

Euro wrap-up

Overview

- While the Commission survey signalled a return to very modest GDP growth in Q1, Bunds made gains as the survey's price expectations indices fell and ECB Governing Council member Cipollone suggested there should be scope to cut interest rates "swiftly".
- Gilts also made gains on a quiet day for top-tier UK data.
- Tomorrow will bring figures for euro area bank lending, German retail sales and unemployment, as well as updated UK Q4 national accounts data.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/26	2.817	-0.049
OBL 2.1 04/29	2.308	-0.060
DBR 2.2 02/34	2.287	-0.061
UKT 0½ 01/26	4.134	-0.033
UKT 0½ 01/29	3.811	-0.042
UKT 4½ 01/34	3.928	-0.041

*Change from close as at 4:45pm GMT.
Source: Bloomberg

Euro area

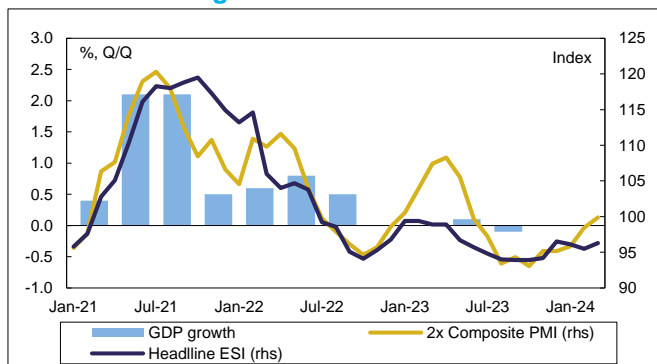
Commission survey adds to evidence of return to very modest growth in Q1

The Commission economic sentiment indices (ESIs), which often provide the most reliable guide to GDP growth in the region, added to evidence that the euro area economy returned to a modest expansion at the start of the year. However, the rise of 0.8pt in the headline ESI in March to 96.3 took it merely to a three-month high, still some way below the long-run average (100). And while the average for Q1 (96.0) was more than 1pt above the figure for Q423 when euro area GDP was unchanged on the quarter, it was also more than 1pt below the average for Q223 when economic output grew a paltry 0.1%Q/Q. The ESIs for each of the three largest member states also improved in March, with the French indicator rising to a 19-month high and the Italian index matching the highest since May. But while the quarterly average ESIs for most member states increased significantly from Q423, the German indicator fell to its lowest level since the first wave of Covid-19, providing a reminder that GDP in the euro area's largest member state contracted in Q124. Overall, given today's results, we maintain our forecast that euro area GDP rose 0.1%Q/Q in Q124. That would be in line with the ECB's projection made earlier this month, and thus allow the Governing Council to maintain a measured approach, focused on the outlook for wages, profit margins and inflation, in determining when to cut rates for the first time this cycle. Among the member states, we project that German GDP contracted 0.2%Q/Q in this quarter, only marginally less than in Q4. But France (0.2%Q/Q), Italy (0.1%Q/Q) and Spain (0.3%Q/Q) should have all registered positive growth this quarter.

Survey detail signals likelihood of only gradual improvement ahead

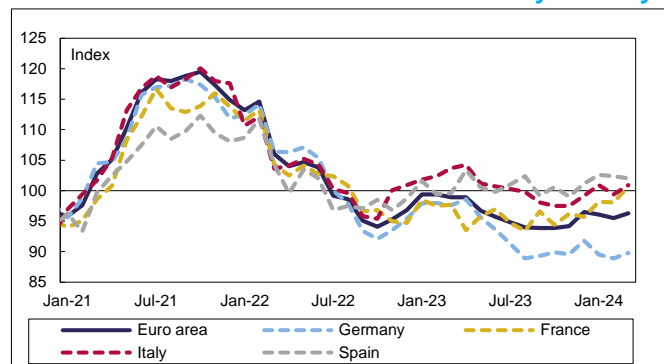
The detail of the Commission's survey pointed to only very gradual improvement across most sectors at the end of Q1. While the industry ESI improved slightly more than expected to a six-month high, it was still consistent with pessimism. And although manufacturing firms suggested that new orders were not falling quite as markedly as before and inventories were not quite as excessive as last month, they revised down somewhat their near-term production outlook. In addition, the improvement registered in services was less than expected and left overall sentiment and expected demand in the sector some way below the respective levels at the turn of the year. With the sales outlook revised down slightly, the rise in retail confidence failed to fully to reverse the drop in February. And construction sector sentiment weakened to the lowest since 2020 amid a further weakening in new orders. Moreover, overall firms' employment expectations and the survey's labour hoarding indices remained broadly stable and down on recent highs in all sectors. Admittedly, thanks to a significant further improvement in household perceptions of the outlook for their own finances, the improvement in consumer confidence to the highest level since the Russian invasion of Ukraine was confirmed. However, households were not quite as optimistic about the broader economic outlook for the coming twelve months as they had been at the turn of the year. And household willingness to make major purchases over the coming twelve months merely matched the highest level since last June.

