

Euro wrap-up

Overview

- Longer-dated Bunds followed USTs higher while data suggested a slowing in longer-term lending to euro area businesses.
- Gilts also made gains on a day with no top-tier UK data releases.
- Key euro area data releases in the coming week include the flash May inflation estimates, the Commission's sentiment surveys, labour market and retail sales reports.

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Daily bond market movements

Bond	Yield	Change
BKO 0.2 06/24	0.326	+0.001
OBL 0 04/27	0.413	-0.024
DBR 0 02/32	0.950	-0.043
UKT 1 04/24	1.430	-0.025
UKT 1½ 07/27	1.559	-0.039
UKT 4¼ 06/32	1.912	-0.057

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

Euro area

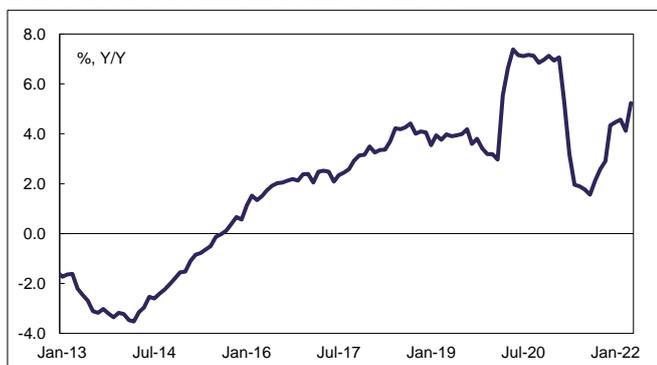
Rates on bank loans rising before June end to TLTRO discount rate

A relatively quiet end to the week brought some further commentary from the ECB doves, for whom the remarks by Spanish Governor Hernandez de Cos appeared to represent their current consensus view. While he supported the case for gradual policy normalisation, he argued against “abrupt movements”, suggesting a willingness to accept a number of hikes in the ECB’s deposit rate from July in increments of 25bps but determination to argue against sooner tightening or increases of 50bps. Of course, the Governing Council has already decided that the special discount rate on the longer-term TLTROs – 50bps below the deposit rate – will likely come to an end on 23 June. And in anticipation of ECB tightening to come, increases in financial market rates have already started to be passed on by banks to new borrowers. In March, the ECB’s estimate of the composite cost of borrowing for non-financial corporations (NFCs) in the euro area rose 7bps for the second month in three, with the 13bps increase from December representing the biggest quarterly increase since the ECB’s ill-advised tightening in 2011. The average increase in loans to SMEs with an initial fix of more than five and up to ten years was negligible in France, but 38bps in Germany, 36bps in Spain and an eye-catching 55bps in Italy. In addition, the composite cost of new loans for house purchase was up 16bps from December, similarly the most in almost eleven years. The average increase in mortgage rates over the quarter was highest – some 24bps – on loans with an initial fix of more than five and up to ten years, with the equivalent German rate up 34bps and the Spanish rate up an extremely sharp 87bps.

Lending for house purchase still firm, consumer credit flow still modest while deposits slow

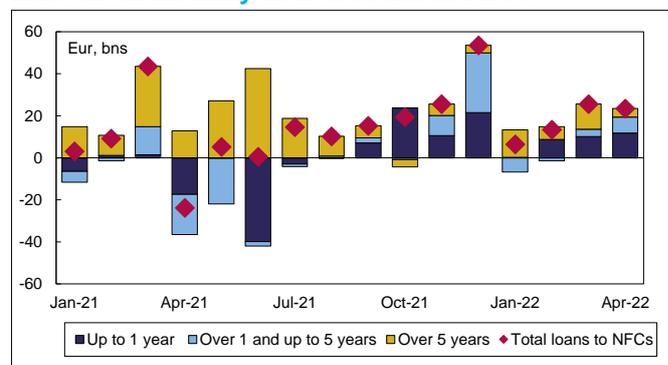
While clearly picking up, interest rates on loans remain exceptionally low by historical standards. Indeed, at end-Q1 the composite cost of a new loan for house purchase in the euro area had merely returned to its level in November 2019 just ahead of the pandemic, with the Italian rate still merely the highest since the first half of 2019. And despite the recent big hit to consumer confidence, there is no evidence that the higher interest rates, and a slight tightening in credit standards, is stifling mortgage demand. Indeed, the ECB’s most recent bank lending survey suggested that the level of rates was still supportive of demand. And in April the flow of new loans to households for house purchase of €18.5bn left the average in the year to-date of €21.9bn still above the 2021 average, with the annual rate easing less than 20bps to 5.27%Y/Y. And while consumer budgets have been increasingly eroded by high inflation, the net flow of consumer credit remained modest in April, at just €1.8bn, up only slightly from the Q1 average albeit double the average in 2021. While that pushed the annual rate up almost 40bps to 3.0%Y/Y, the strongest since the onset of the pandemic in March, it highly likely remains consistent with a

