

# Euro wrap-up

## Overview

- While the ECB's account of its April policy meeting appeared to validate predictions of a June rate hike, but data suggested that price expectations had since moderated, Bunds ended the day higher on news regarding a potential US-Iran deal.
- Gilts continued to outperform euro govies on a quiet day for UK news.
- Friday will bring May's flash inflation estimates from the largest euro area member states, as well as a German labour market update and final Q1 GDP estimates from France and Italy.

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### Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.549	-0.027
OBL 2½ 04/31	2.659	-0.030
DBR 2.9 02/36	2.956	-0.029
UKT 4¾ 03/28	4.226	-0.038
UKT 4¾ 03/31	4.362	-0.037
UKT 4¾ 10/35	4.806	-0.051

\*Change from close as at 4:45pm BST.  
Source: Bloomberg

## Euro area

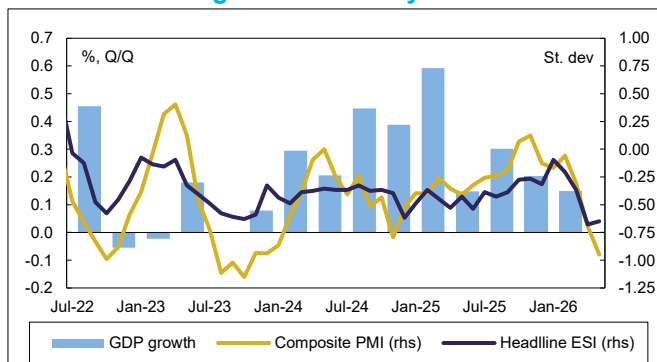
### Commission ESIs contrast flash PMIs pointing to stabilisation & moderating price expectations

Contrasting the flash May PMIs, which suggested an accelerated pace of contraction, the European Commission's sentiment survey implied some stabilisation in economic conditions in the middle of Q2. The headline euro area Economic Sentiment Indicator (ESI) rose for the first time since January, albeit by a negligible 0.3pt to 93.5, a level consistent with stagnant GDP this quarter at best. The improvement was in part due to the 1.6pt pickup in consumer confidence, flagged in the preliminary estimate, which was accompanied with a modest improvement in willingness to make major purchases. But that still left household sentiment at its second-lowest level since the start of 2023. Also contrary to the message from the flash PMIs, the Commission survey reported a modest improvement in services. Firms in that sector suggested that activity hadn't been quite so weak this month and expect demand to pick up somewhat over the coming few months. But firms in industry, construction and retail were all more downbeat. The trends in factory production and construction were reportedly in reverse. And retailers were the most pessimistic since the lockdowns of early 2021 on softer recent sales and downwardly revised expectations of future demand. More happily, firms' headcount expectations were not quite as negative as in April, albeit the second weakest in more than five years. And most notably for the ECB, the Commission indices of price expectations all moderated. The survey measure of consumer price expectations for the coming 12 months moderated to the lowest since February, well below the peak in early 2022 albeit still elevated compared to other periods. And perhaps due to the softness of demand as much as the levelling-off of fuel prices, selling-price expectations in each of the major sectors moderated from the multi-year highs hit in April.

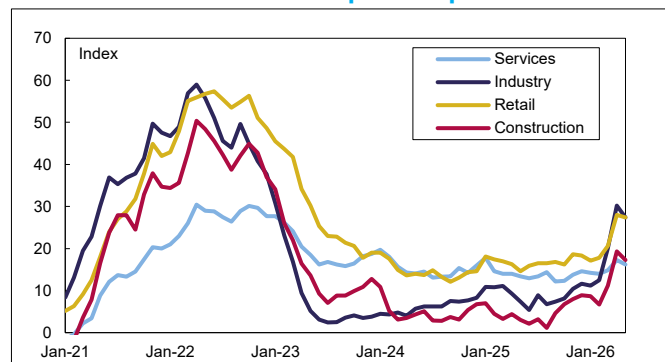
### Producer price pressures appear well contained suggesting no need for ECB to panic

Arguably consistent with the moderating selling-price expectations, producer price data from the larger member states suggest, so far, that the inflationary shock from the war in the Middle East has been broadly manageable. Certainly, pressures last month were concentrated in a very limited number of subsectors. In France, for example, industrial producer prices fell 2.0%M/M in April to more than fully reverse the rise the prior month and move back to the level at the end of 2025 and up 2.0%Y/Y. While French prices of coke and petroleum rose more than 70% over the first four months of the year, output prices in transport and electrical equipment were up less than 1.0% on the same basis while those of food, beverages and tobacco fell more than ½%. Firms have benefited not least from sharp declines in prices of electricity, which were down for a second successive month and by more than 20%M/M in April as seasonal effects were magnified by increased generation by renewables and soft demand. While not quite as subdued as in France, lower power prices have benefited firms in Germany too, limiting pressures to subsectors more directly or indirectly affected by disruption at the Strait of Hormuz. While producer prices of naphtha were up almost 50%Y/Y in April, and those of heating oil, fertilisers, wood

### Euro area: GDP growth & survey indicators



### Euro area: 3-month ahead price expectations



products and auto fuel were also significantly higher, prices of natural gas and electricity were below their levels a year earlier. Overall, despite significant increases in certain metals, producer prices of German intermediate goods were up just 3.2% from the end of last year and 2.6%Y/Y. Prices of investment goods were up just 1.4% from the end of last year and 2.0%Y/Y. And with food prices lower, producer prices of consumer goods were up a mere 0.3% from end-2025 to be down 0.5%Y/Y.

