

Euro wrap-up

Overview

- Bunds reversed initial losses as hawkish commentary from ECB's Schnabel was followed by cautions from BoF Governor Villeroy that recent market-implied interest expectations had been excessively volatile.
- Gilts made losses as UK retail sales beat expectations in January, albeit maintaining a downwards trend as households purchasing power continued to be eroded.
- The coming week will bring various February sentiment surveys, including the flash PMIs and consumer confidence indices.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	2.862	+0.002
OBL 2.2 04/28	2.514	-0.013
DBR 2.3 02/33	2.452	-0.023
UKT 1 04/24	3.809	+0.021
UKT 1¼ 07/27	3.446	+0.035
UKT 4¼ 06/32	3.530	+0.032

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

Source: Bloomberg

Euro area

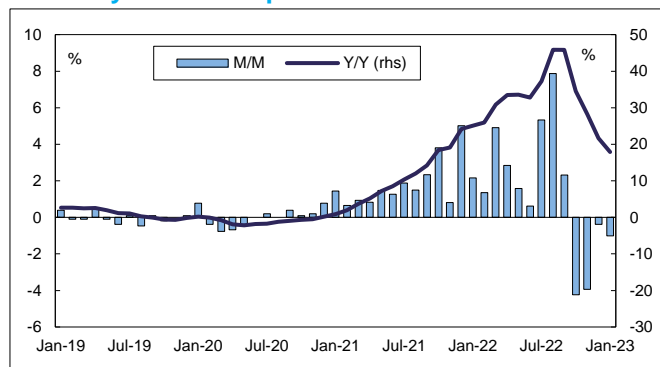
German PPI falls sharply amid energy price declines

The flash [euro area inflation](#) figures confirmed that prices of core consumer goods fell significantly less than normal for the month of January, pushing the annual rate up to a record high of 6.9%Y/Y. But there are reasons to believe that this will be close to the peak. Certainly, today's German PPI figures added to evidence that producer goods price pressures continue to ease. Indeed, producer prices fell for a fourth consecutive month in January, by 1.0%M/M to be more than 9% below September's peak. As such, the annual PPI rate moderated by a further 3.8ppts to 17.8%Y/Y, the lowest since September 2021. The decline was overwhelmingly driven by energy, with prices falling 5.0%M/M to leave the respective annual inflation rate down 9ppts to 32.9%Y/Y, more than 100bps below August's peak. In contrast, however, prices of intermediate goods rose for the first month in three and by 1.0%M/M, the firmest pace since May, due to higher chemical prices. Admittedly, this was just one-third of the average increase in the first four months of last year. And so, the annual rate still fell 1.7ppts to 10.0%Y/Y, the lowest since April 2021. While consumer goods prices rose a faster 1.8%M/M in January due to higher food prices, this too was just half of the peak last April, to leave the annual rate down 0.4ppt at 16.9%Y/Y. And with wholesale gas prices having fallen to their lowest level in eighteen months this month, surveys having signalled ongoing improvement in supply chains and cost burdens, producer goods inflation should continue to moderate, and should in due course feed through to lower consumer goods inflation too.

