

# Euro wrap-up

## Overview

- Shorter-dated Bunds closed the day little changed as President Lagarde reiterated that the ECB stood ready to intervene if tariffs threatened financial stability in the euro area.
- Gilts made sizeable losses as UK GDP data beat expectations in February to report the strongest growth in eleven months.
- The Governing Council will cut the deposit rate to 2.25% on Thursday citing increasing downside growth risks. Data-wise, euro area and UK March inflation and bank lending surveys are due, along with the UK's labour market report.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	1.780	+0.003
OBL 2.4 04/30	2.128	+0.019
DBR 2½ 02/35	2.564	-0.010
UKT 3¾ 03/27	4.037	+0.144
UKT 4% 03/30	4.203	+0.129
UKT 4½ 03/35	4.751	+0.105

\*Change from close as at 5.00pm BST.  
Source: Bloomberg

## Euro area

### German and Spanish inflation data remain consistent with softer euro area print

The [flash](#) estimates of euro area HICP inflation in March beat expectations, with the headline rate easing slightly to a five-month low of 2.2%Y/Y. Much of that reduction reflected softer HICP readings in Germany (down 0.3ppt to 2.3%Y/Y) and Spain (down 0.7ppt to 2.2%Y/Y). And with both member states' final inflation today reaffirming their earlier estimates, the coming week's final euro area inflation release will likely align with the flash results too. As expected, the accompanying detail to the German and Spanish releases showed the declining contribution from energy components last month were sufficient to counter the effects of higher food prices. The impact in Spain was particularly pronounced, with weaker electricity inflation (down 15.3ppts to 12.8%Y/Y) and auto fuel inflation (down 3.7ppts to -6.5%Y/Y). But German petrol prices also fell sharply (-3.3%M/M). Most importantly, supported by a moderation in services price pressures, core inflation in both countries also continued to moderate. Indeed, in Germany core HICP inflation slipped to its lowest since September 2021 (down 0.4ppt to 2.7%Y/Y). Admittedly, at least some of that reduction was likely influenced by the later timing of Easter this year, with particular softness in inflation of holiday-related components such as travel packages and airfares in both countries, which will likely reverse to some extent this month.

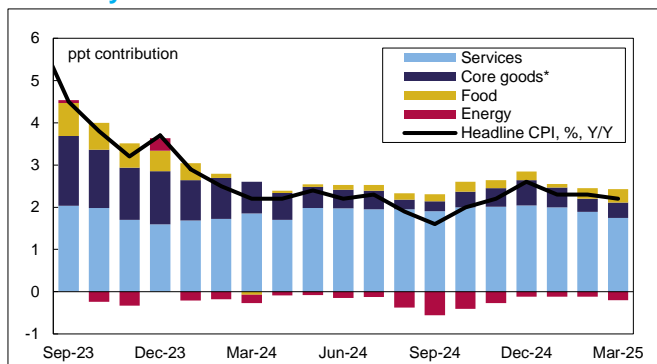
### ECB to counter tariff blows by extending rate cuts, with a further 25bps reduction next week

So, with euro area inflation in March (Wednesday) likely to match the preliminary estimates, headline inflation over Q1 as a whole will also align with the ECB's projection published in March (2.3%Y/Y). Taken alongside well-behaved core price pressures should make the ECB's latest policy decision on Thursday less complicated. Of course, the Governing Council had been noncommittal about the scope for further loosening at March's meeting, acknowledging instead that policy had already become "meaningfully less restrictive" following the cumulative 150bps of easing since June. But mounting downside risks to the growth outlook generated by shifting US trade policies, aided by an increasingly benign inflation outlook given the sharp drop in oil and gas prices and appreciating euro exchange rate, should lead the ECB to respond at the next opportunity. Indeed, we expect the deposit rate to be cut by 25bps to 2.25%. For our full ECB preview and updated euro area outlook, please refer to yesterday's [Euro wrap-up](#).

