

Euro wrap-up

Overview

- Bunds made gains as concerns about events in Ukraine intensified and euro area consumer confidence fell to an eleven-month low.
- Gilts made significant gains as the rise in UK retail sales in January failed to reverse half of the decline in December.
- The coming week will bring several economic survey results including the February flash PMIs and Commission sentiment indices.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	-0.480	-0.039
OBL 0 04/27	-0.063	-0.038
DBR 0 02/32	0.202	-0.026
UKT 0 ¹ / ₈ 01/24	1.256	-0.064
UKT 0 ³ / ₈ 10/26	1.283	-0.064
UKT 0 ¹ / ₄ 07/31	1.384	-0.076

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

Euro area

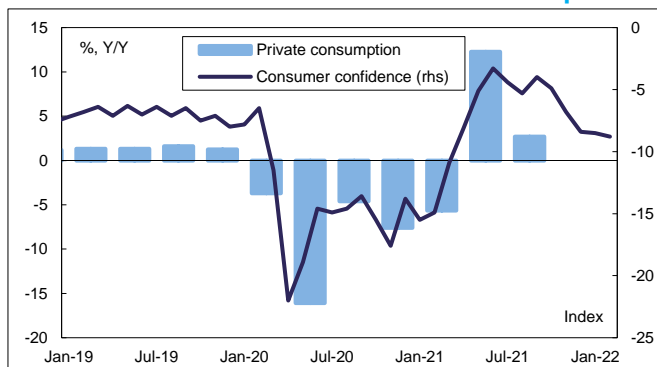
ECB commentary signals gradual normalisation including an end to net purchases in Q3

Another week of commentary from members of the ECB's Governing Council ended with further suggestions regarding the policy path ahead, most notable of which came from yesterday's speech from Chief Economist Philip Lane. Having been dovish throughout his tenure on the Governing Council, yesterday Lane became more balanced. Being responsible for the ECB's forecasts upon which the March monetary policy decision will be based, Lane's acknowledgement that inflation is now expected to settle around the 2% target over the medium term was important, as was his judgement that many structural factors that weighed on inflation before the pandemic are unlikely to do so now. So, he suggested that the ECB needed to reset its path of net asset purchases next month, and that the outlook would likely call for gradual policy normalisation. The prescription of clear but gradual and data-dependent normalisation was also made yesterday by dovish Spanish governor Hernandez de Cos. And today two lesser-watched national bank governors pointed to a swifter reduction in net asset purchases than currently set. Slovenian governor Vasle said the ECB should now be "slightly quicker at adjusting monetary measures" while Slovakian governor Kazimir argued that August would be "a good natural timing for ending" net purchases, not least as trading activity is lower over the summer holiday period. But he also suggested the need for flexibility over the timing of any subsequent rate hike, which current forward guidance suggests will come "shortly" after the end of net purchases. Overall, the balance of comments over the past two weeks remains consistent with our baseline forecast of an end to net asset purchases in Q3 followed by a first hike in December.

Consumer confidence declines to eleven-month low even as Omicron wave passes its peak

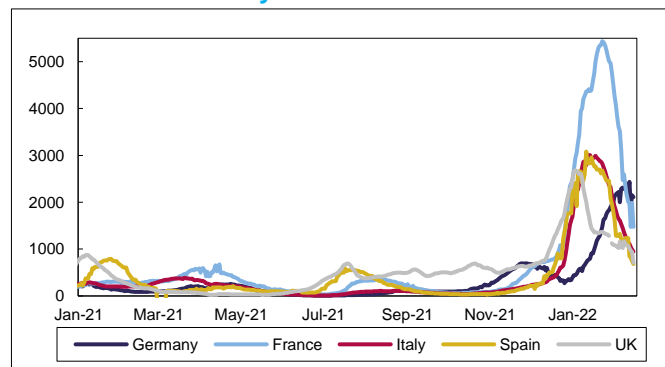
Contrary to expectations of a modest improvement, the Commission's flash estimate of consumer confidence declined for the fifth month in a row in February, edging down 0.3pt to an eleven-month low of -8.8. While firmly below the range prevailing between May and November last year, the index was still a little above the long-run average. While concerns about the impact of high inflation on real disposable income is likely to have weighed on sentiment, fears about the impact of the pandemic should have eased somewhat as the current wave of coronavirus appears now to have peaked in the large member states. Against that backdrop, mobility has picked up over recent weeks, allowing for increased spending on recreation and hospitality activity after a weak January. And relaxation of pandemic restrictions appears on the cards in many member states, not least in Germany where Chancellor Scholz and state governors this week agreed to a gradual phase out in three stages by 20 March. From now, proof of vaccination will no longer be required to enter shops, while large outdoor events and nightclubs will reopen for the vaccinated from 4 March, and, if the situation in hospitals allows, most other restrictions will be lifted from the end of next month.

