

Euro wrap-up

Overview

- Bunds made modest losses as a survey pointed to an improvement in euro area consumer sentiment and the ECB's final TLTROII operation exceeded expectations.
- Gilts made more substantive losses as the latest UK retail sales figures came in stronger than expected.
- Friday will bring the flash PMIs for the euro area and its largest member states.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 03/19	-0.738	+0.022
OBL 0 04/22	-0.306	+0.022
DBR 0¼ 02/27	0.430	+0.021
UKT 1¼ 07/19	0.155	+0.041
UKT 0½ 07/22	0.635	+0.049
UKT 4¼ 12/27	1.229	+0.053

*Change from close as at 4.30pm GMT.
Source: Bloomberg

Euro area

Consumer confidence remains elevated

Since the economic recovery began almost four years ago, consumer spending has accounted for roughly half of all GDP growth in the euro area. That expansion principally reflected a marked improvement in confidence among households, who have felt more confident against the backdrop of rising employment and income growth. And, according to the flash Commission index released today, consumer confidence in the euro area remains elevated, rebounding in March after a temporary dip the previous month to return close to January's near-two-year high to suggest likely ongoing steady growth in household spending. According to the latest GfK German consumer confidence survey, however, we might well see a slight weakening in coming months. Indeed, the German headline indicator is forecast to slip next month to the lowest level since December, albeit still close to the middle of the range of the past couple of years, suggesting moderate if not vigorous momentum in spending ahead. In particular, while the survey hinted at an increased propensity to spend in March, it also suggested a greater desire to save in future amid somewhat weaker income expectations and, in particular, increased concerns about purchasing power against the backdrop of higher inflation. And we expect the erosion of real household income growth due to close-to-target inflation to weigh somewhat on the pace of consumer spending as the year goes on.

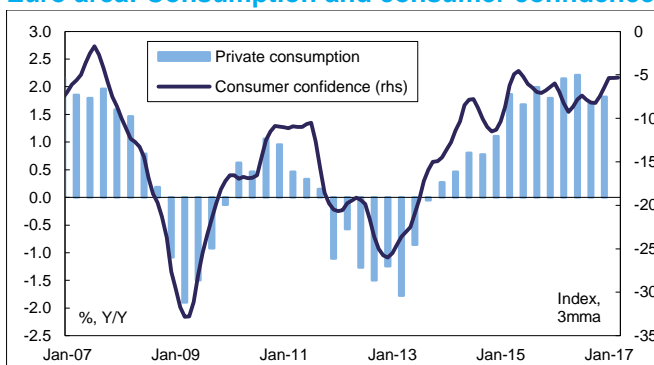
Excess liquidity to rise to new high after TLTROII

The most important data item today, however, was arguably the allotment under the ECB's fourth and final TLTRO II operation, whereby eligible banks were able to secure central bank funding for up to four years at a cost which, depending on what happens to lending, could eventually fall to the rate on the Deposit Facility (for the time being still just -0.4%). The headline figure significantly beat expectations, with €233.5bn allotted to 474 banks and the largest share of funds probably headed to Southern Europe. While the high figure arguably augurs well for lending growth, it also no doubt reflects recent signals from certain policymakers that the ECB might exit its negative rate policy before too long. Indeed, while banks had recently signalled their intention to repay €16.7bn of funds from the first round of TLTROs conducted in 2014 and 2015, today's allotment of new funds under the more generous TLTRO II regime will result in a sizeable net injection that is set to take excess ECB liquidity to a new record high above €1.5trn.

The day ahead in the euro area and US

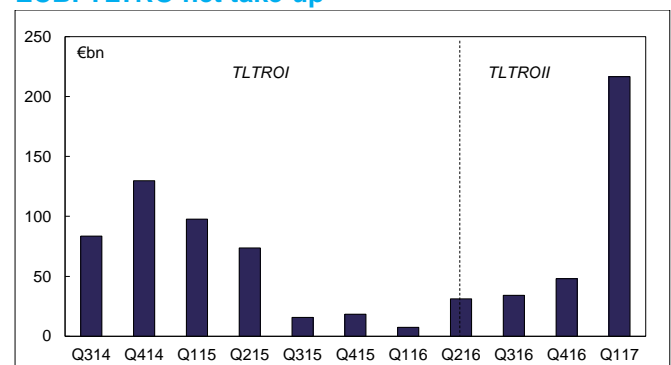
Friday will bring the most notable new economic data of the week from the euro area in the shape of the flash PMIs for March. Consistent with today's French business sector survey, we expect the euro area composite PMI to slip back somewhat from February's multi-year high of 56, with modest declines in the equivalent indices for the services and manufacturing sectors

Euro area: Consumption and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

ECB: TLTRO net take-up*



*Allotments net of voluntary and mandatory TLTRO repayments.
Source: ECB and Daiwa Capital Markets Europe Ltd.



alike. However, that will still likely leave the average composite PMI for Q117 at the highest quarterly reading since Q211, consistent with a possible acceleration in euro area GDP growth from 0.4%Q/Q in each of the previous two quarters.

In the US, while the tone in financial markets might well be determined by today's machinations on healthcare reforms in the House of Representatives, Friday will bring preliminary durable goods data for February as well as the flash Markit manufacturing PMI for March. In addition, FOMC members Evans, Bullard and Dudley are scheduled to speak publicly.

