Euro wrap-up

Overview

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

- Despite a downside surprise to German retail sales and subdued euro area bank lending, shorter-dated Bunds made modest losses as German negotiated wage growth accelerated sharply.
- Shorter-dated Gilts also made modest losses even as updated UK national accounts confirmed a technical recession in H223.
- The coming week will bring the flash euro area inflation estimates for March, ECB and BoE inflation expectations surveys and the ECB's account from the March Governing Council meeting.

Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/26	2.837	+0.018
OBL 2.1 04/29	2.313	+0.003
DBR 2.2 02/34	2.291	+0.001
UKT 0⅛ 01/26	4.149	+0.016
UKT 0½ 01/29	3.818	+0.006
UKT 4⅝ 01/34	3.929	-0.001

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

Euro area

German retail sales weakness underscores likelihood of negative GDP growth in Q1

Having declined in each of the previous three months, German retail sales volumes were widely expected to rebound somewhat in February. However, in marked contrast to that consensus view, according to today's initial estimate, sales on an adjusted basis dropped a steep 1.9%M/M, the most in sixteen months. While they were up 1.7%Y/Y on an unadjusted basis, that reflected the extra working day related to the leap year. And adjusted sales volumes were down 1.2%3M/3M, the most in a year, with the average level in the first two months of Q1 down 1.6% from the Q4 average. With retail prices broadly stable, in nominal terms, sales were similarly trending 1.3% below the Q4 level. So, while a pickup in March might be expected, sales have almost certainly dropped over Q1 as a whole, consistent with the still low level of survey measures of consumer willingness to buy. And that reinforces our expectation that German GDP in Q1 contracted for a second successive quarter.

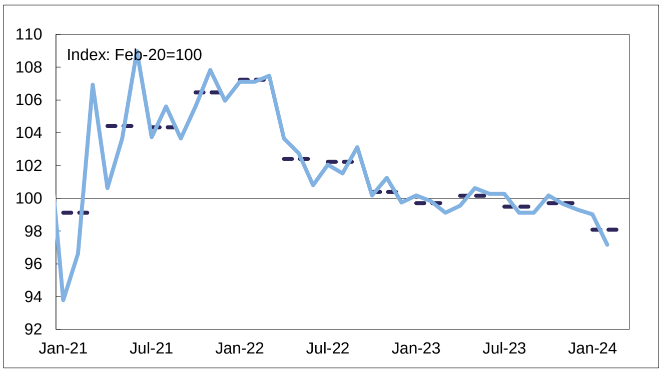
German labour market continues to loosen only gradually, while negotiated wage growth jumps

While German economic activity remains in reverse gear, the labour market continues to loosen only gradually as a large share of firms still appear happy to hoard workers through the downturn. Indeed, German jobless claims rose just 4k in March to leave the associated rate unchanged for a fourth month at 5.9%. While that was 0.3ppt higher than a year earlier and 0.9ppt above the level in February 2020, it was still broadly in line with the average in the six years before the pandemic. And although the number job vacancies continued to decline – by a further 6k to 720k – to the lowest since July 2021, they still remain some 60k higher than the average in the first two years of the pandemic. Despite slowing demand, some ECB policymakers might be alarmed to see a notable pickup in the latest German negotiated wage growth this month, which jumped 3.9ppts to 9.7%Y/Y amid a surge in one-off payments. When excluding such payments, negotiated wage growth also rose 2.5ppts to 4.4%Y/Y, the highest since the series began in 2011. But smoothing for monthly volatility, negotiated wage growth on a six-month basis was only marginally higher at 2.5%6M/Y.

