ANDBANK
Private Bankers

Alex Fusté
Economista Cap Andbank
@AlexfusteAlex
alex.fuste@andbank.com

Flash Note: Europe. As things stand

ECB: Laggarde seems like Draghi in his determination, but in the opposite direction this time.

- Laggarde yesterday: “rates will be raised to sufficiently restrictive levels and kept there for as long as necessary”. This sounds like Draghi's "whatever it takes," but in the opposite sense.
- ECB's Nagel (Bundesbank Chief) says several rate hikes still required and once we have reached a sufficiently restrictive level it must be maintained for a sufficiently long time**.**
- ECB's Villeroy says ECB to reach peak rate during next three meetings.

German economy entered recession.

- German Gross domestic contracted in the first quarter of 2023 (product fell by 0.3% QoQ in real terms). This follows a decline of 0.5% QoQ in the fourth quarter of 2022. A recession is commonly defined as two successive quarters of contraction. On a YoY basis, the German GDP fell by 0.5% in 1Q23.
- Household consumption was down -1.2% QoQ in 1Q23, and government consumption was down by 4.9% QoQ. “Under the weight of immense inflation, the German consumer has fallen to his knees, dragging the entire economy down with him” (Dekabnak). “The optimism at the start of the year seems to have given way to more of a sense of reality” (ING)
- Big drop in German exports to China raises fears over EU's economic powerhouse recent double-digit drop in German exports to China in the first four months of the year, compared with the same period a year ago, highlights a unique set of challenges for Europe's industrial powerhouse.
- Following the latest German Ifo business climate survey (that have missed expectations), all key leading indicators in the manufacturing sector are now falling.

Italy avoids downgrade to junk. Banks strained by access to liquidity.

- Italy will not lose its' investment-grade status for now in boost for Meloni. Moody's currently assesses Italy at Baa1, just one notch above junk, with a negative outlook. Fitch kept its BBB rating two weeks ago as Italian GDP growth has been better-than-expected recently,
- Bloomberg reported that Italian banks have the biggest need among European lenders for liquidity to replace cheap funding from the ECB that's set to expire this year and next.

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European Equity market: Investors see trouble ahead after Europe's stellar first quarter.

- Q1 earnings season has proven resilient but corporate profits appears to be supported by resilient consumption, which in turn has been sustained by an excess of savings. However, according to Reuters, analysts seem to think now that consumers may run out of savings due to higher central bank rates and higher funding costs, which means lower capex for companies. European banks broadly beat Q1 forecasts. Consumer staples benefitted from the ability to hike prices to offset lower volumes. Luxury names were supported by China's reopening.

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