

Euro wrap-up

Overview

- Bunds made modest gains, while a German investor survey signalled a marked energy-related deterioration in the economic outlook but uptick in near-term inflation and rate hike expectations.
- Gilts outperformed on a quiet day for UK economic news.
- Ahead of Thursday's ECB and BoE monetary policy announcements, Wednesday will bring final euro area inflation figures for February.

Emily Nicol
+44 20 7597 8331

Edward Maling
+44 20 7597 8030

Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.376	-0.018
OBL 2½ 04/31	2.567	-0.032
DBR 2.9 02/36	2.906	-0.042
UKT 4% 03/28	4.037	-0.053
UKT 4½ 03/31	4.220	-0.068
UKT 4¾ 10/35	4.693	-0.075

*Change from close as at 4:15pm GMT.
Source: Bloomberg

Euro area

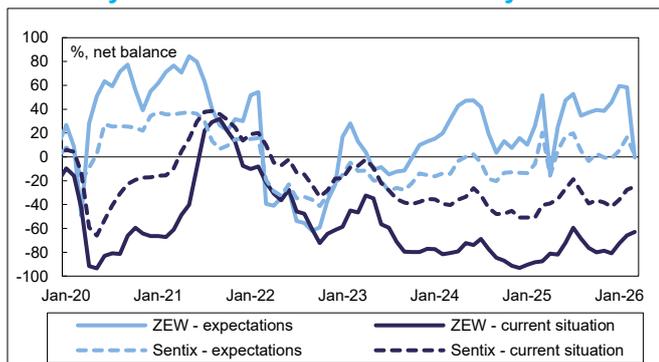
German ZEW investor survey signals marked deterioration in near-term outlook from energy shock

Given the further step up in wholesale gas and oil price futures last week and with no meaningful signs of de-escalation in the Middle East, today's German ZEW investor survey suggested that the hit to sentiment was far more pronounced than implied by the Sentix survey just over a week ago. In particular, the ZEW index for the outlook for the coming six months dropped a striking 59pts in March – the most since US President Trump's "Liberation Day" tariff announcements last spring – to -0.5. The share of respondents expecting the outlook to worsen (30%) jumped to the highest since April 2025 and September 2023 before that, well above the long-run average. And those expecting them to improve more than halved from February. Admittedly, today's survey results were not all doom and gloom, with respondents suggesting that current conditions continued to normalise somewhat towards the end of Q1. Indeed, the respective index rose slightly to an eight-month high in March (-62.9), taking the quarterly average some 12½pts above the Q4 outturn. Nevertheless, almost two-thirds of respondents still judged conditions to be 'bad' in March. So, although higher government spending on infrastructure and defence should provide ongoing support to Germany's recovery, with recent hard data – including January [retail sales](#) and [industrial production](#) – showing that the economy started the year on the backfoot and the new global energy shock set to dampen demand further over the near term, risks to German GDP growth in H126 remain tilted firmly to the downside.

Broad-based deterioration in expected profit margins as inflation and rate hike expectations rise

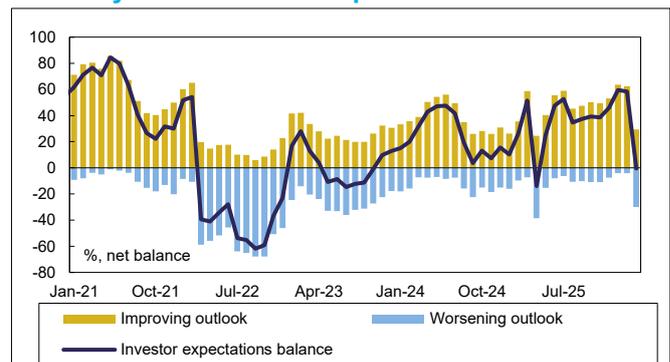
With the exception of utilities, the deterioration in investor perceptions of the near-term outlook was broad-based. Profit expectations were hardest hit in the more energy-intensive industries such as chemicals, pharmaceuticals and steel, but remained most negative for the autos subsector. With the surge in price expectations – roughly 80% of respondents now expect an increase in inflation over the coming six months, the highest share since June 2021 – set to diminish households purchasing power, investors also revised down markedly expected profit growth in consumer-facing services, with retailers' margins likely to be the most negative in more than two years. And earning expectations in the construction subsector were similarly revised lower amid the prospect of higher interest rates. Indeed, having previously expected no change to monetary policy, today's survey suggested that roughly one quarter of respondents now see a hike in interest rates in the coming six months. And the longer the war in the Middle East and associated energy price shock persists, the more likely the ECB will need to respond. Certainly, while we expect the [ECB](#) to keep policy unchanged this week and currently see the risks of large-scale second-round effects on inflation to be less extreme than in 2022, President Lagarde might well suggest that all future policy meetings from April onwards could be live for a possible rate hike.

