

Euro wrap-up

Overview

- Bunds made losses as the German ifo survey signalled a likely return to modestly positive GDP growth in Q1 and greater optimism about the near-term outlook.
- Ahead of the Chancellor's Spring Statement on Wednesday that will likely confirm increased issuance in the coming fiscal year, Gilts made losses despite a deterioration in a UK retail survey.
- Tomorrow will also bring UK inflation figures for February and French consumer confidence survey results for March.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.128	+0.014
OBL 2.4 04/30	2.419	+0.018
DBR 2½ 02/35	2.789	+0.021
UKT 3¾ 03/27	4.285	+0.034
UKT 4% 03/30	4.376	+0.040
UKT 4½ 03/35	4.746	+0.031

*Change from close as at 4:30pm GMT.

Source: Bloomberg

Euro area

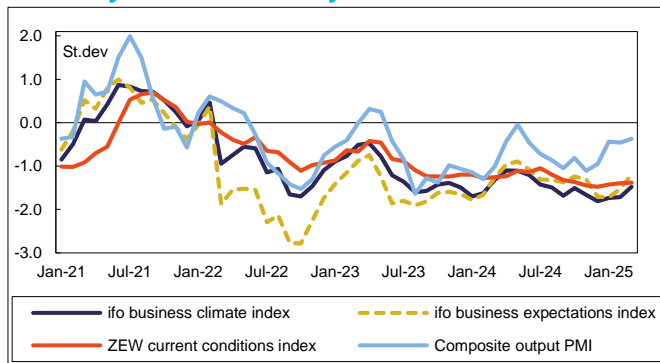
German ifo survey suggests a return to growth in Q1, with expectations the best for 9-months too

Consistent with yesterday's [flash PMIs](#), today's German ifo survey suggested that businesses were more positive about the economic outlook at the end of the first quarter, providing further signs of stabilisation in the euro area's largest member state. In particular, the headline business climate index rose for a third consecutive month in March, by 1.4pt to 86.7, an eight-month high, as firms were encouraged by the swift adoption of legislation to boost public spending on defence and infrastructure, as well as the prospect of a more stable ruling coalition going forward. Indeed, despite the impending Trump decision on US reciprocal tariffs, this pick up was largely driven by an improvement in firms' expectations, with the respective ifo index for the coming six months rising for a second successive month and by the most in a year to a nine-month high. And while the current assessment balance failed to fully reverse the drop in February, this still left the quarterly index in Q1 some 0.6pt higher than the Q4 average, supporting our view that Germany's GDP returned to modestly positive growth this quarter.

Broad based improvement in sentiment led by greater optimism among manufacturers

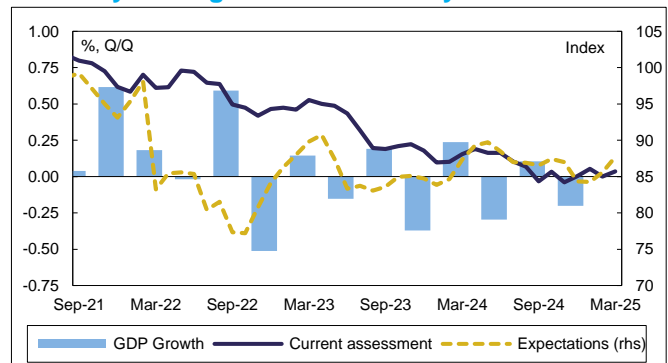
While the ifo survey detail suggested that the recovery in sentiment was broad-based across sectors, like yesterday's PMIs the upgrade was more prominent in manufacturing, with the respective business climate balance up to the highest since July. Admittedly, the improvement in current conditions was less pronounced than implied by the PMIs, in part as factory orders reportedly fell further. But, for now at least, German exporters seemingly appear largely undeterred by the prospect of higher tariffs, with little change in foreign order expectations. And, overall, manufacturers considered the near-term outlook to be the best since May. After a particularly positive start to the year for German hospitality – sales rose more than 2½%M/M in January to push the three-month growth rate (2.1%) to the highest since August 2022 – today's survey was consistent with ongoing growth in services activity more generally in Q1. Indeed, the current conditions balance in Q1 was 1.8pts higher than in Q4. And firms in the tertiary sector were also more hopeful about the outlook, with the architectural and engineering subsectors increasingly optimistic. While constructors also considered their current situation to be somewhat more positive, they still remained sceptical about the outlook, with a lack of orders reportedly still a significant challenge. This notwithstanding, new construction orders rose in January by more than 3%3M/3M, the most since October 2023. German house price growth turned positive in Q4 (1.9%Y/Y) for the first time in more than two years, while the ongoing decline in borrowing costs should also provide support to the housing market and construction recovery in due course.