Euro area: Consumer confidence & consumption



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: New daily coronavirus cases



Source: Our World in Data and Daiwa Capital Markets Europe Ltd.

Car registrations start the year in reverse

While the past week's [production](#) data showed that autos output in the euro area rebounded at the end of last year, the surge in new coronavirus cases at the turn of the year and pandemic-related restrictions, as well as persistent supply-chain disruption, contributed to a drop in new car registrations in January. The number of units sold stood at just 586k, representing the lowest January outturn on the series. On a seasonally adjusted basis, the ECB estimated that new registrations dropped almost 5½%M/M to leave them still roughly 30% lower than the pre-pandemic level. The weakness last month principally reflected a 36.4%M/M drop in Spanish registrations, with the pandemic perhaps providing difficulties with seasonal adjustment in certain countries, while French sales were down (-3.7%M/M) for the fourth month out of the past five. In contrast, Italian sales up more than 15%M/M in January, while German registrations were up for the third consecutive month (1.8%M/M) to leave the shortfall compared with the pre-pandemic the smallest of the largest member states, albeit at a still hefty 17%.

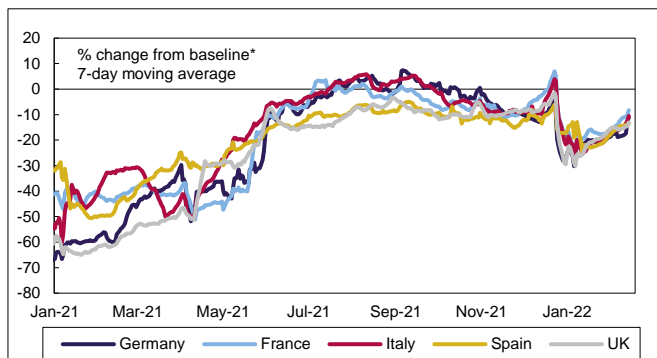
Construction collapses at end of last year

Contrasting with the upside surprise to manufacturing output in December, today's monthly construction output numbers confirmed a sharp drop at year-end, as supply challenges, adverse weather conditions and the latest pandemic wave took their toll. Total output declined for the second successive month in December and by 4%M/M to its lowest level since May 2020 and more than 5½% below the pre-pandemic level. That left activity down 0.3%Q/Q in Q4 to be a drag on GDP growth for the second successive quarter. Within the detail, building construction fell 4½%M/M in December to be down 0.4%Q/Q in Q4, while a near-2%M/M drop in civil engineering still left output up on the quarter (0.4%Q/Q). Among the larger member states, the weakness was most pronounced in Germany (-7.3%M/M) and France (-7.0%M/M). While we expect output to rebound in January as order books remain ample, construction survey indicators have been mixed with the Commission's indicator falling to a four-month low while the output PMI rose to a four-year high. And persisting supply challenges and increasing cost burdens seem bound to remain a constraint over the near term.

