

# Euro wrap-up

## Overview

- Bunds made gains as euro area headline PPI inflation fell sharply in January on lower energy prices, even though the detail hinted at a possible second-wind in certain core goods prices.
- Gilts made modest gains as reports suggested that the Chancellor will maintain the UK government's Energy Price Guarantee from April, which will help lower profile of inflation ahead.
- The coming week will bring January results for euro area retail sales, an ECB survey on consumer expectations and UK GDP.

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### Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	3.192	+0.005
OBL 2.2 04/28	2.825	-0.005
DBR 2.3 02/33	2.710	-0.032
UKT 0% 06/25	3.700	+0.003
UKT 1% 10/28	3.657	-0.030
UKT 3¼ 01/33	3.856	-0.024

\*Change from close as at 4:45pm GMT.

Source: Bloomberg

## Euro area

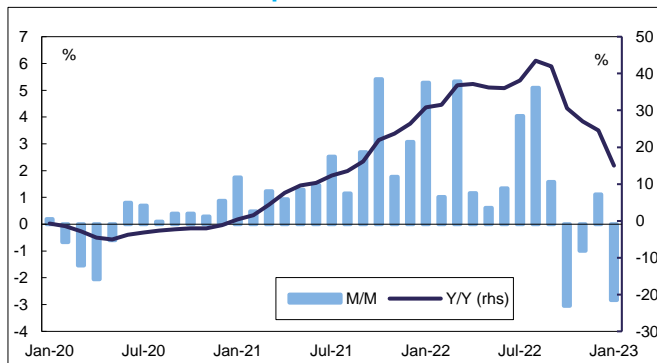
### Euro area PPI inflation falls on lower energy prices, but core goods prices still rising

After the upside surprise to yesterday's [flash CPI estimate](#), today's euro area PPI inflation numbers, at face value at least, appeared less concerning, reporting a further marked moderation in goods price pressures at the start of the year. Indeed, the drop in producer prices of 2.8%M/M in January was the second steepest on record, to leave the annual inflation rate down almost 10ppts to 15.0%Y/Y, a seventeen-month low and a whopping 28½ppts below August's peak. But this was due overwhelmingly to a record decline in energy prices (-9.4%M/M), pushing down the annual rate of that component by 28ppts on the month to 20.3%Y/Y, almost 100ppts below last year's peak. Within the other detail of today's release, however, there were some hints of a possible second-wind in certain core goods price pressures. For example, producer intermediate prices increased for the first month in three in January and by 0.8%M/M, the most since May. Admittedly, this was still a fraction of the average increase in the first four months of last year (2.6%M/M). As such, the respective annual rate maintained a downwards trend, down 2½ppts to a nineteen-month low of 11.3%Y/Y. In addition, capital goods prices rose at the second-strongest pace on record (1.2%M/M), to leave prices up 7.3%Y/Y, while consumer goods prices jumped 1.5%M/M, to leave the annual rate down just 0.3ppt to a still elevated 14.8%Y/Y. The annual core goods PPI rate, however, moderated by 1.2ppts to 11.1%Y/Y, the lowest since end-2021.

### Euro area services PMIs suggest stickier price pressures

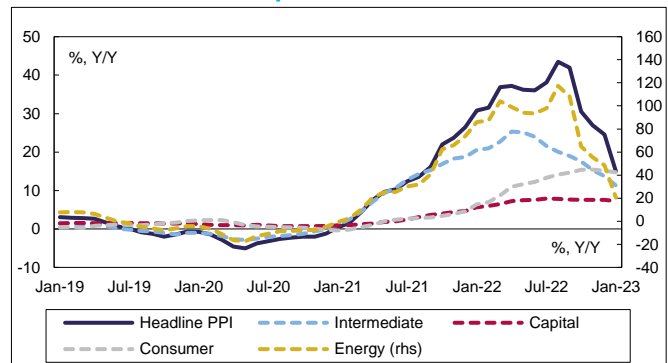
Surveys suggest a further notable moderation in factory input costs in February, with the respective manufacturing price PMI (50.9) falling to a near-2½-year low and well below the pre-pandemic long-run average. And while the decline in the output price PMI has been somewhat less marked and remains some 8ppts above the long-run average, it too maintained a downwards trend last month to reach its lowest since early 2021. In contrast, however, today's final services PMIs confirmed that price pressures in the sector remain sticky. For example, the input price index rose in February to 71.0, admittedly some 7½ppts below last year's peak but still some 15ppts above the long-run average. And the services prices charged PMI continued to move broadly sideways at a historically high level. Moreover, with this survey signalling a notable rebound in demand in the sector – the euro area activity index rose almost 2ppts to 52.7, an eight-month high, with the respective indices from the largest four member states all back above the key-50 level – there is a risk that firms in the sector continue to keep prices higher for longer. Of course, it remains to be seen whether the optimism revealed in the surveys feeds through into actual output.

