

Euro wrap-up

Overview

- Bunds made modest gains as the European Commission's economic sentiment survey reported a deterioration in business confidence and a moderation in firms' selling-price expectations.
- Gilts were mixed on a quiet day for economic news from the UK.
- Thursday will bring the flash estimates of inflation in February from Germany, France and Spain, and retail sales data from Germany.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/26	2.914	-0.006
OBL 2.1 04/29	2.467	-0.007
DBR 2.2 02/34	2.460	-0.003
UKT 0% 01/26	4.321	-0.010
UKT 0½ 01/29	4.086	+0.008
UKT 4% 01/34	4.185	-0.007

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

Source: Bloomberg

Euro area

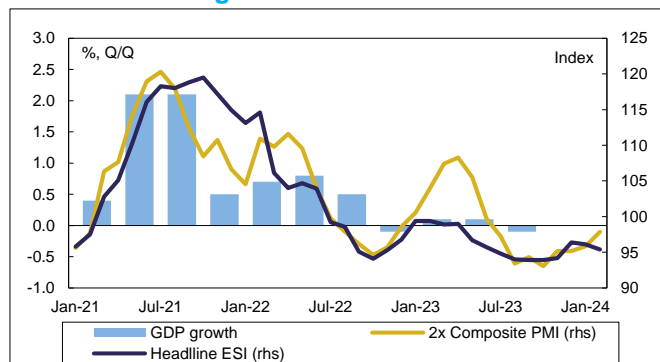
Commission ESIs signal ongoing stagnation, with a further deterioration in Germany

Contrasting the improvement in most of the [flash PMIs](#) in February, the results from today's European Commission business and consumer surveys disappointed, suggesting no material recovery in the euro area economy since the start of the year. Indeed, the euro area economic sentiment indicator (ESI) fell for a second successive month, by 0.7pt – the most since August – to 95.4, some 4½% below the long-run average. Nevertheless, having risen to a seven-month high in December, the ESI was still trending some 1pt above the Q4 level, and was more consistent with continued stagnation rather than contraction. Like the PMIs, today's surveys flagged ongoing variation in recovery momentum across the member states. The further deterioration in the German sentiment index to 89 – the second-lowest reading since the global financial crisis when excluding the first Covid-19 lockdown to be trending more than 1pt below the Q4 average – reinforces our view that its economy is on track for a third consecutive contraction in GDP in Q1. Admittedly, the headline ESIs in France (-0.3 to 97.6), Italy (-1.6pt to 99.2) and Spain (-0.2pt to 102.4) also fell back in February. But having risen sharply at the start of the year, their respective levels were trending between 2-2½pts above the Q4 averages and suggestive of positive GDP growth this quarter. The survey followed a similar pattern with respect to employment intentions, with Spanish firms signalling the strongest hiring plans, while Germany was the only larger member state where firms cited a desire to cut headcount. This notwithstanding, Germany also had the largest share of firms willing to hoard labour in the hope that output will soon return to growth.

Deterioration in sentiment broad based across sectors as subdued demand limits recovery

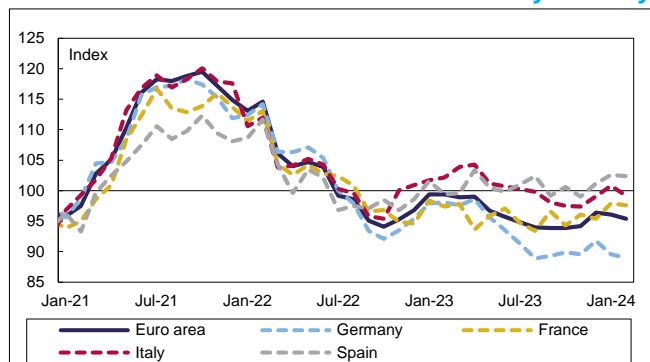
Consistent with the flash PMIs, the Commission's indices continued to suggest that the euro area's modest economic recovery will remain services-led. While optimism in the sector fell to a three-month low in February as firms reported a weakening in recent business and revised down their expectations for demand over the coming three months, the respective sentiment index was still trending some 1pt above the Q4 average and more than 2pts above the Q3 average. Retail confidence was similarly trending a touch above the Q4 level, although retailers reported a notable weakening in sales in the three months to February. And while the modest improvement in consumer confidence flagged in the flash estimate was confirmed, households reported an intention to keep a lid on spending over the coming twelve months amid a more downbeat outlook for the economy. Meanwhile, manufacturing sentiment slipped back to match its lowest level since the first pandemic wave as production expectations remained subdued as orders were considered to be significantly lower than the norm and inventories higher than necessary. Confidence in construction also maintained a downwards trend as demand remained constrained by high interest rates and the downtrend in residential and commercial property prices. Indeed, the share of firms in the sector citing demand as a limiting factor on activity rose to almost a third, the highest since 2016.

