

# Euro wrap-up

## Overview

- While euro area producer prices rose the most since mid-2022 and the PMIs pointed to more intense cost pressures, Bunds followed the global trend higher as oil prices fell on hopes of a US-Iran deal.
- Gilts also made gains despite signals from the final UK PMIs of a pickup in growth momentum and higher business costs at the start of Q2.
- Thursday will bring March figures for euro area retail sales and German factory orders, while local elections will be held across England and national parliament elections held in Scotland and Wales.

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### Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.554	-0.114
OBL 2½ 04/31	2.684	-0.084
DBR 2.9 02/36	2.992	-0.069
UKT 4¾ 03/28	4.367	-0.147
UKT 4¾ 03/31	4.465	-0.123
UKT 4¾ 10/35	4.928	-0.132

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

## Euro area

### Final PMIs consistent with contraction in economic output at start of Q2

April's final euro area PMIs provided a reminder that the growth hit and inflationary impulse from the new global energy shock intensified at the start of Q2. Despite a marginal upward revision from the flash reading, the euro area composite output PMI fell in April by almost 2pts – the most in almost three years – to a 17-month low of 48.8, consistent with contraction for the first time since end-2024. Indeed, based on the relationship between the PMIs and other survey indicators in the period ahead of the pandemic, if sustained the April data would suggest that euro area GDP might decline 0.2%Q/Q this quarter, more than fully reversing the growth of 0.1%Q/Q in Q1. For the time being, we expect the euro area just about to avoid a contraction in Q2. However, we certainly don't rule out negative prints in Germany and/or France and a slowdown across most other member states.

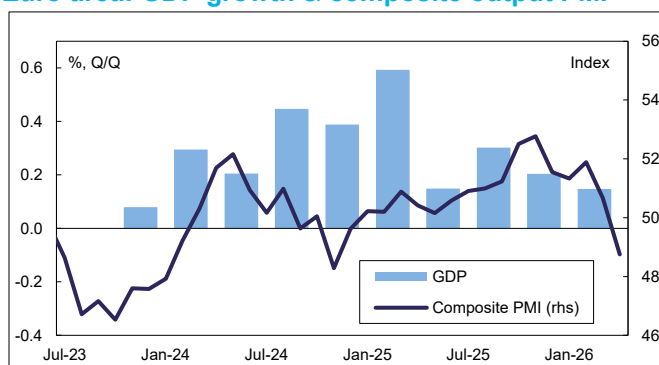
### Services activity slumps at start of Q2; manufacturing PMI shows signs of front-loading

The deterioration in April's final PMIs was driven by services, for which the activity index fell more than 2½pts to 47.6, the lowest level since mid-2023. The slowdown reported in the sector was widespread across the member states as events in the Middle East weighed on demand. Spain, where growth has been particularly robust over recent quarters, stood out as its headline activity index dropped almost 5½pts to a more than four-year low firmly in contraction territory. But the same indices were lower still in Germany and France in April while only Italy reported relative stability in the sector. Admittedly, the final PMIs tallied with other recent surveys to suggest that manufacturing provided some offset, with growth reported across the member states and at an accelerated pace in France, Italy and Spain. But this strength likely reflects temporary front-loading of production and inventory-building in anticipation of tighter supply conditions. Certainly, the PMIs reported the most significant lengthening of factory delivery times since mid-2022, echoing evidence from a German ifo institute survey of tightening bottlenecks in oil-based and other energy-intensive inputs. And overall, the survey reported that sentiment is fragile, with firms across the services and manufacturing sectors more downbeat about the outlook. Indeed, the respective euro area composite index was the lowest in 2½ years, with services the most pessimistic in more than three years.

