

# Euro wrap-up

## Overview

- Bunds made gains as flash estimates of French and Spanish inflation surprised to the downside and the Commission economic sentiment index fell to a three-month low to suggest minimal growth in Q1.
- Despite an upside surprise to UK retail sales in February, Gilts followed USTs higher.
- Alongside US tariff announcements, focus next week will be on the flash March inflation estimates from the euro area and Germany, the account of the ECB's March policy meeting and German factory orders data.

## Economic Research Team

+44 20 7597 8326

### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.023	-0.040
OBL 2.4 04/30	2.326	-0.044
DBR 2½ 02/35	2.729	-0.041
UKT 3¾ 03/27	4.208	-0.054
UKT 4¾ 03/30	4.312	-0.072
UKT 4¾ 03/35	4.707	-0.079

\*Change from close as at 4:00pm GMT.

Source: Bloomberg

## Euro area

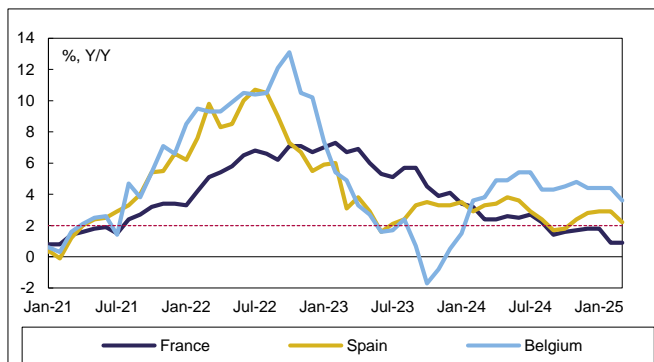
### Flash estimates of French & Spanish inflation surprise on the downside

The first estimates of consumer price inflation in March surprised on the downside, suggesting that the euro area rate (due on Tuesday) fell for a second successive month. In particular, contrary to the consensus expectation of a pickup from February, the French HICP rate was unchanged at 0.9%Y/Y in March while the equivalent Spanish measure fell a chunky 0.7ppt to a five-month low of 2.2%Y/Y. Elsewhere, Belgian HICP inflation fell 0.8ppt to a 13-month low of 3.6%Y/Y. Energy inflation fell in all three countries, reflecting lower prices of electricity and petrol. In terms of core items, services inflation on the national measure ticked up slightly in France due to the insurance component. But services inflation was reportedly softer in Spain due to a moderation in leisure and culture. As such, the Spanish national core rate (which excludes fresh food and energy) slowed 0.2ppt to 2.0%Y/Y. In France, a drop in the national manufactured goods inflation back into negative territory (-0.2%Y/Y) broadly offset the pickup in services to suggest that core inflation was unchanged. And the Belgium core rate on the national measure fell too. So, based on today's price data, we expect the euro area headline and core inflation rates to drop 0.1ppt to 2.2%Y/Y and 2.5%Y/Y respectively. If so, the core rate would be the lowest in more than three years and consistent with a sustained return of inflation back to the ECB's 2.0%Y/Y target by Q126.