Bank lending remains subdued despite modest improvement in February

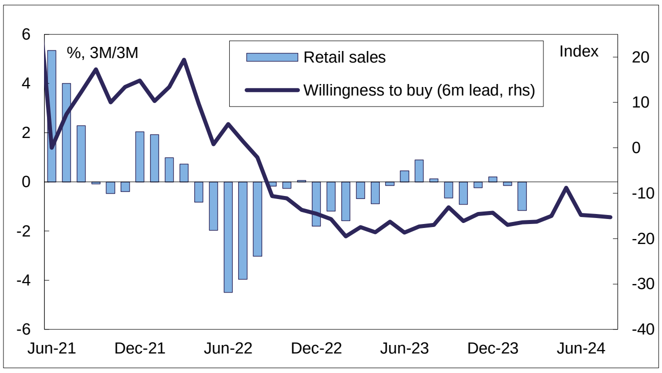
With household and business demand soft and borrowing rates at the highest levels since before the global financial crisis, bank lending inevitably remains subdued in the euro area. Admittedly, net new lending to NFCs (adjusted for sales and securitisations) rose in February by €6.2bn, supported by the largest net increase in longer-dated loans (€6.7bn) since last August, perhaps suggestive of some renewed appetite for business investment. This notwithstanding, the annual growth in the stock of loans with a maturity of more than five years was still extremely weak at 0.8%Y/Y. And with the stock of short-dated loans (those with a maturity of up to one year) continuing to decline, growth in the overall stock of loans to NFCs stood

Germany: Retail sales*



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

Germany: Retail sales & purchase intentions



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

at just 0.4%Y/Y, with the equivalent rates deeply in negative territory in Italy (-4.1%Y/Y) and Spain (-3.0%Y/Y) but modestly positive in Germany (1.0%Y/Y) and France (2.2%Y/Y). Likewise, at face value, the monthly flow of loans to households on an adjusted basis was more positive in February, with the rise of €4.1bn the strongest since March. Nevertheless, the annual growth rate in the stock of loans to households merely moved sideways at a paltry 0.3%Y/Y, the joint-lowest since March 2015. As with business lending, the weakness was most marked in Italy (-1.3%Y/Y) and Spain (-1.6%Y/Y), with modest growth in Germany (0.5%Y/Y) and France (0.9%Y/Y) nevertheless the softest since 2010 and since the series began in 2004 respectively. Despite a modest increase in the net flow of lending for house purchase in February, growth in the outstanding stock remained at -0.1%Y/Y, the lowest for six years, tallying with continued weakness in the residential property market. In contrast, growth in consumer credit ticked slightly higher to 2.8%Y/Y, the firmest for five months.

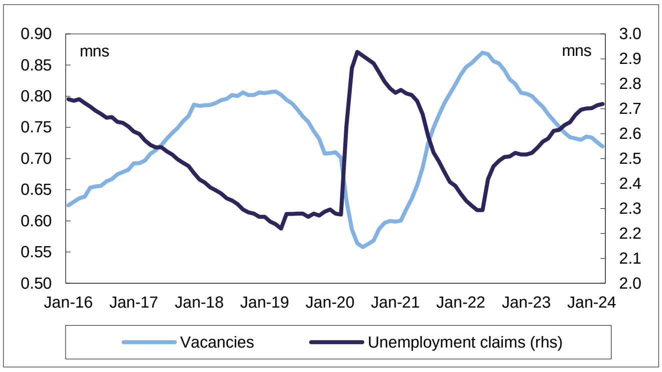
Money supply remains subdued despite pickup in deposits, consistent with soft growth & inflation

Meanwhile, euro area bank deposits rose for a third month out of the past four in February (€33bn). But following the record monthly outflow at the start of the year (€77bn), this still left them down 0.3%Y/Y. And unsurprisingly, there was a further net outflow from sight deposits by households and NFCs alike, to leave them down a steep 8.8%Y/Y, albeit 1.1ppts above October's trough. This was countered by a further net inflow into higher-yielding time accounts with an agreed maturity of up to two years, perhaps reflecting expectations that new deals will become less favourable as the ECB starts to cut rates. Given the slight increase in deposits, the annual growth in M3 money supply edged marginally higher, by 0.3ppt to 0.4%Y/Y. But while the pace of decline in the narrower M1 measure, which excludes time deposits, also moderated 0.9ppt, it remained historically weak at -7.7%Y/Y, consistent with soft economic growth and low inflation.