### Producer prices rise the most since mid-2022, with input costs maintaining uptrend in April too

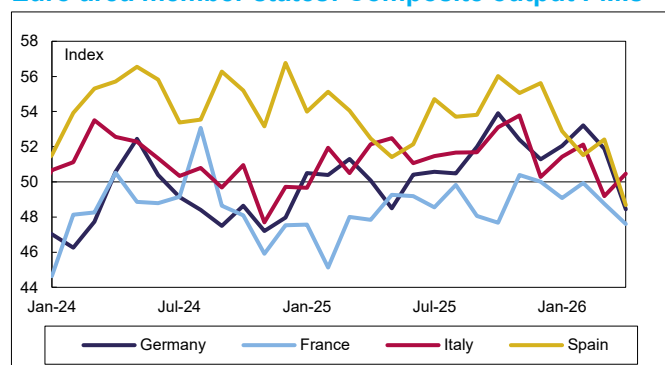
Alongside the downside risks to the growth outlook, the PMIs also illustrated the significant increase in price pressures triggered by the Iran War. These were most striking in the manufacturing sector, for which the input cost index jumped a further 10pts in April to the highest level since June 2022 (77.0). And the further jump in the output price index (61.1) to a more than three-year high, up some 10pts from the start of the year, corresponds with expectations that producer price

### Euro area: GDP growth & composite output PMI



Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area member states: Composite output PMIs



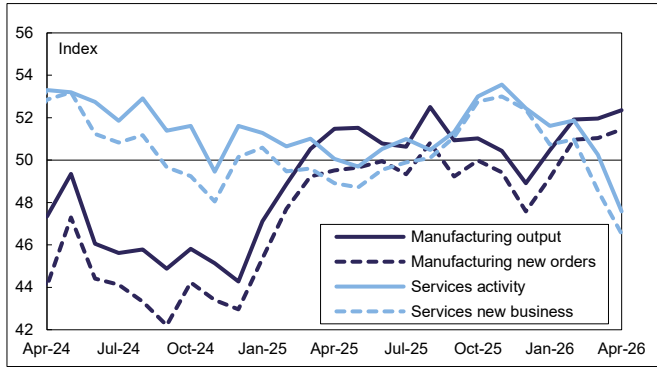
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

inflation will continue to rise further from the 13-month high of 2.0%Y/Y reached in March. Today's data showed that factory prices jumped that month by 3.4%M/M – the most since August 2022 – as energy prices leapt the most since January 2022 (11.4%M/M) and prices of coke and refined petroleum rose the most on the series. Excluding energy, core producer prices rose 0.5%M/M, the second largest increase since early 2023 as intermediate goods inflation rose to the highest level in three years.

### Services price pressures growing, with wage trackers signalling higher pay growth in H2

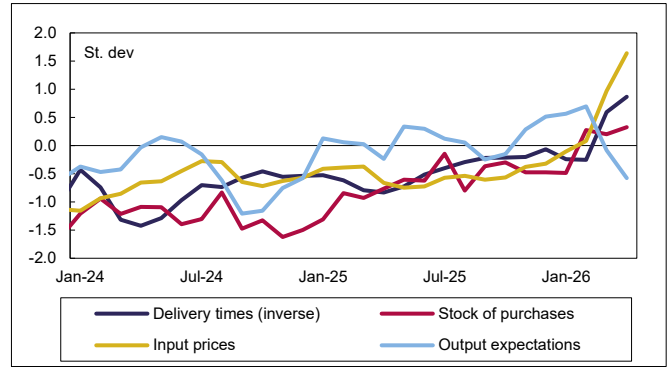
Higher cost burdens are not unique to the factory sector, with the respective services PMI up in April to a three-year high (65.5) well above the long-run average. While the survey suggested that firms are trying to absorb those pressures, the PMI for selling prices in the sector rose to the highest level in more than two years. The ECB's corporate telephone survey results this week also warned that the jump in oil prices is being transmitted to selling prices for the most oil-dependent goods and services. But the ECB will continue to hope that soft demand and labour slack will restrain indirect and second-round effects. The ECB's latest wage trackers suggest that pay growth in the euro area will rise from less than 2%Y/Y in Q1 to a little more than 2½%Y/Y in Q3 and Q4. But these rates remain down on last year. And the ECB's telephone survey suggested that pay growth is still likely to moderate this year and next compared to 2025, and that the indirect and second-round effects of the shock to energy prices are expected by most firms to be less marked than in the past.

