

Euro wrap-up

Overview

- Bunds made big losses as flash German and Spanish CPI data beat expectations, the Commission's euro area economic sentiment indicator posted a record gain, and bank lending to firms in the region accelerated.
- Gilts followed Bunds and USTs lower on a quiet day for UK economic news.
- Friday will bring the first estimates of euro area Q1 GDP and April inflation.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.686	+0.010
OBL 0 04/26	-0.567	+0.021
DBR 0 02/31	-0.195	+0.038
UKT 0 ¹ / ₈ 01/23	0.070	+0.020
UKT 0 ¹ / ₈ 01/26	0.384	+0.032
UKT 4 ³ / ₄ 12/30	0.845	+0.049

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

Source: Bloomberg

Euro area

Flash German and Spanish inflation data beat expectations

Ahead of tomorrow's flash April inflation data from the euro area, today's equivalent figures from Germany and Spain surpassed expectations. Contrary to expectations of no change, German inflation on the EU harmonised measure (HICP) rose 0.1ppt to 2.1%Y/Y, the highest since November 2018. However, the detail published on the national CPI measure, which rose 0.3ppt to 2.0%Y/Y, suggested that core inflation was steady. Indeed, the upwards pressure came principally from energy inflation, which rose 3.1ppts to 7.9%Y/Y, the highest since November 2018, while food inflation ticked up 0.3ppt to a three-month high of 1.9%Y/Y. In Spain, HICP inflation leapt a marked 0.7ppt to 1.9%Y/Y, the highest since October 2018, with the national CPI rate up 0.9ppt to 2.2%Y/Y. According to the Spanish statistical agency, inflation was driven higher by prices of electricity and fuel, accentuated by base effects. And core inflation on the national measure fell back 0.3ppt to zero percent. Given today's data, we have nudged up our forecast for euro area inflation in April to 1.7%Y/Y, up 0.4ppt from March, albeit with the core measure dropping 0.1ppt to 0.8%Y/Y.

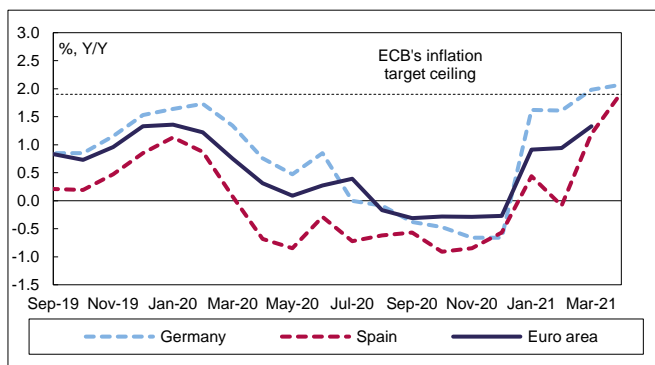
Commission sentiment indicator jumps most on series to highest since September 2018

Despite the tightening of restrictions in the large member states over the past month, the European Commission's confidence survey tallied with the PMIs to point to a significant strengthening of underlying recovery momentum this month. Strikingly, the euro area economic sentiment indicator (ESI) beat expectations to rise by a record 9.4pts to 110.3, back above the pre-pandemic level and indeed the highest since September 2018, and well above the long-run average (100). Improvement was geographically widespread, with the ESIs rising firmly in each of the large member states back above their long-run averages. And it was broad-based too, with every sector reportedly more upbeat and employment expectations returning above the long-run average too. Matching the flash PMIs, the Commission survey reported an improvement in industrial sector confidence to a series high, with managers' production expectations also up to a series high amid buoyant new orders and declining inventories. Optimism in services, retail and construction rose to fourteen-month highs supported by increased demand expectations.

