

Euro wrap-up

Overview

- Bunds made modest losses even as German and French consumer confidence remained low and consistent with lacklustre consumer spending, while euro area bank lending remained subdued too.
- Gilts also followed USTs lower even as a UK survey suggested that shop price inflation fell to its lowest since March 2022.
- Tomorrow will bring the February results of the European Commission's comprehensive business and consumer sentiment survey.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/26	2.917	+0.002
OBL 2.1 04/29	2.462	+0.014
DBR 2.2 02/34	2.456	+0.019
UKT 0½ 01/26	4.318	+0.027
UKT 4½ 06/28	4.067	+0.030
UKT 3¼ 01/33	4.181	+0.024

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

Source: Bloomberg

Euro area

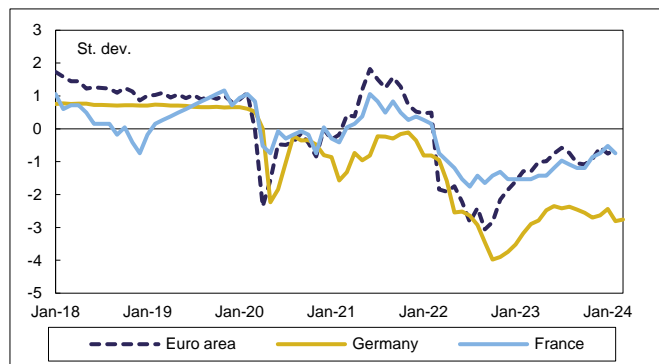
German consumer confidence still subdued as employment prospects worsen

Following the downbeat German [flash PMIs](#) and [ifo](#) business indices, today's GfK consumer survey suggests that households also remain relatively pessimistic about economic prospects in the euro area's largest member state, with ongoing transport sector strikes, public protests against the rise of the far-right AfD, high interest rates, falling property prices and perceptions of diminishing employment prospects weighing on sentiment. Admittedly, having fallen sharply in the previous release to an eleven-month low, the headline consumer confidence indicator – presented as a forecast for March – rose slightly, by 0.6pt to -29.0. But this left the index averaging in Q1 some 0.5pt below the Q4 level and almost 40pts below the average in the five years before the pandemic. And compared with the long-run average, German households are still considerably more downbeat than French consumers. The GfK detail suggested that households were notably less downbeat about income expectations, with the respective survey component up to the highest for two years while inflation expectations also improved. However, the survey also suggested that households aim to keep their purse strings tight – the purchase intentions component in February was trending some 1½pts below the Q4 average and a whopping 70pts below the pre-pandemic five-year average, implying a greater willingness to save amid persisting pessimism regarding the overall economic outlook. A separate ifo institute survey today suggested that firms were looking to hire fewer staff in February, with ongoing cuts to headcount in the manufacturing, construction and retail sectors combining with the softest pace of hiring intentions among services firms for three years. So, overall, the headline ifo employment barometer fell to the lowest level since February 2021 and the global financial crisis when excluding Covid lockdown periods. As such, we continue to expect household consumption to remain subdued despite the prospect of rising real disposable incomes over coming quarters.

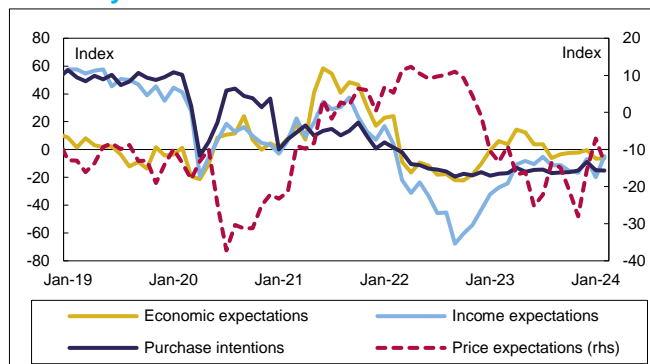
French consumer confidence slips back from near-2-year high in January

