

Euro wrap-up

Overview

- Bunds followed the global trend lower, while the German ifo survey signalled an improved recovery momentum, but euro area bank lending numbers reported a record decline in M1 money supply.
- Gilts also made losses while a UK retail survey signalled signs of resilience at the end of the first quarter.
- The coming two days will bring further sentiment indicators from the larger euro area member states, as well as UK bank lending figures.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	2.506	+0.137
OBL 2.2 04/28	2.200	+0.114
DBR 2.3 02/33	2.223	+0.103
UKT 0% 06/25	3.327	+0.124
UKT 1% 10/28	3.232	+0.108
UKT 3¼ 01/33	3.380	+0.100

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

Source: Bloomberg

Euro area

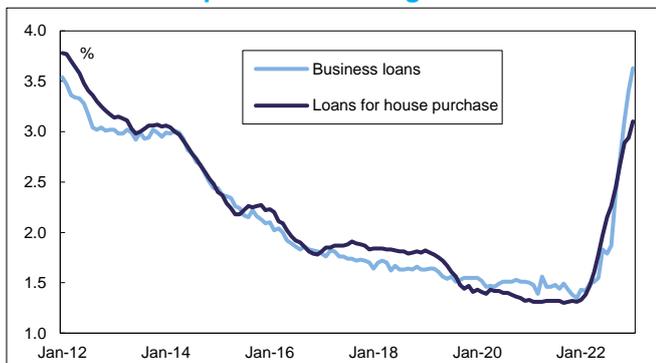
Euro area bank lending trends lower amid higher interest rates and tighter lending conditions

Amid the recent rise in economic and financial uncertainties and associated net tightening of credit standards today's euro area bank lending figures were of particular interest. Of course, the latest financial instability will take time to feed through to the economy and the impact on growth and inflation remains uncertain. Nevertheless, today's data flagged further evidence of the significant monetary tightening already implemented by the ECB since last summer. Indeed, with the composite interest rate on new business loans having risen in January to the highest since December 2011, and by a cumulative 228bps from the pandemic trough, the flow of lending to non-financial corporations (NFCs) fell for the fourth consecutive month in February, by €1.9bn. That left the three-month sum firmly in negative territory (-€14.8bn) and the annual growth of the outstanding stock of such loans at the softest pace for ten months (5.7%Y/Y). Admittedly, the flow of consumer credit picked up in February, by a net €1.9bn, but this still left lending on a three-month basis at the softest since June 2021. And although the seasonally adjusted net flow of mortgage lending similarly improved in February, to a three-month high of €5.1bn, this marked a significant moderation since last summer, with the three-month sum (€12.6bn) the weakest since December 2014. Moreover, while the decline was markedly smaller than in January, in unadjusted terms, the net flow was negative (-€0.4bn) for the second successive month for the first time since the global financial crisis in 2008.

M1 money supply contracts sharply in February

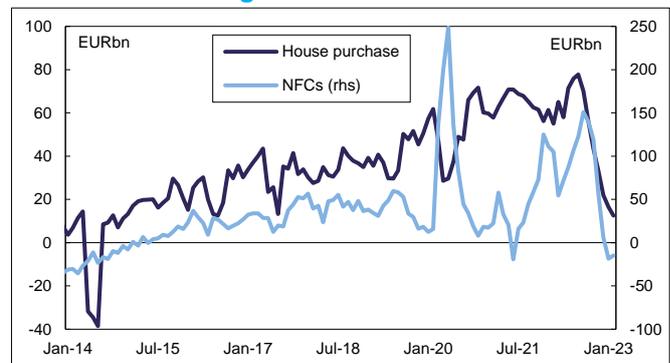
With interest rates having also risen on deposits, the flow into new household time deposits increased again in February, by a net €35.8bn to be up 43%Y/Y. But with households continuing to suffer declining real disposable incomes amid high inflation, there was a significantly larger outflow from overnight deposits, to leave the total net flow of household deposits down for the second time on the series and by a notable €20.6bn, the most since it began in 2003. Meanwhile, deposits placed by NFCs fell for a third successive month to be up just 2.6%Y/Y, the softest rate in seven years. However, within NFC deposit holdings, there was a further sharp jump in time deposits as firms take advantage of higher rates. Indeed, the net flow with an agreed maturity up to two years reached €35.0bn to be up a whopping 98%Y/Y while overnight deposits were down 7.1%Y/Y. As such, M1 money supply (comprising of currency in circulation and overnight deposits) fell a steeper 2.7%Y/Y in February, the most since the series began in 1981, illustrating the significant tightening of credit. And M3 money supply growth slowed by a further 0.6ppt to 2.9%Y/Y, the softest pace since 2014.

