Euro wrap-up

Overview

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- While euro area inflation jumped to a 14-month high in March and energy prices rose the most in four years, euro area govvies followed the global trend higher.
- Gilts also made modest gains, while a survey suggested that UK shop prices were little changed in March.
- The coming two days will bring euro area unemployment figures for February, and the March final manufacturing PMIs and BoE DMP survey of business price and wage expectations.

Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.610	-0.004
OBL 2½ 04/31	2.724	-0.024
DBR 2.9 02/36	3.001	-0.030
UKT 4⅜ 03/28	4.402	-0.037
UKT 4⅛ 03/31	4.465	-0.030
UKT 4¾ 10/35	4.917	-0.013

*Change from close as at 4:45pm BST.
Source: Bloomberg

Euro area

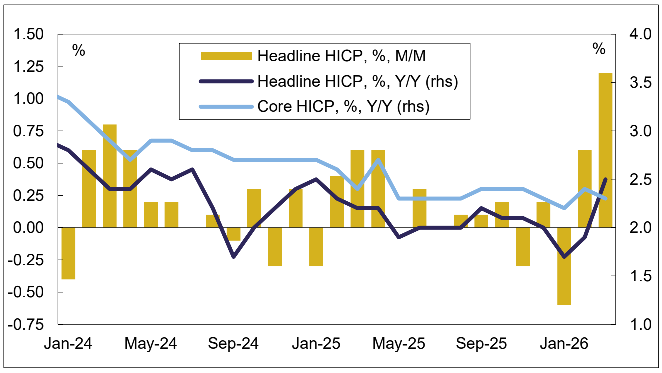
Headline inflation jumps to 14-month high on higher energy prices, but undershoots ECB baseline

Today's flash euro area inflation estimates for March showed that consumer prices jumped by 1.2%M/M, the most since October 2022, as events in wholesale energy markets started to be felt by households. As a result, headline inflation rose 0.6ppt to a 14-month high of 2.5%Y/Y. That, however, was a touch below the Bloomberg consensus forecast and ECB baseline projection. And the detail showed that energy prices more than fully accounted for the increase suggesting negligible pass-through so far to other components. Due to sharp hikes in prices of auto fuel and heating oil, energy prices rose almost 7%M/M, the most since March 2022, to push the respective inflation rate up 8ppts to 4.9%Y/Y, the highest in three years. In contrast, inflation of food, alcohol and tobacco moderated 0.1ppt to 2.4%Y/Y, matching the lowest in 19 months. Within the core components, services inflation fell back to 3.2%Y/Y, as Italian hospitality pricing normalised after profiteering during February's Winter Olympics. And non-energy industrial goods inflation eased to just 0.5%Y/Y. As such, core inflation was softer than expected, edging down 0.1ppt to 2.3%Y/Y, just a fraction above January's more than four-year low and bang in line with the ECB's projection.

Inflation set to rise above 3% in Q226 despite government measures to limit energy prices

