

# Euro wrap-up

## Overview

- Euro area government bonds made big gains while the latest German and Italian inflation data were mixed, ECB Governing Council speakers remained dovish but, due to higher redemptions, ECB net PEPP purchases slowed last week to €12bn, close to the average so far this year.
- Gilts also made big gains while data showed a further significant rise in UK household deposits in January but the final manufacturing PMIs signalled significant supply-side problems.
- Tuesday will bring the flash estimate of euro area inflation data in February along with updates on German retail sales and unemployment.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.700	-0.027
OBL 0 04/26	-0.633	-0.062
DBR 0 02/31	-0.338	-0.075
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.079	-0.028
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.340	-0.049
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.749	-0.067

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

Source: Bloomberg

## Euro area

### February HICP inflation unchanged in Germany but up in Italy

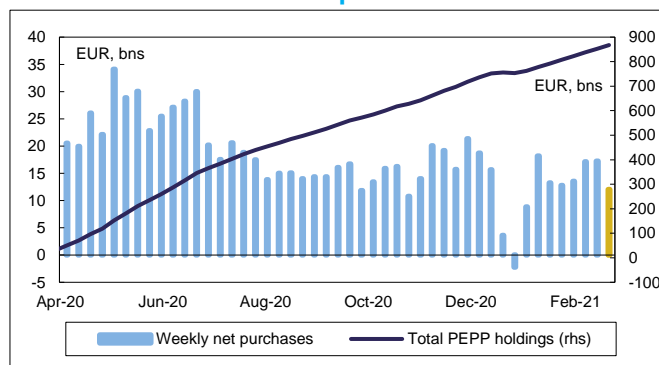
While Friday's flash February estimates of inflation in France and Spain fell back from January's multi-month highs, today's equivalent data from Germany and Italy did not. However, while German inflation on the national methodology rose 0.3ppt to an eleven-month high of 1.3%Y/Y, the German estimate on the EU's HICP measure remained unchanged at 1.6%Y/Y, still nevertheless matching the highest since February 2020. The detail published on the national measure showed upwards pressure from energy inflation, which, largely due to base effects, registered the first rise since March, while food inflation provided a modest offset. But while services inflation was unchanged, inflation of non-energy industrial goods was a touch firmer.

Meanwhile, in Italy, inflation was firmer on both the EU-harmonised and national measures. In particular, HICP inflation rose 0.3ppt to 1.0%Y/Y, the highest since April 2019. Once again, base effects saw energy inflation contribute to the increase on the month, while food inflation moved in the opposite direction. However, increases in certain other items, including clothing, leisure and hospitality (a large share of which will have been imputed by the statisticians), meant that Italian core inflation on the EU-harmonised measure increased 0.2ppt to a seven-month high of 1.4%Y/Y. With the inflation rates of the large member states having moved in different directions in February, we maintain our forecast that the euro area figure, due tomorrow, will be unchanged from January at 0.9%Y/Y, the highest since February 2020. But with energy inflation likely to have picked up, we expect core inflation to have dropped by about 0.2ppt to 1.2%Y/Y. Nevertheless, not least due to base effects we expect euro area inflation to rise in March, and further to above 2.0%Y/Y into the second half of the year.

### Final manufacturing PMIs remain upbeat despite weak new car registrations in February

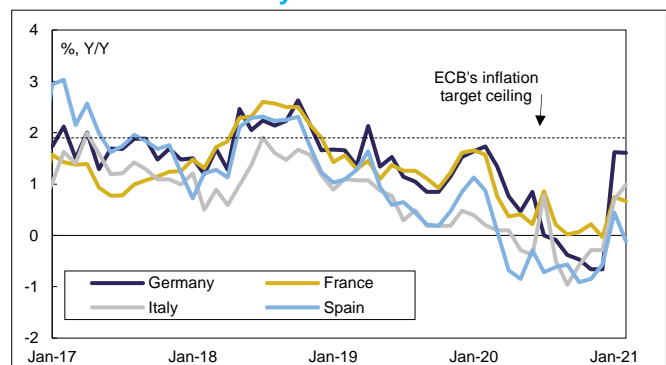
Having fallen by 24.5%Y/Y in the euro area in January as lockdown restrictions took their toll, the first data on new car registrations in February from the large member states were similarly weak as restrictions by and large remained in place. In France, new car registrations dropped 20.9%Y/Y to be down 13.6%YTD/Y. In Spain, they were down a sharper 38.4%Y/Y to be down 44.6%YTD/Y. In Italy, they fell 12.3%Y/Y to be down -13.1%YTD/Y, while they dropped 21.9%Y/Y and 24.7%YTD/Y in Belgium. Nevertheless, despite the weakness in new car registrations, today's final manufacturing PMIs for February reaffirmed the optimistic picture of the sector presented by the flash estimates. The euro area output PMI was revised up slightly to 57.6, a four-month high. And the new orders PMI was confirmed at 57.8, similarly up 3pts on the month and the highest since October. The German and French headline PMIs were also both revised up slightly to the highest in more than three years. And, indeed, the indices for all member states bar Greece were similarly consistent with a solid pace of expansion. Moreover, Markit reported an improvement in conditions in all main sub-sectors, with manufacturers of

