

# Euro wrap-up

## Overview

- Bunds made losses as the flash estimate of euro area inflation in March smashed expectations, albeit principally due to higher energy prices.
- Gilts made more substantial losses at the shorter end while the UK manufacturing PMIs for March were revised down.
- The coming week brings the account of the ECB's March monetary policy meeting as well as February data on euro area retail sales and member states' IP and goods trade.

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### Daily bond market movements

| Bond         | Yield  | Change |
|--------------|--------|--------|
| BKO 0 03/24  | -0.062 | +0.024 |
| OBL 0 04/27  | 0.400  | +0.032 |
| DBR 0 02/32  | 0.577  | +0.034 |
| UKT 1 04/24  | 1.408  | +0.057 |
| UKT 1½ 07/27 | 1.453  | +0.048 |
| UKT 4½ 06/32 | 1.645  | +0.035 |

\*Change from close as at 4:00pm BST.  
Source: Bloomberg

## Euro area

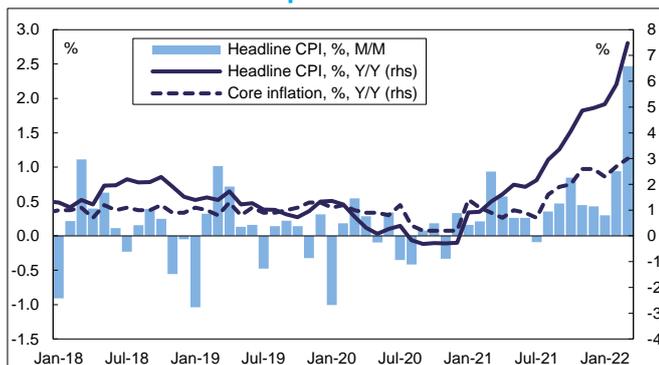
### Inflation leaps to 7½% as energy prices rocket but core pressures more measured

Given the data from a handful of member states published over the past couple of days, it was already clear that initial expectations for euro area inflation in March had been too low. But today's outturn came in even stronger than those national numbers had suggested. Indeed, the flash estimate of euro area HICP inflation jumped 1.6ppt from February – double the initial consensus – to a new series high of 7.5%Y/Y. And the monthly increase in prices of 2.5%M/M was roughly twice the previous record. Inevitably, the biggest contribution to the rise came from energy prices, which rose a record 12.5%M/M – again more than double the previous record – to be up a whopping 44.7%Y/Y and account for a huge 4.9ppt of overall inflation. However, prices of food, alcohol and tobacco rose 0.9%M/M – the most in any March since the creation of the euro – to be up 5.0%Y/Y, the most since 2008. While the rise of 2.5%M/M in non-energy industrial goods prices was not out of place for March, it was sufficient to push the annual rate for this component up 0.3ppt to a new series high of 3.4%Y/Y. And although services prices rose just 0.4%M/M – in line with the average for the month in five years before the pandemic – the respective annual rate increased 0.2ppt to a four-month high of 2.7%Y/Y. So, core inflation rose 0.3ppt to a new series high of 3.0%Y/Y. Unlike the headline rate, however, core inflation was not out of line with expectations.

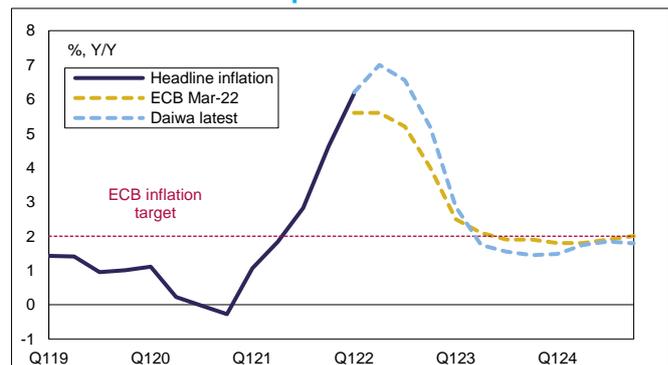
### Near-term inflation outlook depends on energy, but March could represent the peak

