

Euro wrap-up

Overview

- While German HICP inflation jumped to a 14-month high on fuel price pressures, Bunds made gains in line with the global trend.
- Gilts also made gains but underperformed as UK bank lending data firmed.
- Tuesday will bring the flash estimates of euro area inflation in March as well as a UK shop price survey for the same month, German retail sales and French consumer spending data for February and updated UK national accounts for Q4.

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Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.615	-0.051
OBL 2½ 04/31	2.748	-0.057
DBR 2.9 02/36	3.035	-0.054
UKT 4¾ 03/28	4.445	-0.024
UKT 4¾ 03/31	4.499	-0.028
UKT 4¾ 10/35	4.934	-0.036

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

Euro area

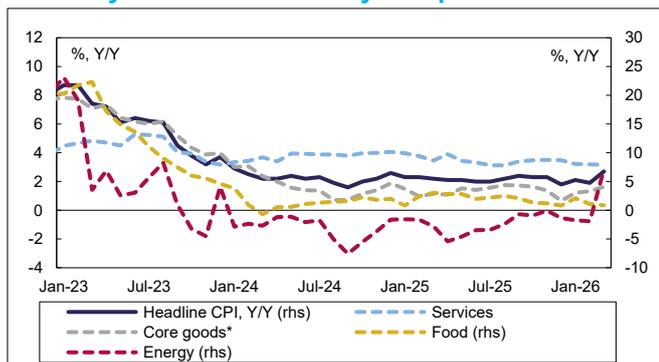
German HICP inflation jumps most since 2023 to 14-month high on rising petrol prices

In line with expectations, the flash estimate of German HICP inflation jumped 0.8ppt in March, the most since December 2023, to a 14-month high of 2.8%Y/Y. The flash national CPI inflation rate rose by the same amount to a 26-month high of 2.7%Y/Y. As for the Spanish figures published on Friday, higher energy prices accounted for most of the increase. Indeed, on the CPI measure, German energy prices rose about 7½%M/M to push the respective inflation rate up 9.1ppts to 7.2%Y/Y, the most since mid-2023. That reflected sharp hikes in prices of auto fuel and heating oil while household energy bills appeared little changed. In contrast, food inflation moderated 0.2ppt to just 0.9%Y/Y. Within the core components, services inflation was unchanged for a third month despite a firming in the hotel and package holidays components. And non-energy industrial goods inflation appears to have softened very slightly. So, core German inflation (excluding food and energy) was also unchanged at 2.5%Y/Y for a third month. Elsewhere, Irish HICP inflation rose 1.1ppt in March to 3.6%Y/Y, the highest since October 2023. While that rise was inevitably driven by energy, the core HICP rate also picked up, by 0.2ppt to 2.6%Y/Y. Finally, Belgian HICP inflation rose 0.6ppt to 2.0%Y/Y. While the energy component rose from February due to higher auto fuel prices, it remained in negative territory as electricity prices fell. While much will depend on the French and Italian figures, we now expect tomorrow's flash euro area figures to report a rise of 0.7ppt in headline inflation to a 19-month high of 2.6%Y/Y. But we expect core inflation to remain steady at 2.4%Y/Y.

Commission survey flags historically high increase in consumer & industrial price expectations

While the impact on inflation from rising auto fuel prices was already significant in March, households are braced for a further pickup and broadening in price pressures over coming months. The Commission survey's qualitative index of consumer price expectations for the coming 12 months jumped in March by more than 17pts, an increase exceeded only once on the series, three years ago immediately following Russia's invasion of Ukraine. And that pushed the index up to 43.4, a level exceeded only since the introduction of the single currency in the five successive months after the invasion. The survey also reported increases in business selling-price expectations for the coming three months across all major sectors. The rise of more than 7pts in the index of industrial selling-price expectations has been exceeded only twice (in November 2011 and March 2022) on the series dating back more than four decades. And while still below the range from March 2021 to February 2023 – a period across which core goods inflation rose 6.5ppts – at 19.7 the index similarly has rarely been exceeded since the introduction of the euro. The survey detail reported the biggest increase in selling-price expectations in intermediate goods, with the German survey flagging predictable pressures in energy-intensive subsectors such as chemicals. Meanwhile, three-month selling-price expectations in construction and retail rose to two-year highs, with the respective