Euro area: GDP growth & sentiment indices



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

Euro area: Economic sentiment indices by country



Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

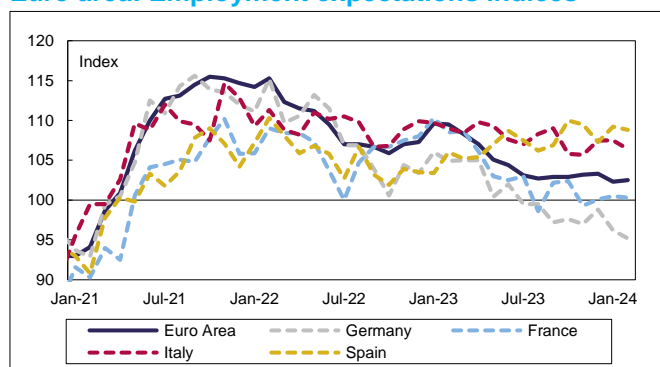
Consumer inflation expectations rise further, but selling prices constrained by soft demand

While the ESIs suggest that economic activity remains broadly stagnant, today's survey offered mixed messages in terms of the near-term inflation outlook. Policymakers will be frustrated to see a further pickup in consumer price expectations this month, with the respective index for the coming twelve months up to the highest since last March (15.5), albeit only marginally higher than the average in the five years before the pandemic and well below the average in 2022 (41). But this likely reflects the recent temporary uptick in headline inflation in response to the withdrawal of special government subsidies and higher auto fuel prices. More encouragingly, selling price expectations resumed a downwards trend in February. Of significant interest for the Governing Council, price expectations for the coming three months in services fell for the first time in five months, with the index down its lowest since October, albeit still trending substantially higher than the long-run average. While they similarly remain well above average, retail price expectations fell to the lowest since spring 2021. And soft demand continues to restrict pricing power among construction and manufacturing firms, whose selling price expectations fell respectively to a three-year low and further below the long-run average. The latter might suggest that potential inflationary pressures arising from shipping delays and freight costs due to the rerouting of ships in the Red Sea appear to remain limited for now.

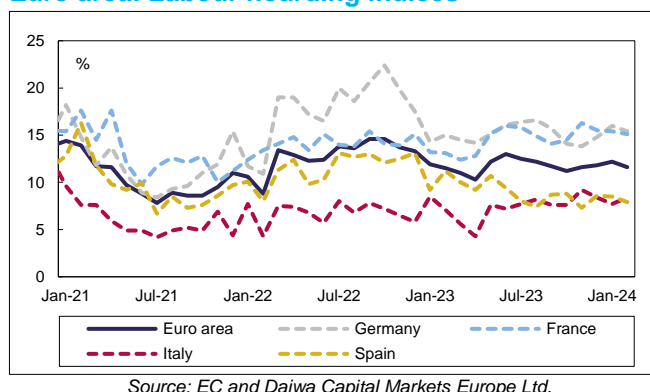
The day ahead in the euro area

Ahead of Friday's flash February estimates of euro area inflation, the focus tomorrow will be on the equivalent releases from Germany, France and Spain. While figures published from Belgium today surprised to the upside – the EU harmonised HICP rate jumped 2.1ppts to 3.6%Y/Y due principally to a rise in energy inflation on the withdrawal of fiscal support – headline HICP inflation in Germany, France and Spain is expected to have moderated in February as upwards pressures from energy start to dissipate and underlying price pressures continue to ease. Thursday will also bring January consumer spending figures from Germany and France. But while German retail sales are expected to rise for the first month in three, the forecast increase of ½%M/M would leave them firmly on a downwards trend, while French consumption of goods is expected to have declined modestly for the first month in three. Meanwhile, against the fragile economic backdrop, the latest German labour market data are likely to report a further pickup in claimant count numbers in February, albeit leaving the jobless rate unchanged at 5.8% for a fifth consecutive month.

