

# Euro wrap-up

## Overview

- While ECB policymakers reinforced that the April and June Governing Council meetings were live for a rate hike, Bunds followed the global trend higher.
- Gilts made larger gains as UK inflation held steady ahead of the war, with services, food and energy components easing.
- Thursday will bring the March consumer confidence survey findings from Germany, France and Italy, as well as French and Italian business indices.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.592	-0.073
OBL 2½ 04/31	2.684	-0.071
DBR 2.9 02/36	2.949	-0.075
UKT 4¾ 03/28	4.389	-0.072
UKT 4¾ 03/31	4.411	-0.092
UKT 4¾ 10/35	4.829	-0.125

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

Source: Bloomberg

## Euro area

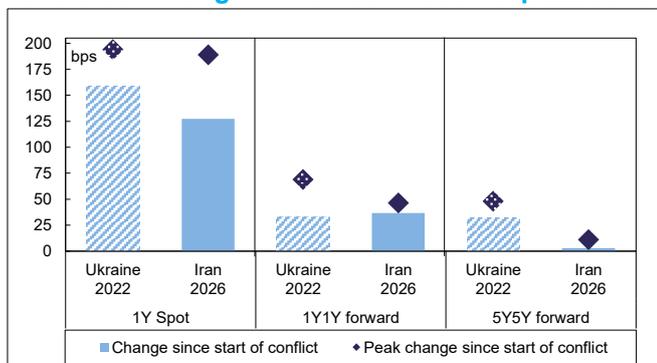
### ECB policymakers reiterate extremely uncertain outlook, but that April & June are live for rate hikes

In conference presentations in Frankfurt today, President Lagarde and Chief Economist Lane reiterated that the near-term path for ECB policy remains extremely uncertain. As Lagarde last week noted and the ECB's scenario analysis made clear, the impact on inflation – and by implication monetary policy – will depend in good part on the duration and severity of the conflict and associated damage to energy infrastructure and transit via the Strait of Hormuz. But Lagarde and Lane emphasised likely non-linearities whereby the impact on inflation and second-round effects could increase exponentially as the length of the conflict and eventual shift in energy prices increases. And they are mindful that early tightening might help to limit the eventual terminal rate, containing the hit to the euro area's real economy. So, both policymakers made clear that, while they again insisted that rates are certainly not on a predetermined path, the Governing Council's April and June meetings will be live for possible tightening. And they also reiterated that the decisions whether or not to raise rates would depend on the data to be published between now and then.

### Policy decisions to be taken on array of data to be published between now & end-April

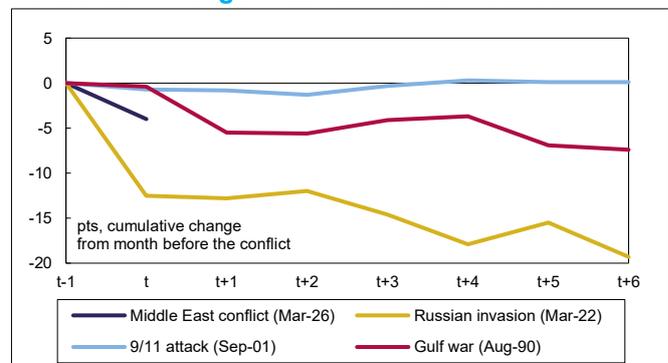
Signals on demand before the next Governing Council meeting will be appraised when considering the policy decision. And it has not gone without notice at the ECB that [consumer confidence](#) has this month deteriorated by more than it did after 9/11 and the first Gulf War, albeit so far not by as much as it did after the Russian invasion of Ukraine. But, while greater than in March 2022, the immediate deterioration in business activity flagged by the [PMIs](#) has not been particularly marked. And, anyway, more important for the ECB will be incoming indications of effects on inflation expectations. So far, medium-term market measures (such as the 5Y5Y forward rate) remain well anchored, seemingly benefiting from the dissipation of the post-Ukraine inflation shock over the past year. However, yesterday's flash PMIs suggested that firms are reporting sharply higher costs and expect to pass a portion of those pressures to customers. And Lane made clear that all survey evidence on firms' price-setting expectations, as well as consumer price and wage expectations (and eventual settlements) will be particularly pertinent in determining the rate decision at end-April. The extent of tightening of financial conditions reported in the ECB's Bank Lending Survey might also have an influence.

