

Euro wrap-up

Overview

- Bunds made losses while the rise in euro area inflation in March was confirmed but exports fell for a second month in February.
- Gilts also made losses on a quiet end to the week for UK economic data.
- The coming week brings the latest ECB monetary policy meeting as well as the April flash PMIs, and data for UK inflation, unemployment and retail sales.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.702	+0.008
OBL 0 04/26	-0.613	+0.020
DBR 0 02/31	-0.265	+0.029
UKT 0 ¹ / ₈ 01/23	0.033	+0.005
UKT 0 ¹ / ₈ 01/26	0.473	+0.013
UKT 4 ³ / ₄ 12/30	0.763	+0.028

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

Source: Bloomberg

Euro area

Flash inflation estimates confirmed, with higher energy prices offset partly by clothes discounting

As expected, the final estimates of euro area inflation in March reported minimal amendments from the flash figures. So, the headline rate of inflation was confirmed at 1.3%Y/Y, up 0.4ppt from February and a fourteen-month high. But core inflation fell 0.2ppt to 0.9%Y/Y. Inflation of non-energy industrial goods fell 0.7ppt to a three-month low of 0.3%Y/Y, as clothes prices fell 1.2%Y/Y reflecting changes to the timing of sales in certain countries and discounting elsewhere in response to weak demand. In contrast, services inflation edged up 0.1ppt to 1.3%Y/Y as transport services inflation rose 0.7ppt to 1.5%Y/Y in response to higher prices of fuel, but lockdown restrictions again weighed on prices in the hospitality, leisure and tourism sector. Indeed, most pressure came from energy inflation, which rose 6.0ppts to 4.3%Y/Y, the highest in almost two years to account for 0.4ppt of the headline inflation rate. In contrast, inflation of food, alcohol and tobacco fell 0.2ppt to 1.1%Y/Y, the lowest in more than three years.

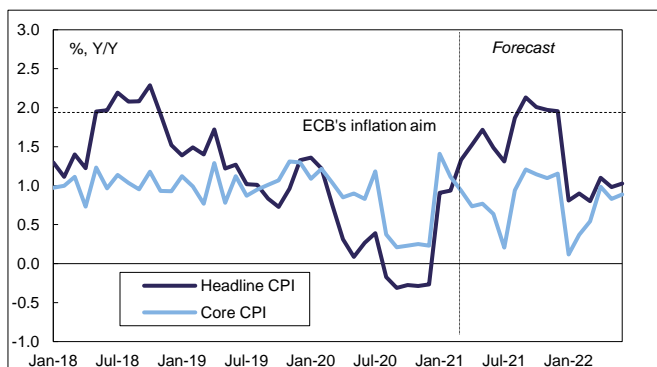
Headline inflation to pick up further in Q2 and H2, before falling back in 2022

The outturn for March left headline inflation in Q1 at 1.1%Y/Y, just 0.1ppt above the ECB's March forecast for the quarter. We expect inflation in Q2 to rise a further 0.5ppt to 1.6%Y/Y, which again would be just 0.1ppt above the ECB's baseline forecast. Indeed, even without further significant increases in prices, energy inflation will accelerate over the coming quarter due to base effects, probably to above 10%Y/Y in April to contribute roughly 1ppt to headline CPI inflation. In contrast, we expect food inflation to ease further over the near term. But as suggested by numerous survey indicators, pressures from commodity markets, freight costs and supply-chain disruption increase the likelihood of a pickup in inflation of non-energy industrial goods. And while we expect services inflation to fall back over the near term as the travel and tourism sector faces a difficult spring due to the pandemic, base effects from Germany's temporary VAT cut last year will add to inflation in the second half of the year when prices should also receive a boost from the relaxation of pandemic containment measures. Overall, broadly in line with the ECB's baseline projection, we expect headline inflation to average 1.6%Y/Y in 2021 (vs the ECB's forecast of 1.5%Y/Y) before falling back to 1.0%Y/Y in 2022 (vs the ECB's forecast of 1.2%Y/Y), with core inflation to average close to 1.0%Y/Y in both years.

