

Euro wrap-up

Overview

- While UK GDP growth accelerated in Q1 and risks of a challenge to Starmer's leadership were heightened by the resignation of a Cabinet minister, Gilts made gains.
- Bunds also made modest gains on a quiet day for euro area economic news.
- The coming week's European dataflow will be focussed on flash May PMIs, updates to April inflation and labour market numbers for Q1.

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Daily bond market movements

| Bond | Yield | Change |
|---------------|-------|--------|
| BKO 2½ 06/28 | 2.652 | -0.052 |
| OBL 2½ 04/31 | 2.760 | -0.056 |
| DBR 2.9 02/36 | 3.046 | -0.053 |
| UKT 4¾ 03/28 | 4.427 | -0.052 |
| UKT 4¾ 03/31 | 4.546 | -0.056 |
| UKT 4¾ 10/35 | 4.998 | -0.066 |

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

UK

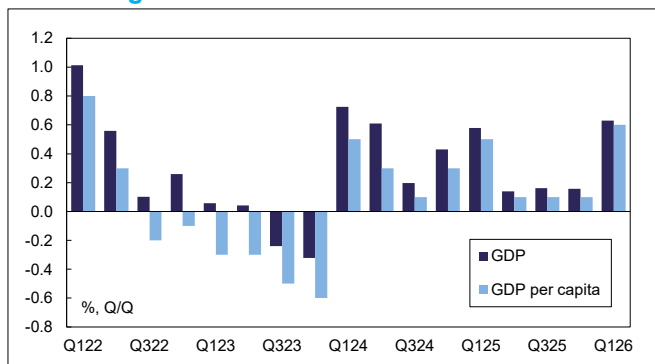
GDP growth accelerated in Q1, as stockpiling & consumption gave a boost

According to the preliminary estimate, UK GDP growth accelerated 0.4ppt in Q1 to 0.6%Q/Q, the firmest pace in a year, fastest of the G7 economies and 0.1ppt above the BoE's projection published two weeks ago. Growth in GDP per capita (0.6%Q/Q) was also the best in four years. And the expansion in the prior two quarters was revised slightly higher too. Against the backdrop of the new inflation shock from the Middle East, today's GDP data might at the margin strengthen the case for a rate hike at the June MPC meeting. However, the vigour in Q1 failed to tally with survey indicators. And it might in part reflect recent shifts in seasonal spending patterns, with firmer growth early in the year followed by moderation in the second half in three of the past four years. Indeed, the expansion in Q1 pushed the annual rate up just 0.1ppt to 1.1%Y/Y, softer than most estimates of potential growth and likely consistent with persisting economic slack heading into the current quarter. Within the expenditure breakdown, there were solid gains in household (0.6%Q/Q) and government consumption (0.4%Q/Q), with the former the strongest in six quarters. But the largest contribution to GDP growth came from private inventories, which added a sizable 0.5ppt, consistent with firms stockpiling ahead of potential supply bottlenecks. That boost was partly offset by a drag from net trade (-0.3ppt), with movements of non-monetary gold also contributing to volatility. And despite some modest payback in business investment (0.7%Q/Q) for previous weakness, total fixed investment fell for a second successive quarter and by the most since Q323 (-0.6%Q/Q), driven by declines in intellectual property and dwellings.

