

Euro wrap-up

Overview

- While the German ifo survey flagged an improved business climate at end-Q1, Bunds made gains as Bundesbank President Nagel suggested that rates could possibly be cut in June.
- Gilts also made gains as UK retail sales were unchanged in February, and the GfK survey suggested a decline in purchase intentions in March.
- The coming week will bring the Commission's economic sentiment surveys, ECB bank lending figures and flash March inflation estimates from France, Italy and Spain.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/26	2.817	-0.051
OBL 2.1 04/29	2.328	-0.074
DBR 2.2 02/34	2.322	-0.080
UKT 0½ 01/26	4.114	-0.046
UKT 0½ 01/29	3.812	-0.058
UKT 4½ 01/34	3.928	-0.065

*Change from close as at 4:00pm GMT.
Source: Bloomberg

Euro area

Ifo survey flags improvement in German business climate at end-Q1

Broadly tallying with the larger-than-expected pickup in the German [composite PMI](#) reported yesterday, today's ifo business survey results suggested a welcome improvement in economic conditions in the euro area's largest member state in March. Indeed, the headline business climate index rose more than 2.0pts – the most in more than two years and significantly more than expected – to a nine-month high of 87.8. As suggested by the [ZEW investor survey](#), there was a significant increase in optimism regarding the coming six months, with the ifo expectations index up the most in six months to a ten-month high. And while the pickup in the current conditions index was more modest, it still represented the biggest improvement in a year and took it to a four-month high. Despite the increases in the headline ifo indices, however, they still suggest that pessimists continue to outnumber optimists in Germany's business community. And with the average business climate index down 0.6pt from the Q4 average, like the flash PMIs, the ifo survey points to the likelihood of another quarter of negative German GDP growth this quarter. However, the improved momentum at the end of Q1 should translate into a return to positive economic growth in Q2.

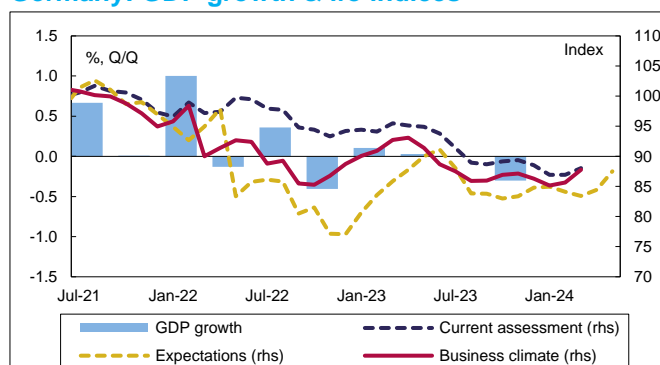
A broad-based turn for the better according to the ifo indices

While the flash PMIs suggested that the pickup in activity at the end of Q1 was driven principally by services, the ifo survey reported a broader-based turn for the better, which is likely being driven by firmer consumer spending. Indeed, despite a further deterioration in new orders in the sector and consistent with a significant pickup in the truck toll mileage index this month, the manufacturing business climate index rose the most in the three years to a nine-month high. In addition, the equivalent index for wholesalers and retailers rose the most in 33 months to a four-month high. Despite a more modest rise, the headline construction index was similarly the best in four months. However, while the outlook for the coming six months in construction was judged to have improved from last month's series low, firms in that sector remained very downbeat by historical standards. Indeed, consistent with the PMIs, services is the only sector where the optimists outnumber the pessimists, with the respective index rising to the highest since July. Encouragingly, however, the improvement within the services sector appears relatively broad-based, with the ifo institute reporting that firms in logistics, transport and hospitality are all more upbeat.

