

# Euro wrap-up

## Overview

- While the Bundesrat ratified the bill to amend the German debt brake, Bunds made gains as euro area consumer confidence fell to a three-month low.
- Gilts made losses as UK public sector borrowing exceeded expectations in February, reducing the fiscal headroom ahead of next week's Spring Statement.
- The coming week will also bring various European sentiment surveys, including the flash PMIs, as well as inflation estimates from the UK, France, and Spain.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.124	-0.040
OBL 2.4 04/30	2.401	-0.032
DBR 2½ 02/35	2.763	-0.015
UKT 3¾ 03/27	4.254	+0.024
UKT 4% 03/30	4.340	+0.031
UKT 4½ 03/35	4.710	+0.062

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

## Euro area

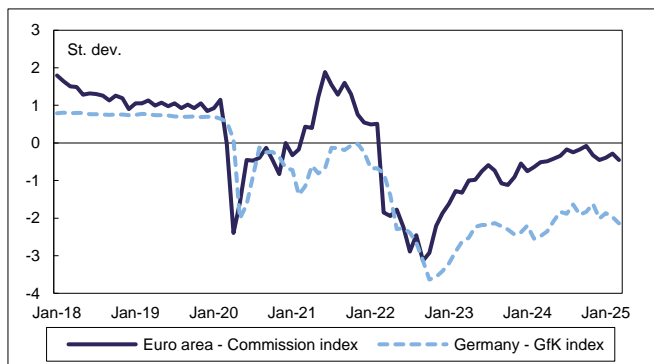
### Consumer confidence drops as US trade policy uncertainties weigh

Despite signs of more constructive policymaking in Europe, the dismay at US foreign policy appears to have weighed more heavily on household sentiment this month. Certainly, like the deterioration seen in various US surveys, today's flash Commission estimate of euro area consumer confidence fell sharply in March, down 0.9pt to a three-month low of -14.5. While this remains well off the lows recorded in 2022, it was nevertheless almost ½pt lower than the average in 2024, to leave the quarterly index tracking ½pt below the Q4 average too. While today's release provided no additional detail, we suspect that households were more downbeat about the economic outlook over the coming year, with heightened unemployment concerns as firms move to pause or cancel capex and hiring plans in the face of persisting global trade uncertainties. As such, we expect the detail (to be published a week today) to signal an ongoing preference to save rather than spend in Q1, raising doubts about the ECB's expected recovery in household consumption. Indeed, today's Bank of France retail survey suggested that despite rising in February (0.5%M/M), sales volumes in that country were trending in the first two months of Q1 some 0.2% below the Q4 average.

### French business survey points to a gradual stabilisation in conditions despite uncertainties

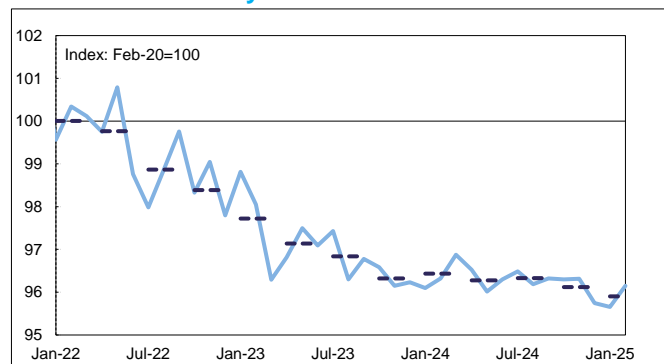
After the slight downturn in French activity in the final quarter of 2024, GDP is expected to return to moderate growth in Q1 despite the weakness in economic data – including manufacturing and construction output and the aforementioned retail sales – at the start of the year. Certainly, today's INSEE business survey signalled a further stabilisation in conditions, with the headline sentiment index rising for a third consecutive month in March by 1pt to 97, a five-month high. The pickup was led by improved retail expectations, with the respective confidence index back in line with the long-run average for the first time since September. And while services firms reported a marked weakening in recent activity they were the most upbeat about the general economic outlook since June, to leave the overall sentiment index unchanged on the month (98). Admittedly, despite tentative signs of recovery in the housing market, construction firms were the most downbeat about future activity in eight months as order books were the thinnest in eight years. And perhaps unsurprisingly given heightened uncertainties with global trade, manufacturing sentiment declined slightly this month, with a marked deterioration in the food & beverage industry – to the joint-lowest level since the global financial crisis – likely reflecting threats of retaliatory tariffs targeted on certain alcoholic beverages of up to 200% on exports to the US. But while manufacturers were more upbeat about near-term production in a range of subsectors including autos, general and electrical machinery and basic metals a further decline in total factory orders will likely constrain any near-term bounce back.

