

Euro wrap-up

Overview

- While German IP data disappointed expectations, Bunds were little changed as ECB Governing Council members reminded that a rate hike will be under discussion at the next monetary policy meeting in June.
- Gilts made gains as UK Prime Minister Starmer insisted he has no intention of resigning despite a predictably poor showing by his Labour party in elections in England, Wales and Scotland.
- The coming week will bring updates on Q1 GDP in the UK and euro area, as well as data on euro area employment and IP.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.585	+0.006
OBL 2½ 04/31	2.700	+0.001
DBR 2.9 02/36	3.000	+0.001
UKT 4¾ 03/28	4.364	-0.022
UKT 4¾ 03/31	4.448	-0.039
UKT 4¾ 10/35	4.897	-0.050

*Change from close as at 4:00pm BST.
Source: Bloomberg

Euro area

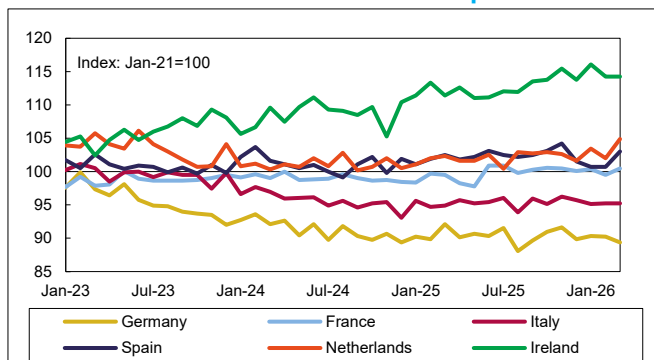
German IP falls in March & Q1 despite signs of front-loading in energy intensive industries

Particularly given yesterday's stronger-than-expected German [factory orders and turnover](#) figures for March, today's production data disappointed. While output rose in France (1.0%M/M), Spain (2.3%M/M) the Netherlands (2.8%M/M) and Ireland (0.6%M/M), perhaps reflecting firms' efforts to avoid potential future supply-chain disruptions, German industrial output fell 0.7%M/M, the third decline in four months. This left output close to its August low and at the second-weakest level since the global financial crisis outside of the initial Covid lockdown. And over Q1 as a whole, industrial output fell more than 1%Q/Q, the most since Q224. Admittedly, the detail in today's German report was mixed. Energy-intensive industries such as chemicals, glassware and ceramics showed some signs of front-loading, with output up for a third successive month (1.2%M/M) to a 12-month high. Manufacturing of autos, electrical machinery and ICT equipment also continued to recover. However, continued sluggishness in machinery, metals and pharmaceuticals saw total manufacturing production drop 0.8%M/M, leaving it almost 1½%Q/Q lower in Q1. Despite a bounce back in construction activity in March, this sector declined almost 2%Q/Q last quarter. And so, without the near 7½%Q/Q jump in energy production, the overall contraction in the industrial sector in Q1 would have been much steeper. But given also the sharp fall in retail sales (-1.1%Q/Q), we think that the initial estimate of GDP growth of 0.3%Q/Q will need to be revised down in due course.

Despite healthy order backlogs, production to be constrained by supply bottlenecks & higher costs

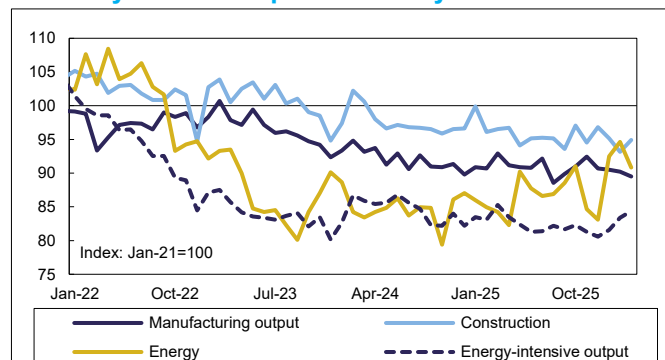
Looking ahead, business surveys suggest that manufacturers increased production at the start of Q2, having temporarily built up inventories of inputs ahead of potential supply disruptions. Order backlogs have continued to rise steadily in electrical and ICT equipment, defence, pharmaceuticals and the transport subsectors (excluding autos) over recent months. Yesterday's data suggested some recovery in new orders from beyond the euro area too. And higher industrial gas usage last month compared with a year ago raises hope of firm energy-intensive production at the start of this quarter. Nevertheless, there are signs that bottlenecks are already emerging in certain industries more reliant on oil-based and energy-related inputs from the Gulf. Auto manufacturers also continue to flag problems in their supply chains. Indeed, despite a further rise in registrations and new orders, according to the German auto association (VDA), car production and exports fell 3-4%Y/Y in April. Meanwhile, truck toll mileage – often a proxy for manufacturing production – fell at a faster pace in April. And the Bundesbank's weekly activity index – a proxy for GDP growth – declined in the last week of April by the most since August 2025. Certainly, the given heightened economic uncertainty, erosion of purchasing power and tightening in financial conditions resulting from the war in the Middle East, we anticipate a further weakening in industrial production amid stagnant household consumption and business capex this quarter.

