

# Euro wrap-up

## Overview

- Bunds ended the day little changed after oscillating on Iran-related news, while euro area new car registrations remained firm but French consumer confidence deteriorated close to historical lows.
- While Ofgem confirmed a sharp rise in British household energy bills, Gilts made gains as oil prices fell.
- Thursday will bring the Commission's economic sentiment indices for May and producer price inflation data from France and Italy.

**Chris Scicluna**  
+44 20 7597 8326

**Edward Maling**  
+44 20 7597 8030

### Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.577	-0.007
OBL 2½ 04/31	2.689	+0.001
DBR 2.9 02/36	2.985	+0.008
UKT 4¾ 03/28	4.264	-0.025
UKT 4¾ 03/31	4.399	-0.027
UKT 4¾ 10/35	4.857	-0.017

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

## Euro area

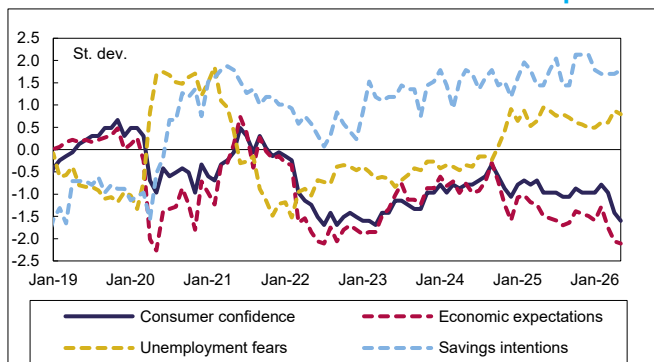
### French consumer confidence deteriorates close to historical low with spending intentions down too

While household sentiment in Germany, like the euro area in aggregate, appears to have stabilised for the time being, it has continued to deteriorate in France. According to today's INSEE survey results, French consumer confidence worsened in May for a third successive month to the lowest level since early 2023. At just 82, the headline index was 18% and more than two standard deviations below the long-run average. And it was a level rarely worse on the series which dates back more than five decades. While the national unemployment rate rose in Q1 to a five-year high of 8.1%, some 0.7ppt higher than a year earlier, fear of unemployment was not quite as severe as in April. In addition, while perceptions of recent price developments tracked recent CPI data to be considered the worst in two years, the survey's measure of household inflation expectations for the coming 12 months improved somewhat after a sharp deterioration last month. But after French GDP growth had already unexpectedly paused last quarter, consumer perceptions of the economic outlook in May were the worst since July 2022 and a level that has been lower only once on the series, during the first Covid lockdown. As a result, household income expectations for the coming twelve months were revised down too. And with precautionary savings intentions higher, major purchase intentions were the weakest in more than two years, almost two standard deviations below the long-run average. Following the decline in consumption of 0.1%Q/Q in Q1, we anticipate a further modest drop this quarter. And given the weakness of business survey indicators in both April and May, we expect French GDP to decline slightly and the unemployment rate to rise further in Q2.

