

# Euro wrap-up

## Overview

- Bunds made modest losses even as German and Spanish figures confirmed that the pickup in core inflation in April reflected temporary rises in airfares and package holiday prices due to the timing of Easter.
- Gilts followed USTs lower on a quiet day for UK economic news.
- Thursday's economic data will confirm a pickup in GDP growth in the euro area and UK in Q1, while new monthly data on euro area and UK industrial production might flag signs of front-running of US tariff hikes.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	1.933	+0.006
OBL 2.4 04/30	2.265	+0.022
DBR 2½ 02/35	2.694	+0.017
UKT 3¾ 03/27	4.016	+0.049
UKT 4¾ 03/30	4.183	+0.058
UKT 4½ 03/35	4.715	+0.048

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

Source: Bloomberg

## Euro area

### German core inflation pickup reflected Easter-related spike in airfares & package holiday prices

Today's final April inflation figures from Germany confirmed that the headline HICP rate eased 0.1ppt to a seven-month low of 2.2%Y/Y. Admittedly, this was still a touch firmer than initially expected. Moreover, the moderation was driven principally by a second successive decline in energy prices to an eight-month low. When excluding energy and food, core German HICP inflation rose in April by 0.3ppt – reversing the drop in March – to 3.1%Y/Y, only a touch below the average in 2024 (3.2%Y/Y). The uptick in the services component – up 0.4ppt to 4.5%Y/Y – might have initially been a cause for concern among the more hawkish Governing Council policymakers. But the detail in today's release should have reassured them that these upwards pressures reflected base effects surrounding the later timing of Easter this year and so should prove temporary. Indeed, a near-20%M/M surge in airfares this April compared with a near-6%M/M drop a year ago meant that the respective annual HICP component jumped 25ppts to 15.7%Y/Y, a 21-month high. In addition, inflation of package holidays increased 3.8ppts to 7.7%Y/Y. In contrast, however, catering and accommodation inflation moderated to the lowest in more than three years. Insurance inflation also maintained a steady downtrend to a 16-month low. Meanwhile, subdued demand restrained retailers' pricing power on household appliances, furniture and clothing to leave overall inflation of non-energy industrial goods at a sub-1%Y/Y rate for a third consecutive month.

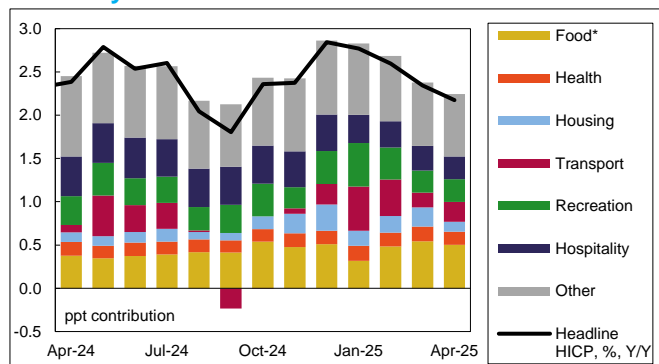
### Travel-related components boost Spanish CPI, while goods prices remain weak

As in Germany, the final Spanish inflation data for April, which had also initially been firmer than expected, were confirmed today. So, headline HICP inflation was steady at 2.2%Y/Y. And while the national CPI rate edged lower to the same level, the core CPI rate (excluding energy and unprocessed foods) jumped 0.4ppt to a four-month high (2.4%Y/Y). But like in Germany, the detail in the final national numbers also illustrated how the timing of Easter was largely to blame. For example, Spanish airfares leapt 16.5%M/M, the most in a single month since the series began in 2002. Prices of package holidays rose at a double-digit rate on the month and hotel prices were also up the most in two years. Together these vacation-related components almost fully accounted for the 0.9ppt increase in services inflation (3.9%Y/Y). In marked contrast, the annual core goods CPI rate (-1.8%Y/Y) was the softest in six months, while foods inflation moderated to a five-month low and the energy component fell firmly into negative territory (-2.2%Y/Y) thanks to notable falls in prices of petrol, electricity and gas.