Euro area member states: Industrial production



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Industrial production by sector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

German imports surge in March on higher energy prices to send trade surplus to near-3-year low

The value of German goods exports rose for a second successive month in March, albeit by just 0.5%M/M, to be up 1.9%Y/Y. And that left them up 2.2%Q/Q in Q1. With producer export prices up 1.1%M/M in March, however, export volumes appear to have weakened broadly in line with factory output at the end of the quarter. Moreover, with import prices up 2.3%M/M, the most in 13 months, due principally to higher energy costs, the value of German imports of goods rose in March by 5.1%M/M, the most in almost three years, to be up 7.2%Y/Y. The quarterly rise in import values of 0.9%Q/Q in Q1 was more modest than that of exports, and that is likely to have been the case in volume terms too. So, net goods trade was probably not a drag on GDP growth last quarter. Nevertheless, the goods trade surplus narrowed in March by more than €5bn to €14.3bn, the smallest since May 2023. By destination, growth in export values to the rest of the EU was firm (up 3.4%M/M and 7.8%Y/Y). Shipments to the UK were also robust (3.2%M/M and almost 15%Y/Y). But overall, exports beyond the EU were weak (down 3.3%M/M and more than 5%Y/Y).

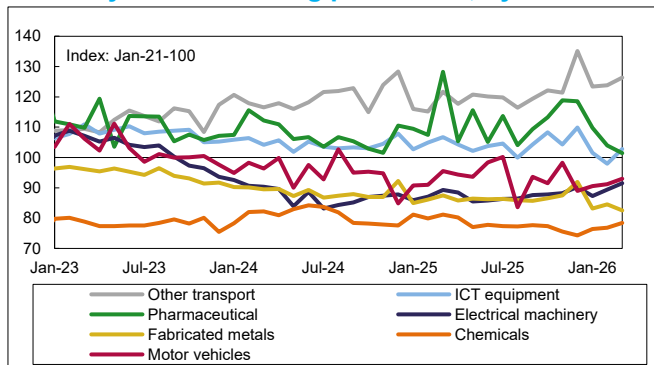
Exports to China & US weaken again highlighting twin external challenges to German factory sector

Unlike a year earlier when shipments were buoyed by tariff frontrunning, exports to the US slid again to be down more than 21%Y/Y, the steepest such decline since the first wave of Covid-19. So, with imports from there little changed, Germany's bilateral trade surplus with the US narrowed to €3.2bn, the second-lowest level since 2020. Moreover, exports to China fell to the lowest level in a decade to be down more than 19%Y/Y. And imports from China continued to rise, up almost 9%Y/Y to the highest level in more than three years. So, Germany's bilateral trade deficit with China increased to a new record high (€9.6bn), underscoring the ongoing twin shocks to the manufacturing sector from enhanced Chinese competitiveness and US trade barriers. Adding to the external challenges, given the conflict in the Middle East, exports to several of the Gulf states more than halved. By type of good, compared to a year earlier, weakness in exports of cars, chemicals and general machinery was offset by growth in computers, electronic equipment, electrical devices and metals. Higher prices meant that the value of imports of mineral fuels jumped by more than one third on the month to be up more than 10%Y/Y. Imports of plastics, miscellaneous chemicals, electrical equipment and machinery were also well up on a year earlier.

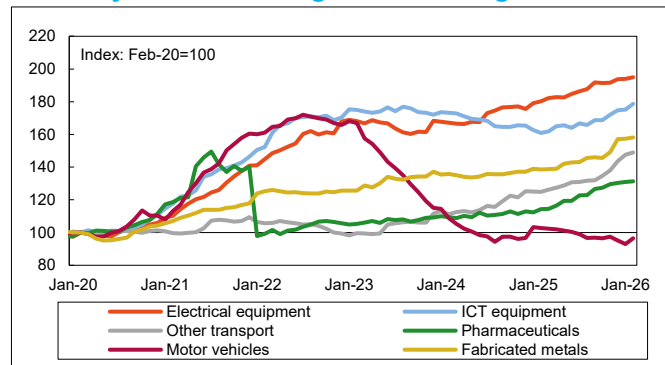
The week ahead in the euro area

A relatively quiet week ahead for euro area economic data will bring the second estimate of GDP for Q1 and industrial production figures for March (due Wednesday). The preliminary reading of [euro area GDP](#) suggested that growth slowed 0.1ppt to 0.1%Q/Q, the softest in three quarters and 0.2ppt below the ECB's March forecast. Activity figures for March subsequently released – including yesterday's retail sales data – have been subdued, reinforcing the impression of a significant loss of growth momentum. But judging from the national data published so far, euro area industrial output looks to

