

# Euro wrap-up

## Overview

- Bunds made gains at the short end but losses at the long end of the curve, while the impact of the spike in wholesale energy prices was evident in Spanish inflation, which jumped to the highest since mid-2024.
- Gilts were also mixed today as UK consumer confidence deteriorated in March, but retail sales were on track for solid growth in Q1 ahead of the war.
- The coming week will bring flash March inflation estimates from the euro area and members states, and various euro area and UK surveys illustrating the initial impact of the global energy price shock.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.679	-0.026
OBL 2½ 04/31	2.816	+0.011
DBR 2.9 02/36	3.103	+0.035
UKT 4% 03/28	4.485	-0.033
UKT 4% 03/31	4.544	-0.010
UKT 4% 10/35	4.988	-0.020

\*Change from close as at 4:00pm GMT.

Source: Bloomberg

## Euro area

### Spanish inflation jumps to 21-month high on energy price shock, but core rate reassuringly steady

Today's Spanish flash inflation estimates for March gave a first insight into the impact of the new global energy shock on prices in the euro area. Predictably these showed that consumer prices jumped sharply this month, with the 1.5%M/M increase (on the EU-harmonised basis) the steepest since June 2022. This pushed HICP inflation up a chunky 0.8ppt to 3.3%Y/Y, while the national CPI rate rose 1.0ppt to 3.3%Y/Y, both the highest rates since June 2024. With petrol prices having leapt some 18% in the first three weeks of March, the upwards shift inevitably related principally to a spike in prices of auto fuels. There were additional inflationary impulses from heating gas and electricity, as prices of the former surged some 60% from end-February to 23 March while electricity prices – still cushioned by Spain's very high share of power generation by renewables – fell less than a year earlier. Looking ahead, Spanish energy prices will be contained by the €5bn fiscal package approved by the Spanish government a week ago, including cuts to VAT on fuel, gas and electricity from 21% to 10%. And encouragingly, there were no signs in today's data of any broader inflationary pressures provoked by the events in Iran as Spanish core CPI inflation – excluding unprocessed foods and energy – held steady at 2.7%Y/Y, nevertheless its joint-highest rate in 19 months.

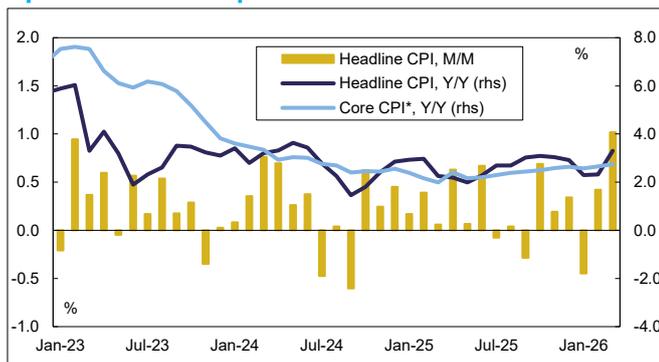
### Inflation expectations were well anchored before the war

Separately, today's latest ECB consumer survey suggested that, ahead of the conflict in the Gulf, price expectations across the euro area were relatively well anchored. Household expectations of inflation in 12 months' and 3 years' time eased to 2.5%Y/Y in February. The former rate was some 0.7ppt below the level heading into the 2022 shock. But the latter was still 0.4ppt higher than before the Russian invasion of Ukraine. Meanwhile, expectations for 5 years ahead held steady at 2.3%Y/Y, the same rate as in September 2022 when the survey first collected data for this specific duration. Unfortunately, national sentiment surveys in the past week reported a notable deterioration in qualitative measures of consumer inflation expectations this month, and manufacturers flagged the need to pass on cost pressures too. Inflation expectations seem likely to rise over coming months, albeit crucially dependent on the duration of the war, the severity of damage to energy infrastructure in the Middle East, and supply bottlenecks related to shipping through the Strait of Hormuz.

### The week ahead in the euro area

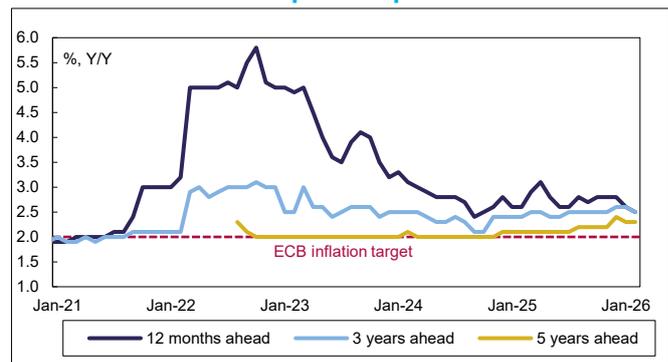
March's flash inflation estimates will mark the highlight of the coming week's euro area data. Just as in Spain today, those will reflect the initial impact of the global energy shock on headline inflation. For the region, we expect headline HICP inflation to accelerate 0.9ppt to 2.8%Y/Y. Such an increase would mark the highest euro area rate since the start of 2024.

