

Euro wrap-up

Overview

- Bunds made modest gains at the long end of the curve despite the release of another strong euro area economic survey.
- Gilts also made modest gains at the long end as UK bank lending data showed firm consumer credit growth but weak growth in business loans.
- The coming week in the euro area brings the flash estimate of inflation in March and further top-tier economic surveys, while the UK will serve the formal Article 50 notice notifying the EU of its intention to leave.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 03/19	-0.733	+0.004
OBL 0 04/22	-0.309	-0.007
DBR 0¼ 02/27	0.410	-0.022
UKT 1¼ 07/19	0.179	+0.012
UKT 0½ 07/22	0.636	-0.001
UKT 4¼ 12/27	1.202	-0.027

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

Euro area

Flash PMIs signal notable acceleration in GDP

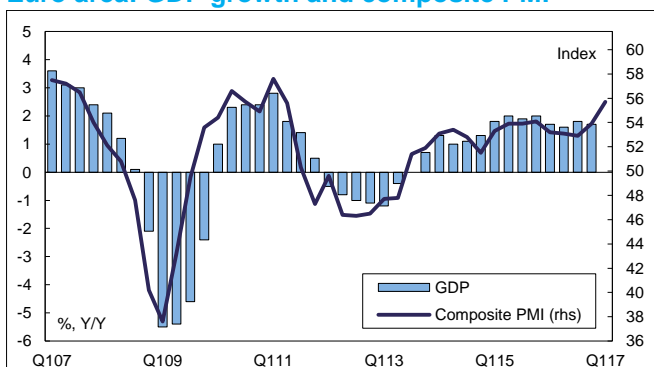
Following yesterday's upside surprise to the Commission's preliminary consumer confidence index, today's flash PMIs, also for March, provided further evidence that the euro area economy is putting on a growth spurt. With notable increases in the reported pace of expansion in services and manufacturing alike, the euro area composite PMI rose 0.8pt from February to a near six-year high of 56.2. That took the average composite PMI for Q117 to 55.7, similarly the highest since Q111, and broadly consistent with an acceleration in GDP growth to 0.6%Q/Q, the strongest rate for two years, from 0.4%Q/Q in each of the previous two quarters. Equally encouraging, the survey detail also suggested the firmest employment growth for almost a decade and the most plentiful order books – including for exports – in six years. And the ECB will have noted that it flagged the strongest price pressures for almost six years, with firms seemingly better able to pass on higher input costs to customers. At the country level, the French numbers were most striking – thanks particularly to the reported sizeable jump in activity in the services sector, the composite PMI leapt almost 2pts to 57.6, the highest in almost six years. And the German PMIs also chalked up decent gains, with improvements in both services and manufacturing to send the composite PMI up almost 1pt to 57, also a 70-month high.

The week ahead in the euro area and US

The coming week will be a busy one for new economic data from the euro area, with plenty more top-tier survey results and, most notably, the flash estimates of inflation in March. We expect headline euro area CPI (due Friday) to slip back 0.2ppt from February's four-year high to 1.8%Y/Y due particularly to lower energy inflation. Euro area core CPI is likely to remain unchanged at 0.9%Y/Y, although weaker services inflation related to the timing of Easter represents a downside risk. In addition, the Commission sentiment survey (due Thursday), which typically provides the most reliable guide to economic growth, looks set to echo the findings of today's strong PMIs to signal an acceleration in Q1. And the week gets going on Monday with the release of the German Ifo business sentiment survey for March – similarly likely to show a marked improvement in confidence – as well as German retail sales figures for February and euro area bank lending figures for the same month. In addition, ECB Executive Board members Praet and Cœuré will speak publicly, on Monday and Wednesday, and Tuesday and Friday respectively. In the markets, Germany will sell 2Y bonds on Tuesday and Italy will sell a range of bonds on Tuesday and Thursday.