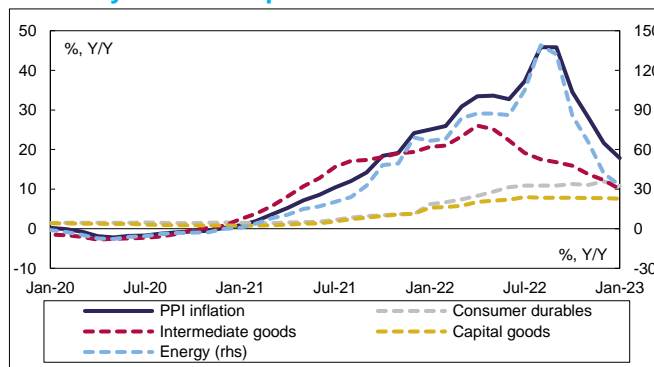
The week ahead in the euro area

Focus in the euro area in the coming week will be on February sentiment indicators, including most notably the flash PMIs on Tuesday. In January, the euro area's composite output index rose back to the key 50 level for the first time in seven months, with the services PMI (50.7) similarly signalling a return to positive growth and the manufacturing output index (48.9) the highest since June. While expectations are for a further improvement in conditions, the composite PMI is still likely to be consistent with only modest growth this month. The German ifo and French INSEE business surveys will follow on Wednesday. Ahead of this will bring the Commission's flash consumer confidence index on Monday, with the equivalent German and French surveys due Friday, while new car registrations figures (Tuesday) will provide an update on spending on big-ticket items at the start of the year. Turning to inflation, Thursday will bring final euro area CPI figures for January. Updated figures from France today left the headline harmonised rate unrevised at 7.0%Y/Y in January, while Spanish figures earlier this week saw the HICP rate upwardly revised by just 0.1ppt to 5.9%Y/Y. So in the absence of significant revisions from Germany and Italy (data due Wednesday), we expect the headline euro area HICP rate to align with the flash estimate, that eased 0.7ppt to 8.5%Y/Y, an eight-month low. The core rate is similarly expected to be unrevised at a series high 5.2%Y/Y.

Germany: Producer price inflation



Germany: Producer price inflation



UK

UK retail sales beat expectations in January, but remain on a downward trend

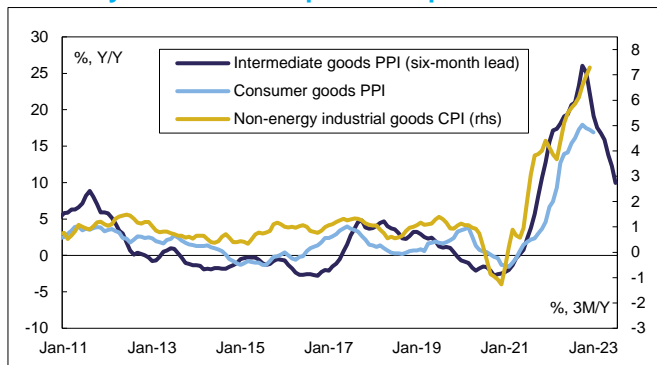
UK retail sales figures beat expectations at the start of the year, with January discounting reportedly providing a boost to demand to leave sales up for the first month in three, by 0.5%M/M having been forecast to decline 0.3%M/M. But the rebound followed a steeper-than-previously-estimated decline in December (-1.2%M/M), to maintain the downwards trend in place since mid-2021. Indeed, despite the increase on the month, the volume of sales was still ½% below the Q4 average, a whopping 10% below the peak in April 2021 and roughly 1½% below the pre-pandemic level. Within the detail, growth in January was strongest in non-store sales (2.0%M/M) for which online retailers attributed to seasonal discounting. Promotions also reportedly provided a boost to non-food store sales (0.6%M/M), with solid growth in cosmetics, carpet and furnishing, and jewellery stores. And auto fuel sales rose (1.7%M/M) for a second successive month, as petrol prices continued to fall back. In contrast, clothing sales fell sharply, and overall non-food store sales were still 1.3% below the Q4 average. At the same time, food store sales fell for the second successive month (-0.5%M/M), with price increases in the subsector having been particularly acute. Indeed, in nominal terms, the value of food sales was up 8.0%Y/Y in January, compared to a drop of 4.5%Y/Y in volumes. Similarly, the total value of sales was up 4.1%Y/Y compared to a drop of 5.1%Y/Y in volumes, and more than 14% higher than the pre-pandemic level, illustrating again how households are having to spend more to buy less. So, with inflation still in double-digits, real disposable incomes continuing to decline and consumer purchase intentions very weak amid an extremely uncertain economic outlook, we expect household spending to remain on a downwards trend.

The week ahead in the UK

The UK data flow in the coming week will be focused on February sentiment indicators, kicking off with the flash PMIs on Tuesday. In January, the services index fell to a two-year low of 47.9, while the manufacturing output index (47.0) recorded the seventh consecutive sub-50 reading. So, while these might well report a slight easing in the pace of decline this month, the headline composite activity PMI is likely to remain consistent with contraction, reflecting not least subdued domestic demand. The CBI industrial trends survey will also offer an update on manufacturing conditions (Tuesday), while the distributive trades survey (Thursday) will provide a first guide to retail spending this month. Meanwhile, the latest GfK consumer confidence survey (Friday) seems bound to show that households' purchase intentions remained historically weak in February. In addition, the coming week will bring January public finance figures (Tuesday) and SMMT car production figures for the same month (Friday).