Euro area: Growth in loans to NFCs



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

Euro area: Monthly flow of loans to NFCs



Source: ECB and Daiwa Capital Markets Europe Ltd.

subdued pace of household consumption at the start of Q2. Nevertheless, with incomes squeezed, in April household bank deposits rose €12.4bn, the least since November 2017 and the second-lowest of the past six years.

Longer-term loan growth slows hinting at a softer capex outlook

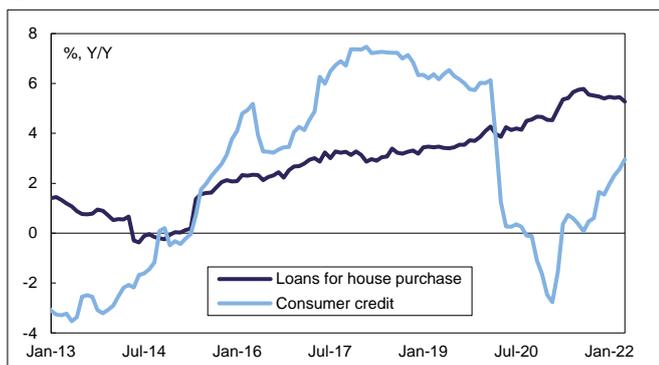
Like bank loans to households, lending to NFCs also remained broadly steady in April, with the flow of €23.4bn down just €2.2bn from March to leave the average in the year to-date at €17.3bn, up €2.6bn on the 2021 average. That took the annual rate, adjusted for sales and securitisations, up 1.1ppt to 5.2%Y/Y, a thirteen-month high. That does not necessarily augur well for business investment, however, as more than half of the new loans were short-dated (i.e. with maturities up to one year), suggesting that liquidity was the prime concern. Indeed, the flow of longer-dated loans to NFCs (i.e. those with a maturity of more than five years) provides a better guide to business capex. And likely reflecting heightened uncertainty in the wake of cost pressures and the Ukraine war, the flow of such loans was the lowest so far this year at €4.1bn, down from an average of €10.4bn in Q1 and €14.6bn in 2021. While the average interest rate on NFC deposits with a maturity of up to one year remained significantly negative (up just 2bps to -0.31% in March), the stock of NFC deposits rose a further €8.9bn in April – close to the Q1 average but less than half the norm last year – to be up 7.8%Y/Y.

The week ahead in the euro area

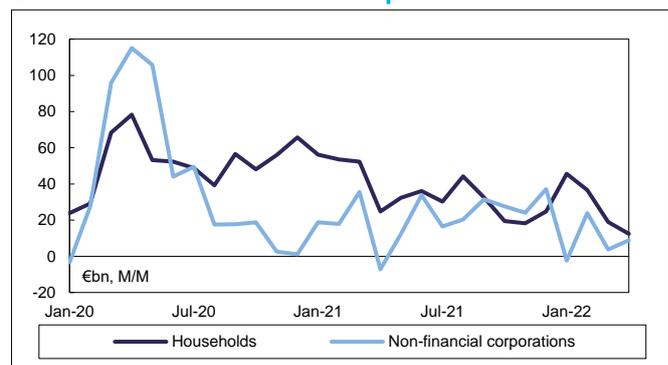
The coming week will be a busy one for top-tier euro area data releases, with the calendar including the European Commission's business and consumer confidence surveys (Monday), flash CPI estimates (Monday and Tuesday), unemployment rates (Wednesday), and retail sales numbers (Friday). Arguably of most interest, we expect Tuesday's inflation data to report that the euro area headline HICP rate edged higher in May, by 0.3ppt to a fresh series high of 7.7%Y/Y, due not least to higher food inflation and still elevated energy prices. We also expect the core HICP measure to rise 0.1ppt to a new high of 3.6%Y/Y. The member state numbers from Germany and Spain on Monday will give a guide to what to expect. Euro area PPI data for April (Thursday) will offer further insight into pipeline price pressures, while the Commission's survey will include an update on price expectations.