Euro area: Composite borrowing cost



Source: ECB and Daiwa Capital Markets Europe Ltd.

Euro area: Lending to NFCs & households



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

German ifo survey reports a further improvement in sentiment led by services and manufacturing

Consistent with last Friday's [flash PMIs](#), today's German ifo business indices suggested that economic conditions improved further in the euro area's largest member state at the end of the first quarter despite the ongoing banking sector turbulence. In particular, the headline business climate index rose for the fifth consecutive month in March, by 2.2pts to 93.3, the highest for thirteen months, leaving the quarterly average some 5pts above the Q4 level. Admittedly, the recovery in firms' current assessment was less pronounced, with the respective survey index up 1.5pts to 95.4, a seven-month high, but leaving the quarterly average just ½pt higher in Q1. Meanwhile, the expectations component jumped 2.8pts to 91.2, the highest since February 2022, leaving the quarterly index up almost 9pts compared with Q4. The detail suggested a notable improvement in both current and expected conditions in the services sector, with the overall business climate balance rising to its highest June. But contrasting with the PMIs, the ifo also implied that conditions in the manufacturing sector were the best since last February. And with just 41.6% of respondent firms reporting a shortage of materials (down from 48.4% in February) ifo flagged a marked improvement in sentiment in key sectors including the autos, chemical, electrical and machinery equipment sub-sectors. Having risen sharply over recent months, sentiment among German retailers moved broadly sideways this month, while construction firms were a touch less pessimistic about the outlook despite being less upbeat about the current assessment. Overall, the ifo institute suggested that the survey results implied that a recession in Germany over the winter months was becoming more unlikely.

The coming two days in the euro area

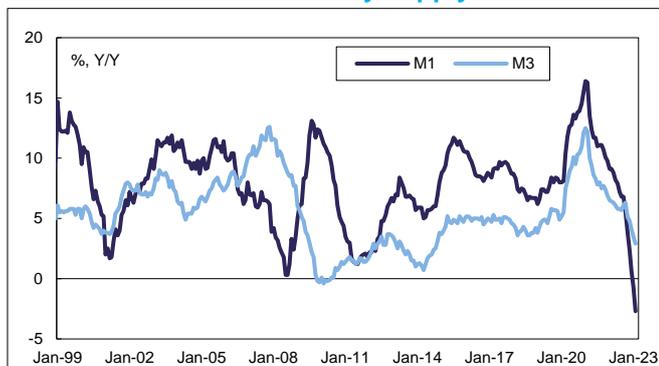
The coming two days will bring more national confidence surveys for March, which might well also point to a pickup in economic recovery momentum at the end of the first quarter despite the recent increase in risk aversion. In particular, tomorrow sees the release of the French INSEE business confidence surveys, which, like last week's PMIs, will likely report a more notable improvement in services sector sentiment, but broadly stable confidence in manufacturing. ISTAT will publish the equivalent business survey results from Italy, alongside consumer confidence indices. German and French consumer surveys will follow on Wednesday. Meanwhile, ECB President Lagarde is due to speak tomorrow, while Executive Board member and lead hawk Schnabel is scheduled to speak on Wednesday.

UK

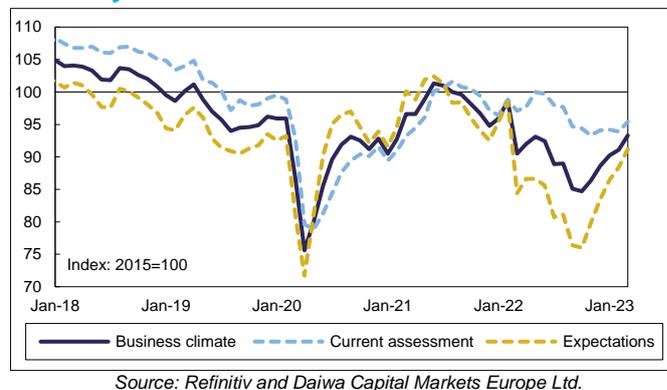
Retail sales survey signaled signs of resilience in March

After Friday's UK retail sales results reported a surprising revival at the start of the year, today's CBI distributive trades survey also suggested signs of resilience at the end of the first quarter. Admittedly, the survey's headline retail sales indicator

