

Euro wrap-up

Overview

- Bunds followed US10s lower as the ECB account confirmed that Governing Council members remained divided about the risks to inflation, while euro area retail sales and German IP made only modest gains in February.
- Gilts also made modest losses on a day bereft of top-tier UK data.
- The coming week brings the ECB's latest monetary policy announcements on Thursday, although no change to policy or guidance is expected. Economic data include euro area IP, as well as UK GDP, labour market and CPI numbers.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	-0.031	+0.023
OBL 0 04/27	0.463	+0.028
DBR 0 02/32	0.671	+0.027
UKT 1 04/24	1.436	+0.002
UKT 1½ 07/27	1.513	+0.011
UKT 4¼ 06/32	1.725	+0.022

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

Euro area

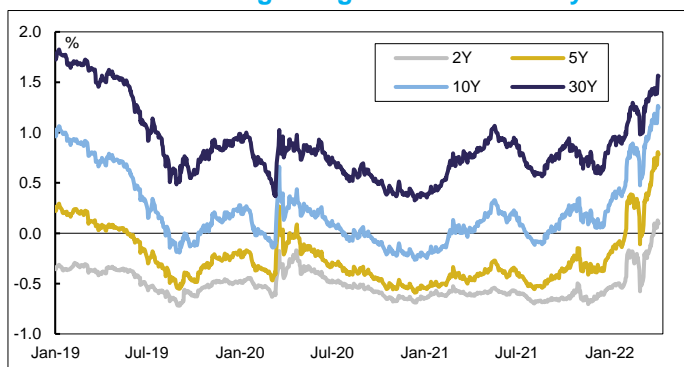
ECB account confirms members remain divided about the risks to inflation

Today's account from the ECB's Governing Council meeting on 9-10 March – when members agreed to slow its pace of net purchases in Q2 more abruptly than previously planned, but left net purchases in Q3 to be data dependent with greater flexibility in the timing of the first rate hike – offered no new insights into the near-term policy outlook. While a large number of members held the view that the current high level of inflation and its persistence called for immediate steps towards monetary policy normalisation, the account also showed that members agreed that the war had created a type of uncertainty that was not easily quantifiable. Members broadly agreed that the initial effects would bring upside risks to inflation and downside risks to growth. However, there were differing views on how persistent the rise in inflation would be and members were divided on whether it would have inflationary or disinflationary impacts in the longer term, hence why the ECB attached importance to the need to maintain two-sided optionality in the conduct of monetary policy.

Conditions have deteriorated since the ECB's March meeting

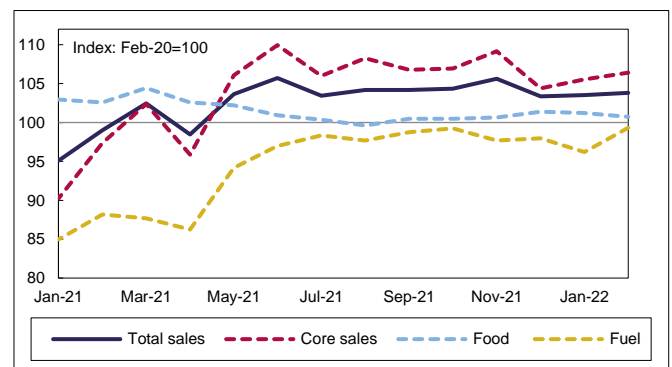
Of course, since the March meeting, the intensification of the war in Ukraine has resulted in the imposition of widespread sanctions against Russia, with the EU currently drawing up additional measures in response to the recent graphic images of extremely disturbing Russian atrocities. But despite heightened uncertainty, there has been a meaningful tightening in global financial conditions in response to the projected aggressive path for US monetary policy in the year ahead. Moreover, markets have brought forwards expectations that the first ECB rate hike will come as soon as September due to the deteriorating inflation outlook. Indeed, the average euro area 10Y yield is currently some 60bps higher than before the start the ECB's March meeting and almost 96bps above the level at the start of the year, with the equivalent 2Y yield up 53bps and 64bps respectively. Certainly the flash euro area CPI estimate in March smashed expectations by jumping to a new record high of 7.5%Y/Y, to leave inflation in Q1 at 6.2%Y/Y, 0.6ppt higher than the ECB's baseline projections. And the anticipated near-term profile would put inflation closer in line with the ECB's adverse scenario (5.9%Y/Y) rather than the baseline (5.1%Y/Y) for this year as a whole. Of course, the further eroding of real disposable incomes has already brought a substantial worsening in consumers' expectations of their personal finances over the coming twelve months, which plummeted to a record low in March. And firms seem bound to be further impacted by supply shortages and higher cost burdens, which will continue to limit the post-pandemic recovery.