The jump in inflation in March left the Q1 average at 6.2%Y/Y, 0.6ppt above the ECB's baseline forecast published last month. Going forward, much will continue to depend upon energy prices, which remain impossible to predict with confidence. However, gasoline prices fell back over the last two weeks of March, with today's decline in the price of Brent crude back to below \$105 and reduction in fuel duty in France and Spain raising hopes of a further decline in the average euro area pump price over the near term. With the flow of natural gas from Russia into Europe still well maintained despite threats to the contrary and broadly meaningless bluster over demands for payment in roubles, wholesale power prices have also dropped below the March averages and to levels well below the early March peaks. So, in the absence of renewed pressures in wholesale prices and supply disruptions of energy – which admittedly can hardly be ruled out – consumer energy prices could well fall more than 3%M/M in April. And despite scope for further cost pressures to be passed on to consumers of services and other goods, including food, March could thus represent the peak for HICP inflation. However, we would still expect the headline rate to average about 7%Y/Y in Q2, almost 1½ppts above the ECB's baseline forecast. And while stable energy prices would allow inflation to fall back gradually in the second half of the year, it would still likely remain close to 5%Y/Y at year-end. Nevertheless, given the lack of significant wage growth, inflation could well be back close to 2.0%Y/Y next spring, with non-negligible risks to the downside thereafter.

### Euro area: Consumer price inflation



### Euro area: Consumer price inflation forecasts



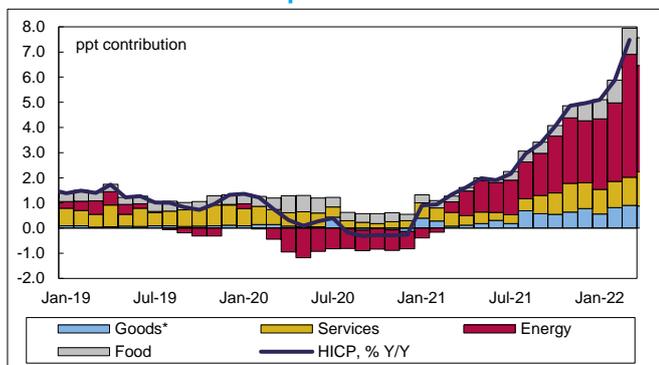
## Final manufacturing PMIs revised lower as demand weakens and costs rise

Like yesterday's [Commission survey](#), today's final euro area manufacturing PMIs highlighted the intensifying price pressures in the sector, which might be expected to push non-energy industrial goods inflation higher over coming months. Among other things, surging energy and commodity prices pushed the euro area input cost PMI up 5pts on the month to a four-month high (87.0). And in a bid to reduce the squeeze on manufacturers profit margins, today's survey suggested that selling price inflation reached a series high. The survey was also more downbeat about production, with the final output index downwardly revised by 0.6pt from the flash to be down 2.4pts on the month at 53.1, the lowest since June 2020, with S&P Global noting shortages of raw materials, staff absences, the war and sluggishness in the autos sector in particular as key restraints. Demand appears to have slowed sharply too, with new orders growth also the softest for 21 months, and the new export order PMI in contractionary territory for the first time since June 2020. And so, business confidence about the year ahead fell to its lowest since May 2020. With the exception of an increase in Ireland, the weakness in the output PMIs was broad based across the member states. The final German output PMI was similarly revised 1pt lower from the flash to 53.0 from 55.3 previously, while the French output PMI was confirmed at 51.1, down some 4pts from February. And today's release confirmed steep declines in Italy and Spain too, down 3.8pts to a fifteen-month low (52.1) and 4.1pts to a fourteen-month low (51.9) respectively.

## The week ahead in the euro area

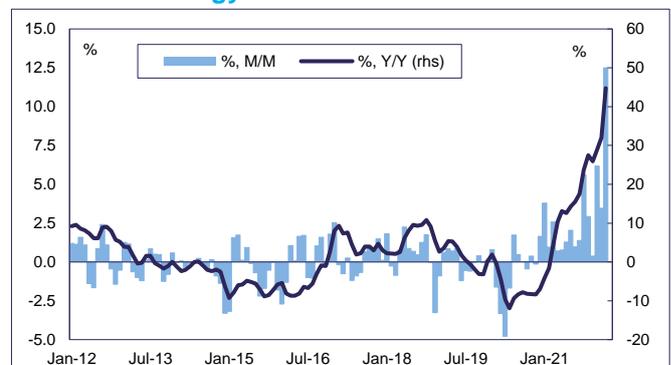
Data-wise, the week kicks off with the release of the euro area Sentix investor confidence survey for April (Monday), which, following the second-largest monthly drop in the headline index on the series last month, is expected to reveal a further more modest deterioration in sentiment as the Russia-Ukraine war persists. The headline indicator is expected to fall to the lowest reading since November 2020 but remain well above the trough at the onset of the pandemic. However, the final March services PMIs (Tuesday) are likely to provide a reminder that normalisation of economic activity from the pandemic restrictions is providing a boost to offset some of the weakness associated with high inflation and the Ukraine war. The same day, German car production and registrations data will highlight the sector's ongoing supply challenges, which will have been exacerbated by the situation in Ukraine. Meanwhile, February figures for German trade (Monday) and orders (Wednesday), as well as French, German and Spanish IP (Tuesday, Thursday and Friday respectively) are also due, although these will reflect conditions before the Russian invasion. Other data of note in the coming week will be euro area retail sales for February on Thursday. At the start of the year, retail sales could only muster a minimal rise of 0.2%M/M, well below expectations. And any rebound in February following the relaxation of pandemic restrictions seems likely to be limited by the

