

# Euro wrap-up

## Overview

- Bunds made losses as the German ifo business survey added to evidence of improved economic sentiment in the euro area in the current month.
- Gilts also made losses as UK retail sales picked up somewhat in February.
- The coming week brings flash euro area inflation data for March along with further economic surveys, German labour market and new car registrations figures for the current month.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.728	+0.000
OBL 0 04/26	-0.682	+0.018
DBR 0 02/31	-0.351	+0.035
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.048	+0.016
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.325	+0.017
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.755	+0.028

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

Source: Bloomberg

## Euro area

### Ifo survey adds to evidence of improved sentiment despite intensified pandemic

After the [flash March PMIs](#) earlier this week surprised significantly on the upside, today's German ifo business survey similarly suggested that firms in the euro area's largest member state are far more confident and gearing up for recovery. Current conditions were judged to have improved this month, with the respective survey index up 2.4pts to 93, the best since before the pandemic in February 2020. And the survey measure of expectations for six months' time rose more than 5pts to 100.4, the highest since March 2018. As a result, the survey's headline business climate index increased 3.9pts to 96.6, the highest since June 2019. Encouragingly, the improvement was judged to be broad-based. Unsurprisingly, manufacturers were very upbeat about current conditions, with the respective survey indicator up to the highest in almost two years. And manufacturers' expectations for the coming six months were judged to be the best in more than a decade. Despite ongoing challenges in hospitality, services firms judged current conditions to be the best since August, with IT firms particularly positive. And services firms' expectations were the most upbeat since May 2019. While retailers were still pessimistic, the opposite is true for wholesalers, whose business climate was assessed to be the brightest since April 2019. And construction firms were also more optimistic, with current conditions the most favourable in a year and expectations improved too.

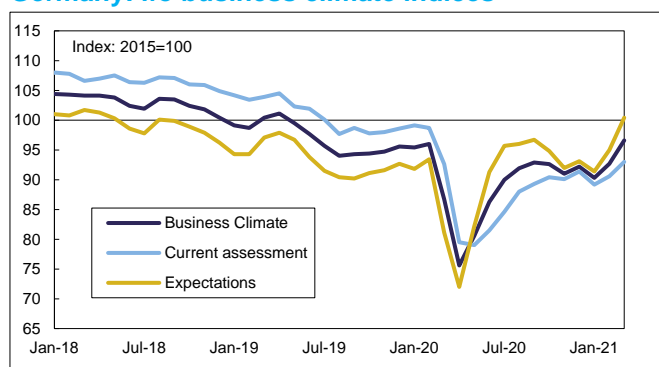
### Italian business survey suggests resilience to tightening of restrictions

Of course, over the past couple of weeks the trend in new coronavirus cases has deteriorated in Germany and many of its neighbours prompting a tightening of containment measures. Indeed, France today placed a further three regions in lockdown while Germany decided to submit French residents to mandatory Covid tests upon crossing the border. However, today's March ISTAT confidence survey results from Italy, where restrictions were tightened ahead of those in Germany, suggest that the ifo indices need not deteriorate significantly in April in response to the pandemic. While confidence among Italian services and retailers deteriorated modestly, manufacturers and construction firms became more upbeat. So, despite the new lockdown measures, overall Italian business sentiment was judged to have improved this month to the highest since the start of the pandemic in February 2020. And we would expect confidence in German manufacturing, construction and many services, particularly business services, similarly to remain resilient next month and beyond, sustaining the improvement reported in today's ifo survey.

### The week ahead in the euro area

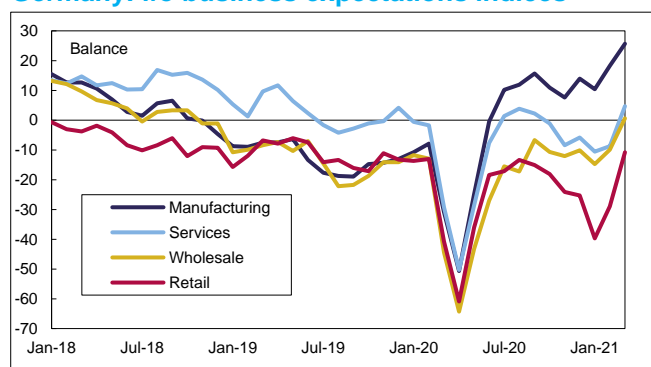
The focus in the coming week will be on the release of the flash March inflation figures, with German and Spanish data to be published on Tuesday, followed by French, Italian and euro area numbers the following day. After jumping at the start of the

#### Germany: ifo business climate indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Germany: ifo business expectations indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

year and remaining unchanged at a one-year high of 1.6%Y/Y in February, the German EU-harmonised measure of inflation is expected to rise 0.4ppt in March to 2.0%Y/Y, the highest since November 2018. And we expect headline euro area inflation to increase by 0.5ppt to 1.4%Y/Y. While higher energy prices are likely to remain the key driving force, we expect an increase in prices of non-energy industrial goods to push the core rate up 0.2ppt to 1.3%Y/Y.

