

Euro wrap-up

Overview

- Bunds made modest gains at the short end of the curve but larger losses further out as the ECB acknowledged the weaker growth outlook but reaffirmed its expectation that its net asset purchases will end in Q3.
- Gilts made substantive losses across the curve while a BoE survey pointed to declining availability of UK mortgage loans.
- The coming week brings the April flash PMIs, updates on consumer confidence and the final estimate of euro area inflation in March.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	0.044	-0.017
OBL 0 04/27	0.576	+0.034
DBR 0 02/32	0.835	+0.074
UKT 1 04/24	1.536	+0.067
UKT 1¼ 07/27	1.612	+0.073
UKT 4¼ 06/32	1.885	+0.088

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

Euro area

ECB acknowledges weaker economic outlook but reaffirms expectation of Q3 end to net purchases

At the conclusion of the ECB's previous monetary policy meeting on 10 March, the Governing Council agreed that its monthly net asset purchases would slow from €40bn in April to €30bn in May and €20bn in June. And while it stated that policy in the second half of the year would be data dependent, it signalled its expectation that net purchases would likely end in Q3 and that a first rate hike would come "some time" after that. Following its latest policy meeting, the Governing Council today had to acknowledge that events in Ukraine were now taking a more severe toll on the euro area's economy. So, for example, it recognised that business and consumer confidence had deteriorated, and both supply and demand were being adversely impacted. At the same time, it also accepted that inflation had risen significantly above its baseline projection and would remain high over coming months. And given that deterioration in the inflation outlook, today the Governing Council "reinforced its expectation" that the net purchases would be brought to an end at some point in Q3. It also reiterated that rate hikes would come "some time" – which President Lagarde noted could be "anything between one week to several months" – after the end of net purchases. So, she also stated unequivocally that monetary policy normalisation was very much in progress.

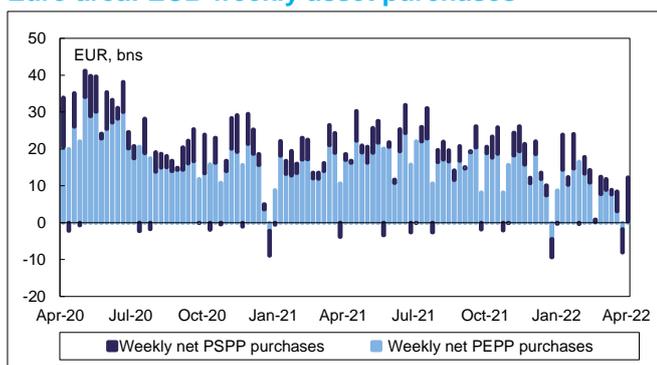
Policy normalisation could be accompanied by new tools to counter fragmentation risks

While ECB policy normalisation might well now be underway, the message from the Governing Council today was not exclusively hawkish. Certainly, the policymakers acknowledged that the economic outlook remained extremely uncertain, and highly conditional upon events in Ukraine. It also repeated that policy decisions would be data dependent and rate hikes "gradual". Importantly too, the Governing Council suggested that it would be prepared to respond actively and creatively if policy normalisation was accompanied by stressed market conditions that risked impairing the monetary transmission mechanism. Indeed, harking back to Draghi's "whatever it takes" pledge, it stated that it was ready to "adjust all of its instruments within its mandate, incorporating flexibility if warranted". And Lagarde elaborated that measures could include adjustments to existing policy tools, such as greater flexibility of reinvestments of proceeds of maturing regular APP bonds as well as those from the PEPP, or even – tallying with certain media reports of the past week – the creation of new policy instruments to counter fragmentation risks.

