

Euro wrap-up

Overview

- While euro area retail sales extended their downtrend and a survey suggested that investors remain pessimistic about the outlook, Bunds made losses as they played catch-up with the post-payrolls moves in USTs.
- Gilts also made significant losses despite another subdued survey of UK retail sales, while the Chancellor nominated a replacement for the MPC's uber-dove.
- While Wednesday will be quiet for economic data from the region, Thursday will bring February figures for UK GDP and euro area industrial production as well as the final March estimates of German inflation.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	2.685	+0.148
OBL 2.4 04/28	2.305	+0.131
DBR 2.3 02/33	2.296	+0.117
UKT 0% 06/25	3.447	+0.112
UKT 1% 10/28	3.357	+0.106
UKT 3% 01/33	3.525	+0.101

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

Source: Bloomberg

Euro area

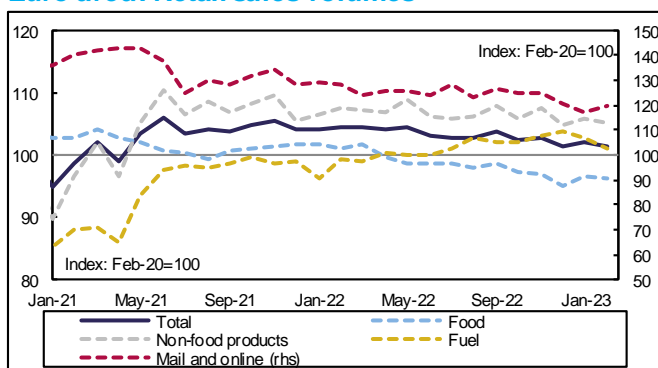
Broad-based decline in retail sales in February

Despite a modest improvement in consumer confidence over recent months, household real disposable incomes continue to be squeezed by high inflation with inevitable consequences for spending. Today's euro area retail sales figures reported the third monthly decline out of the past five in February to extend the gradual downwards trend evident since end-2021. Admittedly, the drop in total sales volumes of 0.8% M/M merely reversed the upwardly revised increase in January (from the previously estimated growth of 0.3% M/M). But the weakness was broad-based across the larger member states, with steep falls in Germany (-1.3% M/M) and France (-1.5% M/M) and more modest drops in Italy (-0.4% M/M) and Spain (-0.3% M/M). In aggregate, euro area sales were down 3.0% Y/Y in February to be trending in the first two months of Q1 some 0.4% below the Q4 average. Despite a first increase in online and mail orders (2.6% M/M) in five months, core sales (excluding food and fuel) fell 0.7% M/M while sales at petrol stations fell by 1.8% M/M, the most in thirteen months. Food store sales also fell 0.6% M/M, to be down almost 5.0% Y/Y, as record rates of inflation continued to constrain demand. Indeed, the value of food sales was still up more than 9.0% Y/Y, with the value of total sales up almost 6% Y/Y. With surveys suggesting that household purchase intentions remain historically weak and well below long-run norms, we continue to expect retail sales to fall for a fifth successive quarter in Q1, and private consumption to remain subdued over the near term and offer little if any support to GDP growth before Q3.

Sentix survey suggests improved current conditions but unease about the economic outlook

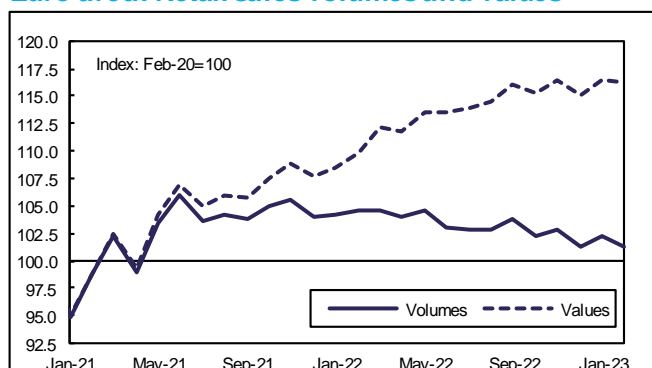
Given recent banking sector turbulence in the US and Switzerland, at face value the first of the April sentiment survey results – the Sentix investor indices – appeared encouraging. Having deteriorated for the first time in five months in March, the headline sentiment indicator for the euro area rose 2.5pts this month to be almost 30pts higher than the trough reached six months ago. However, it remained firmly in negative territory and well below the long-run average at -8.7. The improvement from March reflected a sixth successive improvement in the assessment of current conditions, which were judged to be the best since March 2022, as lower wholesale gas prices and improved energy security continued to provide relief. Sentix also reported less concern about the outlook for inflation and monetary policy. Nevertheless, the survey index of expectations for the economy over the coming six months failed to improve, remaining significantly negative, albeit still above last year's range, at -13. At the country level, the respective indices for Germany painted a similar picture of relief that the worst fears for the winter had not been fulfilled, with current conditions judged to be the least unfavourable since June. But expectations were also insignificantly changed from March and more downbeat than in February, suggesting wariness about the outlook.