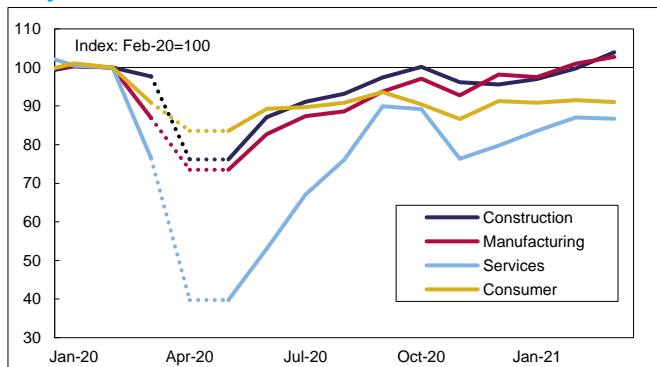
Mid-week brings the release of French figures for consumer spending on goods in February, while German retail sales data for the same month will be published on Thursday. After a disappointing start to the year, both member states are likely to report a modest increase in spending last month. Other hard economic data releases due in the coming week include German March labour market figures on Wednesday and new car registrations for France, Italy and Spain for the same month on Thursday. Survey-wise, we will get the March economic sentiment indices from the European Commission on Tuesday, followed by the final manufacturing PMIs on Thursday. While the final PMIs might well be revised down a touch from the flash estimates, overall all of these survey indices should suggest that a recovery in GDP is on the horizon. Indeed, the flash euro area manufacturing output PMI rose more than 5pts in March to a series high of 63.0.

## UK

### Retail sales post modest rise in February after steep drop at start of 2021

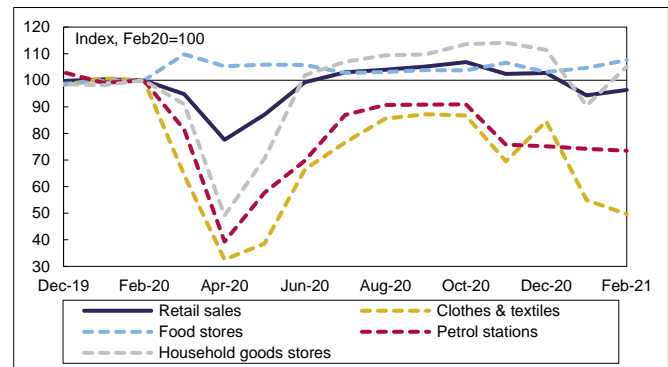
Broadly as expected, UK retail sales rose relatively modestly last month following a steep drop at the start of 2021 as non-essential retail was closed nationwide. In particular, after the drop of 8.2%M/M in January, total sales volumes rose 2.1%M/M in February to be down 3.7%Y/Y. Non-food stores rose 4.1%M/M, a rather modest gain after the drop of almost one quarter the prior month, to be down almost 24% from a year earlier (i.e. just before the pandemic hit). Nevertheless, there were strong increases of more than 16%M/M in department stores and household goods stores as consumers bought more items for their homes, with the latter category now up 5.1%Y/Y. And food store sales rose 2.8%M/M to be up 7.6%Y/Y. In marked contrast, despite significant discounting that weighed significantly on [inflation](#) that month, sales at clothes retailers fell almost 10%M/M to be down more than 50%Y/Y. And sales at petrol stations fell 0.9%M/M to be down 26.5%Y/Y as travel restrictions continued to hit sales in that sector. But the share of sales online rose further to a series high of 36.1% up from 20.0% a year earlier. Yesterday's [CBI survey](#) suggests that we should expect little improvement to total sales in March before a rebound in sales after non-essential stores reopen in England from 12 April onwards. Indeed, with consumer confidence improved, we would expect May to see sales surpass October's peak in May, although the reopening of many services from next month on will also compete for household spending.

