

Euro wrap-up

Overview

- Bunds made gains as the ECB cut rates by 25bps and signalled the likelihood of further easing to come in response to the deteriorating growth outlook and tightening financial conditions.
- Gilts followed euro area government bonds higher as today's favourable BoE credit conditions survey results have likely been overtaken by recent events.
- The coming week will bring several April economic survey results including the flash PMIs, ifo indices and readings on consumer confidence.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	1.678	-0.063
OBL 2.4 04/30	2.014	-0.043
DBR 2½ 02/35	2.466	-0.038
UKT 3¾ 03/27	3.905	-0.053
UKT 4¾ 03/30	4.039	-0.047
UKT 4½ 03/35	4.566	-0.038

*Change from close as at 4:35pm BST.

Source: Bloomberg

Euro area

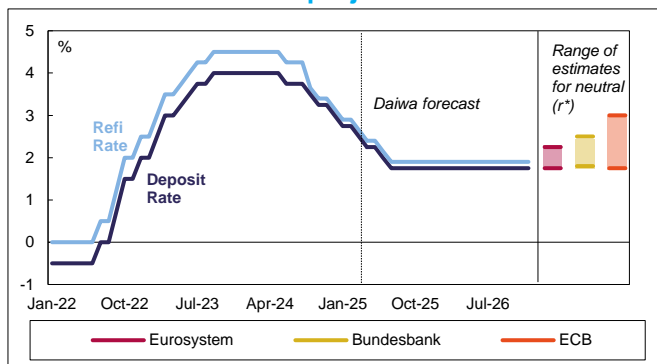
ECB cuts rates but signals likelihood of further easing in response to deteriorating outlook

As expected, the ECB's Governing Council cut rates by 25bps for the seventh time this cycle and sixth successive policy meeting, taking the deposit rate to 2.25%. But the Governing Council's policy statement and President Lagarde's press conference were dovish, acknowledging the significant deterioration in the economic outlook since last month's meeting and making clear the likelihood that policy will be eased again at the next meeting in June and probably again thereafter. Indeed, while today's decision for 25bps was unanimous, Lagarde noted that some members were sympathetic to the case for a cut of 50bps, while no members had advocated for a pause. And while the Governing Council maintained its forward guidance that future policy decisions will continue to be data-dependent and taken on a meeting-by-meeting basis, that cautious approach was justified by the "exceptional" current level of uncertainty. In closing, Lagarde underscored the Governing Council's readiness to respond with "agility" as events unfold, and emphasised its willingness to further adjust any of its policy tools – and not just policy rates – as and when required. So, while not our base case, if market conditions deteriorate significantly, we would certainly not rule out an inter-meeting intervention.

Negative demand shock & tightening financial conditions call for action over coming meetings

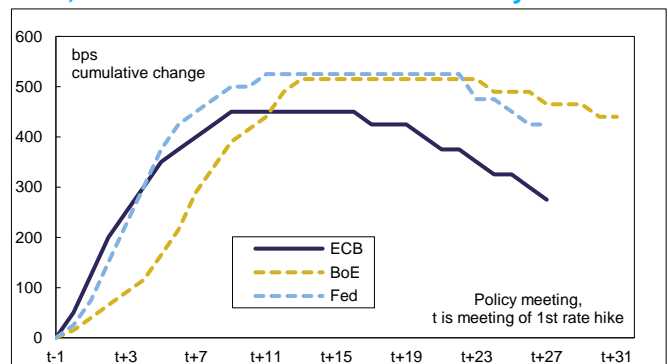
While the Governing Council judged last month that monetary policy was "becoming meaningfully less restrictive", today's policy statement dropped any assessment of the extent of policy restrictiveness. Although the deposit rate now sits within the range of estimates of neutral policy, Lagarde insisted that the very concept of the neutral rate was "meaningless" in current conditions. Instead, recent changes to US trade policy and uncertainty about the future tariff landscape, geopolitical events, worsening business and consumer confidence, and adverse and volatile financial market adjustments, would collectively represent a negative demand shock that merited adjustment to policy. So, the policy statement made clear that the downside risks to the growth outlook had significantly increased while financial conditions were probably tightening. And while the inflation outlook was somewhat more difficult to determine with confidence, Lagarde's comments suggested that the net effects on demand, supply and markets – not least the euro exchange rate – were likely to reinforce the disinflationary trend in the euro area in marked contrast to the inflationary effects in the US. So, although the future tariff landscape will probably still be unclear at that point, the Governing Council will cut rates again at the next meeting in June when the ECB's updated economic projections will have to revise down the inflation outlook. And while views on the Governing Council differ with respect to the likely future path of events, and today's press conference wasn't quite a Draghi-style "whatever it takes" moment, Lagarde's recognition of the potential gravity of events and insistence that the ECB will respond as necessary to evolving risks, reinforces our view that the ECB will cut the deposit rate further in Q3 to 1.75% or less.