UK

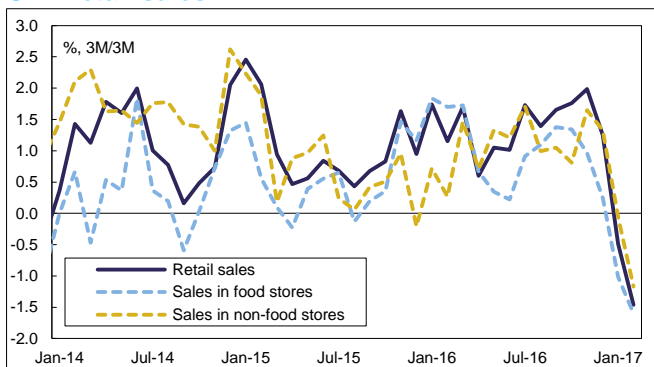
Retail sales firm in February, but on a downward trend

After Tuesday's largish upside surprise to the latest UK inflation figures, today's retail sales numbers were closely watched for further insight into the slowdown in the consumer sector in recent months. And, at face value, these too exceeded expectations, with overall sales rising 1.4%M/M in February on the back of firmer spending in non-food stores, online and at petrol stations. While this left sales up a robust 3.7% compared with a year earlier, this was still lower than the trend in 2016. And a lot of the strength last month appears to have been payback for declines in the previous two months. Indeed, given the weakness around the turn of the year, sales were down on a three-month basis by 1.4%, only the second such fall since December 2013 and the largest since early 2010. And while today's CBI Distributive Trades survey suggested that annual sales growth held up well in March, it also suggested that sales were below seasonal norms for the second successive month. Indeed, the survey's headline indicator for reported sales was on average in Q1 24pts lower than in Q4. And perhaps reflecting the rising cost pressures in the sector, on balance retailers were expected to place fewer orders with suppliers over the coming year. So today's data seem unlikely to push more members of the MPC into voting for a rate hike. Indeed, Deputy Governor Broadbent today reiterated that consumers are feeling the squeeze from the weaker sterling. And that squeeze is only going to get tighter as the year goes on.

The day ahead in the UK

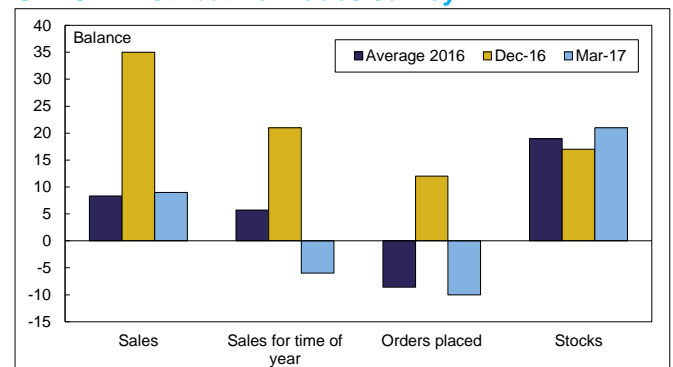
It should be a quiet end to the week for UK economic data, with just the release of the BBA's lending figures for February.

UK: Retail sales



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: CBI Distributive Trades survey










Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
EMU	 Preliminary consumer confidence	Mar	-5.0	-5.9	-6.2	-
Germany	 GfK consumer confidence survey	Apr	9.8	10.0	10.0	-
France	 Business confidence indicator (production outlook)	Mar	104 (3)	104 (7)	104 (5)	105 (-)
UK	 Retail sales excluding petrol M/M% (Y/Y%)	Feb	1.3 (4.1)	0.3 (3.2)	-0.2 (2.6)	-0.3 (2.1)
	 Retail sales including petrol M/M% (Y/Y%)	Feb	1.4 (3.7)	0.4 (2.6)	-0.3 (1.5)	-0.5 (1.0)
	 CBI Distributive Trades survey, retail sales	Mar	9	4	9	-
	 BoE corporate bond purchases £bn	Weekly	8.5	-	8.2	-









Country Auction

- Nothing to report -


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	09:00	 Preliminary manufacturing PMI	Mar	55.3	55.4
	09:00	 Preliminary services PMI (preliminary composite PMI)	Mar	55.3 (55.8)	55.5 (56.0)
Germany	08:30	 Preliminary manufacturing PMI	Mar	56.5	56.8
	08:30	 Preliminary services PMI (preliminary composite PMI)	Mar	54.5 (56.0)	54.4 (56.1)
France	07:45	 GDP – final release Q/Q% (Y/Y%)	Q4	0.4 (1.2)	0.2 (0.9)
	08:00	 Preliminary manufacturing PMI	Mar	52.4	52.2
	08:00	 Preliminary services PMI (preliminary composite PMI)	Mar	56.1 (55.8)	56.4 (55.9)
UK	09:30	 BBA loans for house purchase 000s	Feb	44.9	44.7



Auctions and events

Country	GMT	Auction / Event
EMU	08:00	 ECB's Angeloni scheduled to speak in Milan



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
EMU	 Current account balance €bn	Jan	24.1	-	31.0	30.8
Italy	 Current account balance €bn	Jan	-1.9	-	5.5	-

Country Auction

Germany sold	 €2.5bn of 0.25% 2027 bonds (15-Feb-2027) at an average yield of 0.41%
UK sold	 £2bn of 1.5% 2047 bonds (22-Jul-2047) at an average yield of 1.787%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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