

Euro wrap-up

Overview

- European govies made notable losses as various national surveys signalled a jump in consumer price expectations in March.
- Gilts followed the global trend lower, while comments from BoE Deputy Governor Breeden suggested she could vote for either unchanged policy or an increase in rates in April, but uber-dove Taylor suggested the bar for a hike was high.
- Friday will bring Spain's flash March inflation estimates, and the UK's March consumer confidence survey and February retail sales.

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Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.705	+0.111
OBL 2½ 04/31	2.798	+0.110
DBR 2.9 02/36	3.060	+0.106
UKT 4¾ 03/28	4.513	+0.117
UKT 4¾ 03/31	4.545	+0.128
UKT 4¾ 10/35	4.965	+0.129

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

Euro area

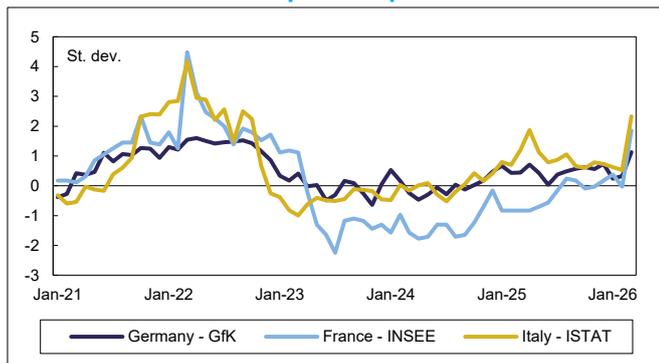
Consumer price expectations in the largest member states jump the most since late-2022

ECB policymakers have signalled that the decision whether or not to raise rates at the forthcoming policy-setting meetings in April and June will be determined in part by inflation expectations, with survey evidence likely to be pertinent. And today's national survey estimates from the euro area's largest member states showed that the new global energy price shock is already having an impact. Given the swift pass-through of higher crude oil prices to prices of petrol and heating gas – up last week in the euro area by 12% and 40% respectively from end-February – the immediate impact was larger for consumer price expectations. Indeed, while still some way below the peaks after the Russian invasion of Ukraine, the respective indices for the coming 12 months in today's German, French and Italian surveys jumped well above the long-run average to the highest levels since late-2022. The national business surveys suggested that firms' expectations for their own selling prices over the coming three months were better contained. But, like the respective [flash PMIs](#), they still pointed to a near-term pickup in prices charged in the manufacturing sector, and by the most in three years in Germany and Italy. And although fewer French manufacturers indicated that they planned to hike their prices, they too expected general inflation to rise to the highest level since mid-2023. Selling prices in services are also likely to have to rise in due course as firms seek to pass on higher operating costs and, eventually, wage demands too.

Energy hit to consumer confidence more pronounced, manufacturers also more downbeat

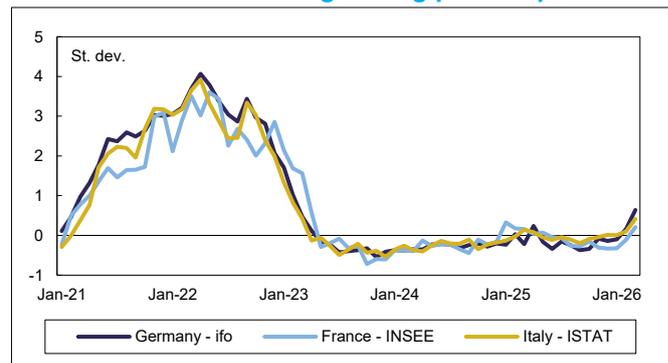
Similar to the response to the 2022 shock, the national surveys signalled a greater immediate hit to household sentiment than business confidence from the conflict in the Middle East, as the more pronounced increase in inflation expectations and job insecurity raised concerns of another big hit to living standards. Today's survey showed that German consumers were the most pessimistic in two years and the least willing to spend since Liberation Day. With Italian households increasingly fearful about unemployment, the respective headline sentiment index also fell to the lowest level since October. And while French consumers seemingly looked through the spike in fuel prices, confidence remained some way below the long-run average. Meanwhile, given the prospect of higher energy costs, today's surveys signalled a slight worsening in the manufacturing business climate this month, with energy-intensive industries more adversely impacted in Germany and the transport sector seemingly most affected in France. More happily, however, and perhaps surprisingly, French retailers suggested that business conditions had improved slightly over the past month. And despite a softening in sales, services firms in France and Italy assessed the current business climate to be little changed, broadly tallying with the message from yesterday's German ifo survey. Constructors also judged conditions still to be broadly favourable. But the near-term outlook risks being dampened by higher interest rates and an increased determination on behalf of households to save. So, we expect the housing market to slow. And we also expect a more widespread deterioration in business sentiment in Q2.

