

Euro wrap-up

Overview

- Bunds made modest losses as German consumer confidence rose for the sixth consecutive month, even after Lane suggested that wage growth was not yet showing signs of overshooting the ECB's projections.
- Shorter-dated Gilts made modest losses even as data signalled a sharp slowdown in UK mortgage lending.
- Thursday brings flash March inflation estimates from Germany and Spain, while the Commission's economic sentiment survey is also due.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	2.612	+0.053
OBL 2.2 04/28	2.298	+0.031
DBR 2.3 02/33	2.301	+0.020
UKT 0% 06/25	3.399	+0.037
UKT 1% 10/28	3.305	+0.021
UKT 3¼ 01/33	3.463	+0.007

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

Source: Bloomberg

Euro area

German consumer confidence rises for a sixth month, but purchase intentions still historically weak

While last week's flash Commission [euro area consumer confidence](#) indicator reported a modest decline in March, equivalent survey results published today from Germany and France offered mixed messages. In tandem with the stronger [flash PMIs](#) and [ifo](#) business indices in March, today's GfK survey reported a sixth successive rise in German consumer confidence to the best level since July. Households' income expectations were judged to be the best since May 2022, benefitting from the notable decline in petrol prices and the government's price-brake on electricity and gas bills that came into effect this month. Indeed, the respective survey index was some 43pts above September's low. But consumers were less upbeat about overall economic expectations over the coming twelve months than they were in February. And their willingness to spend was little changed on the month, with the survey index in Q123 a touch below the Q422 average at a historically weak level. Despite the ongoing upwards trend in the headline GfK index, at -29.5, it remained some 33pts below the long-run average. And overall, in contrast with the ifo survey, GfK concluded that it had become more doubtful as to whether a recession could be avoided.

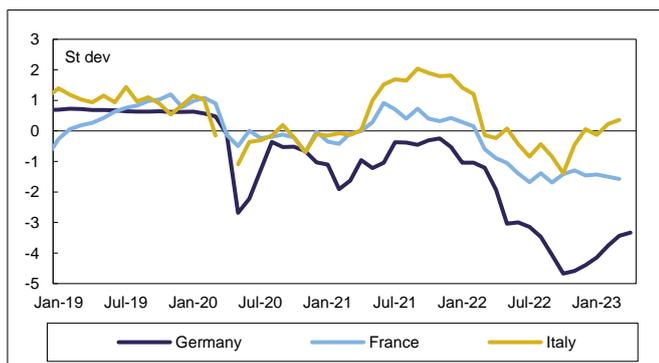
INSEE surveys suggest French consumers and businesses remain downbeat

Contrasting with the German survey, today's INSEE survey suggested that French households remained very downbeat at the end of Q1, with the headline sentiment indicator down for the third month out of the past four in March to remain firmly within the recent fragile trend. Indeed, at 81, the index was the lowest for six months and well below the long-run average (100). Amid the government's new pension reform, households' income expectations fell to the weakest since September. And so, despite an easing of concerns about future unemployment, the share of households considering it a good time to make major purchases remained at a depressed level, at one of the weakest on the series and suggesting still very subdued consumer spending growth in the first quarter of the year. At the same time, French business confidence lost a little momentum at the end of the first quarter. In particular, INSEE's composite business index fell slightly to 103 in March, from an upwardly revised 104 in February. While the moderation in March was evident across the key sectors, it was most striking in retail where the respective index fell 3pts to 99. The construction index also fell to its lowest since May 2011. So, while the manufacturing, services and retail indices in Q1 were all firmer than in Q4, today's survey suggested that GDP growth likely remained lacklustre in the first quarter of the year.

Italian consumer and business confidence maintains an upwards trend in March

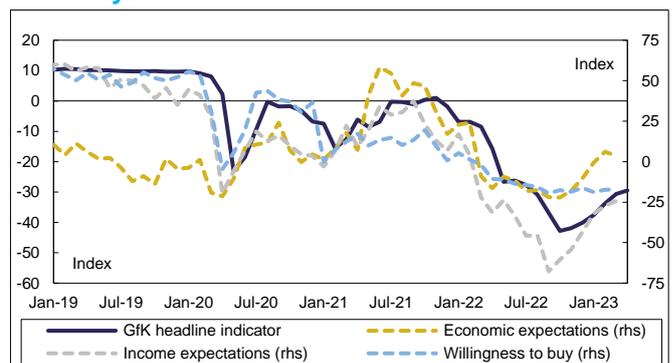
More positively, and in line with German opinion, yesterday's ISTAT survey suggested that Italian consumers were the most upbeat in over a year at the end of Q1. In particular, the headline confidence index rose 1.1pt in March to 105.1, some 15pts