### Euro area: Consumer price inflation



\*Non-energy industrial goods. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Energy inflation



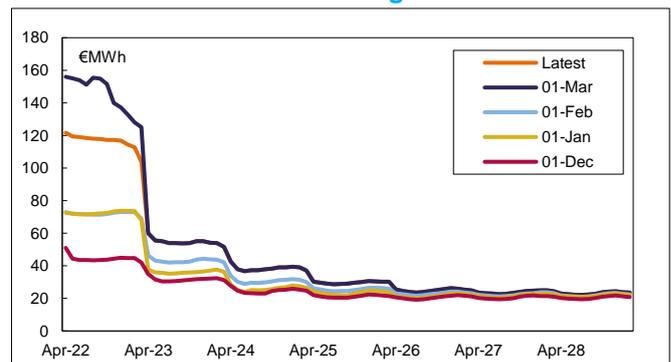
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Gasoline and crude oil prices



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

### Euro area: Wholesale natural gas forwards curves



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

adverse impact of high inflation on real disposable incomes. Euro area PPI inflation figures for February will be of note on Wednesday, and accompanied by the construction PMIs for March.

Ahead of the forthcoming ECB policy meeting on 14 April, market participants will be watching closely for any commentary from policy makers ahead of the pre-meeting seven-day blackout period. President Lagarde will attend the Eurogroup meeting at the start of the week, while on Wednesday, Executive Board members de Guindos and Schnabel will speak at a conference on financial integration and stability. Chief Economist Lane is also in action on Wednesday, taking part in an economic forum panel discussion, while Friday will see Panetta give a speech. The account of the ECB's March policy-setting meeting, to be published on Thursday, will offer an insight into the initial debate on the expected economic impact of, and appropriate policy response to, Russia's invasion of Ukraine. Finally, the coming week will bring final campaigning ahead of the first round of the French Presidential election on 10 April. With Marine Le Pen having seen her ratings improve over recent weeks as regained support from fellow far-right populist Eric Zemmour, we fully expect her to progress through to the second round to go head to head with Emmanuel Macron. We maintain our strong expectation – in line with the polls – that Macron will be re-elected by a clear margin in the second round on 24 April, albeit by a narrower margin than his 66%-34% victory in 2017.

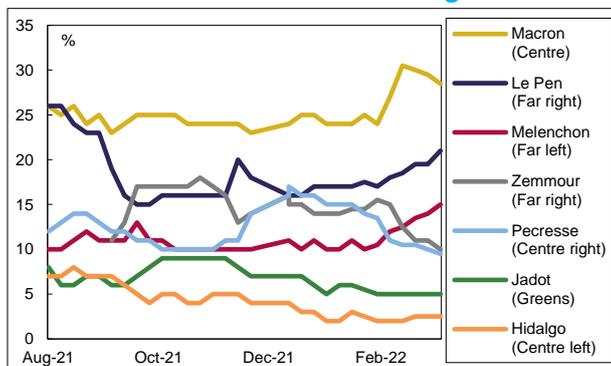
## UK

### Manufacturing PMIs revised lower in March amid softer demand and higher prices

Today's final UK manufacturing PMIs offered a somewhat more downbeat assessment than the flash readings, illustrating the increasing challenges facing manufacturers in the face of the Ukraine conflict. The output component was downwardly revised by 0.8pt to 51.9, leaving it 5pts lower on the month and its second-weakest level for more than a year. The weakness principally reflected an 8pt drop in the consumer goods output PMI to 50.5, with declines in the investment and intermediate goods indices of 2.7pts (to 51.5) and 1.6pts (to 53.5) respectively. Meanwhile, new orders growth was even more subdued than previously thought and the softest in more than a year, with overseas orders contracting for the sixth month out of the past seven, as concerns about the Ukraine conflict, Brexit-related challenges and distribution delays took their toll. While supplier delays were the least widespread for seventeen months, manufacturers noted that shortages of raw materials, staff absences and shipping delays continued to limit production. So, unsurprisingly, today's survey suggested that inflationary pressures remained elevated in the sector too, with the input and output price PMIs rising 2.9pts to 85.9 and 1.5pts to 71.3, both the highest for three months.

