

# Euro wrap-up

## Overview

- Bunds followed Treasuries lower, despite a marked deterioration in German business and Italian consumer confidence in March.
- Gilts also made losses despite some weaker-than-expected UK retail sales and slump in consumer confidence.
- The coming week will bring the flash estimate of euro area inflation for March, as well as unemployment figures for February and the Commission's sentiment indices. UK bank lending numbers are also due.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	-0.170	+0.046
OBL 0 04/27	0.320	+0.060
DBR 0 02/32	0.683	+0.037
UKT 1 04/24	1.372	+0.043
UKT 1½ 07/27	1.454	+0.039
UKT 4¼ 06/32	1.677	+0.032

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

## Euro area

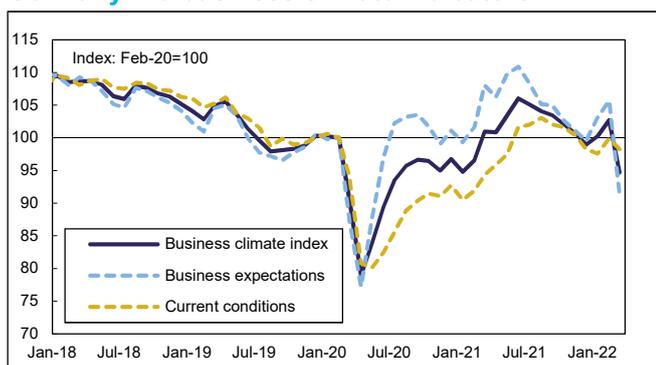
### German ifo survey records largest monthly drop in expectations balance

Tallying with yesterday's [flash PMIs](#), today's German ifo and Italian ISTAT surveys predictably flagged a marked deterioration in sentiment this month due to the Ukraine conflict and its impact on energy and commodity prices and supply chains. The headline ifo business climate index fell a larger-than-expected 7.7pts – the third-largest monthly drop on the series – to 90.8, well below the long-run average (97.0) and its weakest since July 2020. Somewhat reassuringly, it was still some way above the initial pandemic slump (75.7). There was only a modest deterioration in perceptions of current conditions, with the relevant index down just 1.6pts to 97.0, merely back to its level in December to suggest economic stagnation rather than contraction in Q1. But firms are clearly anticipating tougher times ahead, with the expectations balance down by a record 13.3pts in March to 85.1, the third-lowest level of the pandemic. While the weakness was broad-based, the decline in the manufacturing sector was most striking, with the expectations balance (-29.5) down more than 40pts on the month to be the most pessimistic since April 2020 (-50.5). Retailers also registered a record drop in the respective expectations index, while construction firms considered the outlook to be as downbeat as at the onset of the pandemic. And while services should to some extent be supported by pent-up demand in certain sub-sectors – e.g. travel and hospitality – due to the concerns among manufacturers the outlook over the coming months was considered to be particularly bleak for logistics firms, leaving the overall expectations index for services at its lowest since May 2020. While the outlook remains extremely uncertain, for the time being at least, expectations for the coming three months still remain some way above the lows seen initially at the onset of the pandemic.

