

Euro wrap-up

Overview

- Bunds made losses as inflation in Germany and Spain rose again while the Commission's sentiment survey reported a broad-based improvement in confidence and increases in selling-price expectations in the euro area.
- Gilts also made losses on a quiet day for UK economic news.
- Wednesday will bring the flash March estimates of inflation in the euro area, France and Italy, along with March labour market data for Germany and updated Q4 national accounts for the UK.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.697	+0.022
OBL 0 04/26	-0.621	+0.039
DBR 0 02/31	-0.278	+0.043
UKT 0 ⁷ / ₈ 01/23	0.074	+0.020
UKT 0 ¹ / ₈ 01/26	0.369	+0.034
UKT 4 ³ / ₄ 12/30	0.835	+0.049

*Change from close as at 4:30pm BST.

Source: Bloomberg

Euro area

Inflation jumps in Germany and Spain in March on energy prices

Ahead of tomorrow's flash estimates of euro area inflation in March, today's equivalent data from Germany and Spain inevitably reported significant increases due not least to base effects from past shifts in energy prices. As expected, on the EU-harmonised HICP measure, German inflation jumped 0.4ppt to 2.0%Y/Y, the highest since April 2019. Similarly, on the national measure, German CPI inflation rose 0.4ppt, albeit to a thirteen-month high of 1.7%Y/Y. On that basis, inflation of energy jumped 4.5ppt to 4.8%Y/Y, the highest since December 2018, to more than fully account for the increase in overall inflation. So, while inflation of services (including rents) rose 0.2ppt to 1.6%Y/Y, also a thirteen-month high, and inflation of food also rose 0.2ppt to 1.6%Y/Y, non-energy industrial goods prices appear to have weighed this month to keep core German inflation well-contained.

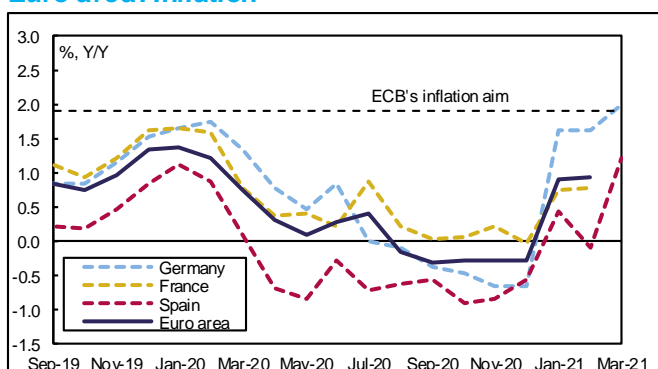
In Spain, HICP inflation rose a greater-than-expected 1.3ppt to a 23-month high of 1.2%Y/Y. While no detailed data were published, INE reported that prices of electricity, fuels and oil were the main driver, and that core Spanish inflation on the national measure remained 1ppt below the equivalent headline rate at 0.3%Y/Y. We expect tomorrow's data to report a rise in headline euro area inflation of 0.5ppt to 1.4%Y/Y with the core measure up 0.2ppt to 1.3%Y/Y. Today's data would suggest that the risks to the headline estimate in particular are skewed to the upside.

Commission survey reports broad-based surge in confidence and leap in selling-price expectations

As suggested by last week's flash PMIs and national survey results, today's Commission business and consumer survey results for March reported a big pickup in optimism across all main sectors and most countries. The headline Economic Sentiment Indicator (ESI) for the euro area rose 7.6pts – the most since June – to 101.0, above the long-run average for the first time since the start of the pandemic. Among the member states, the German ESI rose by 7.9pts – the most on the series – to 103.7, the highest since May 2019 and similarly above the long-run average. And the other large member states saw significant increases in their own ESIs too. While some of the improvement might well be reversed in April due to the recent tightening of pandemic containment measures in certain member states, the results underscore the likelihood of relatively vigorous recovery in demand as and when the pandemic subsides and restrictions are eased.