Not least given the impact of high inflation, the Commission's survey is also likely to confirm still very weak consumer confidence this month (the flash index rose just 0.9ppt from April's two-year low of -22.0). But due to an ongoing normalisation of activity following the lifting of restrictions, business conditions are expected to have improved markedly in services and retail in particular. The final PMIs for May (due Wednesday and Friday) are expected to confirm that conditions remain surprisingly firm in the middle of Q2. Certainly, after today's Spanish retail figures saw sales jump 5.3%M/M in April, more than reversing the 3.8%M/M drop in March to be trending 2½% higher than the Q1 average, aggregate euro area retail sales should see some bounce back in April following the 0.4%M/M drop in March. Meanwhile, the euro area unemployment rate is expected to have moved sideways at the record-low 6.8% in April. Elsewhere, new car registrations numbers for May from

Euro area: Growth in loans to households



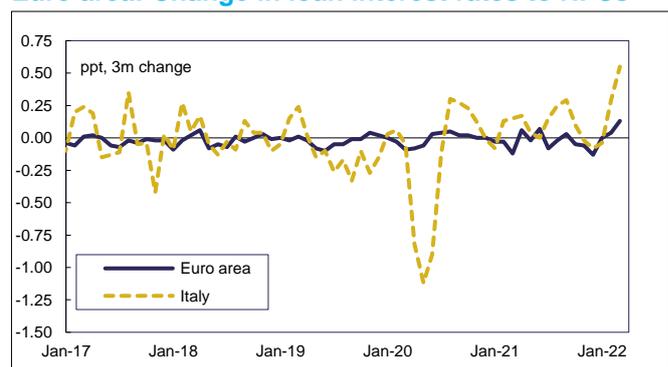
Euro area: Growth in bank deposits



Euro area: Composite loan interest rate to NFCs



Euro area: Change in loan interest rates to NFCs*



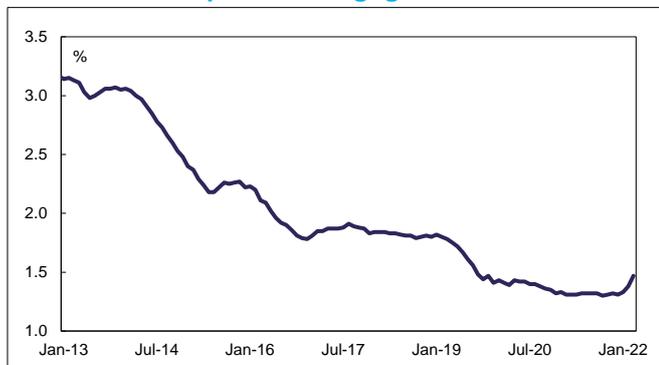
France, Italy and Spain are due Wednesday, with German car sales and production figures due Friday. In terms of ECB-speak, President Lagarde and Chief Economist Lane are scheduled to speak at separate events on Wednesday.

UK

The week ahead in the UK

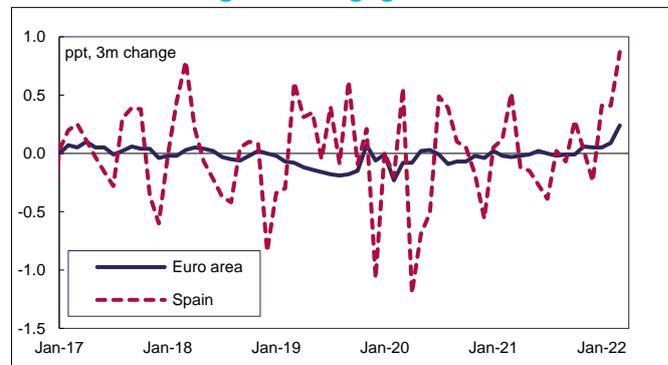
In the UK, the Bank Holiday-shortened week ahead is set to be exceptionally quiet on the economic data front. Of most interest on Tuesday will be the BoE's latest bank lending numbers, which are expected to confirm that demand for consumer credit remained strong at the start of the second quarter. In addition, the BRC's shop price index (Wednesday) seems bound to flag elevated price pressures on the High Street, not least due higher global food prices, with the headline rate likely to have risen further above April's 9½-year high of 2.7%Y/Y. The latest Nationwide house price indices (Wednesday) are expected to report a further monthly increase in May (0.5%M/M), albeit this would leave the annual growth rate easing 1½ppts to 10.5%Y/Y. The final manufacturing PMIs for May are also due Wednesday, with the Lloyds business barometer for the same month due Tuesday.