Euro area: Consumer price expectations*



*12 months ahead. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing selling price expectations*

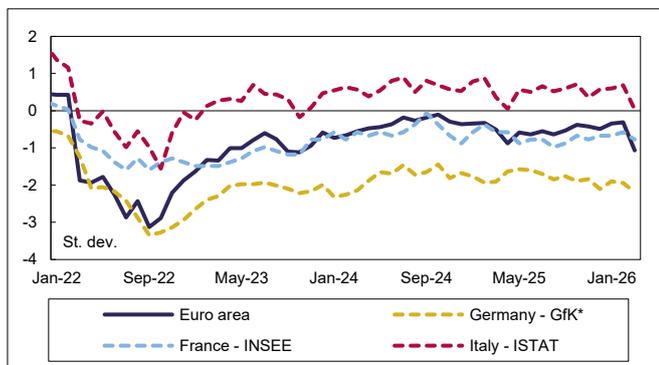


*3 months ahead. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Subdued bank lending trend provides reminder that monetary stance is not accommodative

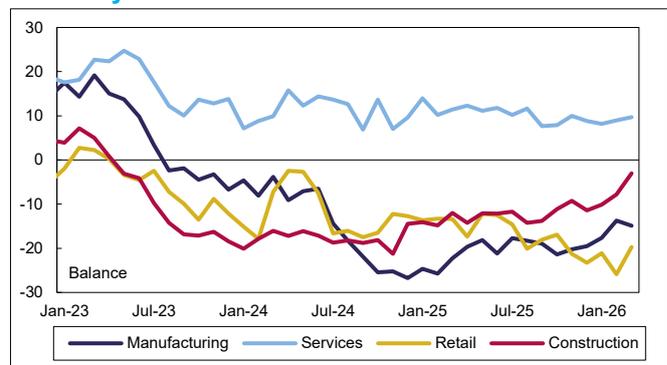
In her Frankfurt speech yesterday, ECB President Lagarde took comfort that the impact on inflation from the Iran War will likely be less potent than that from the Russian invasion of Ukraine. Among other things, she (rightly) noted the smaller initial jump in gas prices and supply disruption than earlier in the decade. She also judged the macroeconomic backdrop to be less conducive to pass-through to other prices, in part due to the absence of significant supply-demand imbalances but also because macroeconomic policies are now less supportive. Indeed, contrasting the highly accommodative stance back in early 2022, the current deposit rate of 2.00% appears broadly neutral, as evidenced by the continued subdued trend of bank lending at the start of this year. The flow of new loans to NFCs in February of €16bn on an adjusted basis was close to the middle of the range of the prior 12 months. And that nudged up the annual growth rate in the stock of loans to NFCs by just 0.1ppt from January's seven-month low to 2.9%Y/Y, still firmly below the long-run average. Growth in the stock of loans to households was unchanged at 3.0%Y/Y, likewise below the long-run average. And growth in loans for house purchase was also steady, at 2.8%Y/Y well below the long-run trend. Given the events in the Middle East, we expect the ECB's forthcoming Bank Lending Survey (BLS), due to be published before the next Governing Council policy meeting, to report a third successive tightening in credit conditions on loans to NFCs in Q1 and expectations of a non-negligible tightening of credit conditions in the coming quarter too.

Euro area: Consumer confidence indices



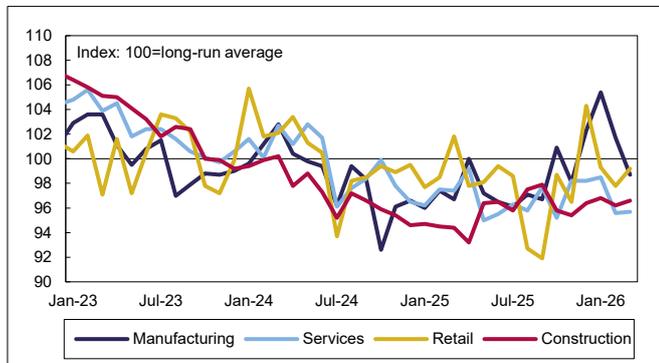
*Presented in survey as forecast for April.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo current business conditions indices



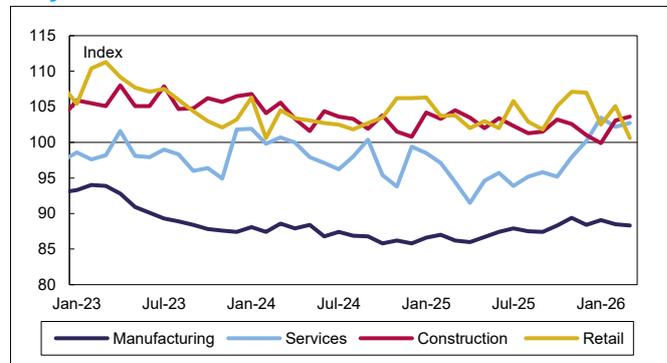
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: INSEE business climate indices



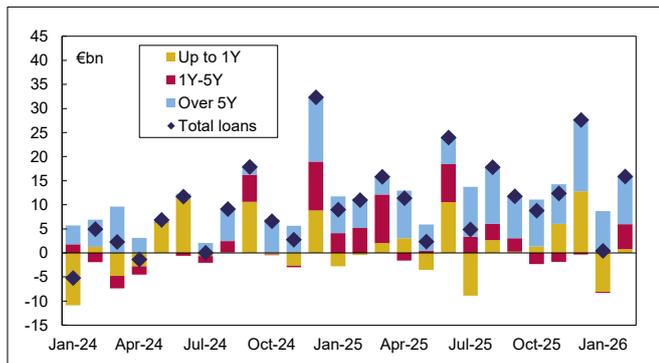
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: ISTAT business climate indices