Consumer confidence above long-run average, but consumer price expectations contained

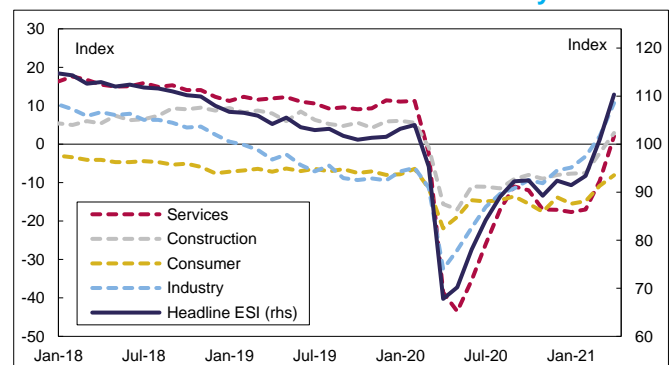
Consumer confidence rose above its long-run average for the first time in thirteen months, with households reporting an increased willingness to make major purchases. With demand firming and cost pressures having picked up, businesses' selling-price expectations rose across the sectors. But while selling price expectations in industry rose to their highest in more than ten years, they were merely the highest since December 2019 in retail and February 2020 in services. And consumer price expectations rose only to a ten-month high and remained below their long-run average.

Euro area: Inflation*



*HICP inflation. Flash estimates for April 2021 for Germany and Spain.
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Economic sentiment indices by sector



Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

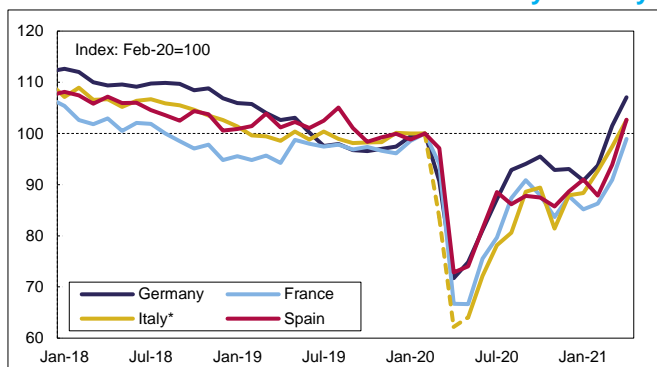
German jobless claims up, but vacancies continue to rise too

The latest German labour market data were a touch disappointing, with unemployment claims rising 9k in April to more than reverse the prior month's dip and move 14k above the recent trough in January. Despite the renewed tightening of pandemic restrictions, however, the number of claims in April was still 173k below last June's peak. And, encouragingly, job vacancies rose 15k to a thirteen-month high of 631k, lending credence to survey reports that German firms are more actively seeking to increase headcount. Indeed, the ifo German Employment Barometer rose in April to the highest level in fifteen months. The survey detail inevitably suggested that job creation remains centered on manufacturing, for which the relevant survey index rose to its highest since February 2019, driven in particular by the machinery and equipment sub-sector. But employment in construction now appears broadly stable. And while retail, hospitality and tourism continue to weigh on employment, the ifo institute reported net job creation in IT, architecture and engineering services. Of course, the government's kurzarbeit short-term working scheme remains key to the broad stability in the labour market, with the ifo institute estimating that it provided support for 2.7mn jobs in March. And with data now suggesting that the flow of new coronavirus cases in Germany has peaked, we look for accelerated job creation and falling unemployment from the second half of Q2 as the economy reopens.

Net lending to firms jumps to 11-month high to allay concerns about credit conditions