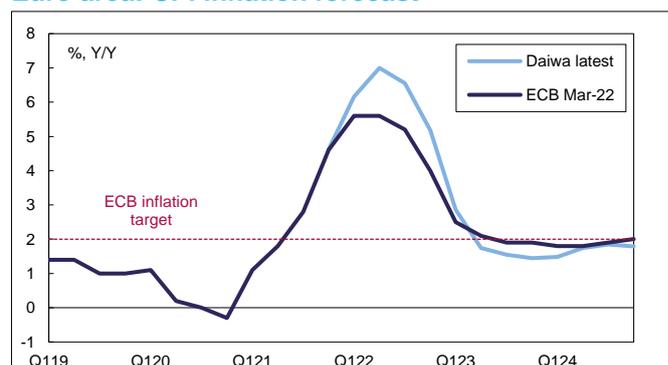
Door open to a Q3 rate hike, but full market pricing of ECB tightening looks excessive

Looking ahead, the near-term path of ECB monetary policy will in large part depend on its updated economic projections, to be presented to the 9 June Governing Council meeting. In the absence of major new shocks, such as an embargo on

Euro area: ECB weekly asset purchases



Euro area: CPI inflation forecast



imports of Russian natural gas and oil which would trigger recession, the ECB's baseline outlook for GDP and inflation will likely be revised closer to its "adverse scenario" published last month. That foresaw GDP growth of 2.5%Y/Y and inflation averaging 5.9%Y/Y this year, before a slight pickup in growth but significant moderation in inflation over the coming two years. Given today's policy statement and Lagarde's press conference, such projections would still likely persuade the Governing Council in June to confirm an end to its net asset purchases over the summer, which would leave open the door for a possible first rate hike in September (or even in July). By the autumn, however, much might have changed, whether in terms of the war in Ukraine, energy prices and supply, economic confidence and growth, and – of course – inflation. Indeed, at that point, Christine Lagarde might not even be ECB President, given the possibility that she might instead be invited to take the helm of the next French government as Prime Minister if and when Macron wins a second term as President of the Republic. Regardless, even if lift-off happens in September and is followed by a further hike in December, we continue to believe that the full extent of ECB monetary tightening currently priced into markets over the coming year is excessive.

The week ahead in the euro area

Following this weekend's Easter break, the coming week's economic calendar kicks off on Wednesday with the release of euro area industrial production and trade data for February, as well as new car registrations for March. Based on the national production data (excluding construction) – most notably from Germany (0.4%M/M), France (-0.9%M/M), Italy (4.0%M/M), Spain (0.9%M/M) – euro area IP is expected to have risen by around 1%M/M in February to leave it trending some 1½% above the Q4 average. Of course, these figures will not be reflective of manufacturing conditions in the aftermath of the Russian invasion in Ukraine, with surveys having painted a more downbeat picture for March. And, most notably in the coming week, Friday's flash PMI surveys for the euro area and two largest member states will likely report a further deterioration in manufacturing conditions at the start of Q2. But with services likely to see a further boost from the reopening of the tourism sector, the decline in the euro area's composite PMI might well prove modest and remain consistent with ongoing expansion. Among other survey results due, the French INSEE business confidence survey for April will be published on Thursday. The same day will bring the European Commission's preliminary April consumer confidence indicator, which is expected to report a further deterioration in sentiment to just above the pandemic trough two years ago as households' financial situations continue to be squeezed by higher prices. Indeed, final euro area inflation figures for March (also on Thursday) are expected to confirm that the headline HICP rate jumped 1.6ppts to a new series high of 7.5%Y/Y. Inevitably, the preliminary data revealed that the biggest contribution to the rise came from energy prices, although higher inflation of non-energy industrial goods and to a lesser extent services pushed the core rate up 0.3ppt to a new series high of 3.0%Y/Y. This release will provide additional granular detail.

UK

RICS survey suggests solid house price growth despite a narrowing supply-demand imbalance

