

Euro wrap-up

Overview

- Bunds made gains while the euro area goods trade surplus hit a record high due to an extraordinary surge in exports to the US ahead of April's tariff hikes.
- Gilts made modest losses at the short end of the curve but modest gains at the longer end on a quiet end to the week for UK economic news.
- The coming week will bring May sentiment survey results, including the flash PMIs and consumer confidence indices from the euro area and UK, as well as detailed April inflation data from both regions.

Emily Nicol
+44 20 7597 8331

Edward Maling
+44 20 7597 8030

Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	1.844	-0.028
OBL 2.4 04/30	2.151	-0.037
DBR 2½ 02/35	2.585	-0.034
UKT 3¾ 03/27	3.990	+0.012
UKT 4¾ 03/30	4.136	-
UKT 4½ 03/35	4.642	-0.016

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

Euro area

Record goods trade surplus illustrates front-running of US tariff hikes

While there was no additional information published with yesterday's updated euro area [GDP](#) release, the boost from the front-running of US tariff hikes in Q1 was illustrated by today's goods trade data, which showed the surplus widening more than €5bn in March to a record-high €27.9bn (€36.9bn on an unadjusted basis). This was led by a fourth monthly increase out of five in the value of exports (2.9%M/M) to be some 14% higher than in October ahead of US President Trump's re-election. And over the first quarter as a whole, the near 7½%Q/Q surge was the largest since 2010 when excluding distortions surrounding Covid-19 lockdowns in 2020. So, while the value of imports also rose for a third consecutive month in March, the quarterly increase (3.4%Q/Q) was less than half that in exports. So, while the extent to which net trade offered a boost in individual member states varied significantly, today's data suggest that, on aggregate, net goods trade provided a very significant contribution to GDP growth in Q1.

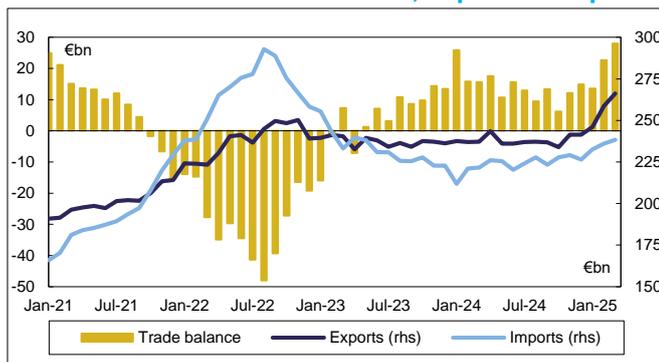
Surge in exports to the US led by pharmaceuticals, with autos and machinery also up

Within the detail, the pickup in exports was unsurprisingly driven by an extreme acceleration in shipments to the US, which leapt a further 21%M/M in March to be up a record 27%Q/Q in Q1. An increase of more than 40%M/M in shipments to the US of chemicals – including pharmaceuticals – meant that they leapt by almost two-thirds over the first quarter. Most striking, organic chemical exports from Ireland increased more than three-fold while pharmaceutical shipments from Germany doubled. In addition, exports of autos and machinery to the US also rose almost 6½%Q/Q – almost fully accounting for the 2.8%Q/Q increase in total shipments of those goods in Q1 – as German and Italian manufacturers in those sub-sectors attempted to front-run higher tariffs. In contrast, however, despite threats of a significant hike in the US import duties on wine from the region, exports of beverages to the US fell in Q1 for the first quarter in three.

Shipments to China rise to a more than two-year high, but imports also up

Looking beyond the US, euro area exports to elsewhere in the world fell in March. But given strength earlier in the quarter they were flattered by a striking jump in shipments to Switzerland (20%Q/Q). There was also a recovery in exports to China, which rose for the first quarter in a year and by almost 4%Q/Q, the most since Q322. But this still left them a substantial 19% below the peak in early 2023 due not least to the steady downtrend in demand for German autos and machinery. European exports to China might benefit this quarter at the expense of shipments from the US. But euro area imports from China – which rose in March to the highest level in more than two years – might also be expected to increase steadily as firms redirect goods away from the US to the region. And given also the likelihood of some payback for such strong growth in

