

Euro wrap-up

Overview

- Amid greater optimism for negotiations between Russia and Ukraine, Bunds made sizeable losses – 2Y yields briefly edged above zero for the first time since 2014 – despite a marked deterioration in consumer confidence.
- Gilts also made losses even as the strongest monthly increase in UK consumer credit in five years reflected lower credit card repayments.
- Tomorrow brings the first of the week's flash inflation figures for March and the European Commission's business and consumer confidence surveys.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	-0.059	+0.075
OBL 0 04/27	0.435	+0.079
DBR 0 02/32	0.637	+0.051
UKT 1 04/24	1.635	+0.002
UKT 1½ 07/27	1.428	+0.016
UKT 4¼ 06/32	1.651	+0.034

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

Source: Bloomberg

Euro area

German consumer confidence slumps as income expectations fall to a near-2-decade low

Coming on the back of the downbeat German [ifo](#) business survey and consistent with the sizeable deterioration in the Commission's flash consumer confidence index, today's German GfK consumer confidence survey painted a pretty bleak picture as the war in Ukraine and surge in inflation weighed on sentiment. The headline index fell a larger-than-expected 7pts to -15.5, a fourteen-month low and well below the long-run average (5.2). While this marked the third-largest monthly decline on record, it was considerably smaller than the near-25pts slump recorded at the onset of the pandemic, with the index still some 7½pts higher than the pandemic trough. The survey detail suggested only a 'modest' loss in households' propensity to consume, for now at least, with the relevant index down 3.5pts to -2.1. This however still marked the lowest reading since the start of the pandemic, only the second negative reading since the global financial crisis and well below the long-run average (20.7). And the near-term outlook remains highly uncertain as households' budgets will continue to be squeezed by higher prices. A separate GfK survey suggested that 90% of surveyed consumers were extremely concerned about rising energy prices, with 80% anxious about food inflation. And so there was a notable deterioration in income expectations for the year ahead, with the relevant index down 25pts to -22.1, the lowest reading since 2002 and roughly 40pts lower than the long-run average.

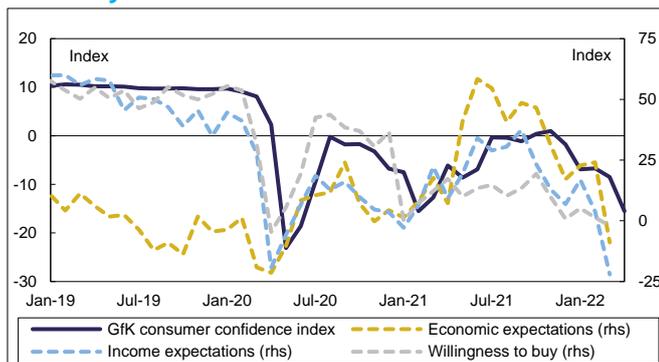
French consumers most downbeat since November 2020 as price expectations surge

The French INSEE consumer survey similarly reported a marked weakening in sentiment at the end of Q1. The headline confidence index fell 6pts on the month – the biggest monthly fall since April 2020 – to 91, a sixteen-month low and well below the long-run average (100). Like in Germany, households were considerably more downbeat about their expected financial situation over the coming twelve months, with the relevant index down in March by the most on record (-15.7pts) to -22.1, the lowest since May 2014. This in part reflected a substantial deterioration in households' price expectations, with the related index up 49pts on the month to 39, a new survey high. And so, while there was a comparatively small drop in the share of households considering it a good time to make major purchases, by 3pts to -19.4, the index was nevertheless the lowest since November 2020 and seems likely to fall further over the near term.

ECB's Lane flags hit to confidence a concern, but recovery from pandemic to continue

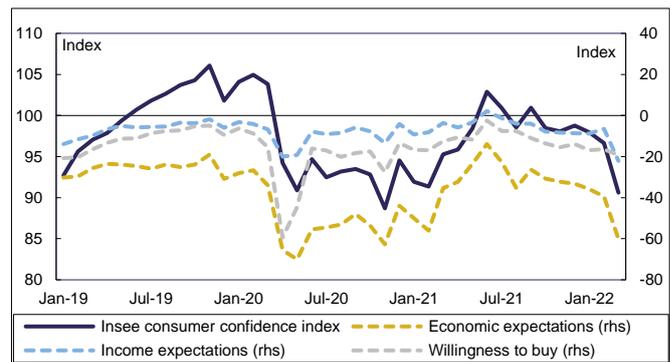
There were various ECB Governing Council members in action today, offering mixed but predictable messages. Austrian National Bank Governor Holzmann – who is typically one of the most hawkish on the Governing Council – continued to suggest that the ECB should increase the deposit rate twice this year. But Banco de España Governor Hernandez de Coz

Germany: Consumer confidence



Source: Refinitiv, GfK and Daiwa Capital Markets Europe Ltd.