The week ahead in the euro area

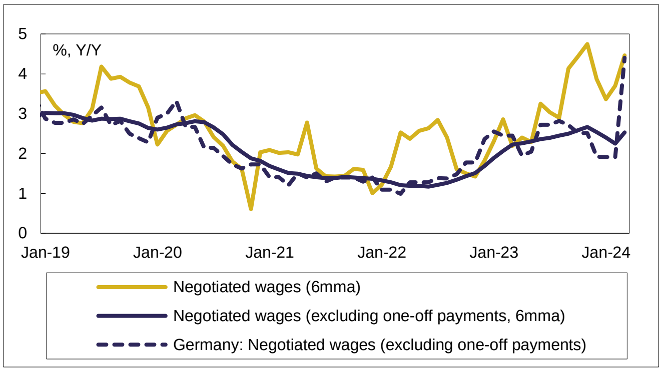
After the Easter break, the main focus in the euro area in the coming week will be flash March inflation estimates on Wednesday. But due to base effects associated with the withdrawal of various government support measures as well the relatively earlier timing of Easter this year that could exaggerate price pressures, uncertainties surrounding this release are high. On balance, we think headline inflation moved sideways in March at 2.6%Y/Y to remain some 0.2ppt above November's 2½-year low but nevertheless 8ppts below the peak in October 2022. While remaining a modest drag on headline inflation, energy will likely provide a further modest upwards impulse compared with February due to the ongoing withdrawal of government energy support and rise in petrol prices. Non-energy industrial goods inflation is also expected to have edged a touch higher from February's 31-month low. But of most interest will be developments in services inflation, which we expect to have resumed a moderate downtrend for the first time in four months, to a 21-month low of 3.8%Y/Y. As a result, we forecast core inflation to drop slightly, by 0.1ppt to 3.0%Y/Y, which would be the lowest since February 2022. But data published so far from the member states – including Spain (up 0.3ppt to 3.2%Y/Y), Belgium (up 0.2ppt to 3.8%Y/Y) and

Germany: Unemployment & vacancies



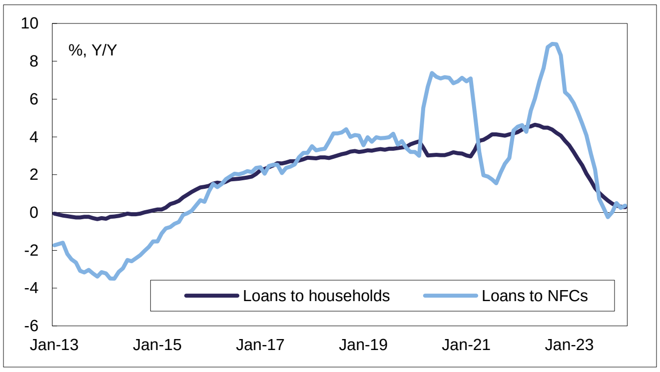
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Negotiated wage growth



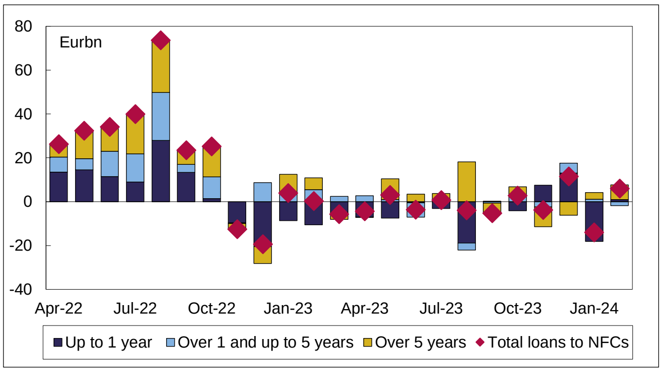
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loans to households & NFCs



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loans to NFCs



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Portugal (up 0.3ppt to 2.6%Y/Y), suggest that risks might be skewed slightly to the upside. Ahead of the aggregate release, inflation numbers from Germany (Tuesday), France and Italy (both tomorrow) will be closely watched. Meanwhile, the ECB's consumer expectations survey (Tuesday) and goods PPI data (Thursday) both for February will offer further insight into the euro area's inflation outlook.

