

Euro wrap-up

Overview

- Bunds rallied further despite an upside surprise to the flash euro area PMIs, which implied an acceleration in services activity in March.
- Gilts also made gains even as UK retail sales significantly beat expectations and the flash PMIs remained consistent with expansion in the services sector.
- The coming week brings euro area flash inflation for March and bank lending figures from the euro area and UK.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	2.357	-0.147
OBL 2.2 04/28	2.080	-0.107
DBR 2.3 02/33	2.114	-0.075
UKT 0 ⁵ / ₈ 06/25	3.209	-0.078
UKT 1¼ 07/27	3.123	-0.086
UKT 3¼ 01/33	3.281	-0.079

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

Euro area

Euro area PMIs unexpectedly surge in March, led by stronger services activity

Today's euro area flash PMIs unexpectedly suggested that economic conditions improved significantly further at the end of the first quarter despite the ongoing financial sector turbulence. In particular, the euro area's composite output PMI jumped 2.1pts in March to 54.1, a ten-month high and almost 7pts above October's trough. This left the quarterly index in Q1 (52.1) some 4pts above the Q4 average and therefore suggestive of a return to modestly positive GDP growth this quarter. The acceleration in activity was again driven by services, for which the activity index surged 2.9pts – the most for thirteen months – to 55.6, similarly the highest since May last year. The survey's authors suggested that a key source of momentum had been growth in financial services and a notable turnaround in real estate. In the current circumstances that certainly seems surprising, and so we would not be surprised to see downwards revisions when the final PMIs are published. But we do not doubt the survey's conclusion that consumer-facing services continue to benefit from domestic demand and a rebound in tourism, for which the associated survey component jumped 4.0pts to 51.6.

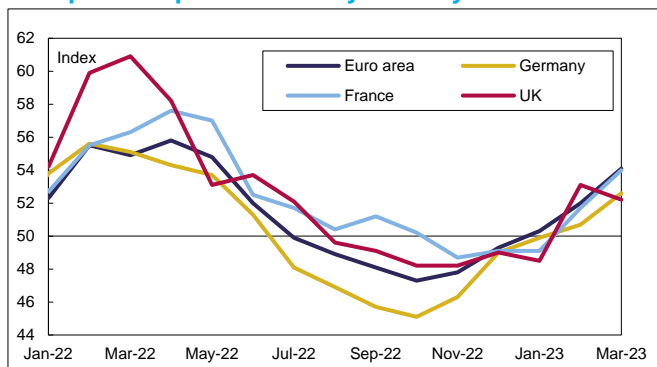
PMIs point to stagnating manufacturing output and declining input costs

In contrast, conditions in the manufacturing sector appear to remain more challenging, with the output PMI (down 0.2pt to 49.9) merely suggesting ongoing stagnation in March as new orders declined for the eleventh consecutive month. Admittedly, S&P Global noted a stronger performance in the autos sector, due not least to easing supply bottlenecks. And overall the survey implied that average supplier delivery times shortened for the second successive month and to the greatest extent since the series began in 1997, driven by a significant improvement in Germany. Given weaker supply-side pressures, today's survey reported the first decline in manufacturing input costs since July 2020, with the respective PMI down to 46.4, more than 40pts below last year's peak. And given also lacklustre demand, the output price index fell almost 5pts to 53.5, the lowest since the start of 2021 and just 2pts above the long-run average. Admittedly, price pressures remained much stickier in the services sector. Indeed, despite easing to a seventeen-month low, the respective input price PMI (68.3) remained elevated, with the prices charged component (59.5) similarly well above the long-run average (50.2). And so, the composite output price PMI (62.4) was still some 6pts above the long-run average.

Divergence between manufacturing and services sectors evident across member states

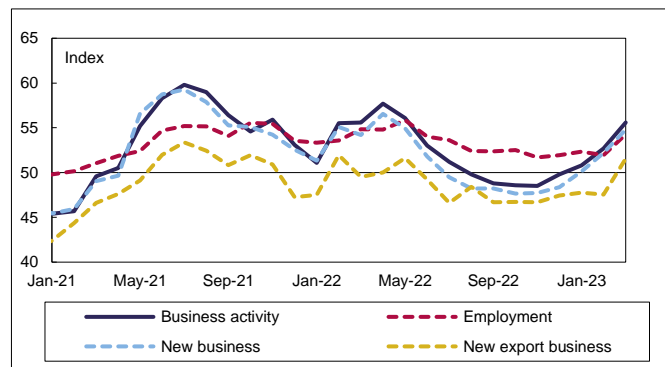
The improvement in economic activity was evident across the member states. Contrasting with the deterioration in the respective ZEW investor survey indices earlier this week, the German composite PMI rose for the fifth consecutive month, by 1.9pts to 52.6, to leave the quarterly average (51.1) some 4.3pts above the Q4 result. Like the euro area aggregate, this was