### Euro area: Consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### France: BoF survey – retail sales volumes\*



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

## The week ahead in the euro area

The week ahead in the euro area will be survey-heavy, with the March flash PMIs (Monday), German ifo (Tuesday) and Commission ESIs (Friday) among the key releases. The euro area composite PMI so far this year has flagged an ongoing absence of growth momentum, with weakness predominantly concentrated in the region's two largest member states. Admittedly, the February outturn was weighed in part by a sharp decline in the French PMI, contrasting a faster pace of expansion in Italy and Spain. Indeed, the headline euro area ESI rose to a five-month high in February. We expect some correction to the French PMIs this month, to more closely align with recent developments in the INSEE survey. Meanwhile, despite uncertainties regarding US tariffs, German businesses might be buoyed by the prospect of an eventual increase in spending on military and infrastructure as the Bundesrat ratified today the government's bill to amend the debt brake. Certainly, like in the past week's ZEW survey, Germany's fiscal package might also provide a boost to the ifo survey's business expectations component, as well as, more broadly, providing a tailwind for the Commission's economic sentiment indicators.

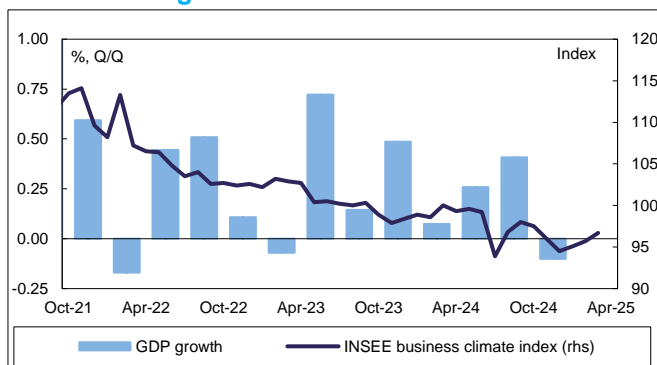
But any improvement in the euro area ESI will be moderated by the deterioration in consumer confidence, with national releases from France (Wednesday), Germany and Italy (also Friday) to provide more insight. February retail sales data from Spain (Thursday) and consumer spending on goods in France (Friday) will also provide an update on recent consumption trends. Meanwhile, cheaper borrowing conditions and the recent recovery in the housing market seemingly gave a boost to mortgage lending in January, which rose by the most in 2½ years. The ECB will hope that the more accommodative policy stance will sustain that recovery, and support further a pickup in business lending in February's monetary data (due Thursday). Also of note at the end of the week will be the first of the March flash inflation estimates from member states, including France and Spain (Friday). While the French HICP rate might edge slightly higher from February's four-year low (0.9%Y/Y), the Spanish HICP rate is expected to drop 0.3ppt to 2.6%Y/Y. And while higher defence spending might yet add an upwards impulse to the medium-term inflation outlook across the euro area, we expect the ECB's consumer survey (Friday) to show that inflation expectations remained well anchored in February.

## UK

### Subdued consumer confidence sees household prefer to save than spend

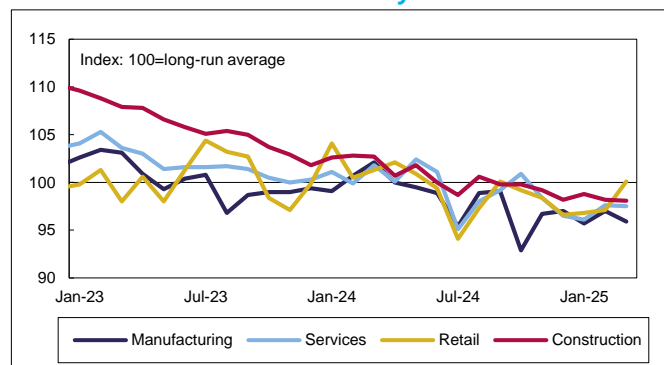
While UK retail sales were surprisingly strong at the start of the year, today's GfK consumer confidence survey reinforced our view – and that of the BoE – that underlying demand remains subdued amid high levels of economic uncertainty.

