

Euro wrap-up

Overview

- Bunds followed the global trend higher as an ECB survey suggested that euro area consumer inflation expectations remain well-anchored and bank lending remains relatively subdued.
- Gilts also made gains while UK consumer confidence edged slightly higher at the start of Q2.
- The coming week will bring flash estimates for euro area inflation in April and GDP in Q1.

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Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	2.983	-0.020
OBL 2.1 04/29	2.580	-0.051
DBR 2.2 02/34	2.567	-0.062
UKT 0% 01/26	4.450	-0.013
UKT 0½ 01/29	4.222	-0.030
UKT 4% 01/34	4.311	-0.050

*Change from close as at 4:00pm BST.
Source: Bloomberg

Euro area

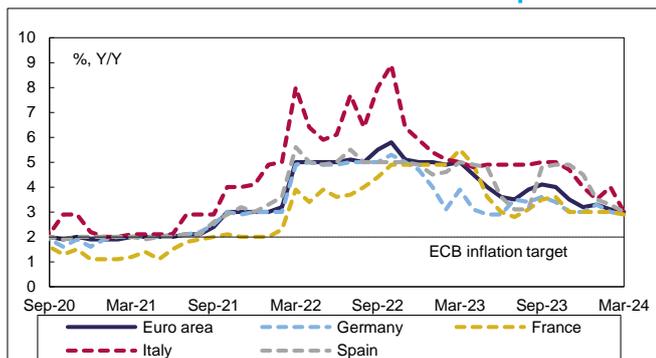
Consumer expectations for inflation well anchored with economic outlook judged to remain weak

With euro area headline inflation in March down to 2.4%Y/Y, matching the lowest since mid-2021, and the core rate back below 3.0%Y/Y for the first time in a little more than two years, consumer HICP expectations moderated further last month to suggest that risks of inflation persistence continue to diminish. According to the ECB's latest consumer survey results, the median expectation for inflation twelve months ahead fell for a second successive month in March, down 0.1ppt to 3.0%Y/Y, the lowest since January 2022 ahead of Russia's invasion of Ukraine. While it remains significantly higher than the median, the mean expectation (4.8%Y/Y) was also the best since that date. Among the largest member states, the median dropped to 2.9%Y/Y in Germany and France, with both the softest since mid-2023. And it fell to 3.0%Y/Y in Italy and Spain to be the lowest since 2021. Looking further ahead, inflation expectations appear to remain relatively well anchored. The median expectation for euro area inflation in three years' time was unchanged for a fourth month at 2.5%Y/Y, just 0.1ppt above the bottom of the range of the past two years. It was also unchanged in Germany (2.3%Y/Y), France (2.2%Y/Y) and Spain (2.5%Y/Y), and fell 0.5ppt in Italy (to 2.4%Y/Y). Among the ECB consumer survey's other findings, expected unemployment over the coming year ticked lower. But the median forecasts of both nominal incomes (0.1%Y/Y) and spending (2.5%Y/Y) were judged to have worsened slightly. And consumers maintained a downbeat view about the growth outlook, with GDP on average expected to contract 1.1%Y/Y. That, nevertheless, matched the best expectation for economic output in six months. And we note that the Commission's preliminary consumer confidence index for April rose further to the highest since February 2022, consistent with a gradual pickup in real private spending growth over coming quarters.