Output showed relative resilience to global energy crisis at end-Q1

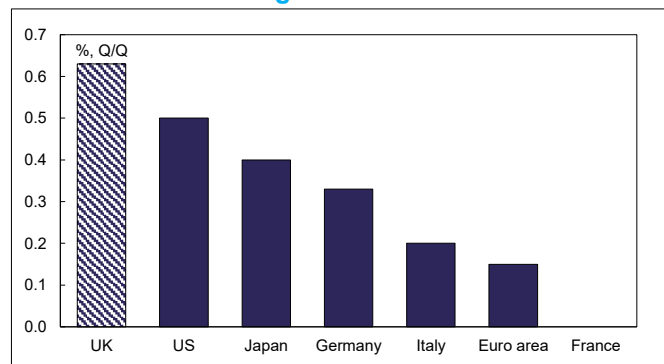
Solid GDP growth in Q1 in part reflected surprising resilience at the end of the quarter, with economic output in March rising 0.3%M/M having been expected to contract. While this followed downwardly revised growth in January and February, the March expansion was relatively broad-based. As a result, services were the main driver in Q1, rising the most in two years (0.8%Q/Q). Both consumer-facing (0.8%Q/Q) and business-facing services (0.9%Q/Q) accelerated, supported by gains in retail and hospitality, information services and computer programming. That said, services growth eased slightly in March (0.3%M/M), with sharp declines in activity in travel, recruitment and wholesale activities at the end of the quarter likely reflecting the energy shock and heightened uncertainty. In contrast, manufacturing production accelerated in March by the most in four months (1.2%M/M), with solid growth in chemicals, pharmaceuticals, electrical machinery and autos. To some extent, that might have reflected precautionary frontloading of production to dodge possible future supply disruption. But the leap of almost 11%Q/Q in autos production in Q1, the most since Q223, was flattered by base effects from the JLR cyberattack last summer. And, overall, industrial production rose just 0.2%Q/Q, held back by weakness in mining, energy and water supply. Nonetheless, manufacturing production held steady in Q1 at 0.8%Q/Q, matching the firmest rate in two years. Reassuringly perhaps, survey indicators point to continued growth momentum in manufacturing and services in April.

UK: GDP growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

G7 economies: GDP growth in Q126*



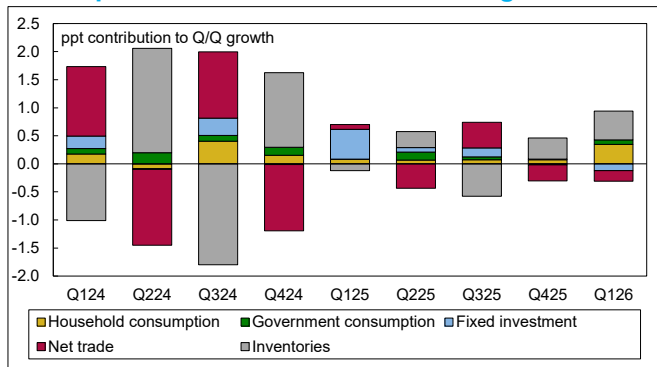
*Japan figure is Daiwa forecast.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Higher borrowing costs & persisting uncertainty clouds near-term outlook

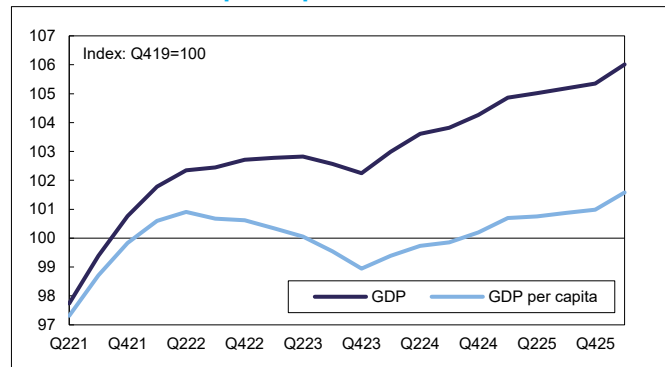
Construction also showed further signs of recovery in March, with activity rising for a third successive month (1.5%M/M), the strongest gain in almost two years. This lifted output in the sector in Q1 by 0.4%Q/Q, driven by a robust increase in repair and maintenance work (3.4%Q/Q, the most since Q423). But underlying momentum remains soft. New building work fell for a third straight quarter (-1.9%Q/Q). And contrasting the services and manufacturing surveys, the construction PMIs point to marked contraction over the near term. Today's RICS residential survey also suggested that builders will be cautious over the near term. The headline house price balance fell sharply in April to -34%, a 2½-year low, well below the long-run average. Only the North of England, Scotland and Northern Ireland reported price growth. And while there was a modest uptick from March, surveyors flagged weak momentum in new buyer enquiries and new instructions. Indeed, with mortgage borrowing costs having jumped markedly since February – e.g. the average rate on a 2-year fixed loan with a 75% in April was up more than 115bps to a near-2-year high of 5.14% – the survey index for newly agreed sales was the lowest since August 2023 when Bank Rate peaked in the recent cycle at 5.75%. Looking ahead, the combination of higher borrowing costs, weaker consumer confidence, eroding real incomes, and renewed domestic political instability is likely to weigh on construction demand more generally. We see a non-negligible risk that activity in the sector contracted in April. And while public investment should be a source of support, and despite a positive carryover from Q1, we continue to expect only marginal growth in construction at best in both Q2 and Q3.