### Italian businesses confidence held up relatively well, but consumers much more downbeat

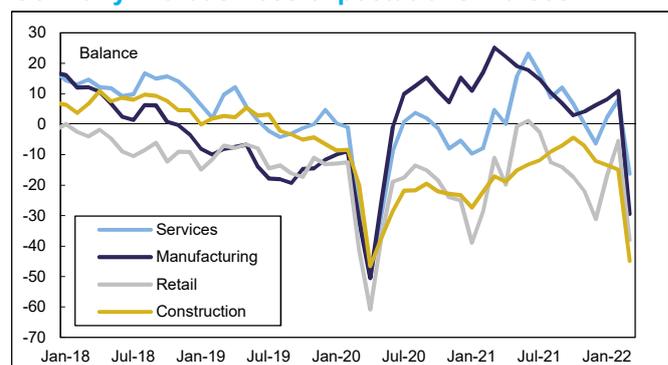
The deterioration in Italian business sentiment was somewhat less marked than in Germany. ISTAT's headline business index merely fell 2.5pts in March, to 105.4, the second-lowest reading of the past eleven months. While roughly 10pts lower than last summer's peak, the index was still some 9pts higher than the long-run average and more than 50pts above the reported pandemic trough (there were no survey results in April 2020). And while the weakening was evident across the main sectors, the respective business climate indices remained above the long-run averages. Like with the ifo, there were more pronounced declines in manufacturers' expectations for near-term output, with the relevant index falling to its lowest for more than a year. While services firms remained relatively upbeat about near-term demand, retailers were also the least optimistic since end-2020. This tallied with the marked slump recorded in consumer confidence this month, down 11.6pts to 100.8, a fourteen-month low. Indeed, Italian consumers were seemingly the most downbeat about their expected financial situation over the coming year than at any time since 2012 and the share of households assessing it to be an appropriate time to make major purchases fell sharply – indeed, the relevant index declined 26.6pts to -65.6, the lowest since June 2020.

### Germany: ifo business climate indicators



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: ifo business expectations indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

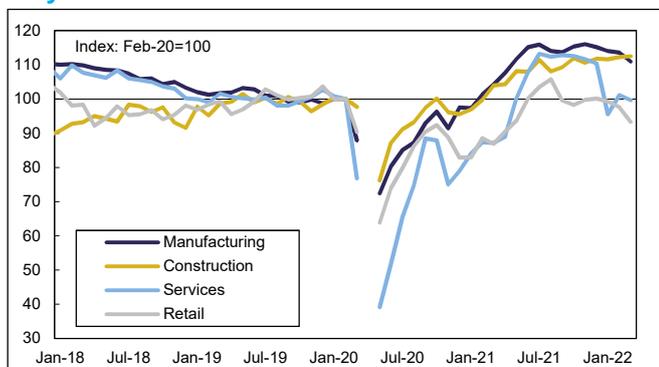
## Tepid monetary data suggests consumers and firms were cautious even before Russian invasion

While hardly as concerning as the downbeat sentiment surveys, today's monetary data similarly failed to make a compelling case for an exit from the current ECB policy settings. The headline rate of growth in M3 money supply moderated further in February by 0.1ppt to 6.3%Y/Y, more than 6ppts down from the peak a year ago. This marked the softest pace since the onset of the pandemic, was just 0.7ppt above the average of the past two decades, and – in light of high inflation – was minimal in real terms. The slowdown in money supply in part reflected a further moderation in the annual growth in currency in circulation and overnight deposits to the softest for two years. Having withdrawn funds for first time in nine months in January, non-financial corporations replenished their deposits in February to leave the annual rate of growth steady at 8.1%Y/Y. But while household deposits rose again, their growth rate slowed 0.3ppt to 5.1%Y/Y, the softest since November 2018. Although that left a sizeable stock of 'excess deposits' accrued during the pandemic of about €480bn, equating to almost 8% of annual household consumption, the deterioration in sentiment suggests that consumers will want to hold onto their precautionary savings rather than run them down to support real spending. Indeed, demand for consumer credit was still subdued, although the rise in the growth rate to 2.3%Y/Y represented the strongest since March 2020. That pushed growth in total loans to households up 0.1ppt to 4.4%Y/Y as mortgage lending slowed a touch to 5.4%Y/Y. Growth in the total stock of loans to NFCs was steady at 4.4%Y/Y, as a rebound in the net flow of short-dated loans offset a drop in loans of maturities of between one and five years, and a slowing in issuance of longer-term loans. That, however, is hardly suggestive of plans for an acceleration in business fixed investment ahead of the Russian invasion of Ukraine.