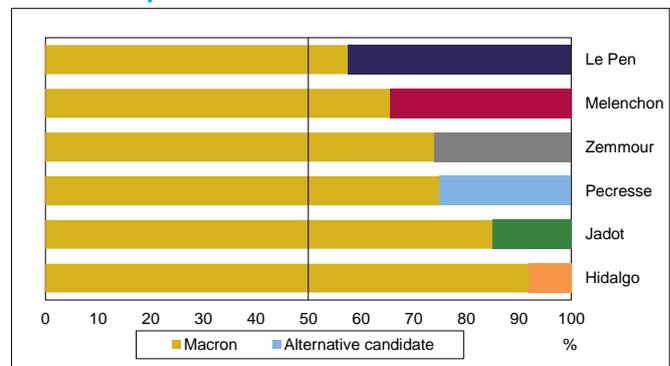
### The week ahead in the UK

#### France: Presidential election voting intentions



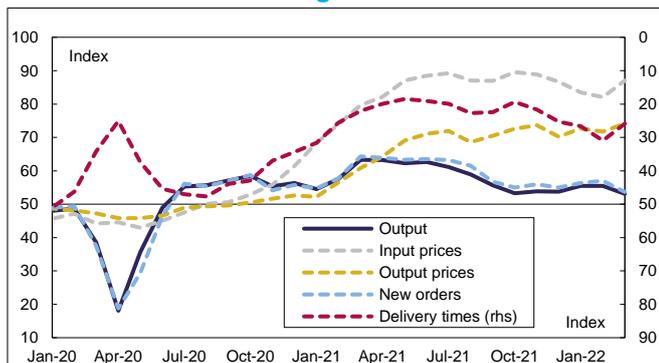
Source: Harris opinion poll and Daiwa Capital Markets Europe Ltd.

#### France: Implied second-round election outcomes\*



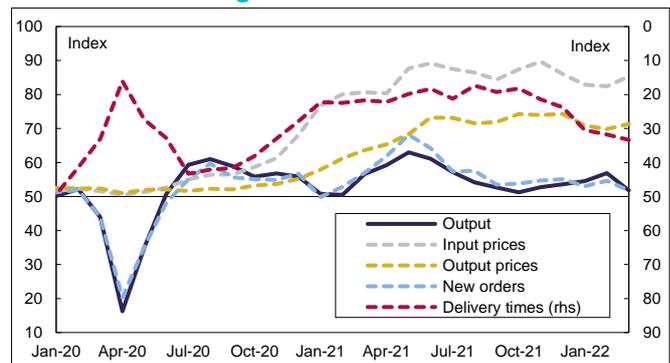
\*Based on latest Harris opinion poll conducted on 25-28<sup>th</sup> March. Source: Harris opinion poll and Daiwa Capital Markets Europe Ltd.

#### Euro area: Manufacturing PMIs



Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

#### UK: Manufacturing PMIs



Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

The coming week's UK data calendar brings a smattering of releases, beginning with new car registrations data for March (Tuesday), which are expected to reveal that supply bottlenecks and the hit to demand from declining real incomes kept new sales well below the pre-pandemic levels. Tuesday will also bring the final services and composite PMIs, followed by the construction PMI for March on Wednesday. The flash release revealed that the services activity index rose a further 0.5pt to 61.0 in March, the highest since June, as relaxing Covid restrictions, a return to offices and pent-up demand for travel and hospitality provided a boost. So, despite more challenging conditions in the manufacturing sector, the preliminary composite PMI slipped only slightly in March, by 0.2pt to a still-elevated 59.7, the second-highest reading of the past nine months. The headline construction PMI activity index is expected to remain elevated after rising to an eight-month high in February of 59.1. At the end of the week, the REC report on jobs will provide an insight into recent trends in recruitment, vacancies and earnings. A number of MPC members have public engagements in the coming week, with Governor Bailey, Deputy Governor Cunliffe and external representative Mann speaking separately on Monday, and Chief Economist Pill speaking on Thursday.