UK: Expenditure contributions to GDP growth



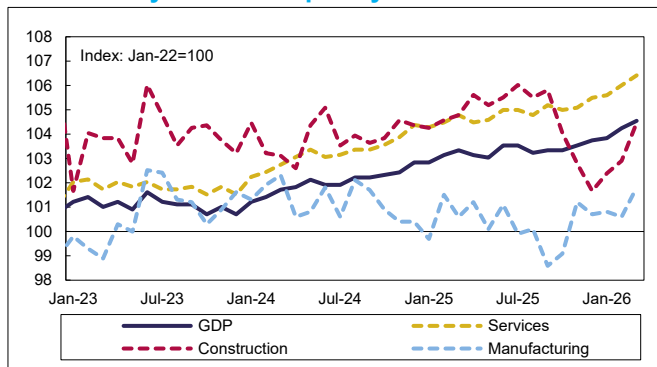
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: GDP & GDP per capita levels



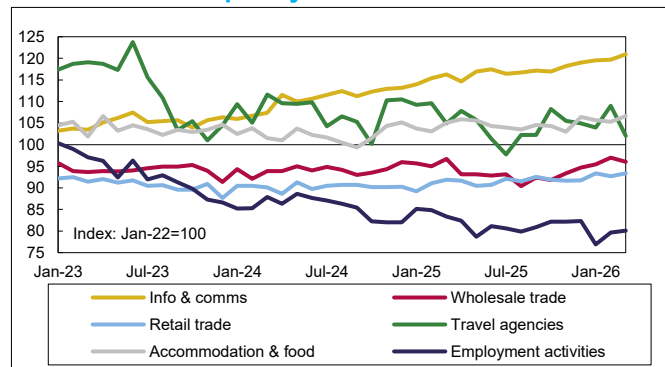
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Monthly GDP & output by sector



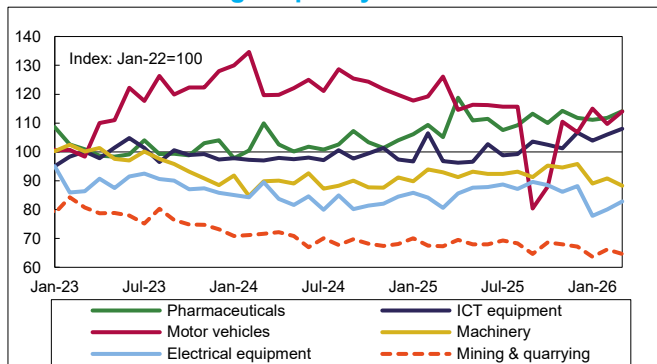
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Services output by selected subsector