#### Spain: Consumer price inflation



\*National measure, excluding unprocessed foods and energy.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Consumer price expectations

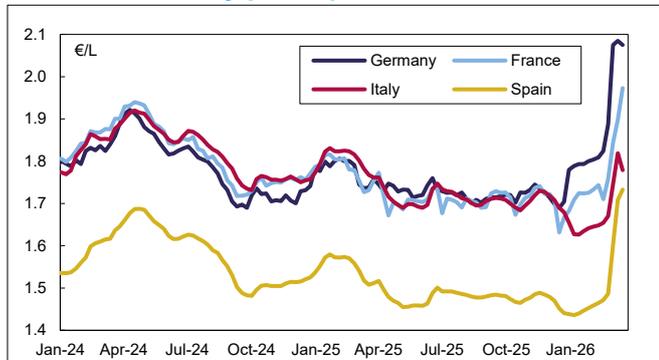


Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

And energy components – predominantly auto fuels – will account for that increase. Indeed, with petrol prices up almost 14% since the end of last month, and heating oil prices up by more than 40%, we expect energy inflation to jump more than 8pts to above 5%Y/Y, reversing the drag which has weighed on headline inflation over the past 12 months. Perhaps with the exception of airfares, the effects of the energy shock on other major components should remain minimal for the time being. Flash inflation readings from Germany (Monday) and France (Tuesday) – themselves likely to rise by almost 1ppt, close to 3%Y/Y and 2%Y/Y respectively – will provide additional information ahead of the euro area release.

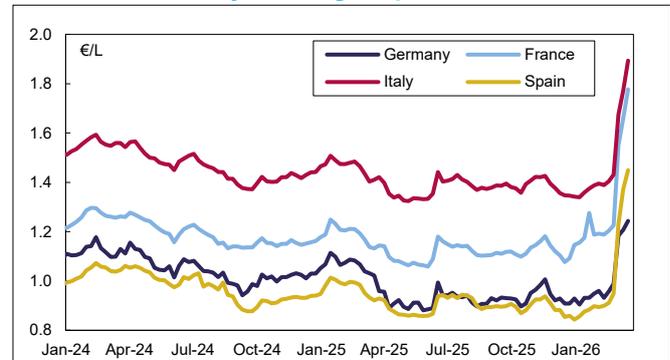
In terms of survey data, the Commission's Economic Sentiment Indices (Monday) will provide a second opinion on businesses optimism, activity and price pressures to compare against the [March flash PMIs](#). The preliminary composite output PMI fell the most in 16 months to a 10-month low of 50.5 to suggest a significant loss of growth momentum centred on services, while the detail pointed to sharply rising costs and supply-chain damage in manufacturing. Consistent with Thursday's consumer surveys from the member states, we expect the final euro area consumer confidence survey detail to convey increased household concerns of higher inflation. The final euro area manufacturing PMIs (Wednesday) should, however, reaffirm the impression that output in the sector was relatively well-maintained this month. Meanwhile, labour market data (also Wednesday) are likely to confirm that the euro area unemployment rate was still at a series low (6.1%) in February while the German claimant count rate (6.3%) was steady in March for a 13th successive month. German retail sales data (Tuesday) should report a modest rebound in February, albeit probably insufficient to reverse in full the drop of 1.0%M/M in January.

### Euro area: Weekly petrol prices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Weekly heating oil prices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## UK

### Consumer confidence deteriorates as households seek to bolster precautionary savings

Comments from various BoE policymakers over recent days have been broadly balanced, suggesting that a rate hike at the April policy-setting meeting is certainly not a done deal. While inevitably acknowledging significant upside risks to the inflation outlook from the new energy price shock, several MPC members – including Breeden, Greene and Taylor – also recognised that downside risks to demand are likely greater than in 2022 given the recent rise in labour market slack and lacklustre growth in activity. And having already softened last month, today's GfK survey results unsurprisingly suggested that consumer confidence has deteriorated further since the start of the war in Iran, with the headline index falling to the lowest since April 2025 when US President Trump unveiled his Liberation Day tariffs. Admittedly, the monthly drop in the headline sentiment index of 2pts to -21 was more modest than after the Russian invasion of Ukraine. And while the index fell further below the long-run average, it remains well above the low in 2022 (-49). Nevertheless, with the economic outlook judged to have worsened markedly, households reported a sharp reduction in their willingness to spend on big-ticket items, instead preferring to add further to their savings. And with purchasing power to be squeezed over the summer and into the autumn as the spike in wholesale energy prices feeds through to household energy bills, we expect purse strings to be tightened further over coming months.