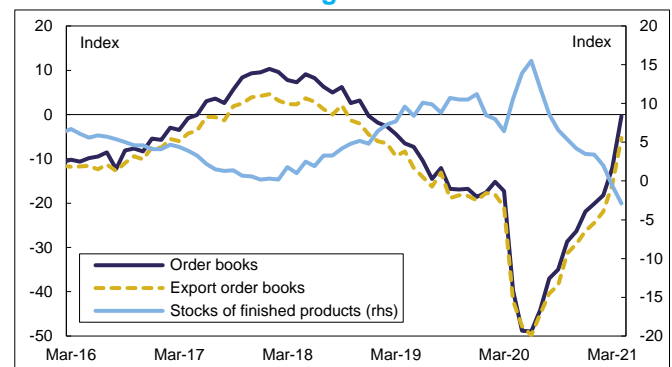
Consistent with greater business confidence and signs of economic recovery, and suggesting that concerns about a tightening in credit conditions have been unfounded, the monthly flow of loans to non-financial corporations surged in March by €42bn to €52bn, the most since April 2020. Lending picked up across all maturities, with long-term loans (i.e. those of maturities of more than five years) accounting for the lion's share (€34bn) to augur well for a pickup in fixed investment. Given the record surge in lending a year earlier as firms sought emergency liquidity to cope with the initial shock of the pandemic, growth in the stock of loans to NFCs slowed 1.7ppts to 4.6%Y/Y, with short-dated loans down a marked 8.9%Y/Y. In line with the recent trend, bank lending to households remained solid in March, with the net flow rising €1bn to a five-month high of €20bn. Given the weaker base in March 2020, the annual growth rate rose 0.5ppt to a thirteen-month high of 3.8%Y/Y. Net new lending for house purchase accelerated by €7bn to €23bn, pushing the annual growth rate in the stock of such loans up 0.5ppt to 5.0%Y/Y. But households made net repayments of consumer credit for the fourth month out of the past five. But with that net repayment coming in at just €3bn, the pace of decline in the stock of such loans moderated 1.1ppts to -1.7%Y/Y, having the prior month marked the steepest drop since June 2013.

Euro area: Economic sentiment indices by country*



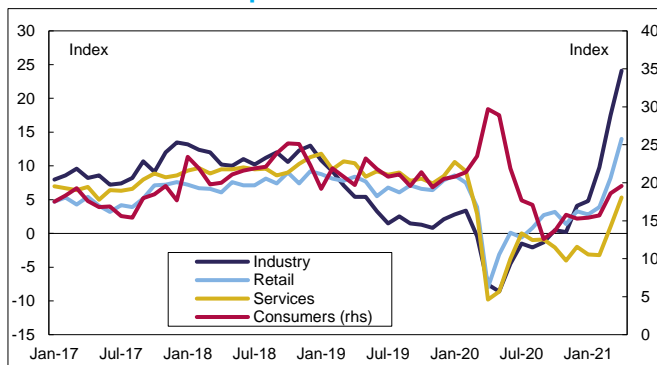
*No Italian survey in April 2020. Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing new orders and stocks



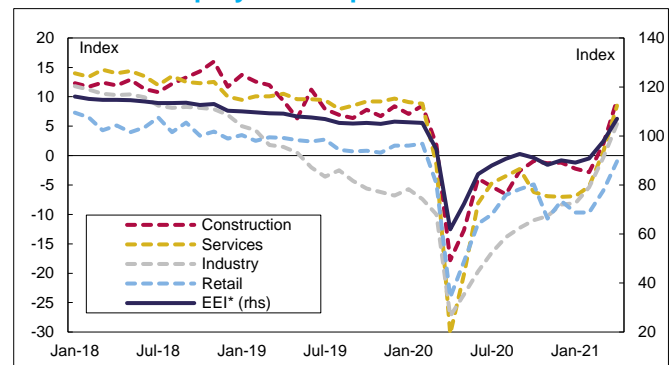
Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Price expectations*



*Selling-price expectations for firms. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Employment expectations



*Employment Expectations Indicator. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Household and firm deposit growth remains solid, but M3 growth slows on base effects

Meanwhile, with opportunities for consumer spending reduced by ongoing lockdown measures, households have continued to accumulate bank deposits that arguably represent a potent source of future demand. Indeed, inflows to household deposits rose by €9bn to €62bn in March, although base effects meant that the twelve-month increase in the stock slowed somewhat to €651bn (9.1%Y/Y). The flow of deposits placed by NFCs doubled to €40bn, but that similarly left the twelve-month increase in the stock slowing to €462bn (18.0%Y/Y). And, overall, the annual pace of M3 growth slowed by 2.1ppts to a seven-month low of 10.1%Y/Y.