## The week ahead in the euro area

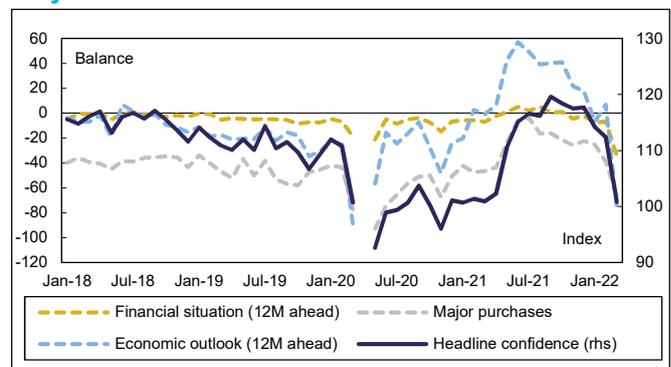
The data highlight of the coming week will be the preliminary March inflation figures from Germany and Spain (Wednesday), France and Italy (Thursday), and concluding with the aggregate euro area data on Friday. We expect higher energy prices to continue to exert upward pressure on the euro area headline HICP rate, which we forecast to rise 0.9ppt to a new record high of 6.8%Y/Y this month, firmly above the ECB's revised baseline scenario of inflation which suggested a peaking of 5.4%Y/Y in Q1 and Q2. We also expect rising goods and services price inflation to push the core CPI rate up a further 0.7ppt to 3.4%Y/Y. While energy prices and other pressures related to supply disturbances will continue to drive inflation higher over the near term, labour market developments will be key determinants of medium-term price pressures. In this context, the latest jobless figures (Thursday) are likely to suggest a further tightening in the labour market, with the euro area unemployment rate expected to fall for the ninth month out of the past ten in February to a series low of 6.7%. That, however, might well represent the trough until the initial shock from Ukraine passes.

### Italy: ISTAT business confidence indices\*



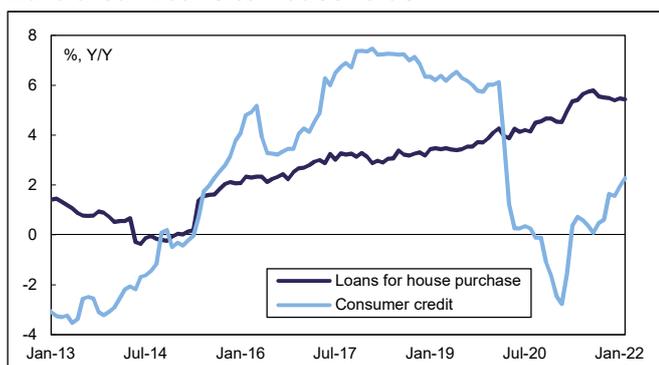
\*No survey results for April 2020. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Italy: ISTAT consumer confidence indices\*



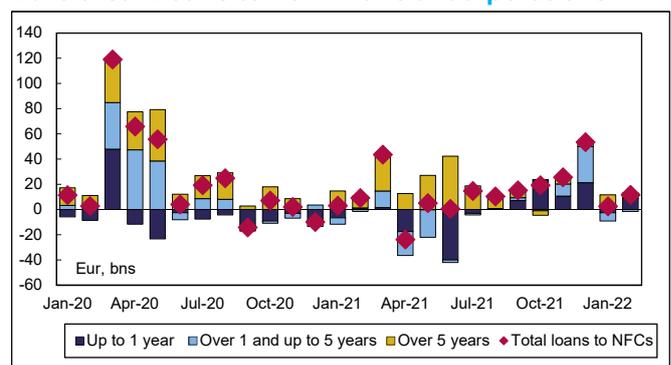
\*No survey results for April 2020. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Loans to households



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Loans to non-financial corporations\*



\*Monthly flow. Source: ECB and Daiwa Capital Markets Europe Ltd.

Meanwhile, further economic sentiment survey results due in the coming week should further suggest a deterioration in the euro area's economic outlook. In particular, the European Commission will publish (Wednesday) its detailed business and consumer survey results. The headline ESI is forecast to fall 5pts in March to 109.0, which would be its lowest level for a year. And the final manufacturing PMIs for the euro area, Germany and France as well as survey results for Italy and Spain (Friday) will also suggest a slowing of economic activity at the end of Q1. The [flash euro area PMIs](#) saw the manufacturing output index decline 1.9pts to 53.6, a five-month low restrained by supply-chain disruption and cost pressure. Other data due in the coming week include Spanish retail sales (Tuesday), German retail sales and French consumer spending (Thursday). In addition, new car registrations for France, Italy and Spain will be published on Friday. In terms of ECB speak, various Governing Council members are in action in the week ahead, including President Lagarde (Wednesday) and Chief Economist Lane (Thursday).