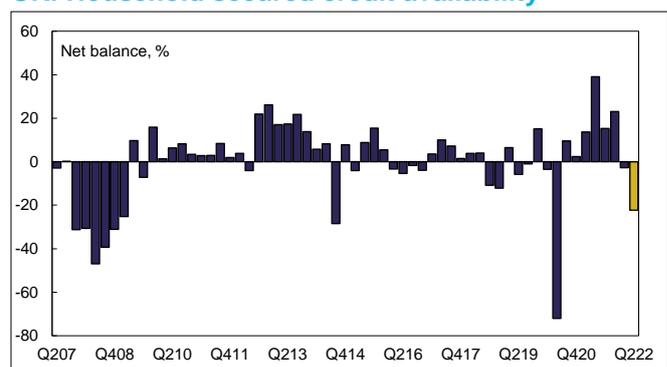
On a quiet end to the week for UK economic releases, the RICS residential market survey suggested that, despite the recent plunge in consumer confidence, declining real disposable incomes, a pickup in borrowing costs and increase in housing supply, house price growth remained robust at the end of the first quarter. In particular, the net share of surveyors reporting higher prices fell only marginally in March, by 4ppts to 74%, bang in line with the average over the past year and well above the long-run average (12%). And the survey reported stronger price growth in the South West (83%), West Midlands (82%) and London (61%). The survey did, however, report a marked narrowing in the supply-demand imbalance to its lowest since the start of the pandemic, suggesting some the potential for downwards pressures on price growth over the near term. But while the number of new listings rose for the first time in a year, the average number of properties on estate agents' books still remained close to historic lows, while the number of agreed sales was unchanged from February. While respondents expected modest growth in sales over the near term and foresee further positive price growth over the coming year, the RICS suggested some caution about the outlook amid a deteriorating backdrop for households' finances. Despite an anticipated pickup in mortgage demand, the BoE's latest consumer credit survey, also published today, suggested that

UK: RICS housing market indicators



*Buyer enquires minus vendor instructions.
 Source: Refinitiv, RICS and Daiwa Capital Markets Europe Ltd.

UK: Household secured credit availability*



*Gold bar represents expectations for the three months ahead.
 Source: Refinitiv, BoE and Daiwa Capital Markets Europe Ltd.

lenders expect to reduce markedly the availability of secured credit in the three months to end-May, reflecting not least the deteriorating economic outlook, reduced risk tolerance, tighter wholesale funding conditions and a decline in expectations for house prices. Indeed, the respective net balance fell 26ppts to -2.7 in the three months to end-February and was forecast to drop a further 20pts to -22.3pts over the following three months.

The week ahead in the UK

The holiday-shortened week ahead begins quietly, with the UK's most noteworthy releases not due until Friday, when we will get retail sales data for March, as well as the April GfK consumer confidence and flash PMI surveys. With [inflation](#) continuing to rise sharply, real incomes falling, but increased opportunities to spend on services, the downtrend in spending on goods is likely to have continued at the end of the first quarter. Indeed, after falling 0.3%M/M (including spending on fuel) in February, the CBI's retail survey suggested that sales were poor for the time of the year, while this week's BRC survey suggested that like-for-like sales were down compared with a year earlier despite the tighter restrictions this time last year. The preliminary PMIs for April are likely to imply another solid month of services activity, which should largely offset some softening of manufacturing output amid supply-chain disruption and a further increase in cost burdens.

The next edition of the Euro wrap-up will be published on 20 April 2022

Daiwa economic forecasts

	2021		2022				2022	2023	2024
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q									
Euro area 	2.3	0.3	0.2	0.7	0.8	0.7	3.2	2.4	1.8
UK 	0.9	1.3	1.0	-0.1	0.4	0.1	3.9	1.0	1.3
Headline and Core CPI									
Euro area									
Headline CPI 	2.8	4.6	6.2	7.0	6.6	5.2	6.2	1.9	1.7
Core CPI 	1.4	2.4	2.7	3.1	2.8	2.2	2.7	1.6	1.7
UK									
Headline CPI 	2.8	4.9	6.2	8.4	7.8	7.8	7.6	3.8	1.7
Core CPI 	2.6	3.9	5.1	5.6	5.0	4.0	4.9	2.2	1.6
Monetary policy									
ECB									
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.50
Deposit Rate % 	-0.50	-0.50	-0.50	-0.50	-0.50	-0.25	-0.25	0.25	0.25
BoE									
Bank Rate % 	0.10	0.25	0.75	1.00	1.25	1.25	1.25	1.00	1.00

