Daiwa Capital Markets

Euro wrap-up

Overview

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

- While the flash estimate of German inflation in March fell a little further than anticipated, Bunds made losses at the short end as German retail sales data beat expectations and a Bloomberg report suggested that more ECB officials are ready to pause rates in April.
- Gilts followed USTs higher as UK mortgage lending and approvals remained firm ahead of April's increases in stamp duty.
- Tuesday will bring flash estimates of euro area inflation in March, data for euro area unemployment in February and the final March manufacturing PMIs.

Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.035	+0.021
OBL 2.4 04/30	2.327	+0.010
DBR 2½ 02/35	2.727	+0.002
UKT 3¾ 03/27	4.185	-0.004
UKT 4⅜ 03/30	4.274	-0.021
UKT 4½ 03/35	4.674	-0.023

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

Euro area

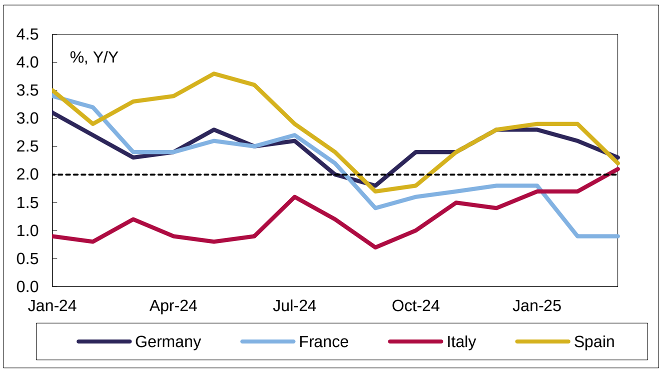
Euro area inflation set to ease in March as German HICP rate drops to 6-month low

After Friday's softer-than-expected French and Spanish figures, today's flash estimates of German and Italian inflation in March provided mixed signals. The German data slightly beat expectations, with the headline EU-harmonised HICP rate falling a larger-than-expected 0.3ppt to a six-month low of 2.3%Y/Y. The drop in the national CPI rate was smaller at just 0.1ppt to 2.2%Y/Y. The impact of a decline in the energy component due to lower petrol prices was partly offset by higher food inflation. But within the core items, services inflation fell a chunky 0.4ppt to an 11-month low of 3.4%Y/Y. While that was encouraging, it was likely at least in part due to the impact of the timing of Easter on travel-related items, an effect which will reverse in April. Nevertheless, as lower services inflation more than outweighed the impact of a pickup in non-energy industrial goods, the core rate on the national measure moderated 0.2ppt to a near four-year low of 2.5%Y/Y. In contrast, the Italian HICP rate rose a significantly larger-than-expected 0.4ppt to an 18-month high of 2.1%Y/Y. And while the energy component picked up most sharply, the source of upwards pressure was broad-based across almost all items bar transport services. As such, the Italian core HICP rate reversed the 0.3ppt drop in February back to 1.8%Y/Y. Based on the flash estimates from member states accounting for a little more than 80% of the region, we expect euro area headline inflation to ease for a second successive month in March, by 0.1ppt to 2.2%Y/Y. Notwithstanding the upwards impulse from Italy, energy inflation in the euro area is likely to return to negative territory, offsetting a further uptick in food. But with the services component also likely to moderate to the softest since mid-2022, we expect euro area core inflation to drop 0.1ppt to 2.5%Y/Y, with the risks perhaps skewed slightly to the downside for both the headline and core rates.