## UK

### Despite easing of pandemic restrictions, retail sales maintain downtrend in February

The volume of retail sales in the UK unexpectedly fell in February, declining 0.3%M/M following the rise of 1.9%M/M at the start of the year. That left them 3.7% above the pre-pandemic level in February 2020. But as it has been since last spring, when inflation started to accelerate, the underlying trend in sales volumes remains down. Indeed, sales volumes fell 2.1%3M/3M and the three-month level of sales dropped to the lowest in ten months. With the lifting of pandemic restrictions resulting in increased travel, the volume of auto fuel sales rose 3.6%M/M, excluding which overall retail sales fell a steeper 0.7%M/M following growth of 1.7%M/M in January. Non-food store sales were also stronger, up 0.6%M/M in February with vigorous growth in sales of clothing (13.2%M/M) and department stores (1.3%M/M) as shopping-centre footfall improved and consumers looked to return to the office and increase social activity. However, with increased spending in restaurants, food store sales fell 0.2%M/M. And non-store (i.e. largely online) sales volumes fell a steep 4.8%M/M, albeit still about one third above the pre-pandemic level. With inflation high and rising (the retail sales deflator was up 7.2%3M/Y in February and has further to go), the value of retail sales was firmer than the volume in February, increasing 0.7%M/M to be unchanged on a three-month basis. Indeed, in contrast to the downtrend in the volume of retail sales, the trend in the value of sales has been broadly flat since last spring, suggesting that inflation has been a key restraint on the former.

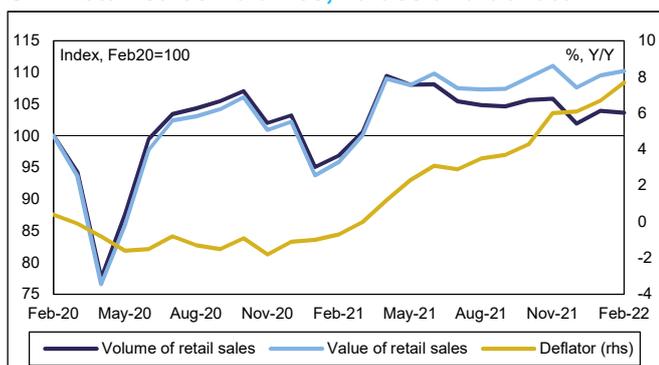
### Plunge in consumer confidence points to weakness in spending ahead

Looking ahead, the downtrend in sales volumes looks set to continue. With inflation still intensifying, real incomes are set to fall this year by the most since the 1950s if not earlier than that. And as a result, household sentiment continues to deteriorate, with the GfK survey's headline consumer confidence index dropping sharply for a third successive month and by a larger-than-expected 5pts in March to -31. That represents the lowest level since the second pandemic wave in November 2020, and is much closer to the initial Covid-19 trough (-36) and financial crisis low (-39) than the long-run average (-9). Within the detail, every component was weaker in March, with the most marked deterioration related to perceptions of the climate for making major purchases, which dropped to the worst since that second pandemic wave. With the government having failed this week to take sufficient policy action to soften the impact of high inflation on the lowest-income households who face the tightest budget constraints, the outlook for private consumption in the UK looks very weak indeed. And so, we maintain our forecast of a contraction in UK GDP in Q2.