### Commission ESI contradicts message from flash PMIs with big deterioration in services sentiment

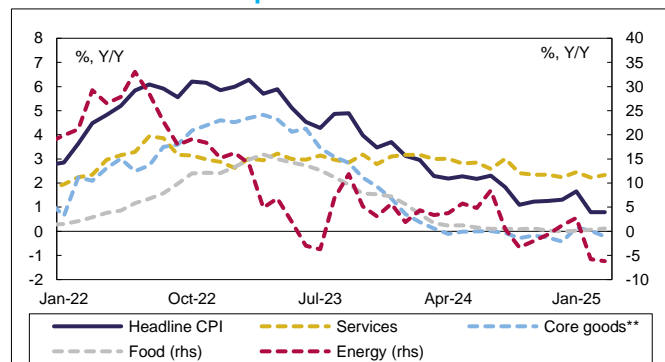
Like the flash inflation data, today's Commission survey results largely supported the case for further near-term monetary policy easing. Contrasting the modest pick up in the flash [composite PMI](#) to a seven-month high reported at the start of the week, the Commission's headline Economic Sentiment Index (ESI) for the euro area fell more than 1pt to a three-month low of 95.2, 4.8% below the long-run average and a level suggestive of minimal growth in Q1. Like the flash PMIs, the Commission survey reported a modest improvement in industrial confidence, with the respective indicator up to a seven-month high on improved production expectations albeit still well below the long-run average. However, despite the ECB's rate cut earlier this month, construction sector confidence softened a touch. Moreover, retail sector confidence fell to a five-month low. And most strikingly, services sentiment fell the most in 2½ years to the lowest level since the Covid-related lockdowns in spring 2021, as firms in that sector revised down their expectations for future demand. The deterioration of sentiment in services and retail tallied with the significant drop in consumer confidence to an 11-month low as expectations regarding the outlook for the economy and incomes deteriorated. Nevertheless, consumer fears of unemployment subsided a touch. And while savings intentions remained close to the series high, consumer willingness to make major purchases over the coming twelve months edged up to a three-year high. ECB hawks will also note that household 12-month inflation expectations rose to the highest in more than two years, while industrial firms' selling-price expectations for the coming three months rose to a near-two year high. In contrast, however, price-setting expectations in services fell to a six-month low.

### Euro area: HICP inflation in selected member states



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### France: Consumer price inflation\*



\*National measure. \*\*Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## German labour market continues to soften despite fiscal policy-related optimism

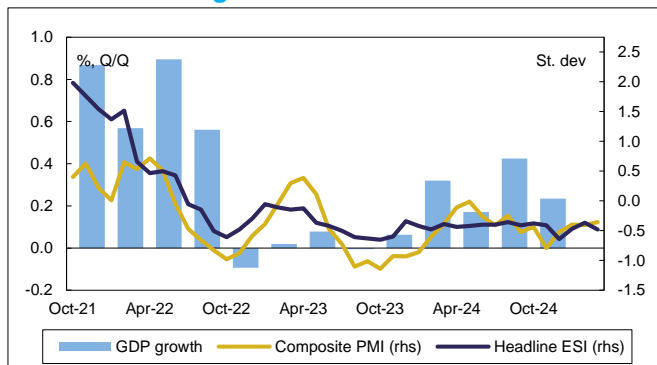
Finally, today's data on the German labour market maintained the broadly downbeat tone. German jobless claims rose in March by a larger-than-expected 26k, the most in six months. And that pushed the claimant count rate up 0.1ppt to 6.3%, 1.3ppts above the trough three years ago and the highest since the first wave of Covid 19 in summer 2020. The number of vacancies edged down to the lowest in almost four years, well below the range in the three years before the pandemic. And on the Commission survey, German firms' employment expectations fell to the lowest since June 2020, suggesting that jobless claims will continue to rise over the near term despite improved sentiment related to the shift in fiscal policy.

## The week ahead in the euro area

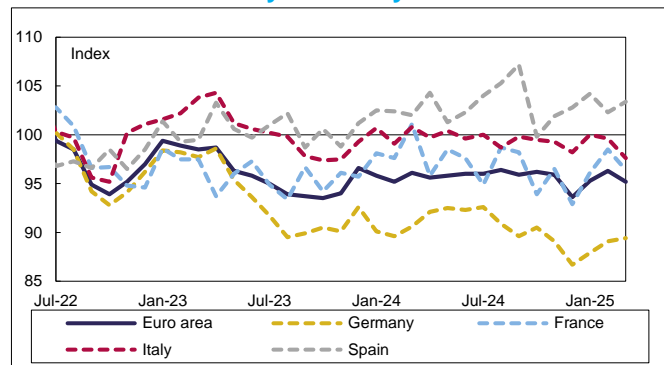
The most notable data release of the coming week will be the aforementioned flash euro area inflation figures (due Tuesday). Following today's relatively soft flash inflation estimates, we expect the euro area headline and core rates to drop 0.1ppt to 2.2%Y/Y and 2.5%Y/Y respectively, with the latter representing the lowest since January 2022. Declining energy prices will have offered support to disinflation, more than offsetting resistance from higher food prices. More important for the ECB will be further evidence of moderating services pressures ahead of a more significant base-effect driven decline in April. Flash HICP estimates from other large member states, including Germany and Italy, will offer further insights on Monday ahead of the euro area figures. Meanwhile, euro area producer price inflation (Thursday) is expected to take a step up to above 2½%Y/Y, the highest in almost two years, due principally to a base effect related to a notable drop in energy prices a year earlier.