Euro area: Interest rate projection



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

ECB, Fed & BoE: Current interest rate cycles



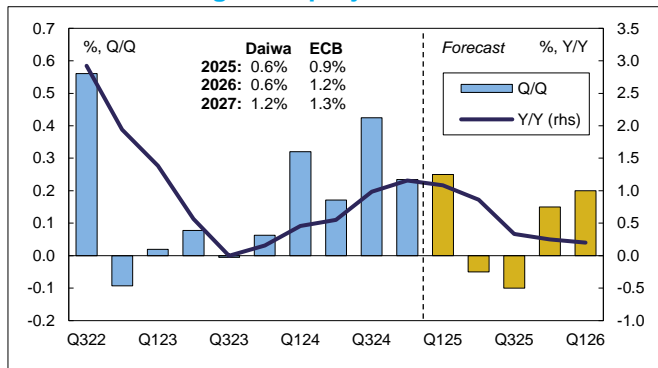
Source: ECB, Fed, BoE, Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the euro area

After the extended Easter weekend, the coming week's euro area data flow will bring a number of top-tier releases that will provide an update on economic conditions and growth prospects at the start of Q2 amid heightened economic uncertainty relating to US tariffs. April's flash PMIs (Wednesday) will mark the highlight. March's survey had hinted at front-loading of production as the manufacturing output PMI rose to the highest in almost three years to push the composite output index up to a seven-month high (50.9). But with Trump's 'Liberation Day' announcements bringing higher tariffs than anticipated and given the ongoing uncertainty surrounding future trade arrangements, we expect the PMIs to point to a notable deterioration in conditions at the start of Q2. The PMIs will be supplemented by April's German ifo (Thursday) and French INSEE business surveys (Friday), the latter of which has proved a more reliable guide to French business activity than the PMIs in recent months. Likewise, rising uncertainties will continue to weigh on household sentiment, with the European Commission's consumer confidence indicator (Tuesday) likely to drop for a second successive month after falling to an 11-month low of -14.5 in March. The ECB's quarterly Survey of Professional Forecasters will also be of interest (Tuesday), with short- to medium-term expectations for real GDP growth and inflation likely to be revised lower from three months ago, and be more widely-distributed, given the recent darkening of the growth outlook and heightened uncertainty. The update to the ECB's wage tracker (Wednesday), by contrast, should be little changed, and still consistent with continued wage moderation into the second half of this year.