Germany: Selected survey indices



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

Germany: GDP growth & ifo survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

Barring potential crosswinds from US economic news, Wednesday should be a relatively quiet day for the euro area. Among tomorrow's data flow, we may expect to see some resistance to the uptrend in INSEE's French consumer confidence indicator in March, not least given the downside surprise to in the flash euro area consumer confidence reading which might well reflect heightened geopolitical concerns. Meanwhile, the final estimate of Spanish GDP growth in Q4 will likely align with its previous estimate (0.8%Q/Q), ratifying Spain's ongoing outperformance relative to its euro area peers.

UK

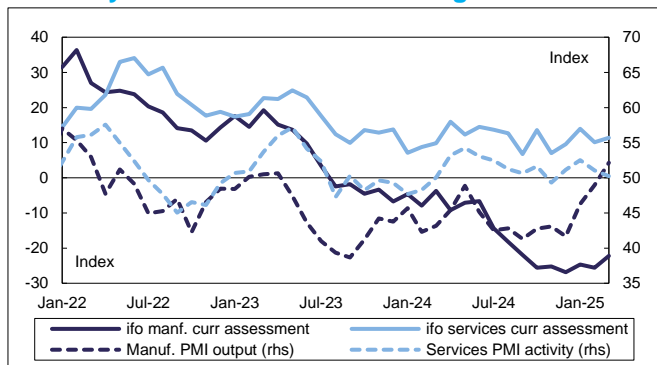
Survey flags gloomy outlook for retail sales in Q1

While official retail sales figures enjoyed a surprisingly strong start to the year, the detail in March's GfK survey flagged that, amid a lull in consumer confidence, households' preference to accumulate savings buffers continued to dominate. That more cautious sentiment was reflected in a deterioration in March's CBI distributive trades survey. Indeed, for the retail sector, the fall back in sales volumes was reportedly its most widespread since July 2024, with the net balance for sales for the time of year dropping a further 2pts to -36, significantly below its long-run average (-2). The share of businesses reporting lower sales volumes relative to one year ago also rose to its highest level since the start of last year (63%), whilst a little more than half of businesses also reported lower online sales. Speaking particularly to the softness of underlying demand, sales expectations also dipped. The indicator of orders placed with suppliers moved sideways (-38), but remained very low as only 4% of retail businesses assessed that their inventories would be insufficient to meet future demand. The weakness of underlying demand would seem to be broad-based across the distributive trades, as the three-monthly averages for both reported and expected sales volumes sat close to their lowest levels outside of recent recession shocks. So, while many observers, including ourselves, harbour hopes for a weather-led improvement in consumer spending in March, the CBI survey reinforces the view that underlying demand remains heavily subdued amid heightened uncertainty about the economic outlook.

The day ahead in the UK

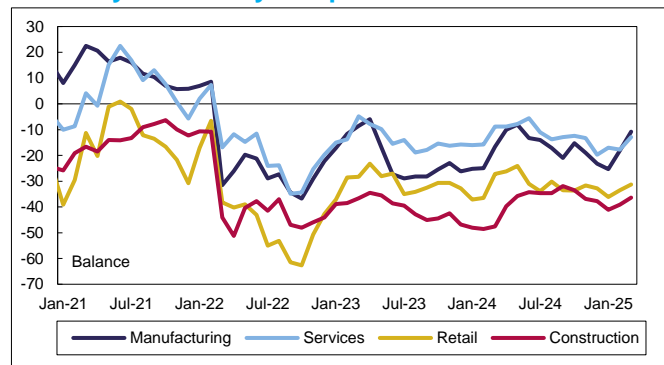
The main event in the UK tomorrow will be the Chancellor's Spring Statement. Indeed, after October's budget ultimately provisioned for just some £10bn of 'fiscal headroom' by FY29-30, the subsequent rise in gilt yields and softer economic growth appears to have all but wiped out the Chancellor's room to maneuver, with last week's [public finance statistics](#) for February ultimately reporting an overshoot of slightly more than £20bn in public sector borrowing relative to the OBR's