Meanwhile, the INSEE French consumer confidence indicator fell for the first month in four in February to 89, reversing the 2pts increase in January. Admittedly, having reached a 23-month high at the start of the year, this left the index still trending 3pts above the Q4 average and some 8pts above the low in 2022, but nevertheless 11% below the long-run average. The detail suggested that the deterioration was broad-based, with expectations about the general economic outlook and personal financial positions slipping back, as fears of unemployment and inflation expectations edged slightly higher. So, while the share of households considering it a good time to make major purchases had risen to 19-month high in January, it fell back in February. Nevertheless, the purchase intentions component was still trending almost 4pts above the Q4 average, suggesting that consumer spending should support a return to moderately positive GDP growth in the first quarter of the year. Certainly, the flash services PMIs jumped to a nine-month high in February, amid a notable improvement in underlying

Euro area: Consumer confidence indices



Germany: Consumer confidence indices



demand. And after French economic output moved sideways in Q4, the Bank of France anticipates a return to modest growth of between 0.1-0.2%Q/Q in Q1.

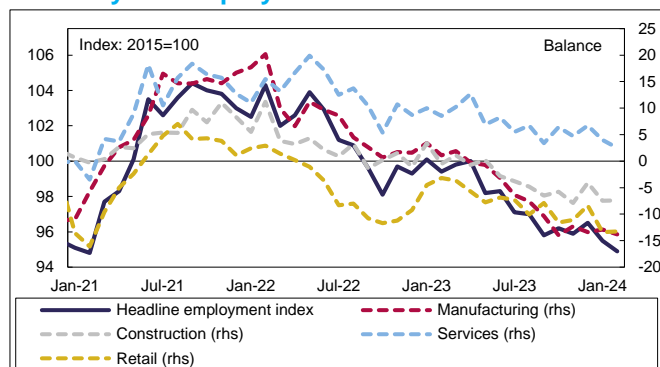
Bank lending to the private sector remains subdued at start of 2024

In response to the steady tightening of credit conditions over the past year, and with household and business demand soft, bank lending to the private sector remained subdued in the euro area at the start of the year. Indeed, while December had registered the biggest net flow of lending to non-financial corporations (NFCs) for 14 months, that was more than fully reversed in January. Excluding sales and securitisations, the flow of new loans to NFCs fell almost €25bn in January to a 13-month low, firmly in negative territory at -€13.5bn. As a result, annual growth in the stock of loans to NFCs slowed 0.3ppt to just 0.2%Y/Y, with the equivalent rates deeply in negative territory in Italy (-4.3%Y/Y) and Spain (-3.4%Y/Y) but modestly positive in Germany (1.0%Y/Y) and France (2.2%Y/Y). On an unadjusted basis, there was a modest pickup on the month in longer-dated loans (i.e. those with a maturity of more than five years) to €3.9bn. But on a three-month basis, such net lending was still in negative territory at almost €4bn pointing to continued weakness in business investment. And having picked up in December, the net flow of short-dated loans (i.e. those with a maturity of up to one year) reversed to -€13.5bn, the most negative in 13 months to be down €2bn on a three-month basis, suggestive of a pause in spending on stocks and working capital at the start of the year. In contrast to lending to NFCs, however, the monthly flow of loans to households on an adjusted basis rose in January to a 10-month high of €4.9bn, taking the three-month flow to €8.6bn, the best since April. Nevertheless, the annual growth rate in the stock of loans to households slowed a further 0.1ppt to 0.3%Y/Y, the lowest since March 2015. Lending for house purchase was down 0.1%Y/Y, a six-year low, tallying with continued weakness in the residential property market. But growth in consumer credit was steady at (an upwardly revised) 2.8%Y/Y, 0.3ppt above June's 16-month low.

Money supply falls on lower overnight deposits to remain consistent with weak growth & inflation