The coming week in the euro area

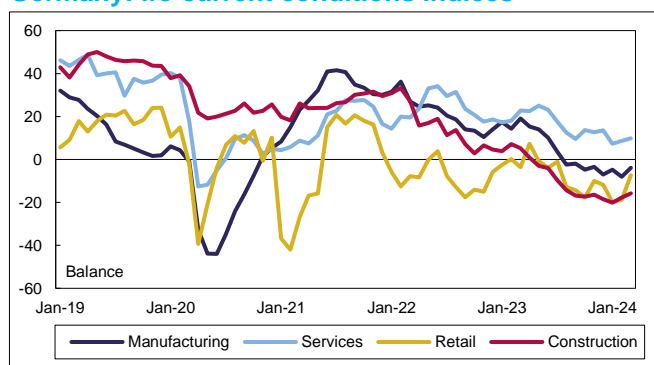
The coming week will bring a number of top-tier releases from the euro area, including the Commission's March business and consumer surveys (Wednesday) and February bank lending figures (Thursday), as well as preliminary March inflation

Germany: GDP growth & ifo indices*



*Expectations index has 2-month lead. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo current conditions indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

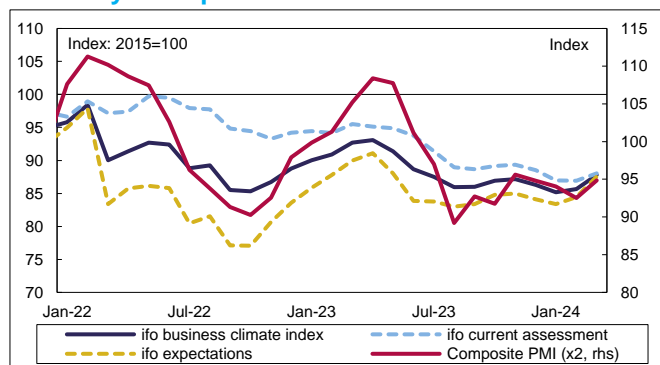
estimates from various member states including France, Italy (both Friday) and Spain (Wednesday). Like yesterday's [flash PMIs](#), the Commission's economic sentiment indicator (ESI) – arguably the best guide to euro area GDP growth – is likely to signal ongoing modest recovery momentum at the end of Q1. Admittedly, the ESI slipped back in February to remain some 4½% below the long-run average. But this still left it trending 0.9pt above the Q4 average and therefore consistent with a return to modest positive GDP growth in Q1. The country ESIs, however, are likely to imply ongoing divergences in conditions across the region, with contraction in Germany – reflecting persisting challenges in manufacturing and construction – contrasting with an accelerated rate of growth in Spain. Meanwhile, the latest bank lending figures will further illustrate the dampening impact of high borrowing costs on loan demand, while declining deposit holdings will continue to keep money supply growth firmly in negative territory, signalling ongoing soft economic growth and low inflation. The March consumer price figures might well be exaggerated by the relatively early timing of Easter this year, as well as base effects associated with the ongoing gradual withdrawal of energy support measures. Indeed, while the French headline HICP rate is forecast to fall a further 0.3ppt to 2.9%Y/Y, Italian HICP inflation is expected to have increased 0.6ppt to a still-low 1.4%Y/Y, while Spanish inflation is forecast to rise back above 3%Y/Y. Other releases due in the coming week include German retail sales figures for February and unemployment numbers for March (both Thursday).

UK

Retail sales pause in February but on track to provide a boost to Q1 GDP

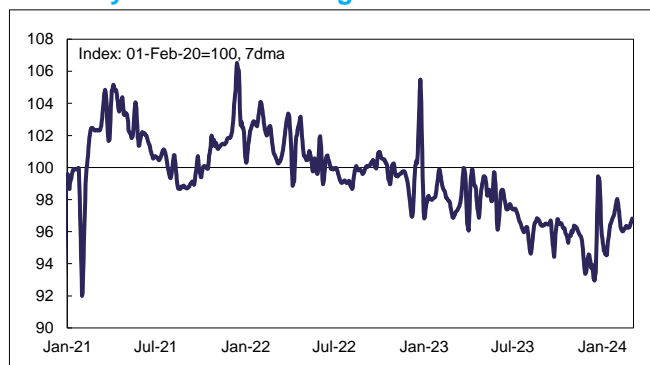
While today's retail sales figures for February beat expectations, they suggested that consumer spending on goods remained relatively lacklustre amid ongoing caution in the face of economic uncertainties, high borrowing costs and slowing nominal wage growth. In particular, sales merely moved sideways in February to leave them down 0.4%Y/Y. When excluding fuel – which fell 1.3%M/M as petrol prices rose for the first month in four – sales eked out a modest rise (0.2%M/M). Moreover, the pause last month followed an upwardly revised rebound at the start of the year, when sales jumped 3.6%M/M, the most since March 2021. So, while total sales were still down on a three-month basis (-0.4%) for a sixth consecutive month, they were trending some 1.7% above the Q4 average suggesting a non-negligible positive contribution to GDP growth in Q1 for just the second quarter since Q221. Within the detail, clothing store sales rose (1.7%M/M) for the first month in three as new collections and seasonal promotions encouraged consumers. Department and other non-food store sales also rose for a second successive month in February. But retailers of household goods fell (-1.0%M/M), with reports that poor weather and the general economic climate dampened demand. And despite easing price pressures, the wet weather also reduced footfall at food stores, where sales fell for a second month out of three. However, this was offset by firmer online sales, which rose at the fastest pace (2.1%M/M) since last July.