Price data aside, the coming week will be dominated by announcements relating to the imposition of 'reciprocal' tariffs by the US and potential retaliatory measures from the EU. The Governing Council's statement issued following its March monetary policy meeting attributed the ECB's softer GDP growth projection in part to the impact of heightened trade uncertainty. The account of that meeting (Thursday) will also surely underscore the importance of that uncertainty and the evolving global tariff landscape to the inflation outlook. But the prospects of support to the outlook for both growth and inflation stemming from fiscal loosening, particularly in Germany, will have potentially balanced considerations for some policymakers. Executive Board Member Schnabel's speech (Wednesday) on 'reviving growth in the euro area' will likely touch upon both issues. And as the policy statement had explicitly noted the ECB's 'meaningfully less restrictive' policy stance following the further 25bps cut in the Deposit Rate to 2.50%, the account will also likely convey a wide range of opinions about the future pathway for rates.

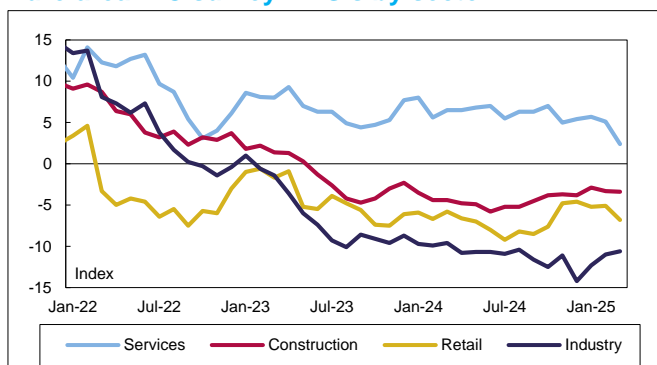
### Euro area: GDP growth & sentiment indices



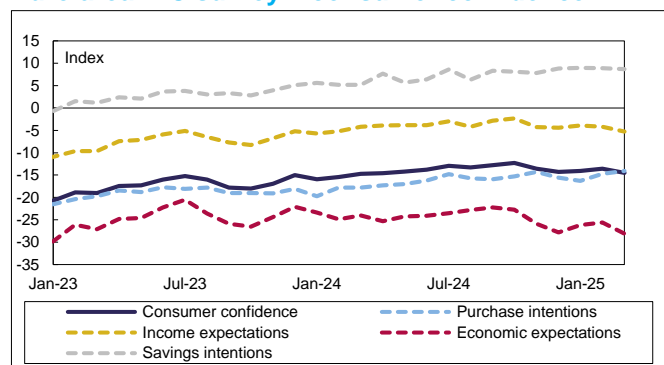
### Euro area: EC survey – ESIs by member state