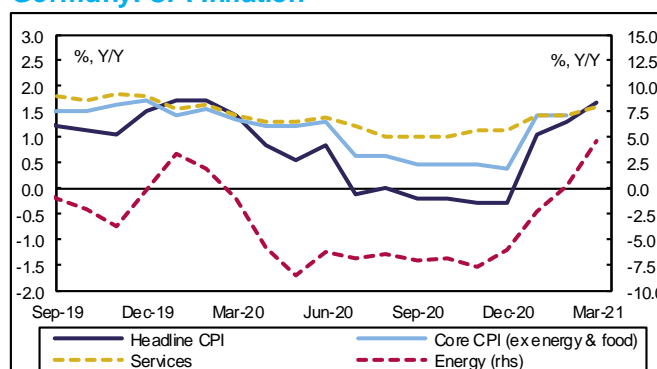
Inevitably, industrial firms were most upbeat, with the respective ESI up 4.6pts – the most since June – to 2.0, well above the long-run average and the highest in more than two years. Within the survey detail, firms in the sector flagged ample new orders and scarce stocks of finished products, pointing to strong production ahead. In addition, sentiment in construction, services and retail also improved amid improved expectations of future demand, likely related to optimism related to

Euro area: Inflation*



*HICP inflation. Flash March 2021 estimates for Germany and Spain.
 Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: CPI Inflation*



*National measure. Flash estimates for March 2021.
 Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

vaccination programmes. And the pickup in consumer confidence to the highest in thirteen months, which had been predicted by the flash estimate, was confirmed and accompanied increases in the survey measures of household intentions to make major purchases. Also encouragingly, the Employment Expectations Indicator for the euro area rose a hefty 6.8pts to 97.7, close to the long-run average. Improved labour market prospects again appeared broad-based, with firms in manufacturing and services alike pointing to the strongest recruitment intentions since before the pandemic and consumer concerns of unemployment also well below levels at the onset of the pandemic. The ECB will note significant increases in selling-price expectations in every sector, with the biggest monthly increase on the series to the highest level since May 2011 reported by manufacturers. Consumer price expectations for the coming twelve months also increased, albeit rising only to the highest level since June.

The day ahead in the euro area

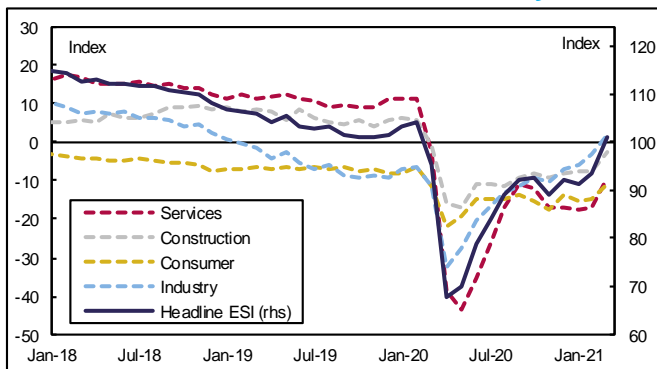
Tomorrow, the focus will remain on inflation, with the flash March estimates from France and Italy and several other member states to be published along with the euro area numbers. The EU-harmonised measure of French inflation is expected to rise 0.7ppt to 1.5%Y/Y in March – the highest since February 2020 – while the equivalent Italian measure is expected to jump to a one-year high of 2.0%Y/Y, from -0.2%Y/Y in February. We expect the headline euro area inflation rate 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. But the risks to our forecast appear skewed to the upside. Tomorrow also sees the release of data for French consumer spending on goods in February. After a disappointing start to the year (-4.6%MM), spending on goods is expected to have risen last month, albeit by a relatively modest 1.2%MM. German labour market figures for March are also due to be published as well as new car registrations for France, Italy and Spain for the same month.