### Euro area: ECB PEPP net purchases



Source: ECB, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Inflation by selected member state\*



\*EU-harmonised measure. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

investment goods reporting the strongest growth in production since January 2018. Given supply-chain constraints, and rising freight and energy prices, the survey reported the strongest rise in input cost inflation for almost a decade. And given firming demand, the euro area manufacturing output price index jumped 4.3pts to 56.5, the highest since April 2018.

## The day ahead in the euro area

The focus tomorrow will be on the flash estimate of euro area CPI for February. Following today's results from Germany and Italy, which will go some way to offsetting declines in the French and Italian HICP rates, we expect headline euro area inflation to remain unchanged at 0.9%Y/Y. But given the upwards pressure from energy inflation, we expect the core rate to fall 0.2ppt to 1.2%Y/Y. Also scheduled for release tomorrow are German retail sales figures for January, which are expected to post a modest 0.3%M/M increase (+1.7%Y/Y), after dropping a steep 9.1%M/M in December as lockdown measures were tightened. Meanwhile, German labour market figures, also due tomorrow, are forecast to show a further fall in unemployment in February, albeit likely with close to 2 million workers still supported by the Government's Kurzarbeit short-term working scheme. In contrast, Spanish unemployment is expected to have edged up last month. Finally, after the ECB today revealed that its net PEPP purchases slowed in the week to 24 February by more than €5bn to €12bn, close to the average so far this year, data due tomorrow will show the level of gross purchases and redemptions. An ECB spokesman today suggested that the slowdown was principally due to higher redemptions rather than lower gross purchases.

## UK

### Manufacturing PMIs flag rising cost pressures, supply-chain disruption and flat output

In contrast to the upbeat euro area figures, the final UK manufacturing PMIs for February confirmed the message of the disappointing flash estimates. For example, the manufacturing output PMI was unrevised at 50.5, suggesting the weakest increase in production since the sharp contraction in May. While producers of capital and intermediate goods reported growth, consumer goods manufacturers saw output continue to decline. And while the new orders PMI (52.8) pointed to modest growth ahead, the main theme of the survey was rising supply-chain disruption – due to Brexit as well as global factors – and cost pressures. While optimism about conditions in twelve-months' time rose to the highest in more than six years, the delivery times PMI dropped to its second-worst reading on the series while input prices rose the most since January 2017 and output prices rose the most since January 2018.

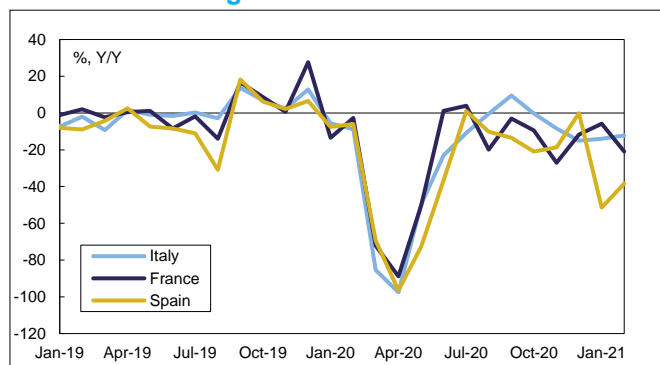
### Households continue to repay consumer credit