German retail sales on track for fourth successive quarter of growth

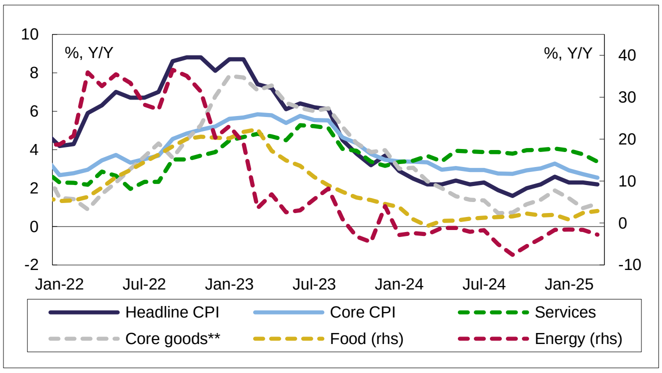
In terms of economic activity, German retail sales beat expectations in February, rising 0.8%M/M in real volume terms following upwardly revised growth of 0.7%M/M in January. As a result, German sales volumes were trending 0.5% above the Q4 average over the first two months of the year, raising the likelihood that they rose for a fourth successive quarter in Q1. Moreover, in seasonally adjusted terms, sales volumes were up 4.9%Y/Y, the most in more than three years. The recent ZEW and Sentix surveys confirmed a marked improvement in investor sentiment this month thanks to plans to boost government spending on defence and infrastructure. But the GfK survey has reported a notable deterioration in consumer confidence to the lowest levels in a year, due not least to concerns about US tariffs and the Trump administration's broader foreign policy. After deteriorating in February to the lowest level since last June, the survey's index of consumer willingness to buy ticked up to a three-month high this month. However, it remains well below its long-run average. So, despite firm recent growth in real disposable incomes and ample household saving buffers, the GfK survey flags the possibility of a moderation in retail sales growth over the near term.

Selected euro area member states: HICP inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: CPI inflation & key components*



*National measure. **Non-energy industrial goods.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

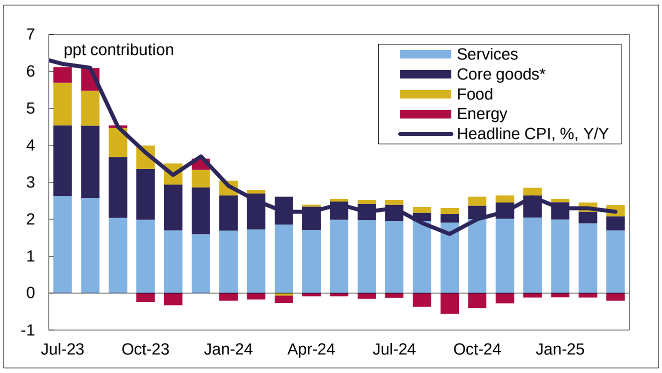
A key focus in the euro area tomorrow will be the aforementioned flash inflation estimates. Based on figures published so far by the member states, we expect these to report further modest progress with disinflation, with the headline euro area HICP rate expected to edge down 0.1ppt to 2.2%Y/Y. We also expect core inflation to ease 0.1ppt to 2.5%Y/Y, which would be the lowest since January 2022. Declining energy prices will have offered support to disinflation, more than offsetting resistance from higher food prices. But, notwithstanding the possibility that the figures will be flattered by the timing of Easter, more important for the ECB will be further hints of moderating services pressures. Tuesday will also bring the euro area's latest jobless numbers, with the unemployment rate expected to remain steady at a series-low 6.2% in February, suggestive that the labour market remains broadly resilient. The final manufacturing PMIs – also due tomorrow – might confirm the modest improvement in the preliminary employment component that suggested the softest pace of job cuts in the sector in nine months, as the output index rose above the key-50 stagnation level for the first time in two years.

UK

Mortgage lending and approvals remains firm, but business lending moderates as uncertainty rises

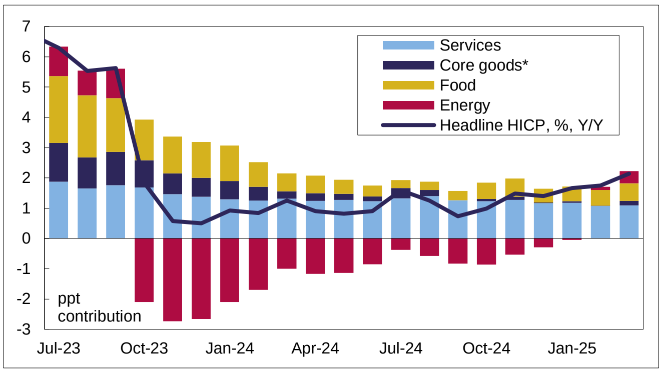
While mortgage rates merely moved sideways in February despite a further cut in Bank Rate, today's monetary figures suggested that new mortgage lending remained firm as house buyers sought to complete transactions ahead of the changes to Stamp Duty that come into effect at the start of April. Admittedly, the net monthly increase in mortgage loans outstanding of £3.3bn was down from January's 28-month high (£4.2bn). But this took the cumulative increase in the three months to February (£10.9bn) back above the long-run average for the first time since November 2022. And while we expect some temporary moderation in demand in Q2 as the impact of higher Stamp Duty charges kicks in, and some first-time buyers may await further cuts to Bank Rate before stepping into the market, the latest mortgage approval numbers suggest that lending should continue to hold up over the summer. In particular, approvals for new house purchases slipped only 600 to 65.5k in February, to be only slightly below the pre-pandemic five-year average (66.5k). Today's figures also suggested that consumer credit rose a net £1.4bn – bang in line with the pre-pandemic five-year average – with the monthly increase in credit card lending (£0.8bn) roughly twice the long-run average. Nevertheless, households' deposits increased an above-average £4.3bn in February, with the majority allocated to cash ISAs, tallying with signals of an ongoing preference to save than spend in the current uncertain economic environment. Increased risk aversion also likely impacted business lending, with SMEs making a net repayment for the first month in five, while large firms also made a modest net repayment for the second month in three.