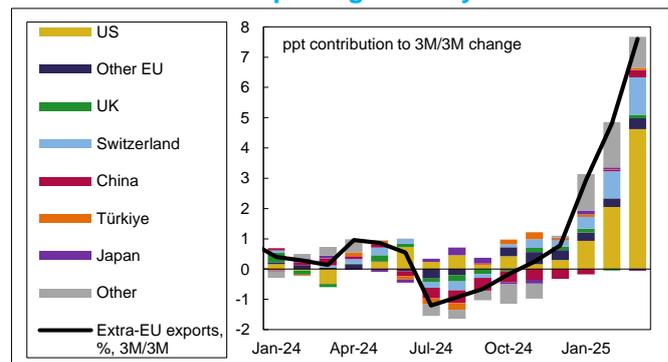
Euro area: Goods trade balance, exports & imports*



*Seasonally adjusted values.

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

Euro area: Goods exports growth by destination



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

shipments of pharmaceuticals and industrial materials this quarter, we strongly suspect that net goods trade will subtract from euro area GDP growth and deliver a negative print in Q2, with the largest drags coming from Germany and Ireland.

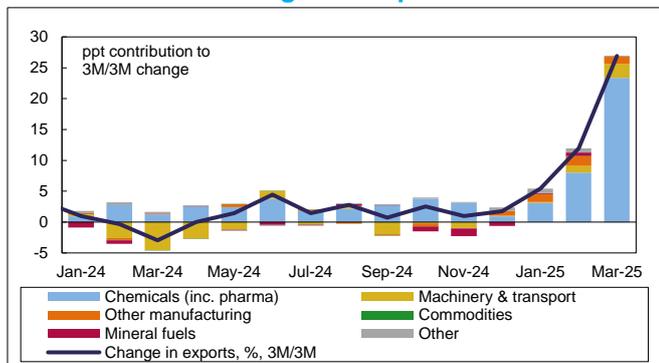
The week ahead in the euro area

Countering yesterday’s minor upwards revision to April’s French inflation data, today’s Italian detail revised down the initial estimate by 0.08ppt to 2.0%Y/Y on the HICP rate, directly in line with the ECB’s target. That meant that Italian headline inflation eased 0.1ppt relative to March, despite the core measure having edged higher by 0.4ppt to 2.2%Y/Y. That change matched the trend observed in [Germany and Spain](#), with lower household energy and fuel prices sufficient to offset the Easter-related rise in vacation-sensitive services components such as air fares and package holidays. We expect the same patterns to emerge in the details for the aggregate euro area, which are due on Monday. The final estimates will surely confirm that, despite the (likely temporary) increase in the core rate to 2.7%Y/Y, headline inflation remained only slightly above target (2.2%Y/Y), with the net effects of the member state revisions adding a slim chance of some downside to that number.

In any case, the ECB’s monetary policy account of April’s Governing Council meeting (Thursday) will signal that, for the most part, policymakers were increasingly confident in the disinflation process and far more concerned about the impact of heightened trade uncertainty and higher tariffs on activity. So, April’s inflation print should play second fiddle to May’s confidence surveys, including the flash PMIs on Thursday. In the midst of last month’s tariff announcements by the US, those flagged slowing momentum in April to leave the euro area composite PMI suggestive of stagnation (50.4). The US’ less hardline approach since then should provide some support in May. But given little progress in the EU-US trade negotiations, minimal uplift in confidence, a subdued demand outlook and easing cost pressures will likely signal a need for continued ECB support at June’s meeting. The German ifo and French INSEE business surveys (also Thursday) will provide policymakers with a complement to the PMIs. And Tuesday’s preliminary Commission consumer confidence indicator will provide an update on the mood among households in May after sentiment slumped to a 17-month low last month.