### Inflation in Germany and Spain on track to return to target over coming months

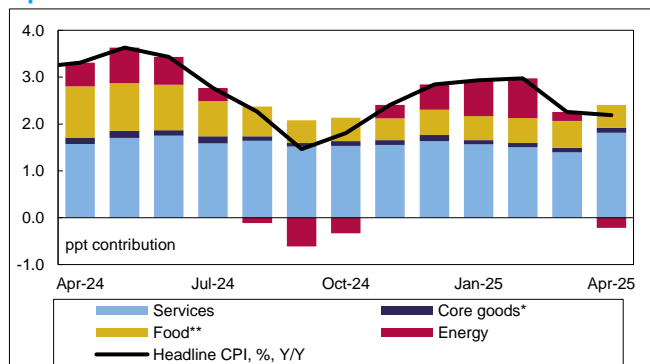
Looking ahead, HICP inflation in Germany and Spain should ease further this month, possibly to the 2% target. Certainly, more favourable base effects will see services inflation take a step down in May. Petrol and heating gas prices continued to

#### Germany: Contributions to HICP



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Spain: Contributions to CPI


 \*Non-energy industrial goods. \*\*Includes alcohol & tobacco.  
 Source: Macrobond and Daiwa Capital Markets Europe Ltd.

decline in the first two weeks of May too. And although less favourable base effects might see energy provide less of a drag towards the end of the summer and into the autumn, the new coalition government agreed to abolish a gas storage levy to reduce consumer energy prices. Meanwhile, the decline in services inflation will also benefit from the German government's plans to reduce the VAT on restaurant meals from 19% to 7% from January. And planned increases in spending on infrastructure and defence will take a while to feed through, likely only adding to inflationary one to two years' ahead.

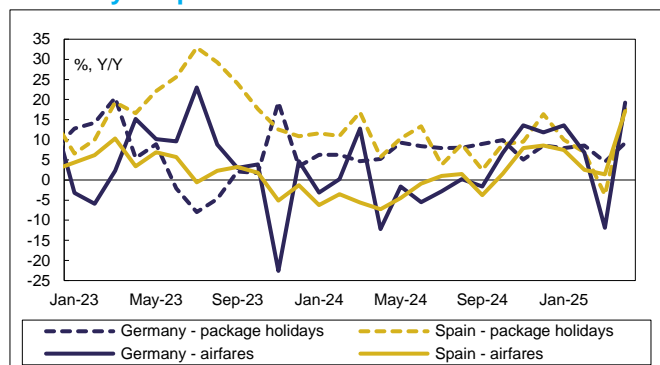
### The day ahead in the euro area

Thursday will bring the penultimate estimates for euro area Q1 GDP, with growth likely to align with the initial estimate of 0.4%Q/Q, double the rate projected by the ECB in March. This release will also be accompanied by preliminary estimates for euro area employment growth last quarter. Despite the pickup in GDP growth and continued job additions in Spain, we expect a more modest increase in employment, similar to the 0.1%Q/Q rise in Q4. The upside surprise to Q1 GDP owed at least in part to manufacturers' attempts to front-run higher US tariffs, as reflected by the notable growth in euro area industrial production in January and February. Another significant increase is expected in IP in March, also due tomorrow, following further strong readings in Germany (3.0%M/M) and Ireland (14.6%M/M) that month. Based on those member state releases, we expect IP to rise just shy of 2½%M/M in March, to be up more than 1½%3M/3M and thus confirm a first quarter of positive IP growth since Q422.

### The day ahead in the UK

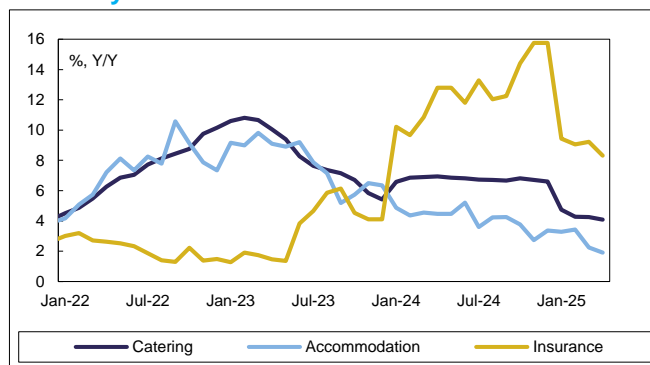
Like in the euro area, GDP data will be the main focus in the UK tomorrow with the first quarterly estimates for growth in Q1 to be accompanied by the usual monthly sectoral output figures for March. GDP has surprised to the upside in early 2025 so far, taking three-month growth in February to a nine-month high of 0.6%3M/3M. Retail sales also beat expectations in March, rising for a third successive month and by 0.4%M/M as sunshine supported spending on summer attire and at garden centers. We expect the above-average temperatures that month to have supported sales in other consumer-facing services too, while estate agent activity was likely raised by a rush to complete property purchases ahead of April's Stamp Duty changes. Admittedly, despite more favourable weather, March's construction PMIs flagged a marked slowdown in that sector. But any front-loading of manufacturing to avoid US tariffs will also likely contribute positively to GDP growth in March. So, we expect a positive March GDP print, for the fourth month in the past five. And in the absence of revisions to previous months, an increase in GDP of just 0.1%M/M would deliver quarterly growth of 0.7%Q/Q, a touch firmer than the Bloomberg consensus and the BoE's updated projection published last week.