### Euro area: Producer price inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

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Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

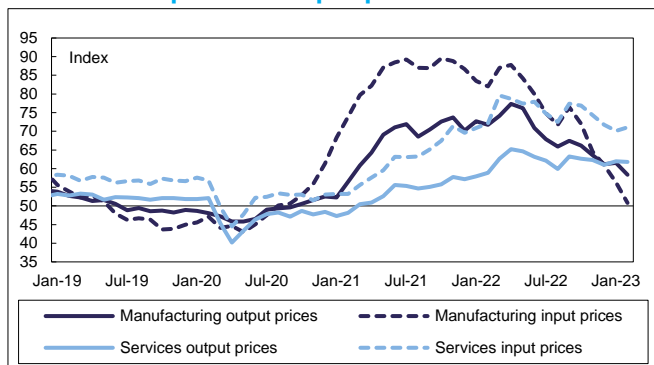
## German trade surplus at near-two-year high as imports continue to fall sharply

While the manufacturing PMIs have also signaled a recovery since the start of the year, conditions in the sector remain more challenging. This was illustrated in today's other data, which suggested that German goods trade remained subdued at the start of the year. In particular, following a sharp drop of 6.3%M/M in December, which was the steepest since the first wave of Covid-19, the rebound in the value of German goods exports in January was underwhelming at just 2.1%M/M. That left exports down 2.6%3M/3M – similarly the weakest figure on that basis since July 2020 – and still 2.1% below the Q4 average to be firmly on track for another quarterly drop in Q1. However, the value of imports was even softer, falling for a fifth successive month in January and by 3.4%M/M to be down a whopping 9.8%3M/3M and more than 8% below the Q4 average. As a result, Germany's trade surplus on an adjusted basis from €6.7bn to €16.7bn, the highest in almost two years. By destination, exports to other EU countries were up 0.7%M/M in January with imports from those countries up a similar 0.6%M/M. But exports beyond the EU rose 3.8%M/M – benefiting from a rebound in shipments to the UK, with growth also to the US and China – while imports from beyond the EU fell a steep 7.5%M/M. The weakness in the value of imports will in good part reflect lower prices – not least of energy and other commodities – as the shock to Germany's terms of trade continues to unwind. Indeed, producer import prices fell for the fifth consecutive month in January, by 1.2%M/M. But it also reflects soft domestic demand, which we suspect will contract for a second successive quarter in Q1. So, while the outlook for German export volumes remains subdued – indeed, the manufacturing new export orders PMI was very weak at below 40 in February – given the drop in export prices (-0.8%M/M), the export performance in volumes terms at the start of the year was stronger than implied by the headline values – indeed, Bundesbank data today showed a rise of more than 3%M/M. And overall, net trade should make a second successive positive contribution to German economic growth in Q1.

## French manufacturing output starts 2023 on the back foot weighed by transport goods

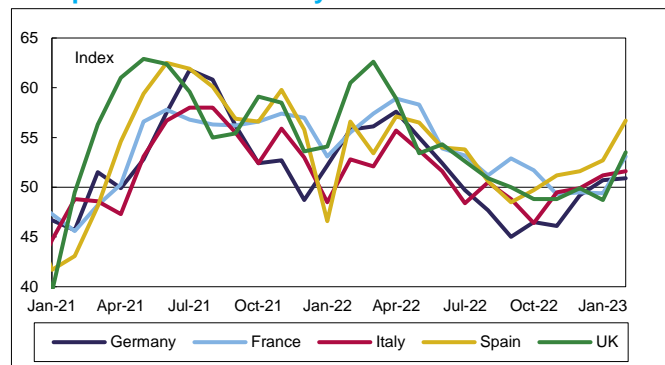
French manufacturing production, meanwhile, started the year on the back foot. In particular, output fell a steeper-than-expected 1.8%M/M in January to fall 0.9% below the Q4 average. The weakness was due not least to a sharp drop of 6.7%M/M in transport equipment, with autos and related items down 2.6%M/M but other transport items down 9.5%M/M. Exports of machinery and other equipment provided some support, up 1.0%M/M thanks not least to growth in computers and other electronic goods, with clothing and textiles also up 1.0%M/M. Beyond the manufacturing sector, following weakness in December construction output rose a modest 0.2%M/M. But mining, energy and other utilities fell 3.0%M/M, and so overall industrial production (excluding construction) fell 1.9%M/M to be 0.3% below the Q4 average. With the French manufacturing output PMI having dropped in February to a five-month low of just 45, and the similar INSEE survey indices underwhelming, risks of a contraction in French IP over the first quarter as a whole appear significant.