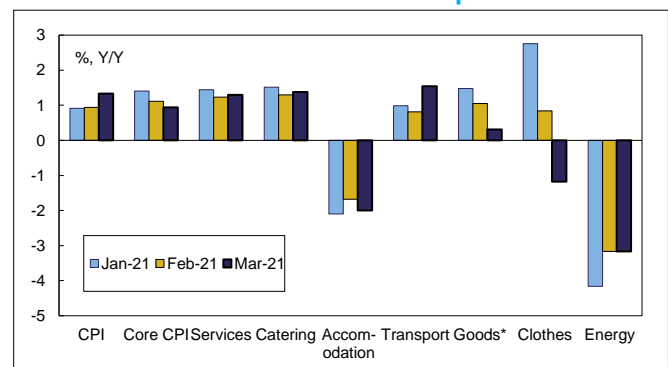
Exports drop to four-month low in February

Euro area goods export values weakened for a second successive month in February dropping 2.5%M/M and 5.5%Y/Y to the lowest level since October. With import values up 3.4%M/M to a new pandemic high, albeit down 2.7%Y/Y, the merchandise trade surplus on an adjusted basis fell more than €10bn to €18.4bn, the lowest since June. Having dropped

Euro area: Inflation forecast



Euro area: Inflation – selected components



more than €2.0bn (27.0%M/M) in January, euro area exports to the UK rebounded more than €1.75bn (17.5%M/M) in February. However, while exports to China and the US were also stronger, weakness to certain other markets, including non-euro area EU member states as well as Japan and Hong Kong, resulted in the drop in overall shipments. By type of good, most categories of exports weakened, with the decline in shipments of autos and machine goods, related not least to supply-chain disruption, tallying with the [drop in production](#) of such items. Surveys and orders data point to the likelihood of a significant rebound in goods exports in March and into Q2.

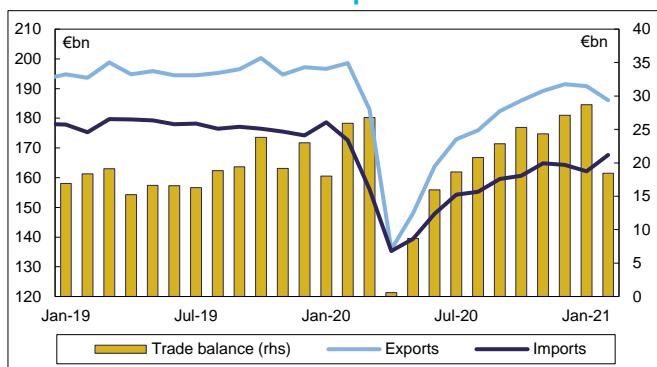
The week ahead in the euro area

The coming week's main event will be the conclusion of the ECB's latest monetary policy meeting on Thursday. However, unlike last month's occasion, this Governing Council meeting should be uneventful. The March decision to accelerate PEPP purchases within the existing €1.85trn envelope appears to have been the result of a compromise among members of differing views and will not be reopened for debate. Moreover, while, so far, the ECB has not materially accelerated its purchases, euro area bond yields have remained below their peaks for the year reached in late February. So, the Governing Council will have no additional cause for concern about financial conditions, even while lack of clarity about its precise reaction function persists. Meanwhile, although the intensification of the pandemic and associated renewed lockdown measures raise concern about the near-term outlook, the ECB's projections remain credible. The Governing Council will also take comfort from the recent acceleration in vaccine roll-out in the region, as well as US fiscal policy, which ECB staff expect will add 0.3% to euro area GDP and 0.15% to euro area inflation over the projection horizon. Overall, therefore, expect no change to ECB policy or forward guidance in the coming week, with the pace of asset purchases to be reviewed by the Governing Council in June alongside updated macroeconomic projections.