Lending to firms subdued at end-Q1, but consumer credit strongest since 2022

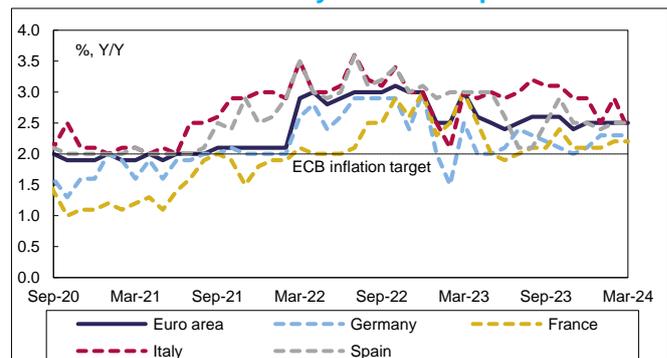
With financial markets anticipating a first easing of monetary policy over coming months, interest rates on new loans are down slightly from their peak. But they remain elevated. And while economic activity is gradually picking up, bank lending remains relatively subdued consistent with the signals of weak loan demand and tight credit standards in the ECB's recent [Bank Lending Survey](#). Nevertheless, net new lending to non-financial corporation (NFCs), adjusted for sales and securitisations, was positive for a second successive month in March at €4.6bn, driven by further growth in longer-dated loans, perhaps suggestive of a gradual improvement in appetite for business investment. However, over the first quarter as a whole, net lending to NFCs was negative (-€4.0bn). And while the annual growth in the stock of loans with a maturity of more than five years edged up to 1.6%Y/Y, growth in loans of shorter maturity remained negative to leave the overall stock of lending to NFCs up just 0.4%Y/Y. On an adjusted basis, net lending to households was positive for a third successive month to be up €10.4bn in Q1. But that left the annual rate at a nine-year low of just 0.2%Y/Y. Net lending for house purchases was also positive for a second month, but still down over Q1 as a whole and up just 0.3%Y/Y, consistent with ongoing consumer

Euro area: Consumer 12-month HICP expectations



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

Euro area: Consumer 3-year HICP expectations



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

caution with respect to the outlook for the economy, incomes and housing market. Consumer credit growth picked up, however, rising 0.5ppt to 3.3%Y/Y, the highest since end-2022, tallying with a likely pickup in private consumption in Q1 despite still-stretched real incomes.

Broad money supply growth at 10-month high thanks to large trade surplus

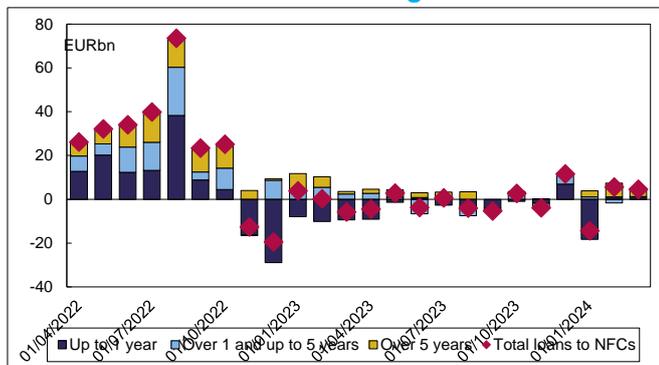
Following ten successive months of negative growth, total bank deposits picked up on a year-on-year basis in March, rising 0.8ppt to 0.5%Y/Y. Overnight deposits dropped for the eighteenth successive month to be down 7.1%Y/Y, but growth in time deposits continued to rise vigorously (36.8%Y/Y). In part, growth in the stock of deposits reflected a fifth successive monthly increase in household deposits, while NFCs added to their stock for the first time in three months. With both overnight deposits and currency in circulation down, the narrow M1 measure of money supply was down 6.7%Y/Y, admittedly the softest pace of decline in eleven months. But buoyed not least by growth in net external assets related in part to the rebounding [trade surplus](#) which hit a record high at the start of the year, and higher yields on foreign securities, the broad M3 measure accelerated 0.5ppt to a ten-month high of 0.9%Y/Y. That pickup is arguably consistent with a gradual pickup in economic activity. But being well below the long-run average of 5.5%Y/Y, it will be no obstacle whatsoever to a June rate cut.

The week ahead in the euro area

In a busy week for economic data releases, the highlights will come on Tuesday with the flash estimates of euro area inflation in April and GDP growth in Q1. Having dropped in March to 2.4%Y/Y, the bottom of the range of the past 2½ years, we expect headline consumer price inflation to be unchanged in April. However, that figure will be boosted by higher prices of auto fuel, as well as the end of the reduced VAT rate on household energy in Germany. And most importantly, core inflation should fall for the ninth successive month to the lowest rate since January 2022. We expect it to drop a chunky 0.4ppt to 2.5%Y/Y. While the pass-through of higher oil costs poses an upside risk to components such as airfares, the slide in core inflation will be principally due to a big step down in the services component, from 4.0%Y/Y to 3½%Y/Y or less, benefitting in part from a significant base effect. Meanwhile, in line with the global trend, goods inflation should remain stable. The preliminary inflation estimates from Germany, Spain and Belgium, due Monday, will provide an initial guide to the euro area data.