Euro area: GDP growth & sentiment indices



Source: Macrobond, EC, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Economic sentiment indices by country



Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

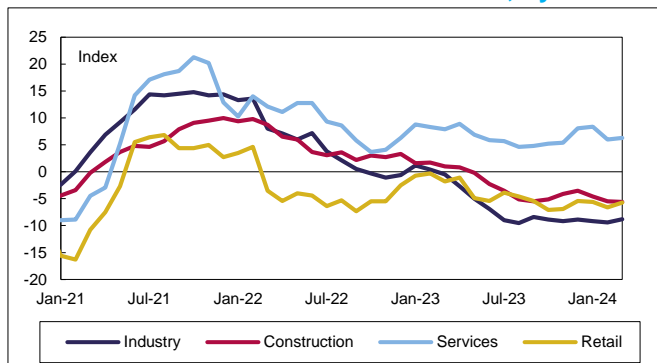
Selling price expectations restrained by subdued demand

Today's survey was also on the whole more encouraging with respect to the near-term inflation outlook. Certainly, ECB officials will welcome a further easing in selling price expectations in services, with the respective index in March falling to its lowest level since September and the second-lowest in 2½ years, albeit suggesting that price pressures still remain elevated in the sector by historical standards. While also above the long-run average, retail price expectations fell to the lowest level for almost three years as retailers anticipated an ongoing downtrend in sales. And subdued demand continued to restrict pricing power among construction firms too, with selling price expectations further below the long-run average to the lowest level since early 2021. In contrast, today's survey offered some hints of price pressures in the manufacturing sector arising from shipping delays and additional freight costs due to the rerouting of ships from the Red Sea, with the respective selling-price expectations index rising to its highest since last May (5.6). But this was still below the long-run average and well down from the spike in 2022 (60.2). And while consumer price expectations were still above the average of the past year, policymakers might be encouraged to see that the respective index for the coming twelve months eased back in March (12.3), falling back below the average in the five years before the pandemic to suggest that inflation expectations are now re-anchoring with the ECB's inflation target.

Spanish inflation ticked slightly higher, but core inflation maintained a downwards path

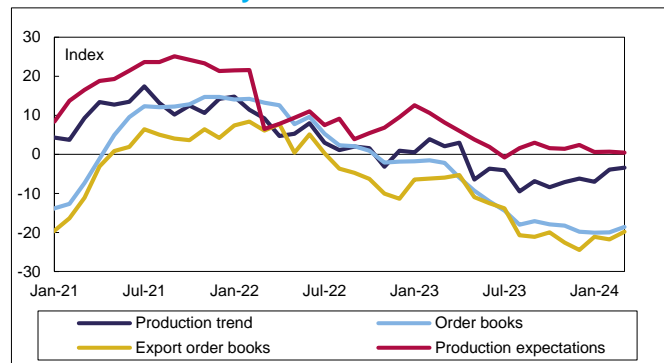
Of course, the near-term inflation outlook remains somewhat uncertain, not least due to the impact of the gradual withdrawal of government support measures. Such effects were evident in the flash March inflation estimates from Spain – the first to be published among the member states – which ticked slightly higher this month. But the increase on the EU harmonised HICP measure was smaller than forecast, up 0.3ppt to 3.2%Y/Y, with the national CPI rate up 0.4ppt to 3.2%Y/Y, both still below the average of 2023 (3½%Y/Y) and peak in 2022 (10.8%Y/Y). While we will have to wait for the final data for the official breakdown, Spain's statistical office INE today noted that the upwards impulse was principally due to higher electricity prices related to a rise in VAT on energy bills that month, and increased fuel prices, with weekly petrol figures published so far suggesting an increase of 1.8%M/M. But these effects were partly offset by lower food inflation, with prices rising less this year than last. And so, while the ongoing downtrend in core inflation (which on the national measure excludes fresh foods and energy) may partly reflect developments in processed foods, it nevertheless eased a further 0.2ppt to 3.3%Y/Y, the lowest reading since February 2022, raising hopes of a further easing in underlying price pressures. Admittedly, the near-term inflation outlook remains clouded by the gradual withdrawal of the government's support measures, with the special electricity tax set to rise at the start of April and again in July, while a reduced VAT rate on certain food items will expire at the end of June. And so, Spanish inflation will remain volatile for the time being.