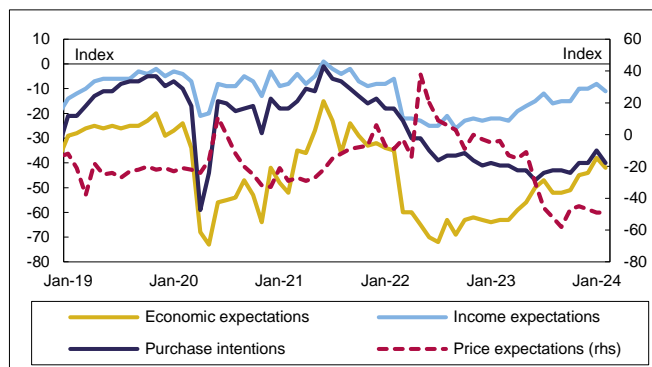
Meanwhile, following a net inflow of more than €150bn over the prior two months, euro area bank deposits reversed €72bn – the most on the series – in January to be down 0.9%Y/Y. Unsurprisingly, given the higher yields on offer via other instruments, the weakness reflected a large net outflow from sight deposits by households and NFCs alike. So, total overnight deposits remained down a steep 6.0%Y/Y, still nevertheless 1.6ppts softer than the record decline seen in August. Due to the fall in deposits, the annual growth in M3 money supply moderated 0.1ppt to just 0.1%Y/Y. And the pace of decline in the narrower M1 measure, which excludes time deposits, also intensified 0.1ppt to remain historically weak at -8.6%Y/Y, firmly consistent with soft economic growth and low inflation.

Germany: ifo employment intentions indices



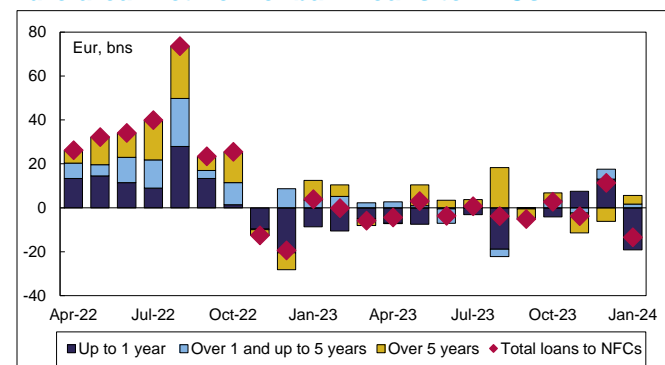
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Consumer confidence indices



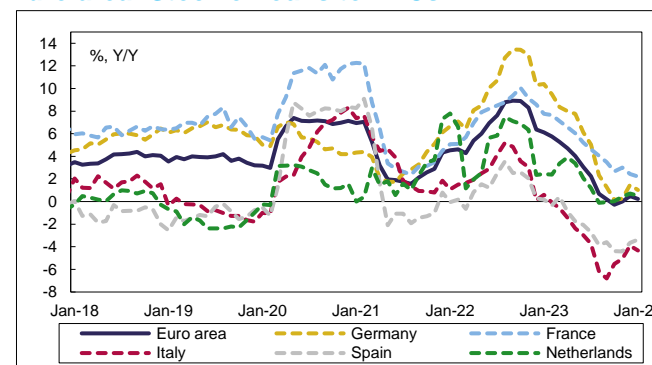
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Net flow of bank loans to NFCs



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Stock of loans to NFCs



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

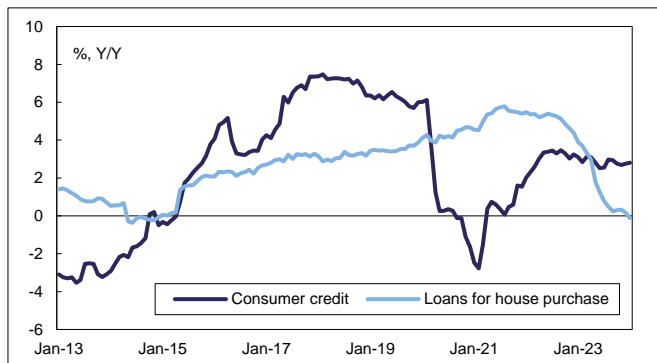
The economic data highlight tomorrow will be the publication of the European Commission's sentiment indicators for February, which arguably provide the best guide to euro area GDP growth. Consistent with today's national releases, the [preliminary euro area consumer confidence](#) figure suggested that sentiment among households remains muted, although the headline confidence index partly reversed the decline recorded in January, rising 0.6pt to -15.5, the second-highest reading since before Russia's invasion of Ukraine. In terms of the survey's business components, like last week's flash PMIs, we expect to see a further improvement in services confidence this month, while the equivalent measures for the manufacturing and construction sectors will remain constrained by lacklustre demand and high borrowing costs. Overall, the headline Economic Sentiment Index is forecast to rise to its highest level since June (96.6), albeit still some way below the pre-pandemic five-year average (106.5), therefore suggesting only moderate recovery momentum.

