

# Euro wrap-up

## Overview

- While inflation fell in France and Spain in February, Bunds made gains as influential Executive Board member Schnabel warned that the ECB might “have to step up its level of support” in the event of “a rise in real long-term rates at the early stage of recovery”.
- Gilts made losses as BoE Chief Economist Haldane – a hawkish outlier on the MPC – expressed concerns about “central bank complacency” allowing inflation to rise too far and “requiring monetary policymakers to act more assertively than is currently priced into financial markets”.
- The coming week brings several top-tier data from the euro area including flash inflation for February, and retail sales and unemployment for January.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.667	-0.013
OBL 0 04/26	-0.566	-0.017
DBR 0 02/31	-0.260	-0.025
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.112	+0.022
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.396	+0.038
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.821	+0.041

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

Source: Bloomberg

## Euro area

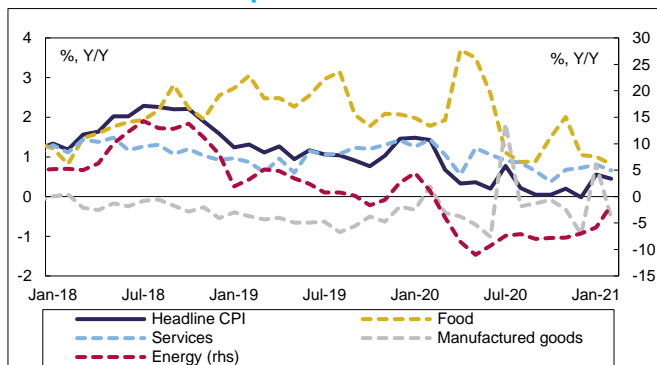
### French inflation falls less than expected in February

Today's first estimates of February inflation from large member states – France and Spain – reported declines following the sharp increases at the start of the year as temporary sources of upwards pressure reversed. However, the results were mixed, with the drop in France smaller than the consensus forecast, but the fall in Spain significantly steeper than expected. In particular, having jumped 0.8ppt in January to a 10-month high, the flash estimate of French inflation on the EU-harmonised HICP measure slipped back just 0.1ppt to 0.7%Y/Y. A steeper drop had been expected, not least due to the two-week extension to the winter sales. Indeed, the detail on the national measure, which fell 0.2ppt to 0.4%Y/Y, showed that inflation of manufactured goods fell 1.3ppts to -0.5%Y/Y. Services inflation also eased back, albeit only slightly by 0.1ppt to 0.7%Y/Y. But energy inflation leapt more than 4ppts to a twelve-month high of -1.7%Y/Y. And, with oil and other commodity prices continuing to rise and significant base effects set to kick in, French inflation is set to move significantly higher over the near term. We expect French inflation to rise above 1<sup>1</sup>/<sub>4</sub>%Y/Y next month, above 1<sup>1</sup>/<sub>2</sub>%Y/Y in Q2, and probably above 2%Y/Y in the second half of the year.

### Mixed data from Spain and Portugal, but headline inflation in the euro area was likely stable

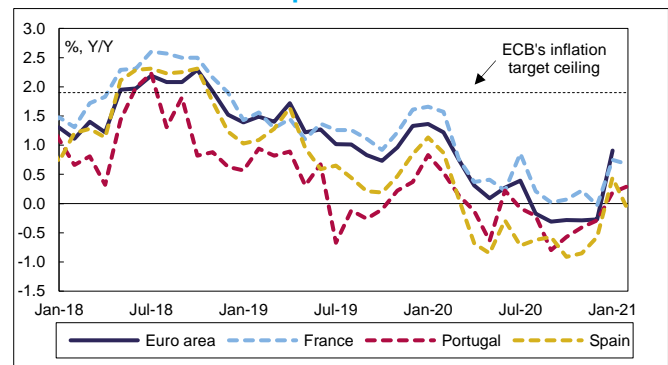
While French inflation in February came in a bit firmer than expected, Spanish inflation was significantly weaker than anticipated. In particular, having jumped 1.0ppt in January to an eleven-month high, the HICP measure fell 0.5ppt in February to -0.1%Y/Y. The Spanish statistical institute (INE) published little detail. But it noted that the drop in inflation was led by electricity prices, likely reflecting the improvement in the weather following the extreme snow in January. In addition, the pandemic caused a far smaller rise in prices of accommodation and tourist packages this year than in February 2020. Gas prices, however, added to inflation. Nevertheless, INE noted that its estimated measure of underlying Spanish inflation (excluding fresh food and energy) fell 0.3ppt to 0.3%Y/Y, 0.3ppt above the equivalent headline measure on the national methodology. Finally, in contrast to France and Spain, inflation in Portugal edged higher in February. Having increased by 0.5ppt in January to an eleven-month high, the EU-harmonised measure of Portuguese inflation rose a further 0.1ppt in February to 0.3%Y/Y, with energy prices reportedly the principal source of upwards pressure. And with that source of pressure likely to be seen elsewhere, we expect the flash estimate of euro area inflation in February to be unchanged at 0.9%Y/Y, but the core measure to fall back by at least 0.2ppt from last month's five-year high of 1.4%Y/Y.