### Italy: ISTAT economic confidence indices\*



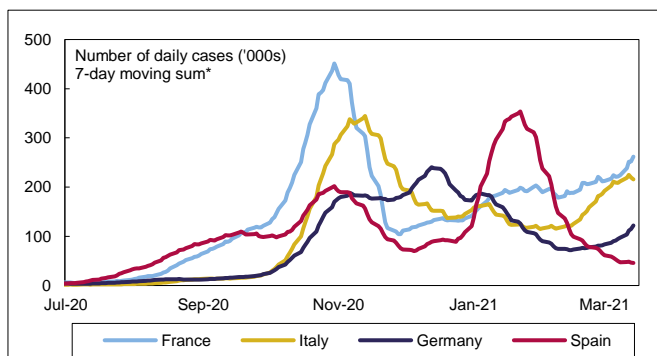
\*NB No survey conducted in April 2020 due to pandemic.  
 Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### UK: Retail sales



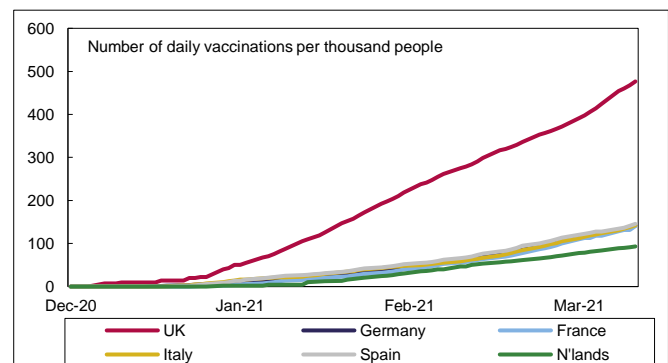
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### New coronavirus cases



\*7-day moving average. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Coronavirus vaccinations


















Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

## The week ahead in the UK

In a relatively quiet week for UK economic data, Monday's release of the latest BoE bank lending figures for February is arguably the most noteworthy. In January, households made their largest net repayment of consumer credit in eight months, largely reflecting a reduction in credit card debt. At the same time, however, borrowing for house purchase remained elevated. Revised Q4 GDP data are scheduled for release on Wednesday, and expected to confirm that output rose 1.0%Q/Q in Q4 despite the worsening of the pandemic, following growth of 16.1%Q/Q in Q3. Given the severe contraction in the first half of the year, however, GDP was still down 7.8%Y/Y in the fourth quarter and a record 9.9%Y/Y in 2020 as a whole. These figures will be accompanied by balance of payments data for Q4. Finally, ahead of the national holidays on Good Friday and Easter Monday, the week's data calendar will come to a close on Thursday with the final manufacturing PMIs, which are expected to reaffirm the impression of economic recovery. While not as elevated as in the euro area, the flash manufacturing output PMI rose more than 5pts to a three-month high of 55.6.

*The next edition of the Euro wrap-up will be published on 30<sup>th</sup> March 2021*
































## Daiwa economic forecasts

		2020	2021				2022	2020	2021	2022
		Q4	Q1	Q2	Q3	Q4	Q1			
<b>GDP growth, %, Q/Q</b>										
Euro area		-0.7	-0.8	1.4	1.4	1.3	1.1	-6.8	3.5	4.4
Germany		0.3	-1.0	1.2	1.2	1.2	1.0	-5.3	2.5	4.0
France		-1.4	-0.5	1.2	1.4	1.2	1.2	-8.2	5.0	4.5
Italy		-1.9	-0.5	1.5	1.5	1.4	1.2	-8.9	4.0	4.7
Spain		0.4	-1.0	1.5	1.4	1.2	1.2	-11.0	3.9	5.0
UK		1.0	-2.0	3.1	2.7	2.2	1.5	-9.9	4.9	6.6
<b>Euro area</b>										
Headline CPI		0.0	-0.3	1.1	1.7	1.9	2.1	0.3	1.7	1.1
Core CPI		0.6	0.2	1.3	1.1	1.2	1.5	0.7	1.3	0.9
<b>UK</b>										
Headline CPI		0.5	0.6	1.7	1.7	2.2	2.1	0.9	1.6	2.0
Core CPI		1.3	1.2	1.6	1.6	1.7	1.6	1.4	1.5	1.9
<b>ECB</b>										
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
PEPP envelope* (€bn)		1850	1850	1850	1850	1850	1850	1850	1850	1850
<b>BoE</b>										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases** (£bn)		895	895	895	895	895	895	895	895	895

\*Monthly target €bn, end of period. \*\*Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

