

# Euro wrap-up

## Overview

- Bunds followed US10s lower despite a significant downwards revision to German Q4 GDP.
- Gilts also made losses as UK consumer confidence rose to a ten-month high.
- The coming week brings the flash estimate of euro area inflation in February as well as the account of the most recent ECB monetary policy meeting.

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### Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	3.014	+0.124
OBL 2.2 04/28	2.629	+0.086
DBR 2.3 02/33	2.536	+0.063
UKT 1 04/24	4.027	+0.107
UKT 1¼ 07/27	3.667	+0.097
UKT 4¼ 06/32	3.654	+0.067

\*Change from close as at 4:00pm GMT.  
Source: Bloomberg

## Euro area

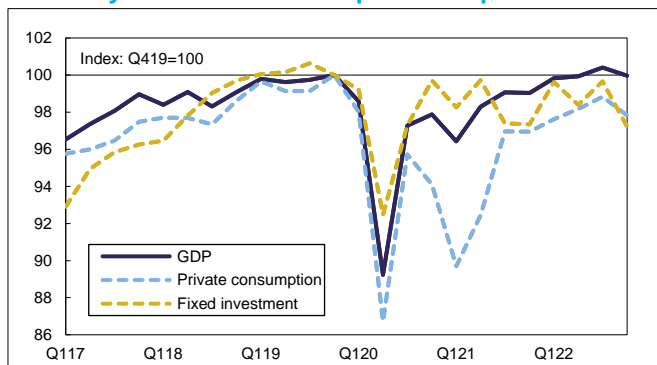
### Euro area GDP growth in Q4 likely to be revised away on sharper German contraction

The initial estimate of German GDP growth in Q4 was revised down today by 0.2ppt to take the contraction in economic output to a chunky 0.4%Q/Q. As a result, German GDP last quarter fell marginally below the pre-pandemic level in Q419. Given the significant weakness in most December data – from retail sales (-4.9%M/M) to industrial production (-3.1%M/M) and exports (-6.3%M/M) – today's adverse revision should have been no major surprise. But it raises the probability that euro area GDP growth in Q4, which is currently estimated at 0.1%Q/Q, will be revised away when the final estimate is published on 8 March. The expenditure breakdown of German GDP last quarter, which was published for the first time today, confirmed that the weakness was due to domestic private demand. Household consumption fell for the first time since Q121 and by a sizeable 1.0%Q/Q to the lowest level in three quarters and more than 2% below the pre-pandemic level. That drop broadly matched the change in household real disposable income, which was again eroded by inflation, while the personal savings ratio was broadly stable. In addition, fixed investment fell 2.5%Q/Q to the lowest level since Q121 and almost 3% below the pre-pandemic level, with capex on machinery and equipment (-3.6%Q/Q) and construction (-2.9%Q/Q) particularly soft. With import volumes (-1.3%Q/Q) dropping at a steeper rate than exports (-1.0%Q/Q), net trade offered modest support (+0.1ppt) as did government consumption (+0.1ppt). Moreover, inventories made a larger positive contribution (+0.3ppt) as supply-chain challenges continued to ease.

### German GDP likely to drop again in Q1 despite further rise in consumer confidence

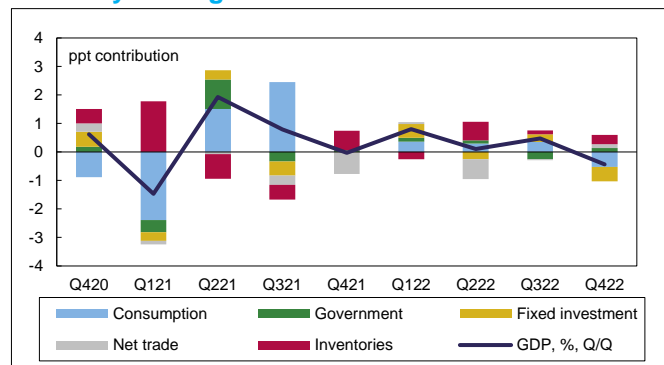
On the whole, surveys point to improved German economic sentiment in Q1 as concerns about energy supply and prices have moderated further. In tandem with this week's stronger [flash PMIs](#), today's GfK survey reported a fifth successive monthly rise in German consumer confidence to the best level since July. Households judged the economic outlook to be the brightest in twelve months, with income expectations the best since June. Consumer willingness to spend improved too, albeit with the respective indicator for the first two months of Q1 still down on the Q4 average. Indeed, the headline GfK index remained well below the long-run average too suggesting that households are still downbeat. And coupled with the findings of the [ifo survey](#), which pointed to little if any improvement in economic activity in January and February, the evidence still points to a further quarter of subdued household consumption in Q1 not least as real disposable income remains pressured. With the exceptionally weak December activity data pointing to significant negative carry-over from the end of 2022, we forecast another quarter of German economic contraction in Q1, albeit smaller than that in Q4.