The next edition of the Euro wrap-up will be published on 05 April 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                           |    | 0.9   | 1.3   | 1.0   | -0.1  | 0.4   | 0.1   | 3.9   | 1.0  | 1.3  |
| <b>Headline and Core CPI</b> |   |       |       |       |       |       |       |       |      |      |
| Euro area                    |   |       |       |       |       |       |       |       |      |      |
| Headline CPI                 |  | 2.8   | 4.6   | 6.2   | 7.0   | 6.6   | 5.2   | 6.2   | 1.9  | 1.7  |
| Core CPI                     |  | 1.4   | 2.4   | 2.7   | 3.1   | 2.8   | 2.2   | 2.7   | 1.6  | 1.7  |
| UK                           |   |       |       |       |       |       |       |       |      |      |
| Headline CPI                 |  | 2.8   | 4.9   | 6.2   | 8.1   | 7.6   | 7.5   | 7.3   | 3.7  | 1.7  |
| Core CPI                     |  | 2.6   | 3.9   | 5.0   | 5.3   | 4.8   | 3.8   | 4.7   | 2.1  | 1.6  |
| <b>Monetary policy</b>       |   |       |       |       |       |       |       |       |      |      |
| <b>ECB</b>                   |   |       |       |       |       |       |       |       |      |      |
| Refi Rate %                  |  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.25  | 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.

## European calendar

| Today's results       |   |        |                  |  |           |                |  |
|-----------------------|---|--------|------------------|--|-----------|----------------|--|
| Economic data         |   |        |                  |  |           |                |  |
| Country               | Release   | Period | Actual           | Market consensus/<br><i>Daiwa forecast</i> | Previous  | Revised        |  |
| Euro area             |  Final manufacturing PMI         | Mar    | <b>56.5</b>      | 57.0                                       | 58.2      | -              |  |
|                       |  Preliminary CPI (core CPI) Y/Y% | Mar    | <b>7.5 (3.0)</b> | <u>7.0 (3.2)</u>                           | 5.8 (2.7) | <b>5.9 (-)</b> |  |
| Germany               |  Final manufacturing PMI         | Mar    | <b>56.9</b>      | 57.6                                       | 58.4      | -              |  |
| France                |  Final manufacturing PMI         | Mar    | <b>54.7</b>      | 54.8                                       | 57.2      | -              |  |
| Italy                 |  Manufacturing PMI               | Mar    | <b>55.8</b>      | 57.0                                       | 58.3      | -              |  |
| Spain                 |  Manufacturing PMI               | Mar    | <b>54.2</b>      | 55.7                                       | 56.9      | -              |  |
| UK                    |  Final manufacturing PMI         | Mar    | <b>55.2</b>      | 55.5                                       | 58.0      | -              |  |
| Auctions              |   |        |                  |  |           |                |  |
| Country               | Auction   |        |                  |  |           |                |  |
| - Nothing to report - |   |        |                  |  |           |                |  |