### Euro area: Change in market inflation expectations\*



Source: Bloomberg, ECB and Daiwa Capital Markets Europe Ltd.

### Euro area: Change in consumer confidence\*



Source: EC, ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

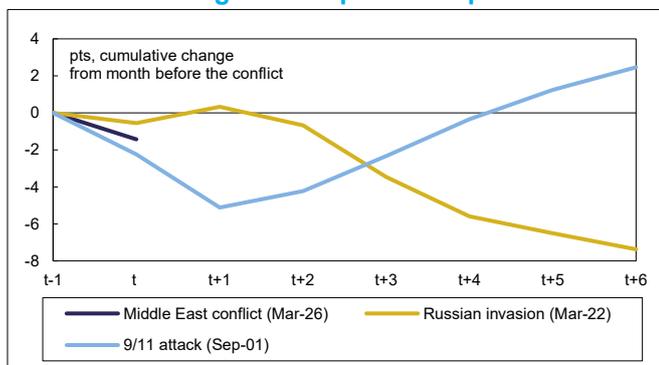
## German ifo survey flags risk of widespread and marked deterioration over coming months

Like yesterday's flash PMIs, today's German ifo business survey suggested, at face value, that economic activity held up relatively well in the euro area's largest member state in March. Certainly, the ifo's current assessment index held steady at 86.7, the joint-highest since July 2024, to leave the quarterly average up almost 1pt in Q1, suggestive of another quarter of positive GDP growth. Firms in the services, retail and construction subsectors assessed the current situation to have improved slightly further in March. But, contrasting yesterday's German PMIs, the ifo indices already flagged a slight worsening in manufacturing, with the survey detail (due to be published tomorrow) likely to reflect the impact of renewed supply-chain disruptions and significantly higher operating costs. While elevated order backlogs in certain subsectors – such as metals, electrical and ICT equipment and non-auto transport equipment – should provide support to near-term production, the new energy shock and disruption to shipping in the Strait of Hormuz raises non-negligible downside risks. Unsurprisingly, the ifo survey suggested that energy-intensive firms were the most downbeat about the outlook for the coming six months. And overall, manufacturers were the most pessimistic since Trump's Liberation Day tariff announcements. But the outlook for services and retail firms also deteriorated sharply, with fears of rising inflation hitting sales expectations, while a slump in sentiment in tourism and the logistics industries likely related to higher fuel prices. And given the prospect of higher interest rates over coming months, the constructors' expectations balance fell more sharply than at any time since March 2022.

## The day ahead in the euro area

Once again, March surveys will be the most noteworthy of Thursday's dataflow in the euro area. While the flash French [PMIs](#) were indicative of a notable pullback in economic activity this month, the more comprehensive INSEE business survey – with a sample size of more than 10 times that of the PMIs – might provide a more reliable gauge of the initial impact of the war in the Middle East. The Italian Istat business sentiment survey will also provide a first reference of the impact of the new energy shock in the euro area's third largest economy. Meanwhile, consumer confidence surveys from Germany, France and Italy should provide additional context for the deterioration in Monday's flash Commission euro area index. We expect consumer confidence to have collectively weakened across the member states. And the detail will likely highlight the downside risks to household consumption posed by renewed economic uncertainties and higher inflation expectations. Euro area monetary data will also provide an update on bank lending just prior to the outbreak of war.