#### Germany & Spain: Select HICP inflation rates



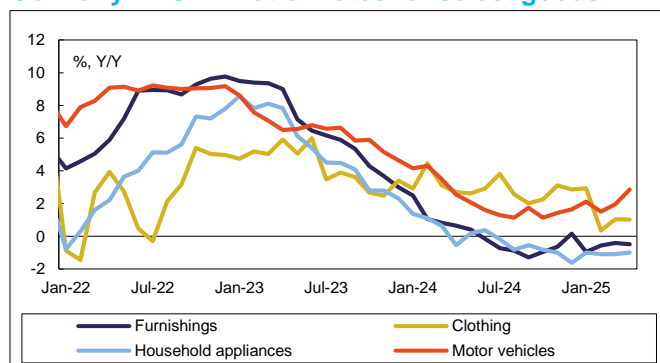
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: HICP inflation rates for select services



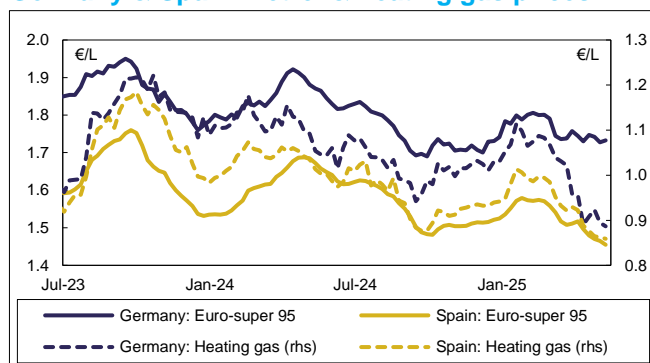
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: HICP inflation rates for select goods



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany & Spain: Petrol & heating gas prices





Source: Macrobond 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 	Final HICP (CPI) Y/Y%	Apr	2.2 (2.1)	2.2 (2.1)	2.3 (2.2)	-
Spain 	Final HICP (CPI) Y/Y%	Apr	2.2 (2.2)	2.2 (2.2)	2.2 (2.3)	-












### Auctions

Country	Auction
Germany 	sold €1.313bn of 1.25% 2048 bonds at an average yield of 3.09%
	sold €818m of 2.5% 2054 bonds at an average yield of 3.12%
UK 	sold £4.25bn of 4.5% 2035 bonds at an average yield of 4.673%



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 	10.00	GDP – second estimate Q/Q% (Y/Y%)	Q1	0.4 (1.2)	0.2 (1.2)
	10.00	Employment – first estimate Q/Q% (Y/Y%)	Q1	-	0.1 (0.7)
	10.00	Industrial production M/M% (Y/Y%)	Mar	2.4 (2.9)	1.1 (1.2)
France 	07.45	Final HICP (CPI) Y/Y%	Apr	0.8 (0.8)	0.9 (0.8)
UK 	07.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	0.7 (1.2)	0.1 (1.5)
	07.00	Monthly GDP M/M% (3M/3M%)	Mar	0.1 (1.0)	0.5 (0.6)
	07.00	Services output M/M% (3M/3M%)	Mar	0.1 (0.7)	0.3 (0.6)
	07.00	Industrial output M/M% (Y/Y%)	Mar	-0.5 (-0.8)	1.5 (0.1)
	07.00	Construction output M/M% (Y/Y%)	Mar	0.2 (1.3)	0.4 (1.6)
	07.00	Trade (goods trade) balance £bn	Mar	-2.0 (-19.0)	-2.0 (-20.8)
	09.30	Preliminary output per hour Y/Y%	Q1	-	-0.8

### Auctions and events

UK 	10.00	Auction: to sell £2bn of 0.125% 2028 bonds
	15.00	BoE MPC External Member Dhingra to speak at New Economics Foundation conference, Brussels

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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