### Despite French weakness, car registration growth remains firm thanks to strong EV demand

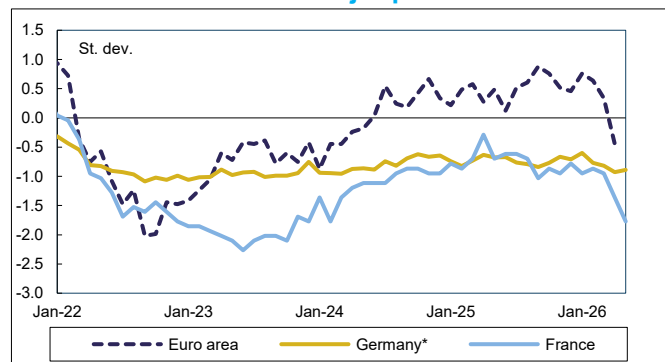
According to the ACEA, French demand for new cars remained weak in April, with new car registrations falling 0.3%Y/Y to be cumulatively down 1.7%YTD/Y over the first four months of the year. But in most other euro area member states, car sales are trending higher. Indeed, new car registrations were up on year-to-date basis in Germany (4.5%YTD/Y), with growth particularly strong in Italy (9.8%YTD/Y) and Spain (7.8%YTD/Y). Overall, new car registrations in the euro area in April were up 5.3%Y/Y and 4.8%YTD/Y. The principal beneficiary of the increased demand remains electric-powered vehicles, with continued vigour in hybrid EVs (13.5%YTD/Y), battery EVs (34.0%YTD/Y), plug-ins (26.7%YTD/Y) alike. In contrast, new registrations of petrol (-17.4%YTD/Y) and diesel cars (-16.6%YTD/Y) remained firmly in reverse to jointly account for a little less than one third of total sales. While weak confidence, a diminished willingness to make major purchases and heightened uncertainty are likely to weigh on new car sales to households and businesses over coming months, the auto fuel shock coupled with tax benefits and other incentive schemes seems likely to give a sustained boost to demand for EVs. And with economic activity in Southern European appearing relatively resilient too, we expect car registrations in the euro area to sustain a trajectory above their 2025 levels over the remainder of the year.

### France: Consumer confidence & select components



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumers' major purchase intentions



Source: EC, GfK, INSEE, Macrobond and Daiwa Capital Markets Europe Ltd.

## The day ahead in the euro area

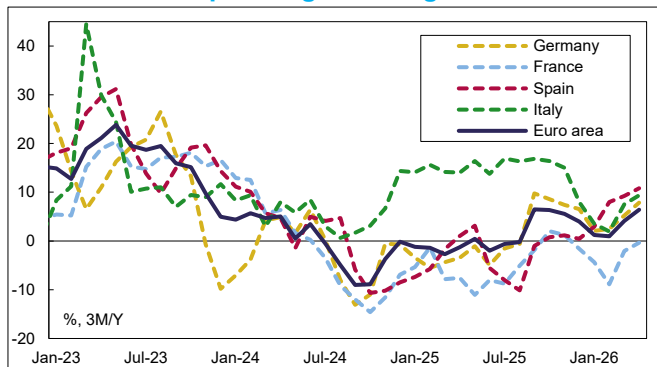
The highlight of the European dataflow on Thursday will be the Commission's economic sentiment indicators (ESIs) for May. These will provide a cross-check on the [flash PMIs](#), which suggested that euro area GDP could be on track to contract by about ¼%Q/Q in Q2. For what it's worth, since the headline euro area ESI already fell to a more than five-year low (93.0) in April, a modest improvement akin to those seen in some [national surveys](#) would be unsurprising. Indeed, the Commission's preliminary euro area consumer confidence indicator reported a slight uptick in sentiment. And policymakers will hope that the ESIs provide evidence of a moderation in momentum behind recent price pressures, as did the PMIs. However, business sentiment is likely to remain heavily subdued, and similarly consistent with a contraction in GDP this quarter. Beyond the Commission survey, PPI data from France and Italy will provide further insights as to how the oil shock is affecting broader pipeline price pressures. ECB Chief Economist Lane is also due to speak at the BOJ-IMES Conference in Tokyo.