### The data week ahead in the euro area

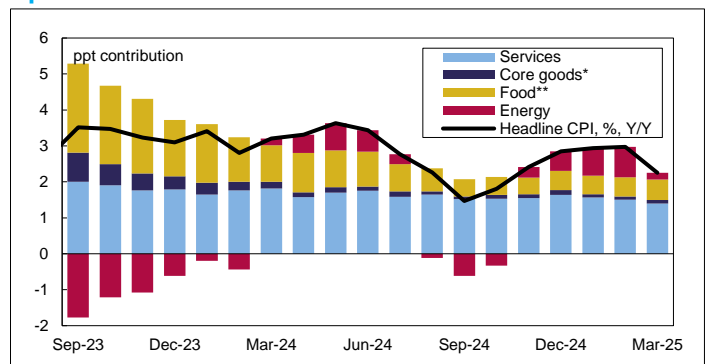
March's aforementioned final euro area inflation print aside, attention in the coming week will also be on the ECB's quarterly bank lending survey and February's IP release (both due Tuesday). Despite what by then amounted to a cumulative 100bps of monetary policy easing, the previous bank lending survey flagged only minimal growth in business loan demand and

#### Germany: Contributions to national CPI



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Spain: Contributions to national CPI



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

tighter credit conditions at the end of last year. Heightened global uncertainty may have further subdued that demand at the end of Q1, although the ongoing recovery in house prices should imply that continued policy easing has provided ongoing support to mortgage demand. Meanwhile, and despite payback to German IP in February, the uptick in French, Spanish, and, in particular, outsized growth in Irish IP (10.9%/M/M) that month would seem to set up another solid euro area release. Growth of about ¾%/M/M, as we expect, would leave euro area IP in Q1 trending close to 1% above its Q424 average, raising the prospects for a first quarterly increase since Q123. Tuesday will also bring April’s ZEW investor sentiment survey. But while prospects of German fiscal stimulus spurred investors’ expectations the prior month to their highest since February 2022, escalating trade uncertainty and the imposition of ‘reciprocal’ tariffs will undo that progress. A deterioration in investors’ assessments of current economic conditions is also likely. Data for German PPI in March (Thursday) will provide first insights into input price pressures in the euro area.

## UK

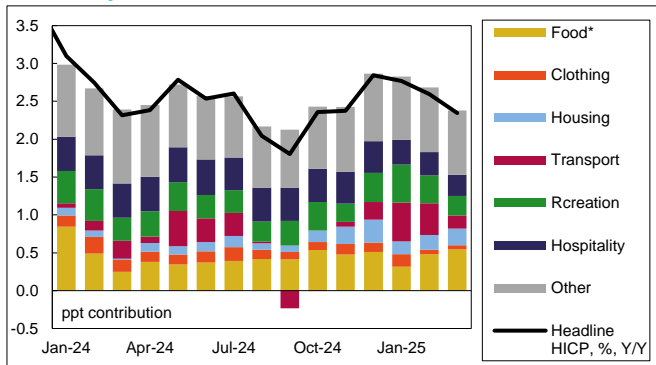
### GDP growth accelerates in February to an 11-month high

Despite rising economic uncertainties, today’s monthly GDP figures for February significantly beat expectations, providing some reassurance that the UK’s economy grew rapidly in the first quarter of the year and reducing the pressure on the MPC to cut at an accelerated pace of 50bps at the BoE’s next scheduled policy-setting meeting on 8 May. Indeed, contrasting the persisting weakness in recent business and consumer confidence surveys and expectations for only modest expansion, GDP accelerated 0.5%/M/M in February, the most in eleven months. Furthermore, revisions to the data since the start of 2023 – including an upward shift of 0.1ppt to 0.0%/M/M in January 2025 – left the level of GDP at the start of the year some 0.4% higher than previously estimated. Given also the positive carryover from December, economic output was up 0.6%3M/3M, the most on that basis since May. With output having risen in three of the past four months, we might expect some payback in March, although a weather-assisted boost to certain consumer-facing services should help provide some offset. Overall, we now expect GDP growth of ½%/Q/Q or more in Q1, which would be roughly double the BoE’s updated growth assumption at its March MPC meeting.