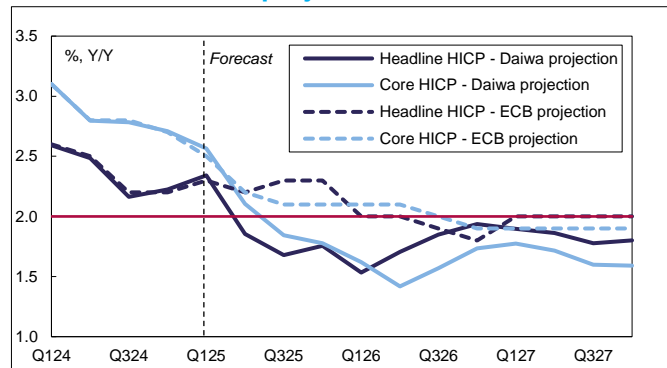
Meanwhile, efforts by manufacturers to front-run tariffs should provide some, albeit only temporary, upside to February's euro area trade data (Wednesday). Despite being little changed in January, early releases from Ireland and Germany – the primary drivers of the EU's bilateral goods trade surplus with the US – both flagged notable increases in US-bound exports, amid a surge in pharmaceuticals shipments. By comparison, the risks to February's construction output would seem to be more to the downside given an apparent pullback in German housebuilding (-7.6%M/M) that month. The week ahead will also bring a stock take of fiscal conditions among the euro area member states at the end of last year (Tuesday). The full-year numbers will likely show that budget deficits shrunk on average over 2024, with improvements in most member states compensating for fiscal slippage in France. Indeed, overall, the euro area general government deficit is likely to have dropped to around the 3.0% of GDP Treaty benchmark, less than half the equivalent figure for the US.

Euro area: GDP growth projection*



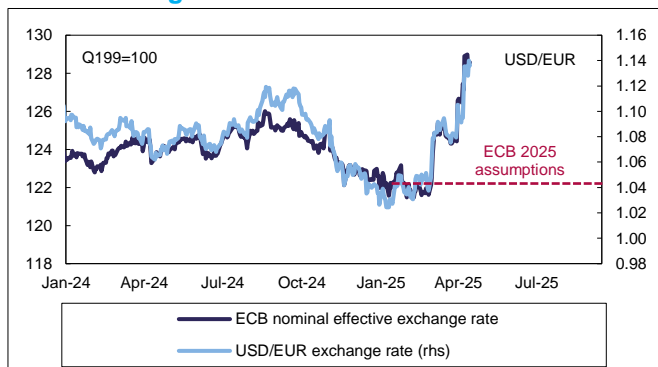
*Chart shows Daiwa's latest GDP projection.
Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Inflation projections*



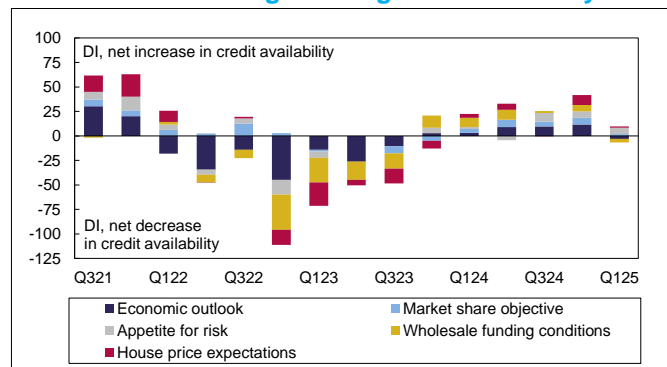
*ECB projections from March 2025.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro exchange rates



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

UK: Factors affecting housing loan availability



Source: BoE credit conditions survey, Macrobond and Daiwa Capital Markets Europe Ltd.

UK










Improvement in credit conditions at the start of the year likely to be short-lived

In a relatively quiet day for UK economic news, the BoE's credit conditions survey signalled an increase in credit availability to households and businesses in the three months to February. In particular, lenders reported the largest increase in the supply of unsecured loans to households and firms since Q122 and Q220 respectively. Admittedly, the rate of increase of mortgage loan availability moderated slightly as demand also reportedly softened, perhaps reflecting the adjustment in Stamp Duty thresholds at the start of April. Indeed, banks expected demand for secured lending for house purchases to fall slightly in the three months to May, but increase further for remortgaging as home owners attempt to secure lower interest rates. While lenders anticipated credit availability to households to improve further over the near term, they also flagged that rising uncertainties relating to the economic outlook were negatively impacting credit supply. And although lenders suggested that the overall spread between lending rates and Bank Rate was little changed on loans for house purchases and businesses, they had already started to widen their spreads on consumer credit. Of course, given the recent market turbulence and sharp rise in economic uncertainty, credit conditions have likely tightened significantly over recent weeks, and both supply and demand effects are likely to restrain bank lending over the near term.

