail sales numbers (Wednesday) should come in broadly unchanged in March, with the slight declines in Germany, France and Spain offset by rises in the Netherlands and Belgium. This would still leave sales up 0.3%3M/3M, supporting our view than household consumption contributed positively to Q1 GDP. But German new factory orders data (also Wednesday) will likely suggest that underlying goods demand remained subdued in March as economic uncertainties surrounding global trade policies mounted. This notwithstanding, German industrial output (Thursday) looks set to reverse the 1.3%M/M drop in February to support the return to positive growth in Q1 while German goods trade figures (also Thursday) might also report a non-negligible increase in exports for a second successive month at the end of the quarter. March industrial production numbers are also due from France (Tuesday), Italy and Ireland (both Friday). Meanwhile, the final services PMIs for April (Tuesday) will likely confirm the implied contraction in business activity at the start of Q2 (49.7) for the first time in six months as demand softened amid increased uncertainty and a deterioration in consumer confidence. The construction PMIs (Wednesday) might benefit from last month's further cut in ECB interest rates. But while the euro area Sentix survey for May (Monday) might be buoyed by the recent improvement in mood in European

Euro area: Key inflation components



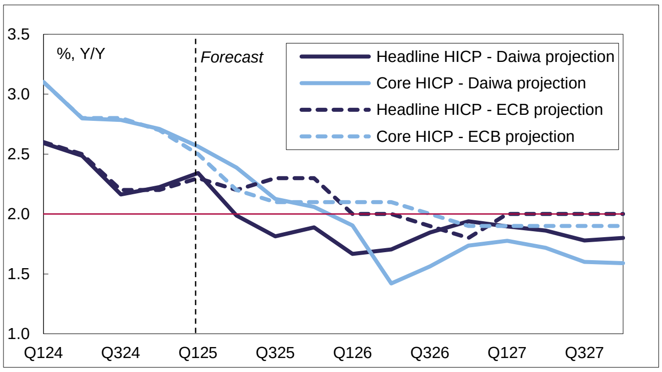
*Non-energy industrial goods.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Core inflation momentum



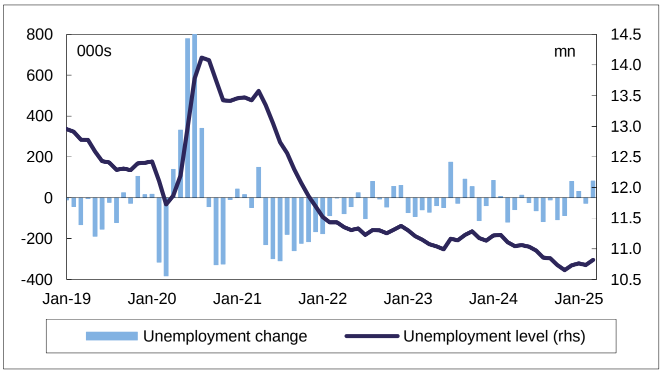
*Non-energy industrial goods.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: HICP projections



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Unemployment



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

equity markets and likelihood of further monetary policy easing, investor sentiment will likely remain weighed by ongoing trade policy uncertainty.

UK

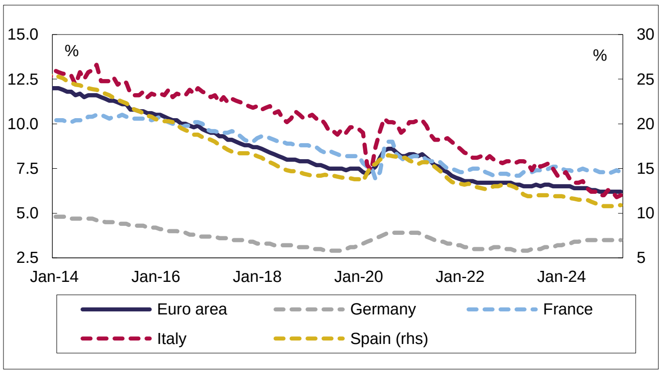
Mortgage lending surges ahead of Stamp Duty changes, but approvals down to an 8-month low