### France: Consumer price inflation\*



\*National measure. Flash estimates for February 2021.  
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumer price inflation\*



\*EU-harmonised HICP measure. Flash estimates for February 2021 for France, Spain and Portugal. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

## French spending on goods falls sharply at the start of the year

Ahead of the release of euro area retail sales data for January next Thursday, today's French figures for household consumption expenditure on goods gave a guide as to what to expect. In particular, having jumped by more than one fifth in December thanks to the reopening of non-essential stores and the late Black Friday, French household spending on goods fell back 4.6%M/M in January to be unchanged from a year earlier. The decline was due to a drop in spending on manufactured items (-12.9%M/M), with payback from the December surge exacerbated by the delayed start to the January sales and a tightening of curfew restrictions. Expenditure on durable items fell almost 10%M/M while spending on clothing and related items fell by more than one quarter. In contrast, spending on energy (6.3%M/M) and food (1.7%M/M) increased.

## The week ahead in the euro area

The focus in the coming week will be on the release of the remaining flash February inflation figures, with German and Italian data to be published on Monday and the euro area numbers to come the following day. After jumping a whopping 2.3ppts in January, the German EU-harmonised measure of inflation is expected to remain unchanged at 1.6%Y/Y in February (the highest since February 2020), while Italy's HICP rate is expected to remain close to January's eighteen-month high of 0.7%Y/Y. So, while inflation in France and Spain declined, we expect headline euro area inflation to remain unchanged at 0.9%Y/Y. Given upwards pressure from energy prices, we expect the core rate to fall 0.2ppt to 1.2%Y/Y.

The start of the week also brings data on January's retail sales in Germany and February's new car registrations in France, Italy and Spain (Monday) and Germany (Wednesday). On Thursday, euro area retail sales data are expected to report a fall of 1.6%M/M and 1.5%Y/Y in January as pandemic restrictions continued to hamper household spending. Meanwhile, Tuesday's unemployment figures for February from Germany and Spain will be followed on Thursday by euro area unemployment data for January – the euro area unemployment rate is expected to remain unchanged at 8.3% in January, still thus representing a relatively modest increase from the pre-pandemic rate of 7.2% in February last year. German factory orders for January and French trade data for the same month will be published on Friday.

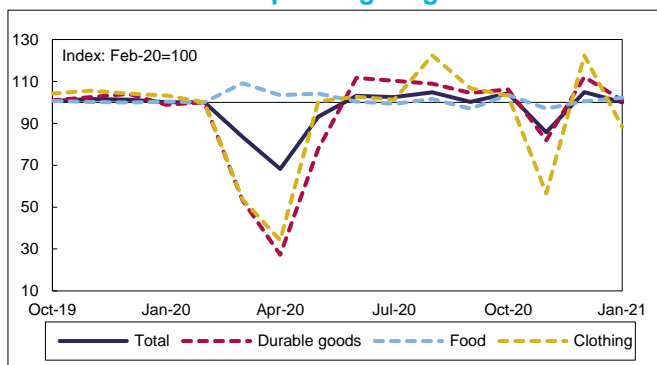
Survey-wise, we will get the final manufacturing PMIs for February on Monday and final services and composite indices on Wednesday, followed by the construction PMIs on Thursday. The flash euro area PMIs suggested minimal improvement in overall economic activity in the middle of Q1 as pandemic containment restrictions remained in place. However, the survey flagged a continued significant contrast in fortunes between the ailing services sector and resurgent manufacturers. In particular, being most directly affected by the containment measures, the services sector indices suggested ongoing contraction – the euro area activity PMI for the sector dropped 0.7pt to 44.7, while the euro area manufacturing output PMI more than reversed January's dip, rising almost 3pts to a four-month high of 57.5, suggesting strong growth in the sector. Ahead of the next Governing Council policy announcements on 11 March, commentary from ECB Governing Council members are likely to be less market-relevant, with the so-called "quiet period" starting mid-week.