French employment up to a record high, inflation confirmed well below euro area average

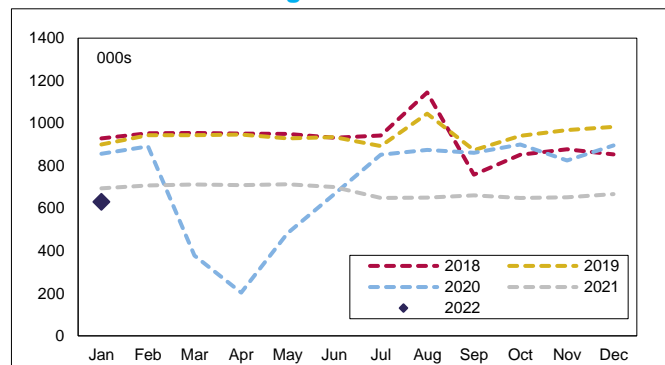
Finally, today's French labour market and inflation data highlighted a pair of favourable features of the economy that – notwithstanding the low quality of his opponents – have helped to underscore the strong likelihood that Emmanuel Macron will be re-elected for a second term as President in the spring. Having been little changed through the first three quarters of the year, the mainland unemployment rate dropped a marked 0.6ppt – the most in a year – to 7.2%, 0.7ppt below the pre-pandemic level and the lowest since 2008 bar the initial drop at the start of the pandemic when many jobless workers were

Euro area: Travel to retail and recreation



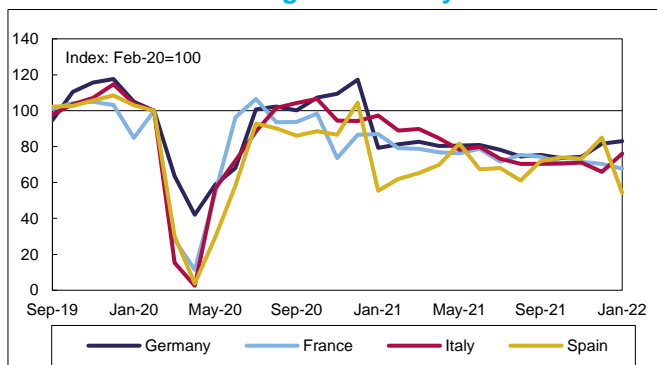
*The baseline is the median value for the corresponding day of the week during the five-week period 3 Jan-6 Feb 2020. Source: Google mobility and Daiwa Capital Markets Europe Ltd.

Euro area: New car registrations



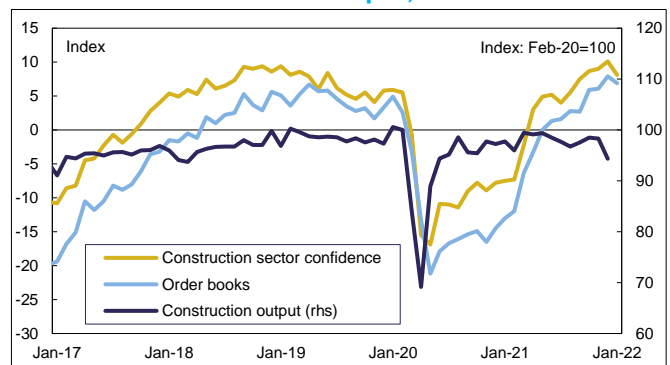
Source: ECB and Daiwa Capital Markets Europe Ltd.

Euro area: New car registrations by member state



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Construction output, orders & sentiment



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

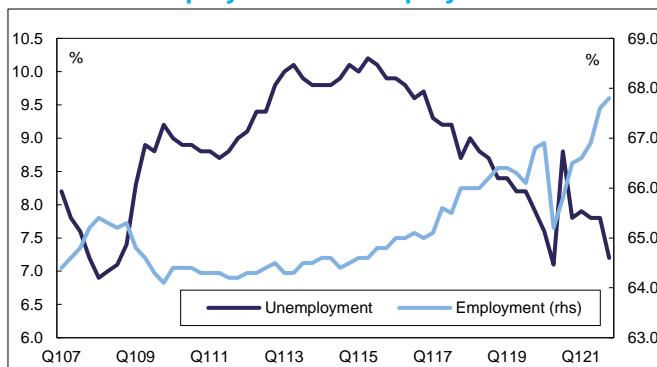
initially registered as inactive rather than unemployed. Similarly, the national ILO unemployment rate (including most overseas territories) also fell 0.6ppt to 7.4%, representing a drop of 189k to 2.2mn. Within that, the unemployment rate for younger workers fell a marked 3.6ppts to 15.9%, the lowest in more than thirty years. The long-term unemployment rate fell 0.2ppt to 2.2%, in line with the pre-pandemic level. The underemployment rate fell 0.2ppt to a new low of 5.1%, some 0.8ppt below the pre-pandemic level. And benefiting from a strong increase in full-time working, the employment rate rose a further 0.2ppt to a new series high of 67.8%.