Source: Bloomberg, ECB, BoE 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</i> <i>forecast/actual</i>	Previous
Monday 18 April 2022					
Spain 	09.00	Trade balance €bn	Feb	-	-6.1
Tuesday 19 April 2022					
- Nothing scheduled -					
Wednesday 20 April 2022					
Euro area 	07.00	EU27 new car registrations Y/Y%	Mar	-	-6.7
	10.00	Industrial production M/M% (Y/Y%)	Feb	<u>1.0 (1.5)</u>	0.0 (-1.3)
	10.00	Trade balance €bn	Feb	-	-7.7
Germany 	07.00	PPI M/M% (Y/Y%)	Mar	2.7 (30.0)	1.4 (25.9)
Italy 	09.00	Trade balance €bn	Feb	-	-5.1
Thursday 21 April 2022					
Euro area 	10.00	Final CPI (core CPI) Y/Y%	Mar	7.5 (3.0)	5.9 (2.7)
	15.00	European Commission's preliminary consumer confidence	Apr	-20.0	-18.7
France 	07.45	INSEE business confidence	Apr	105	107
	07.45	INSEE manufacturing confidence (production outlook)	Apr	104 (-6)	106 (-2)
Friday 22 April 2022					
Euro area 	09.00	Preliminary manufacturing (services) PMI	Apr	54.7 (55.0)	56.5 (55.6)
	09.00	Preliminary composite PMI	Apr	54.0	54.9
Germany 	08.30	Preliminary manufacturing (services) PMI	Apr	54.3 (55.5)	56.9 (56.1)
	08.30	Preliminary composite PMI	Apr	54.1	55.1
France 	08.15	Preliminary manufacturing (services) PMI	Apr	53.0 (56.5)	54.7 (57.4)
	08.15	Preliminary composite PMI	Apr	55.0	56.3
UK 	00.01	GfK consumer confidence	Apr	-33	-31
	07.00	Retail sales including auto fuels M/M% (Y/Y%)	Mar	-0.2 (2.9)	-0.3 (7.0)
	07.00	Retail sales excluding auto fuels M/M% (Y/Y%)	Mar	-0.4 (0.7)	-0.7 (4.6)
	09.30	Preliminary manufacturing (services) PMI	Apr	54.0 (60.0)	55.2 (62.6)
	09.30	Preliminary composite PMI	Apr	58.8	60.9

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 18 April 2022		
Euro area/UK	-	Public holiday - Easter Monday
Tuesday 19 April 2022		
Germany	10.30	Auction: €4bn of 0% 2027 bonds
Wednesday 20 April 2022		
Germany	10.30	Auction: €1bn of 2.5% 2046 bonds
UK	10.00	Auction: £2bn of 1.125% 2039 bonds
Thursday 21 April 2022		
Euro area	18.00	ECB President Lagarde and Fed Chair Powell to take part in panel discussion on the global economy
France	09.50	Auction: to sell fixed-rate and index-linked bonds with various maturities
Spain	09.30	Auction: 0.0% 2025 bonds
	09.30	Auction: 5.75% 2032 bonds
	09.30	Auction: 2.70% 2048 bonds
UK	17.30	BoE's Mann to speak on 'Monetary Policy: Decision-making facing uncertainties'
	17.30	BoE Governor Bailey to speak at a Peterson Institute for International Economics event
Friday 22 April 2022		
Euro area	14.00	ECB President Lagarde to speak at a Peterson Institute for International Economics event

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Today's results

Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Euro area	ECB refinancing rate %	Apr	0.00	0.00	0.00	-	
	ECB deposit rate %	Apr	-0.50	-0.50	-0.50	-	
UK	RICS house price balance %	Mar	74	75	79	78	
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		
France	07.45	Final CPI (EU-harmonised CPI) Y/Y%	Mar	4.5 (5.1)	3.6 (4.2)		
Italy	09.00	Final CPI (EU-harmonised CPI) Y/Y%	Mar	6.7 (7.0)	5.7 (6.2)		
Auctions and events							
Euro area	09.00	ECB publishes Survey of Professional Forecasters					
UK	-	Public holiday – Good Friday					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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