

Euro wrap-up

Overview

- Bunds made gains as the flash February inflation estimates from several euro area member states remained consistent with disinflation while data for German retail sales, jobless claims and underlying negotiated wages all in on the soft side.
- Gilts also made gains as data showed that UK households again made a net repayment of their housing debt even as new mortgage approvals continued to recover.
- Friday's focus will be the flash estimates of euro area inflation in February while the region's latest unemployment data will also be released.

Chris Scicluna

+44 20 7597 8326

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/26	2.883	-0.024
OBL 2.1 04/29	2.418	-0.045
DBR 2.2 02/34	2.396	-0.061
UKT 0% 01/26	4.265	-0.052
UKT 0½ 01/29	4.029	-0.053
UKT 4% 01/34	4.113	-0.067

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

Source: Bloomberg

Euro area

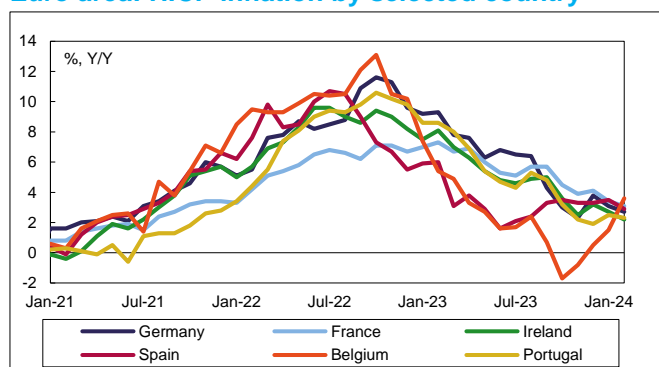
German inflation eases on lower food component, but core rate moves sideways

Ahead of tomorrow's flash estimates of euro area inflation in February, figures published so far by the member states – including today's numbers from Germany, France and Spain – strongly suggest a further step down in headline inflation this month, and a further easing in underlying price pressures too. Having jumped at the end of last year due to the withdrawal of government energy support measures, German consumer price inflation fell back for a second successive month in February, with the EU-harmonised HICP rate down 0.4ppt to 2.7%Y/Y. This was bang in line with the consensus view and 8.8ppts below the 2022 peak, but nevertheless still 0.4ppt above November's rate. But having risen by a smaller magnitude in December, the further decline in the national CPI rate, by 0.4ppt to 2.5%Y/Y, left it at its lowest since June 2021. Within the detail on the German national measure, the drop in February principally reflected food prices, which fell for the first month in six and left the annual inflation rate down a sizeable 2.1ppts to 0.9%Y/Y, the softest since December 2020 and more than 21ppts below last year's peak. In contrast, the drag from energy deflation eased slightly in February, as prices rose for a second-successive month not least reflecting higher petrol costs. And within the core components, perhaps surprisingly given the persisting weakness in demand, inflation of core goods – according to our calculation – ticked slightly higher by 0.1ppt to 3.1%Y/Y from January's 19-month low. Arguably more disappointingly, services inflation moved sideways at 3.4%Y/Y, to leave core inflation also unchanged at 3.4%Y/Y in February. This nevertheless matched the lowest core rate since June 2022. And with the monthly increase in core prices bang in line with the long-run average, we expect the disinflationary trend in core inflation to resume next month.

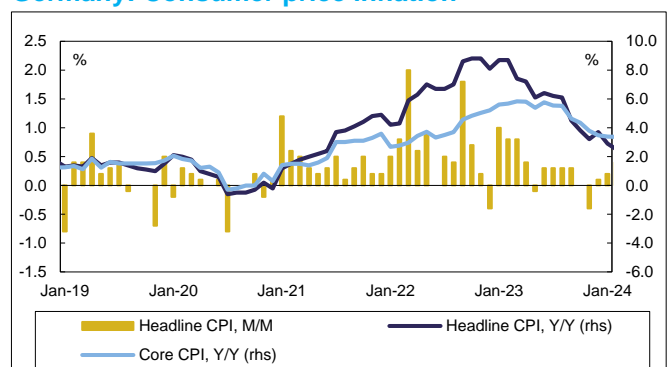
French inflation eases to its lowest since September 2021 despite uptick in energy prices