Euro area: Economic sentiment indices, by sector



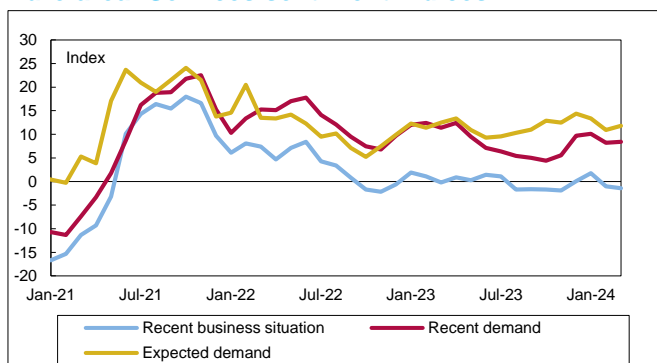
Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

Euro area: Industry sentiment indices



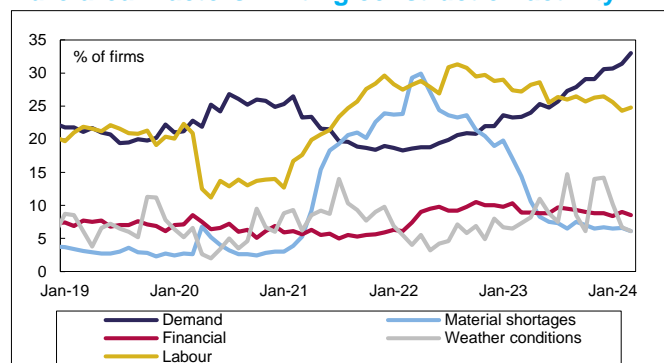
Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

Euro area: Services sentiment indices



Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

Euro area: Factors limiting construction activity



Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

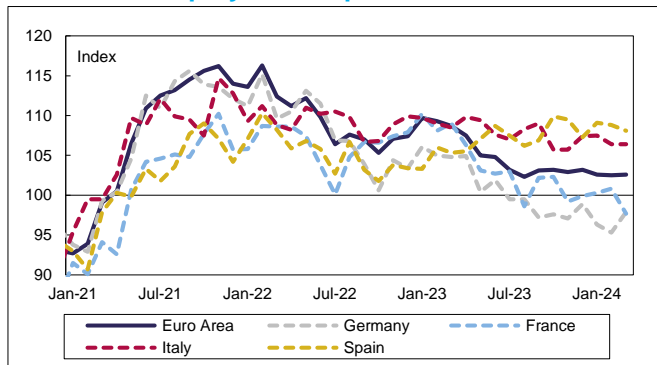
A key focus in the euro area tomorrow will be the release of the ECB’s latest bank lending figures for February, which will further illustrate the dampening impact of high borrowing costs on loan demand from both households and businesses. Declining sight deposit holdings will continue to keep money supply growth firmly in negative territory, consistent with soft economic growth and low inflation. Thursday will also bring the latest German retail sales and labour market figures. Unemployment claims are expected to have risen for a fifteenth consecutive month in March, albeit leaving the jobless claims rate unchanged at 5.9%. But with the latest German GfK consumer confidence survey suggesting that household purchase intentions remain historically low, we suspect that any rebound in retail spending in February following two consecutive monthly declines will be limited. Meanwhile, following today’s Spanish figures, and ahead of the equivalent releases from France and Italy on Friday, tomorrow will also bring flash March HICP estimates from Belgium and Portugal.

UK

The day ahead in the UK

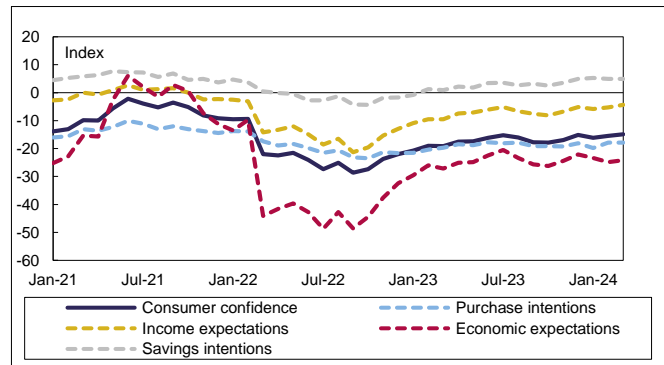
Following a quiet few days for top-tier UK economic data, tomorrow will bring updated national accounts figures for Q4, which are expected to confirm that GDP contracted 0.3%Q/Q last quarter, to leave output down 0.2%Y/Y. The previous estimate saw net trade provide a significant drag (-0.6ppt) offsetting 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.