### Retail sales on track for solid growth in Q1 ahead of Iranian War

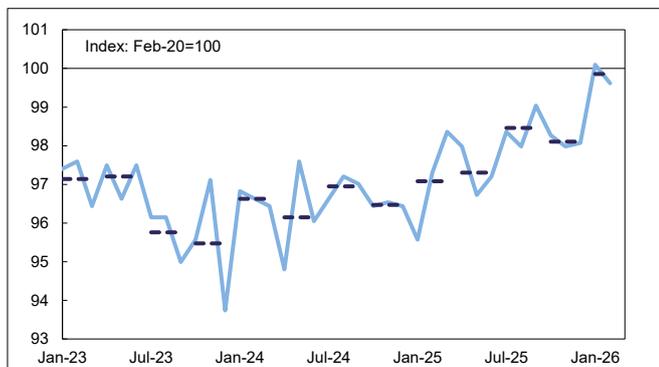
Notwithstanding concerns of lacklustre consumer spending and economic activity, ahead of the onset of war in the Middle East retail sales were on track to provide a notable boost to GDP growth in Q1. While sales volumes fell in February, the decline of 0.4%M/M was smaller than expected. And as consumers took advantage of heavy discounting, sales growth at the start of the year was very strong at 2.0%M/M. So, sales volumes in February were up 0.7%3M/3M and over the first two months of the year tracking 1.8% higher than in Q4. Above-average rainfall reportedly dampened footfall at clothes and household goods stores in February. Food store sales also fell back after solid growth in January, while sales of auto fuels slipped to a four-month low. But the weakness was in part offset by strong sales at commercial art galleries. And taken together with robust jewellery sales at the start of the year related to the spike in gold and silver prices, sales in other 'non-food' stores were trending more than 5% higher in the first two months of Q1. Of course, this week's CBI survey reported very weak sales in March. The deterioration in consumer confidence this month seems likely to weigh on non-discretionary

spending over the near term. And the sharp jump in petrol and diesel prices so far this month – around 10% and 18% respectively – will also restrain sales of auto fuel. Nevertheless, assuming no significant back revisions, retail sales would need to fall a chunky 5%M/M in March to record no growth at all this quarter.

### The week ahead in the UK

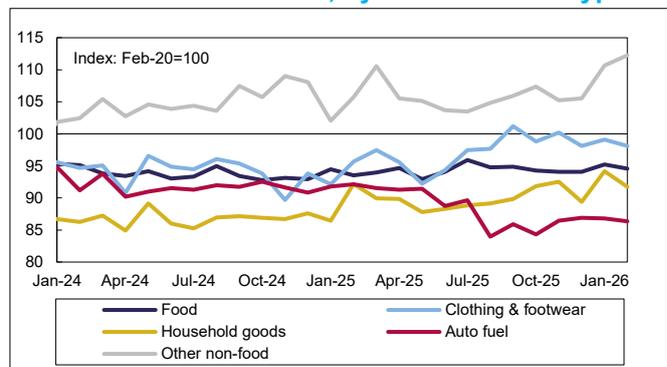
The March BRC shop price (Tuesday) and BoE Decision Maker Panel (Thursday) surveys will provide the most timely and relevant data from the UK over the coming week. Indeed, prior to the new energy shock, the DMP survey had already become especially pertinent for the MPC given its insights offered into inflation persistence and wage pressures, and concerns about second-round effects from the new energy shock now compound its value for the rate-setters. As the flash PMIs demonstrated, some pass-through of higher costs to selling prices will be expected over coming months. And the BRC survey will give an indication as to whether that was noticeable on the high street this month. Policymakers will also be mindful of second-round effects via wages, on which the DMP survey will offer additional insights. Meanwhile, the cumulatively soft UK mortgage approvals in recent months suggest that February’s monetary statistics (Monday) will show that bank lending to households was subdued even before financial conditions tightened this month. Nationwide’s house price index (Tuesday) will show whether events weighed further on house price growth in March. And final UK national accounts data for Q4 (also Tuesday) should confirm that GDP growth remained subdued at the end of last year (0.1%Q/Q), with modest consumption growth offsetting a further pullback from net trade and business investment in the lead up to the Budget. March’s final manufacturing PMIs (Wednesday) are also due.