## UK

### Household energy bills to rise sharply in Q3, keeping energy inflation elevated through year-end

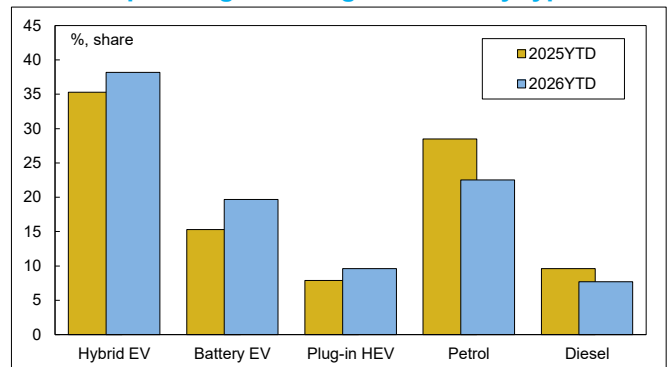
Although prices of liquid fuels have risen substantially over the past three months, household energy bills in the UK have to date been shielded by Ofgem's energy price cap. Indeed, even as petrol prices jumped by some 25% between February and April, the impact of previous falls in wholesale gas prices and withdrawal of government policy costs ensured a near-7% decline in household energy prices last month. Still, while not as dramatic as the change experienced in oil markets, wholesale gas prices – which often set the marginal price of electricity in the UK – have risen considerably since the price cap was last reset. So, as expected, Ofgem today confirmed that it will rise by 13½% from the start of Q3, its sharpest increase since Q123. On the bright side, that increase – and, indeed, the price cap itself – remains some way below its peak in 2022. Of course, to the extent that Russia's invasion of Ukraine was principally a gas shock, its effect on electricity bills was especially acute. But roughly 40% of households are now on fixed tariffs. Not least due to the inflationary shocks of recent years, households are also consuming less energy. And renewables have increased their significance for power generation, explaining a significant divergence between the planned increases in prices of gas (24%) and electricity (5%). Nonetheless, when those higher tariffs come into being in July, they will add as much as 0.5ppt to inflation, pushing the headline CPI rate up to 3½%Y/Y. And while a material deescalation in the Middle East will be hoped to deliver a sustained downshift in gas prices, the price cap will likely remain elevated in Q4 too, keeping energy inflation above 10%Y/Y in Q4 and maintaining pressure on headline inflation through to year-end.

### Euro area: New passenger car registrations



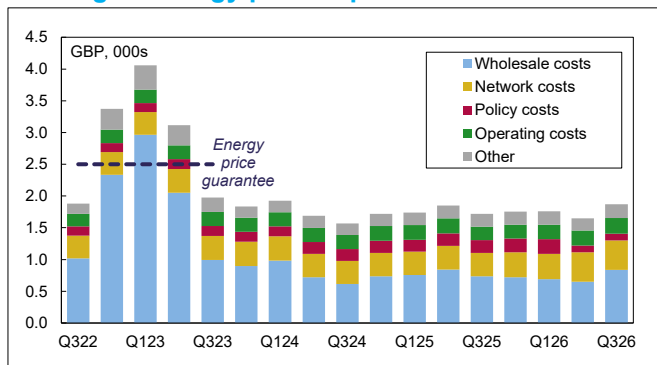
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### EU: New passenger car registrations by type\*



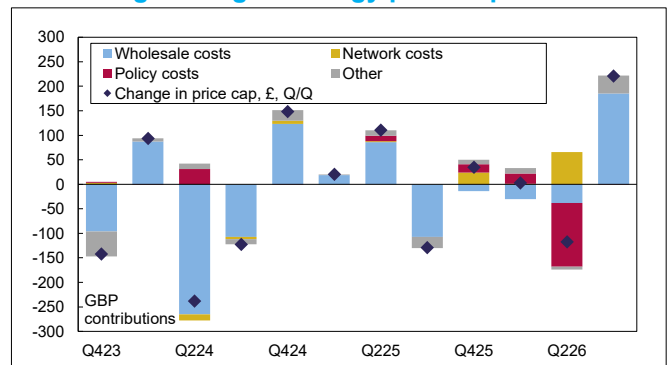
\*January-April data. Source: ACEA and Daiwa Capital Markets Europe Ltd.

### UK: Ofgem energy price cap level



Source: Ofgem and Daiwa Capital Markets Europe Ltd.

### UK: Change in Ofgem energy price cap



Source: Ofgem and Daiwa Capital Markets Europe Ltd.