Germany: Contributions to CPI inflation



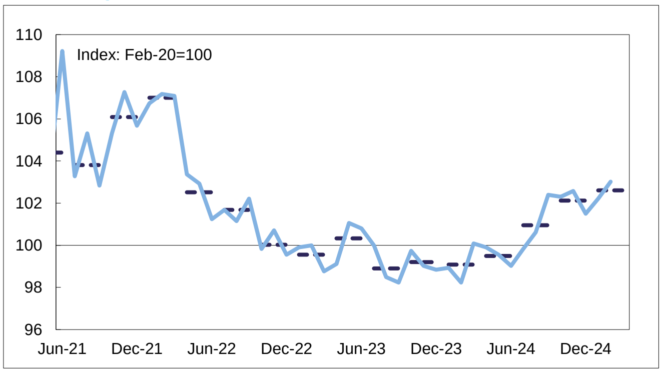
*Non-energy industrial goods.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: Contributions to HICP inflation



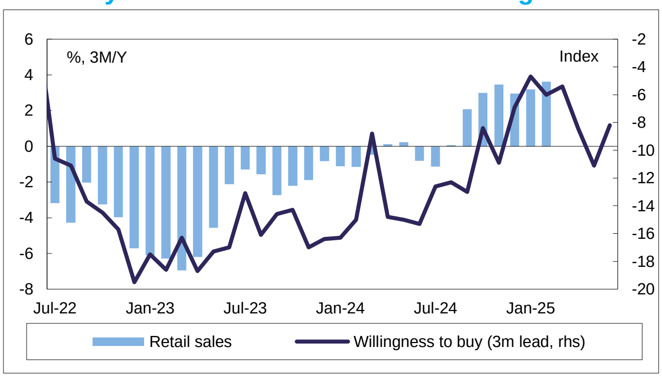
*Non-energy industrial goods.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Retail sales*



*Dashed dark blue lines represent quarterly average.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Retail sales & consumer willingness to buy

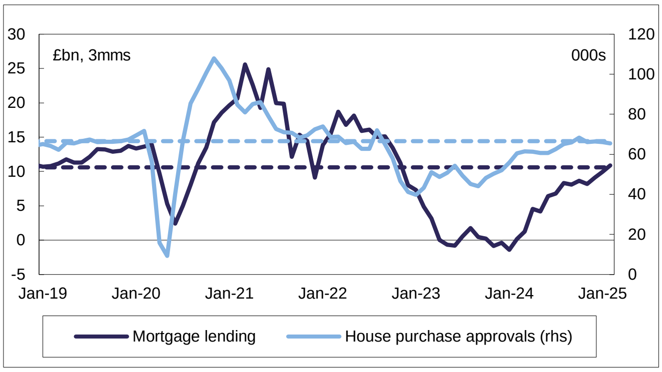


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the UK

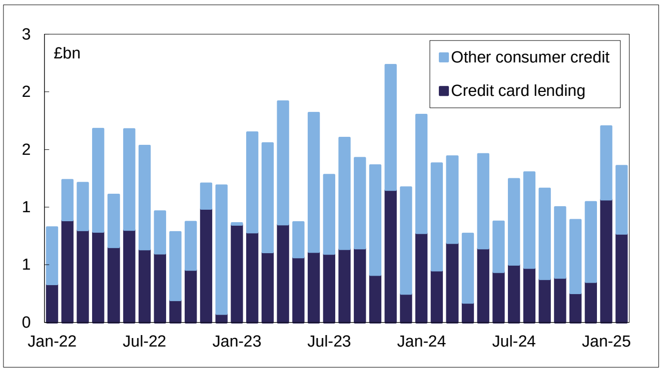
A relatively quiet day ahead for UK data releases will bring the BRC's shop price index for March. This will likely signal ongoing disinflation on the high street at the end of Q1 as retailers continue to discount goods to entice consumers, despite signs of rising factory prices as flagged by the flash manufacturing PMIs – indeed, the output price component rose to the highest level in almost two years. Tomorrow will also bring updated estimates of the March manufacturing PMIs. Perhaps reflecting persisting uncertainty about US trade policies, the output index fell to a 17-month low, while the new orders component slumped more than 6½pts to the lowest since August 2023.