Euro area: Employment expectations indices



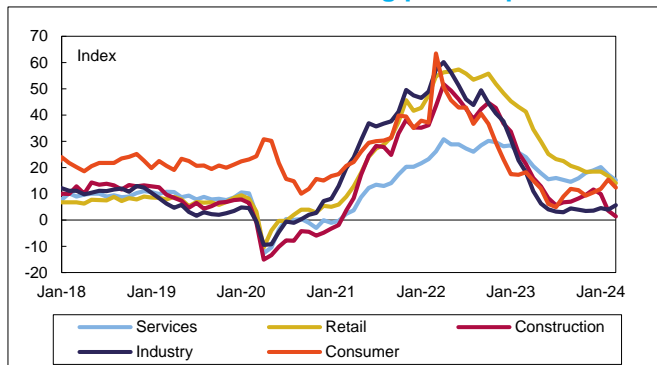
Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer confidence



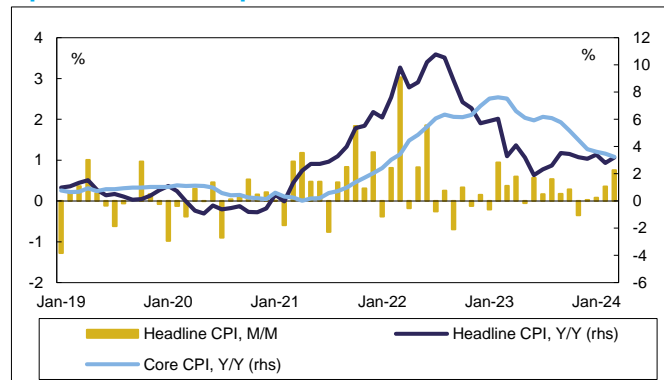
Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer & selling price expectations*



*Three months ahead for firms, twelve months ahead for consumers.
Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

Spain: Consumer price inflation










Source: Macrobond 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	 European Commission's economic sentiment indicator	Mar	96.3	96.2	95.4	95.5
	 European Commission's industrial (services) confidence index	Mar	-8.8 (6.3)	-9.8 (7.5)	-9.5 (6.0)	-9.4 (-)
	 European Commission's final consumer confidence index	Mar	-14.9	<u>-14.9</u>	-15.5	-
France	 INSEE consumer confidence index	Mar	91	90	89	90
Spain	 Preliminary HICP (CPI) Y/Y%	Mar	3.2 (3.2)	3.3 (3.1)	2.9 (2.8)	-
	 Retail sales Y/Y%	Feb	1.9	-	0.3	0.5
UK	 Lloyds business barometer	Mar	42	40	42	-





Auctions

Country	Auction
Germany	 sold €2.46bn of 2.4% 2030 bonds at an average yield of 2.3%
Italy	 sold €3.5bn of 3.35% 2029 bonds at an average yield of 3.21%
	 sold €1.25bn of 3.85% 2029 bonds at an average yield of 3.24%
	 sold €3.5bn of 3.85% 2034 bonds at an average yield of 3.67%
	 sold €1.5bn of 2031 floating rate bonds at an average yield of 5.1%




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Results for Monday and Tuesday

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Monday 25 March 2024						
Spain	 PPI Y/Y%	Feb	-8.2	-8.2	-3.8	-3.9
UK	 CBI distributive trades survey, reported retail sales balance %	Mar	2	-14	-7	-
Tuesday 26 March 2024						
Germany	 GfK consumer confidence index	Apr	-27.4	-28.0	-29.0	-28.8
Spain	 Final estimate - GDP Q/Q% (Y/Y%)	Q4	0.6 (2.0)	<u>0.6 (2.0)</u>	0.4 (1.9)	-









Auctions

Country	Auction
Monday 25 March 2024	
- Nothing to report -	
Tuesday 26 March 2024	
Germany	 sold €915mn of 0.0% 2025 bonds at an average yield of 2.92%
	 sold €943mn of 2.3% 2033 bonds at an average yield of 2.3%
UK	 sold £3bn of 4.5% 2028 bonds at an average yield of 3.928%

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 	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	- (87.8)	95.8 (87.3)
	09.00	ISTAT consumer confidence index	Mar	97.6	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	-21.4	-17.2

Auctions and events

Euro area  17.30 ECB's Villeroy scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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