Today's flash French inflation figures were more encouraging, with evidence of a further easing in underlying price pressures in February. Overall, the headline harmonised HICP rate fell 0.3ppt to 3.1%Y/Y, the lowest since September 2021, with the national CPI measure down 0.2ppt to 2.9%Y/Y, the softest since January 2022. And the moderation would have been greater in the absence of a notable jump in energy prices (4.1%M/M), with upwards impulses from an increase in electricity taxes as the government withdrew its energy-related support measures. So, inflation of that component rose 2.5ppts to 4.4%Y/Y. But this was partly offset by a sharp fall in food inflation, by more than 2ppts to a 23-month low of 3.6%Y/Y, as inflation of fresh foods slumped 7.4ppts to 0.5%Y/Y, the softest rate since November 2021. Moreover, given ongoing subdued domestic demand, the disinflationary trend in manufactured goods was maintained in February, with the annual rate easing for an eleventh successive month to just 0.3%Y/Y, the lowest for 2½ years. And while the French statistical office INSEE suggested that services prices were boosted by rents and transport costs, inflation of that component nevertheless edged slightly lower,

Euro area: HICP inflation by selected country



Germany: Consumer price inflation*



by 0.1ppt to 3.1%Y/Y. As such, core inflation seems likely to have fallen further this month, to below 3%Y/Y and its lowest level for almost a year.

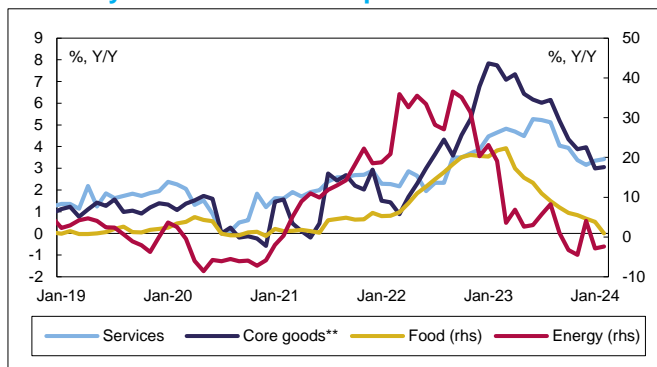
Disinflationary path maintained across most member states in February

Spanish inflation also fell sharply in February, with both the headline harmonised HICP and national CPI measures down 0.6ppt to 2.9%Y/Y and 2.8%Y/Y respectively, the lowest for six months. While there was no official detailed breakdown with today's release, Spain's statistical office INE suggested that, despite an increase in petrol prices, energy inflation benefitted from a decline in electricity prices, while base effects helped food inflation fall back further as prices moved sideways this month compared with an increase a year ago. When excluding fresh foods and energy, INE's measure of core inflation also moderated for a seventh successive month, down 0.2ppt to 3.4%Y/Y. There was a similar pace of decline in Portuguese inflation (-0.2ppt to 2.3%Y/Y), while Irish inflation declined 0.5ppt to 2.2%Y/Y, with the core rate down a larger 0.7ppt to 3.1%Y/Y. So, while Belgium inflation surprised to the upside in February, today's releases strongly support our view that aggregate euro area HICP inflation fell in February. Our updated forecast sees the headline rate dropping 0.2ppt to 2.6%Y/Y and the core rate declining 0.3ppt to a two-year low of 3.0%Y/Y.