### The week ahead in the UK

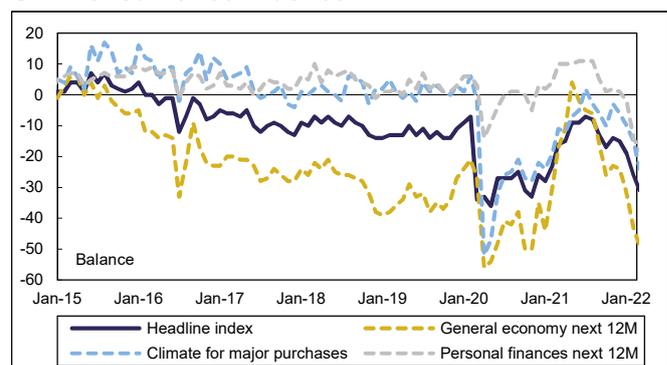
The UK's economic data calendar offers an update on bank lending in February (Tuesday), with consumer credit likely to have increased as relaxed Covid restrictions, a return to offices and pent-up demand for travel and hospitality provided a boost to spending on services. March sentiment surveys due include the Lloyds business barometer (Thursday) and final manufacturing PMIs (Friday). The flash output PMI fell 4.3pts to 52.6, a five-month low, while new orders growth was the softest in more than a year as concerns about the Ukraine conflict weighed. Nationwide house price data and the BRC shop

#### UK: Retail sales volumes, values and deflator



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Consumer confidence



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

price index for March will also be published (Wednesday). The final release of Q4 GDP (Thursday) should confirm growth of 1.0%Q/Q and 7.5%Y/Y in Q4. In addition, BoE Governor Bailey (Monday), and Deputy Governor Broadbent (Wednesday) will speak publicly.

The next edition of the Euro wrap-up will be published on 29 March 2022

## Daiwa economic forecasts

		2021		2022				2022	2023	2024
		Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP forecasts %, Q/Q</b>										
Euro area		2.3	0.3	0.3	0.7	0.8	0.7	3.3	2.4	1.8
UK		1.0	1.0	1.0	-0.1	0.4	0.1	3.8	1.0	1.3
<b>Monetary policy</b>										
<b>ECB</b>										
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.50	0.50
Deposit Rate %		-0.50	-0.50	-0.50	-0.50	-0.50	-0.25	-0.25	0.25	0.25
<b>BoE</b>										
Bank Rate %		0.10	0.25	0.75	1.00	1.25	1.25	1.25	1.00	1.00

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

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Euro area	 M3 money supply Y/Y%	Feb	<b>6.3</b>	6.3	6.4	-
Germany	 Ifo business climate	Mar	<b>90.8</b>	94.1	98.9	<b>98.5</b>
	 Ifo current assessment (expectations)	Mar	<b>97.0 (85.1)</b>	97.0 (93.2)	98.6 (99.2)	<b>- (98.4)</b>
Italy	 ISTAT business (manufacturing) confidence	Mar	<b>105.4 (110.3)</b>	- (112.0)	108.2 (113.4)	<b>107.9 (112.9)</b>
	 ISTAT consumer confidence	Mar	<b>100.8</b>	108.0	112.4	-
Spain	 PPI Y/Y%	Feb	<b>40.7</b>	-	35.7	-
	 Final GDP Q/Q% (Y/Y%)	Q4	<b>2.2 (5.5)</b>	2.0 (5.2)	2.6 (3.4)	-
UK	 GfK consumer confidence	Mar	<b>-31</b>	-30	-26	-
	 SMMT auto production Y/Y%	Feb	<b>-41.3</b>	-	-20.1	-
	 Retail sales including autos fuel M/M% (Y/Y%)	Feb	<b>-0.3 (7.0)</b>	0.5 (7.8)	1.9 (9.1)	<b>- (9.4)</b>
	 Retail sales excluding autos fuel M/M% (Y/Y%)	Feb	<b>-0.7 (4.6)</b>	0.5 (5.6)	1.7 (7.2)	<b>- (7.5)</b>

#### Auctions

Country	Auction
Italy	 sold €2bn of 0% 2023 bonds at an average yield of 0.14%
	 sold €1.5bn of 0.1% inflation-linked 2033 bonds at an average yield of -0.29%