### Services output up for a 4<sup>th</sup> month amid strong growth in consumer-facing services

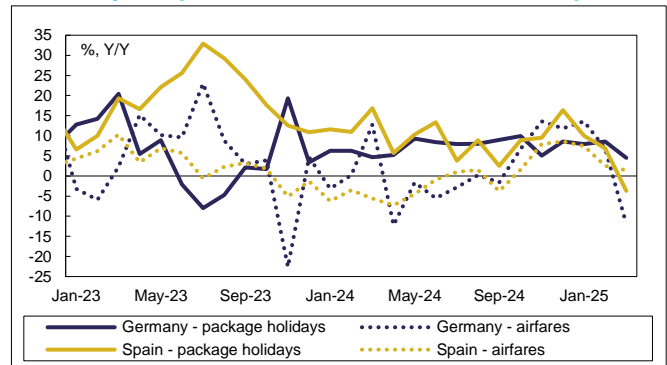
While the strong upswing at the start of the year for a second year raises some questions about potential seasonal adjustment issues, the detail in today’s report suggested that growth was broad based in February. Services output rose for a fourth consecutive month in February (0.3%/M/M), to push growth on a three-month basis in the sector up to 0.6%, the most since June. Growth was led by services related to information and communication and administration, while consumer-

#### Germany: Contributions to HICP inflation



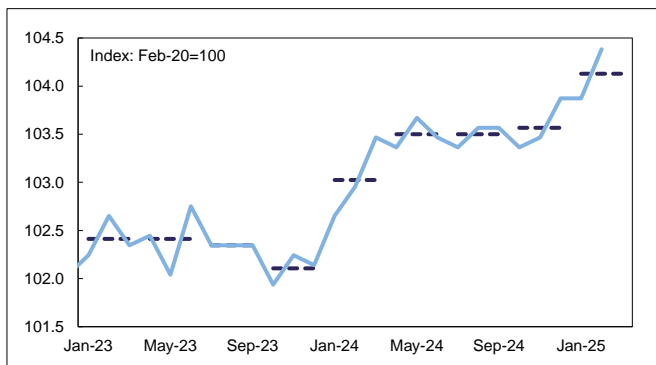
\*Food includes beverages, alcohol & tobacco.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany & Spain: Select HICP inflation components



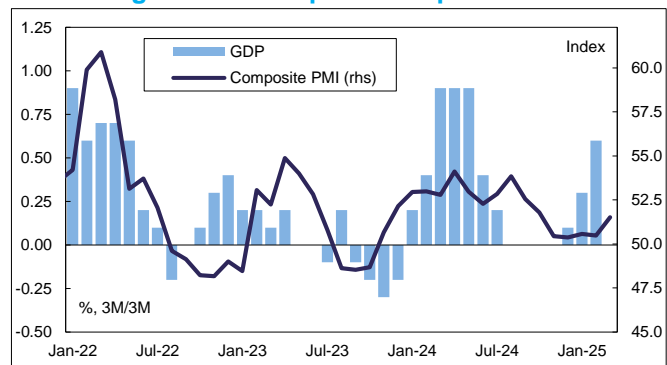
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: GDP level\*



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

#### UK: GDP growth & composite output PMI



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

facing services encouragingly rose the most in 11 months (0.7%M/M) benefitting from strong sales at retailers, car dealerships and restaurants. While March surveys suggest ongoing weakness in retail spending and a persisting preference to save, above-average temperatures during that month might boost sales of garden-related items and summer attire, with hospitality also likely benefiting. And we might see increased activity in real estate ahead of the Stamp Duty hike in April.

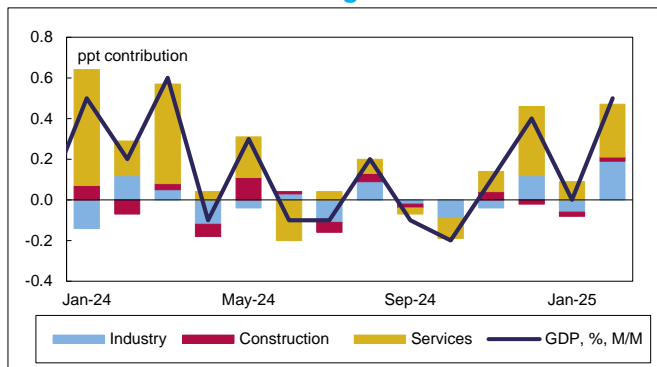
### Manufacturing production rose the most in 20 months

The extent of the rebound in industrial output in February also exceeded expectations, with production rising (1.5%M/M) for a second month out of the past three and by the most since June 2023. This resulted in the first positive growth on a three-month basis (0.7%3M/3M) since last April and the firmest in 18 months. Growth in manufacturing output (2.2%M/M) was broad-based, with rises in 10 out of the 13 subsectors, and the detail suggesting some potential front-loading ahead of US tariff hikes. Admittedly, the largest contribution came from a near-10% rise in manufacturing of computer, electronic and optical products to the highest level since December 2021. But production of transport equipment rose for a second successive month, with solid growth in pharmaceuticals, basic metals and machinery too. Meanwhile, construction activity rose for a first month in three (0.4%M/M) to leave it broadly flat on a three-month basis. But while new private residential work fell for a second successive month, it was trending so far in Q1 some ½% above the Q4 average to suggest that it was on track to provide modest support to GDP growth for a third quarter.