France: Consumer confidence



Source: Refinitiv, INSEE and Daiwa Capital Markets Europe Ltd.

cautioned that the fallout from the conflict may be greater through the confidence channel, which will drag on consumption and investment, therefore calling for more gradual rate increases. This tallied more with ECB Chief Economist Lane, who highlighted that the initial signs on the hit to sentiment, for both businesses and consumers, was a major concern. Admittedly, he also noted that the downside risks from the ongoing conflict will be offset to some extent by the further normalisation of the economy from the pandemic, supported by the reopening of travel and tourism this summer and increased spending on services, suggesting that the ECB's baseline assumption that the economy avoids a contraction this year still holds. Of course, he also stated that it was still too soon to assess the initial impact of the war. And while acknowledging that the higher energy price was above the ECB's baseline, Lane suggested that it was still too early to know what the correct calibration of asset purchases is for the third quarter, adding that a weakening in the medium-term inflation outlook would be inconsistent with ending net purchases then, but repeating that monetary policy decisions would remain data-driven.

The day ahead in the euro area

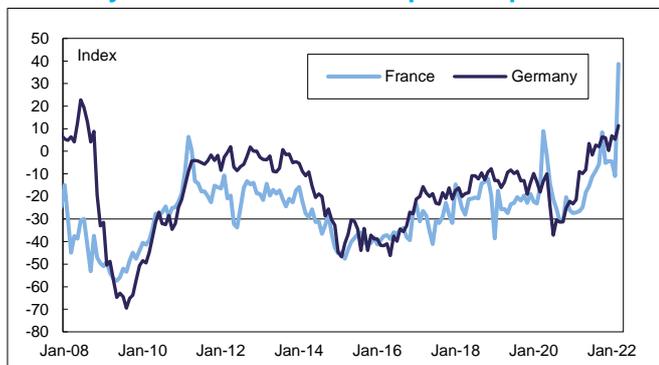
A relatively busy day for euro area economic data tomorrow brings the European Commission's comprehensive business and consumer surveys, which seem bound to suggest a deterioration in the euro area's economic outlook, with the headline economic sentiment indicator forecast to fall 5pts in March to 109.0, which would be the lowest level for a year. We will also get the first of the week's flash inflation data for March, with the headline German HICP rate expected to have risen 1.3ppt to 6.8%Y/Y, with the equivalent Spanish rate forecast to have increased 0.8ppt to 8.0%Y/Y. In addition, ECB President Lagarde is scheduled to speak at an event of the Central Bank of Cyprus.

UK

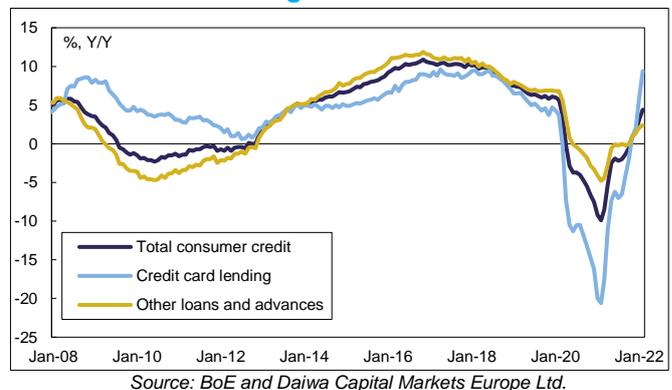
Consumer credit rises at fastest pace in almost 5 years, as credit card repayments reduce

While UK [retail sales](#) unexpectedly fell in February, the relaxation in Covid restrictions, a return to offices and pent-up demand for travel and hospitality likely provided a boost to spending on services. And today's BoE bank lending numbers suggested, at face value at least, that demand for consumer credit increased more than expected that month. In particular, individuals borrowed a net £1.9bn in consumer credit in February, up from January (£0.1bn) and the strongest monthly increase for almost five years, to leave the stock of such lending up 1.2ppts to 4.4%Y/Y. This was principally driven by credit card borrowing, which rose a net £1.4bn last month to be 9.4% higher than a year earlier, the strongest growth since June 2018. But this reflected a decline in repayments last month (down a non-seasonally adjusted £2.1bn from January) by the