UK

Shop price inflation maintains a downwards trend as food inflation moderates further

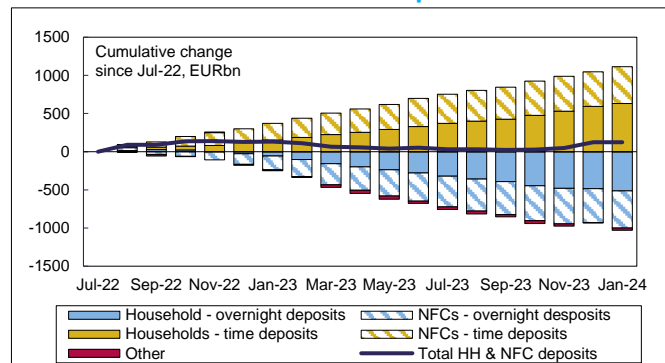
According to the BRC, inflation on the UK high street cooled further in February, as retailers continued to pass on lower input costs to consumers and some extended the New Year sales period to attract custom. Overall, the BRC's shop price measure of inflation eased 0.4ppt in February to 2.5%Y/Y, the lowest since March 2022 and 6.5ppt below last year's peak. The decline this month reflected an ongoing disinflationary trend in food prices. Indeed, the BRC's measure of food prices reported only the second monthly decline (-0.1%M/M) since July 2021. And that left the respective inflation component down 1.1ppt to 5.0%Y/Y, the softest since May 2022, with fresh food prices benefitting not least from easing input costs for energy and fertilisers. Meanwhile, non-food inflation moved sideways at just 1.3%Y/Y, with heavy discounting in clothing (down 1.7ppt to -5.5%Y/Y), offset by a rise in inflation of furniture, electricals and health and beauty products, perhaps reflecting increased costs associated with ongoing events in the Red Sea. Indeed, a separate survey published by the British Chambers of Commerce yesterday suggested that more than a third of respondent firms are facing higher shipping costs and delays due to the rerouting of cargo ships. Separately, despite a marked improvement from January, the CBI's latest distributive trades survey suggested that sales this month have continued to fall compared with a year and are expected to remain below the norm for the time of the year in March, limiting retailers' pricing power. Given the weakness in demand and low consumer confidence, we would expect the disinflationary trend in core goods to be maintained over coming months. And thanks not least to the steep drop in household energy bills from April, as well as a gradual dissipation of pressures in services, we expect CPI inflation to drop below the BoE's 2.0% target in Q2.

Euro area: Stock of loans to households



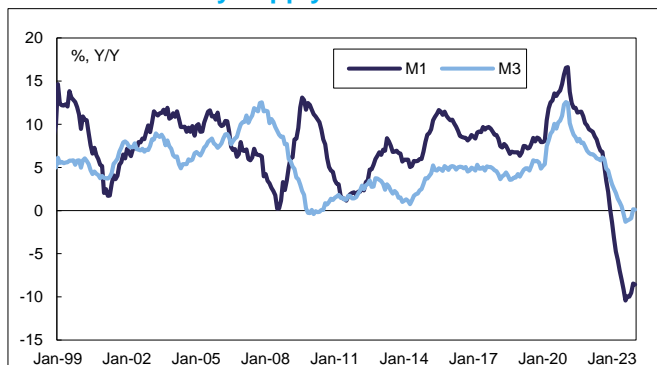
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Household & NFC deposits



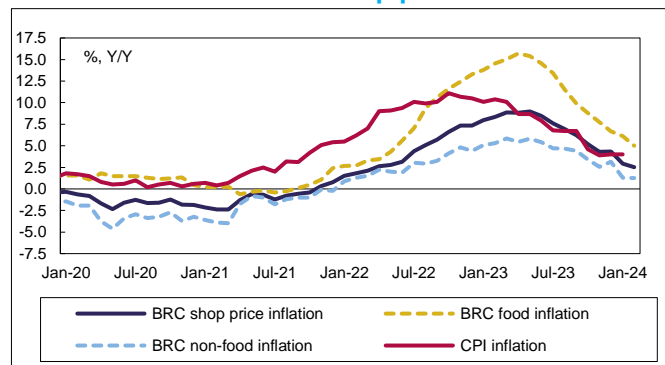
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Money supply