Germany: Services & manufacturing sentiment



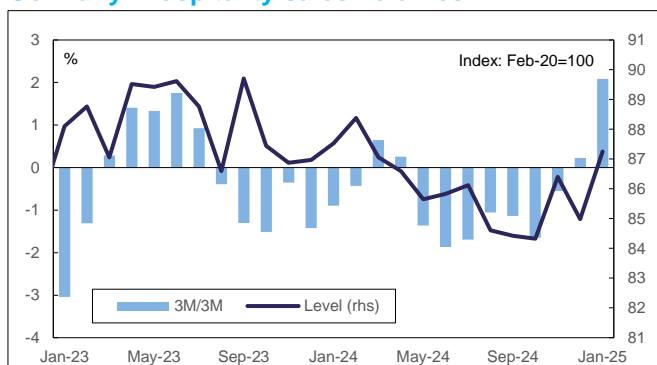
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Germany: ifo survey – expectations indices



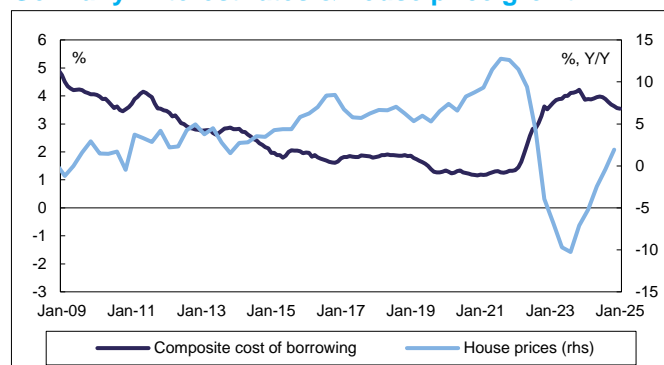
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Hospitality sales volumes



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Interest rates & house price growth

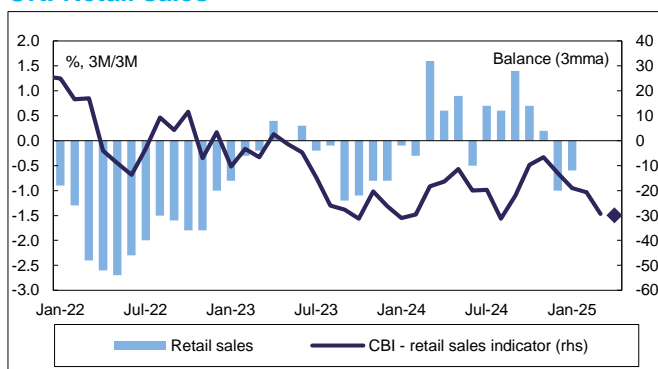


Source: Macrobond, Destatis and Daiwa Capital Markets Europe Ltd.

forecast for the financial year to date. So, in order to maintain compliance with the government’s fiscal rules, Chancellor Reeves is expected confirm the government’s intention to rein in public spending relative to its previous plans, including cuts to welfare spending and civil service headcount. Alongside an upwardly financing remit for the coming financial year, the DMO is also likely to announce a greater share of shorter-dated new gilt issuance.

