

Euro wrap-up

Overview

- While euro area bank lending growth continued to recover, Bunds made gains particularly at the short end as markets took stock of yesterday's announcement of new US tariffs on the autos sector.
- While the UK government suggested that it would not take retaliatory action against US auto tariffs, Gilts made losses at the longer end as markets continued to take stock of yesterday's fiscal policy announcements.
- Friday will bring flash estimates of French and Spanish inflation in March as well as the latest Commission sentiment survey and UK retail sales data.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.062	-0.051
OBL 2.4 04/30	2.371	-0.040
DBR 2½ 02/35	2.772	-0.021
UKT 3¾ 03/27	4.258	-0.011
UKT 4¾ 03/30	4.381	+0.016
UKT 4½ 03/35	4.782	+0.052

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

Euro area

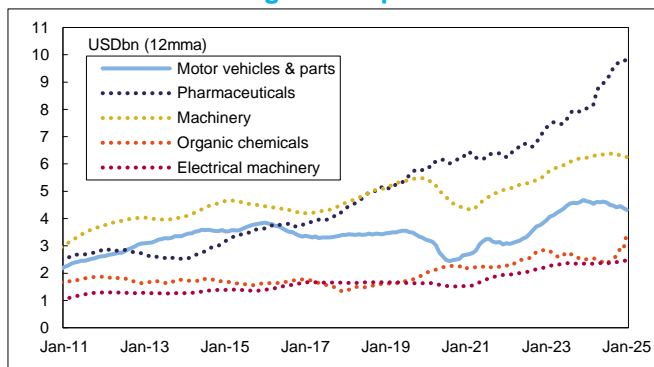
New tariffs hit euro area's third most important category of exports to the US

European markets today responded in measured fashion to yesterday evening's announcement of additional 25% tariffs on US imports of autos from 3 April and auto parts by 3 May. With the decision well telegraphed in advanced, the market adjustments were orderly and ultimately moderate. While the policy decision was merely an opening move ahead of next week's announcement of more wide-ranging reciprocal tariffs, and the EU and many other trading partners will retaliate in due course, the eventual steady-state tariff landscape obviously remains unclear. For the time being, we note that autos and associated parts account for the third largest share of euro area exports to the US, at roughly 10% in 2024, less than half the share accounted for by pharmaceuticals. And in marked contrast to the rapid growth in exports of pharmaceuticals from the euro area to the US – which in part reflects incentives provided by the US tax system – shipments of autos and parts in the same direction have recently been on a downtrend. Nevertheless, with European consumers having little appetite for US cars, autos and parts still account for almost 20% of the US's bilateral trade deficit with the EU.

Protracted dispute would increase probability that rate-cutting cycle extends into H2

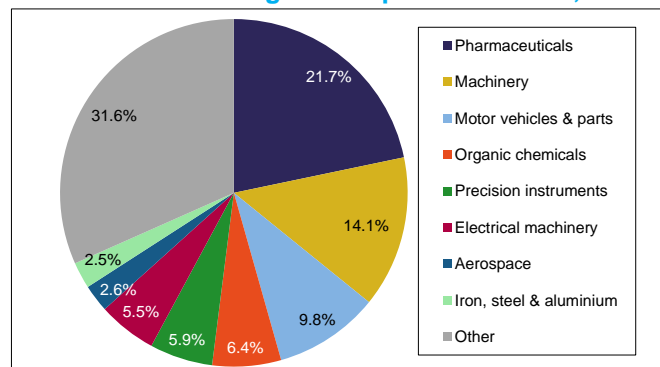
About two thirds of all cars and parts exported from the euro area to the US come from Germany, with Slovakia and Italy accounting for the next largest but much smaller shares. Those German shipments to the US accounted for a little more than 13% of German auto exports – compared to the share of almost 50% that is exported to the rest of the EU – and little more than 2% of German exports overall. And the three largest German auto manufacturers – BMW, Mercedes Benz and VW – already all have production facilities in the US. That might suggest that the trade barriers need not be a show-stopper for economic growth this year. Nevertheless, the auto tariffs hit a sector where, despite hopes that export demand has been turning for the better, confidence has recently remained particularly weak. And the trade barriers will undoubtedly weigh on economic activity in Germany and the euro area as a whole. The full extent of the direct hit to demand for autos and parts, as well as the wider impacts on confidence, consumption and investment, will depend on the detail of the reciprocal tariffs and retaliation. Should they remain in place for the foreseeable future, we would knock about ¼ppt off our German and euro area GDP forecasts for this year. A lasting and more extensive trade war affecting a wider range of goods might subtract about twice as much from growth. The ECB would also need to take into account any inflationary impact from retaliatory tariffs in its policy discussions. But while our baseline forecast currently anticipates just one further rate cut this year at the June Governing Council meeting, a protracted dispute would undoubtedly increase the likelihood that rates would continue to be cut beyond the summer, justifying today's rally in shorter-dated euro area govies.