As illustrated by Wednesday's Nationwide house price report, yesterday's BoE monetary numbers further flagged the distortion on housing market activity by the buyers' rush to complete purchases ahead of the reduction in the zero-rate Stamp Duty threshold at the start of April. Indeed, these data reported a surge in mortgage lending in March, by a net £13bn, the most since June 2021 when the post-pandemic Stamp Duty holiday was initially due to conclude and the second-largest since the series began in 1993. This took the net increase in the three months to March to £20.5bn, roughly double the long-run average. But, despite the recent decline in borrowing costs, mortgage approvals – which provide a guide to near-term lending – slowed in March for a third consecutive month to an eight-month low of 64.3k, a touch below the average in the five years before the pandemic but still some 9k above the average in the two years to December. The net increase in consumer credit (£0.9bn) was also the softest in 11 months. While this left annual growth in the stock of such loans at a solid 6.1%Y/Y, this was the lowest in almost three years. And consistent with a deterioration in consumer confidence, households deposited an additional £7.4bn with banks in March, illustrating an ongoing preference to save in the face of increasing uncertainties. In contrast to households, non-financial corporations borrowed on net £1.8bn in March following a net repayment in February. This took the growth in the stock of business loans to 3.1%Y/Y, the highest since September 2022, with loans to large firms up to a more than two-year high of 5.3%Y/Y and the decline to SMEs (-1.2%Y/Y) the smallest since September 2021.

BoE to cut Bank Rate by 25bps to 4.25% amid deteriorating economic outlook

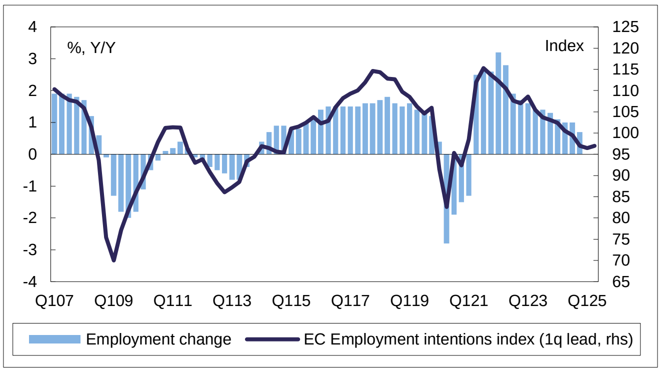
The main event in the UK in the coming week will be the BoE's latest policy announcement on Thursday, which will be accompanied by its Monetary Policy Report (MPR) including updated macroeconomic projections. Having left Bank Rate unchanged at its previous meeting in March with a majority of 8-1, and consistent with the MPC's guidance of a "gradual" withdrawal of policy restrictiveness, we expect the MPC to cut Bank Rate in the coming week by a further 25bps to 4.25%, which would mark the fourth cut of that magnitude at a three-month interval this cycle. We expect all nine policymakers to favour a cut in interest rates, with the deteriorating economic outlook arguably justifying a change in the forward guidance to signal its readiness to ease policy at a swifter pace if necessary. Certainly, we wouldn't be surprised to see uber-dove Swati Dhingra (and possibly Catherine Mann) vote for a 50bps cut this month. But with GDP growth in Q1 on track to be more than twice as strong as the Bank staff's most recent forecast in March (¼%Q/Q), private sector pay growth still close to 6.0%3M/Y

Euro area member states: Unemployment rates



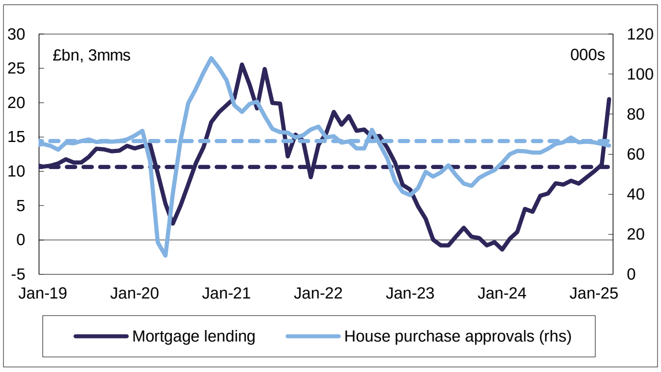
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Employment growth & EEI*



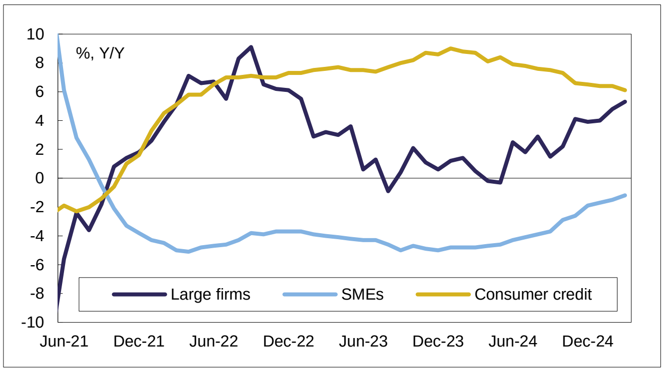
*Employment expectations indicator.
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Mortgage lending & approvals*