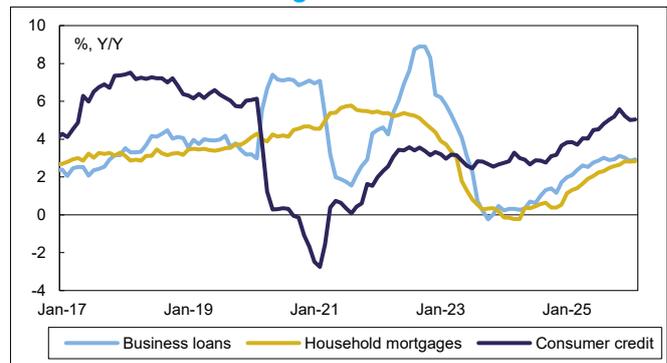
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Flow of new loans to NFCs



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Outstanding loans to households & NFCs



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

Flash inflation estimates from Spain on Friday will provide a taste of what to expect from next week's euro area release. Predictably, headline inflation is expected to rise sharply this month as the effects of higher energy prices sparked by conflict in the Middle East filter into the price data. Most forecasts foresee a jump of 1-1½ppts in Spain, which would take the HICP rate up to between 3½-4%Y/Y, its highest since mid-2024. The vast majority of that increase, inevitably, will reflect higher energy inflation, with petrol (~18%) and heating oil prices (~60%) having risen faster over the past month than the euro area average. And as fuels are also a larger share of the inflation basket in Spain than in the other large member states, their effect on inflation will be more pronounced than at the aggregate euro area level. Friday's release will also give an indication as to the immediacy of any indirect impact on the food, core goods and services inflation components. Otherwise, the ECB's consumer expectations survey for February will provide the secondary data release at the end of the week. While it is likely that higher fuel prices will soon exert some upwards pressure on its measure of inflation expectations, at least at the year-ahead duration, the survey will probably show that expectations stayed well anchored before this month's disruption.

The day ahead in the UK

March's GfK consumer survey will provide the highlight of Friday's UK dataflow. And much like today's readings out of the euro area member states, the new energy shock is expected to precipitate a drop in topline household confidence. Heightened uncertainty and renewed concerns of inflationary pressures risk denting consumer's purchase intentions, as well as reinforcing precautionary saving behaviour. Taken alongside the downbeat signal from this week's [CBI survey](#), that would strongly infer that the risks to retail spending at the end of Q1 are to the downside. And having responded firmly to generous seasonal discounts at the start of the year, the risks to February's retail sales figures – also due tomorrow – are probably skewed to the downside too. Indeed, retail sales volumes rose firmly in February during last year's extended discount period, and the BRC's proxy measure for last month saw inflation-adjusted annual sales growth slip into negative territory for the first month in 15.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 M3 money supply Y/Y%	Feb	3.0	3.2	3.3	3.2
Germany	 GfK consumer confidence indicator	Apr	-28.0	-27.3	-24.7	-24.8
France	 INSEE consumer confidence indicator	Mar	89	89	91	-
	 INSEE business (manufacturing) confidence indicator	Mar	97 (99)	96 (101)	97 (102)	-
	 INSEE production (own company) outlook indicator	Mar	-9 (8)	-6 (8)	-6 (10)	-
Italy	 Istat consumer confidence indicator	Mar	92.6	95.5	97.4	-
	 Istat business (manufacturing) confidence indicator	Mar	97.3 (88.8)	- (87.6)	97.4 (88.5)	-
Spain	 GDP – final estimate Q/Q% (Y/Y%)	Q4	0.8 (2.7)	<u>0.8 (2.6)</u>	0.6 (2.7)	-
Auctions						
Country	Auction					
UK	 sold £300mn of 5.375% 2056 bonds at an average yield of 5.517%					

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	ECB consumer expectations survey – 1Y (3Y) ahead CPI Y/Y%	Feb	2.8 (2.7)	2.6 (2.6)
Spain 	08.00	Preliminary HICP (CPI) Y/Y%	Mar	3.8 (3.6)	2.5 (2.3)
UK 	00.01	GfK consumer confidence indicator	Mar	-24	-19
	07.00	Retail sales – incl. auto fuels M/M% (Y/Y%)	Feb	-0.7 (2.1)	1.8 (4.5)
	07.00	Retail sales – excl. auto fuels M/M% (Y/Y%)	Feb	-1.0 (2.7)	2.0 (5.5)

Auctions and events

Italy 	10.00	Auction: to sell up to €2.5bn of 2.85% 2031 bonds			
	10.00	Auction: to sell up to €3.5bn of 2035 floating bonds			
	10.00	Auction: to sell up to €2.5bn of 3.45% 2036 bonds			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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