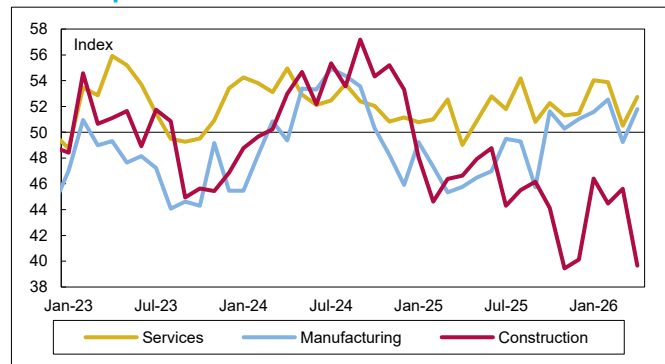
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing output by selected subsector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Output PMIs



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

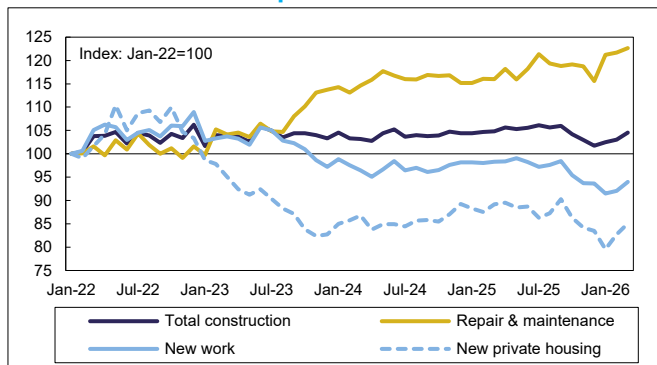
Largest monthly trade deficit since early-2022 on jump in precious metals imports & fuel prices

Trade data for March showed a predictably marked widening in the headline deficit, which increased more than £4bn to £9.7bn, the largest since January 2022. The deterioration largely reflected a surge in the value of imports (5.3%M/M), driven by volatile precious metals, including non-monetary gold, and the jump in fuel prices. However, the underlying picture in March was somewhat more stable. When excluding precious metals and price effects, import volumes of both services and goods were broadly flat on the month in March. And export volumes declined only marginally as continued resilience in services offset some of the impact of a further drop in goods shipments to a six-month low. As a result, the real adjusted trade deficit edged only slightly higher in March. But at £6.0bn, that represented the widest such deficit since October 2023. And the broader trend remains one of gradual deterioration, with the real underlying trade deficit widening in Q1 to £15.4bn, more than 2% of GDP, similarly the biggest since Q423. Indeed, the underlying goods deficit in March was the second largest since the series began almost three decades ago. So, it was only thanks to the continued resilience in the business services surplus (£16bn in Q1) that the overall deterioration wasn't more pronounced. Given the persisting energy shock and heightened global uncertainty, risks to the trade outlook – for services and goods alike – nevertheless appear to the downside.

The week ahead in the UK

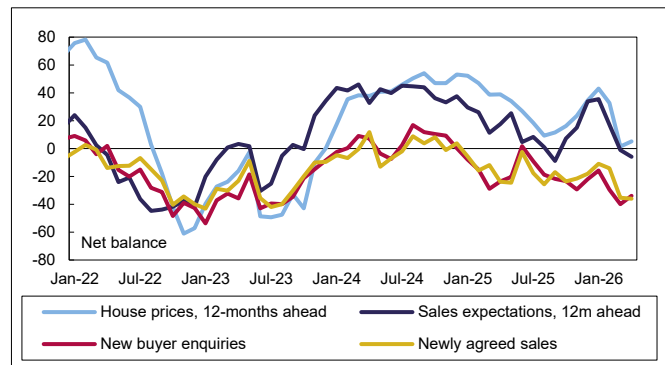
Of course, the intense speculation regarding a potential leadership challenge to Prime Minister Starmer means that political headlines are likely to remain a source of turbulence in UK markets throughout next week. But, irrespective of whether a challenge materialises or not, the week ahead will bring a swathe of top-tier data to digest. April's inflation report (Wednesday) should be most anticipated. Prior to the oil shock, the BoE had expected April's CPI to bring welcome news on the disinflation process, with a sharp slowdown to around the 2%Y/Y target predicated on favourable base effects – relating last year's employer NICs hike and increases in partially administered prices – as well as new disinflationary policies. Now, however, the BoE now sees inflation at 3.0%Y/Y, down just 0.3ppt, which is slightly more optimistic than our own call of 3.1%Y/Y. Obviously, the cause of the upwards shift in the near-term profile has been higher fuel prices. While they increased in March by the most since September 2022, we expect that to be eclipsed by a rise of more than 14%M/M in April. A drop in regulated electricity prices (-6.7%Q/Q) this quarter will provide some offset, but energy inflation will still rise by around 2ppts, to almost 7%Y/Y. Still, a freeze to rail fares and, most notably, a smaller rise in water bills than a year earlier (perhaps worth as much as 0.2ppt to the headline rate), will relieve some underlying pressure from services inflation. Jet fuel still poses an upside risk to airfares, but the early timing of Easter this year suggests that favourable base effects here should dominate. Overall, we see services inflation slowing to its softest rate since the invasion of Russia's invasion of Ukraine. And we expect core inflation to fall 0.3ppt to 2.8%Y/Y, a first sub-3% print since late-2021.