German labour market conditions continue to soften gradually

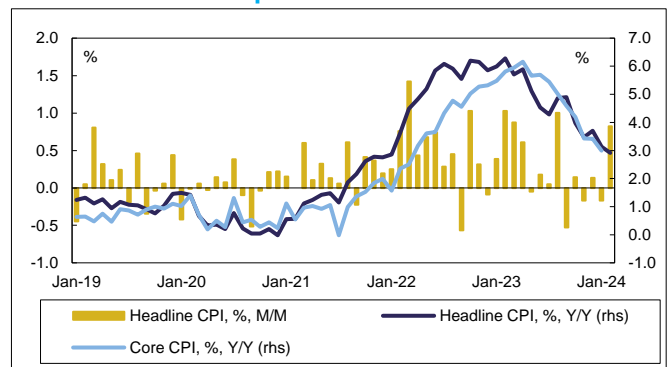
Today's German labour market data suggested that conditions continue gradually to soften in the face of weak aggregate demand. Jobless claims rose in February for the fourteenth successive month and by a larger than expected 11k, the most in three months. That, nevertheless, left the claimant count rate unchanged at (an admittedly upwardly revised) 5.9%, 0.4ppt higher than a year earlier and 0.9ppt above both the post-pandemic trough and pre-pandemic level. While many firms continue to hoard labour in anticipation of an eventual cyclical upturn, evidence of lower demand for new headcount was reflected in a further decline in the number of open vacancies to 727k, the lowest since July 2021 and almost 40k below the average in the two year's ahead of the pandemic. And with softer demand for labour, unions are evidently taking a measured approach to pay demands. While growth in total negotiated wages leapt 4.4ppts in February to an eight-month high of 5.8%Y/Y, the elevated figure reflected special payments, seemingly related to compensation for past high inflation. Excluding such one-offs, negotiated wage growth was steady for a third successive month at just 1.9%Y/Y, firmly below the long-run average and a rate that should ease fears about significant second-round effects on inflation. Indeed, while negotiated wages in services, which are most prone to such second-round effects, rose just 1.1%Y/Y excluding such special payments, and 4.2%Y/Y in total.

Germany: Selected CPI components*



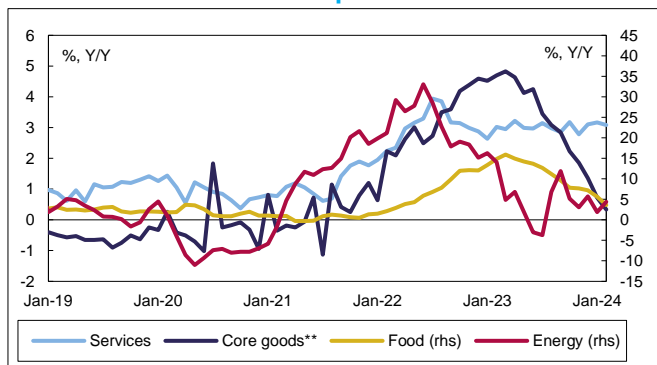
*National measure. **Non-energy industrial goods. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Consumer price inflation*



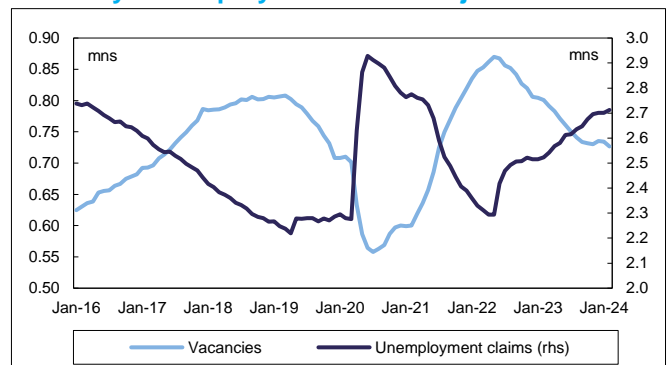
*National measure. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Selected CPI components*



*National measure. **Non-energy industrial goods. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Unemployment claims & job vacancies