### Euro area: Input and output price PMIs



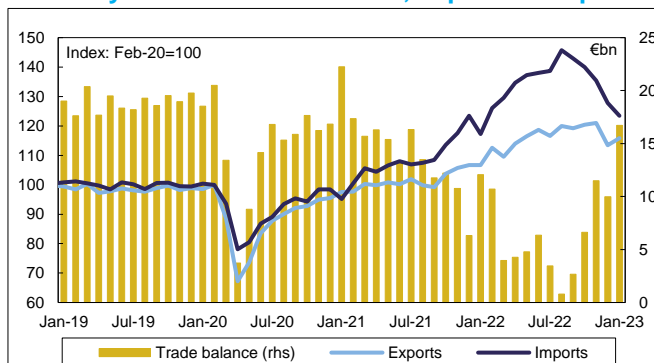
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

### Europe: Services activity PMIs



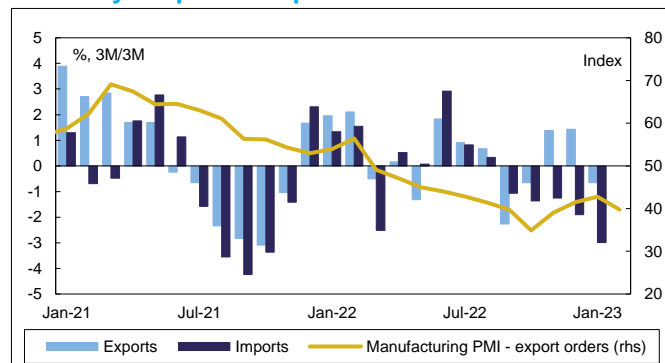
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

### Germany: Goods trade balance, exports & imports\*



\*Seasonally adjusted nominal data. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: Export & import volumes\*



\*Seasonally adjusted data. Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

## The week ahead in the euro area

The coming week's euro area economic data calendar should be quieter. In light of the upside surprise to the past week's flash consumer price [inflation](#) estimates, arguably of most interest will be Tuesday's publication of the ECB's monthly survey of consumer expectations, which will shed more light on households' perceptions about the outlook for inflation at the start of this year. In terms of activity, Monday kicks off with euro area retail sales figures for January. Given the slump in demand at the end of last year, we would expect to see some payback in sales at the start of the year, albeit growth is unlikely to fully reverse the near-3%M/M drop in December. In light of the broad-based weakening in activity in December and following a downwards revision to [German GDP](#) and today's significant revision to the Irish GDP estimate – where the Statistical Office slashed growth from 3.5%Q/Q to just 0.3%Q/Q and thereby knocked roughly 0.2ppt off euro area GDP growth – Wednesday's release of updated euro area national accounts numbers might well see the minimal growth initial estimated in Q4 (0.1%Q/Q) revised away. And with think there is a non-negligible chance of a negative print. This release will include the official expenditure breakdown, which seems likely to confirm a slump in private domestic demand. At the country level, German factory orders (Tuesday) and IP figures (Wednesday) will provide an indication into how the manufacturing sector performed at the start of Q1, while final German February inflation numbers are also due (Friday). In terms of surveys, the euro area Sentix investor and construction PMIs are due Monday. In terms of ECB speak, ECB Chief Economist Lane is scheduled to give a lecture on Monday.

## UK

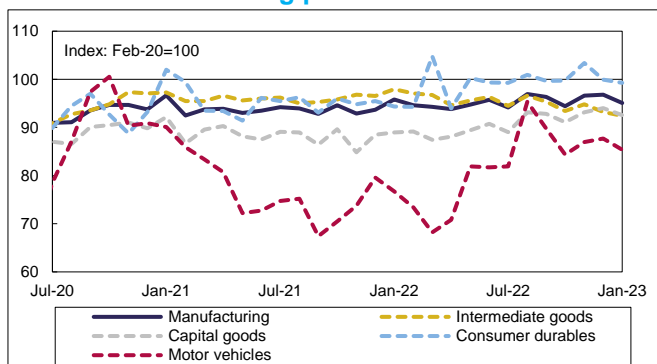
### Services PMI surges in February, with prices remaining sticky too