### Euro area: EC survey – ESIs by sector



### Euro area: EC survey – consumer confidence



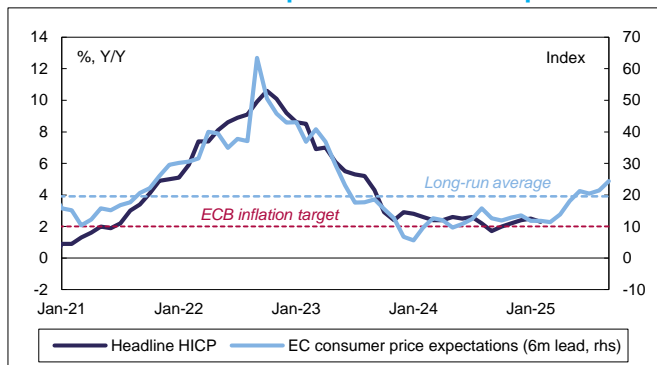
Among other data due in the coming week, the final March PMIs (due Tuesday and Thursday) will be expected to maintain the small manufacturing-driven gain in the euro area composite index, in line with the flash estimates which also suggested the fastest expansion in Germany for ten months. Like today's Commission survey, however, the services PMI will signal a loss of momentum in the largest sector of the economy. Separately, following a weak start to the year, as well as potential upside from any front-loading of orders amid US tariff threats, a pickup in French and Spanish IP in February (Friday) would be unsurprising. Certainly, German factory orders should see some payback that month (also Friday) having dropped a chunky 7.0%M/M in January. But the detail will likely suggest that underlying demand conditions remain heavily subdued. Nevertheless, the euro area unemployment rate (Tuesday) will likely remain at its series low of 6.2% in February. German retail sales figures for that month are also due in the coming week.

## UK

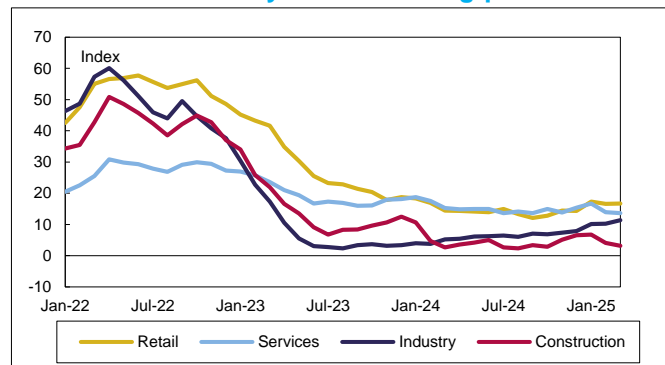
### Surprisingly strong retail sales in February to provide a non-negligible boost to GDP growth

UK retail surveys suggested that sales have been weak since the start of the year. And after the household savings ratio rose in Q4 to its higher in 3½ years, consumers have signalled an ongoing preference to save rather than spend on big-ticket items. But today's official retail sales figures surprised to the upside. Indeed, retail sales rose for a second successive month in February, by 1.0%M/M, to push the annual growth rate up to 2.2%Y/Y, the second-firmest in three years. While growth in January was slightly softer than initially estimated, this still left the level of sales at the highest since July 2022, to be trending so far in Q1 some 1.4% above the Q4 average. So, while we expect to see some payback this month, we would need to see a drop of at least 4½%M/M in March for sales to fail to grow over the first quarter as a whole. Contrasting the food-led pickup in January, sales at non-food stores (3.1%M/M) were the driving force in February, underpinned by the strongest monthly growth in spending on household goods – in particular DIY-related items – since the end of the second lockdown in spring 2021. But while clothing sales were also reportedly boosted by discounting last month, this merely maintained the broadly sideways trend in play since September. While retail and consumer surveys remained downbeat at the end of Q1, the recent pickup in real incomes, ample savings buffers, and improved weather might this month have given a boost to sales of certain goods, not least clothing and garden furniture. And with hospitality among other services likely also to have benefited from the return of the sunshine, we expect household consumption to provide a non-negligible contribution to GDP growth in Q1.