#### France: GDP growth & business sentiment



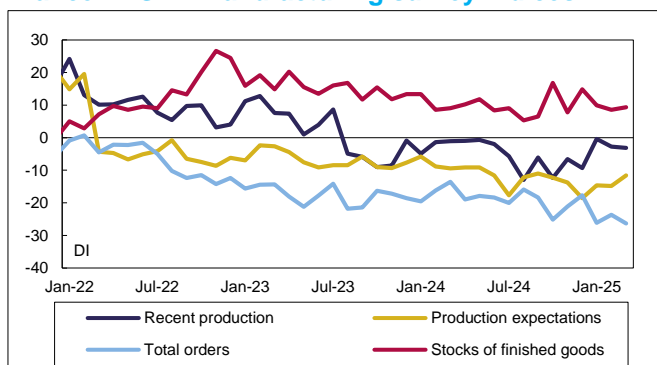
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: INSEE business survey indices



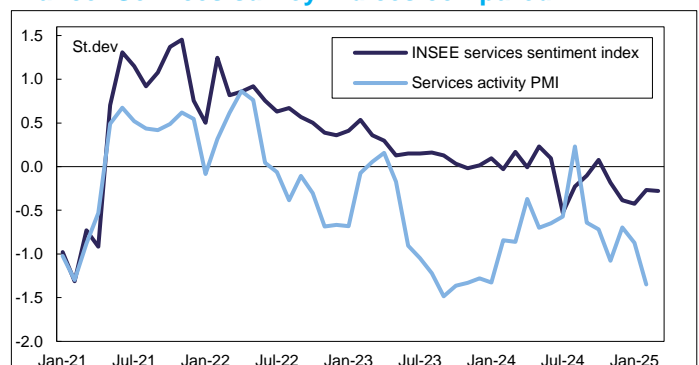
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: INSEE manufacturing survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: Services survey indices compared



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

Admittedly, the headline confidence indicator rose for a second successive month in March, by 1pt to a three-month high of -19. But this left the index over the first quarter as a whole still a touch below the Q4 level and well below the long-run average (-10). Likely reflecting still elevated [pay growth](#), the forthcoming increase in the National Living Wage and the recent decline in petrol prices, households' income expectations were broadly in line with the long-run. And, although still historically weak, households were somewhat less downbeat about the economic outlook over the coming twelve months. But despite a modest easing in the respective index this month, households again signalled a preference to add to savings as a precaution. Indeed, the survey's purchase intentions component merely moved sideways in March to remain well below the long-run average. And with household budgets set to be squeezed by a near-6½% hike in household energy bills next month, as well as hikes to other administered prices, we expect household consumption to remain relatively subdued over the second quarter and possibly beyond.

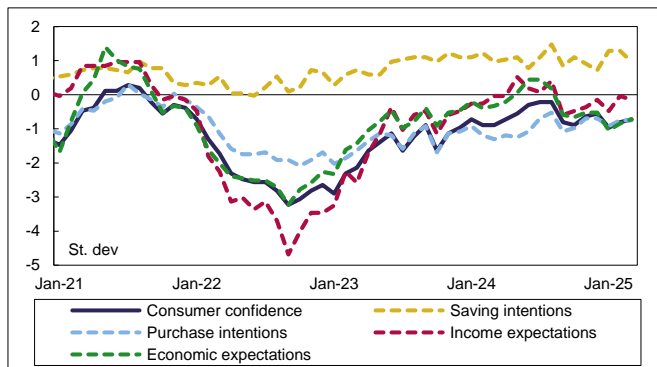
### Public sector borrowing exceeds expectations in February

After January's public finance data reported a smaller-than-expected surplus for that month, driven in part by underwhelming income from self-assessments, today's figures for February also disappointed. In particular, public sector net borrowing amounted to £10.7bn, broadly unchanged from a year ago, but nevertheless comfortably exceeding the OBR's October projection of £6.4bn. And with January's surplus subsequently revised lower (by £2.1bn to £13.3bn), this left cumulative borrowing in the financial year-to-date at £132.2bn, £14.7bn higher than in the same period a year ago and strikingly an overshoot of some £20.4bn from the OBR's forecast. Central government expenditure was roughly £42bn higher than a year ago and a touch stronger than had been previously expected, while central government tax receipts so far this financial year were more than £10bn lower than the OBR's expectation. Importantly, the current budget deficit in the year to date (£70.6bn) was currently roughly £15bn larger than expected back in October.