Euro area: Selected goods exports to the US



Source: US Census Bureau, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Share of goods exports to the US, 2024



Source: US Census Bureau, Macrobond and Daiwa Capital Markets Europe Ltd.

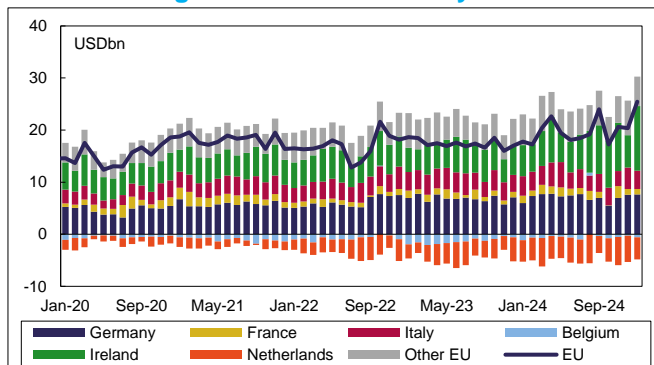
Ongoing recovery in bank lending should support economic growth

With the ECB's policy stance having become meaningfully less restrictive since last summer, today's monetary figures further illustrated the improving credit cycle that might hopefully provide a welcome tailwind to euro area economic growth in the face of tariff-related uncertainty. Indeed, consistent with the gradual improvement in business sentiment, the monthly net flow of loans to non-financial corporations more than doubled in February to €14bn. And given the surge at the end of last year, the cumulative net flow in the three months to February (€59bn) was the highest since October 2022, taking the annual growth in business loans to a 19-month high (2.2%Y/Y). Encouragingly, the increase in business lending over the past three months was concentrated in medium-term (i.e. with a maturity of between 1-5 years) and long-term loans (i.e. those over 5 years), which are likely to be more closely correlated with fixed investment. Meanwhile, the monthly net flow of loans to households in February of €15bn was in line with the average in the previous two months. This took the cumulative net flow in the past three months (€45bn) back above the long-run average for the first time since October 2022. Tallying with the recent turnaround in the housing market and steady moderation in mortgage borrowing costs, the improvement again principally reflected a pickup in mortgage lending, to leave the year-on-year growth rate of that component at the highest in 20 months. And while the monthly flow in consumer credit was the softest for seven months, growth remained solid at 3.7%Y/Y, only a touch below January's near-five-year high and a full percentage point above the long-run average.