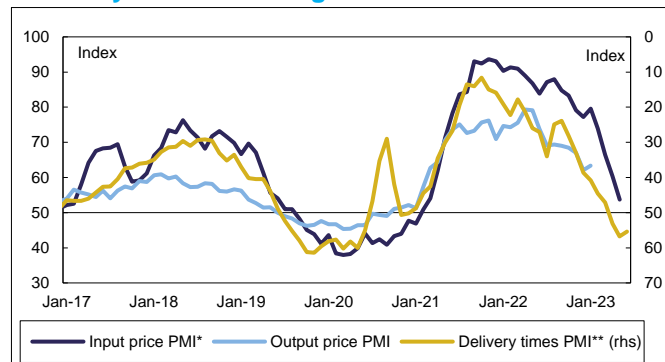
The next edition of the Euro wrap-up will be published on 21st February 2023

Germany: Consumer & producer price inflation



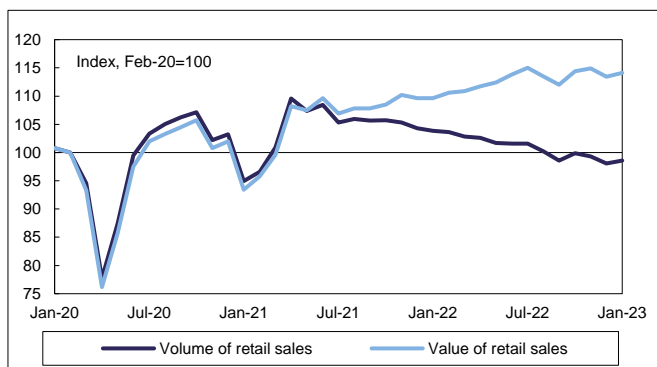
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing PMIs



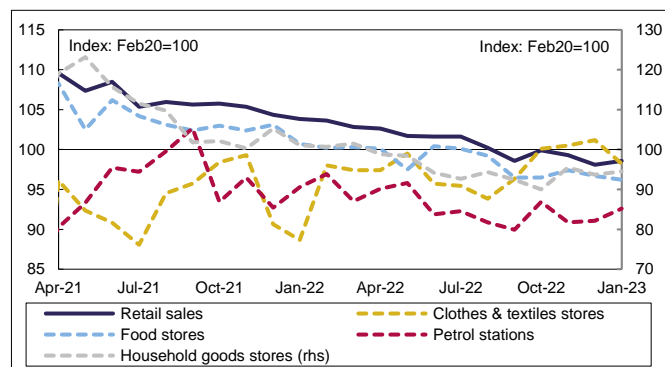
*Four-month lead. **Five-month lead. Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Retail sales












Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Retail sales








Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

		2022		2023				2022	2023	2024
		Q3	Q4	Q1	Q2	Q3	Q4			
GDP		%, Q/Q						%, Y/Y		
Euro area		0.3	0.1	0.0	0.1	0.1	0.2	3.5	0.6	1.0
UK		-0.2	0.0	-0.2	-0.3	-0.1	0.0	4.0	-0.5	0.3
Inflation, %, Y/Y										
Euro area										
Headline HICP		9.3	10.0	7.4	5.4	3.7	2.0	8.4	4.6	2.2
Core HICP		4.4	5.1	5.1	4.1	3.2	2.5	3.9	3.7	2.1
UK										
Headline CPI		10.0	10.7	9.6	7.8	6.5	4.2	9.1	7.0	2.5
Core CPI		6.3	6.4	5.5	4.5	3.6	2.8	5.9	4.1	2.6
Monetary policy, %										
ECB										
Refi Rate		1.25	2.50	3.50	3.75	3.75	3.75	2.50	3.75	3.00
Deposit Rate		0.75	2.00	3.00	3.25	3.25	3.25	2.00	3.25	2.50
BoE										
Bank Rate		2.25	3.50	4.25	4.25	4.25	4.25	3.50	4.25	3.25