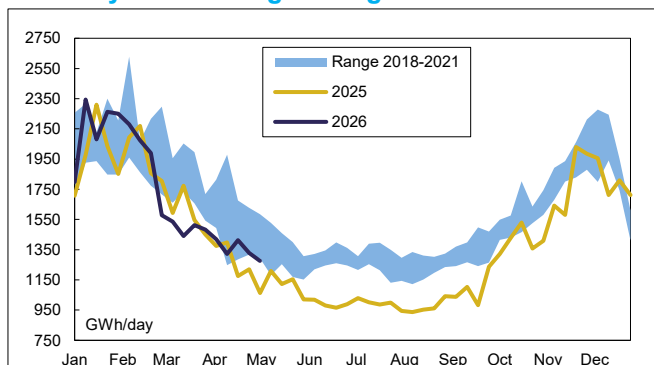
Germany: Manufacturing production, by sector



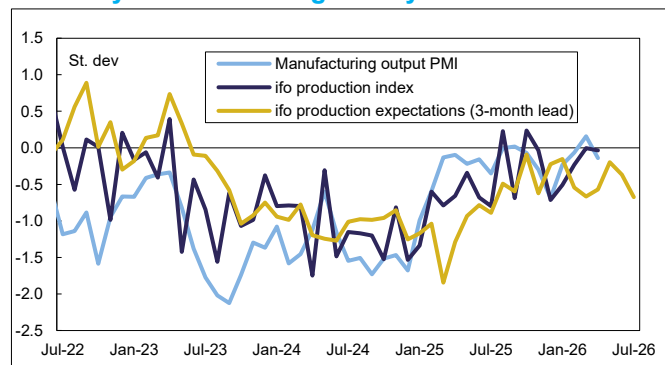
Germany: Manufacturing order backlogs



Germany: Industrial gas usage



Germany: Manufacturing survey indices



have held up as firms appear to have front-run potential supply disruptions. We forecast a rise in IP close to $\frac{1}{4}\%$ M/M, albeit leaving it down more than $\frac{3}{4}\%$ Q/Q in Q1. In any case, given the rounding of the first estimate (0.148%Q/Q), we expect GDP growth to be confirmed at 0.1%Q/Q. Given softer growth, heightened uncertainties about the global outlook and increased costs due to the new energy price shock, we expect euro area employment (also due Wednesday) to have declined last quarter for the first time in five years. Indeed, national data from Germany and Spain imply a drop of more than 200k in Q1.

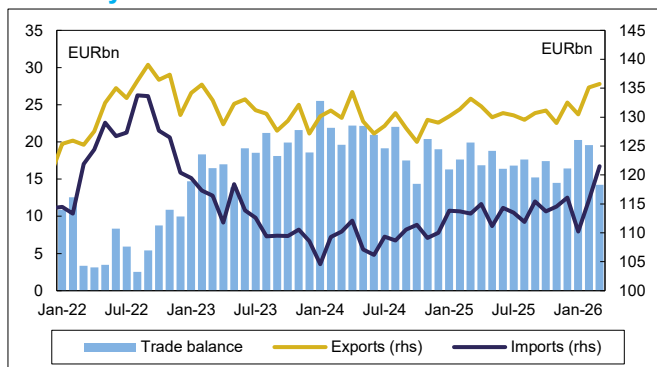
Separately, the coming week will bring final April inflation data from the member states including Germany and Spain (Tuesday), France (Wednesday) and Italy (Friday). These are expected to align with the respective flash estimates, which contributed to an increase of 0.4ppt in the [euro area](#) headline rate to 3.0%Y/Y. The detail should confirm that higher prices of auto fuel and heating oil drove the increase. The drop in the core rate to 2.2%Y/Y, matching the lowest rate in more than four years, was likely due to a softening in the package holiday component in Germany and Spain. Survey-wise, like this week's Sentix report, the ZEW investor sentiment indices (Tuesday) are expected to suggest a very minimal improvement in the German economic outlook following last month's sharp deterioration to the lowest level in more than three years.