### Goods exports to the US rise to the highest level since end-2019, with net trade to boost GDP in Q1

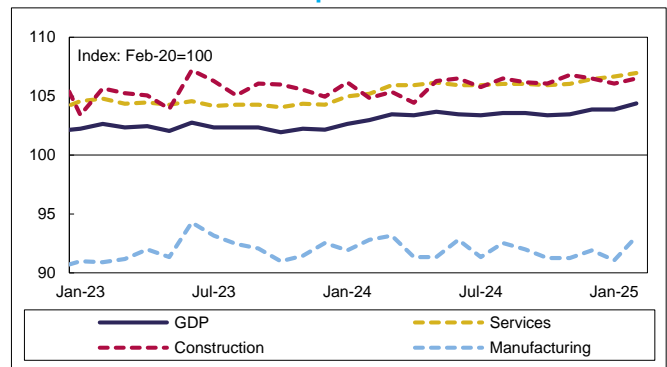
Broadly tallying the pickup in production, today's trade data flagged a further rise in shipments to the US in February as manufacturers attempted to front-run the US tariff hikes. The value of goods exports to the US – which account for around 17% of total UK goods shipments – increased for a fourth successive month in February to the highest level since December 2019. Indeed, since October, shipments to the US have risen by around one third, with a surge in non-ferrous metals since the start of the year, as well as significant growth in pharmaceuticals, mechanical power generators and ships and aircraft. In contrast, exports to EU countries were broadly flat in February and total goods exports slipped back (-0.1%M/M) after surging in January. When adjusting for prices (and excluding the often-volatile precious metals), goods exports rose 1.1%M/M in February to be trending so far in Q1 some 4½% above the Q4 average. And while services exports fell back in February, this still left total export volumes in the first two months of the year trending 4.4% higher than in Q4. And with imports tracking almost 1% lower on the same basis, today's report strongly suggests that net trade will provide a non-negligible boost to GDP in Q1, further supporting the upwards revision to our Q1 growth forecast.

#### UK: Contributions to GDP growth



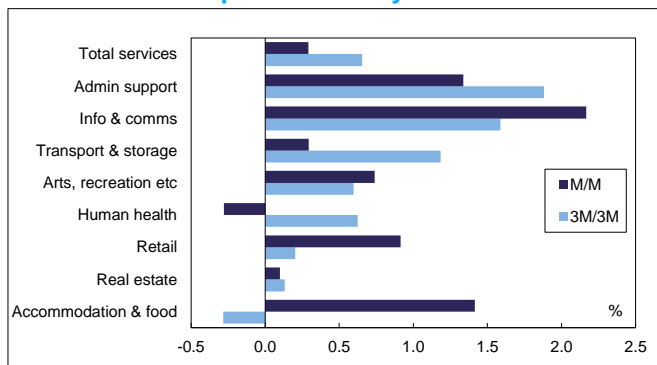
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: GDP and sector output



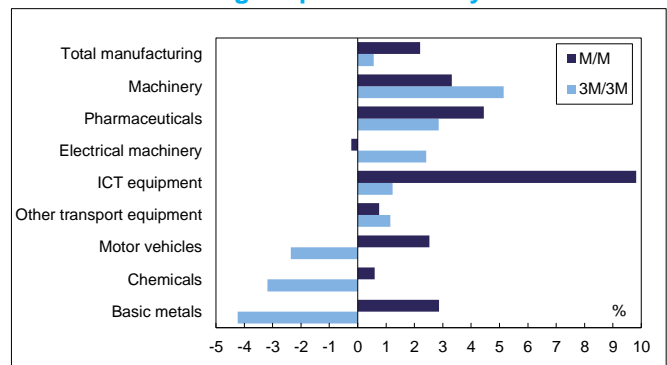
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Services output – February 2025