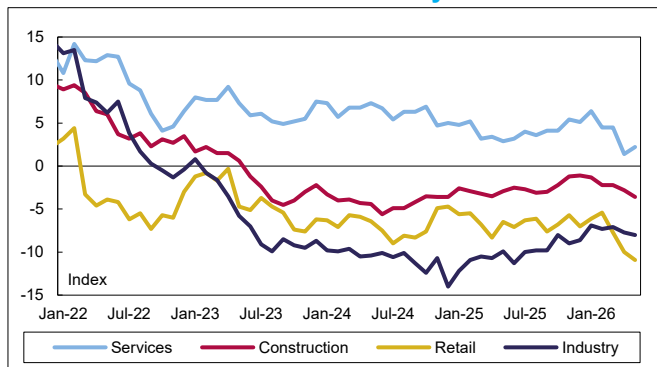
**“Number” of ECB policymakers would have backed hike in April, reinforcing expectations for June**

Even if producer price inflation and price-setting expectations might appear to be moderating somewhat for the time being, it will be several months before the full transmission of the energy price shock to consumer prices has concluded. Indeed, the ECB’s account of its April monetary policy meeting suggested that the peak impact for some items, such as meat prices, might not be felt for more than 15 months. And given their concerns that the pass-through might eventually be non-linear, “a number of” Governing Council members “would not have opposed raising rates” last month. Admittedly, as “there was no evidence yet of strong second-round effects”, all members agreed that “there was no acute urgency for a rate hike” at that meeting. But with some eventual indirect and second-round effects on inflation having been considered inevitable, the subsequent higher path of oil prices above that assumed in the March baseline scenario, as well as greater persistence of the shock beyond the path envisaged in the adverse scenario, a rate hike at the June policy meeting now appears all but inevitable. The greater uncertainty relates to the extent and timing of any tightening thereafter. As the baseline scenario in March incorporated market expectations of two rate hikes, at least that quantum of tightening might still be expected. But the account of the April meeting also noted that “If a conclusive agreement was reached to end the war, one could not exclude the possibility of a large reduction in the oil price, leading to a quick reversal in the risks to inflation, while damage to the real economy could last longer in light of the effects on confidence”. So, much will inevitably depend on the progress of negotiations between Iran and the US. But given current price, wage and expectations indicators, the hike in June could yet feasibly be the only one required to return inflation back to target over the horizon.

**The day ahead in the euro area**

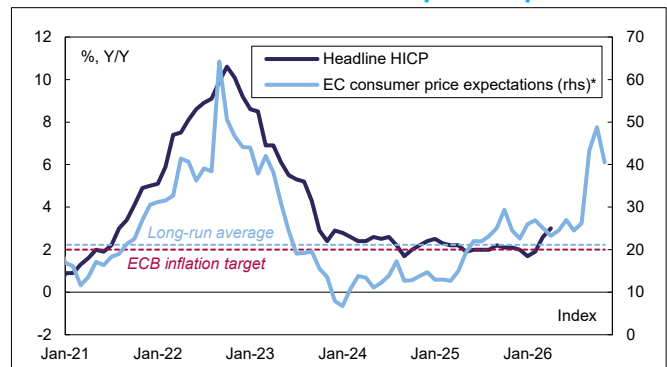
Flash May inflation estimates from the largest member states will be the principal focus of the euro area dataflow on Friday. After further increases in fuel prices pushed euro area inflation up to 3.0%Y/Y last month, we expect the May data to give hints of stabilisation even as that headline rate rises further. An unfavourable base effect near enough guarantees that energy inflation across the bloc will pick up further. But there will be variation among the member states. In particular, the implementation of the temporary energy tax cut in Germany should be sufficient to at least offset a sizable portion of the base effect. But the withdrawal of fiscal support in Italy, as well as a further rise in fuel prices in France, points towards a

**Euro area: Economic sentiment by sector**



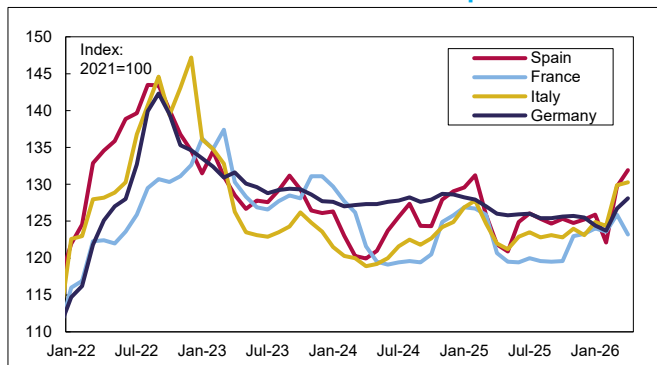
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