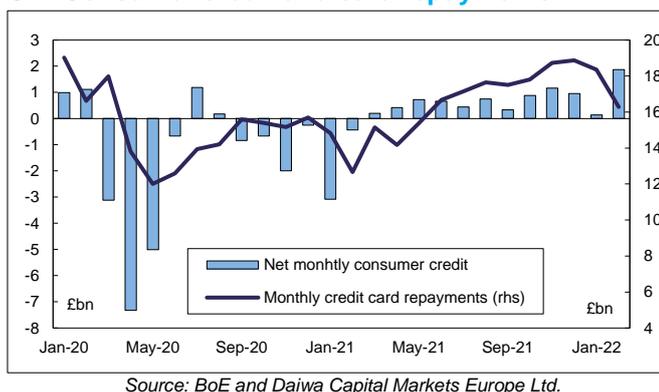
Germany & France: Household price expectations



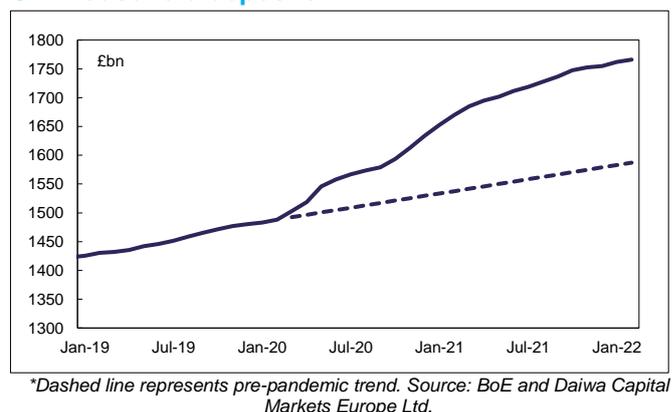
UK: Consumer credit growth



UK: Consumer credit and card repayments



UK: household deposits*



least amount since last May, which broadly tallied with the government's latest numbers on individuals registering for the Breathing Space Scheme that offers legal protections from creditors for 60 days, which were up in February by the most since the launch of the scheme in May 2021. The amount households deposited in banks in February (£4.0bn) was almost half that added in January and well below the average over the past year (£8.6bn). Although 'excess savings' during the pandemic have risen to about £180bn, equating to a little more than 12½% of household consumption, and should provide a financial cushion for some households, they are far from evenly distributed. And while the government last week offered some very modest support to households, these will be insufficient to offset what the BoE Governor Bailey described yesterday's as a historic shock to incomes this year. So, we would expect consumer credit to continue to rise over coming months while household spending growth is likely to remain very subdued.

The day ahead in the UK

Another relatively quiet day for UK economic releases tomorrow brings the BRC shop price index for March. Despite subdued demand amid squeezed household budgets, this is likely to signal upwards price pressures on the High Street as retailers struggle to absorb the cost pressures arising from rising global energy and food prices, more expensive transportation and storage costs and labour shortages. Elsewhere, Deputy Governor Ben Broadbent will speak at a NIESR event to mark the 25th anniversary of the establishment of the MPC.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 GfK consumer confidence	Apr	-15.5	-15.0	-8.1	-8.5
France	 INSEE consumer confidence	Mar	91	94	98	97
Spain	 Retail sales Y/Y%	Feb	0.9	1.0	4.0	4.1
UK	 Net consumer credit £bn (Y/Y%)	Feb	1.9 (4.4)	0.9 (-)	0.6 (3.2)	0.1 (-)
	 Net mortgage lending £bn (approvals '000s)	Feb	4.7 (71.0)	5.1 (73.5)	5.9 (74.0)	-(73.8)

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/ <i>Daiwa forecast</i>	Previous
Euro area		10.00 European Commission's economic sentiment indicator	Mar	109.0	114.0
		10.00 European Commission's industrial (services) confidence	Mar	9.0 (10.2)	14.0 (13.0)
		10.00 European Commission's final consumer confidence	Mar	-18.7	-8.8
Germany		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	6.2 (6.8)	5.1 (5.5)
Italy		10.00 PPI M/M% (Y/Y%)	Feb	-	12.4 (41.8)
Spain		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	8.0 (8.4)	7.6 (7.6)
UK		00.01 BRC shop price index Y/Y%	Mar	-	1.8

Auctions and events

Euro area		09.00 ECB President Lagarde scheduled to speak at a Central Bank of Cyprus event
Italy		10.00 Auction: €3.0bn of 1.1% 2027 bonds
		10.00 Auction: €3.5bn of 0.95% 2032 bonds
UK		09.10 BoE's Broadbent scheduled to speak at a NIESR event

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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