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

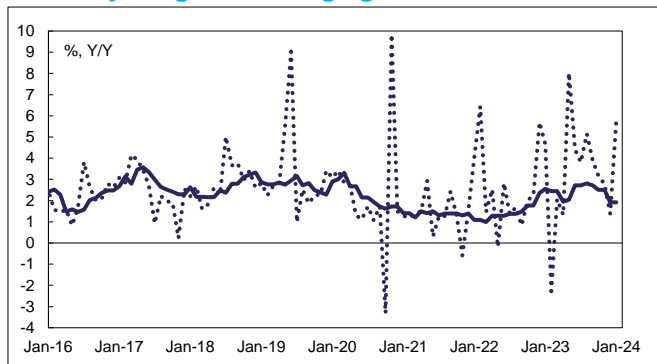
A subdued start to 2024 for German and French spending on goods

Finally, in the euro area's two largest member states, consumer spending on goods appears to have remained subdued at the start of 2024. Contrary to expectations of an increase at the start of the year, and despite a pickup in spending on clothes and electrical appliances, German real retail sales dropped for a third successive month in January, declining 0.4%M/M. Admittedly, the extent of the falls over the two prior months were revised down, so that sales are now estimated to have risen 0.1%Q/Q over Q4 as a whole compared to the previously estimated decline of 0.4%Q/Q. However, the retreat in January still left German sales down 1.0% from the Q4 average and at their lowest level since the lockdowns of February 2021. And they were also 1.6% lower than a year earlier and a whopping 9.5% below their pandemic peak. Real household spending in France was also subdued at the start of the year, with consumption of goods down 0.3%M/M in January. The decline reflected lower spending on new cars as government incentives were withdrawn. But spending on certain other categories, including food, clothes and household goods picked up. And unlike German retail sales, the drop in French goods consumption followed growth over the prior two months and so left it slightly above the Q4 level, albeit down 0.7%Y/Y and 9.7% below the pandemic peak.

The day ahead in the euro area

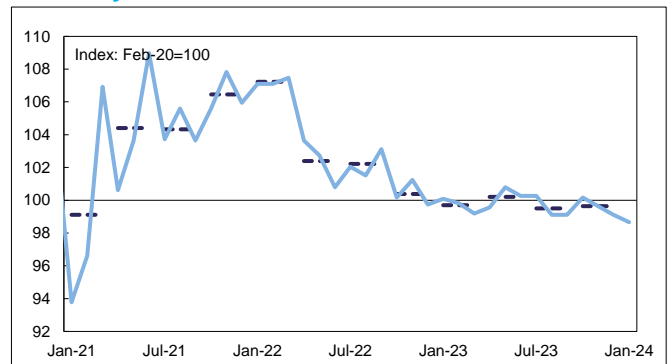
All eyes tomorrow will be on the aforementioned flash estimates of euro area inflation. Notwithstanding the possibility of a significant surprise from Italy or the Netherlands (data also due tomorrow), we expect headline euro area inflation to ease 0.2ppt to 2.6%Y/Y. This would remain 0.2ppt above November's 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 an 18-month low of 3.8%Y/Y. As a result, we forecast core inflation to drop around 0.3ppt to 3.0%Y/Y, which would be the lowest since March 2022. Friday will also bring euro area jobless figures for January. Despite subdued economic recovery momentum, the unemployment rate is expected to move sideways at the series low of 6.4%, implying a still tight labour market. Meanwhile, after updated figures today saw French GDP growth revised marginally higher in Q4, by 0.1ppt to 0.1%Q/Q, tomorrow's equivalent national accounts release from Ireland might attract some attention. We see upside risks to the 0.7%Q/Q contraction initially estimated following a surge in industrial output in December, which jumped 23.5%M/M to be up 6.3%Q/Q in Q4.

