

# Euro wrap-up

## Overview

- While ECB President Lagarde acknowledged the risks to the economic outlook from events in Ukraine, euro area government bonds made big losses, particularly at the short end of the curve, as the flash estimates of German and Spanish inflation in March significantly beat expectations.
- Gilts made more moderate losses, despite a rise to a decade high in a measure of UK high-street inflation.
- Thursday will bring flash inflation estimates from France, Italy and Portugal as well as updates on euro area unemployment, German retail sales, French consumer spending, and UK house prices.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	0.005	+0.076
OBL 0 04/27	0.493	+0.069
DBR 0 02/32	0.652	+0.024
UKT 1 04/24	1.357	+0.026
UKT 1¼ 07/27	1.432	+0.022
UKT 4¼ 06/32	1.662	+0.023

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

## Euro area

### German inflation smashes expectations with record monthly price rise

Judging from today's first estimates from the member states – particularly Germany and Spain – euro area inflation sharply exceeded expectations in March. Indeed, German prices rose by a record 2.5%M/M on both the national CPI and EU-harmonised HICP measures. And so the annual rates of German inflation leapt 2.1ppts, pushing up the CPI rate to 7.3%Y/Y and the HICP rate to 7.6%Y/Y, both series highs. (Inflation in West Germany was last as high in 1981 in the wake of the first Gulf War). Given the extreme highs in wholesale markets over the past month, energy prices were the main driver, rising a record 16.3%M/M to be up almost 40%Y/Y to account for almost 1.8ppts of the increase in the national measure. Food inflation jumped 0.9ppt to 6.2%Y/Y, the highest since 2008. And in part reflecting higher clothes inflation as well as the pass-through to consumers of increased costs to a range of items, non-energy industrial goods inflation rose 0.8ppt to a new high of 4.0%Y/Y. Remarkably perhaps given the breadth of price pressures, services inflation was steady at 2.8%Y/Y. So, while it appears to have risen from 3.0%Y/Y in February, core inflation on the national measure appears to have remained below December's peak of 3.7%Y/Y.

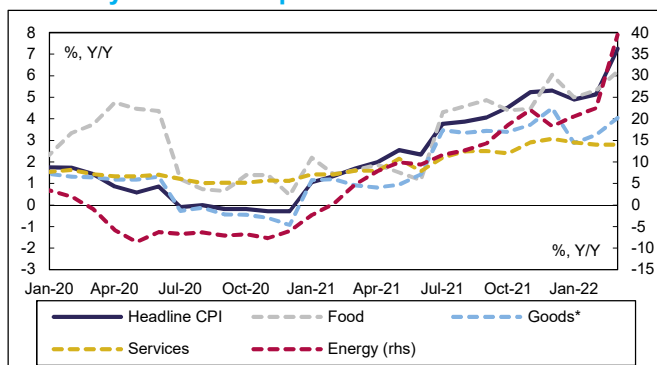
### Spanish inflation approaches 10% as government acts to ease burden

As in Germany, today's Spanish numbers also leapt well above expectations, with consumer prices on the EU-harmonised measure up a record 3.9%M/M in March to leave the headline rates – on both the EU HICP and national CPI bases – up 2.2ppts to 9.8%Y/Y, the highest since May 1985. Spain's statistical office noted that there was a generalised increase in most components, but cited (unsurprisingly) sizeable increases in electricity, fuels and oil and food prices. Reflecting broader-based pressures, core inflation was estimated to have increased by 0.4ppt to 3.4%Y/Y, the highest since 2008. Against this backdrop, the Spanish government last night agreed another support package (worth €16bn) to ease the burden of high inflation, including a €0.20 cut in fuel duty for three months from 1 April – which will knock about 0.3ppt off inflation – as well as efforts to reduce electricity charges, tax breaks and loans to SMEs. Elsewhere, given the authorities' recent cuts to fuel duty and VAT on electricity bills, the rise in Belgian inflation in March was more modest, just 0.3ppt to 8.3%Y/Y. But, notwithstanding potential surprises from France, Italy and Portugal tomorrow, we have nudged up our forecast for euro area inflation in March (due Friday) by 0.2ppt to 7.0%Y/Y, which would represent an increase of 1.2ppts from February.