UK: Net change in mortgage loans & approvals*



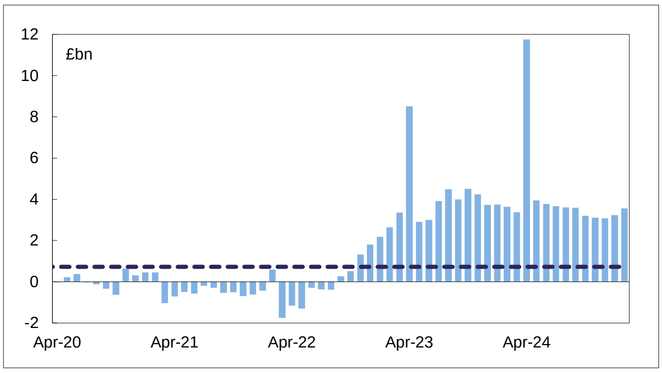
*Dashed lines represent pre-pandemic five-year average.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Net change in consumer credit



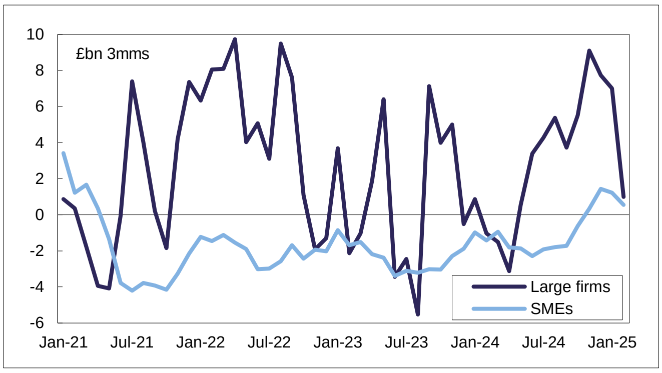
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Change in household deposits in cash ISAs*



*Dashed dark blue line represents pre-pandemic five-year average.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Net change in business loans



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country		Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Germany		Retail sales M/M% (Y/Y%)	Feb	**0.8 (0.5)**	0.0 (0.5)	0.2 (3.5)	0.7 (4.0)
		Preliminary HICP (CPI) Y/Y%	Mar	**2.3 (2.2)**	2.4 (2.2)	2.6 (2.3)	
Italy		Preliminary HICP (CPI) Y/Y%	Mar	**2.1 (2.0)**	2.0 (1.8)	1.7 (1.6)	-
UK		Lloyds business barometer (own price expectations)	Mar	**49 (61)**	-	49 (64)	-
		Net consumer credit £bn (Y/Y%)	Feb	**1.4 (6.4)**	1.2 (-)	1.7 (6.4)	-
		Net mortgage lending £bn (mortgage approvals 000s)	Feb	**3.3 (65.5)**	3.8 (67.5)	4.2 (66.2)	-

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country		BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Euro area		09.00	Final manufacturing PMI	Mar	*48.7*	47.6
		10.00	Preliminary headline (core) HICP Y/Y%	Mar	*2.3 (2.5)*	2.3 (2.6)
		10.00	Unemployment rate %	Feb	6.2	6.2
Germany		08.55	Final manufacturing PMI	Mar	*48.3*	46.5
France		08.50	Final manufacturing PMI	Mar	*48.9*	45.8
Italy		08.45	Manufacturing PMI	Mar	48.0	47.4
Spain		08.15	Manufacturing PMI	Mar	-	49.7
UK		00.01	BRC shop price index Y/Y%	Mar	-	-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	*44.6*	46.9

Auctions and events

Country		BST	Event
Euro area		13.30	ECB President Lagarde to give introductory remarks at ECB conference on Artificial Intelligence, Frankfurt
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 on UK monetary policy/macro conjuncture

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.