The final services PMIs today reaffirmed the signal of the surprising rebound in UK economic sentiment in the middle of the first quarter, with the activity index having been revised slightly higher from the flash to 53.5, some 4.8pts above the January reading and the strongest since June. Like in the euro area, and contrasting with the downtrend in the manufacturing survey, the PMIs also suggested still elevated cost burdens in the sector. In particular, the input price index fell 1.2pt to 72.0, significantly above the long-run average (58.3), while the output price index edged down just 0.2pt to a still well above-average 62.7, with many firms noting that rapid input costs of the past two years had yet to be fully passed through to consumers, while some firms suggested that expectations of further salary increases had limited their ability to discount prices. So, while [services inflation](#) moderated more than expected in January, risks remain skewed to the upside associated not least due to the tight labour market. But while core inflation might remain stickier, reports today suggested that the Chancellor will in his Spring Budget Statement (15 March) maintain the Energy Price Guarantee (EPG) at £2,500 for a further three months, rather than the expected rise to £3,000 from the start of April. This would likely see headline inflation fall to just above 6%Y/Y in Q223, some 1½ppts lower than our forecast under the current p EPG and below the BoE's forecast of 8.5%Y/Y. Moreover, the energy regulator Ofgem recently noted that if wholesale gas prices continue to fall, the price cap it sets on household energy bills could be lowered again in July. And so, we might well see headline inflation fall to as low as 2½%Y/Y by the end of this year.

### The week ahead in the UK

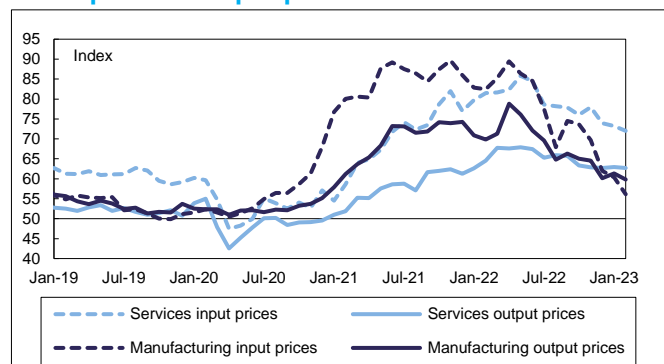
The key UK data release in the coming week will be Friday's GDP report for January. Having contracted sharply at the end of last year, and following a firmer outturn for retail sales at the start of this year, GDP growth might well have registered positive growth that month. Broadly in line with our own expectations, the Bloomberg survey consensus estimate is for an increase of just 0.1%M/M. And having fallen to its lowest level in fourteen months in December, this would leave GDP still firmly on a downwards trend and below the pre-pandemic benchmark. Ahead of the GDP report and associated services, industry, construction and trade numbers, the coming week will bring the construction PMIs and new car registrations data for February (Monday), followed by the BRC retail sales monitor and REC report on jobs (Tuesday) and the RICS Residential survey (Thursday), all for the month of February. In terms of BoE speak, external MPC member Dhingra – who in February voted to leave Bank Rate unchanged – is scheduled to speak on Wednesday.