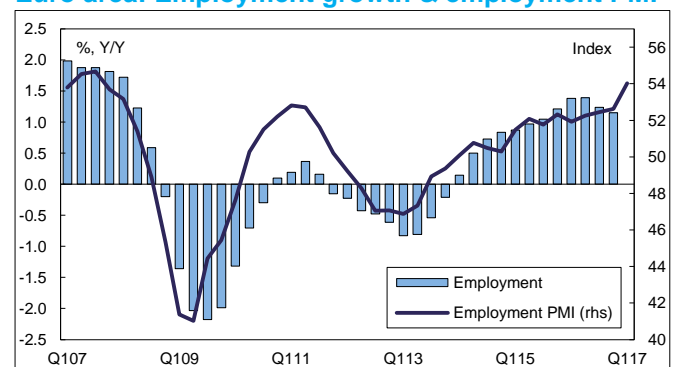
It will be a relatively busy week for US economic data too, kicking off on Tuesday with the advanced goods trade report for February and the Conference Board's consumer confidence survey for March. Tuesday will also bring the S&P CoreLogic home price index, followed on Wednesday by pending home sales figures. Focus on Thursday, meanwhile, will be on the third

Euro area: GDP growth and composite PMI



Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Employment growth & employment PMI



Source: ECB, Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.



and final reading of Q4 GDP, which is expected to broadly align with the current estimate of annualised growth of 1.9%Q/Q. And the week comes to an end with the release of February's personal income and spending figures, which will include the Fed's closely watched PCE deflators. In the markets, the Treasury will sell 2Y notes on Monday, 5Y notes on Tuesday and 7Y notes on Wednesday.

UK

Consumer credit growth remained strong in February

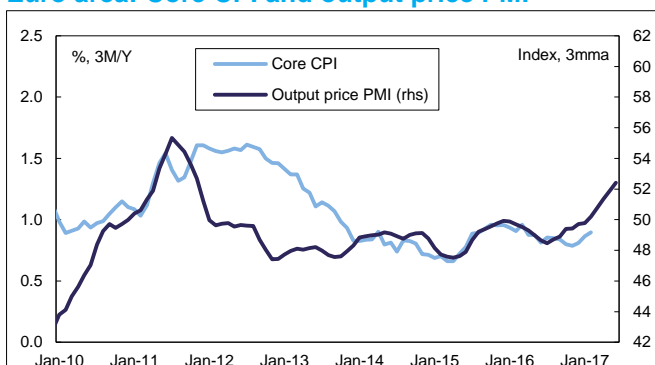
With retail sales having risen in February following two months of declines, but average wages now falling in real terms, it was perhaps no surprise that consumer credit growth remained strong last month. Today's BBA lending figures from the biggest High Street banks showed that consumer credit rose 6.6%Y/Y, down just 0.1ppt from January and in line with the average rate of the past six months. The increase reflected stronger growth in credit card lending, which rose to a four-month high, while growth in personal loans and overdrafts moderated from the near four-year high reached the previous month. With homebuyers taking advantage of record-low interest rates, growth in net mortgage lending (after adjusting for repayments) ticked up to 2.5%Y/Y, back in line with the average of the past six months, although the number of mortgage approvals fell back slightly following notable increases in December and January to the highest rates in a year. Finally, growth in lending to private non-financial corporations slowed to a ten-month low of just 0.9%Y/Y, reflecting the cautious approach of firms to financial management and investment against the backdrop of Brexit-related uncertainty. Of course, today's figures are partial, and the full picture of credit flows will be revealed on Wednesday when the BoE releases its own lending data.