Europe: Composite PMIs by country



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

Euro area: Services PMIs



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

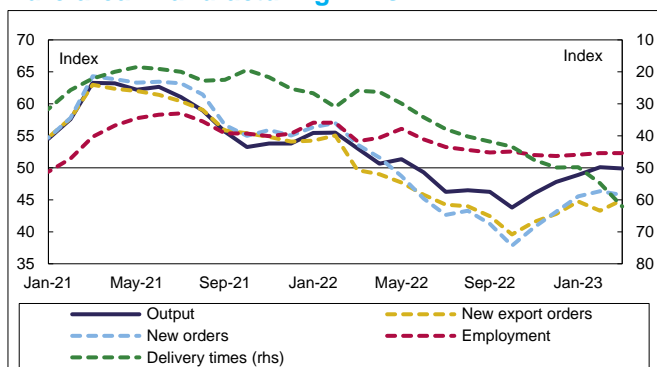
led by an acceleration in services activity (up 3pts to 53.9), while manufacturing output moved broadly sideways (50.2). The divergence between sectors was more striking in France, where the services index jumped 2.4pts to 55.5, while the manufacturing output component remained firmly in contractionary territory (46.9). But the rise in social unrest and associated disruption to activity in that country in protest at the imposition of a higher retirement age might suggest the magnitude of recovery in the composite PMI (up 2.3pt to 54.0) will be revised down in the final estimates. The survey authors also reported that the rest of the euro area again registered the strongest performance, with the composite PMI rising 2.1pts to an eleven-month high of 55.5.

The week ahead in the euro area

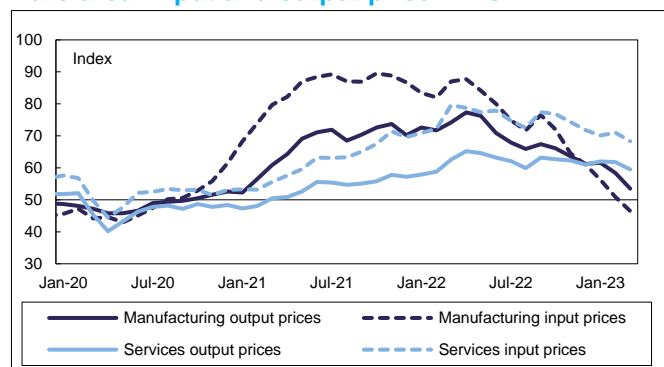
The data highlight of the coming week will be Friday's flash release of euro area inflation figures for March. We expect the annual HICP rate to ease for the fifth consecutive month, and by 1½pts to a fourteen-month low of 7.0%Y/Y. This will, however, reflect a further substantial moderation in energy inflation, reflecting base effects following the spike in prices after the Russian invasion of Ukraine a year ago. Indeed, we expect core inflation to have ticked higher this month, to a new record high of 5.8%Y/Y, due to a further acceleration in core goods inflation and sticky services inflation. Member state inflation figures from Germany, Spain and Belgium (Thursday) and France, the Netherlands and Austria (Friday) will give some guidance on what to expect from the euro area figure. Other euro area releases of significance to the [ECB's reaction function](#) include February bank lending data on Monday and unemployment figures on Friday.

The coming week brings additional sentiment survey results, with the most noteworthy being the European Commission's business and consumer sentiment indices (Thursday). These are likely to report a further moderation in consumer and business selling price expectations in March. And if today's flash PMIs are to be believed, they might also point to a pickup in economic recovery momentum at the end of the first quarter despite the recent increase in risk aversion. National confidence survey results include Germany's ifo business (Monday) and GfK consumer indices (Wednesday); the French INSEE business and consumer surveys (Tuesday and Wednesday respectively); and the equivalent Italian ISTAT releases (Tuesday). In terms of ECB speak, the coming week sees ECB Executive Board member and leading hawk Schnabel give a lecture on Monday and participate on a panel discussion on Wednesday, while President Lagarde is due to participate in a Q&A session with students on Friday.