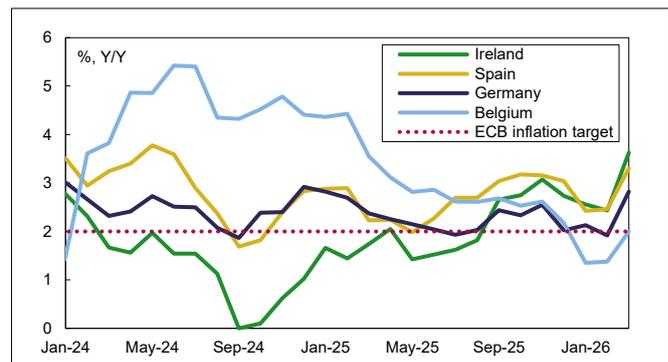
Germany: CPI inflation & key components



*Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: HICP inflation in selected member states



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

services index up to the highest in more than a year. The next Commission survey results will be published the day before the ECB's next monetary policy announcement on 30 April. If today's substantive rise in consumer and business price expectations is followed by a further increase next month, the Governing Council will feel compelled to raise rates.

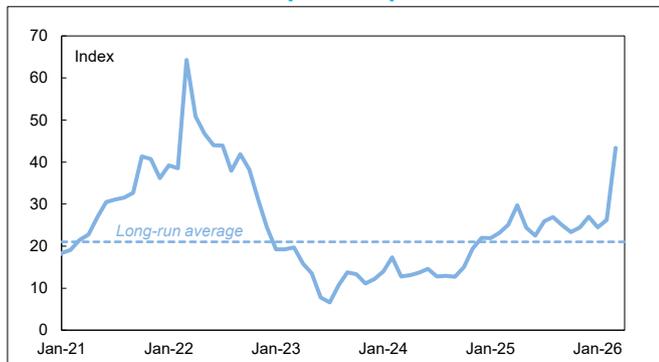
Economic sentiment falls to six-month low led by a marked deterioration in France

In terms of economic activity, today's Commission survey inevitably reported a worsening in conditions in March. The headline Economic Sentiment Index (ESI) declined for a second-successive month, by 1.6pts to a six-month low of 96.6, some 3½% below the long-run average. But the monthly decline was notably smaller than immediately after the Russian invasion in 2022, when the index fell more than 8½pts. And given the improvement in sentiment at the start of the year, the quarterly index in Q1 was still tracking some 0.8pt above the Q4 average, consistent with modestly positive GDP growth. While Germany was arguably the exception this month, where the respective ESI edged down just 0.1pt to be up almost 2pts over the first quarter, the deterioration in sentiment at end-Q1 was broad based across the member states. Nevertheless, the Italian and Dutch ESIs remained broadly in line with their long-run averages. And the indices from Spain, Portugal and Greece were suggestive of ongoing outperformance. In contrast, but similar to the message from the respective PMIs, the French ESI fell sharply in March for a second-successive month to a six-month low.

Retail sentiment hit pronounced as erosion of purchasing power & job insecurity hits spending

The more measured initial response to this energy shock in part relates to the more subtle knock to business sentiment. Indeed, according to the Commission survey, manufacturing confidence edged up very slightly in March supported by reports of further recovery and rising orders in autos, basic metals and ICT. Constructors reported a bounce back in civil engineering activity in March. And services sentiment was little changed from February as a pickup in hospitality and information services offset a marked decline at travel agencies and broadcasting, the latter likely in part relating to payback for a Winter Olympics-related boost in February. But retailers were the most downbeat in six months as near-term sales expectations were revised down by the most in three years. Today's survey also underscored the pronounced deterioration in consumer confidence as increased inflation expectations and job insecurity raised concerns of another big hit to living standards. Those fears of unemployment expectations tallied with signals from firms that they intend to cut headcount by the most in five years. And given the weakest income expectations in almost 2½ years, households were more reluctant to spend on big-ticket items than any month since August 2024.