### Germany: GDP & domestic private expenditure



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: GDP growth



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

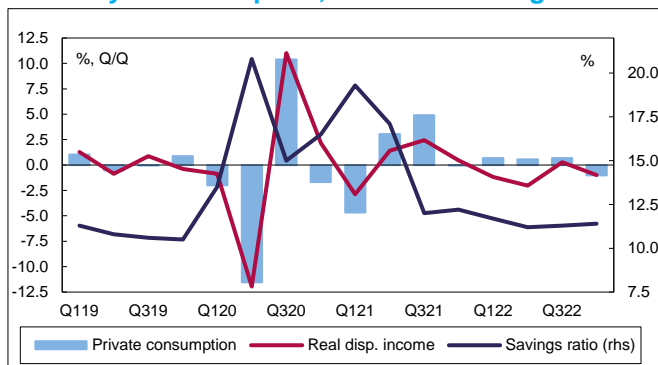
## French retail sales post modest growth, but consumer confidence remains very subdued

Like in Germany, French household consumption contracted sharply (-0.9%Q/Q) in Q422. But the weakness in France in part reflected a marked slump in spending at the start of the quarter, with the BoF's retail sales figures suggesting modest subsequent growth in November and December. And today's BoF retail survey for January reported an increase of 0.5%M/M at the start of this year to leave the level of sales some 1% above the Q4 average, but nevertheless still down 2.7%Y/Y and roughly 5½% below the pre-pandemic level. The increase in January was in part driven by a rebound in new car sales to be almost 4% above the Q4 average, while sales of consumer electronics partially reversed (up 9.7%M/M) December's slump. But sales of food, clothing and furniture fell back. And if today's French consumer confidence survey proves a good guide, growth in consumer spending will be far from vigorous over coming months. Indeed, the headline sentiment index slipped back in February, by 1pt to 82 from an upwardly revised reading in January, to be broadly in the middle of the recent low range. The weakness likely in part reflected apprehension about the government's plans for pension reforms, with households' expectations for their financial situation having deteriorated further. And the share of households considering it a good time to save rose sharply again in February to the highest since June 2021. As such, the share of households considering it a good time to make major purchases remained at a depressed level, at one of the weakest on the series and well below the long-run average.

## The week ahead in the euro area

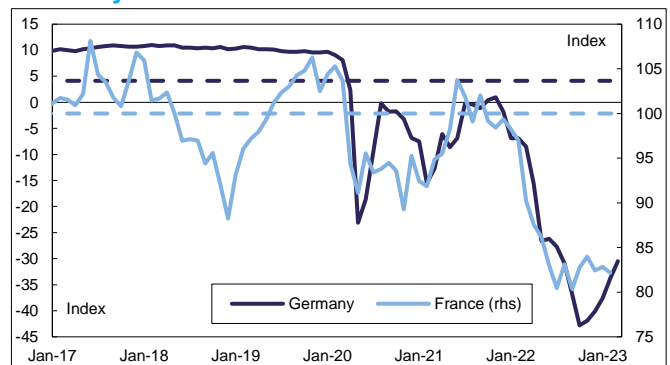
The euro area data highlight of the coming week will be the flash February inflation estimates on Thursday, which are expected to reveal that the headline HICP rate eased for a fourth consecutive month. We forecast a drop of 0.6ppt to 8.0%Y/Y, which would mark a ten-month low, but the risks to that view are skewed to the upside. The decline will again principally reflect a moderation in energy inflation, with core inflation likely to have eased only very slightly from January's record high (5.3%Y/Y). Flash national harmonised inflation figures will be published from France, Spain and Portugal (Tuesday), Germany (Wednesday) and Italy (Thursday). The latest euro area PPI inflation data (Friday) should reveal a further easing in price pressures at the factory gate, while unemployment figures (Thursday) are expected to be consistent with ongoing tightness in the labour market. Like this week's flash PMIs, the Commission's business and consumer surveys (Monday) are likely to report a further improvement in conditions in February, while the price expectations indices will likely report a further moderation. Monday will also bring the ECB's bank lending figures for January. Beyond the data, Thursday will also bring the publication of the ECB's account of the [February policy-setting meeting](#), which saw the Governing Council raise rates by 50bps taking the cumulative tightening so far this cycle to 300bps, but also signal its intention to raise interest rates by a further 50bps in March. Given that the Governing Council also judged the inflation outlook to be more balanced,