Euro area: Consumer confidence



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Consumer confidence



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

above the recent trough in October leaving the quarterly average almost 6½pts above the Q4 level. Of note, households implied a marked improvement in their financial situation over the past twelve months, as well as fewer concerns about the outlook for unemployment. As such, the survey measure of households' purchase intentions rose to the highest in six months, albeit it remained weak by historical standards. Against this backdrop, the business survey reported a further improvement in retail sentiment in March, with the index rising 1.3pts on the month to a new series high. The most significant recovery in sentiment in the first quarter was reported in the services sector, with the quarterly average jumping more than 4½pts in Q1, boosted not least by a pickup in tourism. The survey suggested that manufacturers were also the most upbeat since August amid an expected revival in production over the near term, while confidence among construction firms was similarly the highest since September. Overall, the composite business indicator rose 1pt in March to 110.2, an eight-month high, with the quarterly average some 3pts above the Q4 level.

The day ahead in the euro area

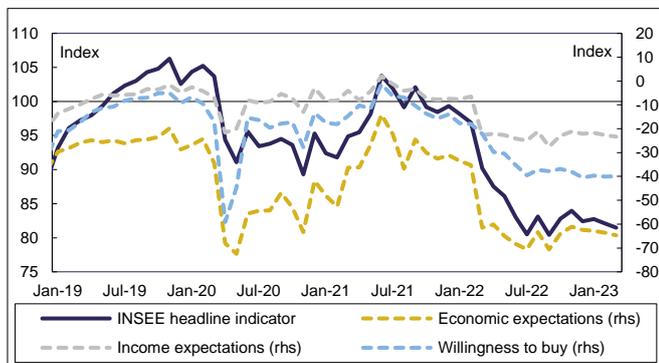
The flow of March confidence surveys concludes tomorrow with the Commission's economic sentiment indices, which are expected to report a pickup in recovery momentum in the euro area at the end of the first quarter, in line with the results from the flash PMIs and other national releases over recent days. The improvement is likely to reflect greater confidence among businesses, particularly in the services sector, while the flash consumer confidence index edged slightly lower this month, by 0.2pt to -19.2. The survey will also provide an update on price-setting expectations. But, ahead of Friday's flash euro area March inflation release, of most interest tomorrow will be the preliminary inflation figures from Germany and Spain, both of which are expected to show a notable decline in the headline rates due not least to base effects on the energy component. Equivalent figures from Ireland and Belgium are also due.

UK

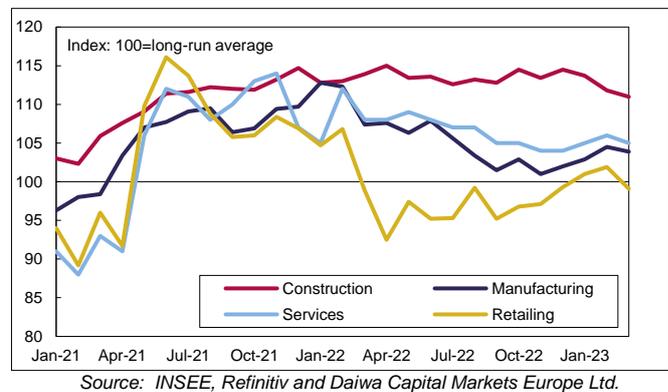
UK mortgage lending slows sharply in February as higher interest rates hit

Even ahead of the recent turbulence in global financial markets, today's UK bank lending figures offered further evidence of the negative impact from the significant tightening of financial conditions after last year's Truss-related blowout in interest rates. These showed a marked slowdown in net new mortgage lending to just £0.7bn in February, down from £2.0bn in January, well below the average in 2022 (£5.1bn) and compared with a pre-pandemic ten-year average of £2.3bn. Indeed, when excluding pandemic-related volatility, net borrowing was the lowest since April 2016. The slowdown was inevitable given the surge in interest rates through the latter part of last year, with the effective interest rate on these loans up to 4.24%, almost 170bps higher than in August, and the effective rate fixed for up to 2 years at 4.68%, up almost 210bps over the