Politics-wise, there might soon be news of the identity of the [centre-right candidate](#) to try to succeed Angela Merkel as German Chancellor. At the time of writing, reports suggested that the two contenders – the CDU's centrist Armin Laschet and the CSU's right-wing populist Markus Soeder – were meeting to try to settle the issue by tomorrow. While the CDU holds the political clout, opinion polls continue to highlight Laschet's lack of popular appeal and Soeder's popularity.

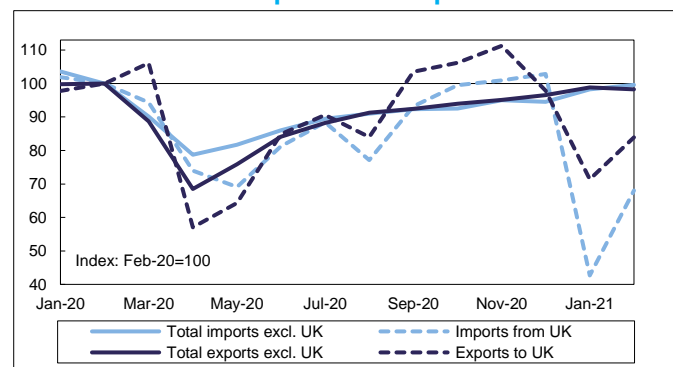
The euro area data calendar begins quietly, with no top-tier economic data releases scheduled for the start of the week. Nonetheless, the Bank of France's retail sales survey on Monday will give an indication of the extent to which tighter pandemic restrictions hit spending last month. On Tuesday, Germany will publish producer price figures for March. In February, the German PPI rate jumped 1ppt, to 1.9%Y/Y, the highest since May 2019, thanks mainly to higher energy prices. The back end of the week focuses on surveys with the European Commission's preliminary consumer confidence index and INSEE's French business sentiment survey for April published on Thursday. Most notably, on Friday, the preliminary April

Euro area: Goods trade surplus



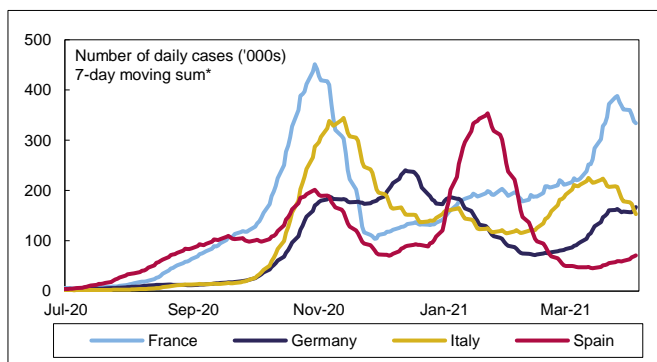
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Goods exports and imports*



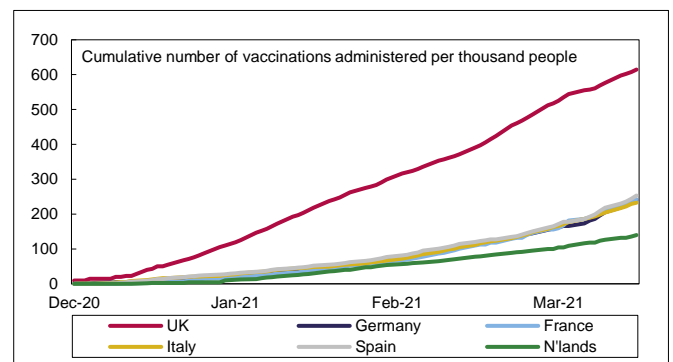
*Seasonally-adjusted values. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

New coronavirus cases



*7-day average. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coronavirus vaccinations administered



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

PMIs for the euro area and the two largest member states will be published. Following the recent broad-based improvement in euro area economic sentiment, the latest survey indicators are expected to move broadly sideways in April. Given the intensification in the pandemic, the European Commission's consumer confidence index is likely to fall back somewhat – perhaps only by about ½pt – from the fourteen-month high of -10.8 in March. But supported by a strong rebound in manufacturing, the euro area composite PMI is expected to come in close to the March reading of 53.7. However, rising coronavirus cases in Germany and France are expected to be reflected in the services PMIs, with the French activity index for the sector expected to report a contraction at the fastest pace since November last year.
