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Manufacturing output – February 2025



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Risks to outlook remain skewed to the downside

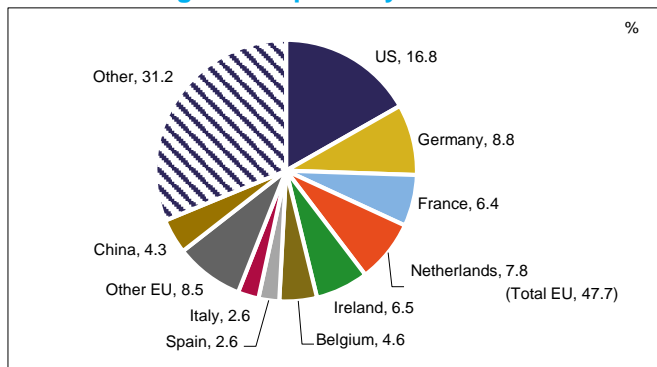
Of course, the risks to the outlook beyond the first quarter remain skewed to the downside. Notwithstanding the increase in the National Living Wage in April, household budgets have been hit by a rise in energy and water tariffs. Rising fears about job security in the face of heightened economic uncertainties will also add caution to consumer spending habits. Certainly, the latest REC report on jobs today signalled that a rise in redundancies and reduced hiring activity in March, reflecting in part tighter budgets and weaker confidence, saw the number of available candidates rise at the fastest pace since December 2020. The rise in tariffs on exports to the US and ongoing uncertainties about global trade policies will continue to weigh on global business spending. Indeed, in a survey published by the British Chambers of Commerce (BCC) earlier this week, more than 60% of UK firms with trade exposure to the US stated that they would be negatively impacted by tariffs, of which 20% said the impact would be significant. While one third of firms noted their intention to increase prices in response to higher tariffs, a little more than a third signalled a wait and see strategy. And we suspect that a decline in demand will in due course diminish firms' pricing powers.

### The week ahead in the UK

Though the BoE's next monetary policy announcement remains almost four weeks away, the coming week's CPI (Wednesday) and labour market (Tuesday) reports will mark the last of those headline releases before policymakers convene next month. With respect to the former, February's inflation print was slightly cooler than expected, with weaker core goods inflation leading both headline (2.8%Y/Y) and core (3.4%Y/Y) prices to soften some 0.2ppt respectively. That print will have offered some relief to the BoE. And we expect inflation to moderate further in March, by 0.2ppt and 0.1ppt on headline and core rates, leading CPI to a three-month low (2.6%Y/Y) and 0.1ppt below the BoE's forecast.

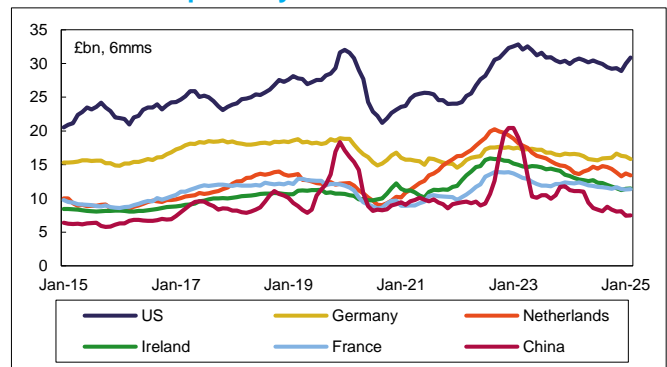
That would strengthen policymakers' hand to deliver a fourth rate cut this cycle in May. Of course, they might still remain wary that, despite services inflation side-stepping in February (5.0%Y/Y), less volatile components were slightly firmer (up 0.2ppt to 4.4%Y/Y). April will also see headline inflation rise back above 3% as administered price increases and tax changes take effect, and some MPC members have also raised concerns at the resulting uptick in consumer inflation expectations. But, on the other hand, they will also pay consideration to the disinflationary impetus from the recent sharp fall in oil and gas prices (relative to the BoE's latest assumptions), sterling appreciation and slap to confidence from Trump's tariffs. And while the net impact of the still-implemented tariffs to the medium-term inflation outlook remain ambiguous, we would certainly expect the immediate hit to demand and effects of trade diversion to have a net disinflationary effect over the monetary policy horizon. So, we expect the Bank to cut rates on 8 May, by another 25bps. And given the magnitude of the