## UK

### Haldane's hawkish views not representative of MPC majority

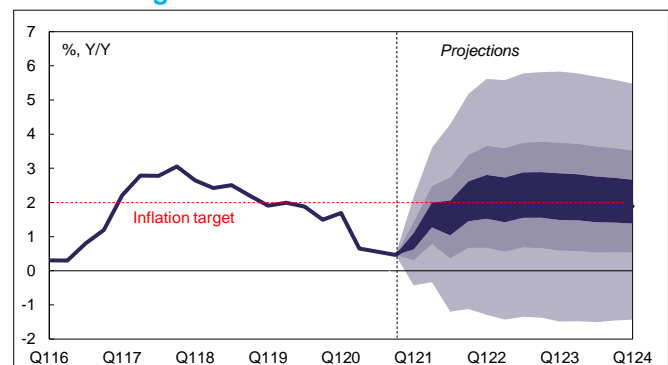
It was a quiet end to the week for UK economic data, with no top-tier figures out to distract from the hawkish comments of BoE Chief Economist Haldane. In particular, he noted "good grounds for believing future inflation may behave very differently than in the past", with key factors including significant fiscal stimulus and supply constraints in the economy. So, he warned of the risks of a sharper-than-expected rise in inflation, which might eventually overshoot the BoE's target for a sustained period if and when demand rebounds. Indeed, in typically colourful fashion to maximise media attention, Haldane outlined concerns about current "central bank complacency", that might in due course require "monetary policymakers to act more assertively than is currently priced into financial markets". We note that Haldane has, for some time, staked out his ground as an outlier on the MPC, with an upbeat take on the economic outlook and a hawkish take on policy. Indeed, he was the

### France: Household spending on goods



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Bank of England: Inflation outlook\*



\*Based on Bank Rate constant at 0.10%. Source: BoE, Refinitiv and Daiwa Capital Markets Europe Ltd.
















sole MPC member to vote against the increase in QE last June, even though he subsequently supported the further increase in bond purchases in November. And while Haldane judges that the risks to the MPC's central projection, which foresees inflation moving only marginally above the 2.0%YY target at the end of the forecast horizon, are skewed to the upside, the MPC's current central view is that the risks are evenly balanced on either side. Admittedly, the range of possible outcomes around that central projection is extremely wide. But we think the central projection is very credible. And so, we would certainly maintain our expectation of no change to Bank Rate this year. Nevertheless, today's speech would suggest that Haldane expects to vote for a hike not too long after the economy has been reopened from lockdown.

## The week ahead in the UK

In what will be a low-key week for economic data from the UK, the Budget statement on Wednesday will be most closely watched given the likely significant bearing on the near-term economic outlook of new fiscal policy measures to be announced. In particular, the Government looks set to extend certain key business support programmes, including the Job Retention Scheme and loan guarantees, to better match the plans for gradual easing of lockdown restrictions through to late June. Given recent increases in oil prices, the Chancellor will probably also decide to postpone an increase in fuel duty. And decisions to extend the current hospitality VAT cut beyond end-March, and possibly reinstate the Eat Out to Help Out hospitality subsidies in the summer, would also impact the near-term inflation outlook. A decision to extend the stamp duty holiday, from end-March and probably to end-June, would maintain near-term support for the housing market. At the macro level, the Chancellor seems likely to postpone a decision to start to tighten fiscal policy. But given stronger revenues, the OBR will be able to revise down its forecast of borrowing in FY20/21 of £339.9bn. But while it will also likely revise up its GDP forecast for the coming fiscal year, it will likely also revise up its forecast of borrowing in FY21/22 too (from £164bn).