### Germany: Consumption, income & savings



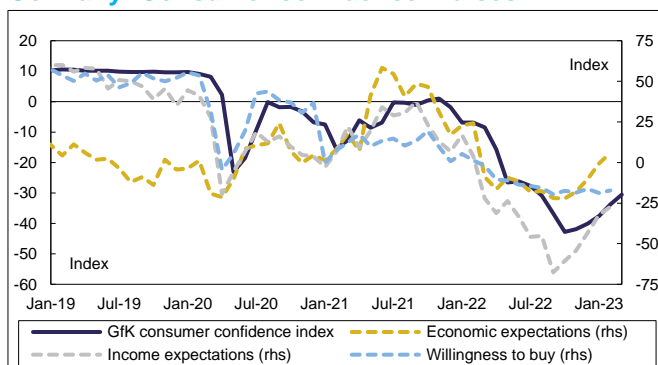
Source: Destatis, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany & France: Consumer confidence indices



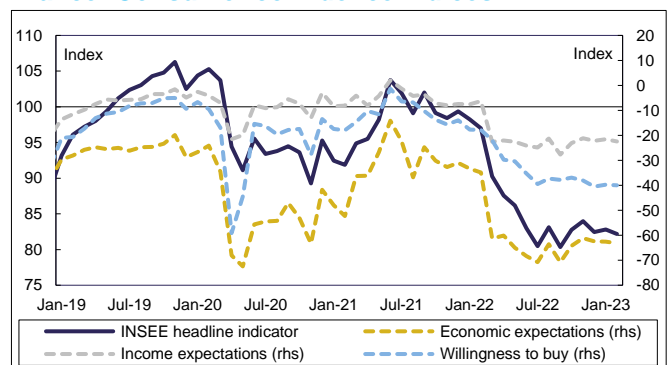
Source: GfK, INSEE, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: Consumer confidence indices



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

### France: Consumer confidence indices



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

and that policy decisions remained data dependent, the account will be closely watched for further insight into how much additional tightening might be anticipated beyond the current quarter.

## UK

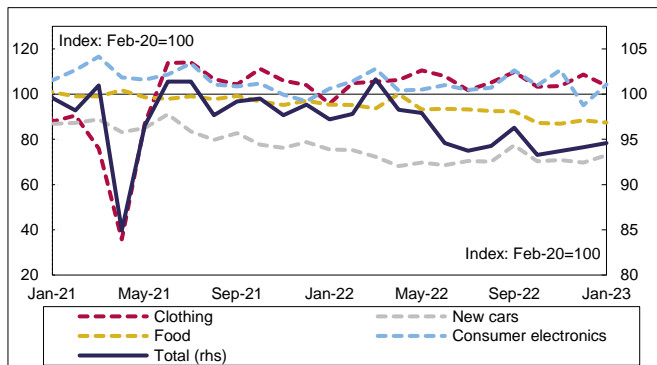
### UK consumer confidence posts a surprising rebound in February

Similar to the marked improvement in UK business confidence implied by the [flash PMIs](#), today's GfK consumer survey suggested that UK households were less downbeat in February. In particular, the headline confidence index jumped a larger-than-expected 7pts to -38, the highest reading since last April. This reflected improved expectations for the general economic outlook and households' own financial situations over the coming year, despite still high inflation and the erosion of real household disposable incomes. But GfK reiterated that confidence remains extremely depressed, with the headline index still 12pts below the level a year ago and more than 30pts below the pre-pandemic level. Moreover, the recovery in households purchase intentions was only modest suggesting that consumption will remain weak – indeed, the respective index was still trending so far in Q1 below the Q4 average. So, with consumer credit costs continuing to rise and the housing market downturn ongoing, consistent with yesterday's gloomy [CBI distributive trades survey](#) today's GfK indices suggest that the outlook for UK retail spending will remain subdued for some time to come.