The day ahead in the euro area

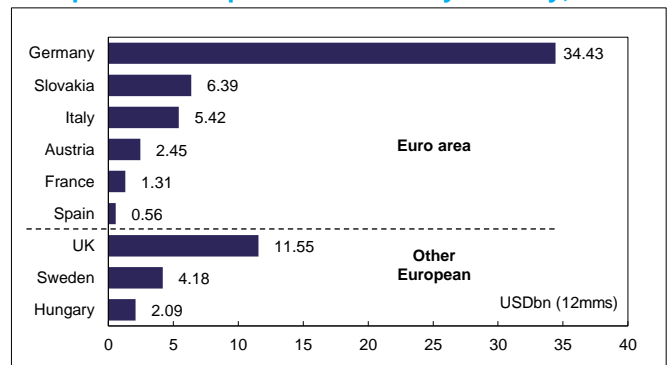
It will be a busy end to the week for top-tier economic data. Ahead of the coming week's flash March inflation figures from the euro area, focus will be on the preliminary estimates from several member states including France and Spain, where prices have recently been impacted by government policies. After declining to a four-year low in February (0.9%Y/Y) due to the near-15% cut in regulated electricity tariffs, the French headline HICP rate is expected to edge slightly higher in March, albeit to a still sub-target 1.1%Y/Y. But having been inflated in February by the normalisation of the electricity VAT rate and higher petrol prices, Spanish inflation is expected to take a step down this month by as much as 0.5ppt from 2.9%Y/Y previously. Meanwhile, the ECB's consumer survey and Commission survey price expectation indices will be watched for any meaningful adjustment to household and firms' inflation expectations amid ongoing tariff uncertainties. The Commission's economic sentiment indicator will also provide a cross-check to Monday's [flash PMIs](#). But any improvement in business conditions in March will be partly offset by the deterioration in consumer confidence, for which the flash indicator fell 0.9pt to the joint-lowest reading since last April.

EU: Bilateral goods trade balance by member state



Source: US Census Bureau, Macrobond and Daiwa Capital Markets Europe Ltd.

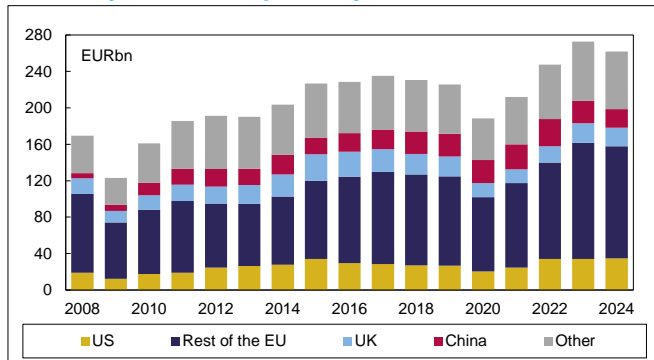
Europe: Auto* exports to the US by country, 2024



*Includes auto parts and accessories.

Source: US Census Bureau, Macrobond and Daiwa Capital Markets Europe Ltd.

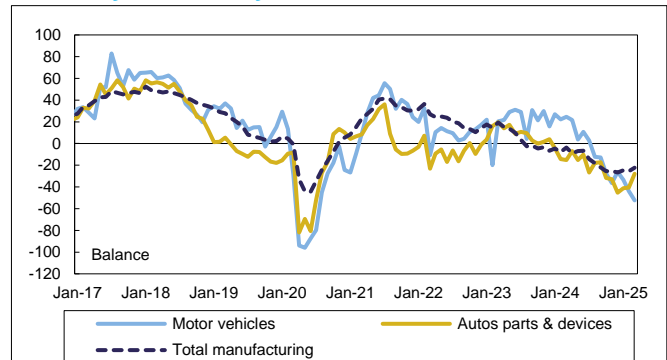
Germany: Autos* exports by destination



*Includes trailers and semi-trailers.