UK: Construction output



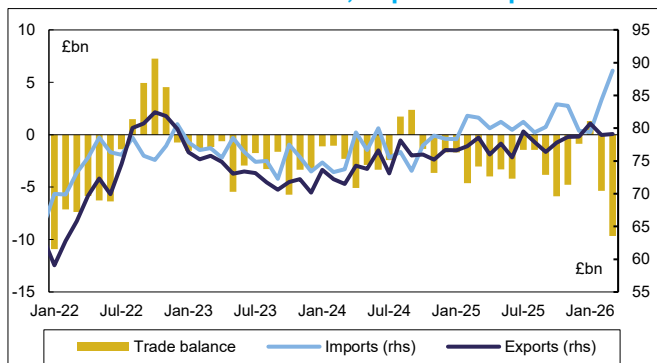
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: RICS residential market indices



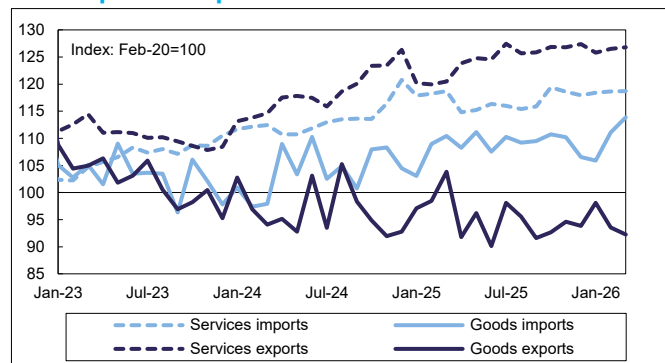
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Nominal trade balance, export & import values



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Export & import volumes



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The latest UK labour market report (Tuesday), flash PMIs (Thursday) and April retail sales data (Friday) will also garner attention. Regarding the former, we note that it should be too early for events in the Middle East to have had a bearing on the trajectory of the core labour market figures. If at all, wage growth probably decelerated only modestly, consistent with the BoE's expectation for a 0.1ppt drop in private regular pay growth to 3.1%Y/Y. And recalling that the sudden improvement in the unemployment rate in February was related to rising inactivity, employment growth likely remained soft. Further signs of acute weakness in the timelier payrolls data and redundancy notices might also give a better signal about the impact on labour demand from the oil shock, although we note that the PMIs have not yet signalled any more of a deterioration in hiring intentions than they had previously. Contrary to the euro area, however, last month's composite output PMI suggested that activity was surprisingly resilient (52.6, up 2.3pts). Thursday's flash release will show whether businesses were able to sustain momentum through to this month. Inevitably, policymakers will also take note of updated signals of inflationary pressures given the 8pt leap in the output price PMI over the past two months (62.7).