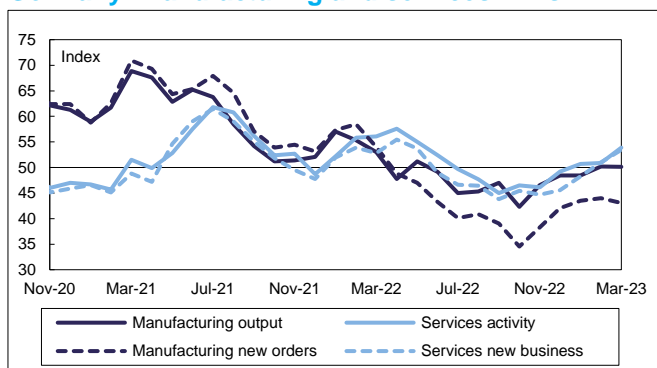
Euro area: Manufacturing PMIs



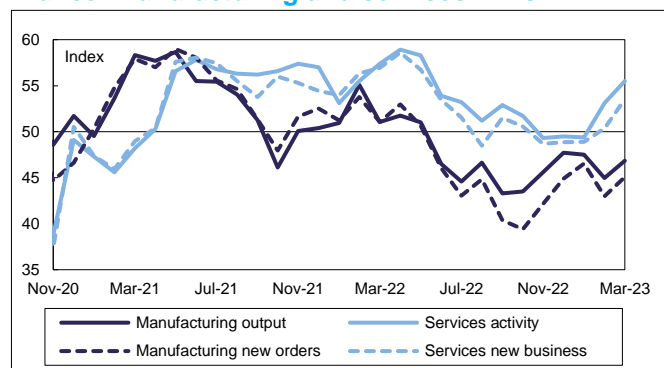
Euro area: Input and output price PMIs



Germany: Manufacturing and services PMIs



France: Manufacturing and services PMIs



UK

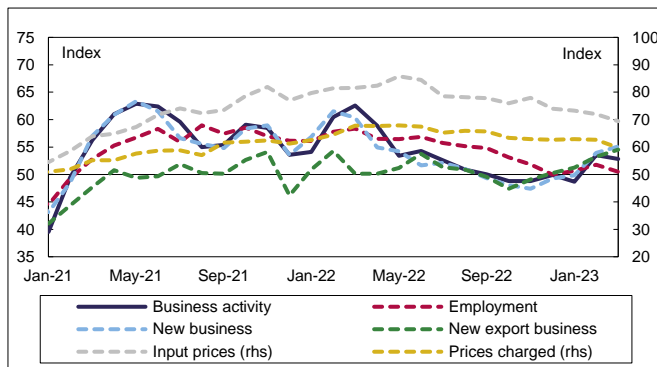
Output PMIs slip back in March but remain consistent with private sector growth

In its monetary policy statement yesterday, the [BoE](#) expressed cautious optimism about the economic outlook, expecting activity to be firmer over the horizon than it had previously anticipated. Notwithstanding persisting financial market turbulence, today's economic data are likely to have reinforced that view, not least with retail sales in February exceeding expectations and consumer confidence extending its gradual recovery trend in March. And while the March flash PMIs suggested that output slowed on the month, they were still consistent with expansion in the private sector. In particular, having surprisingly leapt 4.6pts in February to an eight-month high, the composite output PMI slipped back by 0.9pt to 52.2. That left the Q1 average at 51.3, the first quarterly reading above 50 since Q222. That might suggest GDP growth of about 0.2%Q/Q following the flat reading for Q4. However, we think that strike action, which particularly hit public services over recent weeks, as well as adjustments in construction, which were not reflected in today's PMIs, might yet have resulted in a marginal contraction in overall economic output this quarter.