UK

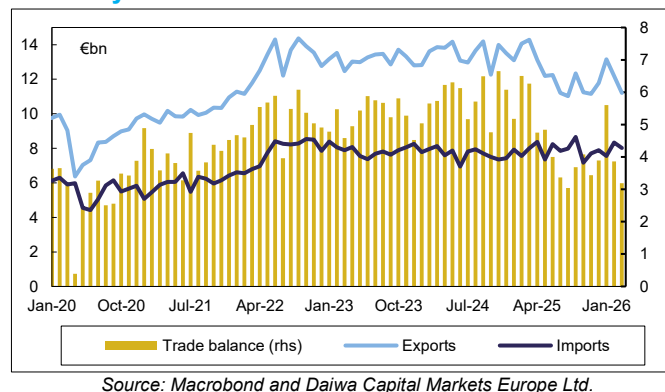
The week ahead in the UK

The most notable data from the UK in the coming week will be the GDP reports for March and Q1 as a whole (due Thursday). [Growth in February](#) surprised significantly on the upside at 0.5%M/M, the strongest in more than two years, with expansion in services, manufacturing and construction alike. With the composite PMI having fallen in March by the most in six months, GDP likely dropped that month for the first time since October. Nevertheless, that should still leave GDP up 0.5%Q/Q to represent the firmest growth in four quarters and a marked improvement from flat output in Q4. By sector, services likely made the largest contribution to growth in Q1. But manufacturing also likely contributed as auto production rebounded from the drop in Q4 related to the cyberattack at JLR. And construction contracted for a second successive quarter. In terms of expenditure, with [retail sales](#) having grown 1.6%Q/Q to mark the best quarter in almost five years, consumption likely led the way. We caution, however, that the strength in economic output in Q1 appears to have mirrored the pattern of recent years when better-than-expected growth in the first half of the year was followed by weakness in the second half. This appears to suggest that the GDP data might not have been sufficiently adjusted for new seasonal spending patterns. In response to such speculation, the ONS will also for the first time publish its unadjusted GDP data alongside the updated seasonally adjusted series. Meanwhile, in terms of more timely data, the BRC retail sales monitor & RICS residential survey will give an early guide to economic activity in April. In terms of the former, we note that the CBI distributive trades indices flagged a particularly weak month for retail sales last month. And the tightening of financial conditions resulting from the Middle East war will likely have weighed significantly on new house-buyer enquiries and home price expectations.