April's retail sales data, meanwhile, might struggle to match the strength in activity implied by the PMIs. Indeed, having bounced back to mark their best quarter in almost five years in Q1 (1.6%Q/Q), the energy shock seems bound to have interrupted that momentum. Certainly, we expect a non-negligible pullback in fuel sales volumes after the front-loading which flattered sales in March. The [BRC survey](#) also exemplified the risks of Easter base effects last month. And surveys suggest that consumers have unsurprisingly become more cautious about big-ticket purchases. Thanks in part to heightened political uncertainty, we also see the risks to consumer confidence in May (also Friday) skewed slightly to the downside, contrasting with the tentative signs of stabilisation in the euro area. Otherwise, the end of the week will also bring the first set of monthly public sector finance statistics for the new financial year. And in terms of BoE speak, appearances from external MPC members Mann (Monday) and Taylor (Thursday) may also be of interest.










The week ahead in the euro area

It will be a busy week ahead for euro area data too, with an array of monetary policy-relevant releases scheduled throughout the week. Among those, we would place most weight on the first of May's business surveys and particularly the flash PMIs (Thursday). While the ECB might well still raise rates as soon as the next policy meeting in June, some Governing Council members have been less enthusiastic in light of the weakness of some activity indicators. So, the May surveys, as well as developments in the Middle East, are likely to be particularly pertinent to the ECB's reaction function. Of course, GDP growth in Q1 was already slightly weaker than expected. March's goods trade data (Tuesday) are likely to signal another modest drag from net exports at the start of the year. And like industry, the construction sector (data due Thursday) likely contracted last quarter despite some payback in March for previous weakness. The April PMIs suggested that manufacturing production picked up at the start of Q2, with the respective index up to an 8-month high in April (52.3). But they also suggested that growth momentum in services weakened considerably with the activity index down to 47.6, 4.3pts below its pre-war reading and indicative of the sharpest deterioration in the sector for more than five years. The Commission's flash consumer confidence release (Thursday), itself at its lowest since end-2022 in April, and down 1.5 standard deviations since the start of the war, should also remain subdued in May. More acute weakness – including across the more comprehensive German ifo and French INSEE surveys (both Friday) – could amplify calls for more patience from the doves on the Governing Council.

Of course, policymakers will also be watchful of the evidence of rising inflation in the PMIs. In April, the composite input cost (68.3) and output price (56.8) indices flagged the greatest pressures since end-2022 and April 2023 respectively. German PPI data (Wednesday) will also be watched. At least for now, however, indirect effects have been reassuringly absent from consumer price data, as April's final HICP release (Wednesday) should confirm. Indeed, we expect that to validate the flash estimate's rise in the headline rate to 3.0%Y/Y, a 28-month high, led by energy components. So, core inflation should moderate slightly to 2.2%Y/Y, helped by a near-four-year low in services inflation (3.0%Y/Y). Admittedly, that soft print was almost certainly flattered a touch by the timing of Easter, not least from base effects in categories like airfares and package holidays, and policymakers will remain resolutely watchful for potential second-round effects so long as the oil crisis persists. But the ECB's negotiated wage indicator update (Friday) looks likely to signal that wage settlements continued to decelerate at the start of the year, below 3%Y/Y, which might imply some welcome moderation of firms' labour cost growth (flash release Thursday). And the adjoining preliminary job vacancy rate will confirm the relatively looser labour market conditions which prevailed at the start of the war, providing some reassurance that risks of a wage-price spiral will be far lower than in 2022.