Growth coming from services while cost pressures moderate across the sectors

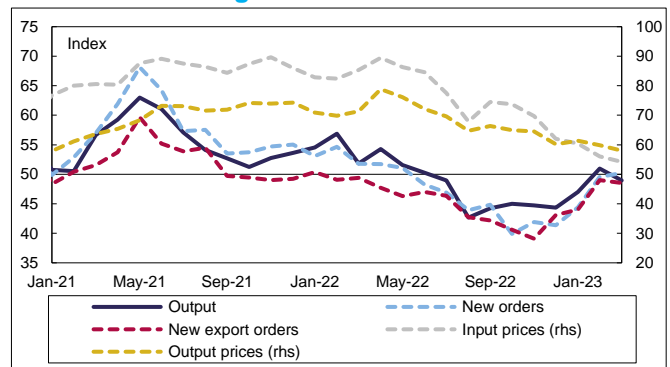
The flash PMIs suggested a continued contrast in fortunes between private services and manufacturing. While 0.7pt softer on the month, at 52.8 in March the services activity PMI was consistent with expansion and averaged 51.7 in Q1. Among other things, the survey authors reported resilient demand for consumer-facing services. Moreover, the index for services new business rose 1.2pts to 55.1, the best in a year, to point to the likelihood of further positive growth in the sector to come. In contrast, the manufacturing output PMI dropped 2pts to 49.0, which was also the Q1 average, pointing to contraction in the sector. And while the manufacturing new orders PMI rose in March, it signalled nothing better than stagnation at the end of Q1 and a drop over the quarter from Q4 as export demand in particular continued to weaken. With stocks more than ample, supplier delivery times fell at the fastest pace since the aftermath of the global financial crisis in 2009 to point to further significant improvement of supply chains. So, the surveys pointed to further improvement in the inflation outlook. According to the respective composite index, growth in cost burdens across the economy slowed to its softest in two years, with costs in the factory sector rising the least since June 2020 as lower transportation and fuel costs helped offset higher prices paid for food and wage pressures. With cost pressures easing, prices paid by customers also slowed, with the respective index down to its lowest since August 2021.

UK: Services PMIs



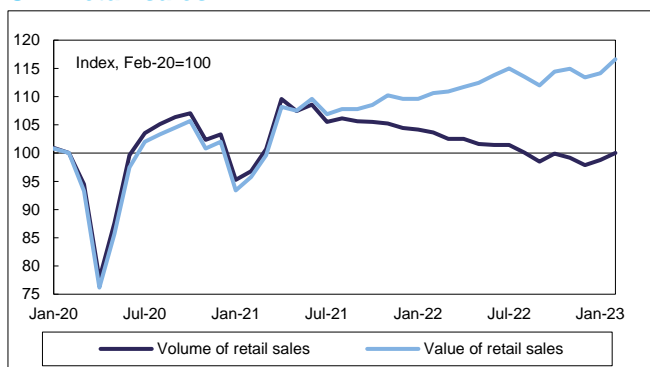
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing PMIs



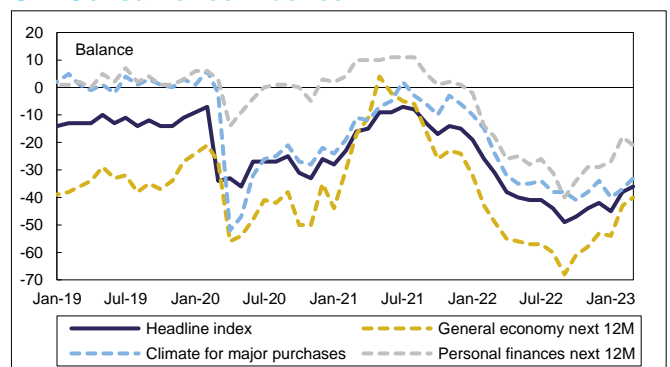
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence



Source: GfK, Refinitiv and Daiwa Capital Markets Europe Ltd.

Retail sales jump above expectations in February

Retail sales volumes rose for a second successive month in February and by 1.2%M/M, the most since October when sales had rebounded following a dip for the Queen's funeral bank holiday. That took sales volumes to their highest level since August and returned them to the level in February 2020 ahead of the pandemic. Sales growth in January was also stronger than previously thought, being revised up 0.3ppt to 0.9%M/M. Given the weakness at the end of last year, sales were still down 0.3%3M/3M and 3.5%Y/Y. But the average level in the first two months of Q1 was 0.4% above that in Q4, raising the possibility of a first quarterly rise in UK retail sales volumes since Q221. Within the detail, non-food store sales saw most growth last month, jumping 2.4%M/M, with the ONS noting strongest growth in discount department stores. Food store sales also rose, up 0.9%M/M, with the ONS also reporting anecdotal evidence of a possible shift in spending away from restaurants and on takeaways due to pressures on real disposable incomes. Auto fuel sales volumes fell 1.1%M/M in February, reversing the rise in January that appears to have in part been related to train strikes. With retail prices up again on average, the value of retail sales in February rose 1.6%M/M to be up 0.7%3M/3M and 5.5%Y/Y.