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

Germany: ifo survey – current business situation

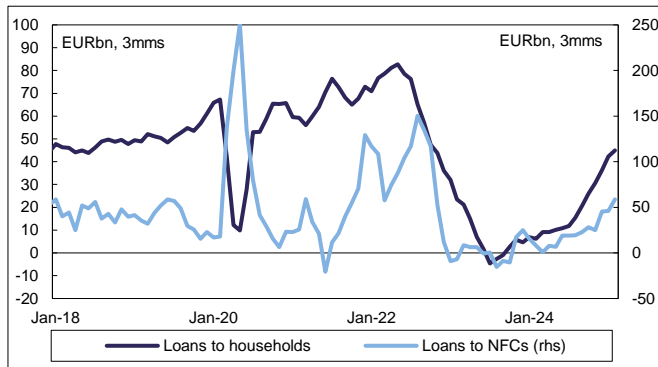


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

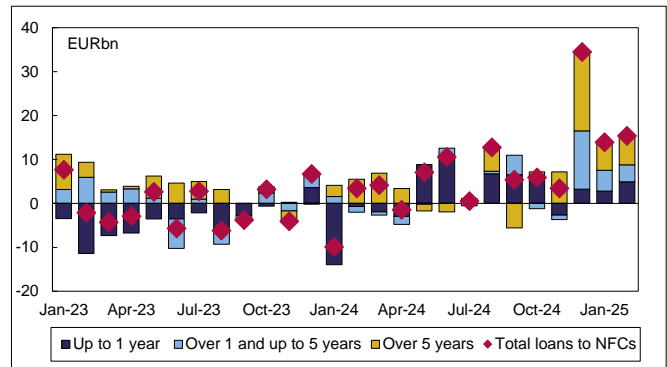
The day ahead in the UK

After a quiet day for UK releases today, Friday will bring an update on economic activity, with February's retail sales and January's trade figures due. Surveys reported ongoing disappointment in sales volumes last month amid heightened uncertainty and weak consumer confidence. As such, we expect retail sales to have declined in February, not least due to payback for the strength in sales at the start of the year (2.1%M/M). Meanwhile, January's good trade balance might receive a boost from a reported rise in gold exports that month. But demand for other goods will likely have remained very sluggish. Finally, updated estimates for Q4 GDP should confirm growth of 0.1%Q/Q. This release will also bring the latest balance of payments figures.