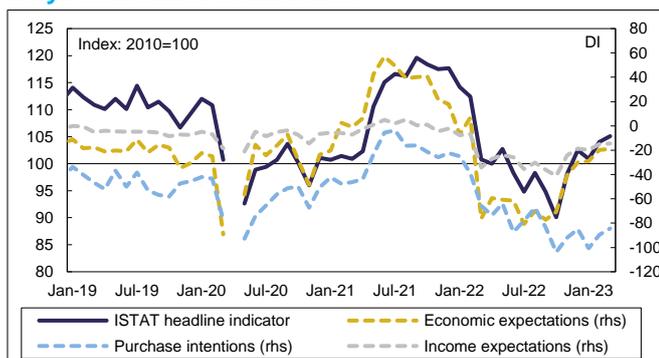
France: Consumer confidence



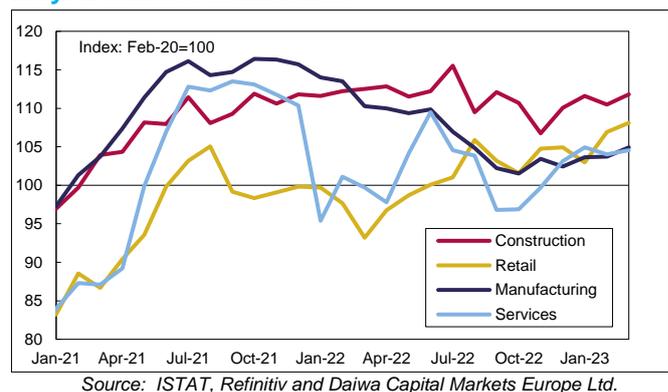
France: Business confidence



Italy: Consumer confidence*



Italy: Business confidence



same period. While mortgage rates have eased from the October peak, today's mortgage approvals implied still very subdued lending over the near term. Indeed, while net approvals for new house purchases increased for the first time in six months, at 43.5k, they still remained historically weak and more than 20k below the pre-pandemic five-year average. Consumer credit also slowed slightly in February, with net lending of £1.4bn down from £1.7bn in January, while net credit card lending almost halved to £0.6bn, albeit still a touch firmer than the pre-pandemic average. Meanwhile, while there was a marked increase in household deposits paid into higher-yielding time accounts, these were largely transferred from sight accounts, with the total amount that households deposited in banks actually slowing sharply, to £1.6bn, the smallest monthly increase since a withdrawal in April 2016, suggesting a reduced capacity to save amid the higher cost of living.

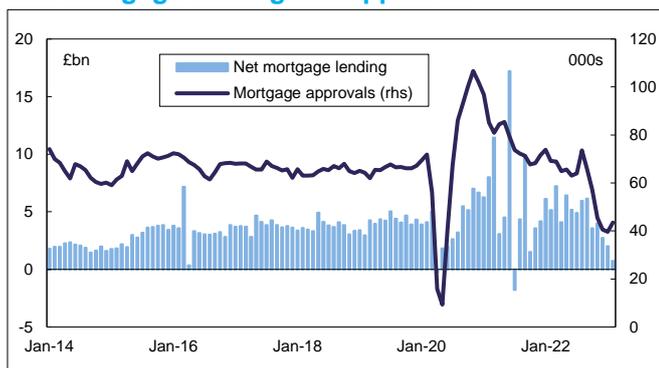
Shop price inflation accelerates to a new record high

The squeeze on household budgets was again illustrated by yesterday's BRC shop price release. According to this measure, shop price inflation jumped a further 0.5ppt to 8.9%Y/Y in March, a new record high. Food inflation increased for the twentieth consecutive month, to 15%Y/Y, with the BRC noting a rise in prices for chocolate, sweets and fizzy drinks amid the rising cost of sugar. Fresh food inflation (17.0%Y/Y) was reportedly boosted by higher fruit and vegetable prices on the back of poor harvests across Europe and Africa. But non-food inflation also trended higher as clothing and DIY shop prices jumped. BRC suggested that shop price inflation has yet to peak. And consumer services prices are likely to remain sticky over the near term too. But not least due to the inclusion of energy prices, we continue to expect headline consumer inflation to moderate slightly in March, before falling notably further from April onwards as base effects see the energy component fall to single digits by the summer (from almost 50%Y/Y in February).

The day ahead in the UK

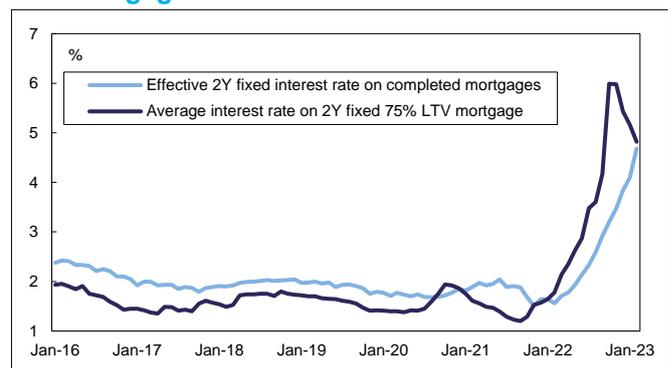
It should be a quiet day for economic news tomorrow, with no UK top-tier data due for release.