The next Euro wrap-up will be published on Tuesday 19 May 2026

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  | 0.2 | 0.6 | 0.1 | 0.0 | 0.2 | 0.4 | 1.0 | 1.1 | 1.4 |
| Inflation, %, Y/Y | | | | | | | | | |
| Euro area | | | | | | | | | |
| Headline HICP  | 2.1 | 2.0 | 3.2 | 3.1 | 3.1 | 3.0 | 2.9 | 2.4 | 2.1 |
| Core HICP  | 2.4 | 2.3 | 2.3 | 2.4 | 2.7 | 3.0 | 2.4 | 2.8 | 2.0 |
| UK | | | | | | | | | |
| Headline CPI  | 3.4 | 3.1 | 3.2 | 3.9 | 3.9 | 3.9 | 3.5 | 3.0 | 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/ Daiwa forecast | Previous | Revised |
|---|----------------------------------|--------|---------------------|-------------------------------------|--------------|--------------|
| Spain  | Final HICP (CPI) Y/Y% | Apr | 3.5 (3.2) | <u>3.5 (3.2)</u> | 3.4 (3.4) | - |
| UK  | GDP – first estimate Q/Q% (Y/Y%) | Q1 | 0.6 (1.1) | <u>0.5 (0.8)</u> | 0.1 (1.0) | 0.2 (-) |
|  | Monthly GDP M/M% | Mar | 0.3 | -0.1 | 0.5 | 0.4 |
|  | Services output M/M% (3M/3M%) | Mar | 0.3 (0.8) | -0.1 (0.6) | 0.5 (0.5) | - (0.6) |
|  | Industrial output M/M% (Y/Y%) | Mar | -0.2 (0.0) | -0.2 (0.3) | 0.5 (-0.4) | 0.3 (-0.5) |
|  | Construction output M/M% (Y/Y%) | Mar | 1.5 (-0.3) | -0.5 (-2.5) | 1.0 (-1.0) | 0.5 (-1.6) |
|  | Trade (goods trade) balance £bn | Mar | -9.7 (-27.2) | - | -0.7 (-18.8) | -5.3 (-22.8) |
|  | RICS house price balance % | Apr | -34 | -25 | -23 | -25 |

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/ Daiwa forecast | Previous |
|---|-------|-----------------------|--------|-------------------------------------|-----------|
| Italy  | 09.00 | Final HICP (CPI) Y/Y% | Apr | <u>2.9 (2.8)</u> | 1.6 (1.7) |












