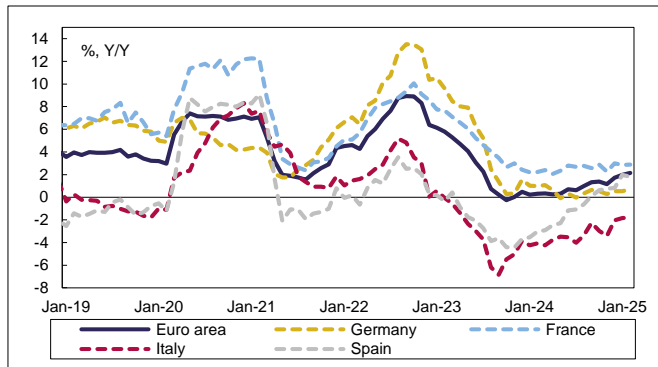
Euro area: Loans to households & NFCs



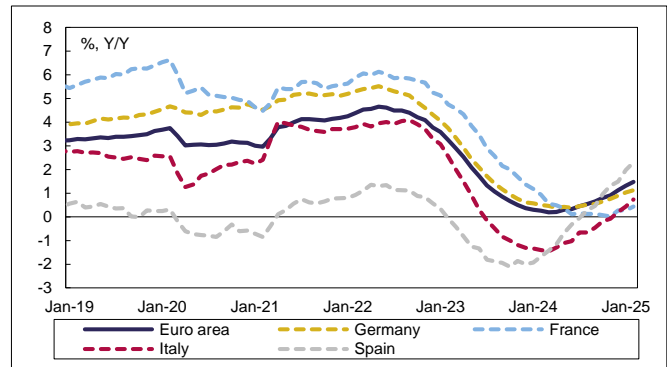
Euro area: Loans to NFCs



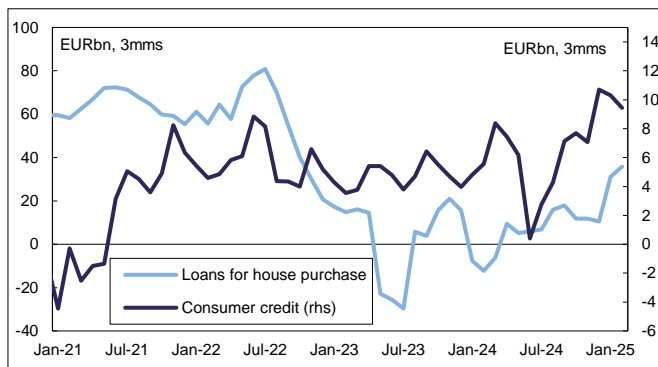
Euro area: Loans to NFCs



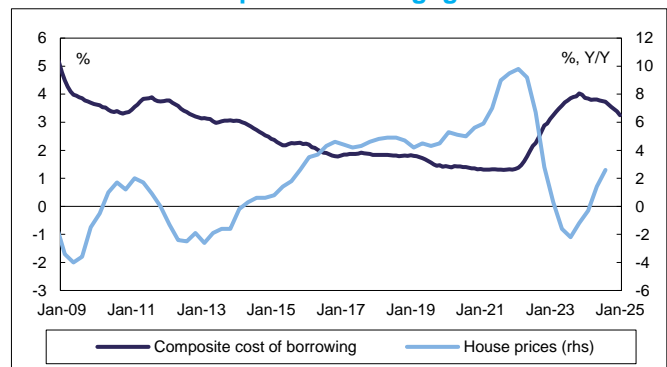
Euro area: Loans to households



Euro area: Loans to households





Euro area: House prices & mortgage interest rates




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%	Feb	4.0	3.8	3.6	3.8
Spain	 Retail sales Y/Y%	Feb	3.6	2.3	2.2	2.3






















Auctions

Country	Auction
UK	 sold £3bn of 4% 2031 bonds at an average yield of 4.517%





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	ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Feb	2.4 (2.5)	2.6 (2.4)
	 10.00	Commission economic sentiment indicator	Mar	96.7	96.3
	 10.00	Commission industry (services) confidence indicator	Mar	-10.6 (6.4)	-11.4 (6.2)
	 10.00	Final Commission consumer confidence indicator	Mar	-14.5	-13.6
Germany	 07.00	GfK consumer confidence indicator	Apr	-22.5	-24.7
	 08.55	Unemployment rate % (claims 000s)	Mar	6.2 (10)	6.2 (5)
France	 07.45	Preliminary HICP (CPI) Y/Y%	Mar	1.1 (0.9)	0.9 (0.8)
	 07.45	PPI Y/Y%	Feb	-	-2.1
	 07.45	Consumer spending M/M% (Y/Y%)	Feb	0.2 (0.4)	-0.5 (0.4)
Italy	 09.00	ISTAT consumer confidence indicator	Mar	98.5	98.8
	 09.00	ISTAT business (manufacturing) confidence indicator	Mar	-(87.3)	94.8 (87.0)
	 11.00	PPI Y/Y%	Feb	-	6.0
Spain	 08.00	Preliminary HICP (CPI) Y/Y%	Mar	2.5 (2.6)	2.9 (3.0)
UK	 07.00	GDP – final estimate Q/Q% (Y/Y%)	Q4	0.1 (1.4)	0.0 (1.0)
	 07.00	GDP – private consumption Q/Q%	Q4	0.0	0.5
	 07.00	GDP – government spending Q/Q%	Q4	0.8	0.1
	 07.00	GDP – fixed investment Q/Q%	Q4	-0.9	1.3
	 07.00	Current account balance £bn	Q4	-24.5	-18.1
	 07.00	Retail sales, including auto fuel M/M% (Y/Y%)	Feb	-0.4 (0.6)	1.7 (1.0)
	 07.00	Retail sales, excluding auto fuel M/M% (Y/Y%)	Feb	-0.5 (0.4)	2.1 (1.2)
	 07.00	Trade (goods trade) balance £bn	Jan	-3.0 (-16.7)	-2.8 (-17.4)

Auctions and events

Italy	 10.00	Auction: to sell up to €3bn of 2.95% 2030 bonds
	 10.00	Auction: to sell up to €3.25bn of 3.65% 2035 bonds
	 10.00	Auction: to sell up to €1.25bn of 2032 floating bonds
	 10.00	Auction: to sell up to €1.5bn of 2033 floating bonds

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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