#### UK: Retail sales volumes\*



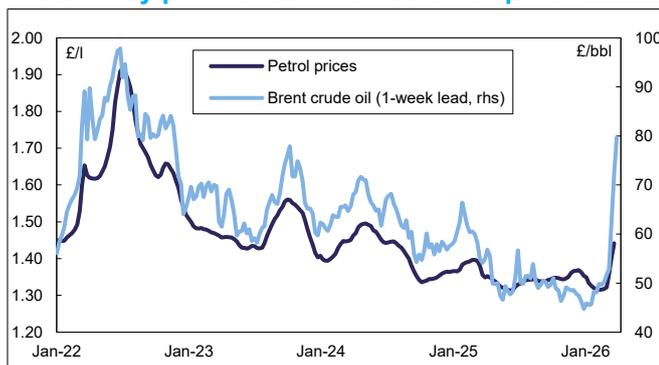
\*Dashed dark blue line represents quarterly average.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Retail sales volumes, by selected store-type



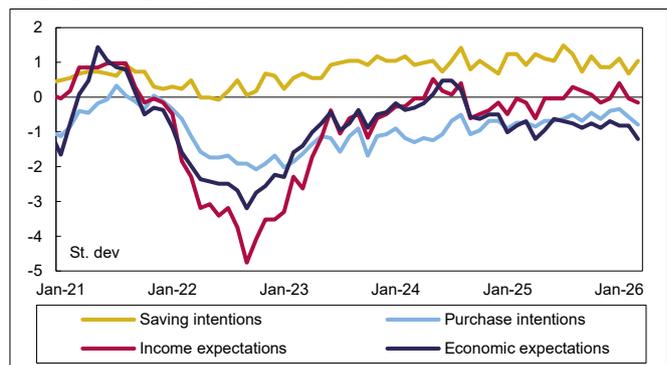
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Weekly prices of Brent crude oil & petrol



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## Daiwa economic forecast

	2025		2026				2026	2027	2028
	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP</b>	<b>%, Q/Q</b>						<b>%, Y/Y</b>		
Euro area 	0.3	0.3	0.1	0.0	0.1	0.2	0.6	1.0	1.5
UK 	0.1	0.1	0.1	0.0	0.1	0.2	0.4	1.1	1.6
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline HICP 	2.1	2.1	2.1	3.3	3.2	3.3	3.0	2.6	2.1
Core HICP 	2.3	2.4	2.4	2.6	2.8	3.0	2.6	3.0	2.1
UK									
Headline CPI 	3.8	3.4	3.1	2.9	3.7	3.9	3.4	3.0	1.7
Core CPI 	3.6	3.3	3.2	2.9	3.2	3.4	3.2	3.1	2.1
<b>Monetary policy, %</b>									
ECB									
Deposit Rate 	2.00	2.00	2.00	2.50	2.75	2.75	2.00	2.75	2.50
Refi Rate 	2.15	2.15	2.15	2.65	2.90	2.90	2.15	2.90	2.65
BoE									
Bank Rate 	4.00	3.75	3.75	4.25	4.25	4.25	3.75	4.25	3.75

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

## European calendar

Today's results								
Economic data								
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised		
Euro area 	ECB consumer expectations survey – 1Y (3Y) ahead CPI Y/Y%	Feb	<b>2.5 (2.5)</b>	2.8 (2.7)	2.6 (2.6)	-		
Spain 	Preliminary HICP (CPI) Y/Y%	Mar	<b>3.3 (3.3)</b>	3.8 (3.5)	2.5 (2.3)	-		
UK 	GfK consumer confidence indicator	Mar	<b>-21</b>	-24	-19	-		
	Retail sales – incl. auto fuels M/M% (Y/Y%)	Feb	<b>-0.4 (2.5)</b>	-0.4 (2.3)	1.8 (4.5)	2.0 (4.8)		
	Retail sales – excl. auto fuels M/M% (Y/Y%)	Feb	<b>-0.4 (3.4)</b>	-0.7 (2.9)	2.0 (5.5)	2.2 (5.9)		
Auctions								
Country	Auction							
Italy 	sold €2.5bn of 2.85% 2031 bonds at an average yield of 3.48%							
	sold €2.5bn of 3.45% 2036 bonds at an average yield of 4.09%							
	sold €3.5bn of 2035 floating-rate bonds at an average yield of 3.05%							