The day ahead in the euro area

Inflation will remain in the spotlight tomorrow, with the flash April figures due from the euro area, France and Italy. Following today's preliminary data from Germany and Spain, we have revised up our forecast for the headline euro area CPI rate to rise 0.4ppt to 1.7%Y/Y but also expect core inflation to drop 0.1ppt to 0.8%Y/Y as pandemic restrictions continue to weigh on prices of consumer-facing services.

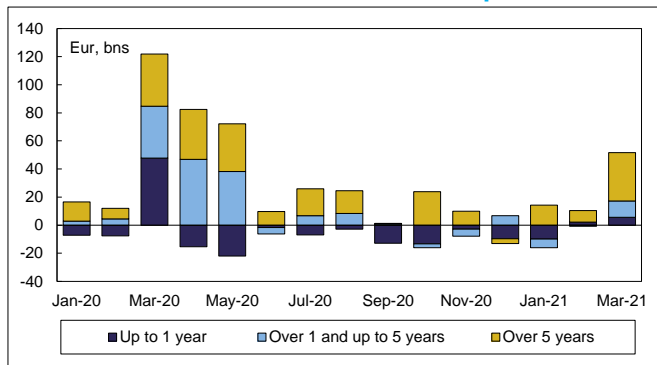
Tomorrow also brings Q1 GDP figures for the euro area, Germany, France, Italy and Spain. Following a smaller-than-feared contraction of 0.7%Q/Q in Q4, we forecast a further decline in euro area GDP of 0.8%Q/Q in Q1 due to the intensification of the pandemic and re-imposition of lockdown measures. But the range of possible outcomes is wide, and probably skewed to the downside. Among the member states, we forecast declines of around 1.0%Q/Q in Germany and Spain, where GDP held up in Q4. After a fall of 1.4%Q/Q in Q4, French GDP might be little better than flat. And we forecast a contraction in Italian GDP of around 0.5%Q/Q following the steeper drop of 1.9%Q/Q in Q4. Other economic data due to be published tomorrow include euro area unemployment figures for March, as well as French consumer spending figures and Spanish retail sales data for the same month.

UK

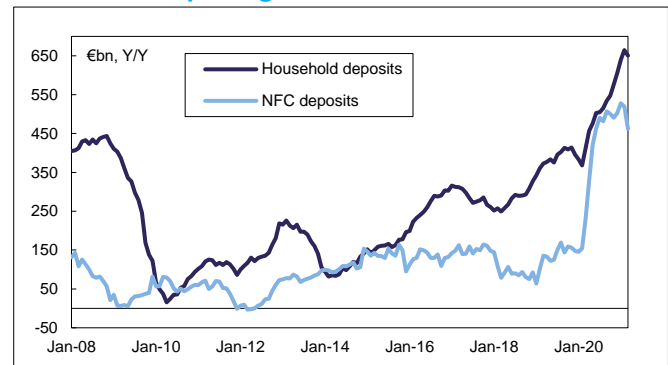
The day ahead in the UK

It will be a quiet end to the week for economic data from the UK with only the Lloyds business barometer for April scheduled for release. Last month, the indicator jumped to +15, from +2 in February, the highest since February last year, when it stood at +23. A further increase seems highly likely this month.