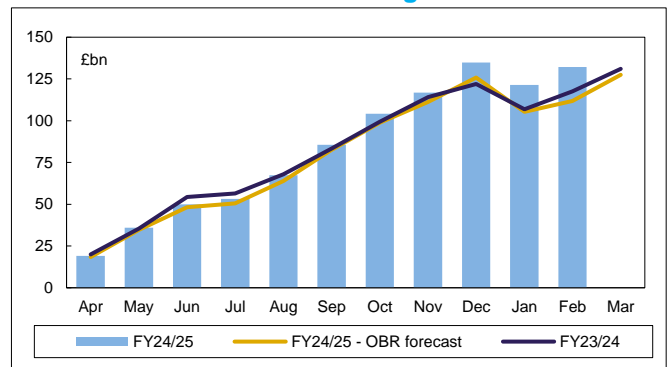
### Spring Statement expected to address erosion of fiscal headroom via tighter spending control

February's public finance data will be reflected in the OBR's updated projections to be presented to Parliament on Wednesday. At the time of October's Budget announcement, the OBR projected a current budget surplus in FY29/30 of about £10bn, with that amount representing the government's so-called 'headroom' for meeting its binding objective of a balanced current budget by that date. Today's figures suggest that this has been more than wiped out. With economic growth having recently been below the OBR's expectation – and the OBR likely to roughly halve its 2.0%YY GDP forecast for 2025 – the overshoot of public borrowing and undershoot of tax revenues relative to the OBR's forecast might be considered in part due to cyclical weakness which might in due course correct automatically. However, the increase of about 20-40bps in gilt yields across much of the curve since mid-October will be considered by the OBR to be structural and will alongside

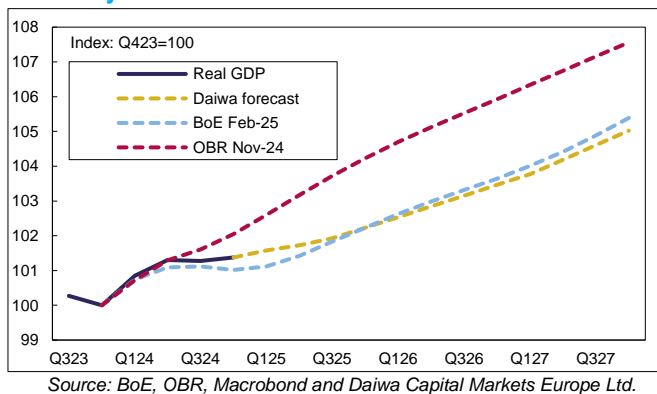
#### UK: Consumer confidence



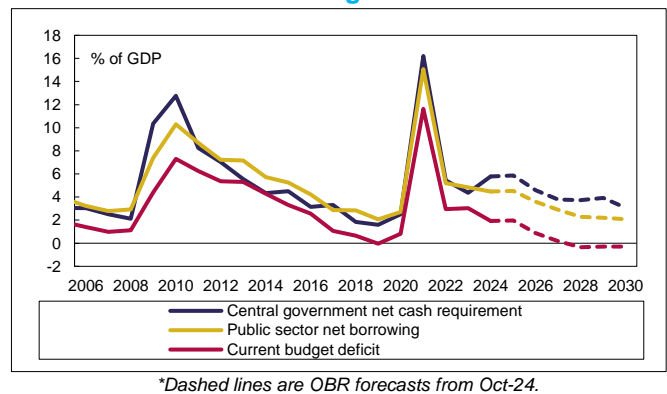
#### UK: Public sector net borrowing



#### UK: Projections of real GDP levels



#### UK: Government borrowing measures\*












certain other slippages – in the absence of offsetting new policies – likely have eroded the government’s headroom. This week, however, the government flagged plans to rein in outlays for welfare spending, seemingly worth £5bn a year by the end of the decade. And in her Spring Statement to accompany the OBR’s projections, Chancellor Reeves will likely announce the government’s intention to cut certain departmental budgets relative to previous plans. But this will be largely kicking the can down the road. Given the degree of savings now required to restore any fiscal headroom, we doubt whether those plans will be deliverable. Markets will also closely watch for revisions to the DMO’s financing remit. The DMO’s gross financing requirement will almost certainly have to rise from the previous projection of almost £300bn. A reduction in the average maturity of planned new gilt issuance would seem appropriate given recent curve steepening.