# Coming week's data calendar

## The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
<b>Monday 29 March 2021</b>						
UK		09.30	Net consumer credit £bn (Y/Y%)	Feb	-1.6 (-)	-2.4 (-8.9)
		09.30	Net mortgage lending £bn (approvals '000s)	Feb	5.0 (94.0)	5.2 (99.0)
<b>Tuesday 30 March 2021</b>						
EMU		10.00	Final consumer confidence	Mar	-10.8	-14.8
		10.00	Economic confidence	Mar	96.0	93.4
		10.00	Industrial confidence (services)	Mar	0.0 (-15.0)	-3.3 (-17.1)
Germany		13.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	1.7 (2.0)	1.3 (1.6)
France		07.45	Consumer confidence	Mar	90	91
Spain		08.00	Retail sales Y/Y%	Feb	-4.5	-9.5
		08.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	0.7 (0.9)	0.0 (-0.1)
UK		00.01	Lloyds business barometer	Mar	-	2
<b>Wednesday 31 March 2021</b>						
EMU		10.00	Preliminary CPI (core) Y/Y%	Mar	1.4 (1.2)	0.9 (1.1)
Germany		08.55	Unemployment rate % (change '000s)	Mar	6.0 (-3.0)	6.0 (9.0)
France		07.45	Consumer spending M/M% (Y/Y%)	Feb	-	-4.6 (0.0)
		07.45	Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	0.9 (1.2)	0.6 (0.8)
		07.45	PPI Y/Y%	Feb	-	0.4
Italy		09.00	PPI Y/Y%	Feb	-	-0.4
		10.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	0.5 (1.1)	0.6 (1.0)
UK		00.01	BRC shop price index Y/Y%	Mar	-	-2.4
		07.00	Final GDP Q/Q% (Y/Y%)	Q4	1.0 (-7.8)	16.0 (-8.6)
		07.00	Current account balance £bn	Q4	-34.8	-15.7
		07.00	Nationwide house price index M/M% (Y/Y%)	Mar	0.4 (6.4)	0.7 (6.9)
<b>Thursday 01 April 2021</b>						
EMU		09.00	Final manufacturing PMI	Mar	62.4	57.9
Germany		08.55	Final manufacturing PMI	Mar	66.6	60.7
		07.00	Retail sales M/M% (Y/Y%)	Feb	2.0 (-5.0)	-6.5 (-9.3)
France		08.50	Final manufacturing PMI	Mar	58.8	56.1
		-	New car registrations* Y/Y%	Mar	-	-20.9
Italy		08.45	Manufacturing PMI	Mar	59.8	56.9
		17.00	New car registrations Y/Y%	Mar	-	-12.3
Spain		08.15	Manufacturing PMI	Mar	55.9	52.9
		-	New car registrations* Y/Y%	Mar	-	-38.4
UK		09.30	Final manufacturing PMI	Mar	57.9	55.1
<b>Friday 02 April 2021</b>						
- Nothing scheduled -						







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

### The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 29 March 2021</b>		
- Nothing scheduled -		
<b>Tuesday 30 March 2021</b>		
Italy		10.00 Auction: €4bn of 0% 2026 bonds
		10.00 Auction: €1.5bn of 2026 floating rate bonds
		10.00 Auction: €3bn of 0.6% 2031 bonds
<b>Wednesday 31 March 2021</b>		
EMU		14.00 ECB's Villeroy scheduled to speak at an online event
Germany		10.30 Auction: €2.5bn of 0% 2036 bonds
<b>Thursday 01 April 2021</b>		
UK		09.30 BoE publishes its Decision Maker Panel data – March 2021
<b>Friday 02 April 2021</b>		
EMU/UK	-	Public holiday – Good Friday

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
Germany	 Ifo current assessment (expectations)	Mar	<b>93.0 (100.4)</b>	91.3 (95.0)	90.6 (94.2)	- (95.0)
Italy	 ISTAT economic sentiment	Mar	<b>93.9</b>	-	93.2	93.3
	 ISTAT consumer (manufacturing) confidence	Mar	<b>100.9 (101.2)</b>	100.3 (99.5)	101.4 (99.0)	- (99.5)
Spain	 Final GDP Q/Q% (Y/Y%)	Q4	<b>0.0 (-8.9)</b>	0.4 (-9.1)	16.4 (-9.0)	-
UK	 Retail sales including fuel M/M% (Y/Y%)	Mar	<b>2.1 (-3.7)</b>	2.1 (-3.5)	-8.2 (-5.9)	-
	 Retail sales excluding fuel M/M% (Y/Y%)	Mar	<b>2.4 (-1.1)</b>	1.7 (-1.7)	-8.8 (-3.8)	-8.7 (-3.7)
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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