The BoE's latest monetary data suggested that the recent trends in borrowing and saving largely continued at the start of the year. Indeed, households made their largest net repayment of consumer credit in eight months in January, paying back a net £2.4bn up from an average of £1.0bn over the last four months of 2020. As in prior months, the repayment largely reflected reduced credit card debt. And that pushed the annual rate of growth of consumer credit down to a new series low of -8.9%Y/Y. At the same time, however, borrowing for house purchase remained elevated, with an additional £5.2bn of loans secured against individuals' homes, compared to the monthly average of £4.0bn in the six months before the pandemic struck in February 2020. In addition, the number of mortgage approvals dropped less than 4k from December's thirteen-year high to 99k, almost 50% above the average in the six months to February 2020. Meanwhile, private non-financial corporates (NFCs) repaid £1.0bn of bank loans in January, with large firms repaying a new £1.5bn but SMEs borrowing a net £0.5bn. Overall, NFCs raised £4.3bn from financial markets in January, up from £1.3bn in December.

### Household deposits jump again, but how much will be spent over coming quarters?

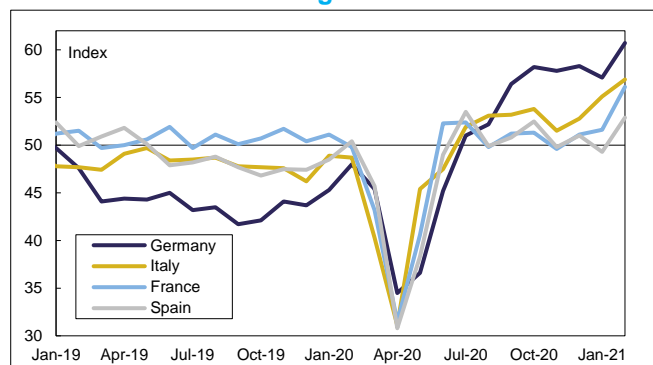
On the savings side, the recent trend of deposit accumulation by private NFCs came to an end in January, with the stock dropping £9.0bn, broadly in line with previous patterns. That followed the monthly average increase of business deposits of £17.3bn between March and December. In contrast, there was a further substantive net flow into households' deposits in January of £18.5bn, taking the cumulative net inflow since February 2020 to £168bn up from £56bn over the preceding

#### Euro area: Car registrations



Source: Bloomberg, Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Euro area: Manufacturing PMIs



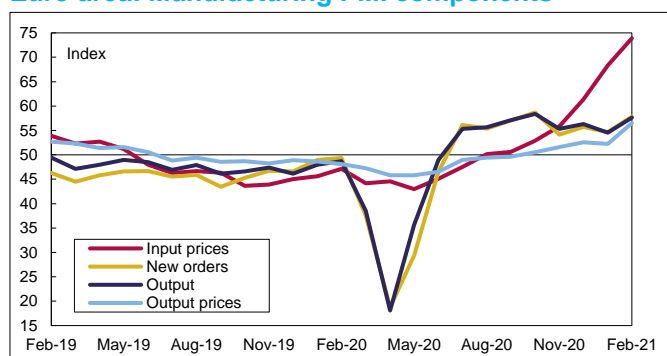
Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

twelve months. A share of those additional savings are expected to be spent when the economy reopens, as opportunities to spend and greater certainty about the economic outlook encourage households to open their wallets. However, with the largest share of extra deposits having accrued to groups with a lower marginal propensity to spend (e.g. the wealthy and elderly), and surveys suggesting that most households do not intend to increase their spending, the BoE's assumption that only 5% of the additional savings will be spent over its forecast horizon appears defensible.

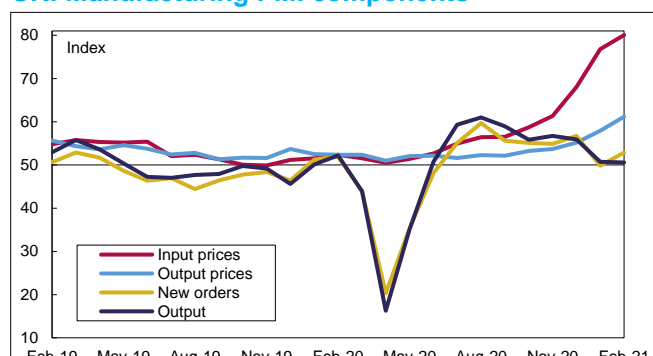
## The day ahead in the UK

Looking ahead, tomorrow brings the release of the Nationwide house price index for February, which is expected to reveal a second successive drop of 0.3%M/M in house prices on this measure. That might suggest that the mini property market boom has peaked ahead of the currently scheduled end to the government's stamp duty holiday at end-March. Nevertheless, we expect the Chancellor to announce additional support for the housing market in Wednesday's Budget announcement.

