

Euro wrap-up

Overview

- Despite some mixed commentary from ECB Governing Council members, Bunds made gains as the ifo survey suggested that the German economy remains in recession.
- Gilts also rose as a UK consumer confidence survey disappointed expectations and suggested that purchase intentions remained subdued.
- The coming week will bring flash estimates of euro area inflation in February, the Commission's economic sentiment surveys and bank lending figures from the euro area & UK.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/26	2.847	-0.050
OBL 2.1 04/29	2.369	-0.075
DBR 2.2 02/34	2.359	-0.079
UKT 3½ 10/25	4.501	-0.080
UKT 4½ 06/28	4.078	-0.071
UKT 3¼ 01/33	4.033	-0.071

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

Source: Bloomberg

Euro area

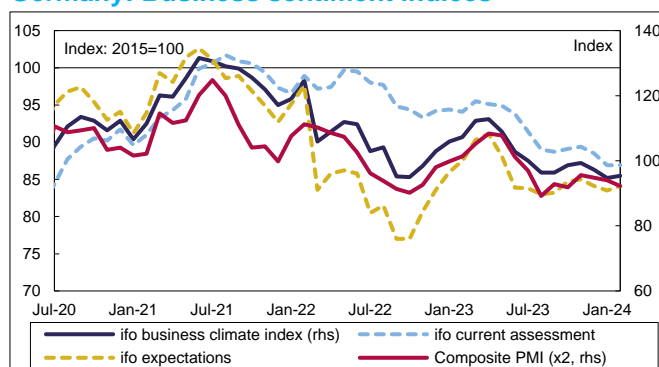
German ifo survey suggests the economy remains in recession

Contrasting with the marked deterioration in yesterday's German [flash PMIs](#), today's ifo institute business sentiment survey, at face value at least, suggested some stabilisation in sentiment in the middle of the first quarter, with the headline business climate index rising in February for the first month in three, by 0.3pt to 85.5. But this left the index at a historically weak level, trending in the first two months of Q1 some 1½pts below the Q4 average and more than 10pts below the pre-pandemic long-run average, therefore still suggestive of very subdued economic conditions. Moreover, the improvement reflected reduced pessimism about the outlook over the coming six months, with the respective expectations index (84.1) reversing the 0.6pt decline in January, as scepticism among services and retail firms eased somewhat. But while services firms were also a touch more upbeat about current conditions and construction firms were marginally less downbeat for the time being at least, manufacturers assessed conditions to be the gloomiest since September 2020, and early 2010 when excluding the first Covid-19 wave. As such, the aggregate current conditions index merely moved sideways at January's 3½-year low (86.9), to leave it more than 15pts below the pre-pandemic five-year average and trending some 2.1pts below the Q4 average. So, like the PMIs, today's ifo survey strongly suggests that Germany's economy remained in recession at the start of 2024. And while economic activity towards the middle of the year should be supported by an easing in monetary policy, demand for construction will remain constrained by still-elevated borrowing costs, while subdued consumer sentiment, high energy costs, a slowing US economy and sub-par demand growth in China will remain a restraint on manufacturing.