The week ahead in the UK

More than six months on from the referendum the UK Government will in the coming week serve the formal Article 50 notice notifying the EU of its intention to leave. This will set in train a two-year process of negotiations which will culminate in the UK departing the EU at the end of March 2019 (assuming that there is no extension to the two-year negotiation period). Upon receipt of the Article 50 notice EU leaders will be presented with draft Brexit negotiating guidelines by Michel Barnier, the EU's chief negotiator. Assuming that these are adopted at a planned Summit of the EU27 on 29 April, talks between the EU and the UK will then commence, although at first only on the subject of how the negotiations are to be conducted. In particular, while the UK wants talks on a post-Brexit trade deal to be conducted alongside negotiations on the 'divorce' arrangements, the EU side has so far said that they must occur sequentially, thereby putting pressure on the UK Government to agree a financial settlement early. But regardless of whether the talks occur simultaneously or sequentially, the tight time frame available, which realistically have to be wrapped up by October 2018 to allow parliamentary approval in the EU27, make the conclusion of a trade deal at best 50/50. And if the UK was to crash out of the EU with no trade or transitional deal in place, that would be economically catastrophic for Britain.

Data-wise, the coming week will be light on UK economic data with the most notable new releases all coming on Friday. In particular, the latest consumer confidence survey is expected to show a slight deterioration in sentiment in March, while the final estimate of Q416 GDP is expected to confirm growth of 0.7%Q/Q, driven by consumer spending and net exports. Current account figures for the same quarter, due for release for the first time, are expected to show a narrowing in the deficit to close to £16bn, the smallest for at least six quarters. Meanwhile, the index of services activity for January is expected to show a slight slowdown in growth in the sector to 0.7%3M/3M, which would be a six-month low.

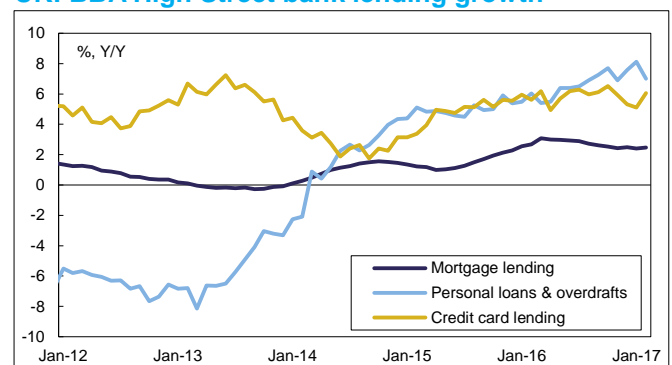
Euro area: Core CPI and output price PMI*



*Composite output PMI has a six-month lead.









Source: Thomson Reuters, Markit and Daiwa Capital Markets Europe Ltd.

UK: BBA High Street bank lending growth


























Source: BBA 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 manufacturing PMI	Mar	56.2	55.3	55.4	-	
	 Preliminary services PMI (preliminary composite PMI)	Mar	56.5 (56.7)	55.3 (55.8)	55.5 (56.0)	-	
Germany	 Preliminary manufacturing PMI	Mar	58.3	56.5	56.8	-	
	 Preliminary services PMI (preliminary composite PMI)	Mar	55.6 (57.0)	54.5 (56.0)	54.4 (56.1)	-	
France	 GDP – final release Q/Q% (Y/Y%)	Q4	0.4 (1.1)	0.4 (1.2)	0.2 (0.9)	-	
	 Preliminary manufacturing PMI	Mar	53.4	52.4	52.2	-	
	 Preliminary services PMI (preliminary composite PMI)	Mar	58.5 (57.6)	56.1 (55.8)	56.4 (55.9)	-	
UK	 BBA loans for house purchase 000s	Feb	42.6	44.9	44.7	44.1	
Country	Auction	- Nothing to report -					














Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

Key data releases						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Monday 27 March 2017						
EMU		09:00 M3 money supply Y/Y%	Feb	4.9	4.9	
		14:45 ECB public sector asset purchases €bn	Weekly	<u>12.0</u>	16.0	
Germany		09:00 Ifo business climate index	Mar	111.1	111.0	
		09:00 Ifo current assessment balance (expectations)	Mar	118.3 (104.4)	118.4 (104.0)	
Italy		09:00 Consumer confidence indicator	Mar	106.6	106.6	
		09:00 Business (economic) confidence indicator	Mar	106.0 (-)	106.3 (104.0)	
Tuesday 28 March 2017						
Italy		09:00 Industrial sales M/M% (Y/Y%)	Jan	-	2.6 (9.4)	
		09:00 Industrial orders M/M% (Y/Y%)	Jan	-2.6 (-)	2.8 (-0.9)	
UK		07:00 Nationwide house price index M/M% (Y/Y%)*	Mar	0.3 (4.0)	0.6 (4.5)	
Wednesday 29 March 2017						
France		07:45 Consumer confidence survey	Mar	100	100	
UK		09:30 Mortgage approvals `000s	Feb	69.9	69.9	
		09:30 Net consumer credit (net lending secured on dwellings) £bn	Feb	1.3 (3.5)	1.4 (3.4)	
Thursday 30 March 2017						
EMU		10:00 Economic sentiment indicator	Mar	108.3	108.0	
		10:00 Services (industrial) sentiment	Mar	14.0 (1.4)	13.8 (1.3)	
		10:00 Final consumer confidence	Mar	-5.0	-6.2	
Germany		13:00 Preliminary EU-harmonised CPI Y/Y%	Mar	1.9	2.2	
Spain		08:00 Preliminary EU-harmonised CPI Y/Y%	Mar	2.8	3.0	
UK		15:00 BoE corporate bond purchases £bn	Weekly	-	8.5	
Friday 31 March 2017						
EMU		10:00 Flash CPI estimate Y/Y%	Mar	1.8	2.0	
		10:00 Flash core CPI estimate Y/Y%	Mar	0.8	0.9	
Germany		07:00 Retail sales M/M% (Y/Y%)	Feb	0.7 (0.4)	-1.0 (2.3)	
		08:55 Unemployment change `000s (rate %)	Mar	-10.0 (5.9)	-15.0 (5.9)	
France		07:45 Consumer spending M/M% (Y/Y%)	Feb	0.1 (1.1)	0.6 (1.4)	
		07:45 Preliminary EU-harmonised CPI Y/Y%	Mar	1.4	1.4	
Italy		10:00 Preliminary EU-harmonised CPI Y/Y%	Mar	1.6	1.6	
Spain		08:00 Retail sales Y/Y%	Feb	0.9	0.1	
		09:00 Current account balance €bn	Jan	-	3.4	
UK		00:01 Lloyds business barometer	Mar	-	40	
		00:01 GfK consumer confidence survey	Mar	-7	-6	
		09:30 GDP – third and final release Q/Q% (Y/Y%)	Q4	0.7 (2.0)	0.6 (2.0)	
		09:30 Current account balance £bn	Q4	-16.0	-25.5	
		09:30 Index of services M/M% (3M/3M%)	Jan	0.2 (0.7)	0.2 (0.8)	

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

Coming week's events/auctions calendar

Key events & auctions			
Country		BST	Event / Auction
Monday 27 March 2017			
EMU		10:20	ECB's Nouy scheduled to speak in Frankfurt
		13:00	ECB's Lautenschläger scheduled to speak in Frankfurt
		13:00	ECB's Praet scheduled to speak in Madrid
UK		09.30	BoE publishes Financial Policy Committee statement from its meeting on 22 March 2017
Tuesday 28 March 2017			
EMU		08:00	ECB's Cœuré scheduled to speak in Frankfurt
		12:45	ECB's Cœuré scheduled to speak in Brussels
Germany		10:30	Auction: To sell €4bn of 0% 2019 bonds (15-Mar-2019)
Italy		10:00	Auction: To sell up to €2.5bn of 0% 2018 bonds (28-Dec-2018)
UK		10:30	Auction: To sell £2.5bn of 0.5% 2022 bonds (22-Jul-2022)
Wednesday 29 March 2017			
EMU		17:50	ECB's Praet scheduled to speak in Frankfurt
Thursday 30 March 2017			
Italy		10:00	Auction: To sell bonds
Friday 31 March 2017			
EMU		10:00	ECB's Cœuré scheduled to speak in Brussels
		10:50	ECB's Angeloni scheduled to speak in Bologna

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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