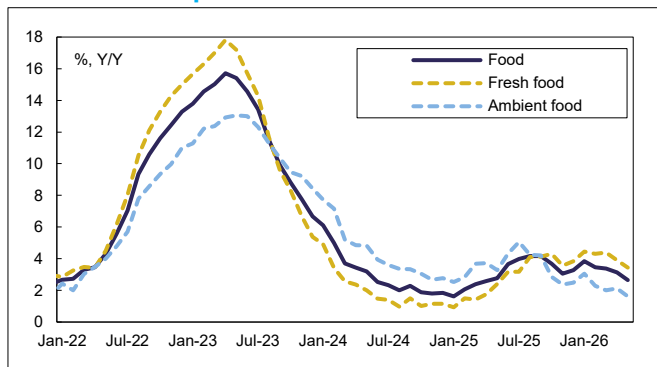
### BRC survey suggests that inflationary pressures in food remain subdued

Ahead of July's hike in household energy bills, CPI inflation looks set to hover around 3%Y/Y. Services inflation should take a small step up this month, in part owing to unfavourable base effects including last year's errant calculation of the price impact of changes to Vehicle Excise Duty by the ONS. But fuel prices have finally showed tentative signs of stabilisation. And while cost pressures are still accumulating in the respective supply chains, food and core goods prices have so far likely remained fairly well behaved. Of course, the current shock will eventually have some bearing on food prices, given the sector's energy-intensive nature and spillovers from higher fertiliser costs. However, the BRC's shop price survey suggested that inflationary pressures from food remained limited in May, perhaps reflecting retailers' reluctance to pass on higher costs to [downbeat consumers](#). Prices of 'ambient' foods experienced an uncharacteristic monthly drop, pushing inflation in that category down ½ppt to a 4½-year low (1.6%Y/Y). And with fresh food inflation also paring ½ppt, broader food inflation fell below 3%Y/Y for the first time in 12 months. Sadly, that moderation was offset by a slightly larger increase in non-food inflation (0.5%Y/Y). So, the headline BRC shop price inflation rate ticked back up to 1.2%Y/Y, in line with the March reading. Pressure was concentrated in furniture, electrical goods and DIY products. And to the extent that could be indicative of emerging price pressures – particularly in electronics – those categories will require monitoring when this month's CPI report is released in a few weeks' time. However, in each of those categories, inflation was at worst at a four-month high. And pressures in other significant categories like clothing and health were otherwise absent.

### The day ahead in the UK

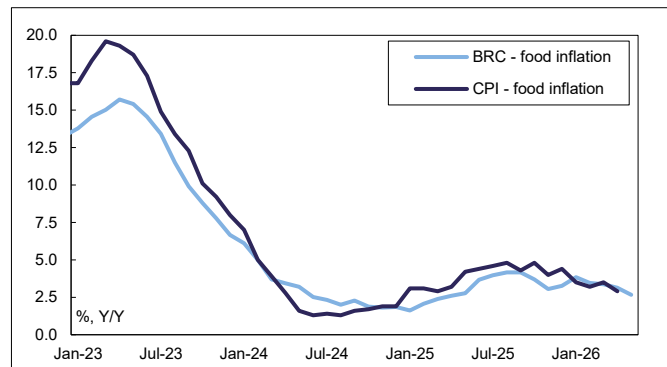
While BoE Deputy Governor Lombardelli will participate on a monetary policy-themed panel at the BoJ-IMES Conference in Tokyo, the absence of notable new economic data suggests that tomorrow should be a quiet day ahead for the UK.

UK: BRC food price inflation



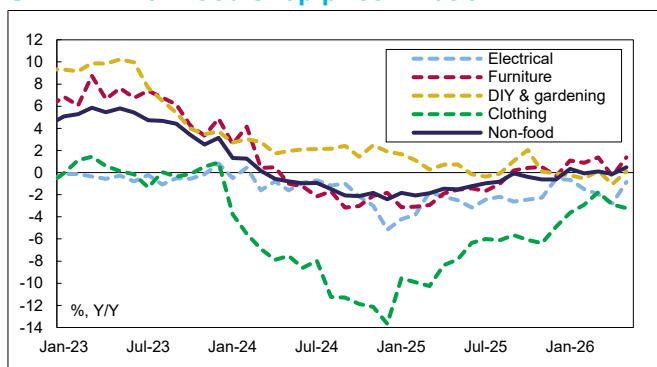
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: CPI & BRC food inflation