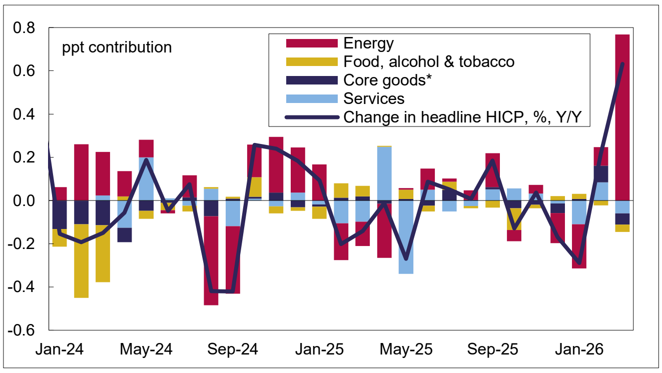
The rise in energy inflation in March was somewhat smaller than the ECB projected, perhaps reflecting government measures introduced by some member states to soften the impact of crude oil prices on consumers as well as a slower pass-through of gas price pressures to utility bills. Indeed, the impact of the Italian fuel duty cut was evident in yesterday's data for Italian petrol prices, which fell for a second successive week. While the outlook for energy prices clearly depends on the duration of the Iranian war, the extent of damage to energy infrastructure and disruption to supply via the Strait of Hormuz, government fiscal measures, and perhaps strong renewables generation, could yet reduce the peak in energy inflation to below the ECB's baseline projection in Q2. But equally, we see upside risks to the ECB's projection for food inflation from increased costs of fuel and fertilisers. And if the initial signals from surveys of selling-price expectations are to be believed, we see risks of a greater pass-through to prices of non-energy goods and services too. Overall, our illustrative projection of headline inflation to peak just above 3%Y/Y in Q2 is close to the ECB's baseline and well below the peak of more than 6% of its alternative 'severe' scenario. But we would then expect inflation to remain above 3%Y/Y for longer than the ECB. Moreover, we would also not expect inflation to return to the 2% target on a sustained basis until 2028. And while there is still a wide range of incoming data for the Governing Council to digest between now and the 30 April policy-setting meeting – including flash April inflation data from certain member states – we maintain our view that the Governing Council will prefer to raise rates sooner rather than later to mitigate risks of inflation persistence and limit its eventual terminal rate for the new tightening cycle.

Euro area: Headline & core inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Change in headline inflation

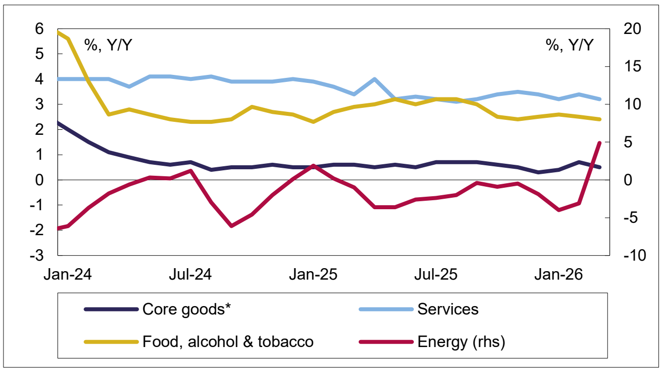


**Non-energy industrial goods.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

German & French spending softer even before the energy shock squeeze on household budgets

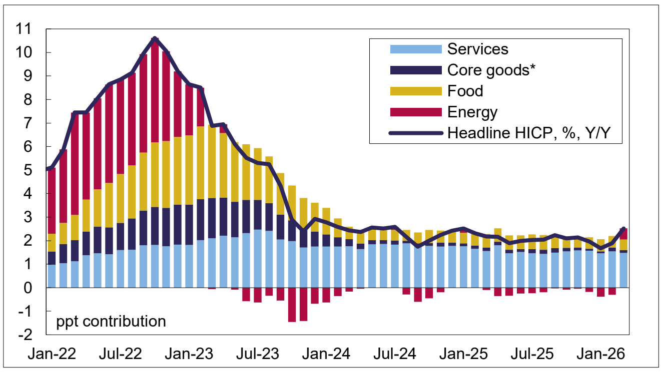
Today's German and French expenditure figures for February suggested that, even before the erosion of purchasing power from the energy shock, domestic demand weakened from the start of the year. German retail sales fell for a second successive month (-0.6%M/M) to the lowest level in four months. So, despite a positive carry-over from end-2025, they were tracking some ½ppt below the Q4 average. Meanwhile, French expenditure on goods fell for a third month in four and by a chunkier 1.4%M/M in February, to be similarly trending around ½ppt lower than the Q4 average. Food sales were softer in both member states in February. While non-food sales in Germany partially reversed January's drop, they were also trending lower so far in Q1. And the French numbers reported a marked drop in spending on a range of goods, including clothing, household appliances, autos and energy. While March surveys suggest that French households might have looked through the recent surge in fuel prices, German households are reportedly now less willing to spend than in any time since Trump's Liberation Day announcement. And while today's German labour market figures suggested that the claimant count rate held steady at 6.3% for a 13th successive month, firms have signalled plans to cut headcount and household fears of unemployment have risen too. So, while today's data raise doubts about the support, if any, that household consumption might have provided to GDP growth in Q1, we expect heightened job insecurity and squeezed household budgets to weigh on non-essential spending over the coming quarter too.