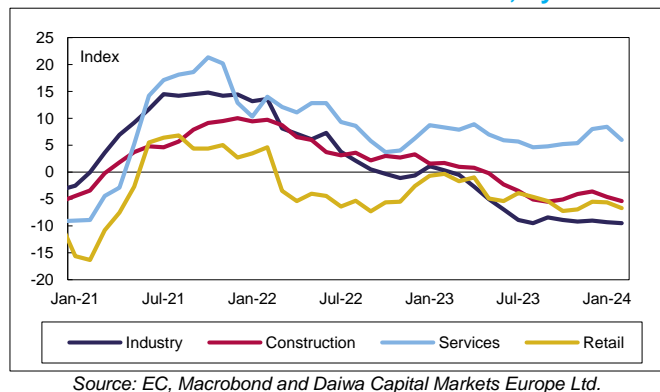
Euro area: Employment expectations indices



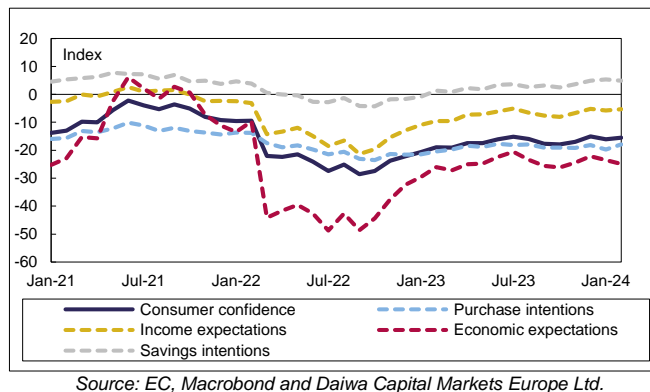
Euro area: Labour hoarding indices



Euro area: Economic sentiment indices, by sector



Euro area: Consumer confidence indices

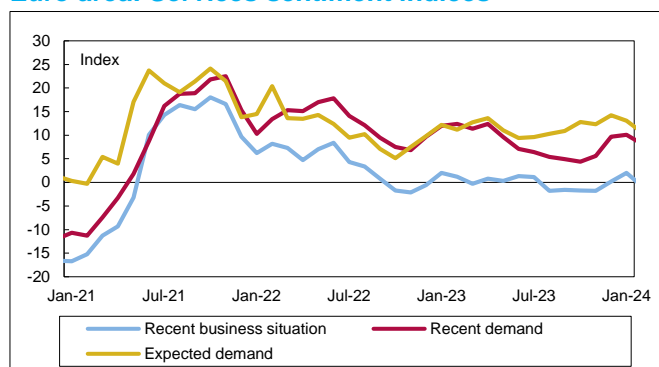


UK

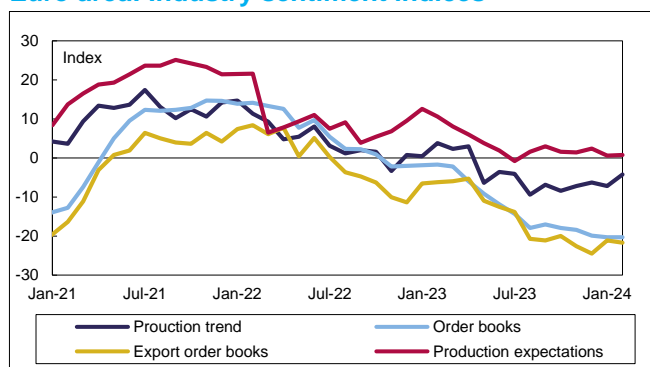
The day ahead in the UK

Following a day bereft of top-tier data today, Thursday will bring the BoE's lending figures for January. Despite the recent decline in mortgage rates and signs of a stabilisation in the housing market, mortgage lending likely remained subdued in January. And while mortgage approvals are expected to be the strongest since last June, they will remain well below pre-pandemic levels. Meanwhile, 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.