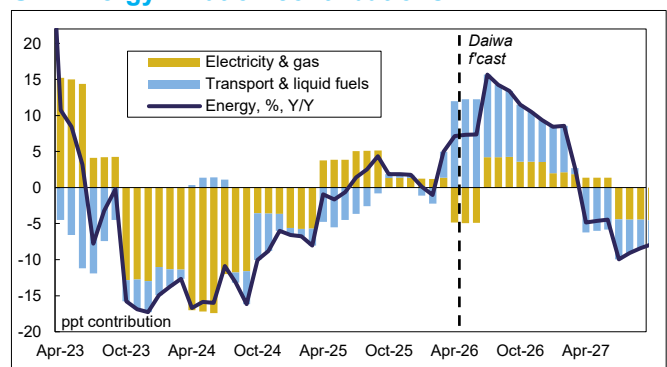
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: BRC non-food shop price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Energy inflation contributions





Source: Macrobond 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
Euro area	 New car registrations Y/Y%	Apr	<b>5.3</b>	-	12.4	-
France	 INSEE consumer confidence indicator	May	<b>82</b>	83	84	-





#### Auctions

Country	Auction
Germany	 sold €787mn of 2.6% 2041 bonds at an average yield of 3.30%
	 sold €763mn of 2.9% 2056 bonds at an average yield of 3.50%
UK	 sold £4bn of 4.125% 2033 bonds at an average yield of 4.55%




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
France	 Retail sales Y/Y%	Apr	<b>0.3</b>	-	0.1	0.2
Spain	 PPI Y/Y%	Apr	<b>8.3</b>	-	3.4	3.1
UK	 BRC shop price index Y/Y%	May	<b>1.2</b>	1.1	1.0	-
	 CBI distributive trades survey – reported retail sales net balance %	May	<b>-46</b>	-50	-68	-









#### Auctions

Country	Auction
Italy	 sold €2.5bn of 2.2% 2028 bonds at an average yield of 2.73%
	 sold €1.5bn of 1.1% 2031 inflation-linked bonds at an average yield of 0.89%
	 sold €1bn of 2.25% 2046 inflation-linked bonds at an average yield of 2.25%










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	 10.00	Commission economic sentiment indicator	May	92.6	93.0
	 10.00	Commission services (industrial) confidence indicator	May	0.3 (-8.0)	0.9 (-7.7)
	 10.00	Final Commission consumer confidence indicator	May	<b>-19.0</b>	-20.6
France	 07.45	PPI Y/Y%	Apr	-	0.2
Italy	 09.00	Istat economic (manufacturing) sentiment indicator	May	-	95.2 (87.9)
	 09.00	Istat consumer confidence indicator	May	-	90.8
	 11.00	PPI Y/Y%	Apr	-	5.4
Spain	 08.00	Retail sales Y/Y%	Apr	3.6	4.1

#### Auctions and events

Euro area	 01.00	ECB Chief Economist Lane participates in fireside chat at the BOJ-IMES monetary policy conference, Tokyo
	 12.30	ECB to publish monetary policy account of 29-30 April Governing Council meeting
Italy	 10.00	Auction: to sell up to €3.5bn of 3.15% 2031 bonds
	 10.00	Auction: to sell up to €2.5bn of 3.8% 2036 bonds
	 10.00	Auction: to sell up to €1.25bn of 2.25% 2036 bonds
	 10.00	Auction: to sell up to €1.25bn of 2035 floating bonds
	 10.00	Auction: to sell up to €2.5bn of 2036 floating bonds
UK	 10.00	Auction: to sell up to £1bn of 0.375% 2030 bonds
	 10.00	Auction: to sell up to £1bn of 1.125% 2039 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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