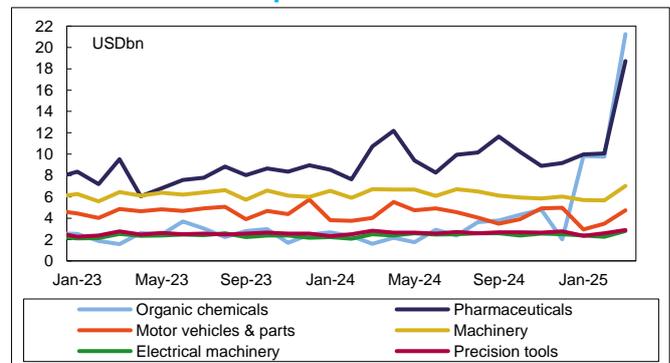
Despite the emphasis on timelier surveys, the Governing Council will keep a watchful eye on Q1’s flash figures for labour costs, job vacancies (Tuesday) and indicator of negotiated wages (Friday). Regarding the latter, timelier data from Germany notes a subtle uptick in negotiated wage settlements in Q1, though with the one-off payments observed in Q424 notably absent. To the extent that negotiated wages in the euro area remain consistent with the ECB’s wage tracker tool, still signalling a deceleration in pay settlements later this year, we don’t expect temporary resistance to trouble the majority on the Governing Council. Meanwhile, March’s euro area construction data (Tuesday) will confirm a second consecutive quarterly increase in output in the sector. We expect quarterly growth of roughly 1%, with the recovery in that sector led by

Euro area: Growth in goods exports to US



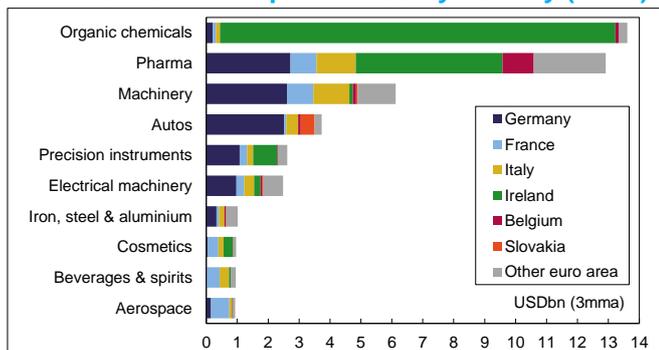
Source: Eurostat, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Goods export values to US



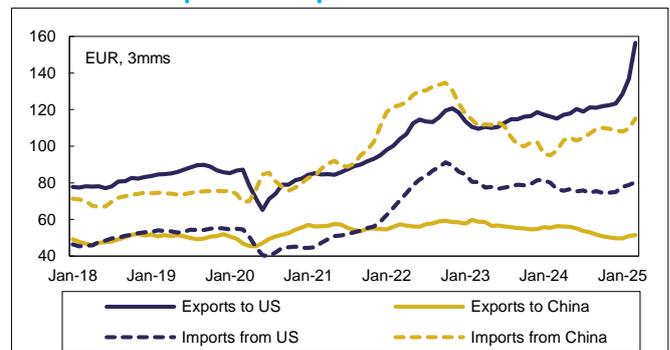
Source: US Census Bureau, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Goods exports to US by country (Q125)



Source: US Census Bureau, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Exports & imports to & from US & China



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

Germany and Italy. The final estimates of German GDP in Q1 (Friday) will be expected to confirm the rebound in activity in the euro area's largest member state, with expenditure breakdowns to suggest that private consumption and business investment contributed positively to growth of 0.2%Q/Q. Speaking arrangements from ECB Chief Economist Lane in the coming week (Tuesday & Friday) will also be of interest.

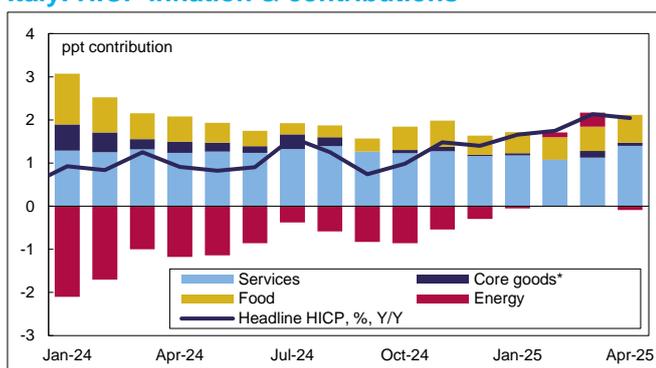
UK

The week ahead in the UK

April's CPI inflation figures (Wednesday) will mark the key release in a busy week for UK dataflow. The BoE expects the cumulative effects of April's one-off price increases – including higher employers' National Insurance Contributions, increased household energy and water bills, and uplifts to other indexed payments – to add over 0.8ppt to the headline CPI rate in April and about 1.0ppt by the end of Q3. So, the Bank projects CPI inflation to jump to 3.4%Y/Y in April, with the services component rising temporarily back up to a familiar 5.0%Y/Y. Our projection is for services to be slightly softer than that (4.8%Y/Y), although we expect a no less dramatic shift in headline inflation to 3.3%Y/Y, just 0.1ppt below the BoE. That rate would still make uncomfortable reading for the more hawkish-leaning policymakers on the MPC – including Chief Economist Pill, who is among a number of Bank speakers next week – who still harbour concerns about second-round effects.