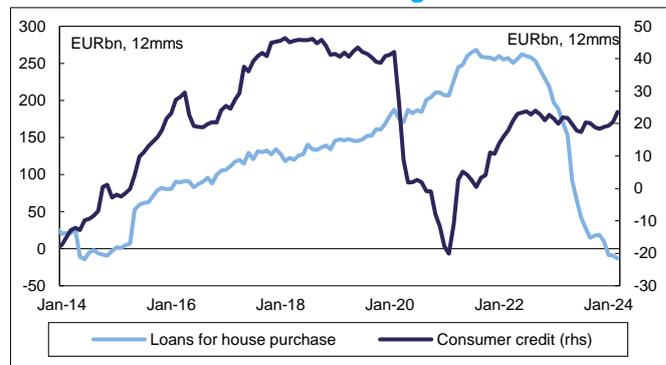
Like the inflation data, the preliminary estimates of economic output in Q1 should be relatively encouraging. Following a flat fourth quarter, euro area GDP looks to have returned to positive growth in Q1, and probably by 0.2%Q/Q, 0.1ppt above the ECB's projection. That would be the strongest rate in a year, and would nudge the annual rate up 0.1ppt to 0.2%Y/Y. Growth in Q1 appears to have been flattered by a rebound in construction output, particularly in Germany, where GDP looks to have

Euro area: Net new bank lending to NFCs



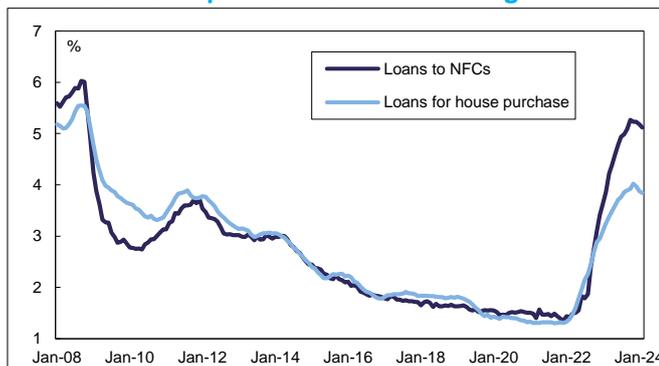
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Net new bank lending to households



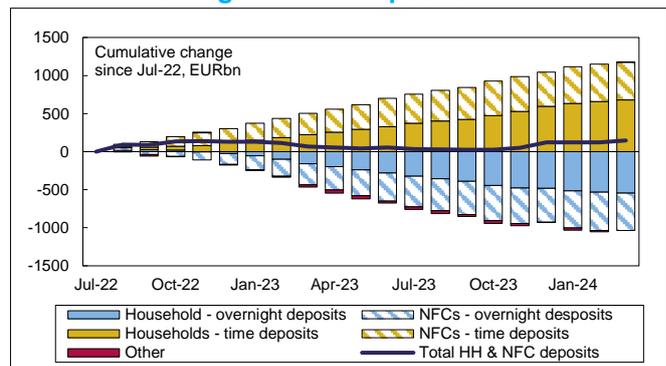
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Composite cost of borrowing on loans



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Change in bank deposits



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

edged up 0.1%Q/Q following the drop of 0.3%Q/Q in Q4. We also think that growth in France ticked up 0.1ppt in Q1 to 0.2%Q/Q. But growth in Italy and Spain might have moderated from Q4 to 0.1%Q/Q and 0.3%Q/Q respectively. While the preliminary figures for the four largest member states will be published on Tuesday, the data from Belgium and Ireland – the latter of which often has a significant impact on the euro area figure – will be published the day before.