Contraction in German economy in Q4 led by declining fixed investment

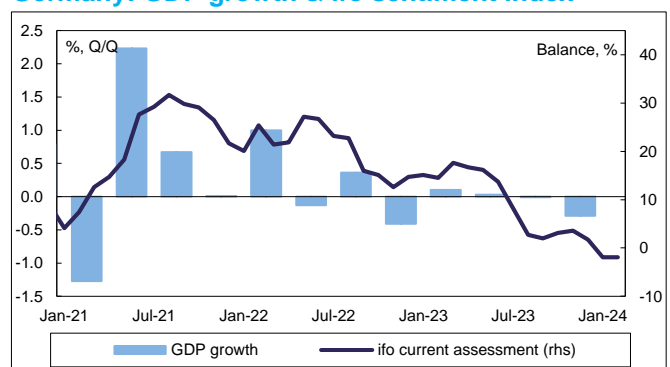
Reinforcing the recent woeful economic performance of the euro area's largest member state, today's updated German national accounts figures confirmed that the economy slipped into recession in the second half of 2023. While unrevised from previous estimates, the contraction in Q4 of 0.3%Q/Q was nevertheless the steepest for a year. And having fallen 0.1%Q/Q in Q3 and moved sideways in Q2, output was down 0.2%Y/Y and just 0.1% above the pre-pandemic level. Moreover, GDP per head declined in six out of the past seven quarters to leave it a little more than 1½% below the pre-pandemic level. The contraction in Q4 was led by fixed investment, which fell 1.9%Q/Q – the most since Q321 – to knock 0.4ppt off quarterly GDP growth and the level a hefty 4.8% below the pre-pandemic benchmark. Given the acute impact of higher interest rates, spending on construction declined for a sixth quarter out of the past seven (-1.7%Q/Q) to be more than 6% below the Q419 level, while investment in machinery and equipment fell a more pronounced 3.5%Q/Q in Q4, in part reflecting the discontinuation of government incentives for commercial EV registrations at the start of September. Private inventories also provided a modest drag (-0.1ppt) for a third quarter out of the past four as firms continued to destock amid weak demand. Indeed, exports fell for a fifth successive quarter (-1.6%Q/Q), although the drag was offset by a fall in imports

Germany: Business sentiment indices



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

Germany: GDP growth & ifo sentiment index



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

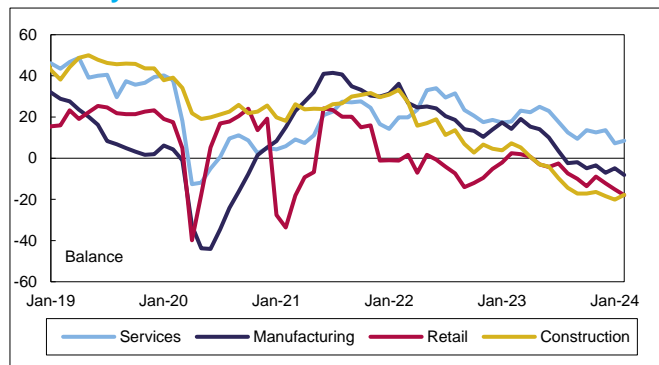
(-1.7%Q/Q) amid lacklustre domestic demand. Against this backdrop, and despite the sharp decline in hospitality sales (-1.6%3M/3M) and persisting downtrend in retail sales (-0.4%3M/3M) in Q4, there was a surprise modest increase in household consumption last quarter, by 0.2%Q/Q, as consumers benefitted from improving real disposable incomes. Government consumption also offered modest support, rising for a second successive quarter (0.3%Q/Q).

The week ahead in the euro area

The data highlight of the coming week will undoubtedly be the flash estimates of euro area inflation for February on Friday. While the disinflationary trend has proved somewhat sticky of late, due primarily to the withdrawal of government energy support and other tax changes at the start of the year, we expect headline inflation to take a further step down this month, by 0.3ppt to 2.5%Y/Y. This would however remain 0.1ppt above November's 28-month low, albeit largely due to the impact of higher energy prices. Given the decline in factory pipeline pressures and subdued domestic demand, non-energy industrial goods inflation is expected to fall to its softest rate since mid-2021. And while it will remain historically elevated, we also expect services inflation to moderate to a 20-month low of 3.6%Y/Y. As a result, we forecast core inflation to drop around ½ppt to 2.8%Y/Y, which would be the lowest since February 2022. Ahead of the aggregate release, inflation numbers from Germany, France, Spain, Portugal and Ireland (published on Thursday) and Belgium (Wednesday) will offer further insight.