Euro area: Retail sales volumes



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales volumes and values



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

The coming two days in the euro area

After a day with no top-tier euro area economic data on Wednesday, Thursday will bring the region's industrial production figures for February. The national numbers released so far point to a second successive monthly increase in industrial output of a little more than 1.0%/MM. Final March inflation numbers from Germany are also due on Thursday. The preliminary release suggested that the headline harmonised HICP inflation rate fell 1.5ppts to an eleven-month low of 7.8%YY, while the national CPI rate fell 1.3ppts to 7.4%YY. While these declines are likely to be confirmed, the final release is likely also to reveal that the core CPI rate ticked higher in March due to increased services inflation.

UK

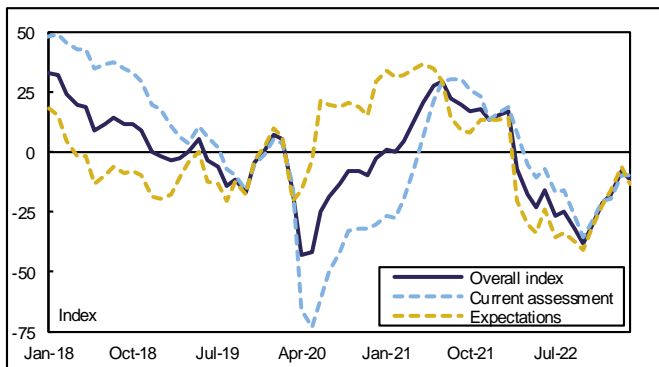
Retail surveys suggest UK consumer spending continues to trend lower in real terms

While consumer confidence has stabilised over recent months, judging from the latest BRC and Barclaycard surveys, UK retail sales volumes likely remained in reverse in March as high prices continued to weigh on purchasing power. The BRC survey's measure of the value of sales on the British high street rose 5.1%YY, down just 0.1ppt from February, with same-store sales growth unchanged at 4.9%YY. However, those rates pale in comparison with the BRC's survey measure of shop-price inflation, which rose to 8.9%YY that month. According to the BRC, the wettest March in more than four decades hit demand in several areas including apparel. But spending on certain other items reportedly benefited at the expense of spending on eating out, where inflationary pressures have been particularly intense. This tallied with the findings of the latest Barclaycard report, which suggested that a little more than 60% of consumers have cut back on spending at restaurants and new clothing as higher energy bills continued to pinch. Barclaycard did, however, suggest that spending at home-improvement and DIY stores had risen, while digital subscriptions also recorded the best growth in five months. Overall, Barclaycard suggested that total credit card spending rose 4.0%YY in March, well below CPI inflation of 10.4%YY. And looking ahead, just one third of surveyed households reported that they would increase spending on activities over the Bank Holiday weekend for the King's Coronation next month, suggesting that the occasion might provide a smaller boost to hospitality than some previous royal events.

Chancellor nominates a replacement for the MPC's uber-dove

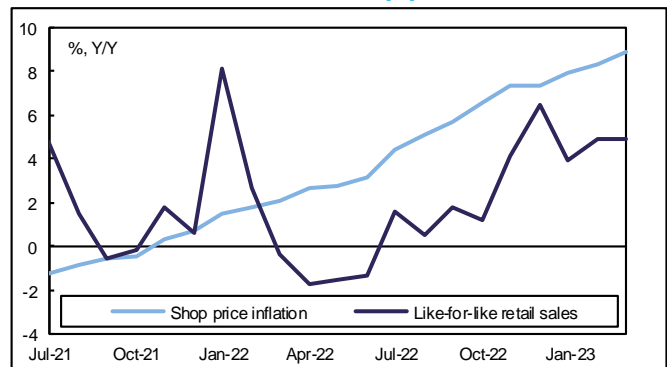
Today Chancellor Jeremy Hunt nominated Megan Greene, currently Global Chief Economist at Kroll, to join the BoE's MPC as an external member from July. We assume that the approval of her nomination by Parliament's Treasury Select Committee will be a formality, allowing her to take over seamlessly as a replacement for Sylvana Tenreyro, whose second three-year term is scheduled to conclude in July. During her tenure, Tenreyro has typically been the MPC's uber-dove, often voting against the Committee's majority opinion, including most recently advocating unchanged rates at each of the three meetings held so far this year. While Tenreyro's background was in academia, Greene has ostensibly been nominated for her experience of financial markets and the real economy. However, as with Tenreyro, we do not think it likely that Greene's views will significantly shift those of the BoE staff who make up the majority on the MPC. Nevertheless, with policy decisions over coming meetings likely to be more finely balanced than over recent quarters, Greene might yet find herself with the casting vote on monetary policy at a forthcoming meeting. For what it's worth, she has recently written and commented on how central banks need to be mindful of the likely impact of tighter financial conditions on economic activity and inflation. She also recently spoke of her expectation that the US economy will slide into a shallow recession. That might suggest that Greene too will be mindful of pushing Bank Rate much higher than its current level. However, it is hard to believe that her reaction function will be as dovish as Tenreyro's.