Germany: Composite PMI & ifo indices



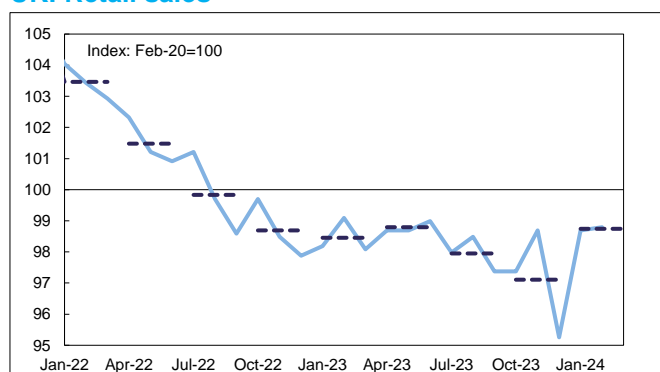
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Truck toll mileage index



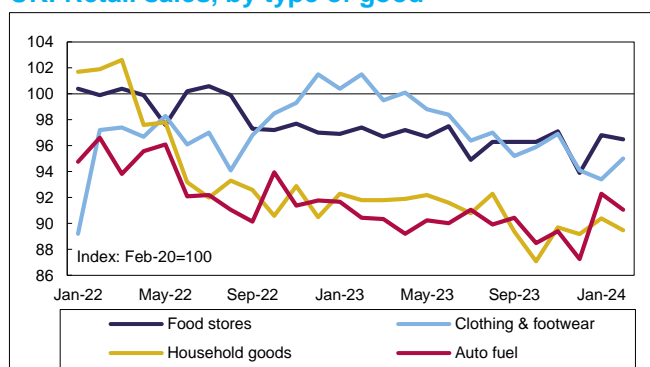
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales*



*Dashed dark blue lines represent quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales, by type of good



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

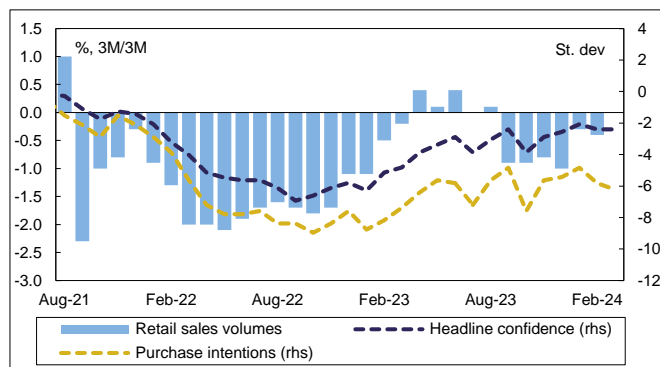
Spending intentions remain subdued despite higher expectations for personal finances

