

Euro wrap-up

Overview

- While an investor survey signalled increased investor pessimism in Germany's economic outlook, Bunds followed USTs lower.
- Gilts also made losses, even as UK pay growth slowed the most in more than five years, job vacancies declined and redundancy notifications jumped.
- Wednesday will bring UK inflation data for March flash and the Commission euro area consumer confidence index for April.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.513	-
OBL 2½ 04/31	2.677	+0.044
DBR 2.9 02/36	3.000	+0.022
UKT 4¾ 03/28	4.264	+0.087
UKT 4¾ 03/31	4.383	+0.069
UKT 4¾ 10/35	4.884	+0.052

*Change from close as at 4:45pm BST.
Source: Bloomberg

Euro area

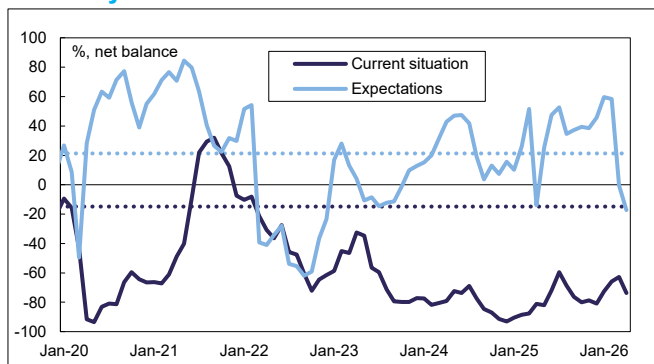
ZEW survey signals increased investor pessimism in German economic outlook

Recent comments from ECB policymakers have underscored that the central bank remains in wait-and-see mode, unwilling to change policy without greater clarity about the likely duration of the shock to energy prices and supply-side disruption or the eventual full impact on the euro area economy of events in the Middle East. Nevertheless, with respect to the consequences for the growth and inflation outlook, the ECB will be looking for clues from incoming survey evidence. In that respect, today's findings from surveys from the largest member states were mixed. The ZEW results suggested that investor perceptions of the German economy dimmed further this month as price pressures were increasingly felt. Indeed, the survey's index of current German conditions deteriorated in April by more than 10pts, the most since August 2023, to a four-month low (-73.7). And almost three quarters of respondents judge conditions to be 'bad'. More concerning perhaps, following a marked drop in March, the barometer of expectations for the coming six months fell to -17.2, the lowest since end-2022 and well below the long-run average. The index of price pressures rose above 80 to the highest since June 2021 with 85% of recipients expecting inflation to pick up further over the coming six months. And while the share expecting longer-term Bund yields to rise eased back below 50%, a little more than half of all respondents – the most since mid-2023 – expects the ECB to hike rates over coming months. With higher rates anticipated and markets resilient, investor perceptions of banks and insurers became more favourable this month, with the profit outlook for utilities, IT firms, services and electric machinery manufacturers also viewed positively. However, high energy prices weighed even more heavily on the already-downbeat assessment of the financial outlook for manufacturers of chemicals, autos and other heavy industrial sub-sectors.

French retail sales growth remained firm in Q1 according to the BoF

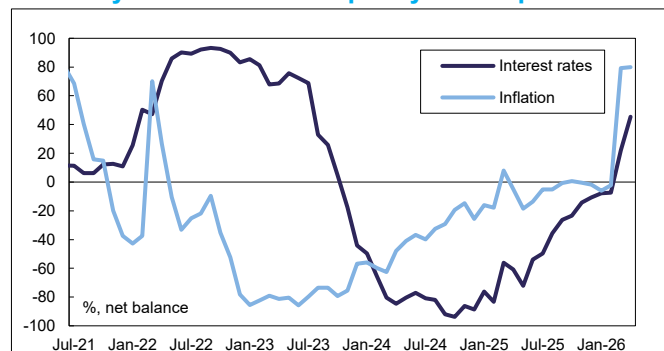
While French consumer confidence deteriorated in March further below the long-run average to the lower half of the range of the past two years, household spending on goods appears to have held up towards the end of Q1. Indeed, according to today's Bank of France (BoF) survey results, having dipped in February, retail sales volumes rebounded 0.4%M/M in March to be up in Q1 by 0.5%Q/Q, 0.1ppt higher than in Q4. However, sales growth last quarter was reportedly driven by food items (up 1.8%Q/Q) while the manufactured goods category dropped 0.5%Q/Q. And growth in non-food items in Q1 was concentrated largely in recreational items while new car sales were broadly flat and sales of most other goods weakened. We note that, while weaker last month, household willingness to make major purchases remained less adverse than overall consumer confidence. Additionally, despite the shock of the Iran War and higher energy costs, the BoF's broader business survey suggested last week that growth momentum was maintained in March across a range of sectors from manufacturing to services and construction. As a result, the BoF maintained its forecast of GDP growth in Q1 at 0.3%Q/Q. Unsurprisingly, while the impact of higher energy and petroleum costs on selling prices was judged to have been limited in March, a

Germany: ZEW economic conditions indices*



*Dotted lines represent long-run average. Expectations for coming six months.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ZEW inflation & policy rate expectations*



*Coming six months. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

significantly larger number of companies were reportedly considering hiking their prices this month. But most of those firms described such price rises as likely to be small. And we do not expect the inflationary impact of the war to be so large as to completely neutralise French GDP growth in Q2.