Euro area: GDP-weighted government bond yields



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

ECB to leave policy unchanged at next week's Governing Council meeting

The past month or so has unsurprisingly seen countless comments from Governing Council members about their assessments of how the risks to the outlook are unfolding. But, overall, it appears that no-one has substantially changed their position since the last meeting. The hawks (e.g. Schnabel and Knot) continue to express increasing concerns about the upside risks to inflation, while the doves (e.g. Lane and Panetta) continue to flag the downside risks to the medium term outlook not least from weaker growth, highlighting that there is so far no sign of second-round effects on inflation. So, when the Governing Council meets again in the coming week, we would expect no change to the ECB's policy and guidance. And while today's minutes appear to confirm that the hawks have the upper hand, importantly, the guidance makes clear that the ECB's purchase profile in Q3 will be data dependent. And so, as confirmed by Bundesbank President Nagel today, the decision on policy in Q3 will be taken in June on the basis of updated economic projections. Of course, if recovery momentum is maintained this would still allow the ECB's bond buying to be brought to end in Q3 and the first rate hike to come before the end of the year.

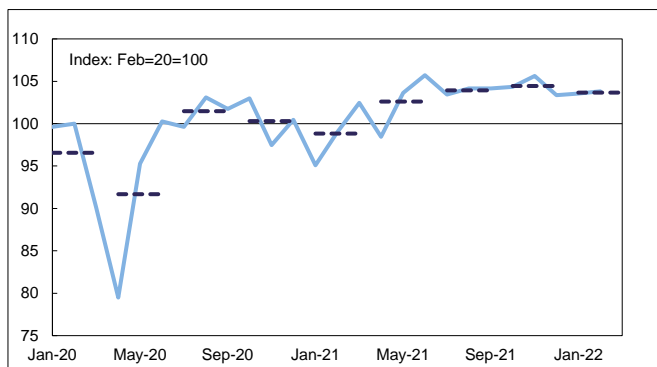
Euro area retail sales post only modest growth despite easing of restrictions

For what it's worth, today's economic data provided an update on various aspects of euro area economic activity leading up to the Russian invasion in Ukraine. Overall, the figures suggested only modest growth momentum in February despite a relaxation of restrictions. In particular, euro area retail sales remained lacklustre with growth of 0.3%M/M following a minimal rise of 0.2%M/M in January. German sales were subdued too, up 0.3%M/M after zero growth at the start of the year, while sales in France fell back (-0.9%M/M). This contrasted with a further jump in the Netherlands (4.0%M/M) as well as rebounds in Spain (1.2%M/M) and Portugal (2.3%M/M). Given improved mobility due to the relaxation of restrictions, sales of auto fuel leapt 3.9%M/M to the highest for two years. Core (i.e. non-food and non-fuel) sales rose for the second successive month (0.8%M/M) but remained below the levels seen ahead of the latest pandemic wave, with online shopping continuing to provide modest support (up 1.2%M/M). But likely reflecting increased opportunities to consume services, sales of food, drink and tobacco fell for the second successive month (0.4%M/M). While overall sales were still almost 4% above the pre-pandemic level, they were also trending 0.7% below the Q4 average. And the adverse impact of high inflation on real disposable incomes and hit to confidence since the start of the Ukraine war is likely to cause retail sales to fall back sharply in March to be a bigger drag on consumption in Q1.