Auctions and events

Euro area  09.00 ECB to publish Economic Bulletin 2/2026

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 18 May 2026 | | | | | |
| Italy |  | 09.00 Trade balance €bn | Mar | - | 4.9 |
| UK |  | 00.01 Rightmove house prices M/M% (Y/Y%) | May | - | 0.8 (-0.9) |
| Tuesday 19 May 2026 | | | | | |
| Euro area |  | 10.00 Trade balance €bn | Mar | - | 7.0 |
| UK |  | 07.00 Average wages (excluding bonuses) 3M/Y% | Mar | - | 3.8 (3.6) |
| |  | 07.00 Private sector regular wages 3M/Y% | Mar | - | 3.2 |
| |  | 07.00 Unemployment rate 3M% | Mar | - | 4.9 |
| |  | 07.00 Employment 3M/3M change 000s | Mar | - | 24 |
| |  | 07.00 Payrolled employees M/M change 000s | Apr | - | -11 |
| |  | 07.00 Claimant count rate % (change 000s) | Apr | - | 4.4 (46.8) |
| |  | 09.30 Output per hour Y/Y% | Q1 | - | -0.5 |
| Wednesday 20 May 2026 | | | | | |
| Euro area |  | 10.00 Final headline (core) HICP Y/Y% | Apr | <u>3.0 (2.2)</u> | 2.6 (2.3) |
| Germany |  | 07.00 PPI Y/Y% | Apr | - | -0.2 |
| UK |  | 10.00 Headline (core) CPI Y/Y% | Apr | <u>3.1 (2.8)</u> | 3.3 (3.1) |
| |  | 06.30 PPI – output (input) prices Y/Y% | Apr | - | 2.6 (5.4) |
| |  | 07.45 House price index Y/Y% | Mar | - | 1.2 |
| Thursday 21 May 2026 | | | | | |
| Euro area |  | 09.00 Preliminary services (manufacturing) PMI | May | - | 47.6 (52.2) |
| |  | 09.00 Preliminary composite PMI | May | - | 48.8 |
| |  | 09.00 ECB current account €bn | Mar | - | 24.9 |
| |  | 10.00 Construction output M/M% (Y/Y%) | Mar | - | -0.2 (-1.9) |
| |  | 10.00 Preliminary labour costs Y/Y% | Q1 | - | 3.3 |
| |  | 10.00 Preliminary job vacancy rate % | Q1 | - | 2.3 |
| |  | 15.00 Preliminary Commission consumer confidence indicator | May | - | -20.6 |
| Germany |  | 08.30 Preliminary services (manufacturing) PMI | May | - | 46.9 (51.4) |
| |  | 08.30 Preliminary composite PMI | May | - | 48.4 |
| France |  | 08.15 Preliminary services (manufacturing) PMI | May | - | 46.5 (52.8) |
| |  | 08.15 Preliminary composite PMI | May | - | 47.6 |
| UK |  | 09.30 Preliminary services (manufacturing) PMI | May | - | 52.7 (53.7) |
| |  | 09.30 Preliminary composite PMI | May | - | 52.6 |
| |  | 11.00 CBI industrial trends survey – total orders (selling prices) % balance | May | - | -38 (32) |
| Friday 22 May 2026 | | | | | |
| Euro area |  | 10.00 Negotiated wages Y/Y% | Q1 | - | 2.9 |
| Germany |  | 07.00 GDP – final estimate Q/Q% (Y/Y%) | Q1 | <u>0.3 (0.5)</u> | 0.2 (0.5) |
| |  | 07.00 GDP – private consumption Q/Q% | Q1 | - | 0.5 |
| |  | 07.00 GDP – government spending Q/Q% | Q1 | - | 1.1 |
| |  | 07.00 GDP – capital investment Q/Q% | Q1 | - | 1.0 |
| |  | 07.00 GfK consumer confidence indicator | Jun | - | -33.3 |
| |  | 09.00 ifo current assessment (expectations) indicator | May | - | 85.4 (83.3) |
| |  | 09.00 ifo business climate indicator | May | - | 84.4 |
| France |  | 07.45 INSEE business (manufacturing) confidence indicator | May | - | 94 (100) |
| |  | 07.45 INSEE production outlook (own-company) indicator | May | - | -18 (7) |
| UK |  | 00.01 GfK consumer confidence indicator | May | - | -25 |
| |  | 07.00 Retail sales – incl. auto fuel M/M% (Y/Y%) | Apr | - | 0.7 (1.7) |
| |  | 07.00 Retail sales – excl. auto fuel M/M% (Y/Y%) | Apr | - | 0.2 (1.7) |
| |  | 07.00 Public sector net borrowing £bn | Apr | - | 12.6 |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

| Country | BST | Event / Auction |
|------------------------------|---|--|
| Monday 18 May 2026 | | |
| UK |  | 09.30 External MPC member Mann to participate in panel at MNB conference, Budapest |
| Tuesday 19 May 2026 | | |
| Germany |  | 10.30 Auction: to sell €5bn of 2.5% 2031 bonds |
| UK |  | 10.00 Auction: to sell £1.25bn of 0.125% 2031 inflation-linked bonds |
| Wednesday 20 May 2026 | | |
| Germany |  | 10.30 Auction: to sell up to €5bn of 2.9% 2036 bonds |
| France |  | 08.00 Banque de France Governor-nominee Emmanuel Moulin to speak before the Senate's finance committee |
| Thursday 21 May 2026 | | |
| Euro area |  | - European Commission to publish 2026 Spring economic forecasts |
| France |  | 10.50 Auction: to sell inflation-linked bonds* |
| Spain |  | 09.30 Auction: to sell 2.6% 2031, 3% 2033 and 1% 2050 bonds |
| UK |  | 10.00 Auction: to sell £4bn of 4.875% 2036 bonds |
| |  | 13.00 External MPC member Taylor to speak in MNI webinar |
| Friday 22 May 2026 | | |
| - Nothing scheduled - | | |

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

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