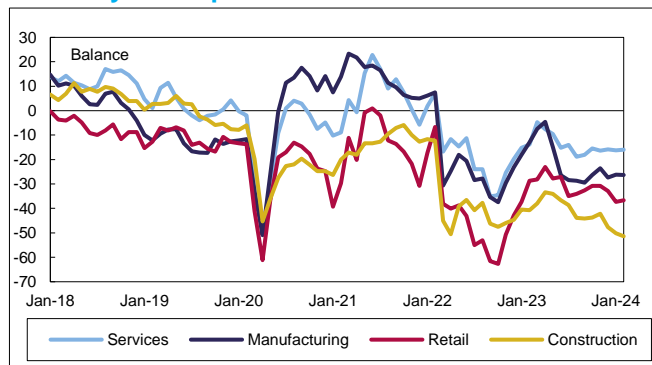
Survey-wise, the European Commission's economic sentiment indicators for February – arguably the best guide to euro area GDP growth – are due on Wednesday. The [preliminary consumer confidence](#) figure suggested that sentiment among euro area households remains muted, although the headline confidence index partly reversed the decline recorded in January, rising 0.6pt to -15.5, the second-highest reading since before Russia's invasion of Ukraine. In terms of the survey's business components, like yesterday's flash PMIs, we would expect to see a further improvement in services confidence this month, while equivalent measures for the manufacturing and construction sectors will remain constrained by lacklustre demand and high borrowing costs. Overall, the headline Economic Sentiment Index is forecast to rise to its highest level since June, albeit still some way below the long-run average. Other data to be published in the coming week include euro area bank lending figures for January (Tuesday), which will further illustrate the dampening impact of high borrowing costs on loan demand at the start of the year. Meanwhile, despite subdued economic recovery momentum, the latest euro area jobless figures (Friday) are expected to see the unemployment rate move sideways at a series low of 6.4% in January, implying a still very tight labour market. German labour market figures for February and retail sales data for January are also due Thursday.

Germany: ifo current assessment indices



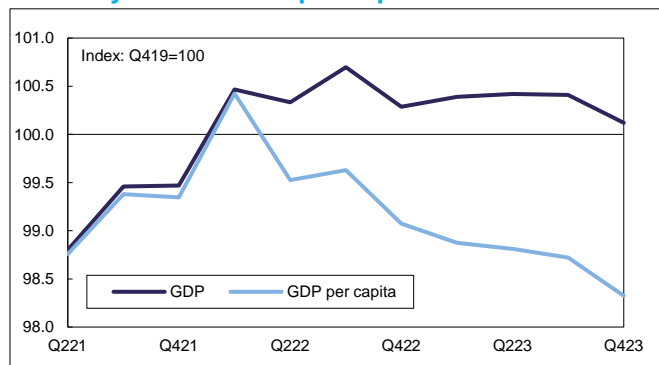
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo expectations indices



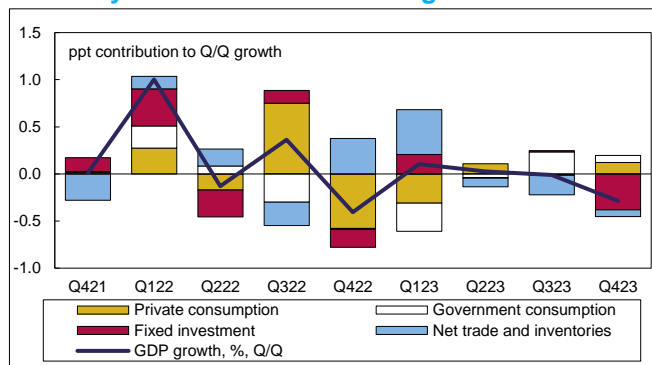
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: GDP & GDP per capita



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Contributions to GDP growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK

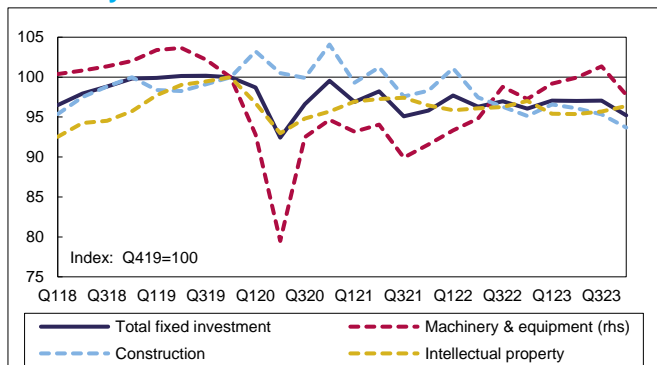
Consumer confidence slips back in February suggesting spending will remain subdued