UK

The week ahead in the UK

The coming week will be a busy one for UK economic data bringing, among other releases, the latest labour market report (Tuesday), inflation figures (Wednesday), and retail sales and public finance data, the GfK consumer confidence survey and flash PMIs (Friday). With the government's Job Retention Scheme still in operation despite pandemic restrictions also being in place, the unemployment rate is expected to edge up just 0.1ppt to 5.1% in the three months to February. Meanwhile, we expect the inflation data to report a rise of 0.4ppt in the headline CPI rate to an eight-month high of 0.8%Y/Y in March, thanks not least to further upward pressure from energy prices. However, we also expect a pickup in clothes inflation to be reflected in an increase in the core measure to 1.2%Y/Y. With consumer confidence improving, we expect to see further growth of about 1½%M/M in retail sales (both including and excluding auto fuel) in March, to push total sales up about 4%Y/Y albeit still down from December's level. With the economy reopening gradually, the flash PMIs are likely to report an acceleration in growth this month, with the composite PMI likely to rise about 2pts from March's six-month high of 56.5 thanks not least to improvement in the services sector.

The next edition of the Euro wrap-up will be published on 20th April 2021


































Daiwa economic forecasts

		2020	2021				2022	2020	2021	2022
		Q4	Q1	Q2	Q3	Q4	Q1			
GDP growth, %, Q/Q										
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	0.8	1.5	1.2	1.0	-5.3	2.4	4.0
France		-1.4	0.0	0.7	1.4	1.2	1.2	-8.2	5.2	4.3
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		1.3	-1.5	2.8	2.6	2.2	1.5	-9.8	5.6	6.5
Euro area										
Headline CPI		-0.3	1.1	1.6	1.8	2.0	0.8	0.3	1.6	1.0
Core CPI		0.2	1.2	0.7	0.8	1.1	0.3	0.7	0.9	0.8
UK										
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
ECB										
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
BoE										
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.




















The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 19 April 2021					
EMU		09.00 ECB current account balance €bn	Feb	-	30.5
		10.00 Construction output M/M% (Y/Y%)	Feb	-	0.8 (-1.9)
France		- Bank of France retail sales M/M% (Y/Y%)	Mar	-	0.2 (-3.5)
UK		00.01 Rightmove house price index M/M% (Y/Y%)	Apr	-	0.8 (2.7)
Tuesday 20 April 2021					
Germany		07.00 PPI Y/Y%	Mar	3.2	1.9
UK		07.00 Unemployment claimant count rate % (change '000s)	Mar	-	7.5 (86.6)
		07.00 Average earnings including bonuses (excluding bonuses) 3M/Y%	Feb	4.6 (4.2)	4.8 (4.2)
		07.00 ILO unemployment rate 3M%	Feb	5.1	5.0
		07.00 Employment change '000s 3M/3M	Feb	-150	-147
Wednesday 21 April 2021					
UK		07.00 CPI (core CPI) Y/Y%	Mar	<u>0.8 (1.2)</u>	0.4 (0.9)
		07.00 PPI input prices (output prices) Y/Y%	Mar	4.3 (1.7)	2.6 (0.9)
		09.30 House price index Y/Y%	Feb	-	7.5
Thursday 22 April 2021					
EMU		12.45 ECB main refinancing rate %	Apr	<u>0.00</u>	0.00
		12.45 ECB marginal lending facility %	Apr	<u>0.25</u>	0.25
		12.45 ECB deposit facility rate %	Apr	<u>-0.50</u>	-0.50
		15.00 European Commission preliminary consumer confidence	Apr	-11.4	-10.8
France		07.45 INSEE business confidence	Apr	93	97
		07.45 INSEE manufacturing confidence (production outlook)	Apr	-	98 (6)
Italy		09.00 Industrial sales M/M% (Y/Y%)	Feb	-	2.5 (-1.6)
UK		11.00 CBI industrial trends, total orders	Apr	3	-5
		11.00 CBI business optimism	Apr	-	-22
Friday 23 April 2021					
EMU		09.00 Preliminary manufacturing PMI (services)	Apr	62.0 (49.1)	62.5 (49.6)
		09.00 Preliminary composite PMI	Apr	53.1	53.2
Germany		08.30 Preliminary manufacturing PMI (services)	Apr	65.7 (51.0)	66.6 (51.5)
		08.30 Preliminary composite PMI	Apr	57.0	57.3
France		08.15 Preliminary manufacturing PMI (services)	Apr	59.0 (44.1)	59.3 (48.2)
		08.15 Preliminary composite PMI	Apr	46.5	50.0
UK		00.01 GfK consumer confidence	Apr	-12	-16
		07.00 Retail sales including auto fuel M/M% (Y/Y%)	Mar	1.5 (3.9)	2.1 (-3.7)
		07.00 Retail sales excluding auto fuel M/M% (Y/Y%)	Mar	1.8 (4.5)	2.4 (-1.1)
		07.00 Public sector net borrowing, excluding banks £bn	Mar	21.9	19.1
		09.30 Preliminary manufacturing PMI (services)	Apr	59.0 (59.0)	58.9 (56.3)
		09.30 Preliminary composite PMI	Apr	58.1	56.4