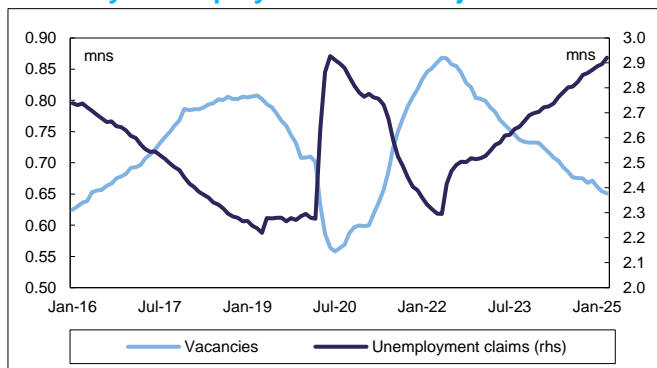
### Euro area: Consumer price inflation & expectations



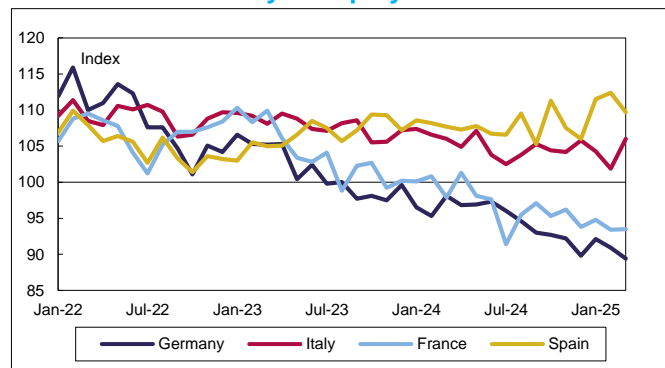
### Euro area: EC survey – firms' selling-price intentions



### Germany: Unemployment claims & job vacancies



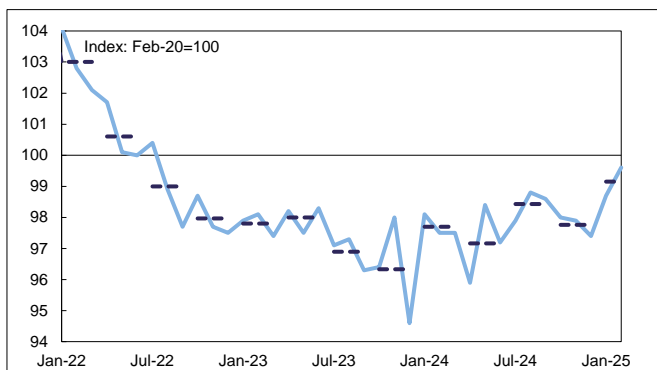
### Euro area: EC survey – employment intentions



**The week ahead in the UK**

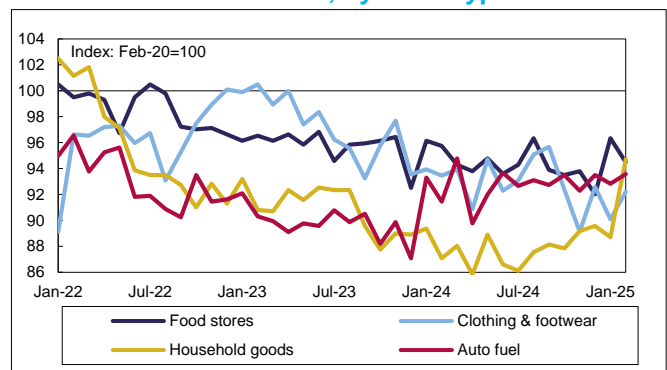
In a relatively quiet week for top-tier UK releases, the results from the BoE’s latest Decision Maker Panel survey (Thursday) will provide an update on firms’ price and wage growth expectations at the end of Q1. In February, firms’ expectations for CPI 12 months ahead edged up slightly to a ten-month high (3.1%3M/Y), while expectations for three years ahead held steady at 2.8%3M/Y, only a fraction higher than the average in 2024 and still well below the peak in 2022 (4.4%). The BRC shop price index (Tuesday) will likely signal ongoing disinflation on the high street in March as retailers continue to discount goods to entice consumers, despite signs of rising factory prices as flagged by the flash manufacturing PMIs. The final March PMI surveys – manufacturing (Tuesday), services (Thursday) and construction (Friday) – will likely confirm greater pessimism among manufacturers but improving conditions in the services sector. The impending change to the Stamp Duty at the start of April might weigh on construction activity. This will also play a role in the BoE’s latest monetary figures (Monday), with the rush to complete house-buying transactions before this deadline likely to have given a further boost to mortgage lending in February. But with new buyer enquiries having dipped amid still elevated mortgage interest rates last month, we wouldn’t be surprised to see the number of mortgage approvals fall back in February.