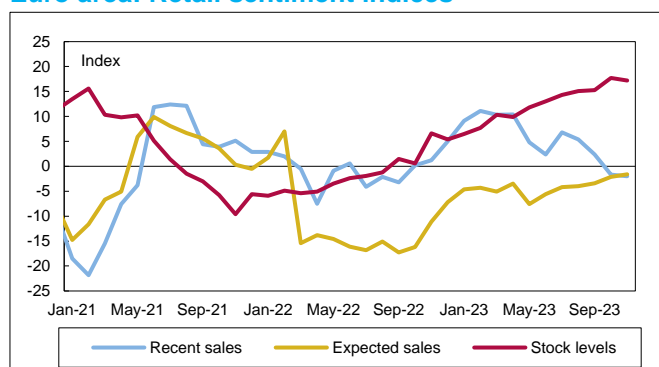
Euro area: Services sentiment indices



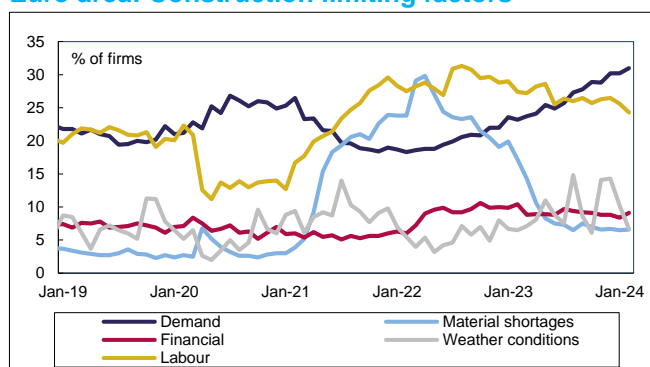
Euro area: Industry sentiment indices



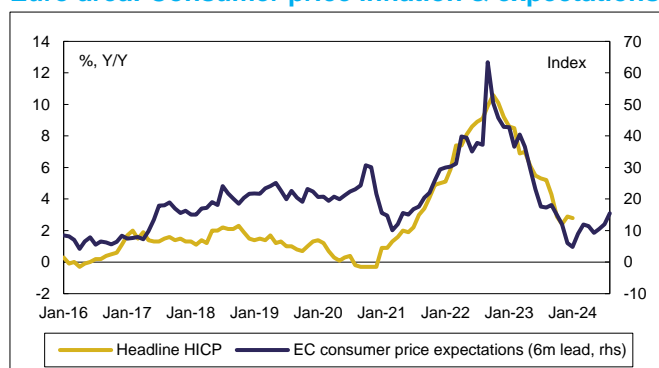
Euro area: Retail sentiment indices



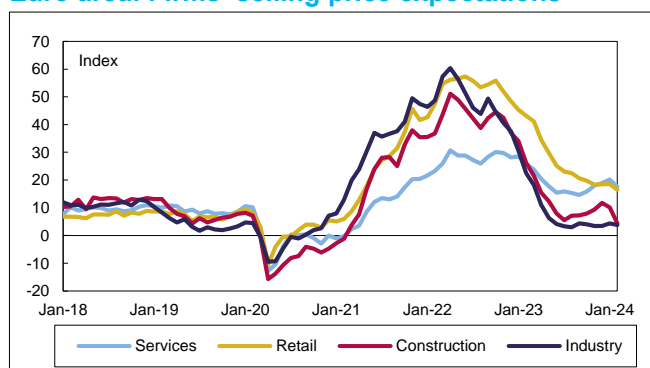
Euro area: Construction limiting factors



Euro area: Consumer price inflation & expectations*



Euro area: Firms' selling price expectations*



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	European Commission's economic sentiment index	Feb	95.4	96.6	96.2	96.1
	European Commission's final consumer confidence index	Feb	-15.5	-15.5	-16.1	-
	European Commission's industrial (services) confidence index	Feb	-9.5 (6.0)	-9.0 (9.0)	-9.3 (8.8)	-9.3 (8.4)
Italy	ISTAT business (manufacturing) index	Feb	95.8 (87.3)	- (88.7)	98.1 (88.3)	97.9 (88.1)
	ISTAT consumer confidence index	Feb	97.0	97.0	96.4	-

Auctions

Country	Auction
Germany	sold €813mn of 1% 2038 bonds at an average yield of 2.6%
	sold €407mn of 3.25% 2042 bonds at an average yield of 2.65%
Italy	sold €3.75bn of 3.35% 2029 bonds at an average yield of 3.41%
	sold €4.5bn of 3.85% 2034 bonds at an average yield of 3.91%
	sold €1.5bn of 2031 floating-rate bonds at an average yield of 5.2%
UK	sold £4bn of 4% 2031 bonds at an average yield of 4.085%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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	0.0 (0.7)	0.0 (0.6)
	07.45	Consumer spending M/M% (Y/Y%)	Jan	-0.2 (-)	0.3 (1.3)
	07.45	PPI Y/Y%	Jan	-	-0.9
Spain	08.00	Preliminary HICP (CPI) Y/Y%	Feb	2.8 (2.8)	3.5 (3.4)
UK	00.01	Lloyds business barometer	Feb	-	44
	09.30	Net consumer credit '000s (Y/Y%)	Jan	1.5 (-)	1.2 (8.5)
	09.30	Net mortgage lending £bn (mortgage approvals '000s)	Jan	0.2 (52.0)	-0.8 (50.5)
	09.30	M4 money supply M/M% (Y/Y%)	Jan	-	0.5 (-0.9)

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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