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</i>	Previous	
<b>Monday 30 March 2026</b>						
Euro area		10.00	Commission economic sentiment indicator	Mar	96.3	98.3
		10.00	Commission services (industrial) confidence indicator	Mar	4.0 (-8.0)	5.0 (-7.1)
		10.00	Final Commission consumer confidence indicator	Mar	<u>-16.3</u>	-12.3
Germany		13.00	Preliminary HICP (CPI) Y/Y%	Mar	2.9 (2.7)	2.0 (1.9)
Italy		09.00	PPI Y/Y%	Feb	-	-2.1
Spain		08.00	Retail sales Y/Y%	Feb	3.2	4.0
UK		00.01	Lloyds business barometer (own price expectations) % balance	Mar	-	44 (65)
		09.30	Net consumer credit £bn (Y/Y%)	Feb	-	1.8 (8.3)
		09.30	Net mortgage lending £bn (approvals 000s)	Feb	3.9 (61.3)	4.1 (60.0)
<b>Tuesday 31 March 2026</b>						
Euro area		10.00	Preliminary headline (core) HICP Y/Y%	Mar	<u>2.8 (2.6)</u>	1.9 (2.4)
Germany		07.00	Retail sales M/M% (Y/Y%)	Feb	0.5 (1.0)	-1.0 (0.9)
		07.00	Import prices M/M% (Y/Y%)	Feb	-	1.1 (-2.3)
		08.55	Unemployment claims rate % (change 000s)	Mar	6.3 (2)	6.3 (1)
France		07.45	Preliminary HICP (CPI) Y/Y%	Mar	1.9 (1.5)	1.1 (0.9)
		07.45	PPI Y/Y%	Feb	-	-2.3
		07.45	Consumer spending M/M% (Y/Y%)	Feb	-	0.5 (0.4)
Italy		10.00	Preliminary HICP (CPI) Y/Y%	Mar	1.8 (1.8)	1.5 (1.5)
UK		00.01	BRC shop price index Y/Y%	Mar	1.3	1.1
		07.00	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.1 (1.0)</u>	0.1 (1.2)
		07.00	GDP – private consumption Q/Q%	Q4	<u>0.2</u>	0.4
		07.00	GDP – government spending Q/Q%	Q4	<u>0.4</u>	0.3
		07.00	GDP – gross fixed capital formation Q/Q%	Q4	<u>-0.1</u>	1.1
		07.00	GDP – exports (imports) Q/Q%	Q4	<u>-0.6 (0.8)</u>	0.2 (0.5)
		07.00	Current account balance £bn	Q4	<u>-23.4</u>	-12.1
		07.00	Nationwide house prices M/M% (Y/Y%)	Mar	-	0.3 (1.0)
<b>Wednesday 1 April 2026</b>						
Euro area		09.00	Final manufacturing PMI	Mar	<u>51.4</u>	50.8
		10.00	Unemployment rate %	Feb	6.1	6.1
Germany		08.55	Final manufacturing PMI	Mar	<u>51.7</u>	50.9
France		08.50	Final manufacturing PMI	Mar	<u>50.2</u>	50.1
Italy		08.45	Manufacturing PMI	Mar	51.0	50.6
Spain		08.15	Manufacturing PMI	Mar	50.5	50.0
UK		09.30	Final manufacturing PMI	Mar	<u>51.4</u>	51.7
<b>Thursday 2 April 2026</b>						
Italy		10.00	Retail sales M/M% (Y/Y%)	Feb	-	0.6 (2.3)
UK		09.30	DMP – 3M output price (1Y CPI) expectations Y/Y%	Mar	-	3.4 (3.0)
<b>Friday 3 April 2026</b>						
France		07.45	Industrial production M/M% (Y/Y%)	Feb	-0.2 (1.6)	0.5 (2.4)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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

Country	BST	Event / Auction
<b>Monday 30 March 2026</b>		
- Nothing scheduled -		
<b>Tuesday 31 March 2026</b>		
Germany		10.30 Auction: to sell up to €5bn of 2.1% 2028 bonds
<b>Wednesday 1 April 2026</b>		
Germany		10.30 Auction: to sell up to €4bn of 2.5% 2032 bonds
<b>Thursday 2 April 2026</b>		
Euro area		09.00 ECB to publish Economic Bulletin 2/2026
France		09.50 Auction: to sell up to €12.5bn of 3% 2034, 3.5% 2035, 0.4% 2044 & 2% 2048 bonds
<b>Friday 3 April 2026</b>		
Good Friday – Public Holiday in the UK and Europe		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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