## The data week ahead in the UK

The week ahead will also bring a number of top-tier UK economic data releases, including February’s CPI report (Wednesday), flash March PMIs (Monday) and the latest retail sales and trade figures (Friday). Yesterday’s monetary policy statement unsurprisingly gave a nod to the upside surprise in January’s inflation print, which saw headline CPI rise 0.5ppt to 3.0%Y/Y – 0.2ppt above the Bank’s forecast – owing not least to a sharp increase in food prices. We expect another modest overshoot of the BoE’s projection in February, with the headline and core CPI rates – the latter also up 0.5ppt to 3.7%Y/Y in January – to be little changed on the month, as food and core goods continue to apply upwards pressure to the annual rate. While the services component jumped from December’s near-three-year low to 5.0%Y/Y in January, we expect services inflation to moderate 0.2ppt to 4.8%Y/Y, to be 0.3ppt below the BoE’s latest projection.

In terms of activity-related releases the Marchs flash PMIs will kick off the week and provide a timely assessment of current business conditions. So far this year, the PMIs have pointed to a lack of meaningful momentum, with the composite PMI having fluctuated 0.1pt either side of 50.5 for the past four months. And expectations are for the headline index to be little changed this month, with today’s CBI industrial trends survey continuing to flag a downbeat outlook for manufacturers, reporting the steepest decline in output since December. Tuesday will also bring the CBI survey of retailers for March, after February’s survey reported ongoing disappointment in sales amid heightened uncertainty and weak consumer confidence. Those same trends are likely to present a headwind to official retail sales figures in February (due Friday), not least reflecting some payback for the strength in January. Friday will also bring January’s postponed trade data, initially delayed due to past data discrepancies. Updated estimates for Q4 GDP (also Friday) should confirm growth of 0.1%Q/Q. This release will also bring the latest balance of payments figures. In addition, given the uncertain economic outlook, attention will also be on BoE Governor Bailey’s speech on Monday on the subject of UK economic growth.









































## Daiwa economic forecasts

	2024		2025				2024	2025	2026
	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP</b>	%, Q/Q						%, Y/Y		
Euro area 	0.4	0.2	0.1	0.2	0.2	0.3	0.8	0.9	1.2
UK 	0.0	0.1	0.2	0.1	0.2	0.3	0.9	0.7	1.1
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline HICP 	2.2	2.2	2.4	2.1	2.2	2.5	2.4	2.3	1.9
Core HICP 	2.8	2.7	2.6	2.1	2.1	2.4	2.8	2.3	1.8
UK									
Headline CPI 	2.0	2.5	2.9	3.3	3.8	3.6	2.5	3.4	2.3
Core CPI 	3.3	3.3	3.6	3.1	3.2	3.2	3.7	3.3	2.2
<b>Monetary policy, %</b>									
ECB									
Deposit Rate 	3.50	3.00	2.50	2.25	2.25	2.25	3.00	2.25	2.25
Refi Rate 	3.65	3.15	2.65	2.40	2.40	2.40	3.15	2.40	2.40
BoE									
Bank Rate 	5.00	4.75	4.50	4.25	4.00	3.75	4.75	3.75	3.25