### The week ahead in the UK

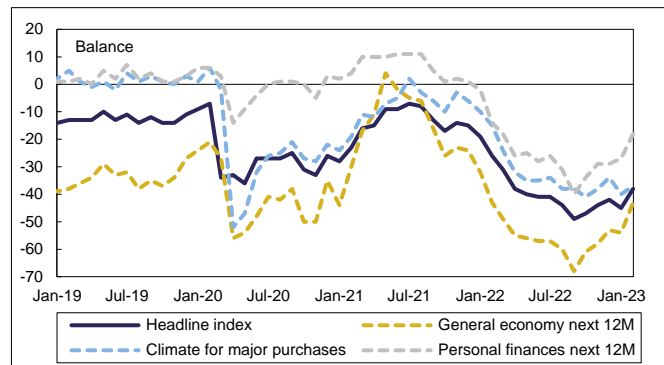
In the UK, the coming week's data calendar will be relatively light on top-tier releases. On Wednesday, the Nationwide house price index will offer further insights into housing market activity in February, with prices likely to have fallen for the fifth consecutive month to be below the level a year earlier. Given higher borrowing costs, the BoE's bank lending numbers for January (also Wednesday) are likely report that the number of mortgage approvals moderated for the fifth successive month, from December's 2½-year low of 35.6k, while mortgage lending is also likely to have fallen back. Meanwhile, the BRC's measure of shop price inflation (Wednesday) is expected to remain close to January's record high of 8%Y/Y, as retailers continue to pass on higher input costs from higher energy bills and rising wages. In terms of surveys, final manufacturing and services PMIs for February will be published on Wednesday and Friday respectively, which are highly likely to align with the renewed optimism reported in the flash release. In particular, following six successive sub-50 readings, the headline composite output PMI leapt 4.5pts in February, the most in a year, to an eight-month high of 53.0, with rebounds in both the services activity and manufacturing output indices.

#### France: Retail sales












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

#### UK: Consumer confidence







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

## Daiwa economic forecasts

	2022		2023				2022	2023	2024
	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP</b>	<b>%, Q/Q</b>						<b>%, Y/Y</b>		
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
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline HICP 	9.3	10.0	7.7	5.7	3.9	2.2	8.4	4.8	2.2
Core HICP 	4.4	5.1	5.2	4.2	3.3	2.5	3.9	3.8	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
<b>Monetary policy, %</b>									
ECB									
Refi Rate 	1.25	2.50	3.50	4.25	4.25	4.25	2.50	4.25	2.50
Deposit Rate 	0.75	2.00	3.00	3.75	3.75	3.75	2.00	3.75	3.00
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
Germany 	GDP – second estimate Q/Q% (Y/Y%)	Q4	<b>-0.4 (0.9)</b>	<b>-0.2 (1.1)</b>	0.4 (1.4)	-
	GfK consumer confidence	Mar	<b>-30.5</b>	<b>-30.5</b>	-33.9	-33.8
France 	INSEE consumer confidence	Feb	<b>82</b>	80	80	83
UK 	GfK consumer confidence	Feb	<b>-38</b>	-43	-45	-
Auctions						
Country	Auction					
Italy 	sold €2.5bn of 3.4% 2028 bonds at an average yield of 3.84%					
	sold €3.5bn of 4.4% 2033 bonds at an average yield of 4.34%					
	sold €3.5bn of 4.4% 2028 floating rate bonds at an average yield of 2.97%					