Meanwhile, France's final consumer price inflation numbers for January confirmed the flash estimates. So, the national CPI measure rose 0.1ppt to 'just' 2.9%Y/Y and the EU-harmonised HICP measure fell 0.1ppt to 'just' 3.3%Y/Y, well below the euro area figure of 5.1%Y/Y. The national measure of core inflation fell 0.3ppt to a subdued 1.6%Y/Y. Of course, French inflation remains well below rates in the other large member states not least thanks to the government's efforts to limit the rise in household energy bills, with the cost shouldered by state-controlled power group EDF. But while electricity prices were up just 3.9%Y/Y, overall energy prices were still up almost 20%Y/Y, with prices of petroleum products up more than 24%Y/Y and gas prices were up more than 50%Y/Y. Overall, services prices were up 2.0%Y/Y with prices of manufactured products up 0.6%Y/Y.

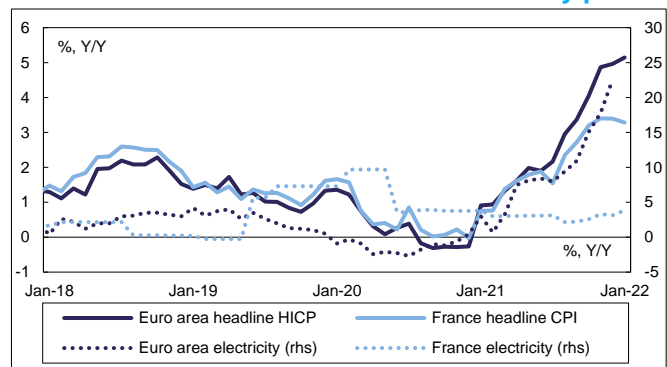
The week ahead in the euro area

The coming week's raft of economic sentiment surveys will be watched closely for evidence of a pickup in activity thanks not least to the drop in new coronavirus cases across the region. In particular, Monday's preliminary PMIs for the euro area and two largest member states are expected to suggest a notable improvement in services conditions in February, after the headline activity index fell to a nine-month low (51.1) in January. And reflecting a modest easing in supply constraints, expectations are for a further improvement in the manufacturing environment too. The European Commission's detailed confidence indicators, to be published on Friday, are likely to do likewise. At the country level, Germany's ifo business sentiment survey will be published on Tuesday, followed by consumer confidence surveys for Germany, France and Italy on Wednesday, Thursday and Friday respectively. Other data to be published in the coming week include the euro area's latest bank lending numbers (Friday), as well as final euro area CPI inflation figures for January on Wednesday. The preliminary estimate revealed that the headline HICP rate edged up 0.1ppt to a new series high of 5.1%Y/Y, with the largest pressures once again coming from energy prices. Indeed, while core inflation eased back (by 0.3ppt to 2.3%Y/Y), the detailed breakdown will give further insight on underlying price pressures. The end of the week will also bring the first estimates of February inflation from France, and an update on Germany's Q4 GDP will bring the first official expenditure breakdown while also likely confirming the decline of 0.7%Q/Q in overall economic output. ECB policymakers due to speak publicly include Vice President de Guindos on Wednesday and Executive Board member Schnabel on Thursday.