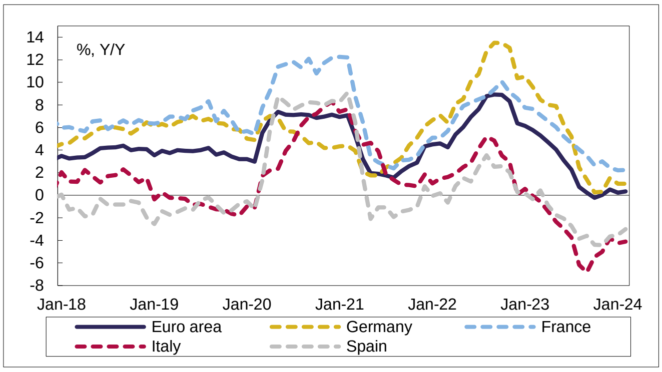
In terms of other euro area releases, unemployment figures for February (Wednesday) are likely to imply a still historically tight labour market, with the jobless rate expected to have moved sideways at a series-low 6.4%. Meanwhile, in line with today's German release, retail sales numbers for February (Friday) are likely to report ongoing weakness in demand as households remain cautious in their purchase intentions amid ongoing economic uncertainties. Among the member state releases, focus will turn to the manufacturing sector, with German factory orders and French industrial production data (both due Friday). German orders were particularly volatile around the turn of the year – with a double-digit decline in January following a double-digit rise in December. But overall, surveys remain consistent with shrinking industrial order books. Additionally, final PMI surveys for March – manufacturing (Tuesday), services (Thursday) and construction (Friday) – are also due. The preliminary release saw the composite index rise to a nine-month high of 49.9, suggesting economic stabilisation at the end of Q1. Aside from the data, the publication on Thursday of the account from the ECB's Governing Council meeting on 7 March will also be closely watched, with particular attention to be focused on policymakers' discussions on the pre-conditions required for a first rate cut.

UK

Updated national accounts confirm mild technical recession in H223

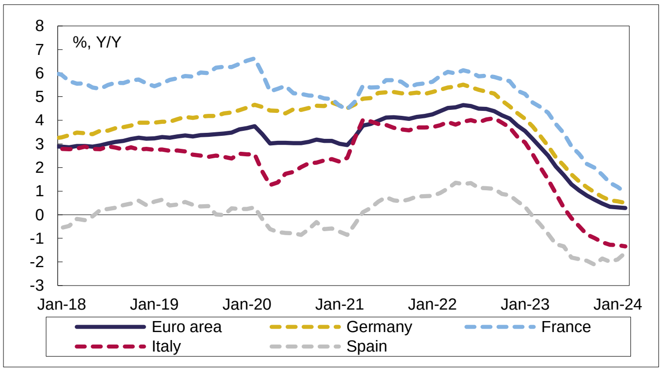
Today's updated UK national accounts figures provided a reminder of the recent woeful economic performance, confirming that GDP contracted for a second successive quarter in Q4 and by an unrevised 0.3%Q/Q, the most since Q121. So, they also confirmed the first technical recession since the global financial crisis when excluding the initial slump at the start of Covid-19. This left output down 0.2%Y/Y and just 1.0% higher than the pre-pandemic benchmark in Q419, with a weaker post-pandemic recovery only evident in Germany among the G7. And on a GDP per capita basis, the UK's performance has been even more lacklustre, having failed to grow in the last seven quarters, including a fall of 1.3% in the year to Q423, to be some 1.6% below the Q419 level. Today's figures also confirmed that household consumption declined slightly in Q4 (-0.1%Q/Q) as the savings ratio (10.2%) ticked up to its highest level since Q221. But contrasting the initial negative print, government spending is now estimated to have risen slightly (0.1%Q/Q). And although fixed investment was revised lower, it still marked the first rise in three quarters (0.9%Q/Q), with a firmer increase in business investment (1.4%Q/Q). Overall, final domestic demand added 0.2ppt to GDP growth. With the decline in imports and exports notably smaller than previously

Euro area: Loans to NFCs



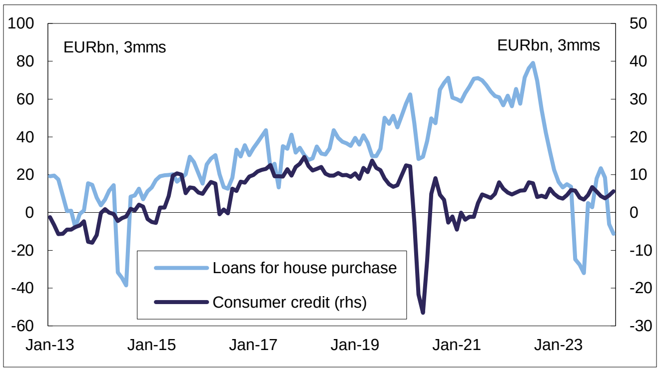
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loans to households



