

Euro wrap-up

Overview

- Bunds made modest losses at the short end of the curve even as the Commission's flash euro area consumer confidence indicator flagged another sizable deterioration in sentiment.
- Gilts made losses while UK inflation picked up on higher fuel prices but the core rate undershot expectations.
- Thursday will bring a handful of European business surveys, including April's flash PMIs.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.547	+0.034
OBL 2½ 04/31	2.696	+0.020
DBR 2.9 02/36	3.005	+0.005
UKT 4¾ 03/28	4.330	+0.065
UKT 4¾ 03/31	4.434	+0.052
UKT 4¾ 10/35	4.907	+0.024

*Change from close as at 5:00pm BST.
Source: Bloomberg

Euro area

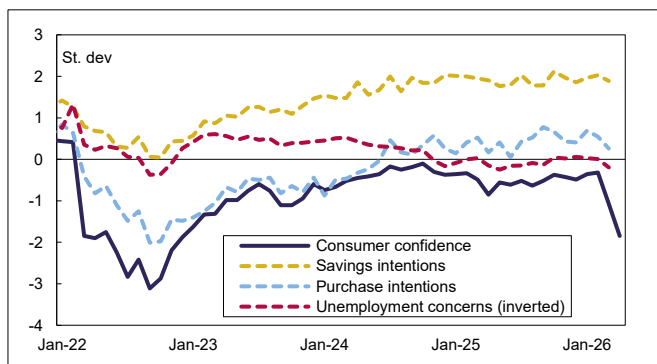
Consumer confidence deteriorates the most since 2022

Tallying with the deterioration in recent investor surveys, such as the Sentix and German ZEW, and ahead of tomorrow's flash April PMIs, today's Commission preliminary euro area consumer confidence index for the current month surprised to the downside adding to evidence of a hit to economic growth momentum. In particular, the headline sentiment index declined 4.2pts – a slightly larger monthly drop than in March – to -20.6, the lowest level since December 2022. While it remains some way above the 2022 trough of -27.5, the index was almost two standard deviations below the long-run average. The national surveys published in the Netherlands and Belgium similarly reported a further deterioration in sentiment as households signalled rising pessimism about the economic outlook, concerns of unemployment and erosion of purchasing power. Indeed, the Dutch index for expectations for the coming 12 months fell to the lowest level on the series, which began in 1986. And perhaps given the absence of new fiscal support in the Netherlands to soften the blow of higher fuel prices, Dutch household purchase intentions also weakened significantly. While several other European governments – including Germany, France, Italy and Spain – have announced fuel-related subsidy measures, as in 2022 after the Russian invasion of Ukraine, persisting uncertainties about the ongoing conflict, elevated fuel prices and concerns of job security seem highly likely to weigh on confidence and spending for several months to come.

The day ahead in the euro area

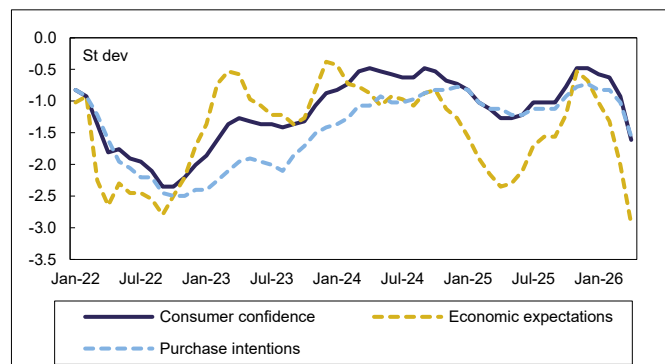
Sticking with April surveys, tomorrow's flash PMIs will give a clearer perspective of economic activity at the start of Q2. Like today's flash consumer confidence reading, we expect the survey to indicate that business conditions have worsened. Indeed, the PMIs already suggested that growth momentum in March was its weakest for nine months (50.7), with the onset of war in the Middle East precipitating a modest pullback in new orders (49.2). They also implied that input prices rose the most in three years. Despite intermittent signs of de-escalation, uncertainty caused by the 'stop-start nature of the war' (in the words of ECB President Lagarde) and likely further pressure on input prices from supply-chain disruption should represent a stronger headwind this month. The manufacturing sector, which the PMIs suggested offered a more positive contribution to output in March, will likely be particularly vulnerable. So, a modest contraction in the composite output PMI – a first since December 2024 – cannot be ruled out. INSEE's comprehensive business survey – also due tomorrow – might offer a more reliable guide to conditions in France compared to the volatile PMI indices. Meanwhile, euro area car registrations data should report a pickup in sales growth in March, perhaps in excess of 10%Y/Y following firm increases in Germany (16%), France (13%), as well as other member states.