#### UK: Share of goods exports by destination



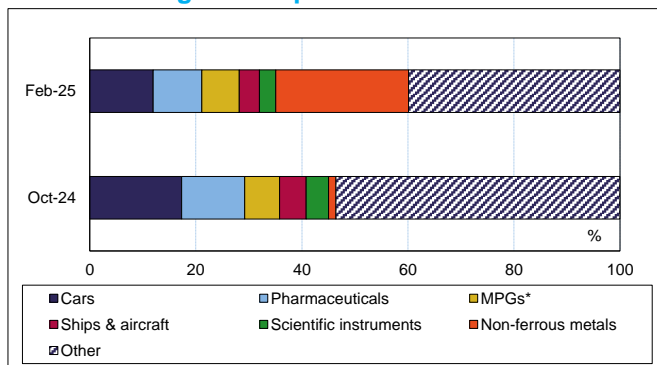
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Goods exports by destination



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

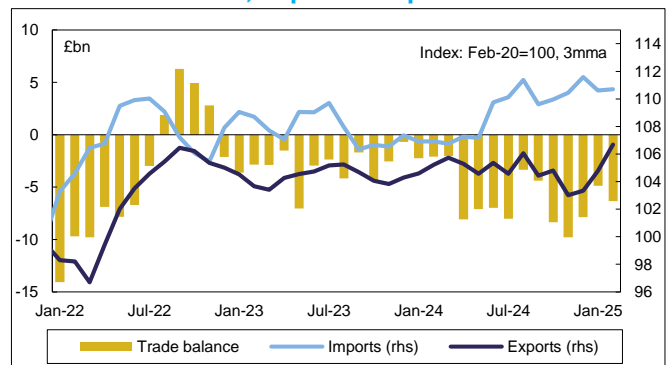
#### UK: Share of goods exports to US



\*Mechanical Power Generators.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Trade balance, export & import volumes\*



\*Excluding precious metals.












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

recent shocks, and subsequent tightening of financial conditions, we do not entirely rule out a larger cut if sterling remained firm and market turbulence would extend or intensify between now and then.

Meanwhile, and despite its questionable accuracy, the MPC will also attach a non-negligible weight to Tuesday's labour market report for February/March. The prior report posted surprisingly solid employment numbers, contrasting with an uptick in jobseekers' claims and the broader deterioration in firms' hiring intentions signalled by business surveys. However, measures of wage growth – including the BoE's preferred private sector regular pay rate – should remain elevated for the time being. The BoE expects wage growth to moderate only gradually over the course of this year, from 6.1%3M/Y at present to 3.9%3M/Y. But we note that the growing softness in alternative indicators – with the DMP survey (5.0%3M/Y) and Indeed advertised wages (5.7%Y/Y) figures respectively falling to their lowest since H122 in March and February – should help to build their confidence in gradual pay moderation regardless of the stickiness in official numbers. Elsewhere, the BRC's retail monitor (also Tuesday) will provide further insights into consumer spending after the CBI reported a further loss of momentum in March.

*The next edition of the Euro wrap-up will be published on Tuesday 15 April 2025*




















## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Final HICP (CPI) Y/Y%	Mar	<b>2.3 (2.2)</b>	<u>2.3 (2.2)</u>	2.6 (2.3)	-
Spain	 Final HICP (CPI) Y/Y%	Mar	<b>2.2 (2.3)</b>	<u>2.2 (2.3)</u>	2.9 (3.0)	-
UK	 Monthly GDP M/M% (3M/3M%)	Feb	<b>0.5 (0.6)</b>	<u>0.1 (0.4)</u>	-0.1 (0.2)	0.0 (0.3)
	 Services output M/M% (3M/3M%)	Feb	<b>0.3 (0.6)</b>	0.1 (0.5)	0.1 (0.4)	-
	 Industrial output M/M% (Y/Y%)	Feb	<b>1.5 (0.1)</b>	0.1 (-2.3)	-0.9 (-1.5)	-0.5 (-0.5)
	 Construction output M/M% (Y/Y%)	Feb	<b>0.4 (1.6)</b>	0.2 (1.7)	-0.2 (0.2)	-0.3 (0.0)
	 Trade (goods trade) balance £bn	Feb	<b>-2.0 (-20.8)</b>	-1.4 (-17.9)	-0.6 (-17.8)	0.3 (-18.2)
Auctions						
Country	Auction					
Italy	 sold €3.5bn of 2.65% 2028 bonds at an average yield of 2.44%					
	 sold €2.5bn of 3.15% 2031 bonds at an average yield of 3.3%					
	 sold €1.5bn of 0.95% 2032 bonds at an average yield of 3.34%					
	 sold €1.5bn of 3.25% 2038 bonds at an average yield of 4.06%					