UK

The day ahead in the UK

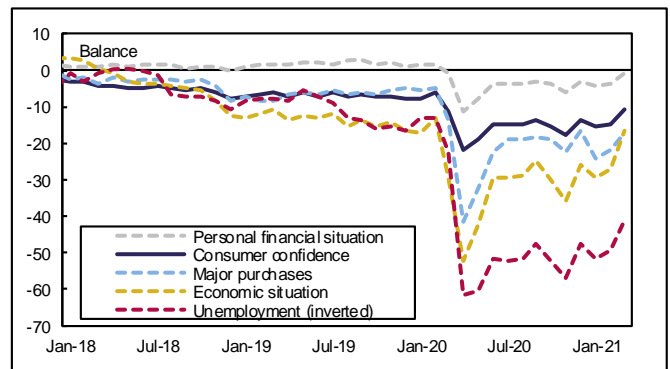
Tomorrow will bring the release of revised Q4 GDP data from the UK. These are expected to confirm that output rose 1.0%Q/Q last quarter following growth of 16.1%Q/Q in Q3. Given the severe contraction in the first half of the year, however, GDP was still likely down 7.8%Y/Y in the fourth quarter and a record 9.9%Y/Y in 2020 as a whole. These figures will be accompanied by balance of payments data for Q4.

Euro area: Economic sentiment indices by sector



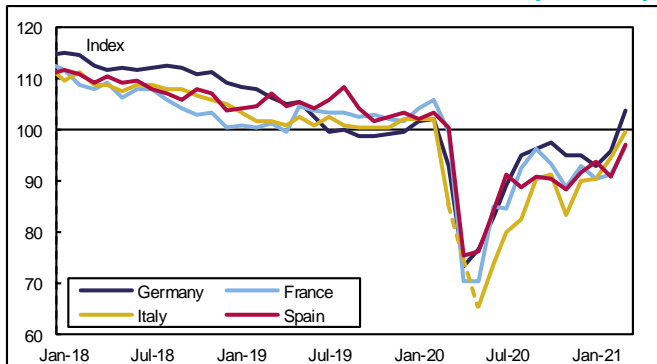
Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer confidence indices



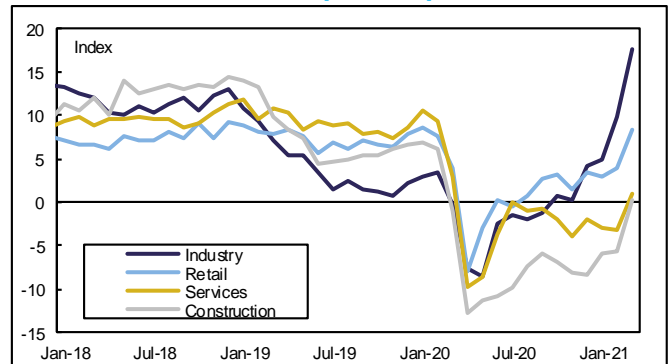
Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Economic sentiment indices by country



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

Euro area: Commission price expectations indices











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




European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Final consumer confidence	Mar	-10.8	-10.8	-14.8	-
	 Economic confidence	Mar	101.0	96.0	93.4	-
	 Industrial confidence (services)	Mar	2.0 (-9.3)	0.0 (-15.0)	-3.3 (-17.1)	-3.1 (-17.0)
Germany	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	1.7 (2.0)	1.7 (2.0)	1.3 (1.6)	-
France	 Consumer confidence	Mar	94	90	91	-
Spain	 Retail sales Y/Y%	Feb	-5.9	-4.5	-9.5	-9.4
	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	1.3 (1.2)	0.7 (0.9)	0.0 (-0.1)	-
UK	 Lloy ds business barometer	Mar	15	-	2	-



Auctions

Country	Auction
Italy	 sold €4bn of 0% 2026 bonds at an average yield of 0.05%
	 sold €1.5bn of 2026 floating rate bonds at an average yield of -0.08%
	 sold €3bn of 0.6% 2031 bonds at an average yield of 0.72%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 Net consumer credit £bn (Y/Y%)	Feb	-1.2 (-9.9)	-1.6 (-)	-2.4 (-8.9)	-2.7 (-9.0)
	 Net mortgage lending £bn (approvals '000s)	Feb	6.2 (87.7)	5.0 (94.0)	5.2 (99.0)	5.3 (97.4)












Auctions

Country	Auction
	- Nothing to report -



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) 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	1.2 (1.5)	-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)

Auctions and events

EMU	 14.00	ECB's Villeroy scheduled to speak at an online event
Germany	 10.30	Auction: €2.5bn of 0% 2036 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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