

# Euro wrap-up

## Overview

- Bunds ended the day a touch firmer even as German lawmakers passed a landmark bill to allow a substantial increase in public spending on defence and infrastructure and the ZEW survey signalled a marked improvement in investor optimism with respect to the German economic outlook.
- Gilts made modest losses on a quiet day for UK economic news.
- Wednesday will bring final estimates of euro area inflation in February and labour costs growth in Q4.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.168	-0.014
OBL 2.4 04/30	2.456	-0.013
DBR 2½ 02/35	2.808	-0.007
UKT 3¼ 03/27	4.189	+0.008
UKT 3% 03/30	4.291	+0.008
UKT 4½ 03/35	4.641	+0.001

\*Change from close as at 5.00pm GMT.  
Source: Bloomberg

## Euro area

### ZEW investor survey reports notable improvement in assessment of the German economic outlook

Ahead of the new sitting of Parliament on 25 March, outgoing German lawmakers in the Bundestag today promptly passed a landmark bill to relax the constitutional debt brake and create a special infrastructure fund of €500bn. The bill will now proceed to the upper house (Bundesrat) on Friday where it will likely be ratified and signed into law. So, despite threats of further US tariff hikes, today's German ZEW survey results for March signalled a marked improvement in investor optimism with respect to the economic outlook. Admittedly, respondents still considered current conditions to be poor, with no-one assessing them to be 'good' for a fifth consecutive month. Nevertheless, the share of respondents considering conditions to have normalised, while low by historical standards, was the highest in six months. And the ZEW expectations index for the coming six months rose the most in more than two years to 51.6, the highest since January 2022 and well above the long-run average. While the ZEW survey often follows trends in equity markets rather than offering the best guide to GDP growth, with any luck this improved investor mood will translate into a pickup in business survey indicators, as well as firmer demand in the real economy.

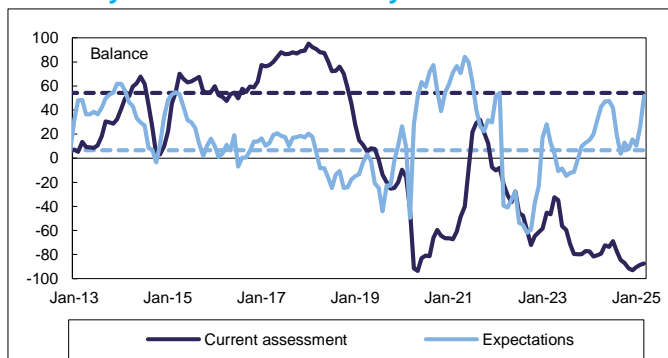
### Widespread improvement in profit outlook despite ongoing US tariff threats

While the share of respondents expecting a further ECB rate cut fell to a 14-month low, the impact of past monetary easing – a cumulative 150bps since last summer – seemingly gave a further boost to investors' perceptions of the profit outlook in a range of sectors. Perhaps most notably, the respective index for the construction sector was the highest since before the first Covid-19 wave in early 2020. The outlook for certain other services, including banks, insurance and utilities was also more positive. Notwithstanding the 25% tariff on US imports applied on 12 March, investors were the least downbeat about the profit outlook for producers of steel products in nine months amid the prospect of greater expenditure on military equipment. And while the majority still expect the profit outlook to worsen, not least due to the threat of additional US tariffs and increased competition from China, investors were also the least downbeat about the autos profit outlook since last April.

### Euro area trade surplus little changed in January, but signs of front-loading of exports to the US

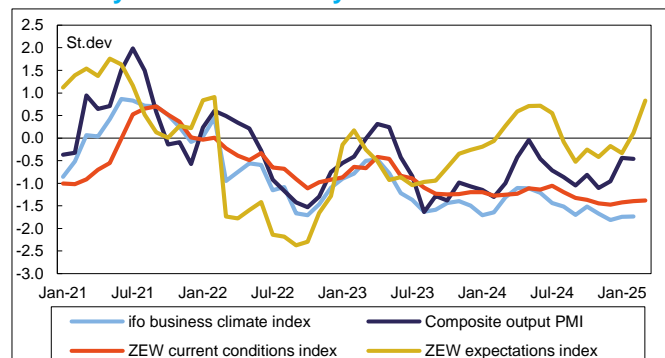
Given heightened concerns about US tariff hikes on European exporters, today's trade values data showed euro area goods exports rising 2.1%/M/M in January to the highest level for more than two years. Due to a similar rise in imports that month, the trade surplus was little changed at the start of the year, down just €0.2bn to €14.0bn, although this masked persisting divergences in bilateral trade balances between the euro area's key trading partners. Certainly, illustrating potential front-loading, exports to the US – which account for roughly 16% of euro area shipments – jumped 6½%/M/M in January, in part