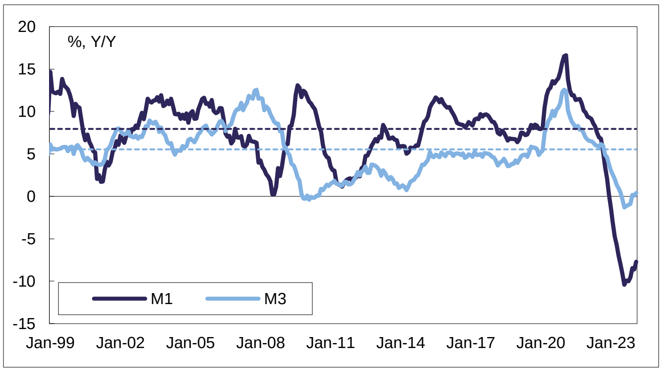
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loans to households



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Money supply*



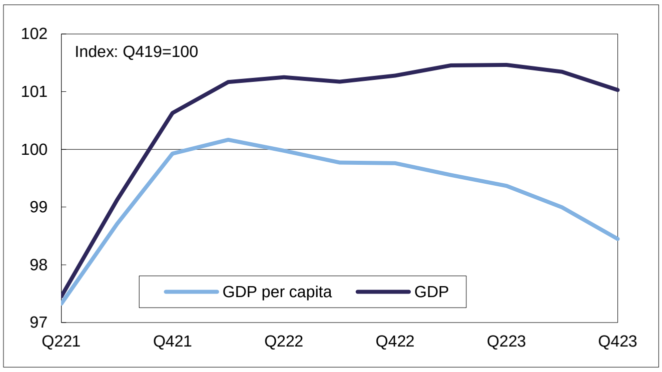
**Dashed lines represent long-run averages. Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

estimated, the drag from net trade was revised from 0.5ppt to 0.2ppt. But, as is often the case, that improvement was offset by a downward revision to inventories, which are now assessed to have been a drag (-0.3ppt) compared with a boost (0.2ppt) in the preliminary release. Given also the deterioration in the income account, the UK's current account deficit widened by 0.3ppt to 3.1% of GDP, with the underlying deficit (excluding precious metals) increasing 0.9ppt to 3.9% of GDP, some 1.7ppt higher than a year ago but nevertheless remaining some way below the pandemic high of 6.3% of GDP in Q122. the Given also a deterioration in.

The week ahead in the UK

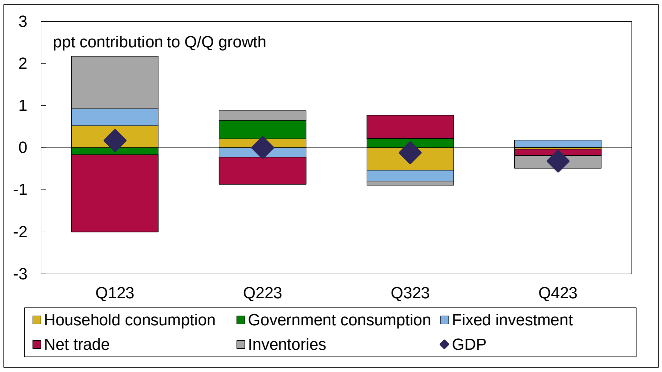
The coming week's UK data calendar kicks off with the BoE's latest bank lending figures on Tuesday. Like with today's euro area numbers, these are likely to suggest that subdued demand and high borrowing costs continued to weigh on private sector loan demand. Despite a recent improvement in housing market momentum – which should be illustrated in the Nationwide house price release (also Tuesday) – a pickup in mortgage approvals at the start of the year, and moderation in borrowing rates, net mortgage lending to individuals is expected to have declined for a third consecutive month in February. And while unsecured net lending is likely to remain above the pre-pandemic five-year average, it is expected to moderate slightly as consumer spending intentions remain relatively weak. Given subdued demand and the downtrend in goods price pressures, the BRC's measure of shop price inflation (Tuesday) is likely to have maintained a steady downtrend in March to it lowest rate for more than two years. Of more importance to the BoE's judgment for the inflation outlook will be the results of its latest Decision Maker Panel survey. In February, the survey suggested that firms' expectations for inflation three years ahead fell to the softest (2.8%3M/Y) since the series began, but also indicated that expectations for wage growth over the coming year remained sticky – at 5.2%3M/Y for a third consecutive month – above rates that would be consistent with achieving the 2% inflation target over the medium term. The final March PMI surveys – manufacturing (Tuesday), services (Thursday) and construction (Friday) are likely to remained consistent with a return to positive GDP growth in Q1.