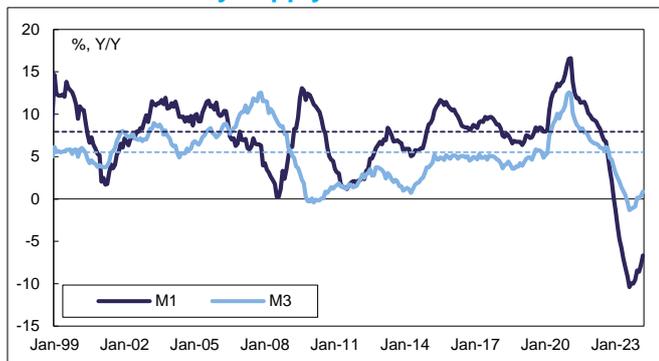
Among other notable data due in the coming week, the Commission’s economic sentiment indices (due Monday) will likely validate the message of the [flash PMIs](#) that economic recovery momentum has picked up a little further at the start of Q2. Unemployment data from Germany (for April on Tuesday) and the euro area (for March on Friday) will point to ongoing resilience in the labour market. In particular, the German claimant count rate is expected to be unchanged for a fifth successive month at 5.9%, up 0.3ppt from a year earlier but 0.5ppt below the pandemic peak. And the euro area unemployment rate is likely to remain for a fifth successive month at the series low of 6.5%.

UK

Consumer confidence matches January’s 2-year high, but spending intentions remain subdued

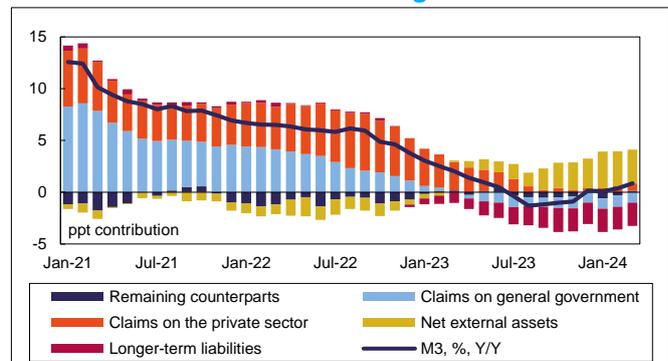
Today’s GfK survey results suggested that UK consumers were a touch more upbeat at the start of the second quarter. In particular, the headline confidence indicator rose for the first month in three in April, by 2pts to -19, matching January’s two-year high and some 6pts above the Q4 average. Of course, that arguably points to a trend that is barely better than flat. Sentiment still remains relatively weak by historical standards. And the survey detail suggested that the improvement this month was principally driven by the backwards-looking components, as households seemingly took comfort from the downtrend in inflation over the past year or so and recent economic data signalling a return to positive GDP growth in Q1. Nevertheless, having risen to a 28-month high in March, household income expectations remained in line with the long-run average in April, albeit below the average in the five years before the pandemic, as real disposable incomes benefitted from the near-10% rise in the National Living Wage, further cut in National Insurance Contributions and 12% reduction in the household energy price cap at the start of this month. Consumers were also a touch more upbeat about the economic outlook for the coming twelve months. And while savings intentions ticked slightly higher in April, the share of households considering it a good time to make major purchases also rose slightly at the start of Q2. Admittedly, the respective spending index remained a touch below the Q1 level and well below the long-run average. And taken together with yesterday’s weak [CBI retail survey](#), today’s GfK indices reinforced our view that the boost from retail sales to GDP growth in Q1 seems highly unlikely to be repeated in Q2. However, overall household consumption should still be the principle source of economic growth over coming quarters.