#### France: Manufacturing production












Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Input and output price PMIs













Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

## Daiwa economic forecasts

	2022		2023				2022	2023	2024
	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP</b>	%, Q/Q						%, Y/Y		
Euro area 	0.3	-0.1	0.0	0.2	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	7.4	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	8.7	7.3	4.9	9.1	7.6	2.7
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/ Daiwa forecast	Previous	Revised	
Euro area 	Final services (composite) PMI	Feb	<b>52.7 (52.0)</b>	<u>53.0 (52.3)</u>	50.8 (50.3)	-	
	PPI Y/Y%	Jan	<b>-2.8 (15.0)</b>	-0.3 (17.8)	1.1 (24.6)	- (24.5)	
Germany 	Trade balance	Jan	<b>16.7</b>	11.0	10.0	-	
	Final services (composite) PMI	Feb	<b>50.9 (50.7)</b>	<u>51.3 (51.1)</u>	50.7 (49.9)	-	
France 	Industrial production M/M% (Y/Y%)	Jan	<b>-1.9 (-2.2)</b>	-0.2 (0.2)	1.1 (1.4)	1.5 (1.8)	
	Final services (composite) PMI	Feb	<b>53.1 (51.7)</b>	<u>52.8 (-)</u>	49.4 (49.1)	-	
Italy 	Services (composite) PMI	Feb	<b>51.6 (52.2)</b>	52.3 (52.0)	51.2 (51.2)	-	
	Final GDP Q/Q% (Y/Y%)	Q4	<b>-0.1 (1.4)</b>	-0.1 (1.7)	0.5 (2.7)	0.4 (2.5)	
Spain 	Services (composite) PMI	Feb	<b>56.7 (55.7)</b>	53.7 (53.5)	52.7 (51.6)	-	
UK 	Final services (composite) PMI	Feb	<b>53.1 (53.5)</b>	<u>53.3 (53.0)</u>	48.7 (48.5)	-	
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/ <i>Daiwa</i> <i>forecast/actual</i>	Previous	
<b>Monday 06 March 2023</b>						
Euro area		08.30	Construction PMI	Feb	-	46.1
		09.30	Sentix investor confidence	Mar	-5.3	-8.0
		10.00	Retail sales M/M% (Y/Y%)	Jan	0.8 (-1.8)	-2.7 (-2.8)
Germany		08.30	Construction PMI	Feb	-	43.3
France		08.30	Construction PMI	Feb	-	48.4
Italy		08.30	Construction PMI	Feb	-	48.2
UK		09.00	New car registrations Y/Y%	Feb	-	14.7
		09.30	Construction PMI	Feb	48.6	48.4
Germany		07.00	Factory orders M/M% (Y/Y%)	Jan	-1.0 (-12.3)	3.2 (-10.1)
Spain		08.00	Industrial production M/M% (Y/Y%)	Jan	-0.2 (0.8)	0.8 (0.6)
UK		00.01	BRC retail sales monitor, like-for-like Y/Y%	Feb	-	3.9
<b>Wednesday 08 March 2023</b>						
Euro area		10.00	Final GDP Q/Q% (Y/Y%)	Q4	<u>-0.1 (1.7)</u>	0.3 (2.4)
		10.00	Final employment Q/Q% (Y/Y%)	Q4	<u>0.4 (1.5)</u>	0.3 (1.8)
Germany		07.00	Retail sales M/M% (Y/Y%)	Jan	2.5 (-5.2)	-4.9 (-6.2)
		07.00	Industrial production M/M% (Y/Y%)	Jan	1.5 (-3.7)	-3.1 (-3.9)
Italy		09.00	Retail sales M/M% (Y/Y%)	Jan	-	-0.2 (3.4)
<b>Thursday 09 March 2023</b>						
UK		00.01	RICS house price balance %	Feb	-50	-47
<b>Friday 10 March 2023</b>						
Germany		07.00	Final HICP (CPI) Y/Y%	Feb	<u>9.3 (8.7)</u>	9.2 (8.7)
France		07.45	Trade balance €bn	Jan	-	-14.9
Italy		09.00	PPI Y/Y%	Jan	-	39.2
Spain		08.00	Retail sales Y/Y%	Jan	-	4.0
UK		07.00	GDP M/M% (3M/3M%)	Jan	0.1 (0.0)	-0.5 (-0.3)
		07.00	Industrial production M/M% (Y/Y%)	Jan	0.0 (-3.9)	0.3 (-4.0)
		07.00	Manufacturing production M/M% (Y/Y%)	Jan	0.0 (-5.0)	0.0 (-5.7)
		07.00	Index of services M/M% (3M/3M%)	Jan	0.1 (-0.1)	-0.8 (0.0)
		07.00	Construction output M/M% (Y/Y%)	Jan	0.1 (2.7)	0.0 (3.7)
		07.00	Goods trade balance (excl. precious metals) £bn	Jan	-18.5 (-)	-19.3 (23.6)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 06 March 2023</b>		
Euro area 	11.00	ECB Chief Economist Philip Lane scheduled to give a lecture
<b>Tuesday 07 March 2023</b>		
Euro area 	09.00	ECB consumer expectations survey, January 2023
Germany 	10.30	Auction: €500mn of 0.1% 2033 index-linked bonds
UK 	10.00	Auction: £4.5bn of 3.5% 2025 bonds
<b>Wednesday 08 March 2023</b>		
Euro area 	11.00	ECB President Christine Lagarde scheduled to speak
Germany 	10.30	Auction: €4bn of 2.1% 2029 bonds
UK 	00.01	KPMG/REC report on jobs, February 2023
	09.30	BoE's Swati Dhingra scheduled to speak
	10.00	Auction: £2.0bn of 0.5% 2061 bonds
<b>Thursday 09 March 2023</b>		
- Nothing scheduled -		
<b>Friday 10 March 2023</b>		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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