UK: GDP & GDP per capita growth



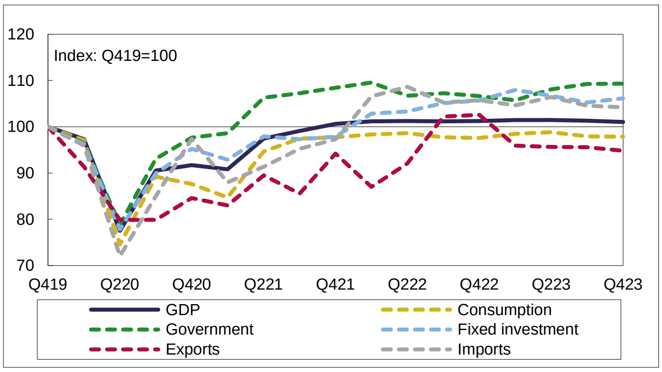
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Contributions to GDP growth



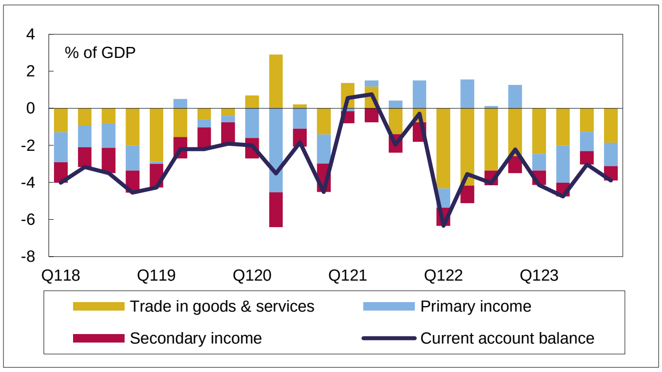
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: GDP expenditure components



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Current account balance



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 02 April 2024

Daiwa economic forecasts

	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 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	4.2	3.5	1.7	2.0	2.2	1.9	7.3	2.4	1.8
Core CPI	5.3	4.6	3.1	2.7	2.7	2.2	6.2	3.2	1.8
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/ <u>*Daiwa forecast*</u>	Previous	Revised
Euro area	M3 money supply Y/Y%	Feb	**0.4**	0.3	0.1	-
Germany	Retail sales M/M% (Y/Y%)	Feb	**-1.9 (1.7)**	0.4 (-0.8)	-0.4 (-1.5)	-0.3 (-1.3)
	Unemployment claims rate % (change '000s)	Mar	**5.9 (4.0)**	5.9 (10.0)	5.9 (11.0)	- (12.0)
Italy	ISTAT business (manufacturing) confidence index	Mar	**97.0 (88.6)**	- (87.8)	95.8 (87.3)	95.9 (87.5)
	ISTAT consumer confidence index	Mar	**96.5**	97.5	97.0	-
	PPI Y/Y%	Feb	**-14.2**	-	-14.0	-
UK	Final estimate - GDP Q/Q% (Y/Y%)	Q4	**-0.3 (-0.2)**	<u>*-0.3 (-0.2)*</u>	-0.1 (0.2)	-
	Current account balance £bn	Q4	**-21.2**	-21.4	-17.2	-18.5

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/ <u>*Daiwa forecast*</u>	Previous
France	07.45	Preliminary HICP (CPI) Y/Y%	Mar	2.8 (2.6)	3.2 (3.0)
	07.45	PPI Y/Y%	Feb	-	-5.1
	07.45	Consumer spending M/M% (Y/Y%	Feb	0.2 (-0.6)	-0.3 (-0.7)
Italy	10.00	Preliminary HICP (CPI) Y/Y%	Mar	1.5 (1.4)	0.8 (0.8)