German IP eked out modest increase in February due to energy output

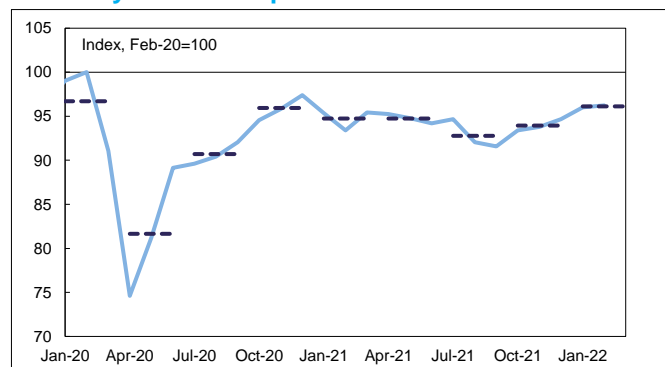
While yesterday's German [manufacturing turnover](#) data had implied a decline in output in February, today's figures reported that industrial production managed to eke out a modest increase that month, by 0.2%M/M. But this reflected a near-5%M/M increase in energy output, which returned back above the pre-pandemic level for the first time. Indeed, construction activity slipped back in February (-0.7%M/M), while manufacturing production was unchanged from January to be still roughly 5%

Euro area: Retail sales*



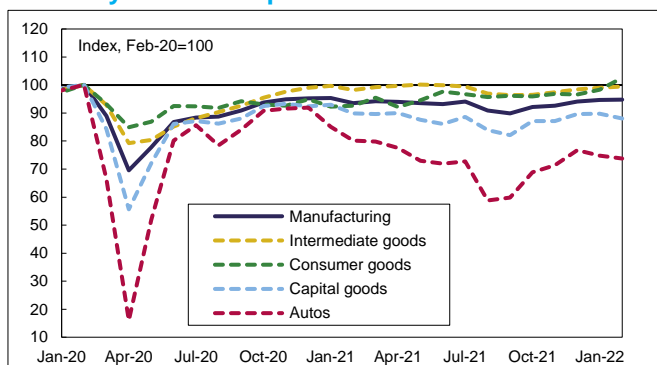
*Dashed lines represent quarterly averages. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Industrial production*



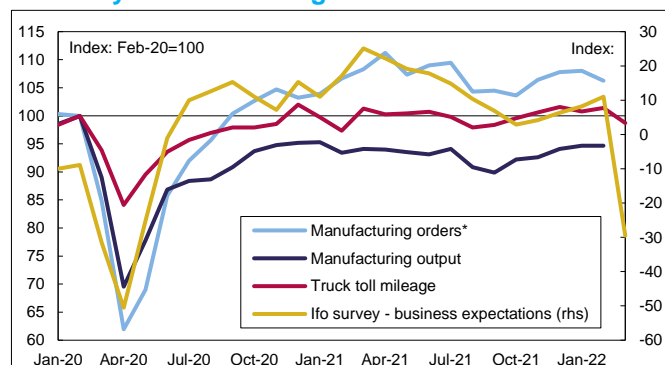
*Dashed lines represent quarterly averages. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing indicators



*Excluding major orders. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

lower than its level two years ago. In terms of product-type, production of intermediate goods rose for the fifth consecutive month (0.5%M/M), while output of consumer goods jumped 4.4%M/M to be some 2½% higher than the pre-pandemic level. But production of capital goods fell (-2.0%M/M) in part due to supply bottlenecks affecting the availability of key inputs. Indeed, production of machinery and equipment fell more than 2%M/M, with autos output declining for the second successive month (-1.3%M/M), with the latter still a little more than a quarter lower than the pre-pandemic level.