Euro area: Key inflation components



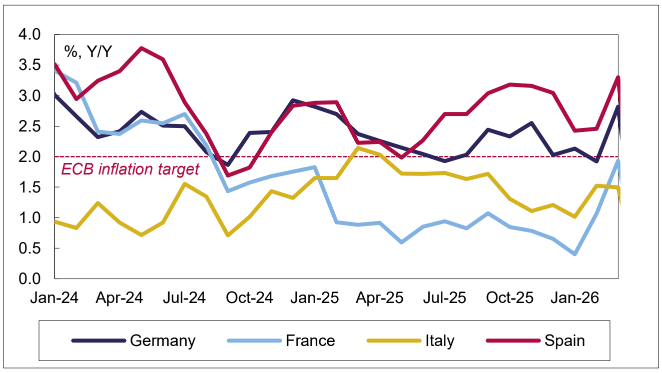
*Non-energy industrial goods.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Contributions to headline inflation



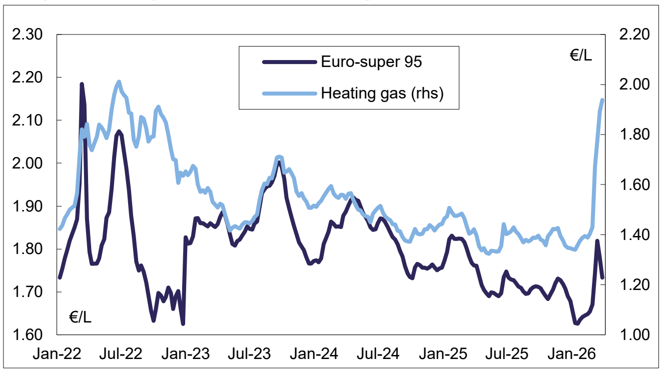
*Non-energy industrial goods.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Headline HICP inflation



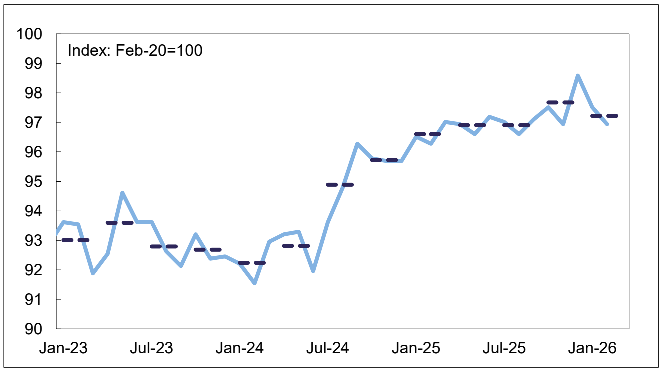
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: Weekly petrol & heating oil prices



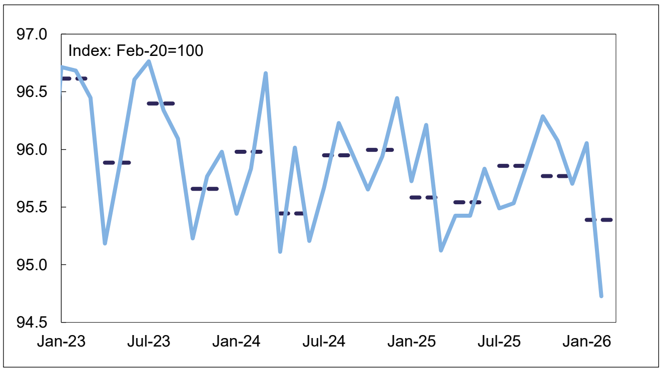
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Retail sales*