Today's GfK consumer confidence survey fell slightly short of expectations, suggesting that households will remain frugal with their spending for the time being despite the anticipated boost to real disposable incomes from easing price pressures, the 12% drop in the household energy price cap from April and a further cut to national insurance contributions that month. In particular, the headline confidence indicator moved sideways in March at -21, some 15pts below the average in the five years before the pandemic. Admittedly, this remains close to the top of the recent range and 5pts above the Q4 average. The stalling recovery in sentiment partly reflects a downgrade to backward-looking perceptions of economic conditions over the past twelve months, with the respective index falling back to a four-month low. In contrast, households were more upbeat about the twelve-month outlook for their own financial situation, with the respective index the highest since November 2021 and broadly in line with the long-run average. And households' saving intentions also fell to a four-month low, which would normally tally with a pick up in spending intentions. However, the share of households considering it a good time to make major purchases actually fell in March to the lowest in five months. And with the CBI industrial trends survey today suggesting that manufacturers plan to raise prices by the most since last May – due to increased cost burdens reflecting higher oil prices and shipping costs due to events in the Red Sea – we expect consumer spending on goods to remain relatively subdued going forward, with the likely boost to GDP in Q1 unlikely to be repeated in Q2.

The coming week in the UK

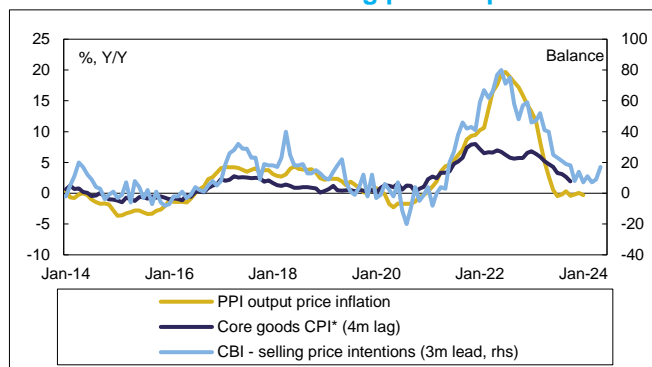
Ahead of the Easter break, the coming days will be particularly quiet for UK data releases. The CBI distributive trades survey (due Monday) will offer further insights into retail conditions in March. While the headline sales balance remained in negative territory in February, it was nevertheless the highest for ten months. And the improvement in households' financial expectations, easing price pressures and better weather might well have brought a further modest pickup in sales this month. The only other release of note will be updated national accounts figures for Q4 (Thursday), which are expected to confirm that GDP contracted 0.3%Q/Q last quarter, to leave it output down 0.2%Y/Y. The previous estimate saw net trade provide a significant drag (-0.6ppt) offsetting a pickup in fixed investment (+0.3ppt). Given the deterioration in the trade balance, the current account deficit – to be published for the first time – is expected to have widened in Q4 (from £17.2bn in Q3), albeit likely remaining less than half the series high recorded in Q322. Aside from the data, the BoE's latest Financial Policy Committee meeting summary and record will be published on Wednesday.

UK: Retail sales & consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.










UK: Goods inflation & selling price expectations



*Non-energy industrial goods. Source: Macrobond and Daiwa Capital Markets Europe Ltd.








The next edition of the Euro wrap-up will be published on 27 March 2023

Daiwa economic forecasts

		2023	2024				2025			
		Q4	Q1	Q2	Q3	Q4	Q1	2023	2024	2025
GDP										
%, Y/Y										
Euro area		0.0	0.1	0.2	0.2	0.3	0.3	0.5	0.4	1.3
UK		-0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.2	1.0
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.7	2.7	2.4	1.9	2.5	2.1	5.4	2.4	1.8
Core HICP		3.7	3.1	2.2	1.9	2.4	1.8	4.9	2.4	1.7
UK										
Headline CPI		4.1	3.5	1.7	1.9	2.3	2.2	7.3	2.3	2.1
Core CPI		5.3	4.5	2.7	2.3	2.5	2.4	6.2	3.0	2.1
Monetary policy, %										
ECB										
Deposit Rate		4.00	4.00	3.75	3.50	3.00	2.50	4.00	3.00	2.25
Refi Rate		4.50	4.50	4.25	3.65	3.15	2.65	4.50	3.15	2.40
BoE										
Bank Rate		5.25	5.25	5.00	4.75	4.25	3.75	5.25	4.25	2.50

Source: Bloomberg, ECB, BoE 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	 ifo business climate index	Mar	87.8	85.9	85.5	85.7
	 ifo current assessment (expectations) index	Mar	88.1 (87.5)	86.8 (84.7)	86.9 (84.1)	- (84.4)
UK	 GfK consumer confidence	Mar	-21	-19	-21	-
	 Retail sales incl. auto fuels M/M% (Y/Y%)	Feb	0.0 (-0.4)	-0.4 (-0.8)	3.4 (0.7)	3.6 (0.5)
	 Retail sales excl. auto fuels M/M% (Y/Y%)	Feb	0.2 (-0.5)	-0.4 (-0.8)	3.2 (0.7)	3.4 (0.5)
	 CBI industrial trends, total orders (selling prices)	Mar	-18 (21)	-20 (19)	-20 (17)	-
Auctions						
Country	Auction					
Italy		sold: €2.75bn of 3.2% 2026 bonds at an average yield of 3.31%				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.