German IP on track to grow in Q1, but risks to near-term outlook skewed to downside

While overall industrial output was revised notably lower in January (with growth down by 1.3ppt to 1.4%M/M), this still left production trending so far in Q1 more than 2% higher than the Q4 average. Of course, today's figures largely reflect conditions ahead of the Russian invasion. And we would expect to see a sharp decline in activity in March, not least in part reflecting renewed supply-side challenges, with the VDA's autos production numbers for March earlier this week illustrating the weakness last month amid shortages of key components from Ukraine. Surveys have painted a pretty bleak picture for the near-term outlook, with firms also reporting a waning of demand in the face of rising global uncertainties. Admittedly, we would need to see a monthly decline of almost 7% in March to avoid growth over the first quarter. But given the persisting Ukraine conflict, as well as renewed pandemic lockdowns in China that could further impact supply, the outlook for Q2 and beyond currently looks weak.

The week ahead in the euro area

Ahead of the ECB's decision, the main event of the coming weekend will be Sunday's first-round vote in the French Presidential election. Current polls suggest that President Emmanuel Macron will progress to the second round on 24 April with the highest share of the vote. And having seen her ratings improve significantly over recent weeks at the expense of her fellow far-right populist Eric Zemmour, Marine Le Pen looks set to qualify in second place to go head-to-head with Macron. Le Pen's passage is not, however, a foregone conclusion, as far-left populist Jean-Luc Mélenchon could yet squeeze past her if she loses votes back to the other right-wing candidates. By the same token – and of most concern to the markets – should Le Pen indeed face off against Macron in the second round, the latest poll findings suggest that the incumbent would be at risk of defeat in the event of a low turnout and concerted anti-establishment vote. Indeed, while the current poll average suggests a lead of 8ppts for Macron over Le Pen in the second round, this week's Harris poll reduced that advantage to just 3ppts (51.5% vs 48.5%). With voting in the second round, however, likely to be better focused on the policy platforms of the candidates, and informed by a tv debate between the two candidates, we maintain our expectation that Macron will be re-elected by a clear margin, albeit by a narrower margin than his 66%-34% victory in 2017.

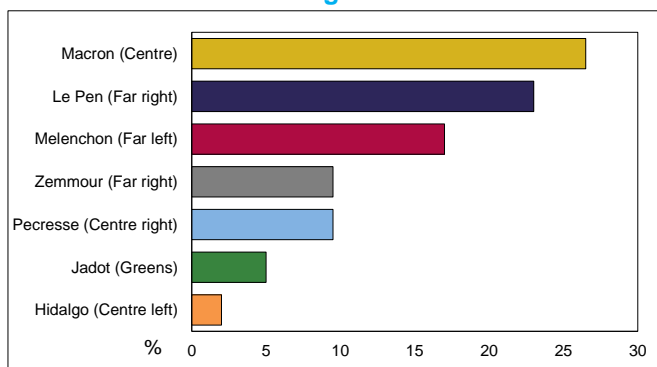
Turning to data, the coming week's calendar is relatively sparse. Tuesday kicks off the week with the latest German ZEW investor survey, which seems bound to echo the downbeat message from this week's [sentix](#) release. The Bank of France's business sentiment survey (due the same day) will provide an update on conditions at the end of the first quarter, with the BoF to provide an updated forecast for GDP growth in Q1. Meanwhile, euro area industrial production data for February are due on Wednesday. Based on equivalent measures (excluding construction) published so far by member states, including a decline in France (-0.9%M/M), modest growth in Germany (0.4%M/M) and Portugal (0.4%M/M) and a stronger rebound in Ireland (2.4%M/M), euro area IP is likely to have posted a slight increase in February after moving sideways in January. Final March inflation figures from Germany (Tuesday), Spain (Wednesday), France and Italy (Friday) are also due.

UK

The week ahead in the UK

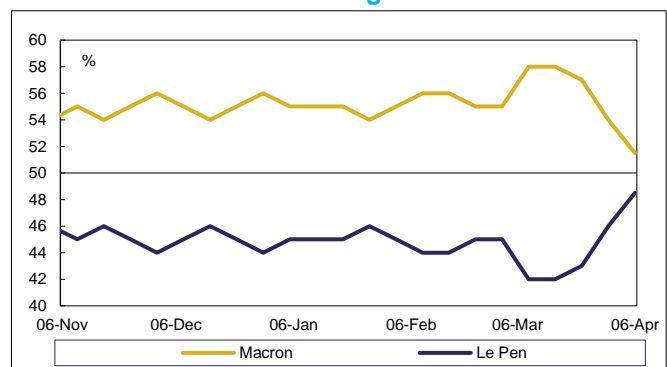
After a relatively quiet end to the week for UK economic data brings the REC/KPMG report on jobs tomorrow, there are a number of top-tier releases to look out for in the coming week, with arguably the most noteworthy Wednesday's inflation figures. We expect to see price rises becoming more broad-based in March to push the headline CPI rate up 0.6ppt to 6.8%Y/Y, a fresh 30-year high. While energy prices will continue to exert significant upwards pressure, we also expect prices