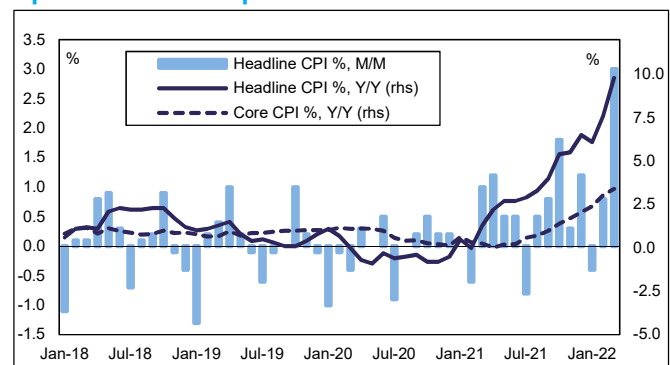
### Inflation expectations up to series highs, expectations of personal finances at a record low

Perhaps unsurprisingly given the unmissable price pressures of recent weeks, the Commission's March economic sentiment survey reported that selling price expectations in the euro area in all sectors for the next three months have jumped to

#### Germany: Consumer price inflation\*



#### Spain: Consumer price inflation\*



unprecedented highs. And having moved broadly sideways for four months, consumers' price expectations for the coming twelve months also hit a new record level. That was undoubtedly a key driver behind the near 10-point slump in consumer confidence – the second biggest drop on the series after the initial plunge at the onset of the pandemic – to the lowest since the first wave of Covid-19. Indeed, consumers' expectations for their personal finances over the coming twelve months plummeted to a record low, with broader perceptions of the economic outlook also extremely downbeat and consumers' willingness to make major purchases over the coming twelve months down to the lowest since May 2020. Among businesses, retailers were markedly more pessimistic, being the most downbeat for eleven months. And industrial sector sentiment deteriorated to the worst in a year as firms revised down their expectations for production amid a drop in new orders.

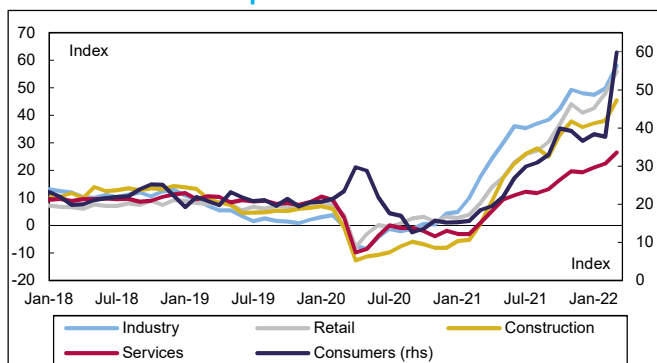
### Services sentiment improves and firms signal ongoing job growth but Lagarde signals caution

Overall, the Commission's economic sentiment index for the euro area also fell to the worst in a year, with sizeable declines in the equivalent figures for France, Spain and Germany. However, the survey results were not all bad news. Confidence among construction firms in the euro area was little changed in March, as new orders increased even as the share of firms complaining of supply-side and recruitment challenges rose to series highs. And most notably perhaps, buoyed by prospects of further easing of pandemic restrictions, services sentiment rose above expectations to the highest since November. Moreover, the Commission's employment expectations index edged down only slightly from February's series high. So, policymakers will hope that the boost from economic normalisation from the pandemic, ongoing jobs growth and extra fiscal support announced since the invasion – currently estimated by the ECB to amount to about 0.4% of GDP – will help to offset the hit to purchasing power and confidence from high inflation and supply disruption to keep overall economic growth in positive territory over coming quarters. However, in a speech in Cyprus today, ECB President Lagarde was cautious, noting "How much inflation rises and growth slows will ultimately hinge on how the conflict and sanctions evolve... Clearly, the longer the war lasts, the higher the economic costs will be and the greater the likelihood we end up in more adverse scenarios."