Euro area: Sentix investor confidence indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: BRC retail sales and shop price inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

The coming two days in the UK

With no economic data of note due from the UK tomorrow, focus turns to Thursday's publication of the February report for GDP, including the services, industry and construction output detail and monthly trade figures. While the PMIs pointed to an accelerated recovery momentum in February, and [retail sales](#) were surprisingly strong that month too, we expect overall GDP growth to have remained relatively subdued, with strikes likely to have weighed on output from the transport, education and healthcare subsectors. Like the Bloomberg survey consensus, we forecast growth of just 0.1%MM. Also of interest on Thursday will be the RICS residential survey for March, as well as the BoE's latest Credit Conditions Survey for Q1, which will likely flag a further tightening of financial conditions and associated ongoing weakness in housing market activity.

The next edition of the Euro wrap-up will be published on 13th April 2023

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Sentix investor confidence	Apr	-8.7	-10.1	-11.1	-
	Retail sales M/M% (Y/Y%)	Feb	-0.8 (3.0)	-0.8 (-3.5)	0.3 (-2.3)	0.8 (-1.8)
UK	BRC retail sales, like-for-like Y/Y%	Mar	4.9	-	4.9	-

Auctions

Country	Auction
Germany	sold €4.07bn of 2.2% 2028 bonds at an average yield of 2.26%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow and Thursday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Wednesday 12 April 2023					
- Nothing scheduled -					
Thursday 13 April 2023					
Euro area		10.00	Industrial production M/M% (Y/Y%)	Feb	1.1 (1.4) / 0.7 (0.9)
Germany		07.00	Final HICP (CPI) Y/Y%	Mar	7.8 (7.4) / 9.3 (8.7)
Italy		09.00	Industrial production M/M% (Y/Y%)	Feb	- / -0.7 (1.4)
UK		00.01	RICS house price balance %	Mar	-48 / -48
		07.00	GDP M/M% (3M/3M%)	Feb	0.1 (-0.1) / 0.3 (0.0)
		07.00	Industrial production M/M% (Y/Y%)	Feb	0.2 (-3.7) / -0.3 (-4.3)
		07.00	Index of services M/M% (3M/3M%)	Feb	0.0 (0.0) / 0.5 (0.0)
		07.00	Construction output M/M% (Y/Y%)	Feb	0.5 (1.5) / -1.7 (0.6)
		07.00	Total trade balance (goods trade balance) £bn	Feb	-5.0 (-17.0) / -5.9 (-17.9)

Auctions and events

Wednesday 12 April 2023					
Euro area		19.15	Banque de France Governor Villeroy de Galhau scheduled to speak		
Germany		10.30	Auction: €1.0bn of 1.25% 2048 bonds		
		10.30	Auction: €1.5bn of 0% 2052 bonds		
UK		10.00	Auction: £900mn of 0.125% 2039 index-linked bonds		
		14.00	BoE Governor Bailey scheduled to speak		
Thursday 13 April 2023					
Euro area		19.15	Bundesbank President Nagel scheduled to speak		
Italy		10.00	Auction: €3.25bn of 3.8% 2026 bonds		
		10.00	Auction: €3.75bn of 3.7% 2030 bonds		
		10.00	Auction: €1.25bn of 4.0% 2037 bonds		
		10.00	Auction: €1.25bn of 4.75% 2044 bonds		
Spain		09.30	Auction: 2.8% 2026 bonds		
		09.30	Auction: 3.15% 2033 bonds		
		09.30	Auction: 1% 2042 bonds		
		09.30	Auction: 0.7% 2033 index-linked bonds		
UK		09.30	BoE Credit Conditions Survey		
		10.00	Auction: 3.25% 2033 bonds		
		14.00	BoE Chief Economist Pill scheduled to speak		

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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