The day ahead in the euro area

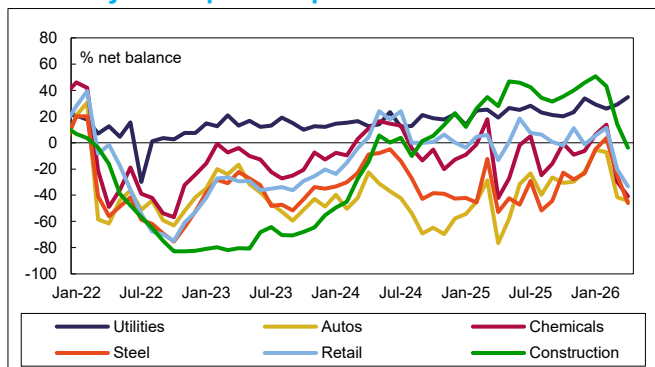
The most noteworthy euro area data release on Wednesday will be the Commission's flash consumer confidence reading for April. Consumer confidence was understandably rocked by the onset of the Iran war last month and to a greater extent than business sentiment, with the headline index initially falling at its sharpest monthly pace (down 4.1pts) since Russia's invasion of Ukraine to a 29-month low (-16.3). Government support measures to offset part of the increase in fuel prices might help to mitigate a further drop this month. But given the elevated economic uncertainty and ongoing hit to households' purchasing power, we see the risks to April's survey skewed to the downside regardless. Otherwise, Eurostat is also due to publish government deficit and debt statistics for 2025. And several policymakers will speak on Wednesday before the ECB's pre-meeting quiet period, including most notably President Lagarde, who will participate on a panel discussing global challenges.

UK

Pay growth moderates further in February, well below rates ahead of the Russian invasion in 2022

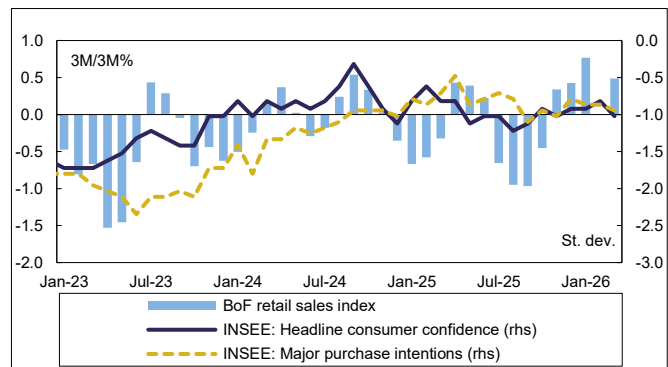
Today's UK labour market report was mixed, although in our view it signalled persistent labour slack that might help to limit second-round effects on inflation from the current energy price shock. Indeed, the data confirmed that wage pressures were easing significantly ahead of the start of the war in Iran. Total pay growth slowed in February by 0.8ppt over the quarter to 3.8%3M/Y, the softest rate since November 2020 and more than 5ppt lower than the peak almost five years ago. While this principally reflected favourable base effects in public sector pay growth, which dropped 2.5ppt on the quarter to 5.2%3M/Y, private sector pay slowed 0.3ppt to 3.5%3M/Y, matching the softest rate since late 2020. When excluding bonuses, private sector regular pay growth – the BoE's preferred measure – eased to 3.2%3M/Y, a touch below the long-run average and the BoE's projection for Q1 (3.5%3M/Y) presented at the February meeting. The moderation was broad-based across sectors, with regular pay growth in services, manufacturing and construction all at multi-year lows. And the single-month numbers suggest that the trend in regular pay will ease further over coming months. Of course, if the energy shock is prolonged and extreme, workers seem bound eventually to demand greater compensation, which is one reason why one or two MPC members – such as Pill and Greene – might yet be expected to vote for a rate hike as soon as this month.