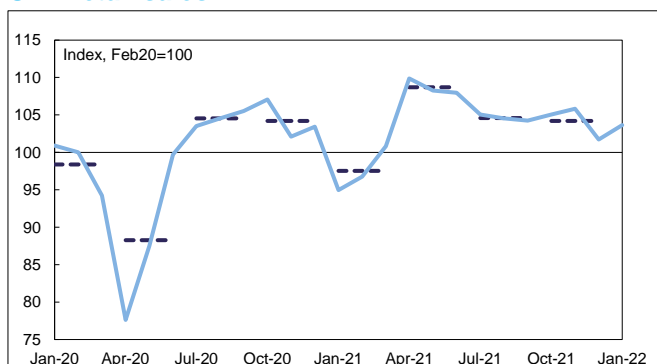
France: Unemployment and employment rates



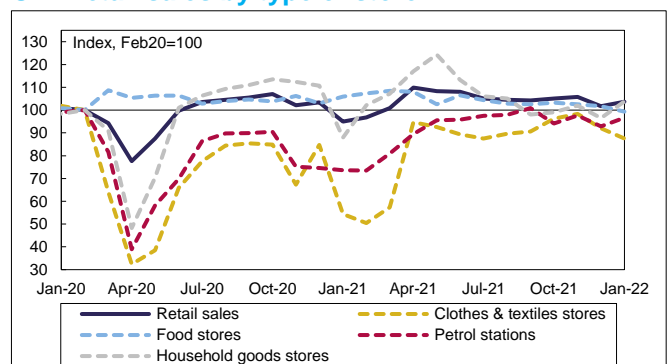
France: Headline CPI inflation and electricity prices



UK: Retail sales*



UK: Retail sales by type of store



UK







Retail sales reverse less than half of December's drop to suggest loss of spending momentum

UK retail sales were a touch stronger than expected in January, rising 1.9%M/M. However, this reversed a little less than half of the drop in December, which was even bigger than previously thought at a hefty 4.0%M/M. So, while the volume of sales was 3.6% above the pre-pandemic level in February 2020, it was still 6.9% below last April's peak and 0.5% below the average level in Q4 suggesting a further loss of spending momentum at the turn of the year. Most categories of sales failed to reverse fully their decline in December. For example, while sales in non-food stores rose a firm 3.4%M/M thanks to strong spending on household and DIY goods, they remained 1.8% below the Q4 average and 1.1% below the pre-pandemic level. As retailers sought to pass on increased costs to consumers by limiting the extent of New Year discounts, the volume of sales at clothing and textile stores dropped 5.0%M/M to be almost 8.5% below the Q4 average and 12.5% below the level in February 2020. Food store sales fell 2.3%M/M to be more than 3% below the Q4 average and back below the pre-pandemic level for the first time. In contrast, with less working from home, auto fuel sales rose 4.1%M/M after a drop of 5.0%M/M in December to buck the trend and rise almost 2% above the Q4 average. And non-store (i.e. largely online) sales rose 8.0%M/M to be 8.0% above the Q4 average and 41.5% above the pre-pandemic level. While the fading of the Omicron wave of pandemic should see a further recovery in shopping centre footfall over the remainder of Q1, total sales seem likely to remain subdued as household real incomes are squeezed by higher inflation. Indeed, with consumers looking ahead to April's increase in household energy bills and national insurance contributions, as well as a year of steadily higher mortgage payments, retail sales are likely to remain below the Q4 level in Q1 and probably in Q2 too, something that the MPC will be mindful of when it meets to review monetary policy next month.

The week ahead in the UK










Like in the euro area, the coming week's UK economic data calendar will be dominated by sentiment surveys, kicking off on Monday with the preliminary manufacturing and services PMIs for February. The January PMIs suggested some stabilisation in activity at the start of the year – the composite PMI rose 0.6pt to 54.2 – and, given the further easing in pandemic-related restrictions, we could see a notable improvement in the overall services activity index. Tuesday brings the release of the CBI's industrial trends survey, which will be followed on Thursday by the CBI's retail sales survey and on Friday by the GfK's consumer confidence indicators. Tuesday will also bring the latest public finance figures for January. In December, the government borrowed £16.8bn, the fourth-highest level of borrowing in any December since monthly records began in 1993 but below the OBR's expectation. And while spending might well rise further at the start of the year on the back of higher interest payments, borrowing in the financial year to date is still expected to be lower than previously expected by the OBR and therefore suggest some limited room for fiscal giveaways in the Spring Statement on 23 March. In terms of BoE-speak, MPC policymakers including Governor Bailey will testify before the Treasury Select Committee on the latest Monetary Policy Report (Wednesday), while Deputy Governor Broadbent and Chief Economist Pill will speak (Friday) at a BoE event on the monetary policy toolkit, while Deputy Governor Ramsden (who voted for a 50bps hike this month) and external MPC member Tenreyro will also speak publicly (Tuesday and Thursday respectively).