#### Germany: ZEW investor survey indices\*



\*Dashed lines represent pre-pandemic five-year average.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Selected survey indices



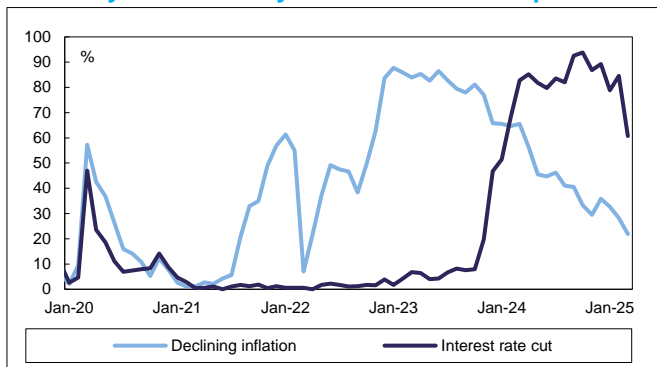
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

due to a surge in Irish exports of organic chemicals. So, despite a notable rise in imports that month too, the euro area's bilateral trade surplus with the US edged up to its second-largest on record (€16.5bn), which will further raise concerns about possible broader-based tariff hikes on EU products in due course. In contrast, the strength in exports to the US was partially offset by ongoing weakness in demand from China, where exports fell more than 2%M/M to the lowest level since May 2020 and down more than 15½%Y/Y. While the timing of the Lunar New Year often distorts data at the start of the year, the downtrend in shipments of machinery and transport equipment was maintained, illustrating the ongoing challenges in these once dominant industries and flagging persisting downside risks to the manufacturing outlook.

**The day ahead in the euro area**

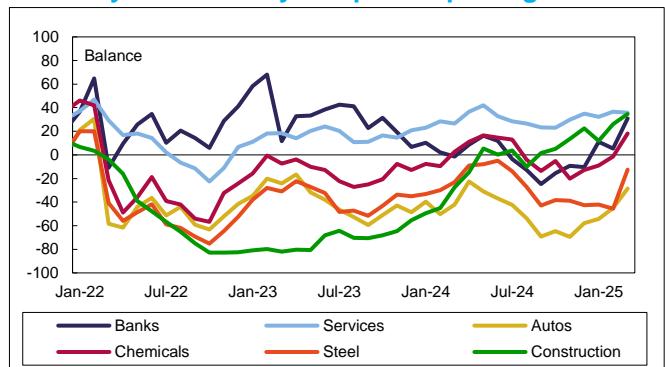
The euro area data highlight on Wednesday will be final inflation figures for February, which will include the full component detail. The preliminary release reported a decline in headline inflation for the first time in five months, albeit by just 0.1ppt to 2.4%Y/Y. Given last week's downward revision to the German HICP rate, by 0.2ppt to 2.6%Y/Y, we expect tomorrow's final euro area print to be revised down a touch further, to 2.3%Y/Y. Accompanying detail should confirm that the moderation came in spite of a non-negligible increase in food prices, with a decline in services inflation underscoring the fall in core HICP inflation to a three-year low (2.6%Y/Y). That continued progress of underlying disinflation should provide flexibility to ease policy further in response to more immediate growth risks. Indeed, after today's job vacancies data for Q4 aligned with

**Germany: ZEW survey – CPI & rate cut expectations**



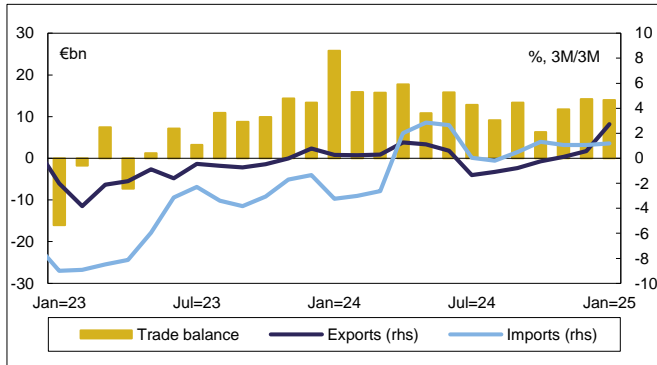
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Germany: ZEW survey – expected profit growth**