#### Euro area: Manufacturing & services PMIs



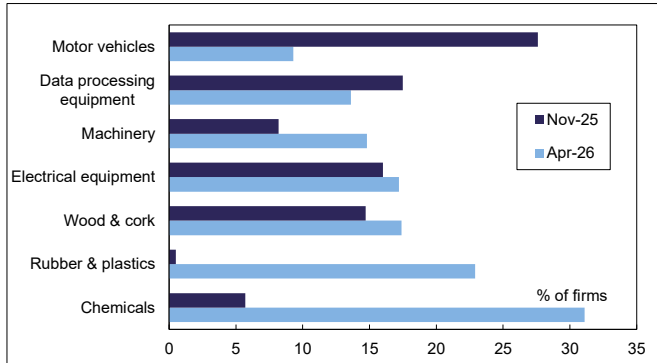
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Selected manufacturing PMIs



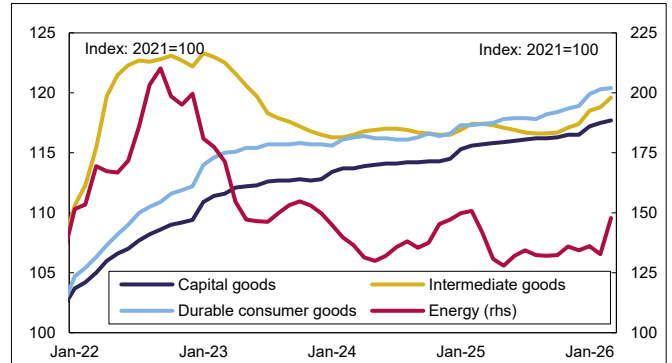
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Share of firms reporting material shortages



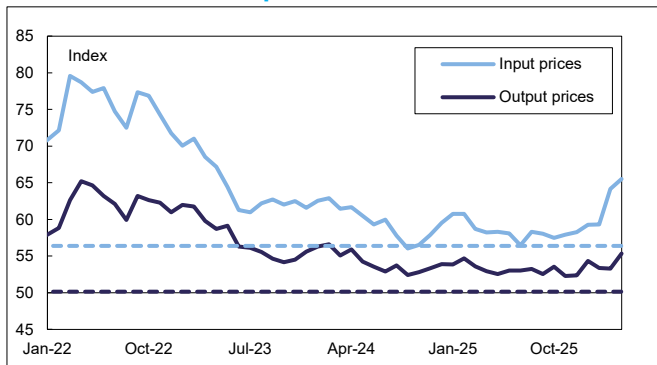
Source: ifo institute, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Producer price levels



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

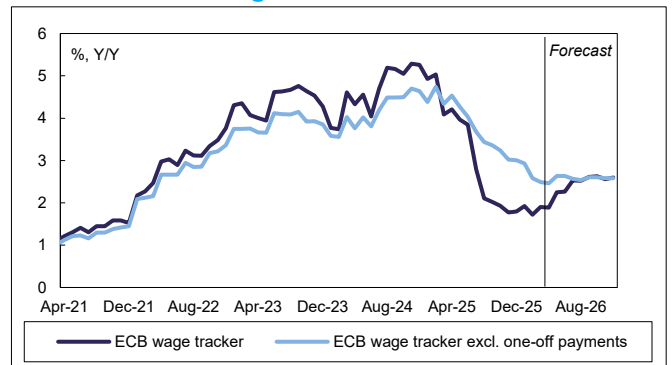
#### Euro area: Services price PMIs\*



\*Dashed lines represent pre-pandemic average.

Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: ECB wage tracker



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

## The day ahead in the euro area

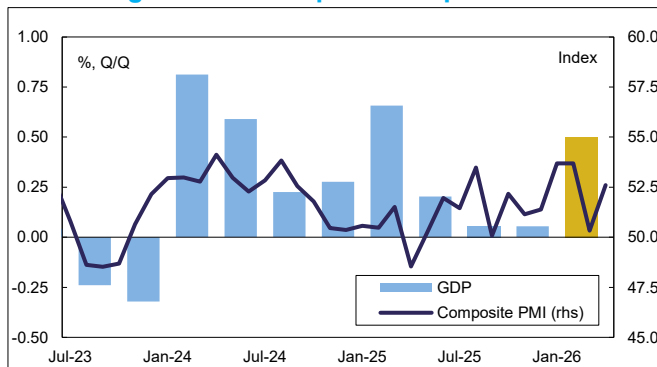
Thursday's dataflow will again be focused on economic activity in March to give a further guide to the initial impact on growth from the new energy shock. While [euro area GDP](#) slowed slightly in Q1 to 0.1%Q/Q, the marked deterioration in consumer confidence at the onset of the war in the Middle East seems likely to have weighed heavily on spending at the end of the first quarter. Judging by the data released by the member states so far, sales volumes in the euro area failed to benefit significantly from either the earlier timing of Easter or, as seen in the UK, consumers' efforts to beat price rises at the pump. Notwithstanding a strong showing from Italy (0.8%M/M), overall, we expect euro area retail sales to have declined slightly in March (-0.1%M/M) for a third consecutive month to result in the first quarterly drop in 2½ years. German factory orders data for the same month will provide a signal on the near-term production outlook. Encouragingly, business surveys have implied no material hit to factory output since the outbreak of war in the Middle East, and we expect some positive payback for the weakness in new bulk orders at the start of the year. Finally, detailed French goods trade numbers for March are likely to illustrate why net trade weighed significantly on GDP growth in Q1. Indeed, not least due to a pull-back in export volumes of aerospace and other transport goods (-20.1%Q/Q), the initial estimate of the Q1 national accounts suggested that net trade subtracted 0.7ppt from growth to leave GDP unchanged from Q4.

## UK

### Final PMIs signal pickup in momentum in April, but growth boost likely to be short-lived

According to the final PMIs for April, having appeared to weaken at the end of Q1, the UK economy regained momentum at the start of Q2. In particular, the final services activity PMI was revised up a chunky 0.7pt to 52.7, 1.8pts above the level in March and close to the average in Q1 when output in the sector likely grew close to 0.5%Q/Q. With the final manufacturing output PMI (released earlier in the week) confirmed at 51.8, up about 2½pts from March, the composite output PMI was revised up 0.6pt to 52.6, also more than 2½pts higher on the month and bang in line with the average in Q1 when GDP also likely grew 0.5%Q/Q. While some services firms, e.g. in the tech subsector, reported firm demand, the survey suggested that the pickup in activity in April was likely to be temporary and perhaps in part related to the frontloading of factory production to dodge possible future supply disruption and cost pressures associated with the Middle East war. Indeed, contrasting the reported pickup in manufacturing sector orders, the equivalent services PMI signalled falling new business, including from abroad, so that the composite index (50.3) was consistent with stagnant new demand. And the manufacturing and services indices all signalled the strongest rise in cost pressures and output prices since 2022 as well as a further significant lengthening in supplier delivery times consistent with tightening bottlenecks. In response, firms in services continued to signal job cuts. And while overall expectations for the coming 12 months remained positive, they barely improved from

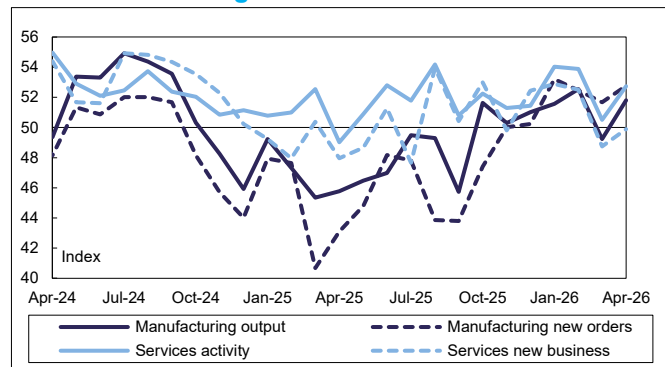
### UK: GDP growth\* & composite output PMI



\*Gold bar represents Daiwa forecast for Q126.