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
Euro area	 Construction output M/M% (Y/Y%)	Dec	-4.0 (-3.9)	-	-0.2 (0.5)	- (0.4)	
	 Commission's preliminary consumer confidence	Feb	-8.8	-8.0	-8.5	-	
France	 Final CPI (EU-harmonised CPI) Y/Y%	Jan	2.9 (3.3)	2.9 (3.3)	2.8 (3.4)	-	
	 Unemployment rate %	Q4	7.2	7.6	7.9	7.8	
UK	 Retail sales including autos fuel M/M% (Y/Y%)	Jan	1.9 (9.1)	1.9 (9.1)	-3.7 (-0.9)	-4.0 (-1.7)	
	 Retail sales excluding autos fuel M/M% (Y/Y%)	Jan	1.7 (7.2)	1.7 (7.2)	-3.6 (-3.0)	-3.9 (-3.8)	
Auctions							
Country	Auction						
- Nothing to report -							










Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 EU27 new car registrations Y/Y%	Jan	-6.0	-	-22.8	-
Auctions						
Country	Auction					
France	 sold €4.0bn of 0% 2025 bonds at an average yield of -0.08%  sold €4.50bn of 0% 2027 bonds at an average yield of 0.23%  sold €2.49bn of 0.75% 2028 bonds at an average yield of 0.33%  sold €729mn of 0.1% 2031 inflation-linked bonds at an average yield of -1.2%  sold €499mn of 0.1% 2032 inflation-linked bonds at an average yield of -1.01%  sold €270mn of 0.1% 2036 inflation-linked bonds at an average yield of -0.87%					
Spain	 sold €2.39bn of 0% 2027 bonds at an average yield of 0.581%  sold €2.14bn of 0.7% 2032 bonds at an average yield of 1.232%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

































Daiwa economic forecasts

	2021		2022				2021	2022	2023	
	Q3	Q4	Q1	Q2	Q3	Q4				
GDP forecasts %, Q/Q										
Euro area		2.3	0.3	0.3	1.3	1.0	0.7	5.2	3.9	2.6
UK		1.0	1.0	0.7	0.5	0.5	0.2	7.5	4.0	1.2
Inflation forecasts %, Y/Y										
Euro area										
Headline CPI		2.8	4.6	5.5	5.9	5.1	3.6	2.6	5.0	1.8
Core CPI		1.4	2.4	2.7	3.4	3.0	2.4	1.5	2.9	1.6
UK										
Headline CPI		2.8	4.9	5.8	7.0	6.4	4.6	2.6	5.9	2.4
Core CPI		2.6	3.9	4.7	4.4	3.8	2.7	2.4	3.9	2.1
Monetary policy										
ECB										
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25
Deposit Rate %		-0.50	-0.50	-0.50	-0.50	-0.50	-0.25	-0.50	-0.25	0.00
BoE										
Bank Rate %		0.10	0.25	0.75	1.00	1.25	1.25	0.25	1.25	1.00