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/<br><i>Daiwa</i><br><i>forecast/actual</i> | Previous    |             |
|--------------------------------|---|---------|--|---|-------------|-------------|
| <b>Monday 04 April 2022</b>    |   |         |  |   |             |             |
| Euro area                      |    | 09.30   | Sentix investor confidence               | Apr   | -9.7        | -7.0        |
| Germany                        |    | 07.00   | Trade balance €bn                        | Feb   | 5.5         | 3.3         |
| Spain                          |    | 08.00   | Unemployment change '000s                | Mar   | -           | -11.4       |
| <b>Tuesday 05 April 2022</b>   |   |         |  |   |             |             |
| Euro area                      |    | 09.00   | Final services (composite) PMI           | Mar   | 54.8 (54.5) | 55.5 (55.5) |
| Germany                        |    | 08.55   | Final services (composite) PMI           | Mar   | 55.0 (54.6) | 55.8 (55.6) |
|                                |    | -       | New car production (registrations)* Y/Y% | Mar   | -           | -1.2 (3.2)  |
| France                         |    | 07.45   | Industrial production M/M% (Y/Y%)        | Feb   | -0.1 (2.5)  | 1.6 (-1.5)  |
|                                |    | 07.45   | Manufacturing production M/M% (Y/Y%)     | Feb   | -           | 1.8 (-1.1)  |
|                                |    | 08.50   | Final services (composite) PMI           | Mar   | 57.4 (56.2) | 55.5 (55.5) |
| Italy                          |    | 08.45   | Services (composite) PMI                 | Mar   | 51.4 (-)    | 52.8 (53.6) |
| Spain                          |    | 08.15   | Services (composite) PMI                 | Mar   | 54.3 (-)    | 56.6 (56.5) |
| UK                             |    | 09.00   | New car registrations Y/Y%               | Mar   | -           | 15.0        |
|                                |    | 09.30   | Final services (composite) PMI           | Mar   | 61.0 (59.7) | 60.5 (59.9) |
| <b>Wednesday 06 April 2022</b> |   |         |  |   |             |             |
| Euro area                      |  | 08.30   | Construction PMI                         | Mar   | -           | 56.3        |
|                                |  | 10.00   | PPI M/M% (Y/Y%)                          | Feb   | 1.2 (31.7)  | 5.2 (30.6)  |
| Germany                        |  | 07.00   | Factory orders M/M% (Y/Y%)               | Feb   | -0.3 (5.4)  | 1.8 (7.3)   |
|                                |  | 08.30   | Construction PMI                         | Mar   | -           | 54.9        |
| France                         |  | 08.30   | Construction PMI                         | Mar   | -           | 50.0        |
| Italy                          |  | 08.30   | Construction PMI                         | Mar   | -           | 68.5        |
| UK                             |  | 09.30   | Construction PMI                         | Mar   | 58.0        | 59.1        |
| <b>Thursday 07 April 2022</b>  |   |         |  |   |             |             |
| Euro area                      |  | 10.00   | Retail sales M/M% (Y/Y%)                 | Feb   | 0.6 (5.1)   | 0.2 (7.8)   |
| Germany                        |  | 07.00   | Industrial production M/M% (Y/Y%)        | Feb   | 0.0 (3.3)   | 2.7 (1.8)   |
| <b>Friday 08 April 2022</b>    |   |         |  |   |             |             |
| Italy                          |  | 09.00   | Retail sales M/M% (Y/Y%)                 | Feb   | -           | -0.5 (8.4)  |
| Spain                          |  | 08.00   | Industrial production M/M% (Y/Y%)        | Feb   | 0.4 (1.7)   | -0.1 (1.7)  |

\*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 04 April 2022</b>    |       |  |
| Euro area                      | -     | ECB President Lagarde and Executive Board member Panetta attend Eurogroup meeting                            |
| UK                             | 09.30 | BoE's Mann scheduled to speak at the Resolution Foundation event on Navigating an Uncertain Economic Outlook |
|                                | 10.50 | BoE's Bailey scheduled to speak at the Stop Scams Conference   |
|                                | 15.00 | BoE's Cunliffe scheduled to speak at the European Economic & Financial Centre                                |
| <b>Tuesday 05 April 2022</b>   |       |  |
| Germany                        |       | Auction: €400mn of 0.5% 2030 index-linked bonds  |
|                                |       | Auction: €200mn of 0.1% 2046 index-linked bonds  |
| UK                             | 10.00 | Auction: £3.25bn of 0.375% 2026 bonds  |
| <b>Wednesday 06 April 2022</b> |       |  |
| Euro area                      | 08.00 | ECB's de Guindos gives a speech at European Financial Integration and Stability conference                   |
|                                | 10.00 | ECB's Schnabel moderates panel at European Financial Integration and Stability conference                    |
|                                | 11.45 | ECB Chief Economist Lane participates in panel discussion on inflation dynamics                              |
| <b>Thursday 07 April 2022</b>  |       |  |
| Euro area                      | 12.30 | ECB publishes account of March monetary policy meeting   |
| France                         | 09.50 | Auction: 0% 2032 bonds   |
|                                | 09.50 | Auction: 1.25% 2038 bonds  |
|                                | 09.50 | Auction: 0.5% 2072 bonds   |
| Spain                          | 09.30 | Auction: fixed rate bonds  |
| UK                             | -     | BoE Decision Maker Panel data for March to be published  |
|                                | 13.15 | BoE's Pill scheduled to speak at the BoE International Conference on the Sovereign Bond Market               |
| <b>Friday 08 April 2022</b>    |       |  |
| Euro area                      | 12.15 | ECB's Panetta to give opening speech at a Technology and Finance conference                                  |
| UK                             | 01.01 | REC report on jobs   |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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