Euro area: Composite mortgage rates



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

Euro area: Change in mortgage rates*



*5-10Y fix. Source: Refinitiv, ECB and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

		2021	2022				2023	2022		
		Q4	Q1	Q2	Q3	Q4	Q1	2022	2023	2024
GDP			%, Q/Q					%, Y/Y		
Euro area		0.3	0.3	0.1	0.6	0.5	0.5	2.7	1.9	1.6
UK		1.3	0.8	-0.1	0.3	-0.5	0.0	3.5	-0.3	0.9
Inflation, %, Y/Y										
Euro area										
Headline HICP		4.6	6.1	7.4	7.0	5.7	3.4	6.5	2.2	1.8
Core HICP		2.4	2.7	3.5	3.3	2.7	2.0	3.1	1.8	1.8
UK										
Headline CPI		4.9	6.2	8.9	8.8	9.5	8.5	8.4	4.8	1.7
Core CPI		3.9	5.1	6.1	6.0	5.7	4.7	5.7	3.3	1.7
Monetary policy, %										
ECB										
Refi Rate		0.00	0.00	0.00	0.25	0.75	1.00	0.75	1.00	1.00
Deposit Rate		-0.50	-0.50	-0.50	0.00	0.50	0.75	0.50	0.75	0.75
BoE										
Bank Rate		0.25	0.75	1.25	1.50	1.50	1.50	1.50	1.25	1.25