Euro area: Consumer confidence indices*



*Preliminary estimate for April for headline consumer confidence index.
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Netherlands: Consumer confidence indices



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

UK

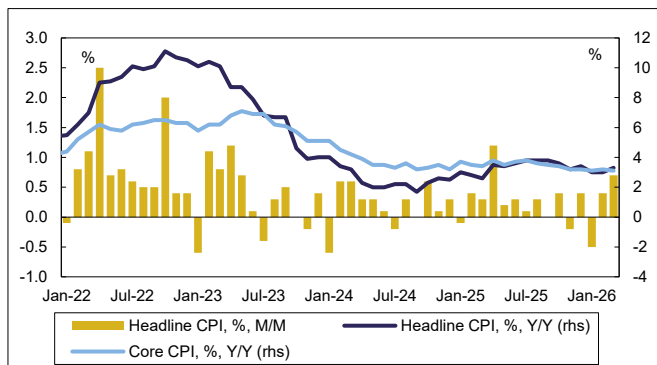
UK inflation rises on higher energy prices, but core inflation back down to near-4-year low

Today's UK inflation figures for March broadly aligned with expectations, with consumer prices jumping 0.7% M/M, the most in eleven months, to push the annual CPI rate up 0.3ppt to 3.3% Y/Y, a three-month high. That, however, was a touch below the BoE's expectation at the time of the March monetary policy meeting. The upwards shift in inflation was also smaller than in the euro area and US. And the detail suggested negligible pass-through so far from the new global energy price shock to other components. Certainly, the pressures among the major components were concentrated in energy, for which inflation jumped almost 6ppts to 4.9% Y/Y, a near-three-year high. Auto fuel prices jumped 8.7% M/M, the most since June 2022, while heating oil prices leapt more than 90% M/M, the most since the series began in 1988. Meanwhile, having moderated to a 14-month low in February, inflation of food, alcohol and tobacco edged slightly higher (3.6% Y/Y) in part due to chocolate prices. And principally due to the impact of the earlier timing of Easter on airfares – which rose the most in any March since 2016 – and hospitality prices, services inflation rose 0.2ppt to a three-month high of 4.5% Y/Y. When excluding volatile and indexed items, a measure of underlying services inflation watched by the BoE moved sideways. And non-energy industrial goods inflation fell 0.5ppt to 0.8% Y/Y, reversing February's rise. That reflected a moderation in a wide range of goods, including household appliances, furniture and clothing, the latter exaggerated by base effects. But as a result, core inflation unexpectedly eased 0.1ppt to 3.1% Y/Y, matching January's near-four-year low.

Inflation to remain contained in Q2 before a chunky hike in energy prices in July

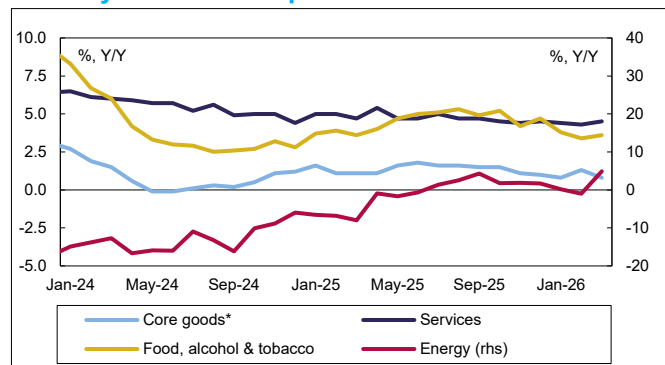
Looking ahead, headline inflation in Q2 will be contained to some extent by this month's cut in the Ofgem household energy price cap. But auto fuel prices are still trending a further 15% higher this month. And we expect airfare inflation to remain elevated. However, Budget-related base effects in certain other categories will push overall services inflation down this month and the headline CPI rate will likely moderate slightly. When the Ofgem price cap is finally hiked in July, we expect inflation to jump above 3½% Y/Y and then oscillate around 3¾% Y/Y through to Q127 as increased costs are increasingly passed through to a broader range of prices of goods and services. Indeed, rising pipeline pressures were illustrated in today's factory producer price figures, as input prices leapt 4.4% M/M, the second-highest increase since the series began in 1984. And while manufacturers continued to absorb a significant chunk of these additional pressures, they increased output prices (0.9% M/M) by the most since October 2022. So, while lacklustre demand will continue to limit pricing power, we expect core goods inflation to trend gradually higher over the coming year. Supply constraints and higher fertilizer costs