UK: Mortgage lending and approvals



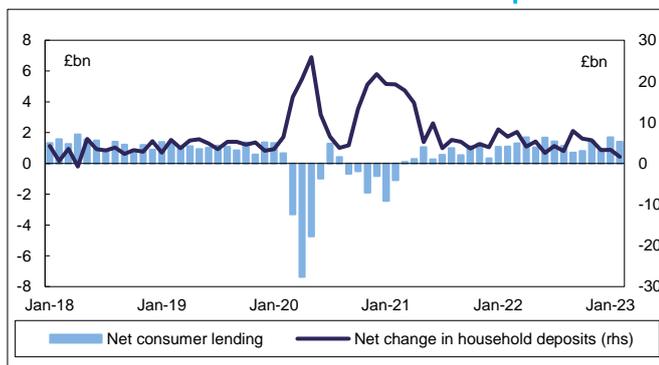
Source: BoE, Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Mortgage interest rates



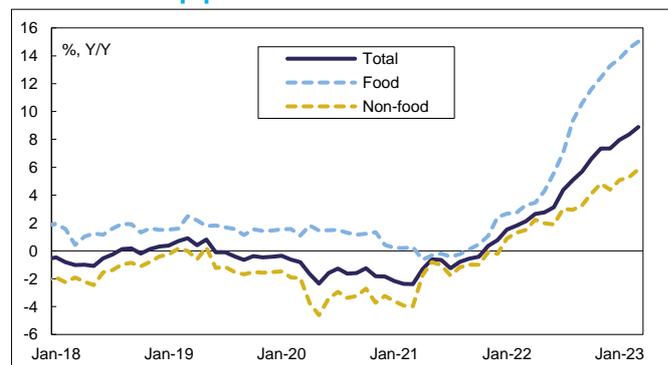
Source: BoE, Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Consumer credit and household deposits



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

UK: BRC shop price inflation



Source: Refinitiv 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
Germany	GfK consumer confidence	Apr	-29.5	-30.0	-30.5	-30.6
France	INSEE consumer confidence	Mar	81	81	82	-
UK	Net consumer credit £bn (Y/Y%)	Feb	1.4 (7.7)	1.2 (-)	1.6 (7.5)	1.7 (-)
	Net mortgage lending £bn (approvals '000s)	Feb	0.7 (43.5)	2.4 (41.3)	2.5 (39.6)	2.0 (-)
	M4 money supply M/M% (Y/Y%)	Feb	-0.4 (1.0)	-	1.3 (2.7)	1.2 (2.6)

Auctions

Country Auction

- Nothing to report -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France	INSEE business (manufacturing) confidence	Mar	103 (104)	103 (103)	103 (104)	104 (105)
Italy	ISTAT consumer confidence	Mar	105.1	104.0	104.0	-
	ISTAT business (manufacturing) confidence	Mar	110.2 (104.2)	- (103.0)	109.1 (102.8)	109.2 (103.0)
UK	BRC shop price index Y/Y%	Mar	8.9	-	8.4	-

Auctions

Country Auction

Germany	sold €4.44bn of 2.5% 2025 bonds at an average yield of 2.62%
Italy	sold €1.25bn of 2.5% 2024 bonds at an average yield of 3.10%
	sold €2.75bn of 3.4% 2025 bonds at an average yield of 3.29%
	sold €1.50bn of 0.1% 2033 index-linked bonds at an average yield of 2.02%

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	99.9	99.7
		10.00	Final European Commission's consumer confidence	Mar	-19.2	-19.1
		10.00	European Commission's industrial (services) confidence	Mar	0.5 (10.0)	0.5 (9.5)
Germany		13.00	Preliminary HICP (CPI) Y/Y%	Mar	7.5 (7.3)	9.3 (8.7)
Italy		09.00	Unemployment rate %	Feb	8.0	7.9
		10.00	PPI Y/Y%	Feb	-	11.6
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Mar	3.7 (3.9)	6.0 (6.0)

Auctions and events

Euro area		09.00	ECB publishes Economic Bulletin
Italy		10.00	Auction: €3.00bn of 3.40% 2028 bonds
		10.00	Auction: €3.50bn of 4.40% 2033 bonds
		10.00	Auction: €1.25bn of 2029 floating rate bonds
		10.00	Auction: €1.25bn of 2030 floating rate bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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