Auctions and events

Euro area/UK	-	Public holiday in various member states – Good Friday

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's data calendar

The coming few week's key data releases

Country	BST	Release	Period	Market consensus/ *Daiwa forecast/actual*	Previous
Monday 01 April 2024					
- Public holiday -					
Tuesday 02 April 2024					
Euro area	09.00	ECB 1Y (3Y) CPI expectations Y/Y%	Feb	-	3.3 (2.5)
	09.00	Final manufacturing PMI	Mar	*45.7*	46.5
Germany	08.55	Final manufacturing PMI	Mar	*41.6*	42.5
	13.00	Preliminary HICP (CPI) Y/Y%	Mar	2.4 (2.2)	2.7 (2.5)
France	08.50	Final manufacturing PMI	Mar	*45.8*	47.1
	-	New car registrations* Y/Y%	Mar	-	13.0
Italy	08.45	Manufacturing PMI	Mar	49.0	48.7
	17.00	New car registrations Y/Y%	Mar	-	12.8
Spain	08.00	Unemployment change '000s	Mar	-	-7.5
	08.15	Manufacturing PMI	Mar	51.0	51.5
	-	New car registrations* Y/Y%	Mar	-	9.9
UK	00.01	BRC shop price index Y/Y%	Mar	-	2.5
	07.00	Nationwide house price index M/M% (Y/Y%)	Mar	0.3 (2.4)	0.7 (1.2)
	09.30	Final manufacturing PMI	Mar	*49.9*	47.5
	09.30	Net consumer credit £bn (Y/Y%)	Feb	1.6 (-)	1.9 (8.9)
	09.30	Net mortgage lending £bn (approvals '000s)	Feb	-0.6 (56.5)	-1.1 (55.2)
Wednesday 03 April 2024					
Euro area	10.00	Preliminary HICP (core HICP) Y/Y%	Mar	*2.6 (3.0)*	2.6 (3.1)
	10.00	Unemployment rate %	Feb	6.4	6.4
Thursday 04 April 2024					
Euro area	09.00	Final services (composite) PMI	Mar	*51.1 (49.9)*	50.2 (49.2)
	10.00	PPI Y/Y%	Feb	-8.5	-8.6
Germany	08.55	Final services (composite) PMI	Mar	*49.8 (47.4)*	48.3 (46.3)
	-	New car registrations* Y/Y%	Mar	-	
France	08.50	Final services (composite) PMI	Mar	*47.8 (47.7)*	48.4 (48.1)
Italy	08.45	Services (composite) PMI	Mar	52.5 (51.8)	52.2 (51.1)
Spain	08.15	Services (composite) PMI	Mar	55.0 (54.2)	54.7 (53.9)
UK	09.00	New car registrations Y/Y%	Mar	-	14.0
	09.30	BoE's DMP 3M output price (1Y-ahead CPI) expectations Y/Y%	Mar	-	4.3 (3.3)
	09.30	Final services (composite) PMI	Mar	*53.4 (52.9)*	53.8 (53.0)
Friday 05 April 2024					
Euro area	08.30	Construction PMI	Mar	-	42.9
	10.00	Retail sales M/M% (Y/Y%)	Feb	-0.2 (-0.3)	0.1 (-1.0)
Germany	07.00	Factory orders M/M% (Y/Y%)	Feb	0.5 (-10.3)	-11.3 (-6.0)
	08.30	Construction PMI	Mar	-	39.1
France	07.45	Industrial production M/M% (Y/Y%)	Feb	0.4 (0.2)	-1.1 (0.8)
	07.45	Manufacturing production M/M% (Y/Y%)	Feb	-	-1.6 (0.1)
	08.30	Construction PMI	Mar	-	41.9
Italy	08.30	Construction PMI	Mar	-	50.3
Spain	08.00	Industrial production M/M% (Y/Y%)	Feb	0.2 (-0.4)	0.4 (-0.6)
UK	09.30	Construction PMI	Mar	49.8	49.7

**Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

The coming week's key events & auctions

Country	BST	Event / Auction
		Monday 01 April 2024
Euro area/UK	-	Public holiday in various member states – Easter Monday
		Tuesday 02 April 2024
Germany	10.30	Auction: €4.5bn of 2.5% 2026 bonds
		Wednesday 03 April 2024
Germany	10.30	Auction: €4.5bn of 2.2% 2034 bonds
		Thursday 04 April 2024
Euro area	12.30	ECB publishes account of March policy decision
France	09.50	Auction: Fixed rate bonds
UK	09.30	BoE publishes monthly Decision Maker Panel data
	10.00	Auction: £3.75bn of 4.625% 2034 bonds
Spain	09.30	Auction: 3.50% 2029 bonds
	09.30	Auction: 3.25% 2034 bonds
	09.30	Auction: 3.90% 2039 bonds
	09.30	Auction: 2.05% 2039 index-linked bonds
		Friday 05 April 2024
		- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:
https://www.uk.daiwacm.com/ficc-research/recent-blogs