But as inferred by May's Monetary Policy Report, a more pronounced undershoot could be interpreted as a sign that underlying demand remains weaker than suggested by yesterday's [strong Q1 GDP](#) print and perhaps also softer than assumed by the BoE's baseline. So, particular focus will also be on forthcoming sentiment surveys, in particular May's flash PMIs (Thursday) and GfK consumer confidence indices (Friday). Admittedly, the PMIs have proved to be a poor proxy for predicting UK GDP growth in recent quarters. But given the deterioration in activity flagged by April's survey, in particular the drop in the composite output PMI to a contractionary 19-month low (48.5), another downbeat survey would surely be received with caution. Nonetheless, we expect some improvement from April's sharp drop, despite the exceptionally uncertain outlook making a return back above the key 50 level less likely. The CBI's industrial trends survey (also Thursday) will provide a cross-check for conditions in the manufacturing sector in May. With respect to consumer confidence, and like the PMIs, we expect some payback for April's weakness following the initial trade shock, but particular focus will also be paid to purchase intentions to assess potential impacts on consumers' willingness to spend. Nevertheless, April's retail sales figures (also Friday) will provide a more official gauge of that. And despite subdued sentiment, retail sales have proved surprisingly resilient this year, rising for three straight months to be up 1.6%3M/3M in Q1 in part due to fine weather. Four consecutive monthly increases would be uncharacteristic – excluding the post-pandemic recovery, that was last observed 10 years ago – but record sunshine in April, as reflected by the strength of the rise in the [BRC](#) retail survey, would point to another positive month. Finally, the coming week will also bring April's public finance figures (Thursday), which will provide a first update on the UK's fiscal position at the start of the new financial year.

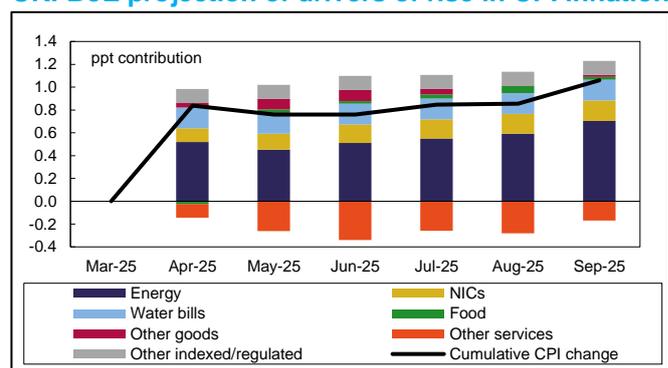
Italy: HICP inflation & contributions



*Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: BoE projection of drivers of rise in CPI inflation



Source BoE May-25 MPR and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecast

	2025				2026		2025	2026	2027
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.3	0.0	-0.1	0.2	0.2	0.3	0.8	0.7	1.3
UK 	0.7	-0.1	0.2	0.3	0.3	0.3	1.0	1.1	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.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area 	Trade balance €bn	Mar	27.9	-	21.0	22.7
France 	ILO unemployment rate (mainland) %	Q1	7.4 (7.2)	7.4 (-)	7.3 (7.1)	-
Italy 	Final HICP (CPI) Y/Y%	Apr	2.0 (1.9)	<u>2.1 (2.0)</u>	2.1 (2.0)	-
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 19 May 2025					
Euro area	10.00	Final headline (core) HICP Y/Y%	Apr	<u>2.2 (2.7)</u>	2.2 (2.4)
UK	00.01	Rightmove house prices M/M% (Y/Y%)	May	-	1.4 (1.3)
Tuesday 20 May 2025					
Euro area	09.00	Current account balance €bn	Mar	-	34.3
	10.00	Construction output M/M% (Y/Y%)	Mar	-	-0.5 (0.2)
	10.00	Preliminary labour costs Y/Y%	Q1	-	3.7
	10.00	Preliminary job vacancy rate %	Q1	-	2.5
	15.00	Preliminary Commission consumer confidence indicator	May	-15.9	-16.7
Germany	07.00	PPI Y/Y%	Apr	-0.6	-0.2
Wednesday 21 May 2025					
UK	07.00	Headline (core) CPI Y/Y%	Apr	<u>3.3 (3.5)</u>	2.6 (3.4)
	09.30	House price index Y/Y%	Mar	-	5.4
Thursday 22 May 2025					
Euro area	09.00	Preliminary manufacturing (services) PMI	May	49.3 (50.5)	49.0 (50.1)
	09.00	Preliminary composite PMI	May	50.7	50.4
Germany	08.30	Preliminary manufacturing (services) PMI	May	48.8 (49.6)	48.4 (49.0)
	08.30	Preliminary composite PMI	May	50.4	50.1
	09.00	ifo business climate indicator	May	87.4	86.9
	09.00	ifo current assessment (expectations) indicator	May	86.8 (87.9)	86.4 (87.4)
France	07.45	INSEE business (manufacturing) confidence indicator	May	97 (99)	96 (99)
	08.15	Preliminary manufacturing (services) PMI	May	48.9 (47.7)	48.7 (47.3)
	08.15	Preliminary composite PMI	May	48.1	47.8
	-	BdF retail sales Y/Y%	Apr	-	-0.8
UK	07.00	Public sector net borrowing £bn	Apr	17.6	16.4
	09.30	Preliminary manufacturing (services) PMI	May	46.0 (50.0)	45.4 (49.0)
	09.30	Preliminary composite PMI	May	49.2	48.5
	11.00	CBI industrial trends survey – total orders (selling prices) balance %	May	-	-26 (23)
	11.00	CBI industrial trends survey – business optimism balance %	May	-	-33
Friday 23 May 2025					
Euro area	10.00	Negotiated wages Y/Y%	Q1	-	4.1
Germany	07.00	GDP – final estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (-0.2)</u>	-0.2 (-0.2)
France	07.45	INSEE consumer confidence indicator	May	93	92
UK	00.01	GfK consumer confidence indicator	May	-22	-23
	07.00	Retail sales – incl. auto fuel M/M% (Y/Y%)	Apr	0.4 (4.5)	0.4 (2.6)
	07.00	Retail sales – excl. auto fuel M/M% (Y/Y%)	Apr	0.2 (4.4)	0.5 (3.3)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 19 May 2025		
Euro area	 10.00	European Commission to publish 2025 Spring economic forecasts
Tuesday 20 May 2025		
Germany	 10.30	Auction: to sell up to €1bn of 0% 2030 green bonds
	 10.30	Auction: to sell up to €1bn of 1.8% 2053 green bonds
UK	 09.00	BoE Chief Economist Pill to speak at briefing hosted by Barclays, London
Wednesday 21 May 2025		
Euro area	 09.00	ECB Vice-President de Guindos to present ECB Financial Stability Review
	 17.00	ECB Chief Economist Lane gives speech on "negative interest rates and the impact of monetary policy", Madrid
Germany	 10.30	Auction: to sell up to €4bn of 2.5% 2035 bonds
UK	 10.00	Auction: to sell £4.25bn of 4% 2031 bonds
Thursday 22 May 2025		
Euro area	 12.30	ECB to publish monetary policy account of April 16-17 Governing Council meeting
France	 09.50	Auction: to sell up to €12.5bn of 2.4% 2028, 2.7% 2031 & 0% 2032 bonds
	 10.50	Auction: to sell up to €2bn of 0.1% 2031, 3.15% 2032, 1.8% 2040 & 0.1% 2053 inflation-linked bonds
Spain	 09.30	Auction: to sell 5.15% 2028, 3.1% 2031 & 1% 2042 bonds
UK	 11.50	BoE Deputy Governor Breeden participates in panel on "Climate liquidity crisis: the rising financial risks of climate change"
	 12.00	BoE MPC External Member Dhingra participates in panel titled "Made in the UK: trade & productivity in British firms 2005-22"
	 13.30	BoE Chief Economist Pill gives speech on "Monetary policy and structural tectonic shifts" at OeNB conference, Vienna
Friday 23 May 2025		
Euro area	 09.30	ECB Chief Economist Lane gives lecture on "inflation and disinflation in the euro area" at EMU Lab, Florence

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. 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.