*Dashed dark blue lines represent quarterly averages.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Household expenditure on goods*



*Dashed dark blue lines represent quarterly averages.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The coming two days in the euro area

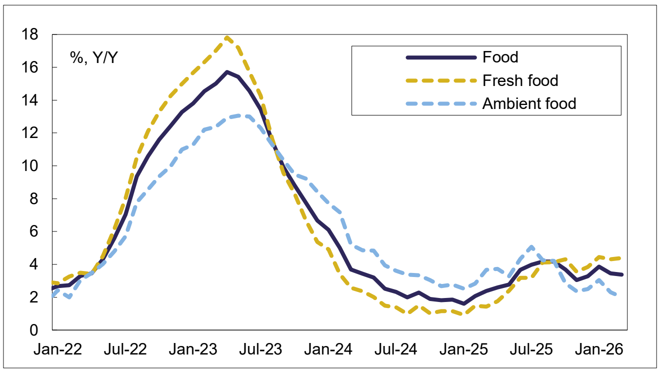
The coming two days should be slightly quieter for euro area economic data releases. While also bringing additional detail from Italy and Spain, tomorrow's final manufacturing PMIs seem likely to imply that production on the whole (51.7) was surprisingly resilient to March's turbulence, despite the oil shock having precipitated a sharp rise in the input price PMI (68.6, up more than 10pts). And after today's German data for March pointed to further gradual stabilisation in the jobs market, February's euro area labour market figures – also due on Wednesday – seem likely to confirm that the unemployment rate remained at its series low (6.1%). Looking further ahead, Thursday will bring February retail sales data from Italy. While today's data from Germany and France (see above) imply a downside risk to those figures and next week's euro area release, last month's Winter Olympic games might have offered support.

UK

BRC survey suggests prices were little changed in March, but only captures week one of the war

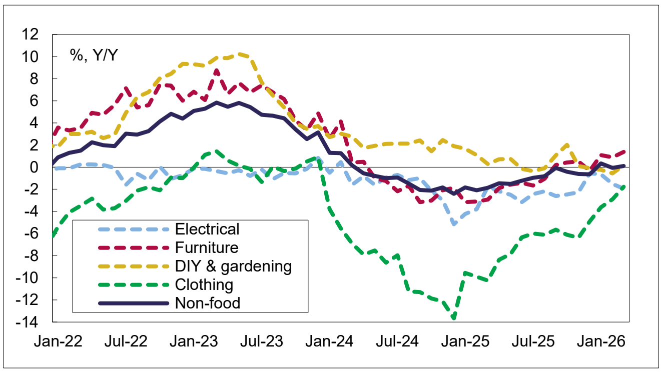
As already flagged by March's flash PMIs, businesses seem to anticipate that at least a portion of their higher input costs, directly or indirectly, will be passed on to their selling prices over coming months. And given the salience of energy prices for inflation expectations and concerns that recent history has left firms' price-setting strategies more sensitive to higher cost pressures, policymakers understandably bear concerns about the risks to the inflation outlook from indirect and secondary channels. Of course, the economic context – including the restraint offered by weak demand and labour market slack, and the relatively lesser rise in natural gas forwards – suggest that the inflationary consequences of the Iran War will not be as extreme as the Russian invasion of Ukraine in 2022. And, as suggested by today's euro area flash inflation release, we wouldn't expect to see major spillovers from energy prices to filter into consumer prices of other goods and services just yet. Sadly, this month's BRC shop price survey was conducted only in the first week of March. And so, it will have likely understated any initial effect on high street prices anyway. Still, while cautioning that higher costs were already feeding into supply chains, the BRC's results suggest that price pressures were muted at the start of the month, with the headline index ticking up just 0.1ppt to 1.2%Y/Y. Non-food prices were unchanged on the month and rose just 0.1%Y/Y thanks in part to additional softness in electricals. And while the effects of higher fertiliser prices certainly pose a near-term upside risk to food prices, lower wholesale milk costs supposedly helped inflation in that category edge down to 3.4%Y/Y last month. Indeed, food inflation might have eased a touch more were it not for a modest uptick in the fresh food component, as so-called 'ambient' foods eased to 2%Y/Y, the softest since the Russian invasion of Ukraine.