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.




The coming week's key events & auctions

Country	BST	Event / Auction
Monday 19 April 2021		
- Nothing scheduled -		
Tuesday 20 April 2021		
EMU		09.00 ECB publishes latest Bank lending survey
Germany		10.30 Auction: €5bn of 0% 2023 bonds
		10.00 Auction: €3.25bn of 0.125% 2024 bonds
Wednesday 21 April 2021		
Germany		10.30 Auction: €4bn of 0% 2031 bonds
UK		10.00 Auction: £2.5bn of 0.625% 2035 bonds
		11.30 BoE Governor Bailey gives a keynote speech at a virtual event on 'Diversity in Market Intelligence'
Thursday 22 April 2021		
EMU		12.45 ECB monetary policy announcement
		13:30 ECB President Lagarde holds press conference
France		09.50 Auction: 0% 2024 bonds
		09.50 Auction: 0% 2027 bonds
		09.50 Auction: 0.5% 2029 bonds
		10.50 Auction: 0.1% 2026 index-linked bonds
		10.50 Auction: 0.1% 2036 index-linked bonds
		10.50 Auction: 0.1% 2047 index-linked bonds
Spain		09.30 Auction: 0% 2024 bonds
		09.30 Auction: 1.5% 2027 bonds
		09.30 Auction: 0.1% 2031 bonds
Friday 23 April 2021		
EMU		09.00 ECB publishes Survey of Professional Forecasters
		15:30 ECB President Lagarde participates in a panel on climate change

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
EMU	 EU27 new car registrations Y/Y%	Mar	87.3	-	-19.3	-
	 Final CPI (core) Y/Y%	Mar	1.3 (0.9)	1.3 (0.9)	0.9 (1.1)	-
	 Trade balance €bn	Feb	18.4	22.0	24.2	28.7




Auctions

Country	Auction
- Nothing to report -	

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
Germany	 Final CPI (EU-harmonised CPI) Y/Y%	Mar	1.7 (2.0)	1.7 (2.0)	1.3 (1.6)	-
France	 Final CPI (EU-harmonised CPI) Y/Y%	Mar	1.1 (1.4)	1.1 (1.4)	0.6 (0.8)	-
Italy	 Final CPI (EU-harmonised CPI) Y/Y%	Mar	0.5 (0.6)	0.5 (0.6)	0.3 (1.0)	-

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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