Contrasting markedly with the more upbeat flash PMIs in February, today's GfK consumer confidence survey fell short of expectations, suggesting that households will remain frugal with their spending for the time being despite the anticipated boost to disposable incomes. In particular, the headline confidence indicator fell for the first month in four, by 2pts in February to -21. While this remains close to the top of the recent range and trending more than 5pts above the Q4 average, it remains some 15pts below the average in the five years before the pandemic. Admittedly, the expectation for household financial situations over the coming twelve months was unchanged from a month ago, with the respective index (0) at its highest since end-2021 and materially closer to the long-run average (2) than the level a year ago (-18) and trough in September 2022 (-40). And while the Ofgem household energy price cap from April, announced today, was a touch higher than had been previously anticipated, it still represented a decline of 12% and the lowest level since March 2022. Taken together with additional personal tax cuts in the forthcoming Spring Budget announcement, this should provide a further (albeit likely temporary) boost to disposable incomes. Nevertheless, today's survey suggested that expectations for the economic outlook remain relatively downbeat. And, for now at least, consumers appear more inclined to increase saving than spending. Certainly, with the survey's purchase intentions index having slipped back to a four-month low in February, the jump in retail sales in January – with the 3.4%M/M rise reversing the decline in December – won't be repeated this month.

The week ahead in the UK

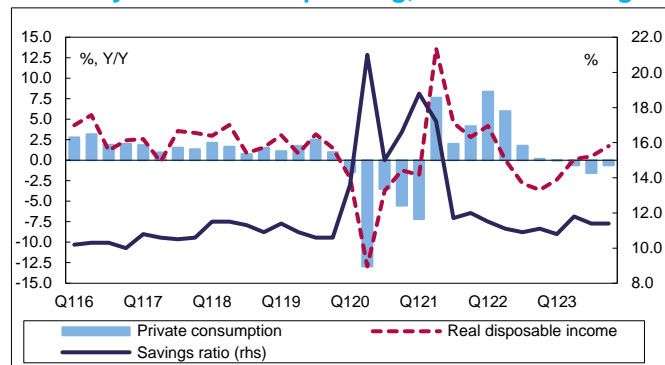
The UK's economic data calendar in the coming week kicks off with the CBI's latest distributive trades survey (Monday), which will give a first insight into retail conditions in February. The release of the BRC shop price survey for February (Tuesday) might well report a further moderation in the headline inflation rate as retailers continue to pass on lower input costs in the face of weak demand. Meanwhile, despite the recent improvement in mortgage deals and signs of a turnaround in the housing market, the BoE's bank lending numbers (Thursday) will likely report that mortgage lending remained subdued in January, while the net increase in consumer credit is expected to remain in line with the average of the past five months (£1.6bn), roughly double the average in the decade before the pandemic. At the same time, the Nationwide house price index for February, is expected to report a fourth monthly rise out of the past five, to leave the annual rate in modestly positive territory for the first time January 2023. Finally, the final manufacturing PMIs will likely confirm the preliminary findings, which suggested a notable improvement in the manufacturing output index – up 1.8pts on the month – although at 47.3, it still marked the nineteenth sub-50 “contractionary” reading of the past twenty months.