UK: Headline & core inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

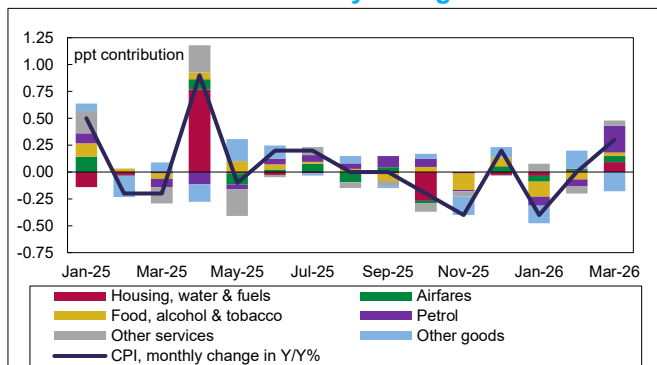
UK: Key inflation components



*Non-energy industrial goods inflation.

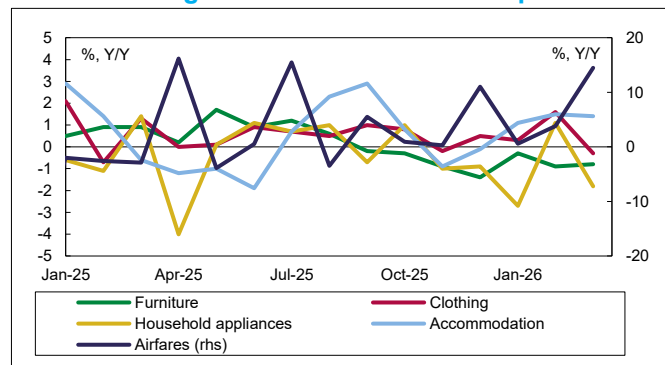
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Contribution to monthly change in inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

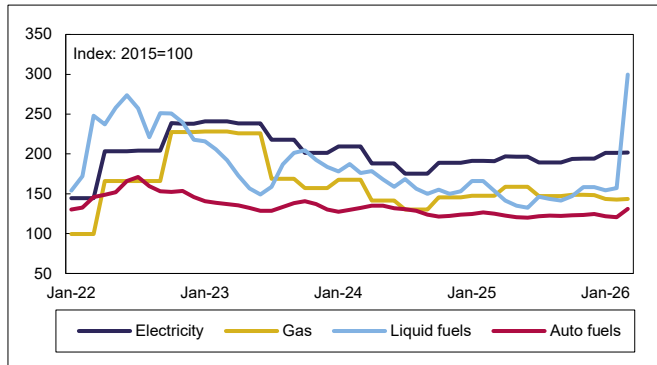
UK: Selected goods & services CPI components



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

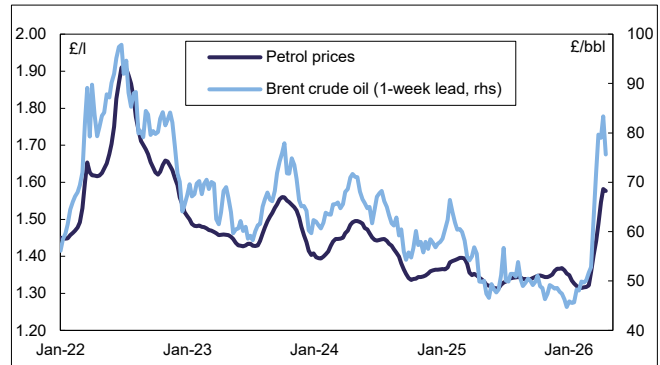
seem bound to provide an upward impulse to food inflation. And we see risks of second-round effects on wages and services prices into 2027. So, we no longer expect a sustained return to the 2% target until 2028. Nevertheless, as the outlook remains highly uncertain and dependent on events in the Middle East, and increased labour market slack should help to contain inflation persistence risks, the majority on the MPC is likely to want to wait for evidence of a meaningful pickup in inflation expectations before pulling the trigger on a rate hike.