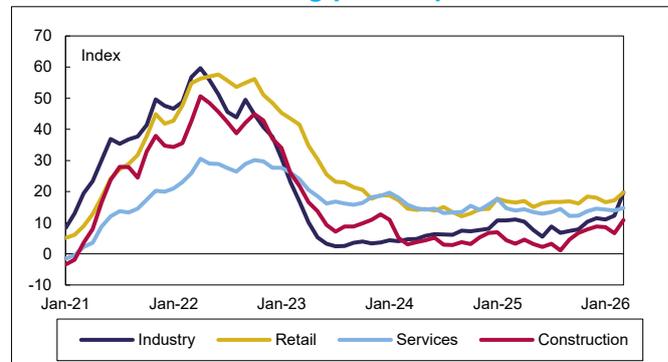
Euro area: Consumer price expectations*



*12-months ahead.

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

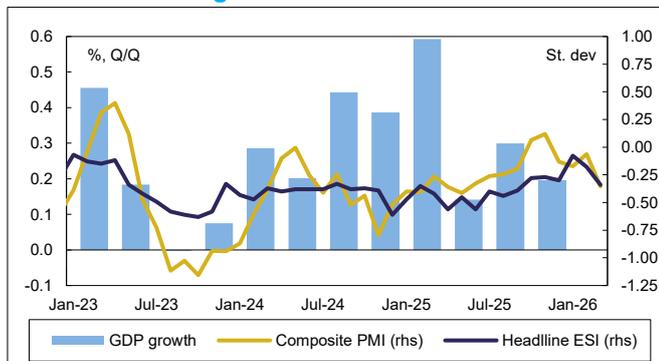
Euro area: Firms' selling-price expectations*



*3-months ahead.

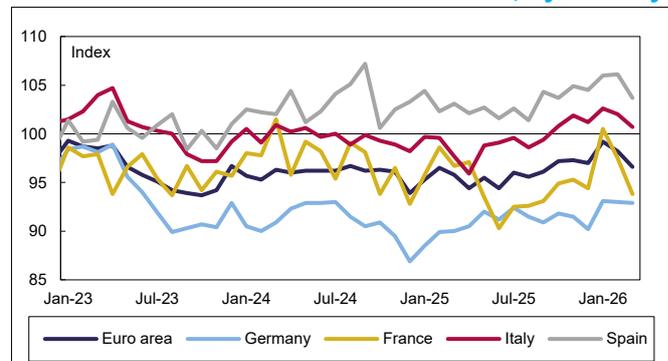
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: GDP growth & sentiment indices



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

Euro area: Economic sentiment indices, by country

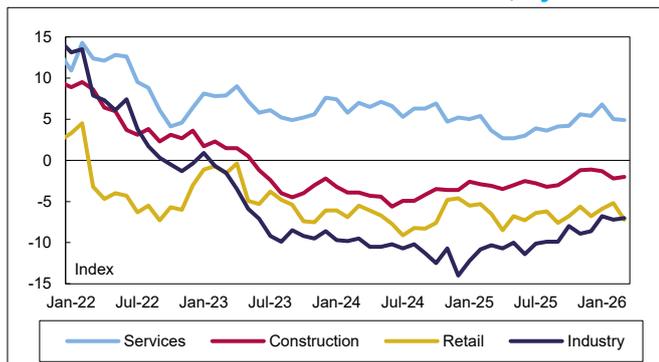


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

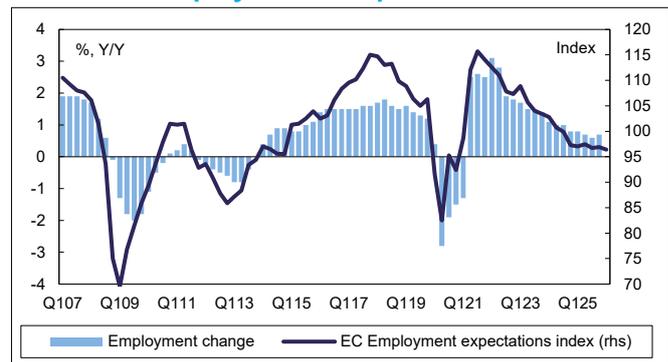
March inflation data will remain the principal focus of Tuesday's European dataflow. Following the release of a few further estimates from the member states – most notably France – the aggregate euro area estimates will give a first official measure of the global energy shock's impact on euro area prices. With some of the member states to publish data so far having undershot expectations, we now expect the headline HICP rate to rise 0.7ppt to 2.6%Y/Y. Energy components – predominantly auto fuels – will account for almost all of that increase. Indeed, we expect energy inflation in the euro area to jump from -3.1%Y/Y in February to about 5%Y/Y. At least for the time being, however, the indirect effects of the energy shock appear to be contained, leaving core inflation little changed from last month (2.4%Y/Y). Meanwhile, ahead of Thursday's update on euro area unemployment in February, German labour market statistics will provide a first official signal with regards to hiring conditions in March. German retail sales data for February and consumer spending data from France are also due.