UK: BRC food price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: BRC non-food shop price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The coming two days in the UK

In the context of monetary policy, March's DMP survey – due Thursday – will be the highlight of the week's remaining dataflow. Even prior to the oil supply shock, the DMP survey was a key input into MPC members' respective reaction functions for its insights into inflation persistence and wage pressures. But concerns about the broader implications of the energy market shocks for price- and wage-setting in the wider economy will further enhance its value. Indeed, Wednesday's final PMIs will signal that firms already see a substantial pickup in input costs (the respective flash index rose to 70.4, up more than 14pts) applying some pressure to final selling prices (56.8, up almost 5pts). Like its flash release, the survey should also flag weaker demand and largely stagnant output growth (50.1) following the outbreak of war. For the DMP, the implications of that shock are likely to be most evident in firms' inflation expectations. But policymakers will be mindful of how those expectations will affect their year-ahead price-setting expectations, and the risks posed by second-round effects via the wages channel.

The next Euro wrap-up will be published on Thursday 2 April 2026

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area	Preliminary headline (core) HICP Y/Y%	Mar	**2.5 (2.3)**	*2.6 (2.4)*	1.9 (2.4)	-
Germany	Retail sales M/M% (Y/Y%)	Feb	**-0.6 (0.6)**	0.3 (1.0)	-0.9 (0.7)	-1.1 (0.6)
	Import prices M/M% (Y/Y%)	Feb	**0.3 (-2.3)**	-	1.1 (-2.3)	-
	Unemployment claims rate % (change 000s)	Mar	**6.3 (0)**	6.3 (2)	6.3 (1)	-
France	Preliminary HICP (CPI) Y/Y%	Mar	**1.9 (1.7)**	1.9 (1.6)	1.1 (0.9)	-
	Consumer spending M/M% (Y/Y%)	Feb	**-1.4 (-1.5)**	-	0.5 (0.4)	0.4 (0.3)
	PPI Y/Y%	Feb	**-2.4**	-	-2.3	-
Italy	Preliminary HICP (CPI) Y/Y%	Mar	**1.5 (1.7)**	1.7 (1.8)	1.5 (1.5)	-
UK	GDP – final estimate Q/Q% (Y/Y%)	Q4	**0.1 (1.0)**	*0.1 (1.0)*	0.1 (1.2)	-
	GDP – private consumption Q/Q%	Q4	**0.1**	*0.2*	0.4	-
	GDP – government spending Q/Q%	Q4	**0.1**	*0.4*	0.3	-
	GDP – gross fixed capital formation Q/Q%	Q4	**0.2**	*-0.1*	1.1	-
	GDP – exports (imports) Q/Q%	Q4	**-0.7 (0.7)**	*-0.6 (0.8)*	0.2 (0.5)	-
	Current account balance £bn	Q4	**-18.4**	*-23.4*	-12.1	-10.7
	BRC shop price index Y/Y%	Mar	**1.2**	1.3	1.1	-
	Nationwide house prices M/M% (Y/Y%)	Mar	**0.9 (2.2)**	0.0 (0.9)	0.3 (1.0)	-

Auctions

Country	Auction
Germany	sold €3.811bn of 2.1% 2028 bonds at an average yield of 2.62%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Euro area	09.00	Final manufacturing PMI	Mar	*51.4*	50.8
	10.00	Unemployment rate %	Feb	6.1	6.1
Germany	08.55	Final manufacturing PMI	Mar	*51.7*	50.9
France	08.50	Final manufacturing PMI	Mar	*50.2*	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	*51.4*	51.7

Auctions and events

Country	BST	Event
Germany	10.30	Auction: to sell up to €4bn of 2.5% 2032 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
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)

Auctions and events

Country	BST	Event
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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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