UK: Energy price levels



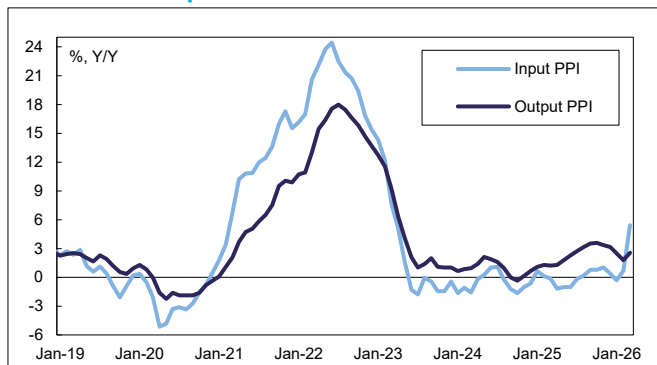
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Weekly petrol & Brent crude oil prices



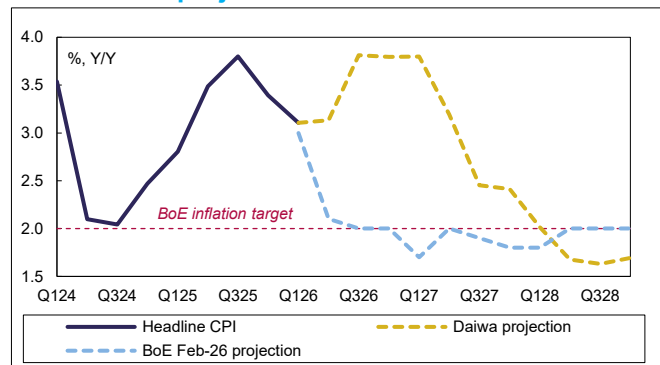
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Producer price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Inflation projections



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





The day ahead in the UK

Given the expectation of a further steep rise in fuel inflation this month, UK policymakers are likely to remain particularly attentive to warnings in April's flash PMIs of more aggressive cost pass-through into output prices. Indeed, having risen sharply last month to a three-year high (68.7), the input price PMI is likely to rise further in April. If so, it seems likely that the PMIs will also reflect more of those additional cost pressures in firms' selling-price intentions. Still, policymakers will also be conscious of constraints to firms' pricing power imposed by weaker demand. The March composite output PMI (down 3.4pts to 50.3) suggested that activity was merely stagnant at the end of Q1, while the employment PMI deteriorated to a six-month low (46.8). The risks to April's survey in that respect remain firmly to the downside, so signals of a further loss of momentum to start Q2 looks a strong possibility. The CBI's industrial trends survey will provide a complement to the findings of the manufacturing PMIs. Separately, March's public sector finance statistics will provide an update on UK government borrowing through to the end of FY25/26.



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Preliminary Commission consumer confidence indicator	Apr	-20.4	-17.2	-16.3	-16.4
UK	 Headline (core) CPI Y/Y%	Mar	3.3 (3.1)	<u>3.3 (3.2)</u>	3.0 (3.2)	-
	 PPI – output (input) prices Y/Y%	Mar	2.6 (5.4)	2.4 (3.4)	1.7 (0.5)	1.8 (0.7)
	 House price index Y/Y%	Feb	1.2	-	1.3	1.0















Auctions

Country	Auction
Germany	 sold €963mn of 2.6% 2041 bonds at an average yield of 3.34%
	 sold €958mn of 3.4% 2047 bonds at an average yield of 3.47%

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	 05.00	New car registrations Y/Y%	Mar	-	2.0
	 09.00	Preliminary services (manufacturing) PMI	Apr	49.8 (50.9)	50.2 (51.6)
	 09.00	Preliminary composite PMI	Apr	50.0	50.7
Germany	 08.30	Preliminary services (manufacturing) PMI	Apr	50.3 (51.4)	50.9 (52.2)
	 08.30	Preliminary composite PMI	Apr	51.2	51.9
France	 07.45	INSEE business (manufacturing) confidence indicator	Apr	96 (99)	97 (99)
	 07.45	INSEE production outlook (own-company) indicator	Apr	-12 (10)	-9 (8)
	 08.15	Preliminary services (manufacturing) PMI	Apr	48.5 (49.5)	48.8 (50.0)
	 08.15	Preliminary composite PMI	Apr	48.5	48.8
UK	 07.00	Public sector net borrowing £bn	Mar	10.3	14.3
	 09.30	Preliminary services (manufacturing) PMI	Apr	50.0 (50.4)	50.5 (51.0)
	 09.30	Preliminary composite PMI	Apr	49.8	50.3
	 11.00	CBI industrial trends survey – total orders (selling prices) net balance %	Apr	-34 (21)	-27 (12)
	 11.00	CBI industrial trends survey – business optimism net balance %	Apr	-25	-19

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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