**Euro area: Inflation & consumer price expectations**



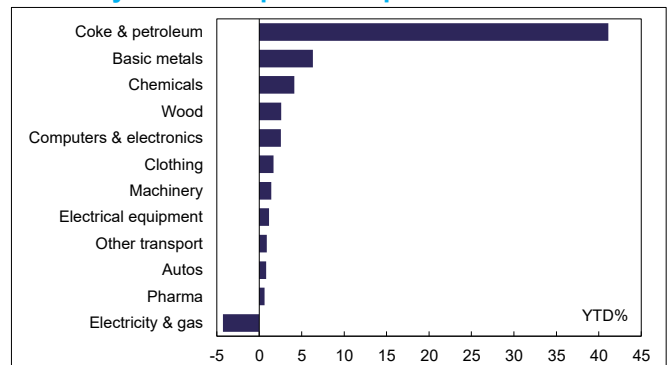
\*12 month ahead expectations, with a 6-month lead.  
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

**Euro area member states: Producer price levels**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Germany: Selected producer price increases in 2026**






























Source: Macrobond and Daiwa Capital Markets Europe Ltd.

larger rise in those member states. Beyond energy, calendar-related distortions in categories such as package holidays and airfares pose a broader upside risk across the member states. But the absence of broad pipeline pressures in the producer price data suggests that core goods and food inflation should be well-behaved. Apart from the inflation data, the end of the week will also bring final Q1 GDP readings from France and Italy (Friday), the latter of which will be accompanied by a first breakdown by expenditure components. In addition, updated labour market data from Germany are expected to flag another uptick in jobless claims, consistent with the continued weakness in this month's business surveys.

## The day ahead in the UK

Given the continued absence of top-tier data releases, it should be a slightly quieter end to the week for the UK. The most notable news will perhaps stem from BoE Governor Bailey's appearance at a conference in Reykjavik, where he is due to speak and participate in brief Q&A. Bailey is also slated to make a few appearances next week before the start of the MPC's pre-meeting quiet period.

## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Commission economic sentiment indicator	May	<b>93.5</b>	93.0	93.0	93.2
	 Commission services (industrial) confidence indicator	May	<b>2.2 (-8.0)</b>	0.3 (-8.0)	0.9 (-7.7)	1.4 (-)
	 Final Commission consumer confidence indicator	May	<b>-19.0</b>	<u>-19.0</u>	-20.6	-
France	 PPI Y/Y%	Apr	<b>2.1</b>	-	0.2	0.0
Italy	 Istat economic (manufacturing) sentiment indicator	May	<b>94.1 (87.9)</b>	-	95.2 (87.9)	95.1 (-)
	 Istat consumer confidence indicator	May	<b>93.4</b>	90.0	90.8	-
	 PPI Y/Y%	Apr	<b>8.8</b>	-	5.4	-
Spain	 Retail sales Y/Y%	Apr	<b>0.8</b>	3.6	4.1	-
Auctions						
Country	Auction					
Italy	 sold €3.5bn of 3.15% 2031 bonds at an average yield of 3.16%					
	 sold €2.5bn of 3.8% 2036 bonds at an average yield of 3.75%					
	 sold €1.25bn of 2.25% 2036 bonds at an average yield of 3.77%					
	 sold €1.25bn of 2035 floating bonds at an average yield of 3.17%					
	 sold €2bn of 2036 floating bonds at an average yield of 3.25%					
UK	 sold £1bn of 0.375% 2030 bonds at an average yield of 4.277%					
	 sold £1bn of 1.125% 2039 bonds at an average yield of 5.085%					
Tomorrow's releases						
Economic data						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Germany	 07.00	Import prices M/M% (Y/Y%)	Apr	1.1 (5.3)	3.6 (2.3)	
	 08.55	Unemployment claims rate % (change 000s)	May	6.4 (10)	6.4 (20)	
	 13.00	Preliminary HICP (CPI) Y/Y%	May	2.9 (3.0)	2.9 (2.9)	
France	 07.45	Preliminary HICP (CPI) Y/Y%	May	2.9 (2.5)	94 (100)	
	 07.45	Consumer spending M/M% (Y/Y%)	Apr	-0.2 (-0.3)	0.7 (0.5)	
	 07.45	GDP – final estimate Q/Q% (Y/Y%)	Q1	<u>0.0 (1.1)</u>	0.2 (1.2)	
	 07.45	Total (private sector) payrolls Q/Q%	Q1	-0.1 ( <u>-0.1</u> )	-0.1 (-0.1)	
Italy	 09.00	Unemployment rate %	Apr	5.3	5.2	
	 10.00	Preliminary HICP (CPI) Y/Y%	May	3.3 (3.0)	2.8 (2.7)	
	 11.00	GDP – final estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (0.7)</u>	0.3 (0.9)	
Spain	 08.00	Preliminary HICP (CPI) Y/Y%	May	3.5 (3.3)	12.6	
Auctions and events						
UK	 09.10	BoE Governor Bailey to deliver speech at the Reykjavik 2026 economic conference				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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