*Dashed lines represent pre-pandemic average.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Household & business loan growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

(albeit a touch below the BoE's expectations) and inflation expected to pick up in April due in part to administered prices, we suspect the majority to favour a 25bps cut. And with the outlook subject to significant uncertainties relating to US tariff hikes, the MPC might, for now at least, stick with its forward guidance for a "careful and gradual" approach to future policy easing.

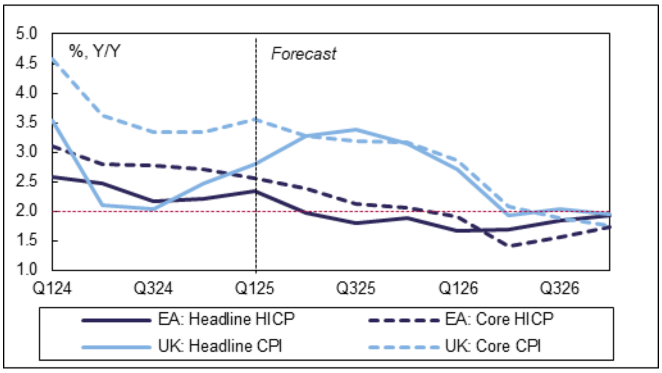
BoE to revise down its inflation forecast, and flag downside risks to the outlook

The MPC's forward guidance will reflect the Bank's updated macroeconomic projections. After it previously expected headline inflation to peak at 3.7%Y/Y in Q325, we expect the Bank to revise lower its near-term projection to reflect significant adjustments in wholesale gas and oil prices over the past three months. For example, gas futures through to the summer are roughly 40% below the assumption used in the February MPR update, while the price of Brent Crude oil is down more than 20% in GBP terms. The near-2½% appreciation in trade-weighted sterling will also have weighed somewhat on goods prices. But this impact on inflation will in part be offset by a loosening in financial conditions compared with three months ago, with the year-end market-implied assumption for Bank Rate in the updated forecasts likely to be approximately 50bps lower. Overall, we currently forecast headline inflation to peak at 3.4%Y/Y in Q325, before moderating back to target in Q226, six quarters earlier than previously anticipated by the BoE in February. And not least due to the weaker growth prospects, we see the risks to this forecast as skewed to the downside. Admittedly, the Bank's GDP profile will need to be shifted notably higher in Q1, with economic activity seemingly on track for growth of up to 0.7%Q/Q, compared with the Bank's February projection of just 0.1%Q/Q. And while the quarterly growth rates for Q2 and Q3 will likely be revised lower, its full-year forecast for 2025 of 0.7% previously will likely be nudged higher. However, full-year growth in 2026 will almost certainly be revised down from 1½%Y/Y, perhaps closer to our own expectation of 1%Y/Y. And while the Bank will likely signal an expected recovery through 2027, similar to the BoJ yesterday, we expect the MPC to judge the balance of risks to be skewed to downside and the baseline projection to be highly susceptible to revisions as trade negotiations unfold.

The data week ahead in the UK

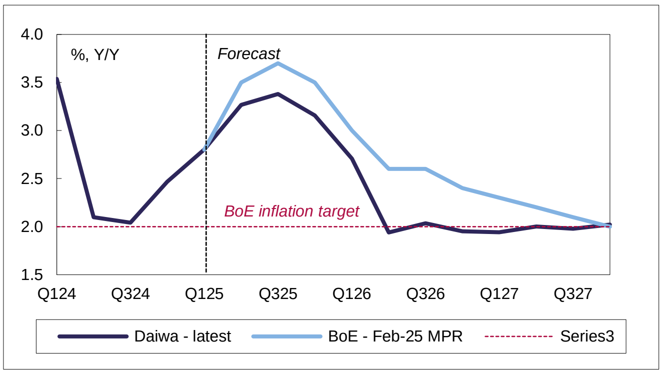
Aside from the BoE announcements, economic surveys will dominate the UK dataflow in the coming week. The final April services PMIs (Tuesday) will likely confirm a marked loss of momentum at the start of Q2 – the flash activity component dropped 3.6pts to 48.2, the first contractionary reading since October 2023 and the lowest since November 2020. Admittedly, given the upwards revision to the final manufacturing output index (by 1.8pts to 45.8), the headline composite PMI will likely be revised higher from the flash (48.2), albeit still likely signalling contraction. Having risen to a near-two-year high in the preliminary release as firms sought to pass on higher labour costs related not least to policy changes, the composite output price PMI will also be closely watched. The results of the BoE's April Decision Maker Panel survey (Thursday) will also provide an update on business inflation and wage growth expectations over the coming year.