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast/actual</i>	Previous	
Monday 30 May 2022						
Euro area		10.00	EC's Economic Sentiment Indicator	May	104.9	105.0
		10.00	EC's industrial (services) confidence	May	7.5 (13.7)	7.9 (13.5)
		10.00	EC's final consumer confidence	May	-21.1	-22.0
Germany		13.00	Preliminary CPI M/M% (Y/Y%)	May	0.5 (7.6)	0.8 (7.4)
		13.00	Preliminary EU-harmonised CPI M/M% (Y/Y%)	May	0.4 (8.1)	0.7 (7.8)
		-	Retail sales* M/M% (Y/Y%)	Apr	-0.4 (4.4)	0.9 (-4.4)
Spain		08.00	Preliminary CPI M/M% (Y/Y%)	May	0.6 (8.4)	-0.2 (8.3)
		08.00	Preliminary EU-harmonised CPI M/M% (Y/Y%)	May	0.7 (8.3)	-0.3 (8.3)
Tuesday 31 May 2022						
Euro area		10.00	Preliminary CPI M/M% (Y/Y%)	May	<u>0.5 (7.7)</u>	0.6 (7.4)
		10.00	Preliminary core CPI M/M% (Y/Y%)	May	<u>0.3 (3.6)</u>	1.0 (3.5)
Germany		08.55	Unemployment rate % (change '000s)	May	5.0 (-15.0)	5.0 (-13.0)
France		07.45	Preliminary CPI M/M% (Y/Y%)	May	0.5 (5.1)	0.4 (4.8)
		07.45	Preliminary EU-harmonised CPI M/M% (Y/Y%)	May	0.6 (5.6)	0.5 (5.4)
		07.45	Consumer spending M/M% (Y/Y%)	Apr	1.0 (7.6)	-1.3 (-2.4)
		07.45	GDP – 2 nd estimate Q/Q% (Y/Y%)	Q1	0.0 (5.3)	0.7 (5.4)
Italy		09.00	GDP – 2 nd estimate Q/Q% (Y/Y%)	Q1	-0.2 (5.8)	0.6 (6.2)
		10.00	Preliminary CPI M/M% (Y/Y%)	May	0.4 (6.3)	-0.1 (6.0)
		10.00	Preliminary EU-harmonised CPI M/M% (Y/Y%)	May	0.5 (6.7)	0.4 (6.3)
UK		00.01	Lloyds business barometer	May	-	33
		09.30	Net consumer credit £bn (Y/Y%)	Apr	1.2 (-)	1.3 (5.2)
		09.30	Net mortgage lending £bn (approvals '000s)	Apr	5.4 (70.5)	7.0 (70.7)
Wednesday 01 June 2022						
Euro area		09.00	Final manufacturing PMI	May	54.4	55.5
		10.00	Unemployment rate %	Apr	6.8	6.8
Germany		08.55	Final manufacturing PMI	May	54.7	54.6
France		08.50	Final manufacturing PMI	May	54.5	55.7
		-	New car registrations* Y/Y%	May	-	-22.6
Italy		08.45	Manufacturing PMI	May	53.7	54.5
		17.00	New car registrations Y/Y%	May	-	-33.0
Spain		08.15	Manufacturing PMI	May	52.2	53.3
		-	New car registrations* Y/Y%	May	-	-12.1
UK		00.01	BRC shop price index	May	-	2.7
		07.00	Nationwide house price index M/M% (Y/Y%)	May	0.6 (10.5)	0.3 (12.1)
		09.30	Final manufacturing PMI	May	54.6	55.8
Thursday 02 June 2022						
Euro area		10.00	PPI M/M% (Y/Y%)	Apr	2.3 (38.6)	5.3 (36.8)
Spain		08.00	Unemployment change '000s	May	-	-86.3
Friday 03 June 2022						
Euro area		09.00	Final services (composite) PMI	May	56.3 (54.9)	57.7 (55.8)
		10.00	Retail sales M/M% (Y/Y%)	Apr	0.3 (5.4)	-0.4 (0.8)
Germany		07.00	Trade balance €bn	Apr	1.6	13.1
		08.55	Final services (composite) PMI	May	56.3 (54.6)	57.6 (54.3)
France		07.45	Industrial production M/M% (Y/Y%)	Apr	0.2 (0.5)	-0.5 (0.1)
		07.45	Manufacturing production M/M% (Y/Y%)	Apr	-	-0.3 (1.5)
		08.50	Final services (composite) PMI	May	58.4 (57.1)	58.9 (57.6)
Italy		08.45	Services (composite) PMI	May	54.5 (53.8)	55.7 (54.5)
Spain		08.15	Services (composite) PMI	May	56.1 (54.5)	57.1 (55.7)

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

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 30 May 2022		
- Nothing scheduled -		
Tuesday 31 May 2022		
Euro area	 08.00	ECB's Villeroy scheduled to speak
Germany	 10.30	Auction: €3bn of 0% 2027 bonds
Italy	 10.00	Auction: €2.5bn of 2.5% 2032 bonds
	 10.00	Auction: €3bn of 1.1% 2027 bonds
	 10.00	Auction: €1.25bn of 0.4% 2030 floating-rate bonds
Wednesday 01 June 2022		
Euro area	 09.00	ECB's Lagarde scheduled to speak at a BIS conference
	 16.30	ECB's Lane scheduled to speak
UK	 09.30	BoE publishes Monthly Decision Maker Panel data
Thursday 02 June 2022		
Euro area	 07.45	ECB's Villeroy scheduled to speak
	 16.15	ECB's Hernandez de Cos scheduled to speak
France	 09.50	Auction: 0% 2032 bonds
	 09.50	Auction: 1.25% 2036 bonds
	 09.50	Auction: 0.75% 2052 bonds
Spain	 09.30	Auction: 4.65% 2025 bonds
	 09.30	Auction: 0.8% 2029 bonds
	 09.30	Auction: 0.1% 2031 bonds
	 09.30	Auction: 0.65% 2027 index-linked bonds
UK	 -	Public holiday – The Queen's Platinum Jubilee
Friday 03 June 2022		
UK	 -	Public holiday – The Queen's Platinum Jubilee

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 M3 money supply Y/Y%	Apr	6.0	6.3	6.3	-
Spain	 Retail sales Y/Y%	Apr	1.5	-2.0	-4.2	-4.1

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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