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Headline CPI & BRC shop price inflation

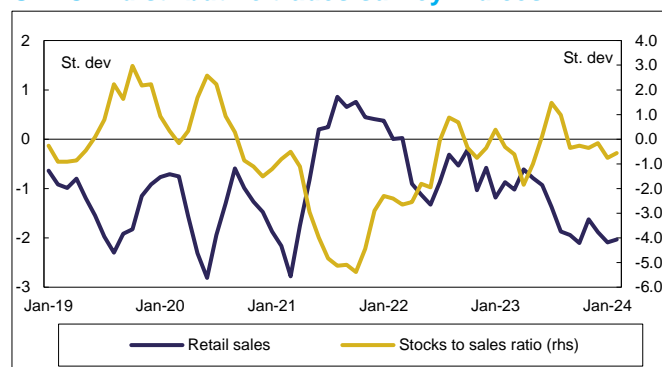


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the UK

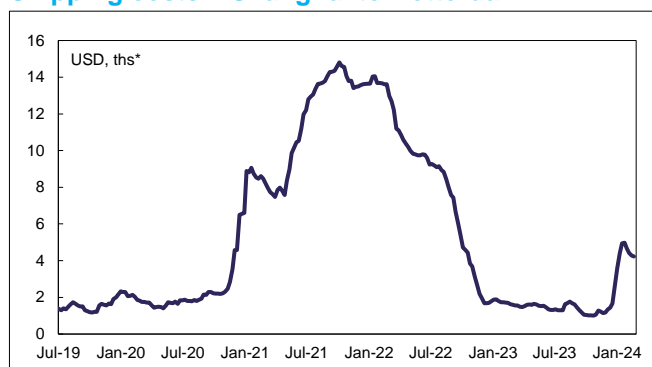
There are no top-tier UK economic data scheduled for release tomorrow.

UK: CBI distributive trades survey indices*



*3-month moving average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Shipping costs – Shanghai to Rotterdam



*Rate per 40ft box. Source: Bloomberg 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
Euro area	M3 money supply Y/Y%	Jan	0.1	0.3	0.1	0.2
Germany	GfK consumer confidence index	Mar	-29.0	-29.0	-29.7	-29.6
France	INSEE consumer confidence index	Feb	89	92	91	-
UK	BRC shop price index Y/Y%	Feb	2.5	-	2.9	-

Auctions

Country	Auction
Germany	sold €894mn of 0% 2050 bonds at an average yield of 2.51%
UK	sold £900mn of 0.125% 2039 index-linked bonds at an average yield of 1.076%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Today's results

Economic data






Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Spain	PPI Y/Y%	Jan	-3.8	-	-6.3	-
UK	CBI distributive trades survey, reported retail sales index	Feb	-7	-35	-50	-

Auctions









Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases
Economic data

Country		GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area		10.00	European Commission's economic sentiment index	Feb	96.6	96.2
		10.00	European Commission's final consumer confidence index	Feb	<u>-15.5</u>	-16.1
		10.00	European Commission's industrial (services) confidence index	Feb	-9.0 (9.0)	-9.3 (8.8)
Italy		09.00	ISTAT business (manufacturing) index	Feb	- (88.7)	98.1 (88.3)
		09.00	ISTAT consumer confidence index	Feb	97.0	96.4

Auctions and events

Euro area		13.00	ECB President Lagarde participates in two-day meeting of G20 finance ministers and central bank governors		
Germany		10.30	Auction: €1.0bn of 1% 2038 bonds		
		10.30	Auction: €500mn of 3.25% 2042 bonds		
Italy		10.00	Auction: €3.75bn of 3.35% 2029 bonds		
		10.00	Auction: €4.5bn of 3.85% 2034 bonds		
		10.00	Auction: €1.5bn of 2031 floating-rate bonds		
UK		10.00	Auction: £4bn of 4% 2031 bonds		
		15.30	BoE MPC member Mann scheduled to speak		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

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