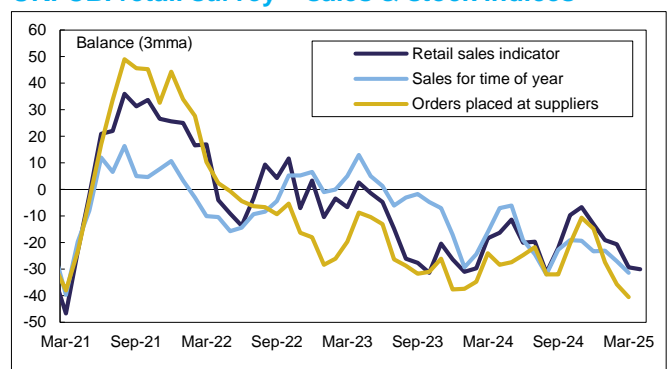
On the data front, the spotlight will be on February’s CPI report. Consumer prices in January surprised to upside, with headline and core CPI rates both climbing 0.5ppt on the month to 3.0%Y/Y and 3.7%Y/Y respectively, driven not least by a sharp increase in food prices. As a result, headline inflation exceeded the BoE’s forecast for that month by 0.2ppt. Our expectation is for another modest overshoot of the BoE’s projection in February, with the headline and core CPI rates likely little changed on the month as food and core goods continue to apply upwards pressure to the annual rate. But we expect services inflation – key to the MPC’s assessment of inflation persistence – to moderate to 4.8%Y/Y, 0.3ppt below the Bank’s latest projection. The UK’s house price index, also due tomorrow, should signal continued steady growth in house prices at the start of the year, consistent with leading indicators and an uptick in new mortgage approvals in Q1 ahead of April’s changes to stamp duty levies.

UK: Retail sales*



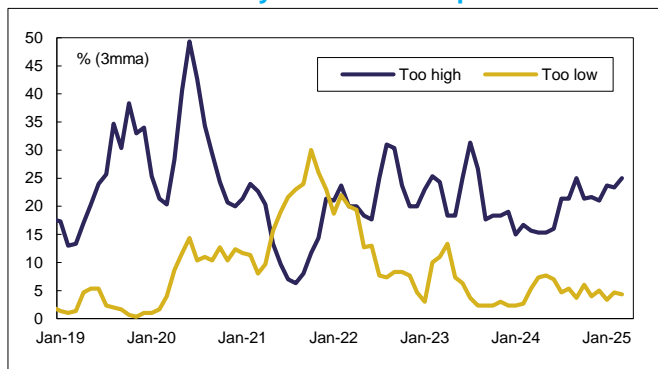
*Diamond represents expected sales in April.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: CBI retail survey – sales & stock indices



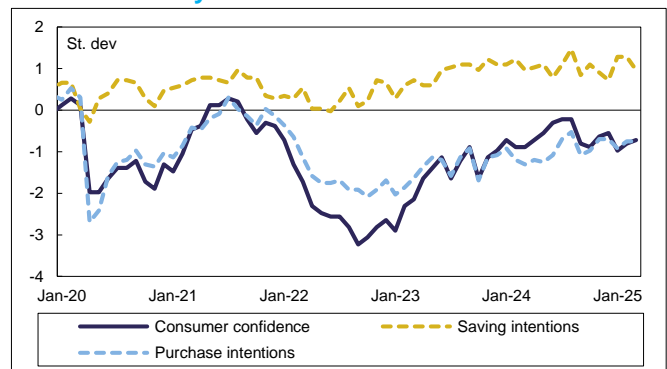
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: CBI retail survey – stocks to expected sales



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: GfK survey – consumer confidence indices








Source: Macrobond 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	 New car registrations Y/Y%	Feb	-3.9	-	-3.5	-
Germany	 ifo business climate indicator	Mar	86.7	86.7	85.2	85.3
	 ifo current assessment (expectations) indicator	Mar	85.7 (87.7)	85.5 (87.3)	85.0 (85.4)	-(85.6)
Spain	 PPI Y/Y%	Feb	6.6	-	2.6	-
UK	 CBI distributive trades survey – retail sales balance %	Mar	-41	-24	-23	-





Auctions

Country	Auction
Germany	 sold €3.431bn of 2.4% 2030 bonds at an average yield of 2.44%
UK	 sold £2bn of 4.75% 2043 bonds at an average yield of 5.232%






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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

Auctions and events

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 up to €3bn of 2.55% 2027 bonds
	 10.00	Auction: to sell up to €1.5bn of 1.5% 2029 inflation-linked bonds
UK	 12.30	Chancellor Reeves to present Spring Statement to Parliament

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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