Source: Bloomberg, ECB, BoE 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	 ECB current account balance €bn	Dec	15.9	-	13.6	12.8
Germany	 PPI M/M% (Y/Y%)	Jan	-1.0 (17.8)	-	-0.4 (21.6)	-
France	 Final HICP (CPI) Y/Y%	Jan	7.0 (6.0)	<u>7.0 (6.0)</u>	6.7 (5.9)	-
UK	 Retail sales including auto fuels M/M% (Y/Y%)	Jan	0.5 (-5.1)	-0.3 (-5.6)	-1.0 (-5.8)	-1.2 (-6.1)
	 Retail sales excluding auto fuels M/M% (Y/Y%)	Jan	0.4 (-5.3)	-0.2 (-5.4)	-1.1 (-6.1)	-1.4 (-6.5)
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg 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/ Daiwa <i>forecast/actual</i>	Previous
Monday 20 February 2023						
Euro area		10.00	European Commission preliminary consumer confidence	Feb	-19.0	-20.9
		10.00	Construction output M/M% (Y/Y%)	Dec	-	-0.8 (1.3)
UK		00.01	Rightmove house price index M/M% (Y/Y%)	Feb	-	0.9 (6.3)
Tuesday 21 February 2023						
Euro area		07.00	EU27 new car registrations Y/Y%	Jan	-	12.8
		09.00	Preliminary manufacturing (services) PMI	Feb	49.3 (51.2)	48.8 (50.8)
		09.00	Preliminary composite PMI	Feb	50.7	50.3
Germany		08.30	Preliminary manufacturing (services) PMI	Feb	48.0 (51.0)	47.3 (50.7)
		08.30	Preliminary composite PMI	Feb	50.5	49.9
		10.00	ZEW current situation (expectations) balance	Feb	-52.5 (19.0)	-58.6 (16.9)
France		08.15	Preliminary manufacturing (services) PMI	Feb	51.0 (49.9)	50.5 (49.4)
		08.15	Preliminary composite PMI	Feb	49.6	49.1
		-	Retail sales Y/Y%*	Jan	-	-5.0
UK		07.00	Public sector net borrowing excl. banks £bn	Jan	7.9	27.4
		09.30	Preliminary manufacturing (services) PMI	Feb	47.5 (49.3)	47.0 (48.7)
		09.30	Preliminary composite PMI	Feb	49.1	48.5
		11.00	CBI industrial trends survey, total orders (selling prices)	Feb	-14 (35)	-17 (41)
Wednesday 22 February 2023						
Germany		07.00	Final HICP (CPI) Y/Y%	Jan	<u>9.2 (8.7)</u>	9.6 (8.6)
		09.00	Ifo business climate	Feb	91.0	90.2
		09.00	Ifo current assessment (expectations)	Feb	95.0 (88.5)	94.1 (86.4)
France		07.45	INSEE business (manufacturing) confidence	Feb	102 (103)	102 (103)
Italy		09.00	Final HICP (CPI) Y/Y%	Jan	<u>10.9 (10.1)</u>	12.3 (11.6)
Thursday 23 February 2023						
Euro area		10.00	Final HICP (core HICP) Y/Y%	Jan	<u>8.5 (5.2)</u>	9.2 (5.2)
UK		11.00	CBI distributive trades survey, reported retail sales	Feb	-	-23
Friday 24 February 2023						
Germany		07.00	GDP – second estimate Q/Q% (Y/Y%)	Q4	<u>-0.2 (1.1)</u>	0.4 (1.4)
		07.00	GfK consumer confidence	Mar	-30.4	-33.9
France		07.45	INSEE consumer confidence	Feb	81	80
UK		00.01	GfK consumer confidence	Feb	-43	-45

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

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 20 February 2023		
- Nothing scheduled -		
Tuesday 21 February 2023		
Germany 	10.30	Auction: €5.0bn of 2.2% 2029 bonds
UK 	11.30	Auction: £3.5bn of 0.5% 2029 bonds
Wednesday 22 February 2023		
Germany 	10.30	Auction: €5bn of 2.30% 2033 bonds
Italy 	10.00	Auction: 2Y fixed rate and index-linked bonds
UK 	10.00	Auction: £2.0bn of 1.5% 2053 bonds
Thursday 23 February 2023		
UK 	09.30	BoE external MPC member Mann scheduled to speak – 'The results of rising rates'
Friday 24 February 2023		
Italy 	10.00	Auction: 5Y and 10Y bonds
UK 	16.30	BoE MPC member Tenreyro scheduled to speak on a panel at a New York Fed conference

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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