Germany: ZEW profit expectations*



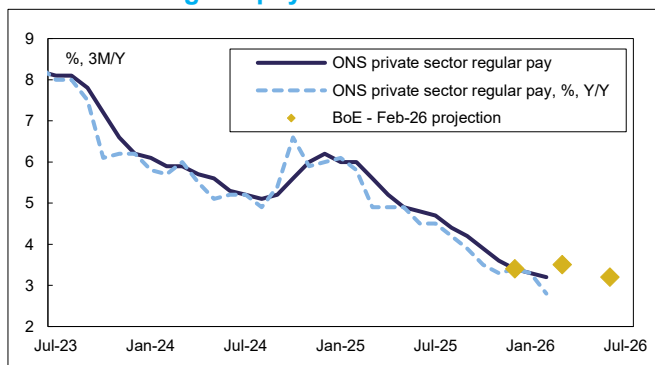
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Retail sales & consumer confidence



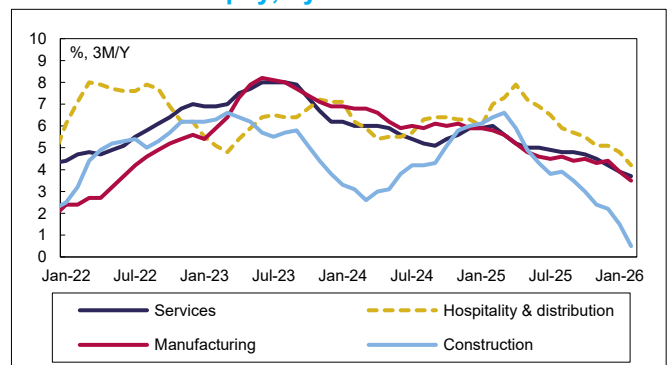
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Private regular pay



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

UK: Private total pay, by sector

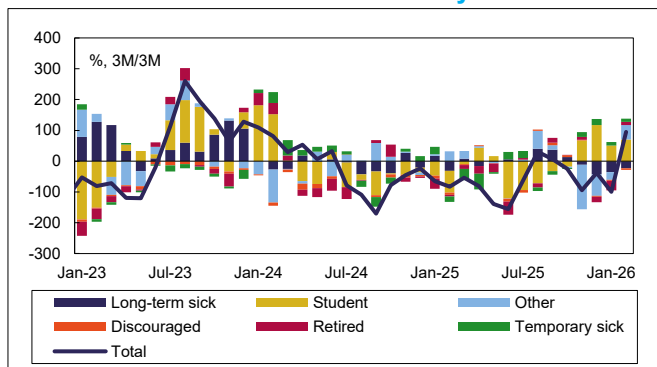


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

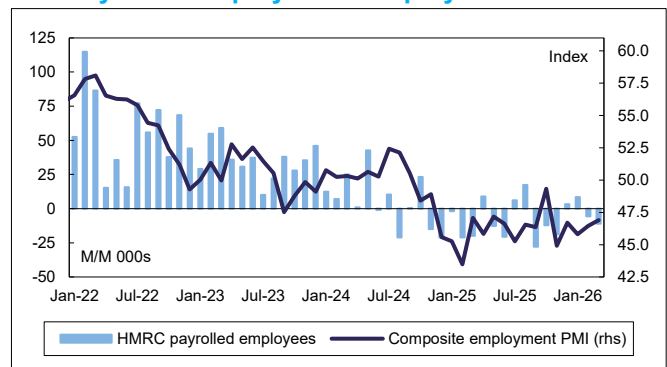
Unemployment down amid rising inactivity as labour demand drops & redundancy notices jump

But for the majority on the MPC, including Governor Bailey, continued evidence of labour market slack likely suggests no urgency to raise rates. Admittedly, today's data reported an unexpected drop in the ILO unemployment rate in the three months to February to a six-month low of 4.9%. But this rate remained ½pt higher than a year earlier and a full percentage point above the trough at end-2023. Moreover, the improvement largely reflected the largest jump in the number of people leaving the labour force in two years reflecting a drop in those in education looking for work as well as a rise in the number on temporary sick leave and entering retirement. Indeed, the LFS measure of employment slowed sharply in the three months to February. And having initially reported a turn for the better in February, the HMRC data now suggest that the number of payrolled employees fell in each of the past two months to the lowest level since November 2023. Tallying with survey signals that businesses continue to put their hiring plans on hold, job vacancies fell for a third successive month in March to the lowest in almost five years. Moreover, redundancy notices submitted so far in April jumped to the highest level since November 2020, suggesting risks that employment will fall and the unemployment rate will rebound over coming months.