Germany: Sentix & ZEW investor survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ZEW investor expectations*



*Coming six months. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

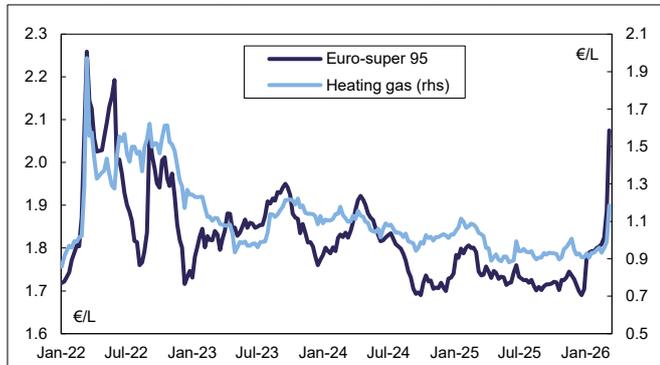
The day ahead in the euro area

Ahead of the ECB's monetary policy announcement on Thursday, final euro area inflation estimates on Wednesday are likely to confirm that inflationary pressures remained well contained before events in the Middle East spiraled a little over two weeks ago. Admittedly, the flash estimates showed both headline and core inflation picking up by 0.2ppt apiece in February; albeit the former to a still-sub-target rate of 1.9%Y/Y. Notwithstanding the slight downwards revision to today's Italian estimates – now judged to have risen ½ppt last month to 1.5%Y/Y – we do not expect any change to the final euro area numbers. The accompanying detail will likely show that the increase in part reflected a temporary boost to services inflation which, as today's Italian estimates validate, was in large part influenced by last month's Winter Olympic games. Specifically, Italian accommodation services prices rose 10%M/M, pushing inflation up a sharp 10ppts to 14%Y/Y, its highest rate since April 2023. Airfares were also similarly erratic, up 20ppts to 9.4%Y/Y. Tomorrow's release should also confirm that a weaker drag from energy and pickup in core goods inflation added to the increase in euro area inflation.

The day ahead in the UK

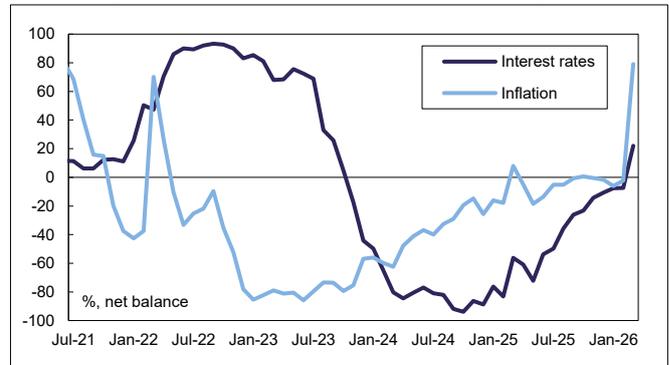
It is set to be another quiet day for economic data in the UK, leaving focus squarely fixed on Thursday's monetary policy decision and latest labour market report.

Germany: Weekly petrol & heating oil prices



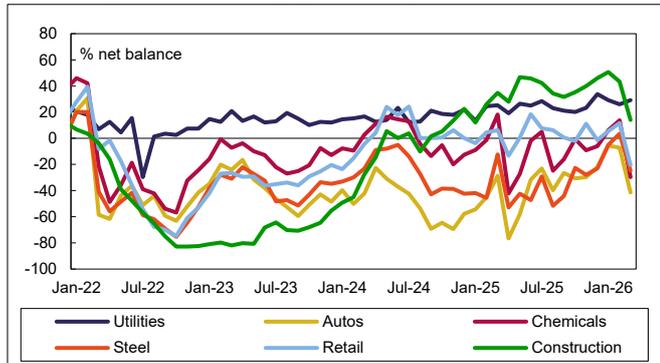
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ZEW interest rate & inflation expectations*



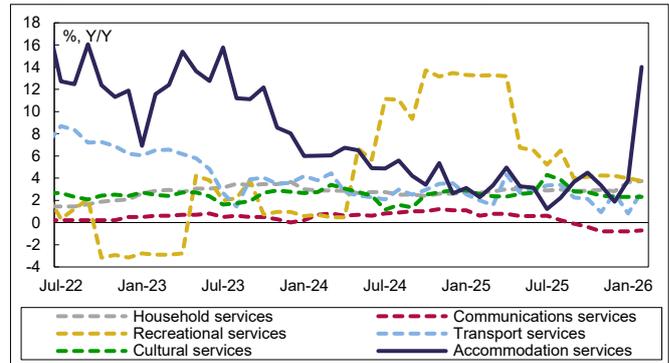
*Coming six months. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ZEW survey profit expectations



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: Selected services inflation components



Source: Macrobond 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
Germany 	ZEW current situation (expectations) balance	Mar	-62.9 (-0.5)	-68.0 (39.2)	-65.9 (58.3)	-
Italy 	Final HICP (CPI) Y/Y%	Feb	1.5 (1.5)	<u>1.6 (1.6)</u>	1.0 (1.0)	-

Auctions	
Country	Auction
UK 	sold £4bn of 4.125% 2031 bonds at an average yield of 4.228%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Monday's results

Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK 	Rightmove house prices M/M% (Y/Y%)	Mar	0.8 (-0.2)	-	0.0 (0.0)	-

Auctions	
Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Euro area 	10.00	Final headline (core) HICP Y/Y%	Feb	<u>1.9 (2.4)</u>	1.7 (2.2)	
	10.00	Final job vacancy rate %	Q4	<u>2.2</u>	2.2	

Auctions and events			
Germany 	10.30	Auction: to sell up to €1bn of 2.5% 2046 bonds	
	10.30	Auction: to sell up to €1.5bn of 2.9% 2056 bonds	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research reports at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME 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 derivatives 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 DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME 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 only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME'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.

DCME 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://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

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. 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.