

# Euro wrap-up

## Overview

- Bunds made gains while data reported a further increase in household and business bank deposits, as well as improved sentiment among German consumers and French firms.
- Gilts made gains as a UK retail survey disappointed expectations.
- Friday will bring the latest German ifo business survey and official UK retail sales data.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.728	-0.005
OBL 0 04/26	-0.702	-0.017
DBR 0 02/31	-0.388	-0.033
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.032	-0.019
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.307	-0.021
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.725	-0.030

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

Source: Bloomberg

## Euro area

### Household and business bank deposits continue to rise

With opportunities for consumer spending reduced by ongoing lockdown measures, but real disposable incomes still supported by governments, households continue to accumulate bank deposits that arguably represent a potent source of future demand. Today's monetary data from the ECB revealed a further large net inflow of euro area household deposits in February of €53bn to take the twelve-month increase in the stock to a record high of almost €665bn, with the growth rate up a further 0.3ppt to 9.5%Y/Y, the highest since the Global Financial Crisis in 2008. The net inflow of deposits placed by non-financial corporations in the euro area remained more moderate at €19bn. But thanks to the initial surge at the onset of the pandemic, the twelve-month increase remained above €500bn even though the annual growth rate eased 0.6ppt from the prior month's series high to a still-elevated 21.2%Y/Y. The total stock of NFCs' deposits thus remained above €3trn for a second successive month, illustrating the large liquidity buffers remaining at many firms.

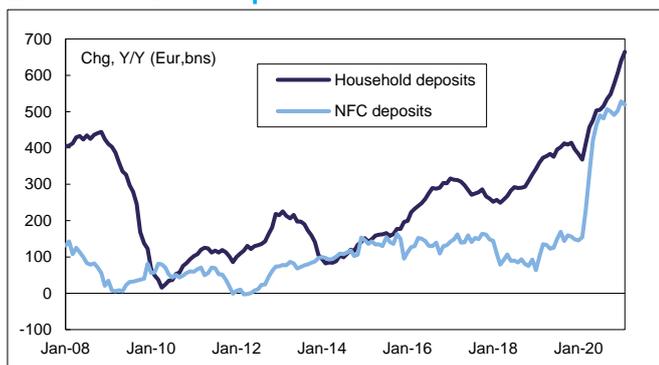
### Net lending to NFCs rises to highest since August

In line with the recent trend, bank lending to households remained solid in February, with the net flow rising €3bn to €19bn so that the annual growth rate slowed just 0.1ppt to 3.2%Y/Y. Net new lending for house purchase slowed by €4bn to €16bn, but that left growth in the stock of such loans unchanged at 4.5%Y/Y. And after three months of net repayments, households were net borrowers of consumer credit. But, at just €2bn, that meant that the growth in the stock of such loans fell a further 0.2ppt to -2.8%Y/Y marking the steepest drop since June 2013. Meanwhile, the flow of loans to non-financial corporations returned to positive territory for the first time since November and by the most since August, rising to €11bn. For the first time since March, firms increased short-term borrowing (loans with maturities less than one year), by €5bn. And they borrowed a net €5bn of longer-term loans (i.e. those of maturities of more than five years). However, for a second successive month they repaid loans of maturities between one and five years, this time by €4bn. Overall, growth in the stock of loans to NFCs rose 0.1ppt to 6.3%Y/Y, albeit with short-dated loans down 4.7%Y/Y.

### National surveys tally with flash PMIs and consumer confidence index

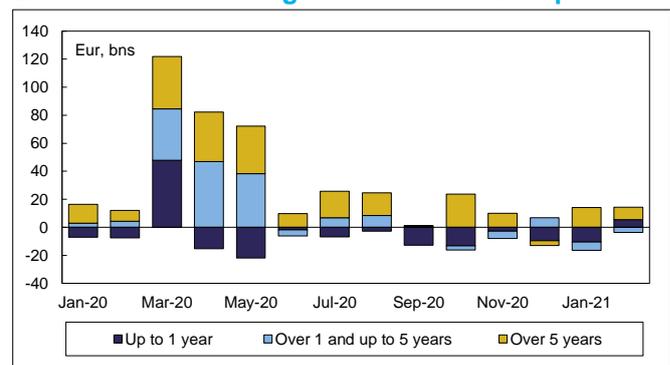
Yesterday's [flash PMIs and Commission consumer confidence index](#) surprised on the upside suggestive of a rebound in economic activity in the coming quarter. And today's national survey results – the German GfK consumer and French INSEE business surveys – similarly beat expectations. Like yesterday's surveys, the responses were largely submitted before the recent announcements of somewhat tighter pandemic containment measures. However, once again, we believe that the negative impact of the new restrictions should be modest and judge the survey results to be consistent with recovery ahead.

### Euro area: Bank deposits



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

### Euro area: Net lending to non-financial corporations



Source: ECB and Daiwa Capital Markets Europe Ltd.

In particular, the headline survey measure of German consumer confidence rose a larger-than-expected 6.5pts to a five-month high of -6.2. The survey measure of income expectations rose sharply to a twelve-month high while broader economic expectations rose to the highest since September. The improvement in willingness to buy was more modest, however, with the respective index rising merely to the highest since December.

Similarly, like the flash PMIs, the INSEE survey reported a significant improvement in French business confidence, with the headline confidence index up 7pts to 97, a thirteen-month high and just 3pts below the long-run average. The improvement was led by the tertiary sector, with notable increases in the respective indices for services (up 6pts to 95), retailers (up 5pts to 95) and wholesalers (up 3pts to 98). Manufacturing sentiment was stable close to the long-run average (98), while construction firms were also more upbeat with confidence (up 2pts to 106) well above the long-run average. Like the flash PMIs, the INSEE survey also reported a marked improvement in the employment climate, with the respective index rebounding 6pts to 92, the highest since September, albeit still some way below the long-run average.