Data-wise, BoE bank lending data for January will be published on Monday, with the final manufacturing, services and construction PMIs for January due on Monday, Wednesday and Thursday respectively. The flash PMIs pointed to a stabilisation of economic activity after a very soft start to the first quarter. The improvement was registered in services, suggesting a better ability of firms in the sector to cope with pandemic containment measures. In particular, having dropped almost 10pts in January to an eight-month low of 39.5, the services activity PMI rebounded to 49.7. However, the manufacturing output PMI edged down to 50.5, the lowest since last May, to suggest that the strong conditions seen in the euro area are not being shared with the UK. Separately, Nationwide house price data for February are also due on Tuesday, followed by the BRC shop price index for the same month on Wednesday and February new car registration numbers on Thursday.






































## Daiwa economic forecasts

		2020	2021				2022	2020	2021	2022
		Q4	Q1	Q2	Q3	Q4	Q1			
<b>GDP growth, %, Q/Q</b>										
Euro area		-0.6	-0.8	1.4	1.4	1.3	1.1	-6.8	3.5	4.4
Germany		0.3	-1.0	1.2	1.2	1.2	1.0	-5.3	2.5	4.0
France		-1.3	-0.5	1.2	1.4	1.2	1.2	-8.3	5.1	4.5
Italy		-2.0	-0.5	1.5	1.5	1.4	1.2	-8.9	4.0	4.7
Spain		0.4	-1.0	1.5	1.4	1.2	1.2	-11.0	3.9	5.0
UK		1.0	-2.8	3.5	3.0	2.2	1.5	-9.9	4.5	6.9
<b>Euro area</b>										
Headline CPI		-0.3	1.0	1.6	1.9	2.2	1.1	0.3	1.7	1.2
Core CPI		0.2	1.3	1.3	1.4	1.7	0.7	0.7	1.4	0.9
<b>UK</b>										
Headline CPI		0.5	0.9	1.9	2.0	2.2	2.1	0.9	1.7	1.7
Core CPI		1.3	1.5	2.0	2.0	1.8	1.7	1.4	1.8	1.5
<b>ECB</b>										
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
PEPP envelope* (€bn)		1850	1850	1850	1850	1850	1850	1850	1850	1850
<b>BoE</b>										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases** (£bn)		895	895	895	895	895	895	895	895	895

\*Monthly target €bn, end of period. \*\*Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.






















# Coming week's data calendar

## The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
<b>Monday 01 March 2021</b>						
EMU		09.00	Final manufacturing PMI	Feb	57.7	54.8
Germany		08.55	Final manufacturing PMI	Feb	60.6	57.1
		13.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Feb	1.2 (1.6)	1.0 (1.6)
France		08.50	Final manufacturing PMI	Feb	55.0	51.6
		-	New car registrations* Y/Y%	Feb	-	-5.8
Italy		08.45	Manufacturing PMI	Feb	57.0	55.1
		10.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Feb	-	0.7 (0.4)
		11.00	GDP Y/Y%	2020	-8.9	0.3
		17.00	New car registrations Y/Y%	Feb	-	-14
Spain		08.15	Manufacturing PMI	Feb	51.0	49.3
		-	New car registrations* Y/Y%	Feb	-	-51.5
UK		09.30	Final manufacturing PMI	Feb	54.9	54.1
		09.30	Net consumer credit £bn (Y/Y%)	Jan	-2.0 (-)	-1.0 (-7.5)
		09.30	Net mortgage lending £bn (approvals '000s)	Jan	5.0 (98)	5.6 (103.4)
<b>Tuesday 02 March 2021</b>						
EMU		10.00	Preliminary CPI (core CPI) Y/Y%	Feb	1.0 (1.2)	0.9 (1.4)
Germany		08.55	Unemployment rate % (change '000s)	Feb	6.0 (-7.5)	6.0 (41.0)
		-	Retail sales* M/M% (Y/Y%)	Jan	1.0 (1.9)	-9.1 (2.8)
Spain		08.00	Unemployment change '000s	Feb	-	76.2
UK		07.00	Nationwide house price index M/M% (Y/Y%)	Feb	-0.4 (5.5)	-0.3 (6.4)
<b>Wednesday 03 March 2021</b>						
EMU		09.00	Final services (composite) PMI	Feb	44.7 (48.1)	45.4 (47.8)
		10.00	PPI Y/Y%	Jan	-0.4	-1.1
Germany		08.55	Final services (composite) PMI	Feb	45.9 (51.3)	46.7 (50.8)
		-	New car registrations* Y/Y%	Feb	-	-31.1
France		08.50	Final services (composite) PMI	Feb	43.6 (45.2)	47.3 (47.7)
Italy		08.45	Services (composite) PMI	Feb	45.0 (59.9)	44.7 (47.2)
Spain		08.15	Services (composite) PMI	Feb	42.6 (44.7)	41.7 (43.2)
UK		00.01	BRC shop price index Y/Y%	Feb	-	-2.2
		09.30	Final services (composite) PMI	Feb	49.7 (49.8)	39.5 (41.2)
<b>Thursday 04 March 2021</b>						
EMU		08.30	Construction PMI	Feb	-	44.1
		10.00	Unemployment rate %	Jan	8.3	8.3
		10.00	Retail sales M/M% (Y/Y%)	Jan	-1.3 (-1.5)	2.0 (0.6)
Germany		08.30	Construction PMI	Feb	-	46.6
France		08.30	Construction PMI	Feb	-	39.5
Italy		08.30	Construction PMI	Feb	-	48.7
UK		09.00	New car registrations Y/Y%	Feb	-	-39.5
		09.30	Construction PMI	Feb	-	49.2
<b>Friday 05 March 2021</b>						
Germany		07.00	Factory orders M/M% (Y/Y%)	Jan	1.2 (2.4)	-1.9 (6.4)
France		07.45	Trade balance €bn	Jan	-	-3.4
Italy		09.00	Retail sales M/M% (Y/Y%)	Jan	-	2.5 (-3.1)