### The day ahead in the euro area

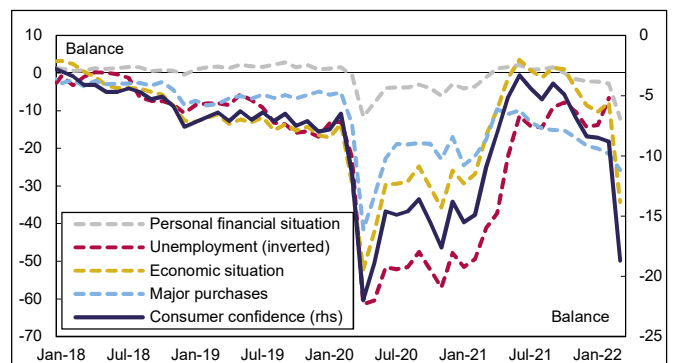
After today's inflation shocks out of Germany and Spain, the most notable releases tomorrow will be the preliminary CPI figures from France, Italy and Portugal. We expect energy prices to have remained a significant source of upward pressure this month, but with signs of a further broadening of price pressures among core items too. But with electricity prices capped in France, the rise will be more limited than in Germany and Spain, with the French HICP rate expected to rise just 0.6ppt to 4.8%Y/Y. In addition, the equivalent Italian measure is expected to jump 1ppt to 7.2%Y/Y, albeit with the risks skewed to the upside. Meanwhile, the euro area's latest jobless figures are likely to suggest a further tightening in the labour market, with the unemployment rate expected to fall for the ninth month out of the past ten in February to a series low of 6.7%. That, however, might well represent the trough until the initial shock from Ukraine passes. The latest German labour market data

#### Euro area: Price expectations



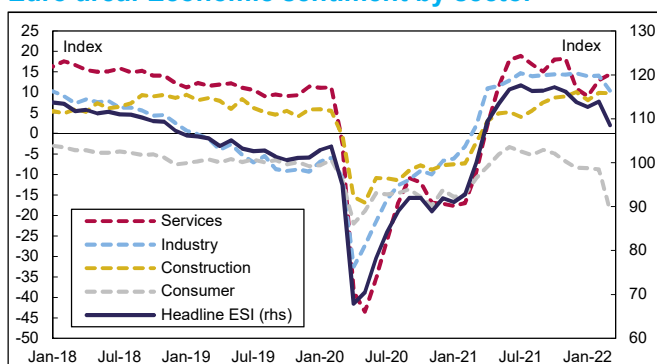
Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Euro area: Consumer confidence



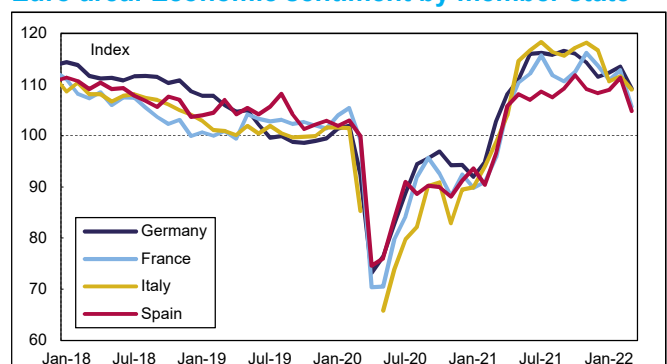
Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Euro area: Economic sentiment by sector



Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Euro area: Economic sentiment by member state\*



\*No Italian survey results in April 2020. Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

for March will offer some further insight. Other new figures due to be published include German retail sales and French consumer spending figures for February. Separately, ECB Chief Economic Lane is due to speak about monetary policy during the pandemic, while Vice President de Guindos will also speak publicly.

## UK

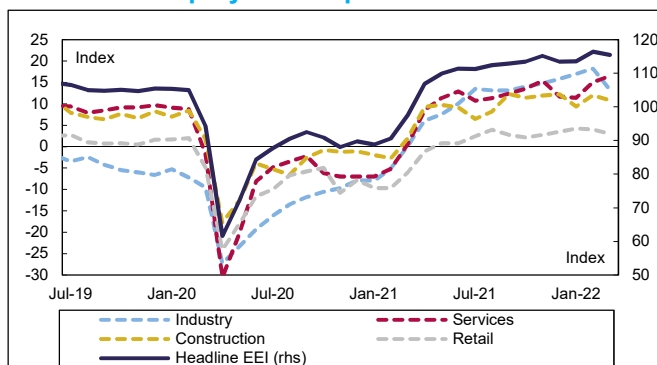
### BRC shop price inflation measure up to highest since 2011, but likely to rise further

A relatively quiet day for UK economic news brought the March BRC shop price survey, which continued to report increased price pressures on the high street, despite the ongoing erosion of household real incomes by higher energy prices and intense competition among retailers. Indeed, the survey's headline inflation measure rose 0.3ppt to 2.1%Y/Y, the highest since 2011. Pressures came in part from higher prices of food, which accelerated 0.6ppt to 3.3%Y/Y, the most since 2013, on poor domestic harvests and global developments. Non-food inflation was also up 0.2ppt to 1.5%Y/Y, the most for eleven years, as supply bottlenecks and rising costs were passed on a little more to consumers. But given the recent notable upwards shifts in energy and food prices, higher transportation costs and wage pressures, the upwards shift in shop price inflation could have arguably been much higher. Certainly, we expect cost pressures to be increasingly passed on to consumers of a range of goods – not least food – over coming months. However, not least due to the exclusion of prices of energy, cars and services, the BRC shop price survey will continue to track well below CPI inflation, which stood at 6.2%Y/Y in February and is likely to rise above 8%Y/Y in April.