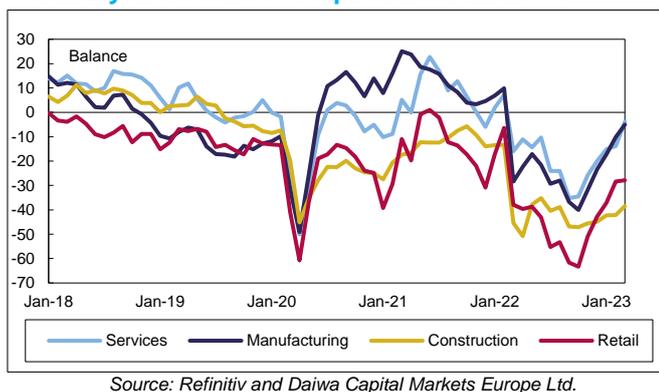
Euro area: M1 and M3 money supply



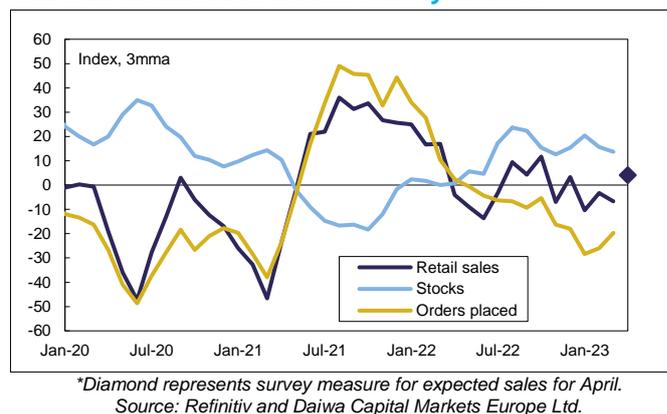
Germany: ifo business climate indices



Germany: ifo business expectations indices



UK: CBI distributive trades survey indices*



– down 1pt to +1 – suggested that sales were merely unchanged compared with a year earlier. But respondents considered them to have been good for the time of the year. And retailers expected them to remain above the seasonal norm in April, with annual growth of sales volumes forecast to return to positive territory for the first time since September. Nevertheless, retailers still considered stocks to be elevated relative to expected sales and so orders placed by suppliers declined for the seventh consecutive month. Despite the more encouraging headline message from today's survey, with household real disposable income still declining, consumer confidence still low by historical standard, and sales having risen by a cumulative 2.2% in the first two months of the year, we would expect to see some payback in official sales this month and any subsequent near-term recovery in the retail sector to lack vigour too.

The coming two days in the UK

Looking ahead, a relatively quiet day for UK data tomorrow brings just the latest BRC shop price index, which is expected to suggest that inflation on the High Street remained elevated in March, after accelerating to another record high in February. Arguably of most interest over the coming two days will be the BoE's lending figures for March on Wednesday, which are likely to reveal a further weakening trend in mortgage lending and approvals. Consumer credit figures will be analysed for whether higher borrowing costs are restraining demand for credit amid the cost of living crisis. Meanwhile, the BoE will also publish on Wednesday the summary and record of the FPC's latest meeting. In terms of BoE speak, Governor Bailey will testify to the Treasury Select Committee on issues related to SVB tomorrow.

The next edition of the Euro wrap-up will be published on 29th March 2023

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 M3 money supply Y/Y%	Feb	2.9	3.2	3.5	-
Germany	 ifo business climate	Mar	93.3	91.0	91.1	-
	 ifo current assessment (expectations) balance	Mar	95.4 (91.2)	94.1 (88.3)	93.9 (88.5)	-(88.4)
UK	 CBI distributive trades, reported retail sales	Mar	1	0	2	-

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
France	 07.45	INSEE business (manufacturing) confidence	Mar	103 (103)	103 (104)
Italy	 09.00	ISTAT consumer confidence	Mar	104.0	104.0
	 09.00	ISTAT business (manufacturing) confidence	Mar	-(103.0)	109.1 (102.8)
UK	 00.01	BRC shop price index Y/Y%	Mar	-	8.4

Auctions and events

Germany	 10.30	Auction: €5.50bn of 2.5% 2025 bonds
Italy	 10.00	Auction: €1.25bn of 2.5% 2024 bonds
	 10.00	Auction: €2.75bn of 3.4% 2025 bonds
	 10.00	Auction: €1.50bn of 0.1% 2033 index-linked bonds
UK	 09.45	BoE Governor Bailey testifies at Treasury Select Committee hearing on collapse of SVB

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Germany 	07.00	GfK consumer confidence	Apr	-29.5	-30.5	
France 	07.45	INSEE consumer confidence	Mar	81	82	
UK 	09.30	Net consumer credit £bn (Y/Y%)	Feb	1.3 (-)	1.6 (7.5)	
		09.30	Net mortgage lending £bn (approvals '000s)	Feb	2.4 (42.0)	2.5 (39.6)
		09.30	M4 money supply M/M% (Y/Y%)	Feb	-	1.3 (2.7)

Auctions and events

Euro area 	21.45	ECB's Schnabel scheduled to speak
UK 	10.30	BoE publishes Financial Policy Summary
		19.50

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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