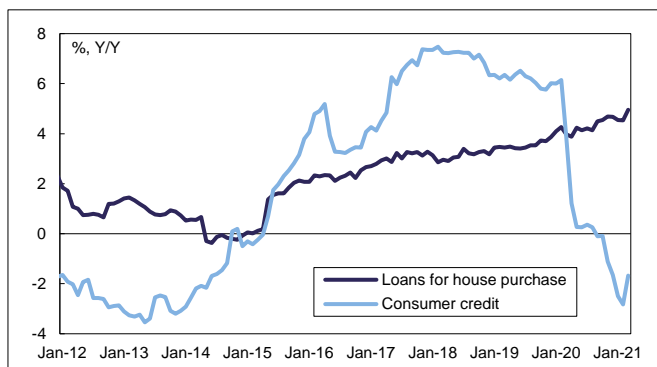
Euro area: Loans to Non-financial corporations



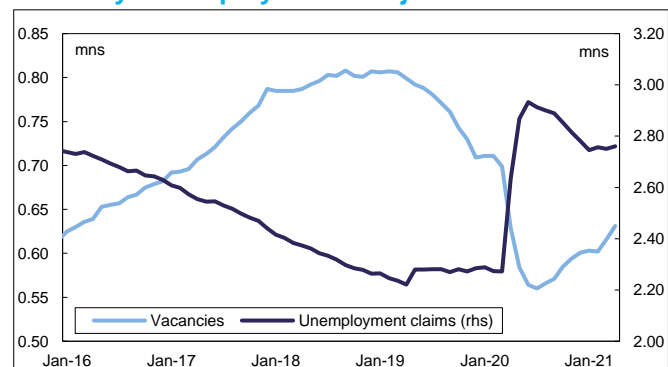
Euro area: Deposit growth



Euro area: Growth in loans to households











Germany: Unemployment and job vacancies







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%	Mar	10.1	10.2	12.3	-
	 European Commission economic confidence	Apr	110.3	102.0	101.0	100.9
	 European Commission final consumer confidence	Apr	-8.1	-8.1	-10.8	-
	 European Commission industrial confidence (services)	Apr	10. (2.1)	4.0 (-8.7)	2.0 (-9.3)	2.1 (-9.6)
Germany	 Unemployment rate % (change '000s)	Apr	6.0 (9.0)	6.0 (-10.0)	6.0 (-8.0)	- (-6.0)
	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	2.0 (2.1)	1.9 (2.0)	1.7 (2.0)	-
Spain	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	2.2 (1.9)	1.9 (1.7)	1.3 (1.2)	-
	 Unemployment rate %	Q1	16.0	16.5	16.1	-















Auctions

Country	Auction
Italy	 sold €2.75bn of 0% 2026 bonds at an average yield of 0.17%
	 sold €2.5bn of 0.6% 2031 bonds at an average yield of 0.88%
	 sold €2bn of 0.9% 2031 bonds at an average yield of 0.83%
	 sold €1.25bn of 2026 floating rate bonds at an average yield of -0.006%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU		10.00 Preliminary CPI (core CPI) Y/Y%	Apr	<u>1.7 (0.8)</u>	1.3 (0.9)
		10.00 Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>-0.8 (-2.0)</u>	-0.7 (-4.9)
		10.00 Unemployment rate %	Mar	8.3	8.3
Germany		09.00 Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>-1.0 (-2.7)</u>	0.3 (-2.7)
France		06.30 Consumer spending M/M% (Y/Y%)	Mar	0.5 (19.7)	0.0 (-0.1)
		06.30 Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>0.0 (1.0)</u>	-1.4 (-4.9)
		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	1.3 (1.6)	1.1 (0.7)
		07.45 PPI Y/Y%	Mar	-	1.8
Italy		08.00 Preliminary unemployment rate %	Mar	10.3	10.2
		10.00 Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>-0.5 (-1.6)</u>	-1.9 (-6.6)
		10.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	1.0 (0.9)	0.8 (0.6)
Spain		08.00 Preliminary GDP Q/Q% (Y/Y%)	Q1	<u>-1.0 (-4.7)</u>	0.0 (-8.9)
		08.00 Retail sales Y/Y%	Mar	-5.0	-5.9
UK		00.01 Lloyds business barometer	Apr	-	15

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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