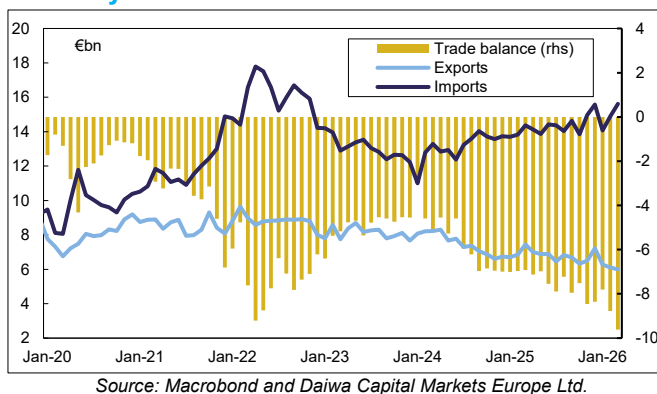
Germany: Goods trade values



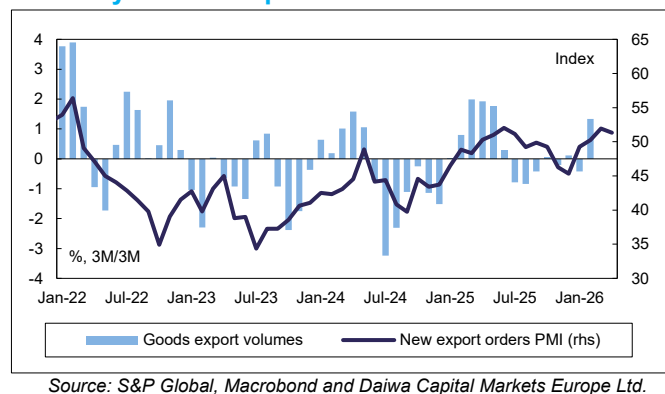
Germany: Goods trade with the US












Germany: Goods trade with China



Germany: Goods export volumes & orders PMI





Daiwa economic forecast

	2025		2026			2027	2026	2027	2028
	Q4	Q1	Q2	Q3	Q4	Q1			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.2	0.1	0.0	0.1	0.2	0.3	0.6	1.0	1.4
UK 	0.1	0.5	0.1	0.0	0.2	0.4	0.8	1.1	1.4
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.1	2.0	3.1	3.0	3.1	3.0	2.8	2.5	2.1
Core HICP 	2.4	2.3	2.3	2.5	2.7	3.0	2.5	2.8	2.0
UK									
Headline CPI 	3.4	3.1	3.3	3.9	3.9	3.9	3.6	2.9	1.8
Core CPI 	3.3	3.2	2.8	3.2	3.4	3.5	3.1	3.1	2.2
Monetary policy, %									
ECB									
Deposit Rate 	2.00	2.00	2.25	2.50	2.50	2.50	2.50	2.25	2.25
Refi Rate 	2.15	2.15	2.40	2.65	2.65	2.65	2.65	2.40	2.40
BoE									
Bank Rate 	3.75	3.75	3.75	4.00	4.00	4.00	4.00	3.50	3.50

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	
Germany 	Industrial production M/M% (Y/Y%)	Mar	-0.7 (-2.8)	0.3 (-1.8)	-0.3 (0.0)	-0.5 (-0.2)	
	Trade balance €bn	Mar	14.3	17.8	19.7	19.6	
Spain 	Industrial production M/M% (Y/Y%)	Mar	2.3 (1.8)	-	-0.1 (-1.1)	- (4.9)	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The next Euro wrap-up will be published on Tuesday 12 May 2026












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 11 May 2026						
- Nothing to report -						
Tuesday 12 May 2026						
Germany		07.00	Final HICP (CPI) Y/Y%	Apr	<u>2.9 (2.9)</u>	2.8 (2.7)
		10.00	ZEW current situation (expectations) balance	May	-78.0 (-18.8)	-73.7 (-17.2)
Italy		09.00	Industrial production M/M% (Y/Y%)	Mar	0.1 (0.3)	0.1 (0.5)
UK		00.01	BRC retail monitor – like-for-like sales Y/Y%	Apr	0.8	3.1
Wednesday 13 May 2026						
Euro area		10.00	GDP – second estimate Q/Q% (Y/Y%)	Q1	<u>0.1 (0.8)</u>	0.2 (1.2)
		10.00	Employment – first estimate Q/Q% (Y/Y)	Q1	-	0.2 (0.7)
		10.00	Industrial production M/M% (Y/Y%)	Mar	<u>0.3 (-1.6)</u>	0.4 (-0.6)
France		06.30	Unemployment rate %	Q1	7.8	7.7
		07.45	Final HICP (CPI) Y/Y%	Apr	<u>2.5 (2.2)</u>	2.0 (1.7)
Thursday 14 May 2026						
Spain		08.00	Final HICP (CPI) Y/Y%	Apr	<u>3.5 (3.2)</u>	3.4 (3.4)
UK		00.01	RICS house price balance %	Apr	-25	-23
		07.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.5 (0.8)</u>	0.1 (0.5)
		07.00	Monthly GDP M/M%	Mar	-0.2	0.5
		07.00	Services output M/M% (3M/3M%)	Mar	-0.1 (0.6)	0.5 (0.5)
		07.00	Industrial output M/M% (Y/Y%)	Mar	-0.3 (0.2)	0.5 (-0.4)
		07.00	Construction output M/M% (Y/Y%)	Mar	-0.5 (-2.5)	1.0 (-1.0)
		07.00	Trade (goods trade) balance £bn	Mar	-	-0.7 (-18.8)
Friday 15 May 2026						
Italy		09.00	Final HICP (CPI) Y/Y%	Apr	<u>2.9 (2.8)</u>	1.6 (1.7)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 11 May 2026		
UK		00.01 REC, KPMG and S&P Global UK Report on Jobs for April
Tuesday 12 May 2026		
Germany		10.30 Auction: to sell €6bn of 2.5% 2028 bonds
UK		10.00 Auction: to sell £4.0bn of 4.125% 2031 bonds
Wednesday 13 May 2026		
Euro area		20.00 ECB Chief Economist Lane to give speech in London
		20.15 ECB President Lagarde to give speech in Germany
Germany		10.30 Auction: to sell up to €1.0bn of 3.4% 2047 bonds
		10.30 Auction: to sell up to €1.5bn of 2.5% 2054 bonds
Italy		10.00 Auction: to sell bonds*
UK		18.00 BoE's Mann to give speech on the UK's international exposures and vulnerabilities at the LSE
Thursday 14 May 2026		
UK		16.15 BoE Chief Economist Pill to give speech at a roundtable event in London
Friday 15 May 2026		
Euro area		09.00 ECB to publish Economic Bulletin 2/2026

*Details to be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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