France: First round voting intentions



Source: Latest Harris opinion poll conducted 1-4 April and Daiwa Capital Markets Europe Ltd.

France: Second round voting intentions












Source: Latest Harris opinion poll conducted 1-4 April and Daiwa Capital Markets Europe Ltd.

of non-energy industrial goods and services to rise further, boosting core inflation by 0.3ppt to 5.5%Y/Y, similarly a 30-year high. Ahead of the inflation data, February's GDP report will be published on Monday. Having rebounded in January by a larger-than-expected 0.8%M/M, surveys and high-frequency data largely point to continued economic expansion in February, not least thanks to a further fading of the impact of the Omicron variant and associated restrictions on hospitality and leisure. Industrial production is also expected to have contributed slightly to growth in February. And following upwardly revised growth in Q4, by 0.3ppt to 1.3%Q/Q, we should see back revisions to the monthly profile too. The latest labour market figures are due on Tuesday and expected to suggest that conditions remained very tight, with the unemployment rate expected to have edged down further in the three months to February to 3.8%, as vacancies continued to grow. Growth in average regular wages is likely to remain close to the 3.8%3M/Y recorded in January, to leave real regular wage growth slipping further into negative territory. Other March releases due in the coming week include the BRC retail sales monitor (Tuesday), RICS residential market and BoE consumer credit surveys (Thursday).

The next edition of the Euro wrap-up will be published on 11 April 2022

Daiwa economic forecasts



	2021		2022				2022	2023	2024
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q									
Euro area 	2.3	0.3	0.3	0.7	0.8	0.7	3.3	2.4	1.8
UK 	0.9	1.3	1.0	-0.1	0.4	0.1	3.9	1.0	1.3
Headline and Core Inflation									
Euro area									
Headline CPI 	2.8	4.6	6.2	7.0	6.6	5.2	6.2	1.9	1.7
Core CPI 	1.4	2.4	2.7	3.1	2.8	2.2	2.7	1.6	1.7
UK									
Headline CPI 	2.8	4.9	6.2	8.1	7.6	7.5	7.3	3.7	1.7
Core CPI 	2.6	3.9	5.0	5.3	4.8	3.8	4.7	2.1	1.6
Monetary policy									
ECB									
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.50
Deposit Rate % 	-0.50	-0.50	-0.50	-0.50	-0.50	-0.25	-0.25	0.25	0.25
BoE									
Bank Rate % 	0.10	0.25	0.75	1.00	1.25	1.25	1.25	1.00	1.00

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



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area 	Retail sales M/M% (Y/Y%)	Feb	0.3 (5.0)	0.6 (5.1)	0.2 (7.8)	- (8.4)
Germany 	Industrial production M/M% (Y/Y%)	Feb	0.2 (3.2)	0.2 (3.7)	2.7 (1.8)	1.4 (1.1)



Auctions

Country	Auction
France 	sold €6.43bn of 0% 2032 bonds at an average yield of 1.17%
	sold €3.47bn of 1.25% 2038 bonds at an average yield of 1.42%
	sold €1.60bn of 0.5% 2072 bonds at an average yield of 1.77%
Spain 	sold €1.51bn 1.5% 2027 bonds at an average yield of 0.965%
	sold €1.21bn of 0.8% 2029 bonds at an average yield of 1.227%
	sold €2.33bn of 2032 bonds at an average yield of 1.601%
	sold €530mn 0.7% index-linked 2033 bonds at an average yield of -0.852%