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/Actual</i>	Previous
<b>Monday 14 April 2025</b>					
UK		00.01 Rightmove house prices M/M% (Y/Y%)	Apr	-	1.1 (1.0)
<b>Tuesday 15 April 2025</b>					
Euro area		10.00 Industrial production M/M% (Y/Y%)	Feb	<u>0.7 (0.0)</u>	0.8 (0.0)
Germany		10.00 ZEW current situations (expectations) balance	Apr	-86.0 (10.0)	-87.6 (51.6)
France		07.45 Final HICP (CPI) Y/Y%	Mar	<u>0.9 (0.8)</u>	0.9 (0.8)
UK		00.01 BRC retail monitor – like-for-like sales Y/Y%	Mar	0.6	0.9
		07.00 Average wages (excluding bonuses) 3M/Y%	Feb	5.7 (6.0)	5.8 (5.9)
		07.00 Private sector regular wages 3M/Y%	Feb	6.0	6.1
		07.00 Unemployment rate 3M%	Feb	4.4	4.4
		07.00 Employment 3M/3M change 000s	Feb	174	144
		07.00 Payrolled employees M/M change 000s	Mar	-18	21
		07.00 Claimant count rate % (change 000s)	Mar	-	4.7 (44.2)
<b>Wednesday 16 April 2025</b>					
Euro area		09.00 Current account balance €bn	Feb	-	35.4
		10.00 Final headline (core) HICP Y/Y%	Mar	<u>2.2 (2.4)</u>	2.3 (2.5)
Italy		09.00 Final HICP (CPI) Y/Y%	Mar	<u>2.1 (2.0)</u>	1.7 (1.6)
UK		07.00 Headline (core) CPI Y/Y%	Mar	<u>2.6 (3.4)</u>	2.8 (3.5)
		09.30 House price index Y/Y%	Feb	-	4.9
<b>Thursday 17 April 2025</b>					
Euro area		13.15 ECB Deposit (Refinancing) Rate %	Apr	<u>2.25 (2.40)</u>	2.50 (2.65)
Germany		07.00 PPI Y/Y%	Mar	0.4	0.7
<b>Friday 18 April 2025</b>					
France		- BdF retail sales Y/Y%	Mar	-	-0.2

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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

Country	BST	Event / Auction
<b>Monday 14 March 2025</b>		
- Nothing scheduled -		
<b>Tuesday 15 April 2025</b>		
Euro area		09.00 ECB to publish quarterly Bank Lending Survey for Q1/Q225
Germany		10.30 Auction: to sell up to €4.5bn of 2.4% 2030 bonds
UK		10.00 Auction: to sell £4bn of 4.5% 2035 bonds
<b>Wednesday 16 April 2025</b>		
Germany		10.30 Auction: to sell up to €1.5bn of 2.9% 2056 bonds
		10.30 Auction: to sell up to €1bn of 0% 2052 bonds
UK		10.00 Auction: to sell £1.5bn of 0.125% 2028 bonds
<b>Thursday 17 April 2025</b>		
Euro area		13.15 ECB monetary policy announcement
		13.45 ECB President Lagarde holds post-Governing Council meeting press conference
France		09.50 Auction: to sell up to €12bn of 2.4% 2028, 2.7% 2031 and 2% 2032 bonds
		10.50 Auction: to sell up to €2bn of 0.6% 2034, 0.1% 2036, 0.55% 2039 and 0.1% 2053 inflation-linked bonds
UK		09.30 BoE to publish quarterly Bank Liabilities and Credit Conditions surveys for Q125
<b>Friday 18 April 2025</b>		
Good Friday: public holiday in the UK, Germany & Spain		

\*Details to be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

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