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</i> forecast/actual	Previous
Monday 21 February 2022					
Euro area	 09.00	Preliminary manufacturing (services) PMI	Feb	58.6 (52.3)	58.7 (51.1)
	 09.00	Preliminary composite PMI	Feb	52.6	52.3
Germany	 07.00	PPI M/M% (Y/Y%)	Jan	1.4 (24.0)	5.0 (24.2)
	 08.30	Preliminary manufacturing (services) PMI	Feb	59.4 (54.0)	59.8 (52.2)
	 08.30	Preliminary composite PMI	Feb	54.8	53.8
France	 08.15	Preliminary manufacturing (services) PMI	Feb	55.2 (53.5)	55.5 (53.1)
	 08.15	Preliminary composite PMI	Feb	53.0	52.7
UK	 00.01	Rightmove house price index M/M% (Y/Y%)	Feb	-	0.3 (7.6)
	 09.30	Preliminary manufacturing (services) PMI	Feb	57.0 (55.5)	57.3 (54.1)
	 09.30	Preliminary composite PMI	Feb	-55.3	54.2
Tuesday 22 February 2022					
Germany	 09.00	ifo business climate index	Feb	96.5	95.7
	 09.00	ifo current assessment (expectations) balance	Feb	96.5 (96.5)	96.1 (95.2)
Italy	 09.00	Final CPI (EU-harmonised CPI) Y/Y%	Jan	4.8 (5.3)	3.9 (4.2)
UK	 07.00	Public sector net borrowing, excluding banks £bn	Jan	-1.2	16.8
	 11.00	CBI industrial trends survey, total orders (selling prices)	Feb	26 (65)	24 (66)
Wednesday 23 February 2022					
Euro area	 10.00	Final CPI (core CPI) Y/Y%	Jan	5.1 (2.3)	5.0 (2.6)
Germany	 07.00	GfK consumer confidence index	Feb	-6.0	-6.7
France	 07.45	INSEE business (manufacturing) confidence index	Feb	106 (-)	107 (112)
Thursday 24 February 2022					
France	 07.45	INSEE consumer confidence index	Feb	-	99
UK	 11.00	CBI distributive sales survey, total retailing sales	Feb	25	28
Friday 25 February 2022					
Euro area	 10.00	M3 money supply Y/Y%	Jan	6.7	6.9
	 10.00	Commission's Economic Sentiment Indicator	Feb	113.0	112.7
	 10.00	Commission's industrial (services) index	Feb	14.0 (-)	13.9 (9.1)
	 10.00	Commission's final consumer confidence	Feb	-8.8	-8.5
Germany	 07.00	GDP – second estimate Q/Q% (Y/Y%)	Q4	-0.7 (1.4)	1.7 (2.9)
France	 07.45	Preliminary CPI (EU-harmonised CPI) Y/Y%	Feb	-	2.9 (3.3)
	 07.45	PPI M/M% (Y/Y%)	Jan	-	1.0 (17.7)
	 07.45	GDP – second estimate Q/Q% (Y/Y%)	Q4	0.7 (5.4)	3.1 (5.4)
	 07.45	Consumer spending M/M% (Y/Y%)	Jan	-	0.2 (-5.1)
Italy	 09.00	ISTAT business (manufacturing) confidence index	Feb	-	105.4 (113.9)
	 09.00	ISTAT consumer confidence index	Feb	-	114.2
UK	 00.01	GfK consumer confidence	Feb	-17	-19

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 21 February 2022		
- Nothing scheduled -		
Tuesday 22 February 2022		
UK	 10.45	BoE's Deputy Governor Ramsden scheduled to speak
Wednesday 23 February 2022		
Euro area	 11.30	ECB Vice President de Guindos takes part in Q&A session
Germany	 10.30	Auction: €1.5bn of 2036 bonds
Italy	 10.00	Auction: Fixed rate and index-linked bonds
UK	 09.30	BoE Governor Bailey and Deputy Governor Broadbent testify on Monetary Policy Report to Treasury Select Committee
Thursday 24 February 2022		
Euro area	 16.00	ECB's Schnabel speaks on panel at BoE research conference, The Monetary Toolkit – Unwinding QE
UK	 13.15	BoE Governor Bailey gives a pre-recorded welcome address at BoE research conference
	 16.00	BoE Deputy Governor Broadbent moderates a BoE panel on The Monetary Toolkit – Unwinding QE
	 18.00	BoE Chief Economist Pill gives closing remarks at the BoE's research conference
Friday 25 February 2022		
Euro area	 -	ECB President Lagarde and Board Member Panetta participate in Eurogroup meeting
Italy	 11.00	Auction: 5Y and 10Y bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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