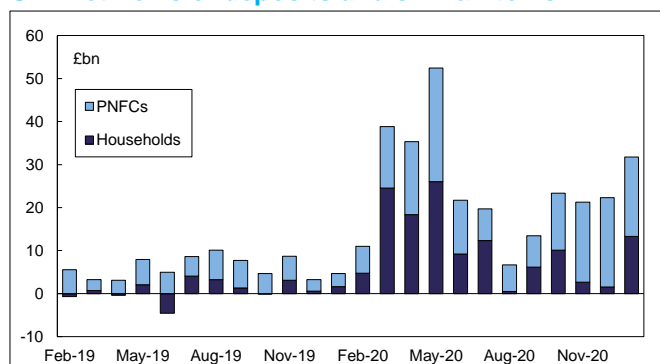
### Euro area: Manufacturing PMI components



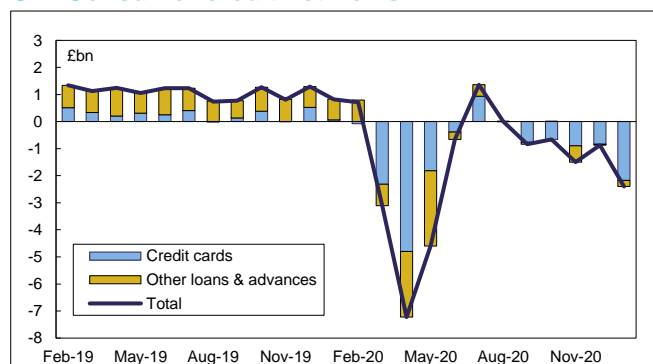
### UK: Manufacturing PMI components



### UK: Net flows of deposits and similar items\*

















### UK: Consumer credit net flows



# European calendar

## Today's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Final manufacturing PMI	Feb	<b>57.9</b>	57.7	54.8	-
Germany	 Final manufacturing PMI	Feb	<b>60.7</b>	60.6	57.1	-
	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Feb	<b>1.3 (1.6)</b>	1.2 (1.6)	1.0 (1.6)	-
France	 Final manufacturing PMI	Feb	<b>56.1</b>	55.0	51.6	-
	 New car registrations Y/Y%	Feb	<b>-20.9</b>	-	-5.8	-
Italy	 Manufacturing PMI	Feb	<b>56.9</b>	57.0	55.1	-
	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Feb	<b>0.6 (1.0)</b>	-	0.7 (0.4)	-
	 GDP Y/Y%	2020	<b>-8.9</b>	-8.9	0.3	-
	 New car registrations Y/Y%	Feb	<b>-12.3</b>	-	-13.9	-
Spain	 Manufacturing PMI	Feb	<b>52.9</b>	51.0	49.3	-
	 New car registrations Y/Y%	Feb	<b>-38.4</b>	-	-51.5	-
UK	 Final manufacturing PMI	Feb	<b>55.1</b>	54.9	54.1	-
	 Net consumer credit £bn (Y/Y%)	Jan	<b>-2.4 (-8.9)</b>	-2.0 (-)	-1.0 (-7.5)	<b>-0.9 (-)</b>
	 Net mortgage lending £bn (approvals '000s)	Jan	<b>5.2 (99)</b>	5.0 (98)	5.6 (103.4)	<b>5.3 (102.8)</b>






### Auctions

Country	Auction






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tomorrow's releases

### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	 10.00	Preliminary CPI (core CPI) Y/Y%	Feb	1.0 (1.2)	0.9 (1.4)
Germany	 07.00	Retail sales M/M% (Y/Y%)	Jan	0.3 (1.7)	-9.1 (2.8)
	 08.55	Unemployment rate % (change '000s)	Feb	6.0 (-10.0)	6.0 (41.0)
Spain	 08.00	Unemployment change '000s	Feb	-10.0	76.2
UK	 07.00	Nationwide house price index M/M% (Y/Y%)	Feb	-0.3 (5.6)	-0.3 (6.4)

### Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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