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Italy 	09.00	Retail sales M/M% (Y/Y%)	Feb	0.4 (-)	-0.5 (8.4)
Spain 	08.00	Industrial production M/M% (Y/Y%)	Feb	0.5 (1.7)	-0.1 (1.7)



























Auctions and events

Euro area 	12.15	ECB's Panetta to give opening speech at a Technology and Finance conference			
UK 	01.01	REC report on jobs			

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</i> forecast/actual	Previous	
Monday 11 April 2022						
UK		07.00	GDP M/M% (3M/3M%)	Feb	<u>0.5 (1.0)</u>	0.8 (1.1)
		07.00	Industrial production M/M% (Y/Y%)	Feb	-	0.7 (2.3)
		07.00	Manufacturing production M/M% (Y/Y%)	Feb	-	0.8 (3.6)
		07.00	Index of services M/M% (3M/3M%)	Feb	-	0.8 (1.0)
		07.00	Construction production M/M% (Y/Y%)	Feb	-	1.1 (9.9)
		07.00	Goods trade balance £bn	Feb	-	-26.5
Tuesday 12 April 2022						
Germany		07.00	Final CPI (EU-harmonised CPI) Y/Y%	Mar	<u>7.3 (7.6)</u>	5.1 (5.5)
		10.00	ZEW current situation (expectations) balance	Apr	-	-21.4 (-39.3)
France		07.45	Trade balance €bn	Feb	-	-8.0
		-	Bank of France industrial sentiment*	Mar	102	107
UK		00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Mar	-	2.7
		07.00	Unemployment claimant count rate % (change '000s)	Mar	-	4.4 (-48.1)
		07.00	Payrolled employees, monthly change '000s	Mar	-	275
		07.00	Employment change 3M/3M, '000s	Feb	-	-12
		07.00	ILO unemployment rate 3M%	Feb	-	3.9
		07.00	Average wages including (excluding) bonuses 3M/Y%	Feb	-	4.8 (3.8)
Wednesday 13 April 2022						
Euro area		10.00	Industrial production M/M% (Y/Y%)	Feb	-	0.0 (-1.3)
Italy		09.00	Industrial production M/M% (Y/Y%)	Feb	-	-3.4 (-2.6)
Spain		08.00	Final CPI (EU-harmonised CPI) Y/Y%	Mar	<u>9.8 (9.8)</u>	7.6 (7.6)
UK		07.00	CPI (core CPI) Y/Y%	Mar	<u>6.8 (5.5)</u>	6.2 (5.2)
		07.0	PPI input (output) prices Y/Y%	Mar	-	14.7 (10.1)
Thursday 14 April 2022						
Euro area		12.45	ECB refinancing rate %	Apr	<u>0.00</u>	0.00
		12.45	ECB deposit rate %	Apr	<u>-0.50</u>	-0.50
UK		00.01	RICS house price balance %	Mar	-	79
Friday 15 April 2022						
France		07.45	Final CPI (EU-harmonised CPI) Y/Y%	Mar	<u>4.5 (5.1)</u>	3.6 (4.2)
Italy		09.00	Final CPI (EU-harmonised CPI) Y/Y%	Mar	<u>6.7 (7.0)</u>	5.7 (6.2)

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 11 April 2022		
- Nothing scheduled -		
Tuesday 12 April 2022		
Germany 	10.30	Auction: €5.5bn of 0% 2024 bonds
UK 	10.00	Auction: £2.5bn of 1% 2032 bonds
Wednesday 13 April 2022		
Germany 	10.30	Auction: €4bn of 0% 2032 bonds
Italy 	10.00	Auction: 3Y and 7Y bonds
Thursday 14 April 2022		
Euro area 	12.45	ECB monetary policy announcement
	13.30	ECB President Lagarde speaks at post-Governing Council meeting press conference
UK 	09.30	BoE publishes Credit Conditions Survey for Q1
Friday 15 April 2022		
Euro area 	09.00	ECB publishes Survey of Professional Forecasters
UK 	-	Public holiday – Good Friday

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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