**UK: Retail sales volumes\***



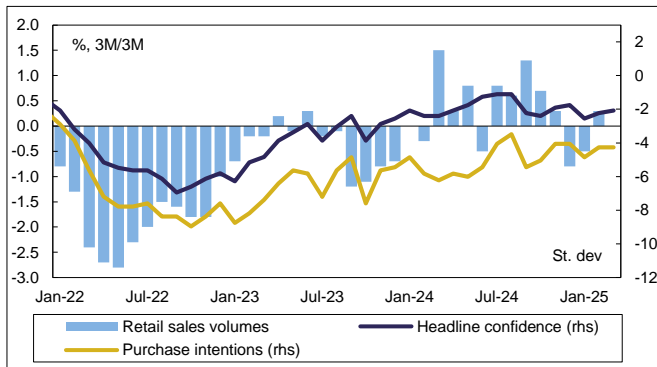
\*Dashed dark blue line represents quarterly average.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK: Retail sales volumes, by store-type**



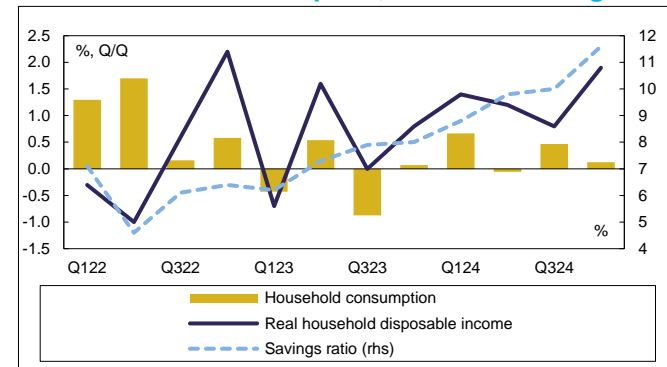
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK: Retail sales volumes & consumer confidence**












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK: Household consumption, income & savings**























Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## Daiwa economic forecasts

	2024		2025				2024	2025	2026
	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP</b>	<b>%, Q/Q</b>						<b>%, Y/Y</b>		
Euro area 	0.4	0.2	0.2	0.2	0.2	0.3	0.8	1.0	1.2
UK 	0.0	0.1	0.3	0.2	0.2	0.3	1.1	0.8	1.1
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline HICP 	2.2	2.2	2.4	2.0	2.2	2.4	2.4	2.2	1.9
Core HICP 	2.8	2.7	2.6	2.0	2.1	2.2	2.8	2.2	1.8
UK									
Headline CPI 	2.0	2.5	2.8	3.3	3.5	3.3	2.5	3.2	2.2
Core CPI 	3.3	3.3	3.5	3.3	3.1	3.1	3.7	3.3	2.1
<b>Monetary policy, %</b>									
ECB									
Deposit Rate 	3.50	3.00	2.50	2.25	2.25	2.25	3.00	2.25	2.25
Refi Rate 	3.65	3.15	2.65	2.40	2.40	2.40	3.15	2.40	2.40
BoE									
Bank Rate 	5.00	4.75	4.50	4.25	4.00	3.75	4.75	3.75	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/ Daiwa forecast	Previous	Revised	
Euro area 	ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Feb	<b>2.4 (2.6)</b>	2.4 (2.5)	2.6 (2.4)	-	
	Commission economic sentiment indicator	Mar	<b>95.2</b>	96.7	96.3	-	
	Commission industry (services) confidence indicator	Mar	<b>-10.6 (2.4)</b>	-10.6 (6.8)	-11.4 (6.2)	-11.0 (5.1)	
	Final Commission consumer confidence indicator	Mar	<b>-14.5</b>	<u>-14.5</u>	-13.6	-	
Germany 	GfK consumer confidence indicator	Apr	<b>-24.5</b>	-22.5	-24.7	-24.6	
	Unemployment rate % (claims 000s)	Mar	<b>6.3 (26)</b>	6.2 (10)	6.2 (5)	-(9)	
France 	Preliminary HICP (CPI) Y/Y%	Mar	<b>0.9 (0.8)</b>	1.1 (1.0)	0.9 (0.8)	-	
	Consumer spending M/M% (Y/Y%)	Feb	<b>-0.1 (0.1)</b>	0.4 (0.4)	-0.5 (0.4)	-	
Italy 	ISTAT consumer confidence indicator	Mar	<b>95.0</b>	99.0	98.8	-	
	ISTAT business (manufacturing) confidence indicator	Mar	<b>93.3 (86.0)</b>	-(87.4)	94.8 (87.0)	94.7 (86.9)	
Spain 	Preliminary HICP (CPI) Y/Y%	Mar	<b>2.2 (2.3)</b>	2.5 (2.6)	2.9 (3.0)	-	
UK 	GDP – final estimate Q/Q% (Y/Y%)	Q4	<b>0.1 (1.5)</b>	<u>0.1 (1.4)</u>	0.0 (1.0)	-	
	Current account balance £bn	Q4	<b>-21.0</b>	-24.5	-18.1	-12.5	
	Retail sales, including auto fuel M/M% (Y/Y%)	Feb	<b>1.0 (2.2)</b>	-0.4 (0.6)	1.7 (1.0)	1.4 (0.6)	
	Retail sales, excluding auto fuel M/M% (Y/Y%)	Feb	<b>1.0 (2.2)</b>	-0.5 (0.4)	2.1 (1.2)	1.6 (0.8)	
	Trade (goods trade) balance £bn	Jan	<b>-0.6 (-17.8)</b>	-3.0 (-16.7)	-2.8 (-17.4)	-3.2 (-19.7)	
Auctions							
Country	Auction						
Italy 	sold €3.0bn of 2.95% 2030 bonds at an average yield of 3.05%						
	sold €3.25bn of 3.65% 2035 bonds at an average yield of 3.83%						
	sold €1.25bn of 2032 floating bonds at an average yield of 3.98%						
	sold €1.5bn of 2033 floating bonds at an average yield of 4.11%						