The coming week's data calendar

The coming few week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 25 March 2024					
Spain 	08.00	PPI Y/Y%	Feb	-	-3.8
UK 	11.00	CBI distributive trades survey, reported retail sales balance %	Mar	-	-7
Tuesday 26 March 2024					
Germany 	07.00	GfK consumer confidence index	Apr	-28.0	-29.0
Spain 	08.00	Final estimate - GDP Q/Q% (Y/Y%)	Q4	<u>0.6 (2.0)</u>	0.4 (1.9)
Wednesday 27 March 2024					
Euro area 	10.00	European Commission's economic sentiment indicator	Mar	96.1	95.4
	10.00	European Commission's industrial (services) confidence index	Mar	-9.8 (7.5)	-9.5 (6.0)
	10.00	European Commission's final consumer confidence index	Mar	<u>-14.9</u>	-15.5
France 	07.45	INSEE consumer confidence index	Mar	90	89
Spain 	08.00	Preliminary HICP (CPI) Y/Y%	Mar	3.3 (3.1)	2.9 (2.8)
	08.00	Retail sales Y/Y%	Feb	-	0.3
UK 	00.01	Lloyds business barometer	Mar	-	42
Thursday 28 March 2024					
Euro area 	09.00	M3 money supply Y/Y%	Feb	0.3	0.1
Germany 	07.00	Retail sales M/M% (Y/Y%)	Feb	0.4 (-0.8)	-0.4 (-1.5)
	08.55	Unemployment claims rate % (change '000s)	Mar	5.9 (10.0)	5.9 (11.0)
Italy 	09.00	ISTAT business (manufacturing) confidence index	Mar	- (87.6)	95.8 (87.3)
	09.00	ISTAT consumer confidence index	Mar	97.5	97.0
	11.00	PPI Y/Y%	Feb	-	-14.0
UK 	07.00	Final estimate - GDP Q/Q% (Y/Y%)	Q4	<u>-0.3 (-0.2)</u>	-0.1 (0.2)
	07.00	Current account balance £bn	Q4	-22.2	-17.2
Friday 29 March 2024					
France 	07.45	Preliminary HICP (CPI) Y/Y%	Mar	2.9 (2.7)	3.2 (3.0)
	07.45	PPI Y/Y%	Feb	-	-5.1
	07.45	Consumer spending M/M% (Y/Y%)	Feb	0.3 (-0.6)	-0.3 (-0.7)
Italy 	10.00	Preliminary HICP (CPI) Y/Y%	Mar	1.5 (1.3)	0.8 (0.8)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 25 March 2024		
Euro area	 10.00	ECB President Lagarde participates in a Climate and Environment Council meeting
UK	 14.15	BoE external MPC member Mann scheduled to speak
Tuesday 26 March 2024		
Euro area	 19.00	ECB Chief Economist Lane scheduled to speak
Germany	 10.30	Auction: 0.0% 2025 bonds
	 10.30	Auction: 2.3% 2033 bonds
UK	 10.00	Auction: £3bn of 4.5% 2028 bonds
Wednesday 27 March 2024		
Euro area	 09.00	ECB's Cipollone scheduled to speak on monetary policy
Germany	 10.30	Auction: €3bn of 2.4% 2030 bonds
Italy	 10.00	Auction: 2Y, 5Y, 7Y and 10Y bonds
UK	 10.30	BoE publishes Financial Policy Committee meeting minutes
Thursday 28 March 2024		
Euro area	 17.30	ECB's Villeroy scheduled to speak
Friday 29 March 2024		
Euro area/UK	 -	Public holiday in various member states – Good Friday

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.