Source: Bloomberg 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
<b>Monday 28 March 2022</b>					
- Nothing scheduled -					
<b>Tuesday 29 March 2022</b>					
Germany		07.00 GfK consumer confidence	Apr	-15.0	-8.1
France		07.45 INSEE consumer confidence	Mar	94	98
Spain		08.00 Retail sales Y/Y%	Feb	1.0	4.0
UK		09.30 Net consumer credit £bn (Y/Y%)	Feb	0.9 (-)	0.6 (3.2)
		09.30 Net mortgage lending £bn (approvals '000s)	Feb	5.1 (73.5)	5.9 (74.0)
		09.30 M4 money supply M/M% (Y/Y%)	Feb	-	0.1 (5.7)
<b>Wednesday 30 March 2022</b>					
Euro area		10.00 European Commission's economic sentiment indicator	Mar	109.0	114.0
		10.00 European Commission's industrial (services) confidence	Mar	9.0 (10.2)	14.0 (13.0)
		10.00 European Commission's final consumer confidence	Mar	-18.7	-8.8
Germany		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	6.2 (6.7)	5.1 (5.5)
Italy		09.00 Industrial sales M/M% (Y/Y%)	Jan	-	-2.1 (14.3)
		10.00 PPI Y/Y%	Feb	-	41.8
Spain		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	7.8 (8.0)	7.6 (7.6)
UK		00.01 BRC shop price index Y/Y%	Mar	-	1.8
<b>Thursday 31 March 2022</b>					
Euro area		10.00 Unemployment rate %	Feb	6.7	6.8
Germany		07.00 Retail sales M/M% (Y/Y%)	Feb	0.5 (6.1)	1.4 (10.4)
		08.55 Unemployment change '000s (rate %)	Mar	-20.0 (5.0)	-33.0 (5.0)
France		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	4.3 (4.8)	3.6 (4.2)
		07.45 PPI M/M% (Y/Y%)	Feb	-	4.6 (22.2)
		07.45 Consumer spending M/M% (Y/Y%)	Feb	-	-1.5 (-2.1)
Italy		10.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	6.3 (7.2)	5.7 (6.2)
UK		00.01 Lloyds business barometer	Mar	-	44
		07.00 Final GDP Q/Q% (Y/Y%)	Q4	1.0 (6.5)	1.1 (7.0)
		07.00 Nationwide house price index M/M% (Y/Y%)	Mar	0.8 (13.2)	1.7 (12.6)
<b>Friday 01 April 2022</b>					
Euro area		09.00 Final manufacturing PMI	Mar	57.0	58.2
		10.00 Preliminary CPI (core CPI) Y/Y%	Mar	<u>6.8 (3.4)</u>	5.8 (2.7)
Germany		08.55 Final manufacturing PMI	Mar	57.6	58.4
France		08.50 Final manufacturing PMI	Mar	54.8	57.2
		- New car registrations* Y/Y%	Mar	-	-15.4
Italy		08.45 Manufacturing PMI	Mar	57.0	58.3
		17.00 New car registrations Y/Y%	Mar	-	-22.6
Spain		08.15 Manufacturing PMI	Mar	55.5	56.9
		- New car registrations* Y/Y%	Mar	-	6.6
UK		09.30 Final manufacturing PMI	Mar	55.5	58.0

\*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 28 March 2022</b>		
Euro area 	11.00	ECB's Rehn speaks at Finnish central bank event on Russia
UK 	12.00	BoE Governor Bailey scheduled to speak on 'macroeconomic and financial stability in changing times'
	14.40	Chancellor Sunak questioned by Treasury Select Committee about Spring Statement
<b>Tuesday 29 March 2022</b>		
UK 	12.00	BoE publishes its Q1 Quarterly Bulletin
<b>Wednesday 30 March 2022</b>		
Euro area 	09.00	ECB President Lagarde scheduled to speak
Italy 	10.00	Auction: 5Y and 10Y bonds
UK 	09.10	BoE's Broadbent scheduled to speak at a NIESR event
<b>Thursday 31 March 2022</b>		
Euro area 	09.00	ECB Chief Economist Lane scheduled to speak on 'monetary policy during the pandemic'
	11.00	ECB's de Guindos scheduled to speak
<b>Friday 01 April 2022</b>		
Euro area 	-	ECB's Schnabel and Knot scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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