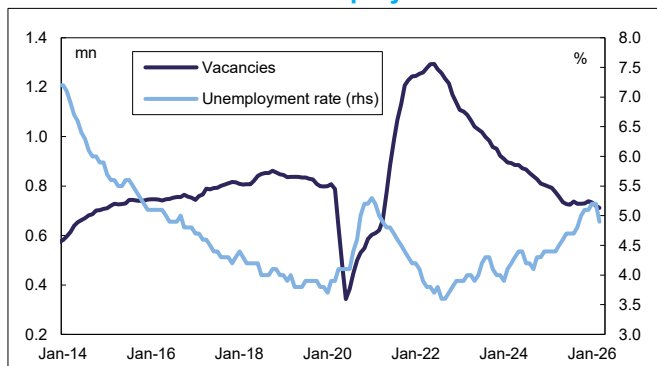
UK: Reasons for economic inactivity



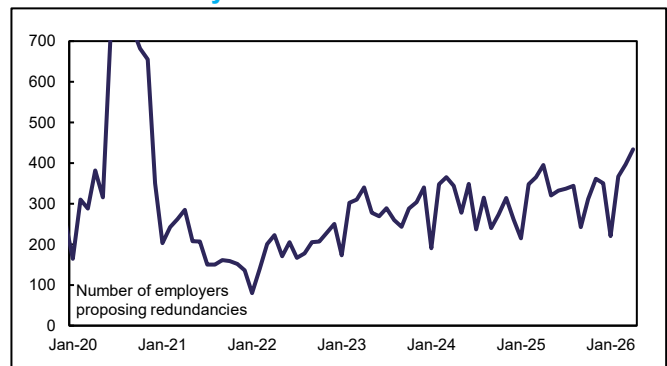
UK: Payrolled employees & employment PMI



UK: Job vacancies & unemployment rate



UK: Redundancy notices











The day ahead in the UK

The day ahead in the UK will illustrate the initial impact of the Iran war on the official price data. Indeed, whereas previously we had expected headline CPI to hold firm in March before stepping down in Q2, the subsequent energy supply shock means that we now expect it to climb 0.3ppt last month to 3.3%Y/Y. Higher liquid fuel costs should underpin virtually all that increase, pushing energy inflation up from -1%Y/Y to around 4½%Y/Y. In contrast, other components should be better behaved. And while the indirect effects of fuel costs imply potential upside risks to transport services and certain non-energy goods components, we expect core inflation to move sideways, at 3.2%Y/Y. The accompanying PPI data will also give an indication to the extent to which goods producers are absorbing the higher cost pressures.



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised
Germany	 ZEW current situation (expectations) balance	Apr	-73.7 (-17.2)	-70.7 (-7.0)	-62.9 (-0.5)	-
France	 Retail sales Y/Y%	Mar	0.1	-	-0.4	-0.5
UK	 Average wages (excluding bonuses) 3M/Y%	Feb	3.8 (3.6)	3.6 (3.5)	3.9 (3.8)	4.1 (-)
	 Private sector regular wages 3M/Y%	Feb	3.2	3.2	3.3	-
	 Unemployment rate 3M%	Feb	4.9	5.2	5.2	-
	 Employment 3M/3M change 000s	Feb	24	35	84	-
	 Payrolled employees M/M change 000s	Mar	-11	-3	20	-6
	 Claimant count rate % (change 000s)	Mar	4.4 (26.8)	-	4.4 (24.7)	4.3 (17.1)




Auctions

Country	Auction
Germany	 sold €4.282bn of 2.5% 2028 bonds at an average yield of 2.47%
UK	 sold £5bn of 4% 2029 bonds at an average yield of 4.238%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Monday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised
Euro area	 Construction output M/M% (Y/Y%)	Feb	-0.2 (-1.9)	-	-0.1 (-1.9)	-1.3 (-4.1)
Germany	 PPI Y/Y%	Mar	-0.2	-1.2	-3.3	-
UK	 Rightmove house prices M/M% (Y/Y%)	Apr	0.8 (-0.9)	-	0.8 (-0.2)	-





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/ <u>Daiwa forecast</u>	Previous
Euro area	 15.00	Preliminary Commission consumer confidence indicator	Apr	-17.2	-16.3
UK	 07.00	Headline (core) CPI Y/Y%	Mar	<u>3.3 (3.2)</u>	3.0 (3.2)
	 07.00	PPI – output (input) prices Y/Y%	Mar	2.4 (3.4)	1.7 (0.5)
	 09.30	House price index Y/Y%	Feb	-	1.3

Auctions and events

Euro area	 10.00	Eurostat to publish quarterly (Q425) and annual (2025) Government financial accounts			
	 18.30	ECB President Lagarde participates in panel discussion on global challenges at the London School of Economics			
Germany	 10.30	Auction: to sell up to €1bn of 2.6% 2041 bonds			
	 10.30	Auction: to sell up to €1bn of 3.4% 2047 bonds			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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