Germany: Fixed investment



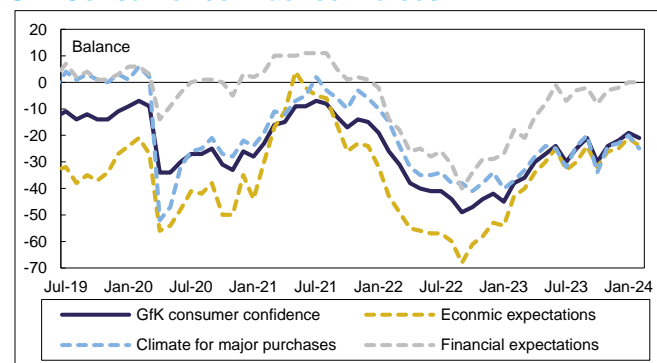
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Household spending, income & savings



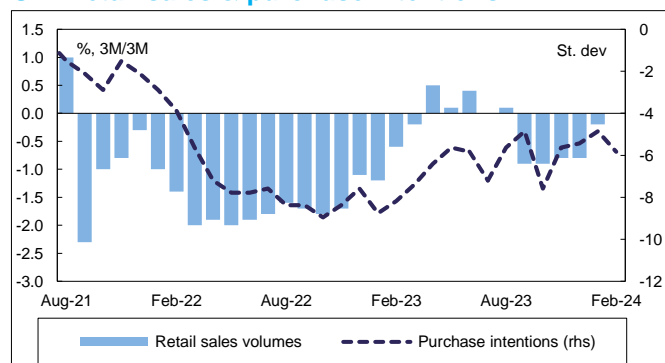
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence indices












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales & purchase intentions











Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

		2023	2024				2025	2023	2024	2025
		Q4	Q1	Q2	Q3	Q4	Q1			
GDP								%, Y/Y		
Euro area		0.0	0.0	0.1	0.2	0.2	0.3	-0.1	0.0	1.0
UK		-0.3	0.2	0.2	0.2	0.2	0.3	0.1	0.2	1.0
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.7	2.5	2.2	1.8	2.4	2.1	5.4	2.2	1.8
Core HICP		3.7	2.9	1.9	1.6	2.0	1.7	4.9	2.1	1.6
UK										
Headline CPI		4.1	3.5	1.7	1.9	2.3	2.2	7.3	2.3	2.1
Core CPI		5.3	4.5	2.7	2.3	2.5	2.4	6.2	3.0	2.1
Monetary policy, %										
ECB										
Refi Rate		4.50	4.50	4.25	3.75	3.25	2.75	4.50	3.25	2.75
Deposit Rate		4.00	4.00	3.75	3.25	2.75	2.25	4.00	2.75	2.25
BoE										
Bank Rate		5.25	5.25	5.00	4.50	4.00	3.50	5.25	4.00	2.50

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	 ECB 1Y (3Y) price expectations	Jan	3.3 (2.5)	- (2.4)	3.2 (2.5)	-	
Germany	 Final GDP Q/Q% (Y/Y%)	Q4	-0.3 (-0.2)	<u>-0.3 (-0.2)</u>	-0.1 (-0.3)	-	
	 Ifo business climate index	Feb	85.5	85.5	85.2	-	
	 Ifo current assessment (expectations) balance	Feb	86.9 (84.1)	86.8 (84.0)	87.0 (83.5)	86.9 (-)	
UK	 GfK consumer confidence index	Feb	-21	-18	-19	-	
Auctions							
Country	Auction						
Italy	 Auction: €4bn of 3.2% 2026 bonds at an average yield of 3.41%						
	 Auction: €1bn of 1.5% 2029 index-linked bonds at an average yield of 1.73%						
	 sold €500mn of 2.55% 2041 index-linked bonds at an average yield of 2.19%						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 27 February 2024