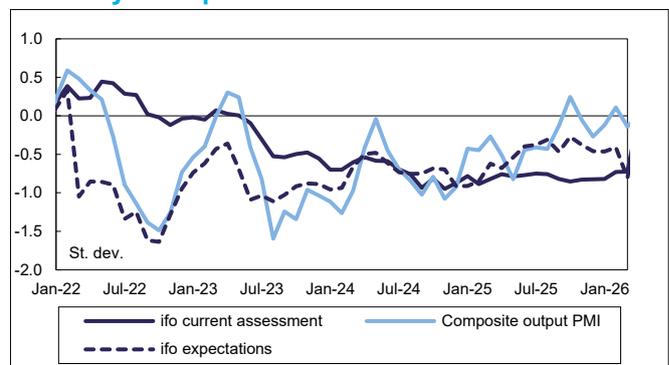
### Euro area: Change in composite output PMI\*



\*t is month of start of conflict.

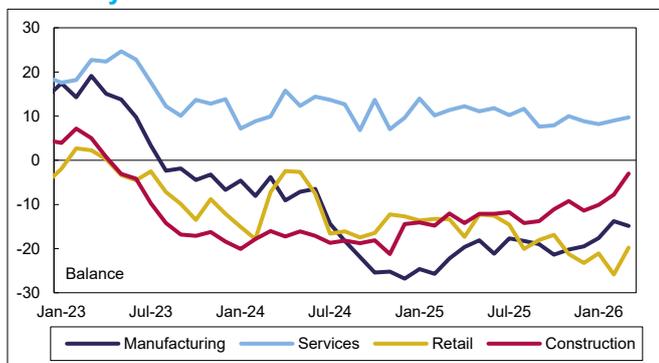
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Composite PMI & ifo indices



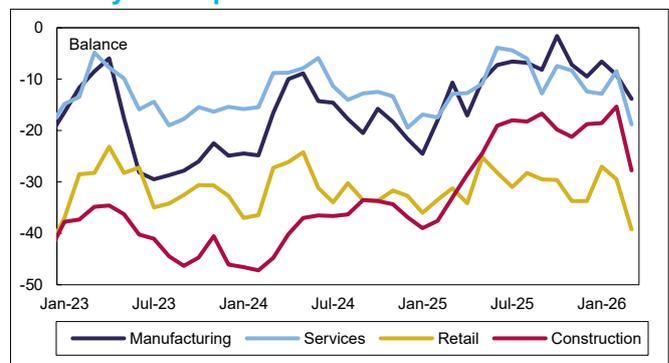
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: ifo current assessment indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: ifo expectations indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK**

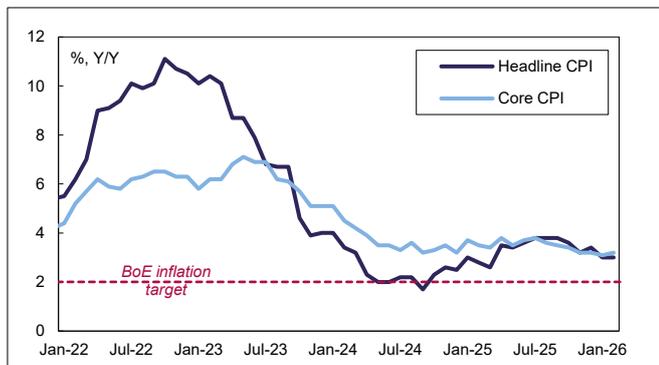
**Headline inflation held steady at 3.0%Y/Y ahead of Iran war, with energy, food & services easing**