Euro area & UK: Daiwa inflation projections



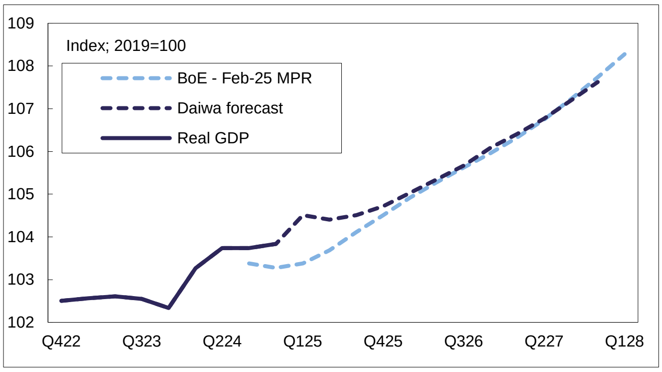
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Headline inflation projections



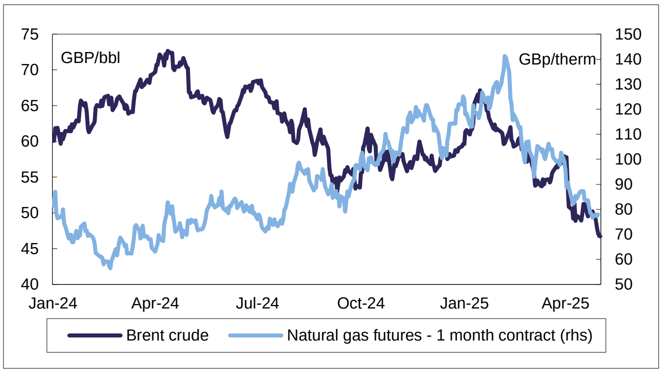
Source: BoE, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: GDP level projections



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

UK: Oil price & natural gas futures



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

	2025				2026		2025	2026	2027
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP			**%, Q/Q**					**%, Y/Y**	
Euro area	0.4	-0.1	-0.1	0.2	0.2	0.3	0.7	0.7	1.3
UK	0.7	-0.1	0.1	0.2	0.3	0.3	0.9	1.0	1.4
Inflation, %, Y/Y									
Euro area									
Headline HICP	2.3	2.0	1.8	1.9	1.7	1.7	2.0	1.8	1.8
Core HICP	2.6	2.4	2.1	2.1	1.9	1.4	2.2	1.7	1.6
UK									
Headline CPI	2.8	3.3	3.4	3.2	2.7	1.9	3.2	2.2	2.0
Core CPI	3.6	3.3	3.2	3.2	2.9	2.1	3.3	2.1	1.8
Monetary policy, %									
ECB									
Deposit Rate	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Refi Rate	2.65	2.15	1.90	1.90	1.90	1.90	1.90	1.90	1.90
BoE									
Bank Rate	4.50	4.25	4.00	3.75	3.50	3.25	3.75	3.25	3.00