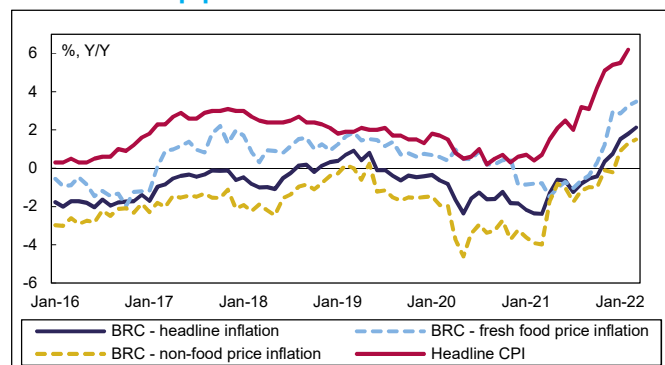
### The day ahead in the UK

Looking ahead, tomorrow brings the Lloyds business barometer for March, which is expected to align broadly with the flash [manufacturing PMIs](#) and highlight a deterioration in the survey measure of business confidence after it had bounced back to its highest level in five months (up five points to 44%) in February. Meanwhile, an increase of about ½M/M in the Nationwide house price index in March is expected to push the annual growth rate up a further 0.8ppt to 13.4%Y/Y, matching last June's 16-year high. Wednesday also brings the final release of Q4 GDP, which should confirm growth of 1.0%Q/Q and 7.5%Y/Y in Q4.

#### Euro area: Employment expectations











#### UK: BRC shop price inflation





## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 European Commission's economic sentiment indicator	Mar	<b>108.5</b>	108.0	114.0	<b>113.9</b>
	 European Commission's industrial (services) confidence	Mar	<b>10.4 (14.4)</b>	8.9 (10.0)	14.0 (13.0)	<b>14.1 (12.9)</b>
	 European Commission's final consumer confidence	Mar	<b>-18.7</b>	-18.7	-8.8	-
Germany	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	<b>7.3 (7.6)</b>	6.2 (6.7)	5.1 (5.5)	-
Italy	 Industrial sales M/M% (Y/Y%)	Jan	<b>2.3 (16.9)</b>	-	-2.1 (14.3)	<b>-2.0 (-)</b>
	 PPI Y/Y%	Feb	<b>41.4</b>	-	41.8	-
Spain	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	<b>9.8 (9.8)</b>	7.8 (8.0)	7.6 (7.6)	-
UK	 BRC shop price index Y/Y%	Mar	<b>2.1</b>	-	1.8	-











#### Auctions

Country	Auction
Italy	 sold €3bn of 1.1% 2027 bonds at an average yield of 1.46%
	 sold €3.5bn of 0.95% 2032 bonds at an average yield of 2.14%



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	10.00	 Unemployment rate %	Feb	6.7	6.8
Germany	07.00	 Retail sales M/M% (Y/Y%)	Feb	0.5 (6.3)	1.4 (10.4)
	08.55	 Unemployment change '000s (rate %)	Mar	-20.0 (5.0)	-33.0 (5.0)
France	07.45	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	4.3 (4.8)	3.6 (4.2)
	07.45	 PPI M/M% (Y/Y%)	Feb	-	4.6 (22.2)
	07.45	 Consumer spending M/M% (Y/Y%)	Feb	1.1 (-0.9)	-1.5 (-2.1)
Italy	10.00	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	6.4 (7.2)	5.7 (6.2)
UK	00.01	 Lloyds business barometer	Mar	-	44
	07.00	 Final GDP Q/Q% (Y/Y%)	Q4	1.0 (6.5)	1.1 (7.0)
	07.00	 Nationwide house price index M/M% (Y/Y%)	Mar	0.5 (13.4)	1.7 (12.6)

#### Auctions and events

Euro area	09.00	 ECB Chief Economist Lane scheduled to speak on 'monetary policy during the pandemic'
	11.00	 ECB's de Guindos scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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