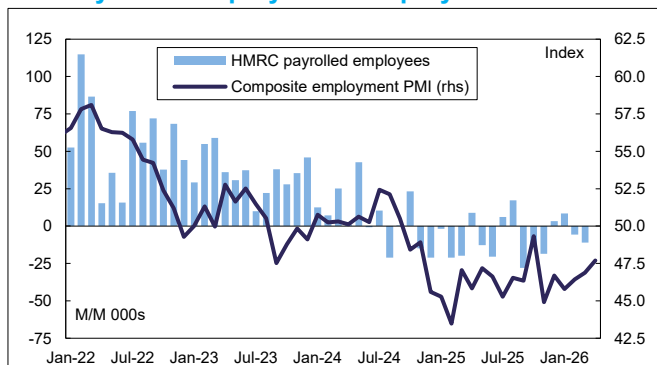
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Manufacturing & services PMIs



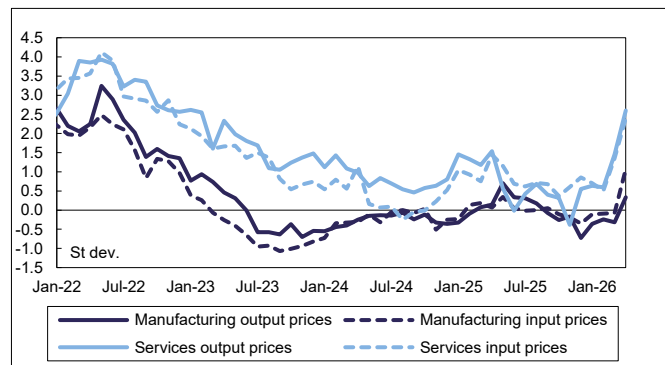
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Payrolled employees & employment PMI



Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Price PMIs














Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

March's nine-month low. So, despite the signs of a pickup in activity at the start of the quarter, for the time being we maintain our current forecast of minimal GDP growth of just 0.1%Q/Q over Q2 as a whole.





## The day ahead in the UK

The main focus in the UK on Thursday will be the local elections across England and national parliament elections in Scotland and Wales. In England, the populist Reform and Green parties look set to make significant gains while the Scottish and Welsh nationalist parties will be the biggest winners in their respective parliaments. As such, with the Labour party set to be the principal losers in each nation, speculation of a formal challenge to Prime Minister Keir Starmer's leadership will be fuelled. Meanwhile, it will be a quiet day for UK economic data, with the April construction PMIs expected to signal ongoing contraction in the sector as tighter financial conditions, increased uncertainty and higher costs hit house-building and commercial projects alike.

## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Final composite (services) PMI	Apr	<b>48.8 (47.6)</b>	<u>48.6 (47.4)</u>	50.7 (50.2)	-
	 PPI M/M% (Y/Y%)	Mar	<b>3.4 (2.1)</b>	-	-0.7 (-3.0)	-0.6 (-3.0)
Germany	 Final composite (services) PMI	Apr	<b>48.4 (46.9)</b>	<u>48.3 (46.9)</u>	51.9 (50.9)	-
France	 Industrial production M/M% (Y/Y%)	Mar	<b>1.0 (0.9)</b>	0.5 (0.2)	-0.7 (-0.3)	-0.9 (-)
	 Final composite (services) PMI	Apr	<b>48.8 (47.6)</b>	<u>47.6 (46.5)</u>	48.8 (48.8)	-
Italy	 Composite (services) PMI	Apr	<b>49.8 (50.5)</b>	-	49.2 (48.8)	-
	 Retail sales M/M% (Y/Y%)	Mar	<b>0.8 (3.7)</b>	-	0.0 (1.6)	-0.1 (-)
Spain	 Composite (services) PMI	Apr	<b>48.7 (47.9)</b>	-	52.4 (53.3)	-
UK	 Final composite (services) PMI	Apr	<b>52.6 (52.7)</b>	<u>52.0 (52.0)</u>	50.3 (50.5)	-
Auctions						
Country	Auction					
Germany	 sold €2.66bn of 2.5% 2032 bonds at an average yield of 2.8%					
UK	 sold £1.6bn of 1.125% 2035 inflation-linked bonds at an average yield of 1.463%					







Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 Nationwide house prices M/M% (Y/Y%)	Apr	<b>0.4 (3.0)</b>	-0.4 (2.3)	0.9 (2.2)	-
	 Net consumer credit £bn (Y/Y%)	Mar	<b>1.9 (8.9)</b>	-	1.9 (8.5)	2.0 (8.6)
	 Net mortgage lending £bn (approvals 000s)	Mar	<b>6.2 (63.5)</b>	4.2 (60.1)	4.8 (62.6)	5.2 (62.7)
	 Final manufacturing PMI	Apr	<b>53.7</b>	<u>53.6</u>	51.0	-
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Monday's results

## Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Final manufacturing PMI	Apr	<b>52.2</b>	<u>52.2</u>	51.6	-
	 Sentix investor confidence indicator	May	<b>-16.4</b>	-21.0	-19.2	-
Germany	 Final manufacturing PMI	Apr	<b>51.4</b>	<u>51.2</u>	52.2	-
France	 Final manufacturing PMI	Apr	<b>52.8</b>	<u>52.8</u>	50.0	-
Italy	 Manufacturing PMI	Apr	<b>52.1</b>	-	51.3	-
Spain	 Manufacturing PMI	Apr	<b>51.7</b>	-	48.7	-



## Auctions

Country	Auction
- Nothing to report -	



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tuesday's results

## Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Spain	 Unemployment (net employment) change 000s	Apr	<b>-62.7 (41.8)</b>	-	-22.9 (80.3)	-(80.3)
UK	 New car registrations Y/Y%	Apr	<b>24.0</b>	-	6.6	-

## Auctions

Country	Auction
Germany	 sold €993mn of 2.1% 2029 green bonds at an average yield of 2.68%  sold €484mn of 2.5% 2035 green bonds at an average yield of 3.00%








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	08.30	Construction PMI	Apr	-	44.6
	10.00	Retail sales M/M% (Y/Y%)	Mar	<u>-0.1 (0.9)</u>	-0.2 (1.7)
Germany	07.00	Factory orders M/M% (Y/Y%)	Mar	0.9 (1.6)	0.9 (3.5)
	08.30	Construction PMI	Apr	-	48.0
France	07.45	Trade balance €bn	Mar	-	-5.8
	07.45	Preliminary wages Q/Q%	Q1	-	0.2
Italy	08.30	Construction PMI	Apr	-	38.4
	08.30	Construction PMI	Apr	-	46.8
UK	09.30	Construction PMI	Apr	-	45.6

## Auctions and events

Euro area	 08.15	ECB Governing Council & BdF Governor Villeroy to give speech at central banking conference, Paris
	 08.15	ECB Vice-President De Guindos to give keynote speech at ECB-EC conference on financial integration, Frankfurt
	 18.00	ECB's Schnabel to give lecture on central bank independence at London School of Economics
France	 09.50	Auction: to sell 3.5% 2035, 3.6% 2042, 4.1% 2046 & 4.4% 2057 bonds
Spain	 09.30	Auction: to sell 2.35% 2029, 3.3% 2036, 5.15% 2044 bonds & 2.05% 2039 index-linked bonds
UK	 -	Local elections across England & national parliament elections in Wales & Scotland
	 14.40	BoE's Lombardelli to chair panel on industry and trade featuring ECB's Lane and external MPC member Taylor, London

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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