The week ahead in the UK

After the headline composite PMI notably rose last month, by 1.0pt to a five-month high of 51.5, April's flash PMIs (Wednesday) will be closely watched for evidence of any trade-related blows to UK business activity. Indeed, as a result of those actions, we expect March's upturn to be partially reversed. But the respective cost and employment PMIs will also be in focus as higher employers' national insurance contributions and minimum wage thresholds took effect at the start of this month. Those indices had each reported a steady weakening over recent months in anticipation of the policy changes. But while reducing the likelihood of a sudden step-change in April, policymakers will certainly be mindful of their signal. The CBI's industrial trends survey (Thursday) for April will provide a crosscheck for manufacturing conditions, though too will surely remain subdued. Meanwhile, consistent with our expectations for consumer confidence the euro area, April's GfK survey (Friday) should also be due a first drop this year, having been confronted by the rise in uncertainty and gloomier growth prospects. March's retail sales figures (also Friday) would also seem likely to soften owing to their strength over the previous two months and delayed Easter holidays. But favourable weather that month and the signals of firm underlying demand flagged by this week's BRC retail survey leads us to expect only a moderate decrease of up to ½%M/M, which would leave sales up roughly 1½%Q/Q in Q1. The week ahead will also bring the first release of public finance statistics since the Chancellor's Spring Statement (Wednesday). March's data will be benchmarked against the updated forecasts from the OBR, although they should now be of less immediate policy relevance given the extremely uncertain economic outlook.

Daiwa economic forecasts

	2024		2025				2024	2025	2026
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.4	0.2	0.3	-0.1	-0.1	0.2	0.8	0.6	0.6
UK 	0.0	0.1	0.6	0.1	0.1	0.2	1.1	0.9	0.8
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.2	2.2	2.3	1.9	1.7	1.8	2.4	1.9	1.8
Core HICP 	2.8	2.7	2.6	2.1	1.8	1.8	2.8	2.0	1.6
UK									
Headline CPI 	2.0	2.5	2.8	3.3	3.4	3.2	2.5	3.2	2.2
Core CPI 	3.3	3.3	3.6	3.3	3.2	3.2	3.7	3.3	2.1
Monetary policy, %									
ECB									
Deposit Rate 	3.50	3.00	2.50	2.00	1.75	1.75	3.00	1.75	1.75
Refi Rate 	3.65	3.15	2.65	2.15	1.90	1.90	3.15	1.90	1.90
BoE									
Bank Rate 	5.00	4.75	4.50	4.25	4.00	3.75	4.75	3.75	3.25



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

The next edition of the Euro wrap-up will be published on 22 April 2025


European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area 	ECB Deposit (Refinancing) Rate %	Apr	2.25 (2.40)	<u>2.25 (2.40)</u>	2.50 (2.65)	-
Germany 	PPI Y/Y%	Mar	-0.2	0.4	0.7	-


Auctions

Country	Auction
France 	sold €3.6bn of 2.4% 2028 bonds at an average yield of 2.32%
	sold €4.4bn of 2.7% 2031 bonds at an average yield of 2.73%
	sold €4bn of 2% 2032 bonds at an average yield of 2.98%
	sold €824m of 0.6% 2034 inflation-linked bonds at an average yield of 1.25%
	sold €186m of 0.1% 2036 inflation-linked bonds at an average yield of 1.40%
	sold €693m of 0.55% 2039 inflation-linked bonds at an average yield of 1.56%
	sold €294m of 0.1% 2053 inflation-linked bonds at an average yield of 1.68%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
France 	-	BdF retail sales Y/Y%	Mar	-	-0.2