Euro area: Economic sentiment indices, by sector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Employment & expectations index



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK

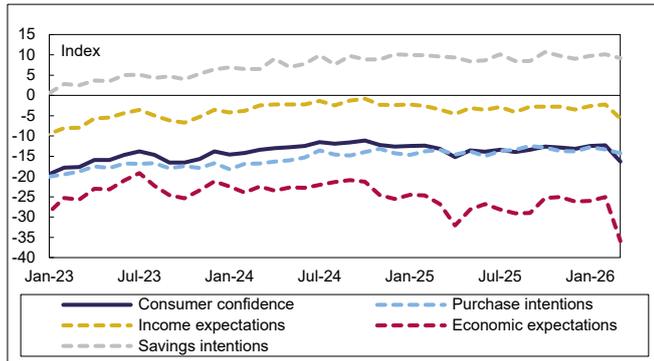
Bank lending picked up in February, but tighter lending conditions to hit demand over near term

For what it's worth, today's UK monetary data suggested that, ahead of the new global energy price shock and associated significant tightening of financial conditions, bank lending in February was consistent with a slight pickup in economic growth momentum. The flow of new loans to NFCs rose £2.6bn in February, admittedly a touch softer than the average of the past year but nevertheless marking more than two years of unbroken growth. And that took annual growth in the stock of business loans to 7.7%Y/Y, the highest since the Covid-related boost in Spring 2021. Net borrowing of consumer credit also increased last month by an above-average £1.9bn, nudging up the annual growth in the stock by 0.2ppt to a near-two-year high of 8.5%Y/Y. Net new mortgage lending rose a firmer-than-expected £4.8bn, a touch above the average in the previous six months. And new mortgage approvals rose to a three-month high (62.6k). But these remained down on monthly approvals in 2025 and some way below the long-run average. More importantly, these mortgages were offered when interest rates were substantially lower than today. Indeed, the average rate on a 2-year fixed mortgage with a 75% loan-to-value ratio in February was still less than 4%. But 2-year swap rates have jumped over the past month by almost 100bps, diminishing significantly buyers' housing affordability. As such, we expect mortgage lending and household buyer enquiries to weaken over coming months, with the broader hit to purchasing power from higher utility bills from July on likely to have a non-negligible knock on effect on housing market activity and prices too.

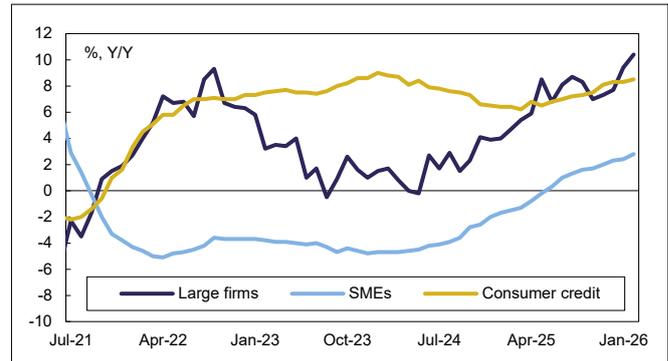
The day ahead in the UK

The day ahead will bring a handful of relevant data releases from the UK. March's BRC shop price survey will perhaps be of most interest. Indeed, as the rise in March's flash output price PMIs demonstrated, many firms expect to pass through at least some of their higher costs to selling prices over coming months. And though we expect pass-through to be relatively muted for the time being, the BRC will provide an early signal as to whether it had a bearing on the high street selling prices this month. Meanwhile, although today's bank lending data pointed towards less subdued activity in the housing market than might have been feared before the outbreak of war, its subsequent effect on mortgage rates seems likely to pose a downside risk to Nationwide's measure of house price growth. Final national accounts data for Q4 are also due. In line with the earlier estimates, we expect them to confirm that positive GDP growth was only just about sustained last quarter (0.1%Q/Q), as further pullback from net trade and postponed business investment in the lead up to the Budget largely offset modest growth in consumption.