Consumer confidence reaches 12-month high in March

The rise in retail sales volumes at the start of 2023 tallies with the gradual improvement in consumer confidence reported in the GfK survey over recent months. Indeed, the March GfK survey results registered a further 2pt rise in the headline sentiment index to -36, the best in twelve months and some 13pts above the series low reached last September. The survey index of willingness to make major purchases rose 4pts to -33, the highest level since April. Consistent with the BoE's latest judgement, consumer expectations for the economy over the coming 12 months also improved even though the outlook for personal finances was judged to have deteriorated again. All indicators on the survey remain low by historical standards, however, unsurprisingly suggesting that overall consumer spending will remain subdued for a while yet as real disposable incomes remain compressed after last year's sharp decline.

The week ahead in the UK













Following today's surprisingly strong retail sales data, Monday's CBI distributive trades report will provide an insight into spending at the end of Q1. This might well imply some payback for growth in February as high costs and squeezed household incomes continue to weigh on the retail sector. Indeed, the March shop price index from the BRC, due Wednesday, is expected to remain high, after accelerating to another record high in February. Arguably of most interest in the coming week will be the BoE's lending figures for March on Wednesday, which are likely to reveal a further weakening in mortgage lending and approvals. Consumer credit figures will be analysed for whether higher borrowing costs are restraining demand for credit amid the cost of living crisis. Meanwhile, the Nationwide house price index (Friday) is expected to align with the downbeat RICS residential survey to report the seventh consecutive monthly decline in house prices in March. Finally, the end of the week brings updated Q4 GDP figures, which are likely to confirm that the economy stagnated in the final quarter of 2022. The balance of payments figures for Q4 will also be published. Separately, the BoE will publish on Wednesday its March Financial Policy Summary and Record, with discussions on the latest banking sector instability to be closely watched. In terms of BoE speak, Governor Bailey will give a lecture in London on Monday and testify in Parliament on issues related to SVB on Tuesday.

Daiwa economic forecasts

	2022		2023				2022	2023	2024
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.4	0.0	0.0	0.1	0.1	0.2	3.5	0.6	1.0
UK 	-0.2	0.0	-0.1	-0.1	0.0	0.1	4.0	-0.3	0.5
Inflation, %, Y/Y									
Euro area									
Headline HICP 	9.3	10.0	8.0	6.3	4.8	3.0	8.4	5.5	2.3
Core HICP 	4.4	5.1	5.6	5.3	4.7	3.9	3.9	4.9	2.4
UK									
Headline CPI 	10.0	10.7	10.0	6.8	5.4	2.9	9.1	6.2	2.1
Core CPI 	6.3	6.4	5.9	5.1	4.2	3.4	5.9	4.6	2.7
Monetary policy, %									
ECB									
Refi Rate 	1.25	2.50	3.50	4.00	4.00	4.00	2.50	4.00	3.25
Deposit Rate 	0.75	2.00	3.00	3.50	3.50	3.50	2.00	3.50	2.75
BoE									
Bank Rate 	2.25	3.50	4.25	4.25	4.25	4.25	3.50	4.25	3.25