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







### The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 01 March 2021</b>		
EMU	 15.20	ECB's de Guindos scheduled to speak
	 16.10	ECB President Lagarde gives a pre-recorded message to German Association for small and medium-sized businesses
<b>Tuesday 02 March 2021</b>		
EMU	 13.40	ECB's Panetta scheduled to speak
Germany	 10.30	Auction: €400mn of 0.5% 2030 index-linked bonds
	 10.30	Auction: €200mn of 0.1% 2046 index-linked bonds
UK	 10.00	Auction: £3bn of 0.375% 2026 bonds
	 11.30	Auction: £1.25bn of 0.5% 2061 bonds
<b>Wednesday 03 March 2021</b>		
EMU	 13.00	ECB's Panetta scheduled to speak
	 15.00	ECB's de Guindos scheduled to speak
	 19.30	ECB's Schnabel scheduled to speak
Germany	 10.30	Auction: €3bn of 0% 2036 bonds
UK	 12.30	Chancellor Sunak to deliver the Budget
	 16.00	BoE's Tenreyro scheduled to speak on negative rate policies
<b>Thursday 04 March 2021</b>		
EMU	 08.10	ECB's Knot scheduled to speak
France	 09.50	Auction: 0% 2030 bonds
	 09.50	Auction: 0.5% 2040 bonds
	 09.50	Auction: 0.75% 2052 bonds
Spain	 09.30	Auction: fixed rate bonds
UK	 09.30	BoE publishes February Decision Maker Panel data
	 10.00	Auction: £2.75bn of 0.25% 2031 bonds
<b>Friday 05 March 2021</b>		
UK	 14.00	BoE Haskel scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
France	 Consumer spending on goods M/M% (Y/Y%)	Jan	<b>-4.6 (0.0)</b>	-4.0 (0.3)	23.0 (3.7)	<b>22.4 (3.6)</b>
	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Feb	<b>0.4 (0.7)</b>	0.3 (0.5)	0.6 (0.8)	-
	 Final GDP Q/Q% (Y/Y%)	Q4	<b>-1.4 (-4.9)</b>	-1.3 (-5.0)	18.5 (-3.9)	-
	 PPI Y/Y%	Jan	<b>0.4</b>	-	-1.2	<b>-1.0</b>
Spain	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Feb	<b>0.0 (-0.1)</b>	0.6 (0.5)	0.5 (0.4)	-
UK	 Lloyd's business barometer	Feb	<b>2</b>	-	-7	-

#### Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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