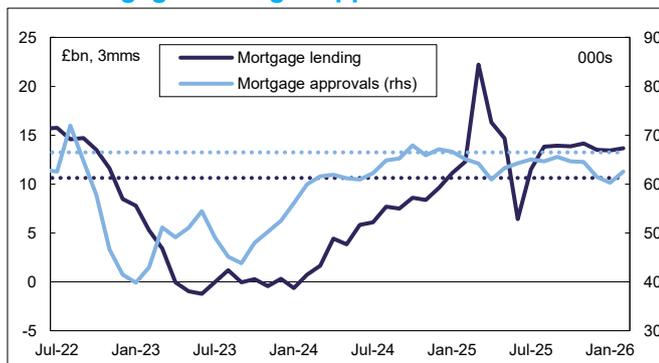
Euro area: Consumer confidence indices



UK: Loan growth to NFCs & households



UK: Mortgage lending & approvals*



UK: 2-year mortgage & interest swap rates



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Commission economic sentiment indicator	Mar	96.6	96.7	98.3	98.2
	Commission services (industrial) confidence indicator	Mar	4.9 (-7.0)	4.0 (-8.0)	5.0 (-7.1)	- (-7.2)
	Final Commission consumer confidence indicator	Mar	-16.3	-16.3	-12.3	-
Germany	Preliminary HICP (CPI) Y/Y%	Mar	2.8 (2.7)	2.8 (2.6)	2.0 (1.9)	-
Italy	PPI Y/Y%	Feb	-3.7	-	-2.1	-
Spain	Retail sales Y/Y%	Feb	2.2	3.2	4.0	3.8
UK	Lloyds business barometer (own price expectations) % balance	Mar	55 (55)	-	44 (65)	-
	Net consumer credit £bn (Y/Y%)	Feb	1.9 (8.5)	-	1.8 (8.3)	-
	Net mortgage lending £bn (approvals 000s)	Feb	4.8 (62.6)	3.9 (60.0)	4.1 (60.0)	4.2 (60.2)

Auctions

Country	Auction
- Nothing to report -	

- Nothing to report -

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	Preliminary headline (core) HICP Y/Y%	Mar	<u>2.6 (2.4)</u>	1.9 (2.4)
Germany	07.00	Retail sales M/M% (Y/Y%)	Feb	0.3 (1.0)	-1.0 (0.9)
	07.00	Import prices M/M% (Y/Y%)	Feb	-	1.1 (-2.3)
	08.55	Unemployment claims rate % (change 000s)	Mar	6.3 (2)	6.3 (1)
France	07.45	Preliminary HICP (CPI) Y/Y%	Mar	1.9 (1.5)	1.1 (0.9)
	07.45	PPI Y/Y%	Feb	-	-2.3
	07.45	Consumer spending M/M% (Y/Y%)	Feb	-	0.5 (0.4)
Italy	10.00	Preliminary HICP (CPI) Y/Y%	Mar	1.7 (1.8)	1.5 (1.5)
UK	00.01	BRC shop price index Y/Y%	Mar	1.3	1.1
	07.00	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.1 (1.0)</u>	0.1 (1.2)
	07.00	GDP – private consumption Q/Q%	Q4	<u>0.2</u>	0.4
	07.00	GDP – government spending Q/Q%	Q4	<u>0.4</u>	0.3
	07.00	GDP – gross fixed capital formation Q/Q%	Q4	<u>-0.1</u>	1.1
	07.00	GDP – exports (imports) Q/Q%	Q4	<u>-0.6 (0.8)</u>	0.2 (0.5)
	07.00	Current account balance £bn	Q4	<u>-23.4</u>	-12.1
	07.00	Nationwide house prices M/M% (Y/Y%)	Mar	0.0 (0.9)	0.3 (1.0)

Auctions and events

Germany	10.30	Auction: to sell up to €5bn of 2.1% 2028 bonds
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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