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

The next edition of the Euro wrap-up will be published on 06 May 2025

The coming week's data calendar

The coming week's key data releases

Country		BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
			Monday 5 May 2025			
Euro area		09.30	Sentix investor confidence indicator	May	-11.5	-19.5
			Tuesday 6 May 2025			
Euro area		09.00	Final composite (services) PMI	Apr	50.1 (49.7)	50.9 (51.0)
		10.00	PPI Y/Y%	Mar	2.3	3.0
Germany		08.55	Final composite (services) PMI	Apr	49.7 (48.8)	51.3 (50.9)
France		07.45	Industrial production M/M% (Y/Y%)	Mar	0.3 (-0.2)	0.7 (-0.4)
		08.50	Final composite (services) PMI	Apr	47.3 (46.8)	48.0 (47.9)
Italy		08.45	Composite (services) PMI	Apr	50.2 (51.3)	50.5 (52.0)
Spain		08.00	Unemployment (net employment) M/M change 000s	Apr	-	-13.3 (23.1)
		08.15	Composite (services) PMI	Apr	53.0 (54.0)	54.0 (54.7)
UK		09.00	New car registrations Y/Y%	Apr	-	12.4
		09.30	Final composite (services) PMI	Apr	48.2 (48.9)	51.5 (52.5)
			Wednesday 7 May 2025			
Euro area		08.30	Construction PMI	Apr	-	44.8
		10.00	Retail sales M/M% (Y/Y%)	Mar	0.0 (1.8)	0.3 (2.3)
Germany		07.00	Factory orders M/M% (Y/Y%)	Mar	2.0 (1.1)	0.0 (-0.2)
		08.30	Construction PMI	Apr	-	40.3
France		07.45	Trade balance €bn	Mar	-	-7.9
		07.45	Preliminary wages (private sector payrolls) Q/Q%	Q1	-	0.4 (-0.3)
		08.30	Construction PMI	Apr	-	43.8
Italy		08.30	Construction PMI	Apr	-	52.4
		09.00	Retail sales M/M% (Y/Y%)	Mar	-	0.1 (-1.5)
UK		09.30	Construction PMI	Apr	-	46.4
			Thursday 8 May 2025			
Germany		07.00	Industrial production M/M% (Y/Y%)	Mar	1.0 (-2.7)	-1.3 (-4.0)
		07.00	Trade balance €bn	Mar	18.9	17.7
Spain		08.00	Industrial production M/M% (Y/Y%)	Mar	-	0.7 (-1.9)
UK		00.01	RICS house price balance %	Apr	-4	2
		12.00	BoE Bank Rate %	May	*4.25*	4.50
		14.00	DMP 3M output price (1Y CPI) expectations Y/Y%	Apr	4.0 (3.5)	3.9 (3.4)
			Friday 9 May 2025			
Italy		09.00	Industrial production M/M% (Y/Y%)	Mar	0.4 (-1.7)	-0.9 (-2.7)

**Provisional. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

The coming week's key events & auctions

Country	BST	Event / Auction
		Monday 5 May 2025
		- Nothing scheduled -
		Early May Bank Holiday in the UK
		Tuesday 6 May 2025
Germany	10.30	Auction: to sell up to €4.5bn of 2.4% 2030 bonds
		Wednesday 7 May 2025
France	09.50	Auction: to sell 3.2% 2035, 1.25% 2038 & 4.5% 2041 bonds
UK	10.00	Auction: to sell up to £4.5bn of 4.375% 2030 bonds
		Thursday 8 May 2025
Spain	09.30	Auction: to sell bonds*
UK	12.00	BoE monetary policy announcement, minutes and Monetary Policy Report to be published
	12.30	BoE Governor Bailey to present updated macroeconomic projections in press conference
		Friday 9 May 2025
UK	00.01	KPMG/REC report on jobs for April
	09.40	BoE Governor Bailey to give keynote speech at Reykjavik economic conference
	12.15	BoE Chief Economist Pill to brief Bank's Agents on updated macroeconomic projections

**Details to be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area	Final manufacturing PMI	Apr	**49.0**	*48.7*	48.6	-
	Preliminary headline (core) HICP Y/Y%	Apr	**2.2 (2.7)**	*2.1 (2.6)*	2.2 (2.4)	-
	Unemployment rate %	Mar	**6.2**	6.1	6.1	6.2
Germany	Final manufacturing PMI	Apr	**48.4**	*48.0*	48.3	-
France	Final manufacturing PMI	Apr	**48.7**	*48.2*	48.5	-
Italy	Manufacturing PMI	Apr	**49.3**	47.0	46.6	-
Spain	Manufacturing PMI	Apr	**48.1**	50.1	49.5	-

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
UK	Net consumer credit £bn (Y/Y%)	Mar	**0.9 (6.1)**	1.2 (-)	1.4 (6.4)	1.3 (-)
	Net mortgage lending £bn (mortgage approvals 000s)	Mar	**13.0 (64.3)**	3.2 (64.8)	3.3 (65.5)	- (65.1)
	Final manufacturing PMI	Apr	**45.4**	*44.0*	44.9	-

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:
https://www.uk.daiwacm.com/ficc-research/recent-blogs