While it has been superseded by recent events, today's CPI report gave an update on inflationary pressures before the outbreak of the Iranian war. This showed that headline inflation held steady in February at 3.0%Y/Y, the joint-lowest in 11 months and in line with the Bank's projection in the February Monetary Policy Report. And the detail showed further moderation in the services, food and energy components alike. Indeed, services inflation eased 0.1ppt to a near-four-year low of 4.3%Y/Y, with modest upward pressure from airfares more than offset by a downward contribution from cultural services. Meanwhile, food inflation fell to a ten-month low of 3.2%Y/Y benefiting from favourable base effects in chocolate and beef after prices surged a year ago. And thanks to a notable decline in petrol prices in February compared with a rise one year earlier, energy inflation fell a chunky 1.2ppts to a nine-month low of -1.0%Y/Y. In contrast, non-energy industrial goods inflation rose a larger-than-expected 0.5ppt to 1.3%Y/Y, a five-month high. As such, core inflation ticked slightly higher, by 0.1ppt to 3.2%Y/Y. But this related to different seasonal discounting patterns from a year earlier, when clothing prices unusually declined in February 2025 for the first time in more than two decades outside of the Covid-19 lockdowns.

**Energy shock to push inflation notably higher in H226, likely triggering a near-term rate hike**

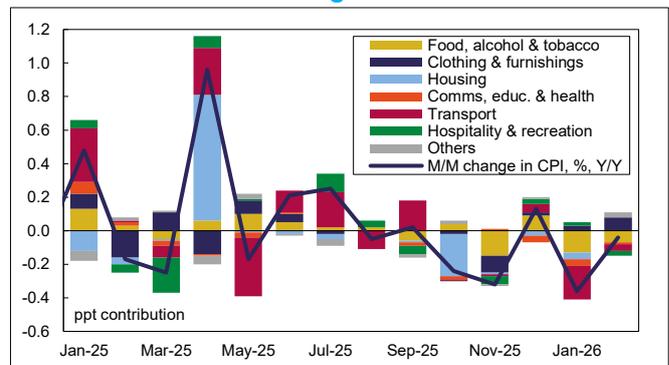
Of course, given the new global energy price shock, today's inflation print will have little bearing on the BoE's near-term monetary policy response. While the price of Brent crude oil today fell briefly back below \$100/bbl, it is still tracking roughly 40% above the average in February. And the associated shift in petrol and diesel prices – averaging some 6% and 12% higher so far this month – looks set to push the energy component up around 7½ppts to 6.5%Y/Y this month, which would be the highest since May 2023 and add around 0.4ppt to headline inflation. And while energy inflation will take a temporary step down in April due to the cut in the Ofgem household energy tariff for Q2, this will be more than reversed through the second half of the year when the updated quarterly tariffs will reflect the recent spike in wholesale energy curves. While producer food price inflation in February eased to the lowest in 12 months, the impact of rising fuel prices, disrupted supply chains and tightening fertiliser supplies seems bound to push them markedly higher over coming months. As illustrated in yesterday's [flash PMIs](#), manufacturing cost burdens jumped the most since October 2022. Admittedly, the increase in services input prices was less pronounced. And given favourable base effects from last year's Budget tax measures, services inflation should still moderate further into Q2. But higher aviation fuel prices will provide an upwards impulse over the near term. And we see significant risks of second-round effects on wages and prices in due course, particularly the longer high energy prices persist. Overall, we expect headline inflation to rise close to 3½%Y/Y in March and peak close to 4%Y/Y in September through to February. And we no longer expect a sustained return to the 2% target until 2028 at the earliest.

**UK: CPI inflation**



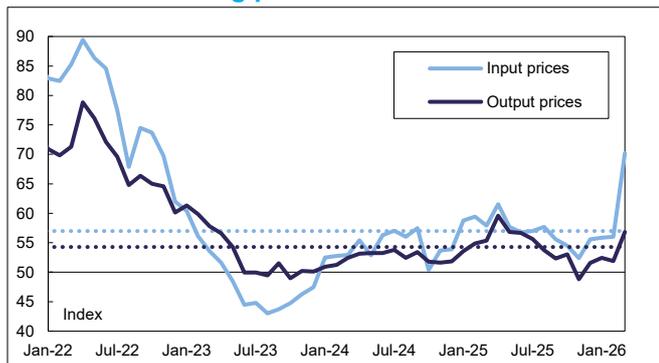
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK: Contribution to change in headline inflation**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