Euro area: Money supply*



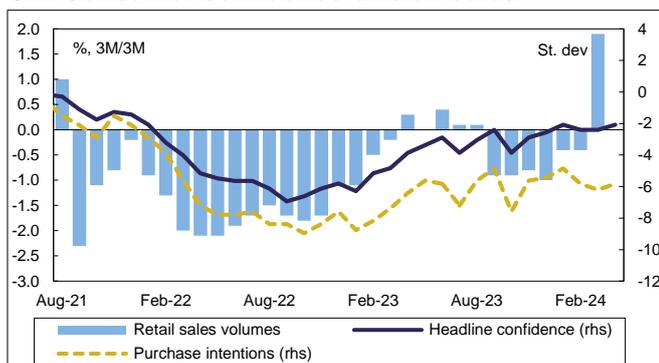
*Dashed lines represent long-run averages. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Contributions to M3 growth



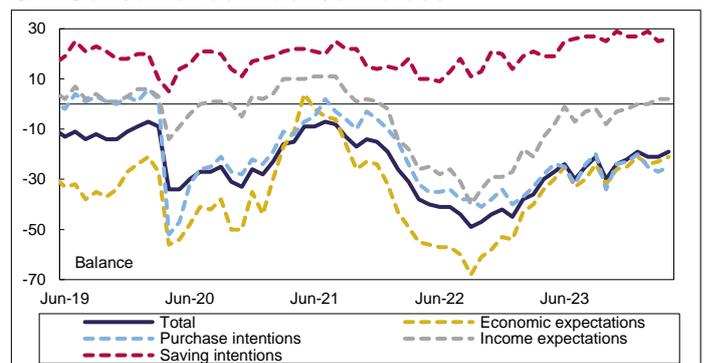
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence & retail sales



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

UK: Consumer confidence indices



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

The week ahead in the UK

Unlike in the euro area, the coming week brings only second-tier data. These seem unlikely to significantly influence the MPC's monetary policy discussion the following week unless there are significant revisions in the final April PMIs, for which the manufacturing survey is due on Wednesday and the services release is out on Friday. According to the flash PMIs, UK economic momentum at the start of Q2 picked up further led predictably by the services sector. Most notably, the composite PMI jumped in April by 1.2pts, well above expectations and the most since December, to an 11-month high of 54.0, bang in line with the average in the two decades before the pandemic. The flash survey also reported a notable increase in cost pressures, although the composite output price PMI fell to an eight-month low, suggesting that these were increasingly being absorbed by margins. Among other data due in the coming week, Tuesday will bring the BoE's bank lending figures for March and the BRC shop price index for April. The Nationwide home price index for last month is also due over the coming week.

Daiwa economic forecasts

	2024				2025		2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.2	0.2	0.2	0.3	0.3	0.4	0.5	0.4	1.3
UK 	0.4	0.2	0.3	0.2	0.2	0.3	0.1	0.5	1.0
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.6	2.4	2.2	2.8	2.5	2.1	5.4	2.5	1.8
Core HICP 	3.1	2.3	2.1	2.5	2.1	1.8	4.9	2.3	1.7
UK									
Headline CPI 	3.5	1.9	2.0	2.3	2.0	1.8	7.3	2.4	1.9
Core CPI 	4.6	3.1	2.8	2.8	2.3	1.7	6.2	3.3	1.8
Monetary policy, %									
ECB									
Deposit Rate 	4.00	3.75	3.50	3.25	3.00	3.00	4.00	3.25	2.25
Refi Rate 	4.50	4.25	3.65	3.40	3.15	3.15	4.50	3.40	2.40
BoE									
Bank Rate 	5.25	5.00	4.75	4.50	4.25	4.25	5.25	4.50	3.50

Source: Bloomberg, ECB, BoE 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 	M3 money supply Y/Y%	Mar	0.9	0.6	0.4	-	
	ECB CPI expectations 1Y (3Y) ahead Y/Y%	Mar	3.0 (2.5)	-	3.1 (2.5)	-	
France 	Consumer confidence index	Apr	90	92	91	-	
Spain 	Retail sales Y/Y%	Mar	0.6	2.2	1.9	1.8	
UK 	GfK consumer confidence index	Apr	-19	-20	-21	-	
Auctions							
Country	Auction						
- Nothing to report -							