Auctions and events

Good Friday: public holiday in the UK, Germany & Spain

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

























The coming week's calendar

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 21 March 2025		
Easter Monday: public holiday in the UK, Germany, France & Italy		
Tuesday 22 April 2025		
Euro area 	09.00	ECB to publish quarterly Survey of Professional Forecasters for Q225
Germany 	10.30	Auction: to sell up to €5bn of 1.7% 2027 bonds
Wednesday 23 April 2025		
Euro area 	11.00	ECB to publish updated wage tracker
	11.00	ECB's Knot to speak on "Monetary policy and the euro in an uncertain world" at the Peterson Institute
	19.00	ECB's Villeroy to speak on safeguarding the euro amid global economic uncertainty
	20.15	ECB's Lane to participate in a panel discussion on central banking with rapidly changing global financial conditions
	10.30	Auction: to sell up to €4bn of 2.5% 2035 bonds
Thursday 24 April 2025		
Euro area 	14.00	ECB's Lane & BoE's Lombardelli participate in a panel discussion on the review of monetary policy strategy by central banks
UK 	10.00	Auction: to sell £1.75bn of 4.75% 2043 bonds
Friday 25 April 2025		
Italy 	10.00	Auction: to sell bonds*
	10.00	Auction: to sell inflation-linked bonds*

*Details to be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast/Actual</i>	Previous	
Monday 21 April 2025						
- Nothing scheduled -						
Tuesday 22 April 2025						
Euro area		10.00	Preliminary debt-to-GDP %	2024	-	87.4
		15.00	Preliminary Commission consumer confidence indicator	Apr	-15.1	-14.5
Wednesday 23 April 2025						
Euro area		09.00	Preliminary manufacturing (services) PMI	Apr	47.5 (50.5)	48.6 (51.0)
		09.00	Preliminary composite PMI	Apr	50.3	50.9
		10.00	Trade balance €bn	Feb	15.0	14.0
		10.00	Construction output M/M% (Y/Y%)	Feb	-	0.2 (0.0)
Germany		08.30	Preliminary manufacturing (services) PMI	Apr	47.6 (50.3)	48.3 (50.9)
		08.30	Preliminary composite PMI	Apr	50.6	51.3
France		08.15	Preliminary manufacturing (services) PMI	Apr	47.6 (47.5)	48.5 (47.9)
		08.15	Preliminary composite PMI	Apr	47.5	48.0
UK		07.00	Public sector net borrowing £bn	Mar	16.0	10.7
		09.30	Preliminary manufacturing (services) PMI	Apr	44.4 (51.6)	44.9 (52.5)
		09.30	Preliminary composite PMI	Apr	50.6	51.5
Thursday 24 April 2025						
Euro area		05.00	New car registrations Y/Y%	Mar	-	-3.9
Germany		09.00	ifo business climate indicator	Apr	85.2	86.7
		09.00	ifo current assessment (expectations) indicator	Apr	85.4 (85.0)	85.7 (87.7)
France		07.45	INSEE consumer confidence indicator	Apr	91	92
Spain		08.00	PPI Y/Y%	Mar	-	6.6
UK		11.00	CBI industrial trends survey – total orders (selling prices) balance %	Apr	-35 (20)	-29 (22)
		11.00	CBI industrial trends survey – business optimism balance %	Apr	-	-47
Friday 25 April 2025						
France		07.45	INSEE business (manufacturing) confidence indicator	Apr	96 (95)	97 (96)
UK		00.01	GfK consumer confidence indicator	Apr	-21	-19
		07.00	Retail sales, incl. auto fuel M/M% (Y/Y%)	Mar	-0.4 (1.7)	1.0 (2.2)
		07.00	Retail sales, excl. auto fuel M/M% (Y/Y%)	Mar	-0.7 (2.0)	1.0 (2.2)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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