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/ <i>Daiwa</i> <i>forecast/actual</i>	Previous	
<b>Monday 27 February 2023</b>						
Euro area		09.00	M3 money supply Y/Y%	Jan	3.9	4.1
		10.00	EC Economic Sentiment Index	Feb	101.0	99.9
		10.00	EC industry (services) sentiment index	Feb	2.0 (12.2)	1.3 (10.7)
		10.00	EC consumer confidence Index	Feb	<u>-19.0</u>	-20.7
Italy		09.00	ISTAT business (manufacturing) sentiment index	Feb	- (102.8)	109.1 (102.7)
		09.00	ISTAT consumer confidence index	Feb	-	100.9
<b>Tuesday 28 February 2023</b>						
Germany		07.00	Import price index M/M% (Y/Y%)	Jan	-2.0 (5.8)	-1.6 (12.6)
France		07.45	Preliminary HICP (CPI) Y/Y%	Feb	7.0 (6.1)	7.0 (6.0)
		07.45	PPI Y/Y%	Jan	-	20.7
		07.45	Consumer goods spending M/M% (Y/Y%)	Jan	0.4 (-4.6)	-1.3 (-5.6)
		07.45	Final GDP Q/Q% (Y/Y%)	Q4	<u>0.1 (0.5)</u>	0.2 (1.0)
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Feb	5.3 (5.7)	5.9 (5.9)
UK		00.01	Lloyds business barometer	Feb	-	22
<b>Wednesday 01 March 2023</b>						
Euro area		09.00	Final manufacturing PMI	Feb	<u>48.5</u>	48.8
Germany		08.55	Final manufacturing PMI	Feb	<u>46.5</u>	47.3
		08.55	Unemployment rate % (change 000s)	Feb	5.5 (-10.0)	5.5 (-22)
		13.00	Preliminary HICP (CPI) Y/Y%	Feb	9.0 (8.6)	9.2 (8.7)
France		08.50	Final manufacturing PMI	Feb	<u>47.9</u>	50.5
Italy		08.45	Manufacturing PMI	Feb	50.6	50.4
Spain		0815	Manufacturing PMI	Feb	48.8	48.4
UK		00.01	BRC shop price indec Y/Y%	Feb	-	8.0
		07.00	Nationwide house price index M/M% (Y/Y%)	Feb	-0.6 (-1.0)	-0.6 (1.1)
		09.30	Final manufacturing PMI	Feb	<u>49.2</u>	47.0
		09.30	Consumer credit £bn (Y/Y%)	Jan	0.7 (-)	0.5 (7.2)
		09.30	Mortgage lending £bn (approvals 000s)	Jan	2.9 (35.0)	3.2 (35.6)
<b>Thursday 02 March 2023</b>						
Euro area		10.00	Preliminary HICP (core HICP) Y/Y%	Feb	<u>7.9 (5.1)</u>	8.5 (5.2)
		10.00	Unemployment rate %	Jan	6.6	6.6
Italy		10.00	Preliminary HICP (CPI) Y/Y%	Feb	9.7 (9.1)	10.7 (10.0)
Spai		08.00	Unemployment change 000s	Feb	-	70.7
<b>Friday 03 March 2023</b>						
Euro area		09.00	Final services (composite) PMI	Feb	<u>53.0 (52.3)</u>	50.8 (50.3)
		10.00	PPI Y/Y%	Jan	-0.3 (17.7)	24.6
Germany		07.00	Trade balance	Jan	11.0	10.0
		08.55	Final services (compsoite) PMI	Feb	<u>51.3 (51.1)</u>	50.7 (49.9)
France		07.45	Industrial production M/M% (Y/Y%)	Jan	0.3 (0.3)	1.1 (1.4)
		08.50	Final services (compsoite) PMI	Feb	<u>52.8 (-)</u>	49.4 (49.1)
Italy		08.45	Services (composite) PMI	Feb	-	51.2 (51.2)
		09.00	Final GDP Q/Q% (Y/Y%)	Q4	-0.1 (1.7)	0.5 (2.7)
Spain		0815	Services (composite) PMI	Feb	54.8 (-)	52.7 (51.6)
UK		09.30	Final services (composite) PMI	Feb	<u>53.3 (53.0)</u>	48.7 (48.5)

\*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 27 February 2023</b>		
- Nothing scheduled -		
<b>Tuesday 28 February 2023</b>		
Germany 	10.30	Auction: €6.0bn of 2.5% 2025 bonds
UK 	12.30	BoE's Mann scheduled to speak – "Interaction of monetary and fiscal policy and financing conditions"
<b>Wednesday 01 March 2023</b>		
Euro area 	15.00	ECB's Visco scheduled to speak – "Monetary policy and the return of inflation"
Germany 	10.30	Auction: €1.50bn of 1.00% 2038 bonds
	10.30	Auction: €1.00bn of 4.25% 2039 bonds
UK 	10.00	BoE Governor Bailey scheduled to speak – "Cost of living crisis"
	10.00	Auction: £2.50bn of 3.75% 2038 bonds
<b>Thursday 02 March 2023</b>		
Euro area 	12.30	ECB publishes account of February policy-setting meeting
	12.30	ECB's Schnabel scheduled to speak at Money Market Contact Group
France 	09.50	Auction: 2.00% 2032 bonds
	09.50	Auction: 1.25% 2034 bonds
	09.50	Auction: 1.25% 2038 bonds
	09.50	Auction: 4.00% 2060 bonds
UK 	10.00	Auction: £650mn of 0.125% 2051 index-linked bonds
	15.00	BoE Chief Economist Pill scheduled to speak – "2023 economic outlook – a year of growth or survival?"
<b>Friday 03 March 2023</b>		
Euro area 	08.00	ECB's Vasle and Muller scheduled to speak on inflation

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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