The coming week's data calendar

The coming few week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 26 February 2024					
Spain	08.00	PPI Y/Y%	Jan	-	-6.3
UK	11.00	CBI distributive trades survey, reported retail sales index	Feb	-35	-50
Tuesday 27 February 2024					
Euro area	09.00	M3 money supply Y/Y%	Jan	0.3	0.1
Germany	07.00	GfK consumer confidence index	Mar	-29.0	-29.7
France	07.45	INSEE consumer confidence index	Feb	92	91
UK	00.01	BRC shop price index Y/Y%	Feb	-	2.9
	-	Nationwide house price index* M/M% (Y/Y%)	Feb	0.2 (0.6)	0.7 (-0.2)
Wednesday 28 February 2024					
Euro area	10.00	European Commission's economic sentiment index	Feb	96.6	96.2
	10.00	European Commission's final consumer confidence index	Feb	<u>-15.5</u>	-16.1
	10.00	European Commission's industrial (services) confidence index	Feb	-9.0 (9.0)	-9.3 (8.8)
Italy	09.00	ISTAT business (manufacturing) index	Feb	- (88.7)	98.1 (88.3)
	09.00	ISTAT consumer confidence index	Feb	97.0	96.4
Thursday 29 February 2024					
Germany	07.00	Retail sales M/M% (Y/Y%)	Jan	0.5 (-1.7)	-1.1 (-4.1)
	08.55	Unemployment change '000s (rate %)	Feb	5.0 (5.8)	-2.0 (5.8)
	13.00	Preliminary HICP (CPI) Y/Y%	Feb	2.7 (2.6)	3.1 (2.9)
France	07.45	Preliminary HICP (CPI) Y/Y%	Feb	3.1 (2.8)	3.4 (3.1)
	07.45	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.0 (0.7)</u>	0.0 (0.6)
	07.45	Consumer spending M/M% (Y/Y%)	Jan	-	0.3 (1.3)
	07.45	PPI Y/Y%	Jan	-	-0.9
Spain	08.00	Preliminary HICP (CPI) Y/Y%	Feb	2.9 (2.9)	3.5 (3.4)
UK	00.01	Lloyds business barometer	Feb	-	44
	09.30	Net consumer credit '000s (Y/Y%)	Jan	1.6 (-)	1.2 (8.5)
	09.30	Net mortgage lending £bn (mortgage approvals '000s)	Jan	0.3 (52.0)	-0.8 (50.5)
	09.30	M4 money supply M/M% (Y/Y%)	Jan	-	0.5 (-0.9)
Friday 01 March 2024					
Euro area	09.00	Final manufacturing PMI	Feb	<u>46.1</u>	46.6
	10.00	Preliminary headline HICP (core HICP) Y/Y%	Feb	<u>2.5 (2.8)</u>	2.8 (3.3)
	10.00	Unemployment rate %	Jan	6.4	6.4
Germany	08.55	Final manufacturing PMI	Feb	<u>42.3</u>	45.5
France	08.50	Final manufacturing PMI	Feb	<u>46.8</u>	43.1
	-	New car registrations* Y/Y%	Feb	-	9.2
Italy	08.45	Manufacturing PMI	Feb	49.5	48.5
	09.00	Unemployment rate %	Jan	7.3	7.2
	10.00	Preliminary HICP (CPI) Y/Y%	Feb	-	0.9 (0.8)
	17.00	New car registrations Y/Y%	Feb	-	10.6
Spain	08.15	Manufacturing PMI	Feb	50.0	49.2
	-	New car registrations* Y/Y%	Feb	-	7.3
UK	09.30	Final manufacturing PMI	Feb	<u>47.1</u>	47.0

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

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 26 February 2024		
UK	 09.00	BoE Deputy Governor Breeden scheduled to speak
	 11.00	BoE Chief Economist Pill scheduled to speak
Tuesday 27 February 2024		
Germany	 10.30	Auction: €1bn of 0% 2050 bonds
UK	 10.00	Auction: £900mn of 0.125% 2039 index-linked bonds
	 13:40	BoE's Deputy Governor Ramsden schedule to give keynote speech
Wednesday 28 February 2024		
Euro area	 13.00	ECB President Lagarde participates in two-day meeting of G20 finance ministers and central bank governors
Germany	 10.30	Auction: 3.25% 2024 bonds
	 10.30	Auction: 1% 2038 bonds
Italy	 10.00	Auction: 5Y and 10Y bonds
UK	 10.00	Auction: £4bn of 4% 2031 bonds
	 15.30	BoE MPC member Mann scheduled to speak
Thursday 29 February 2024		
- Nothing scheduled -		
Friday 01 March 2024		
UK	 14:00	BoE Chief Economist Pill scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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