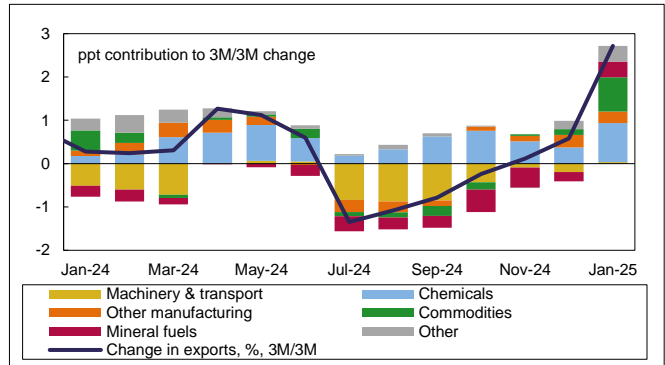
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Euro area: Goods trade balance, exports & imports\***



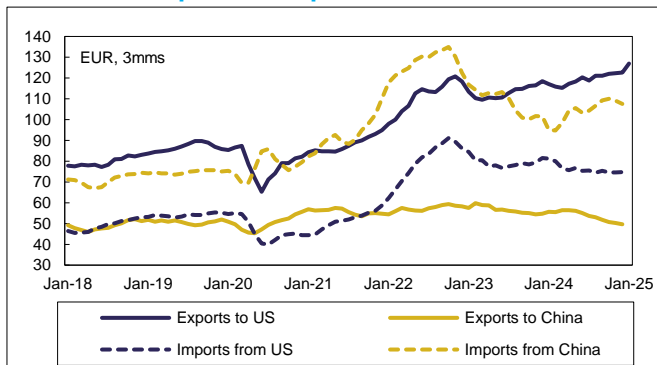
\*Seasonally adjusted values.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Euro area: Export growth by good\***



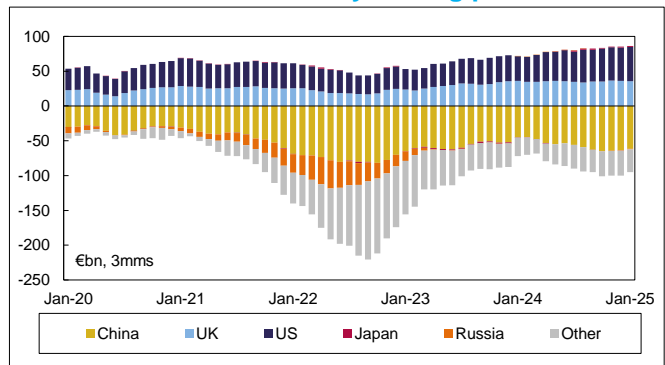
\*Seasonally adjusted values.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Euro area: Exports & imports to US & China\***



\*Seasonally adjusted values.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Euro area: Trade balance by trading partner\***



\*Seasonally adjusted values.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

preliminary estimates to suggest the joint-lowest rate (2.5%) since Q221, tomorrow's final labour costs figures are expected to point towards continued normalisation of labour market conditions, consistent with a return to the 2% inflation target. The flash release showed labour costs growth moderating to 3.7%YY in Q4, down 0.9ppt from the previous quarter.




## The day ahead in the UK

It should be another quiet day for UK economic news on Wednesday, with no headline data releases scheduled ahead of Thursday's MPC announcement.


# European calendar

## Today's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Trade balance €bn	Jan	<b>14.0</b>	13.8	14.6	14.2
	 Final job vacancy rate %	Q4	<b>2.5</b>	<u>2.5</u>	2.5	-
Germany	 ZEW current situation (expectations) balance	Mar	<b>-87.6 (51.6)</b>	-80.5 (48.3)	-88.5 (26.0)	-




### Auctions

Country	Auction
UK	 sold £4.25bn of 4.375% 2028 bonds at an average yield of 4.263%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Monday's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Italy	 Final HICP (CPI) Y/Y%	Feb	<b>1.7 (1.6)</b>	<u>1.7 (1.7)</u>	1.7 (1.5)	-
Spain	 Labour costs Y/Y%	Q4	<b>3.6</b>	-	4.4	-
UK	 Rightmove house prices M/M% (Y/Y%)	Mar	<b>1.1 (1.0)</b>	-	0.5 (1.4)	-



### Auctions

Country	Auction
- Nothing to report -	



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	 10.00	Final headline (core) HICP Y/Y%	Feb	<u>2.3 (2.6)</u>	2.5 (2.7)
	 10.00	Final labour costs Y/Y%	Q4	<u>3.7</u>	4.6

### Auctions and events

Germany	 10.30	Auction: to sell up to €1bn of 0% 2050 bonds
	 10.30	Auction: to sell up to €1.5bn of 1.8% 2053 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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