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/ <i>Daiwa</i> <i>forecast/actual</i>	Previous	
Monday 29 April 2024						
Euro area		10.00	Commission's economic sentiment indicator	Apr	96.7	96.3
		10.00	Commission's manufacturing (services) sentiment indicator	Apr	-8.5 (6.9)	-8.8 (6.3)
		10.00	Commission's final consumer sentiment indicator	Apr	-14.7	-14.9
Germany		13.00	Preliminary HICP (CPI) Y/Y%	Apr	2.3 (2.3)	2.3 (2.2)
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Apr	3.4 (3.5)	3.3 (3.2)
Tuesday 30 April 2024						
Euro area		10.00	Preliminary HICP (core HICP) Y/Y%	Apr	<u>2.4 (2.5)</u>	2.4 (2.9)
		10.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (0.2)</u>	0.0 (0.1)
Germany		07.00	Retail sales M/M% (Y/Y%)	Mar	-	-1.7 (1.9)
		08.55	Unemployment change 000s (rate %)	Apr	5.9 (8.0)	5.9 (4.0)
		09.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.1 (-0.2)</u>	-0.3 (-0.2)
France		06.30	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.2 (0.9)</u>	0.1 (0.7)
		07.45	Preliminary HICP (CPI) Y/Y%	Apr	2.2 (2.1)	2.4 (2.3)
		07.45	PPI Y/Y%	Mar	-	-5.5
		07.45	Consumer spending M/M% (Y/Y%)	Mar	0.2 (0.1)	0.0 (-0.8)
Italy		09.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.1 (0.3)</u>	0.2 (0.6)
		10.00	Preliminary HICP (CPI) Y/Y%	Apr	-	1.2 (1.2)
Spain		08.00	GDP – first estimate Q/Q% (Y/Y%)	Q1	<u>0.3 (1.8)</u>	0.6 (2.0)
UK		00.01	BRC shop price index Y/Y%	Mar	1.3	1.3
		00.01	Lloyds business barometer (price expectations)	Apr	-	42 (57)
		09.30	Net consumer credit £bn (Y/Y%)	Mar	-	1.4 (8.7)
		09.30	Net mortgage lending £bn (mortgage approvals 000s)	Mar	1.5 (61.5)	1.5 (60.4)
Wednesday 01 May 2024						
UK		07.00	Nationwide house price index M/M% (Y/Y%)	Apr	-	-0.2 (1.6)
		09.30	Final manufacturing PMI	Apr	<u>48.7</u>	50.3
Thursday 02 May 2024						
Euro area		09.00	Final manufacturing PMI	Apr	<u>45.6</u>	46.1
Germany		08.55	Final manufacturing PMI	Apr	<u>42.2</u>	41.9
France		08.50	Final manufacturing PMI	Apr	<u>44.9</u>	46.2
Italy		08.45	Manufacturing PMI	Apr	-	50.4
Spain		08.15	Manufacturing PMI	Apr	-	51.4
Friday 03 May 2024						
Euro area		10.00	Unemployment rate %	Mar	6.5	6.5
France		07.45	Industrial production M/M% (Y/Y%)	Mar	0.3 (1.3)	0.2 (-0.8)
Spain		08.00	Unemployment change 000s	Apr	-	-33.4
UK		09.30	Final services (composite) PMI	Apr	54.9 (54.0)	53.1 (52.8)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 29 April 2024		
Italy		10.00 Auction: €3.25bn of 3.35% 2029 bonds
		10.00 Auction: €3.5bn of 3.85% 2034 bonds
		10.00 Auction: €3.5bn of floating-rate 2032 bonds
Euro area		20.20 ECB Vice President de Guindos to make remarks in London
Tuesday 30 April 2024		
Germany		10.30 Auction: €3bn of 2.1% 2029 bonds
UK		10.00 Auction: £4.0bn of 4.125% 2029 bonds
Wednesday 01 May 2024		
Germany		10.30 Auction: €4bn of 2.2% 2034 bonds
UK		10.00 Auction: £3.75bn of 4.625% 2034 bonds
Thursday 02 May 2024		
France		09.50 Auction: 3.5% 2033 bonds
		09.50 Auction: 1.25% 2034 bonds
		09.50 Auction: 2.5% 2043 bonds
		09.50 Auction: 3.25% 2055 bonds
Euro area		12.15 ECB Chief Economist Lane to give virtual lecture at University of Stanford
Friday 03 May 2024		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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