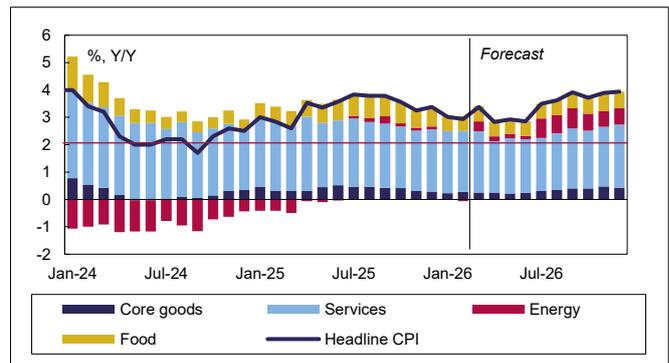
**UK: Manufacturing price PMIs\***



\*Dotted lines are long-run averages.

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

**UK: CPI inflation & contributions**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## The day ahead in the UK

Thursday will be a quiet day for economic data, so the emphasis in the UK should be on BoE speak as Deputy Governor Breeden and external MPC members Greene and Taylor each make appearances over the course of the day. While rate-setters each clarified their initial views in the face of a new global energy price shock at the monetary policy meeting only [last week](#), those could offer further insights into their respective reaction functions.

## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 ifo current assessment (expectations) indicator	Mar	<b>86.7 (86.0)</b>	86.1 (86.0)	86.7 (90.5)	-(90.2)
	 ifo business climate indicator	Mar	<b>86.4</b>	86.3	88.6	88.4
Spain	 PPI Y/Y%	Feb	<b>-7.0</b>	-	-2.9	-2.8
UK	 Headline (core) CPI Y/Y%	Feb	<b>3.0 (3.2)</b>	<u>2.9 (3.1)</u>	3.0 (3.1)	-
	 PPI – output (input) prices Y/Y%	Feb	<b>1.7 (0.5)</b>	2.6 (0.4)	2.5 (-0.2)	-(-0.4)
	 House price index Y/Y%	Jan	<b>1.3</b>	-	2.4	1.9

#### Auctions

Country	Auction
Germany	 sold €866mn of 2.6% 2041 bonds at an average yield of 3.29%
	 sold €860mn of 0% 2052 bonds at an average yield of 3.42%
Italy	 sold €2bn of 2.2% 2028 bonds at an average yield of 2.89%
	 sold €1bn of 1.1% 2031 inflation-linked bonds at an average yield of 0.97%
	 sold €1bn of 1.8% 2036 inflation-linked bonds at an average yield of 1.78%

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	 09.00	M3 money supply Y/Y%	Feb	3.2	3.3
Germany	 07.00	GfK consumer confidence indicator	Apr	-27.3	-24.7
France	 07.45	INSEE consumer confidence indicator	Mar	89	91
	 07.45	INSEE business (manufacturing) confidence indicator	Mar	96 (101)	97 (102)
	 07.45	INSEE production (own company) outlook indicator	Mar	-6 (8)	-6 (10)
Italy	 09.00	Istat consumer confidence indicator	Mar	95.6	97.4
	 09.00	Istat business (manufacturing) confidence indicator	Mar	-(87.6)	97.4 (88.5)
Spain	 08.00	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.8 (2.6)</u>	0.6 (2.7)

#### Auctions and events

UK	 09.30	BoE Deputy Governor Breeden participates in panel on financial regulation & home ownership at the Resolution Foundation
	 10.00	Auction: to sell £300mn of 5.375% 2056 bonds
	 16.00	External MPC member Taylor gives speech at Exante Data macro conference, New York (speech delivered at 19:05 GMT)
	 16.30	External MPC member Greene participates in fireside chat at PEI infrastructure global investor summit, Berlin

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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