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

# The coming week's data calendar










## The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast/Actual</i>	Previous	
<b>Monday 24 March 2025</b>						
Euro area		09.00	Preliminary manufacturing (services) PMI	Mar	48.2 (51.1)	47.6 (50.6)
		09.00	Preliminary composite PMI	Mar	50.7	50.2
Germany		08.30	Preliminary manufacturing (services) PMI	Mar	47.0 (52.0)	46.5 (51.1)
		08.30	Preliminary composite PMI	Mar	51.1	50.4
France		08.15	Preliminary manufacturing (services) PMI	Mar	46.1 (46.3)	45.8 (45.3)
		08.15	Preliminary composite PMI	Mar	46.1	45.1
UK		09.30	Preliminary manufacturing (services) PMI	Mar	47.2 (51.1)	46.9 (51.0)
		09.30	Preliminary composite PMI	Mar	50.5	50.5
<b>Tuesday 25 March 2025</b>						
Euro area		05.00	New car registrations Y/Y%	Feb	<u>-2.4</u>	-3.5
Germany		09.00	ifo business climate indicator	Mar	86.7	85.2
		09.00	ifo current assessment (expectations) indicator	Mar	85.5 (87.5)	85.0 (85.4)
Spain		08.00	PPI Y/Y%	Feb	-	2.6
UK		11.00	CBI distributive trades survey – retail sales balance %	Mar	-28	-23
<b>Wednesday 26 March 2025</b>						
France		07.45	INSEE consumer confidence indicator	Mar	94	93
Spain		08.00	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.8 (3.5)</u>	0.8 (3.5)
UK		07.00	Headline (core) CPI Y/Y%	Feb	<u>3.0 (3.7)</u>	3.0 (3.7)
		09.30	House price index Y/Y%	Jan	-	4.6
<b>Thursday 27 March 2025</b>						
Euro area		09.00	M3 money supply Y/Y%	Feb	3.8	3.6
Spain		08.00	Retail sales Y/Y%	Feb	-	2.2
<b>Friday 28 March 2025</b>						
Euro area		09.00	ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Feb	2.4 (2.6)	2.6 (2.4)
		10.00	Commission economic sentiment indicator	Mar	96.7	96.3
		10.00	Commission industry (services) confidence indicator	Mar	-10.6 (6.6)	-11.4 (6.2)
		10.00	Final Commission consumer confidence indicator	Mar	<u>-14.5</u>	-13.6
Germany		07.00	GfK consumer confidence indicator	Apr	-22.3	-24.7
		08.55	Unemployment rate % (claims 000s)	Mar	6.2 (10)	6.2 (5)
France		07.45	Preliminary HICP (CPI) Y/Y%	Mar	1.1 (1.0)	0.9 (0.8)
		07.45	PPI Y/Y%	Feb	-	-2.1
		07.45	Consumer spending M/M% (Y/Y%)	Feb	0.4 (0.4)	-0.5 (0.4)
Italy		09.00	ISTAT consumer confidence indicator	Mar	98.8	98.8
		09.00	ISTAT business (manufacturing) confidence indicator	Mar	- (87.4)	94.8 (87.0)
		11.00	PPI Y/Y%	Feb	-	6.0
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Mar	2.6 (2.6)	2.9 (3.0)
UK		07.00	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.1 (1.4)</u>	0.0 (1.0)
		07.00	GDP – private consumption Q/Q%	Q4	<u>0.0</u>	0.5
		07.00	GDP – government spending Q/Q%	Q4	<u>0.8</u>	0.1
		07.00	GDP – fixed investment Q/Q%	Q4	<u>-0.9</u>	1.3
		07.00	Current account balance £bn	Q4	-23.9	-18.1
		07.00	Retail sales, including auto fuel M/M% (Y/Y%)	Feb	-0.4 (0.6)	1.7 (1.0)
		07.00	Retail sales, excluding auto fuel M/M% (Y/Y%)	Feb	-0.5 (0.4)	2.1 (1.2)
		07.00	Trade (goods trade) balance £bn	Jan	-3.0 (-16.7)	-2.8 (-17.4)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.






## The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 24 March 2025</b>		
UK 	18.00	BoE Governor Bailey to give a keynote speech on "Growth in the UK economy" at the University of Leicester
<b>Tuesday 25 March 2025</b>		
Germany 	10.30	Auction: to sell up to €4.5bn of 2.40% 2030 bonds
UK 	10.00	Auction: to sell £2bn of 4.75% 2043 bonds
<b>Wednesday 26 March 2025</b>		
Germany 	10.30	Auction: to sell up to €1.5bn of 2.6% 2041 bonds
	10.30	Auction: to sell up to €500mn of 2.5% 2046 bonds
Italy 	10.00	Auction: to sell bonds and inflation-linked bonds*
UK 	12.30	Chancellor Reeves to present Spring Statement to Parliament
<b>Thursday 27 March 2025</b>		
Euro area 	18.00	ECB Executive Board Member Schnabel to deliver lecture on financial literacy and monetary policy transmission in London
UK 	08.30	BoE MPC External Member Dhingra to speak on a panel about inflation targeting in South Africa
	10.00	Auction: to sell £3bn of 4% 2031 bonds
<b>Friday 28 March 2025</b>		
Italy 	10.00	Auction: to sell bonds*

\*Details to be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Today's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area 	Preliminary Commission consumer confidence indicator	Mar	<b>-14.5</b>	-13.0	-13.6	-
	Current account balance €bn	Jan	<b>35.4</b>	-	38.4	-
France 	INSEE business (manufacturing) confidence indicator	Mar	<b>97 (96)</b>	96 (97)	96 (97)	-
	Final wages Q/Q%	Q4	<b>0.4</b>	<u>0.4</u>	0.4	-
	BdF retail sales Y/Y%	Feb	<b>-0.2</b>	-	-0.7	-0.5
UK 	GfK consumer confidence indicator	Mar	<b>-19</b>	-20	-20	-
	Public sector net borrowing £bn	Feb	<b>10.7</b>	-	-15.4	-13.3
	CBI industrial trends survey – total orders (selling prices) balance %	Mar	<b>-29 (22)</b>	-30 (20)	-28 (19)	-

### Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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