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 forecast</i>	Previous
<b>Monday 31 March 2025</b>					
Germany		07.00 Retail sales M/M% (Y/Y%)	Feb	0.0 (0.5)	0.3 (3.8)
		13.00 Preliminary HICP (CPI) Y/Y%	Mar	2.4 (2.2)	2.6 (2.3)
Italy		10.00 Preliminary HICP (CPI) Y/Y%	Mar	2.0 (1.8)	1.7 (1.6)
UK		00.01 Lloyds business barometer (own price expectations)	Mar	-	49 (64)
		09.30 Net consumer credit £bn (Y/Y%)	Feb	1.2 (-)	1.7 (6.4)
		09.30 Net mortgage lending £bn (mortgage approvals 000s)	Feb	3.8 (67.5)	4.2 (66.2)
<b>Tuesday 1 April 2025</b>					
Euro area		09.00 Final manufacturing PMI	Mar	<u>48.7</u>	47.6
		10.00 Preliminary headline (core) HICP Y/Y%	Mar	<u>2.2 (2.5)</u>	2.3 (2.6)
		10.00 Unemployment rate %	Feb	6.2	6.2
Germany		08.55 Final manufacturing PMI	Mar	<u>48.3</u>	46.5
France		08.50 Final manufacturing PMI	Mar	<u>48.9</u>	45.8
Italy		08.45 Manufacturing PMI	Mar	48.0	47.4
Spain		08.15 Manufacturing PMI	Mar	50.1	49.7
UK		00.01 BRC shop price index Y/Y%	Mar	-0.4	-0.7
		07.00 Nationwide house price index M/M% (Y/Y%)	Mar	0.3 (4.2)	0.4 (3.9)
		09.30 Final manufacturing PMI	Mar	<u>44.6</u>	46.9
<b>Wednesday 2 April 2025</b>					
Spain		08.00 Unemployment (net employment) change 000s	Mar	-	-6.0 (58.7)
<b>Thursday 3 April 2025</b>					
Euro area		09.00 Final composite (services) PMI	Mar	<u>50.4 (50.4)</u>	50.2 (50.6)
		10.00 PPI Y/Y%	Feb	2.9	1.8
Germany		08.55 Final composite (services) PMI	Mar	<u>50.9 (50.2)</u>	50.4 (51.1)
France		08.50 Final composite (services) PMI	Mar	<u>47.0 (46.6)</u>	45.1 (45.3)
Italy		08.45 Composite (services) PMI	Mar	52.0 (52.5)	51.9 (53.0)
Spain		08.15 Composite (services) PMI	Mar	-	55.1 (56.2)
UK		09.30 DMP 3M output price (1Y CPI) expectations %	Mar	-	4.0 (3.1)
		09.30 Final composite (services) PMI	Mar	<u>52.0 (53.2)</u>	50.5 (51.0)
<b>Friday 4 April 2025</b>					
Euro area		08.30 Construction PMI	Mar	-	42.7
Germany		07.00 Factory orders M/M% (Y/Y%)	Feb	3.5 (1.5)	-7.0 (-2.6)
		08.30 Construction PMI	Mar	-	41.2
France		07.45 Industrial production M/M% (Y/Y%)	Feb	0.5 (-1.3)	-0.6 (-1.6)
		08.30 Construction PMI	Mar	-	39.8
Italy		08.30 Construction PMI	Mar	-	48.2
		09.00 Retail sales M/M% (Y/Y%)	Feb	-	-0.4 (0.9)
Spain		08.00 Industrial production M/M% (Y/Y%)	Feb	-	-1.0 (-1.0)
UK		09.00 New car registrations Y/Y%	Mar	-	-1.0
		09.30 Construction PMI	Mar	-	44.6

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



### The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 31 March 2025</b>		
- Nothing scheduled -		
<b>Tuesday 1 April 2025</b>		
Euro area 	13.30	ECB President Lagarde to give introductory remarks at ECB conference on Artificial Intelligence, Frankfurt (1-2 April)
Germany 	10.30	Auction: to sell up to €4.5bn of 2.2% 2027 bonds
UK 	09.15	BoE MPC External Member Greene to deliver speech titled 'UK monetary policy/macro conjuncture', London.
<b>Wednesday 2 April 2025</b>		
Euro area 	11.30	ECB Executive Board Member Schnabel to give speech on 'reviving growth in the euro area' at SciencesPo, Paris
Germany 	10.30	Auction: to sell up to €4.5bn of 2.5% 2035 bonds
UK 	10.00	Auction: to sell £1.6bn of 1.125% 2035 inflation-linked bonds
<b>Thursday 3 April 2025</b>		
Euro area 	12.30	ECB to publish monetary policy account of 5-6 Mar Governing Council meeting
France 	09.50	Auction: to sell up to €12bn of 3.5% 2033, 3.2% 2035 & 3.75% 2056 bonds
Spain 	09.30	Auction: to sell 2.4% 2028, 1% 2030, 3.1% 2031 & 3.9% 2039 bonds
UK 	10.00	Auction: to sell £3.25bn of 4.375% 2040 bonds
<b>Friday 4 April 2025</b>		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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