Source: Bloomberg, ECB, BoE 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	
Euro area 	Preliminary manufacturing (services) PMI	Mar	47.1 (55.6)	49.0 (52.5)	48.5 (52.7)	-	
	Preliminary composite PMI	Mar	54.1	52.0	52.0	-	
Germany 	Preliminary manufacturing (services) PMI	Mar	44.4 (53.9)	47.0 (51.0)	46.3 (50.9)	-	
	Preliminary composite PMI	Mar	52.6	51.0	50.7	-	
France 	Preliminary manufacturing (services) PMI	Mar	47.7 (55.5)	48.0 (52.5)	47.4 (53.1)	-	
	Preliminary composite PMI	Mar	54.0	51.5	51.7	-	
Spain 	Final GDP Q/Q% (Y/Y%)	Q4	0.2 (2.6)	<u>0.2 (2.7)</u>	0.2 (4.8)	- (4.7)	
UK 	GfK consumer confidence	Mar	-36	-36	-38	-	
	Retail sales including auto fuel M/M% (Y/Y%)	Feb	1.2 (-3.5)	0.2 (-4.7)	0.5 (-5.1)	0.9 (-5.2)	
	Retail sales excluding auto fuel M/M% (Y/Y%)	Feb	1.5 (-3.3)	0.2 (-4.8)	0.4 (-5.3)	0.9 (-5.4)	
	Preliminary manufacturing (services) PMI	Mar	48.0 (52.8)	49.7 (53.0)	49.3 (53.5)	-	
	Preliminary composite PMI	Mar	52.2	52.7	53.1	-	
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/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 27 March 2023					
Euro area	09.00	M3 money supply Y/Y%	Feb	3.2	3.5
Germany	09.00	ifo business climate	Mar	90.9	91.1
	09.00	ifo current assessment (expectations) balance	Mar	94.1 (88.0)	93.9 (88.5)
UK	11.00	CBI distributive trades, reported retail sales	Mar	0	2
Tuesday 28 March 2023					
France	07.45	INSEE business (manufacturing) confidence	Mar	103 (103)	103 (104)
Italy	09.00	ISTAT consumer confidence	Mar	104.0	104.0
	09.00	ISTAT business (manufacturing) confidence	Mar	- (102.8)	109.1 (102.8)
UK	00.01	BRC shop price index Y/Y%	Mar	-	8.4
Wednesday 29 March 2023					
Germany	07.00	GfK consumer confidence	Apr	-29.8	-30.5
France	07.45	INSEE consumer confidence	Mar	81	82
UK	09.30	Net consumer credit £bn (Y/Y%)	Feb	1.3 (-)	1.6 (7.5)
	09.30	Net mortgage lending £bn (approvals '000s)	Feb	2.4 (40.5)	2.5 (39.6)
	09.30	M4 money supply M/M% (Y/Y%)	Feb	-	1.3 (2.7)
Thursday 30 March 2023					
Euro area	10.00	European Commission's economic sentiment indicator	Mar	99.8	99.7
	10.00	Final European Commission's consumer confidence	Mar	<u>-19.2</u>	-19.1
	10.00	European Commission's industrial (services) confidence	Mar	0.4 (9.4)	0.5 (9.5)
Germany	13.00	Preliminary HICP (CPI) Y/Y%	Mar	7.6 (7.3)	9.3 (8.7)
Italy	09.00	Unemployment rate %	Feb	8.0	7.9
	10.00	PPI Y/Y%	Feb	-	11.6
Spain	08.00	Preliminary HICP (CPI) Y/Y%	Mar	4.0 (4.0)	6.0 (6.0)
Friday 31 March 2023					
Euro area	10.00	HICP (core HICP) Y/Y%	Mar	<u>7.0 (5.8)</u>	8.5 (5.6)
	10.00	Unemployment rate %	Feb	6.6	6.6
Germany	07.00	Retail sales M/M% (Y/Y%)	Feb	0.5 (-5.2)	0.0 (-4.2)
	08.55	Unemployment rate % (change '000s)	Mar	5.5 (0.0)	5.5 (2.0)
France	07.45	Preliminary HICP (CPI) Y/Y%	Mar	6.5 (5.7)	7.3 (6.3)
	07.45	Consumer spending M/M% (Y/Y%)	Feb	0.3 (-3.5)	1.5 (-3.7)
	07.45	PPI Y/Y%	Feb	-	17.9
Italy	10.00	Preliminary HICP (CPI) Y/Y%	Mar	8.8 (8.2)	9.8 (9.1)
UK	00.01	Lloyds business barometer	Mar	-	21
	07.00	Nationwide house price index M/M% (Y/Y%)	Mar	-0.5 (-2.4)	-0.5 (-1.1)
	07.00	Final GDP Q/Q% (Y/Y%)	Q4	<u>0.0 (0.4)</u>	-0.2 (1.9)
	07.00	Current account balance £bn	Q4	-17.4	-19.4

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 27 March 2023		
Euro area 	16.00	ECB's Schnabel scheduled to speak
UK 	18.00	BoE Governor Bailey scheduled to speak
Tuesday 28 March 2023		
Germany 	10.30	Auction: €5.50bn of 2.5% 2025 bonds
Italy 	10.00	Auction: €1.25bn of 2.5% 2024 bonds
	10.00	Auction: €2.75bn of 3.4% 2025 bonds
	10.00	Auction: €1.50bn of 0.1% 2033 index-linked bonds
UK 	09.45	BoE Governor Bailey testifies at Treasury Select Committee hearing on collapse of SVB
Wednesday 29 March 2023		
Euro area 	21.45	ECB's Schnabel scheduled to speak
UK 	10.30	BoE publishes Financial Policy Summary
	19.50	BoE's Mann scheduled to speak
Thursday 30 March 2023		
Euro area 	09.00	ECB publishes Economic Bulletin
Italy 	11.00	Auction: 5Y and 10Y bonds
Friday 31 March 2023		
Euro area 	16.00	ECB President Lagarde scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are MiFID 2 Professional (or equivalent) Clients and should not therefore be distributed to such Retail Clients. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: <https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Opinions [and/or estimates] reflect a judgment as at the date of publication and are subject to change without notice. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.