## The day ahead in the euro area

Looking ahead to tomorrow, the German ifo business sentiment survey is similarly expected to reveal a further pickup in optimism at the end of the first quarter, adding to this week's flow of somewhat brighter economic sentiment data out of the euro area. The current assessment balance is forecast to rise a little less than 1pt in March to 91.3, admittedly still some way below the pre-pandemic level of 98.7 and an average of 102.6 in the five years to February 2020. The expectations balance, meanwhile, is also expected to rise almost 1pt, to 95.0 – further above the pre-Covid level of 92.9 but still below the average in the five years before the pandemic. Also published tomorrow will be final Q4 GDP data for Spain. The preliminary data revealed that Spanish GDP managed to grow in Q4, rising 0.4%Q/Q following growth of 16.4%Q/Q in Q3. That, however, still left it down a steep 9.1%Y/Y, again representing the biggest drop from the pre-Covid level of output in the euro area.

## UK

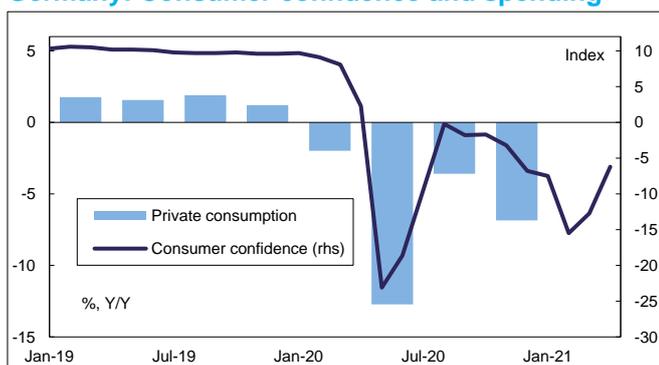
### CBI survey points to subdued end to Q1 for retail

On a quieter day for economic news from the UK, the CBI's latest monthly Distributive Trades Survey disappointed expectations by suggesting no material improvement in retail sales this month as non-essential stores remained closed. In particular, the survey's measure of reported retail sales volumes remained unchanged at -45% in March, with steep declines again reported in clothing and footwear among others. Indeed, this time around the grocery sector reported the biggest year-on-year decline in sales since last April, although this reflected the base effect as March 2020 saw panic-buying ahead of the first national lockdown. Indeed, grocery sales were still seen as good for the time of year, with hardware and DIY stores also continuing to see strong sales on a similar basis. And happily, retailers' expectations for the coming month were reported to be positive for the first time since December 2019, buoyed by the prospect of the reopening of non-essential retail from 12 April. Overall, however, the level of sales is still expected to remain relatively poor for the time of year next month, with the reopening of other services expected to provide alternative destinations for the resumption in household spending.

### The day ahead in the UK

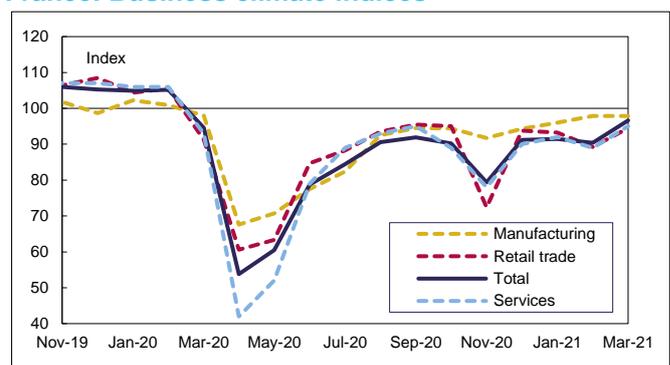
The UK focus at the end of the week will remain on the retail sector with the release of February's official sales data. Total sales are expected to have risen last month by about 2%M/M after plummeting 8.8%M/M in January due to the tighter lockdown measures.

### Germany: Consumer confidence and spending



Source: GfK, Destatis, Refinitiv and Daiwa Capital Markets Europe Ltd.

### France: Business climate indices



Source: INSEE, Refinitiv 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
EMU	 M3 money supply Y/Y%	Feb	12.3	12.5	12.5	-
Germany	 GfK consumer confidence	Apr	-6.2	-12.1	-12.9	-12.7
France	 INSEE business confidence	Mar	97	91	90	-
	 INSEE manufacturing confidence (production outlook)	Mar	98 (6)	98 (-3)	97 (-8)	98 (-7)
Spain	 PPI Y/Y%	Feb	0.8	-	0.9	-
UK	 CBI distributive trades, reported sales	Mar	-28	-	-35	-
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/ <i>Daiwa forecast</i>	Previous	
Germany	 09.00	Ifo current assessment (expectations)	Mar	91.3 (95.0)	90.6 (94.2)	
Italy	 09.00	Istat economic sentiment	Mar	-	93.2	
	 09.00	Istat consumer (manufacturing) confidence	Mar	100.3 (99.5)	101.4 (99.0)	
Spain	 08.00	Final GDP Q/Q% (Y/Y%)	Q4	0.4 (-9.1)	16.4 (-9.0)	
UK	 07.00	Retail sales including fuel M/M% (Y/Y%)	Mar	2.1 (-3.5)	-8.2 (-5.9)	
	 07.00	Retail sales excluding fuel M/M% (Y/Y%)	Mar	1.7 (-1.7)	-8.8 (-3.8)	
Auctions and events						
EMU	 12.10	ECB President Lagarde participates in the Euro Summit				
UK	 12.00	BoE MPC member Saunders speaks on webinar				
	 16.45	BoE MPC member Tenreiro speaks at conference				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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