Germany: Negotiated wage growth*



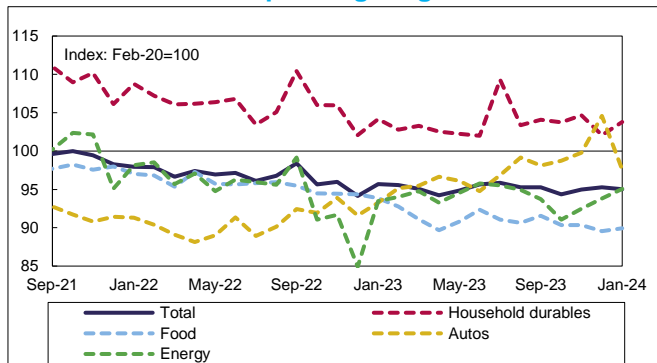
*Solid line excludes one-off payments. Dotted line includes one-off payments.
 Source: Destatis and Daiwa Capital Markets Europe Ltd.

Germany: Retail sales*



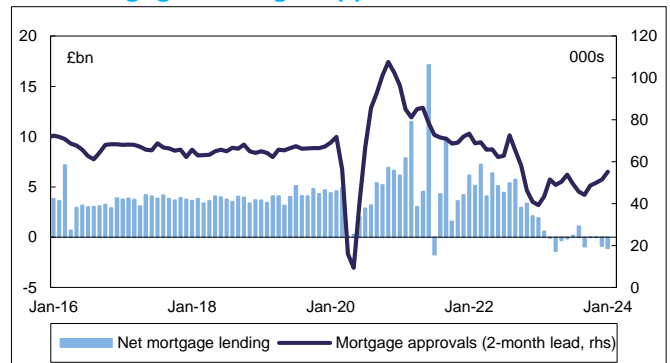
*Dashed line represents quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Consumer spending on goods



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Mortgage lending & approvals



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK













The day ahead in the UK

While UK households made a second successive net mortgage repayment in January, and net mortgage lending has failed to rise since August, today's mortgage approvals figures rose a stronger-than-expected 55.2k, the most since October 2022 and some 15k higher than the low a year ago. That points to a modest rebound in secured lending over coming months, tallying with various indicators signalling a turnaround in the UK's housing market. And gradual improvement in conditions in the residential property market is also likely to be the message from tomorrow's Nationwide house price survey. This is expected to report a fourth monthly rise in home prices out of the past five in February, to leave the annual rate in modestly positive territory for the first time January 2023.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Retail sales M/M% (Y/Y%)	Jan	-0.4 (-1.6)	0.5 (-1.7)	-1.6 (-4.4)	-0.5 (-3.4)
	 Unemployment change '000s (rate %)	Feb	11.0 (5.9)	5.0 (5.8)	-2.0 (5.8)	1.0 (5.9)
	 Preliminary HICP (CPI) Y/Y%	Feb	2.7 (2.5)	2.7 (2.6)	3.1 (2.9)	-
France	 Preliminary HICP (CPI) Y/Y%	Feb	3.1 (2.9)	3.1 (2.8)	3.4 (3.1)	-
	 GDP – final estimate Q/Q% (Y/Y%)	Q4	0.1 (0.7)	<u>0.0 (0.7)</u>	0.0 (0.7)	-
	 Consumer spending M/M% (Y/Y%)	Jan	-0.3 (-0.7)	-0.2 (-)	0.3 (1.3)	- (1.2)
	 PPI Y/Y%	Jan	-5.1	-	-0.9	-1.3
Spain	 Preliminary HICP (CPI) Y/Y%	Feb	2.9 (2.8)	2.9 (2.9)	3.5 (3.4)	-
UK	 Lloyds business barometer	Feb	42	-	44	-
	 Net consumer credit '000s (Y/Y%)	Jan	1.9 (8.9)	1.5 (-)	1.2 (8.5)	1.3 (8.6)
	 Net mortgage lending £bn (mortgage approvals '000s)	Jan	-1.1 (55.2)	0.2 (52.0)	-0.8 (50.5)	-0.9 (51.5)
	 M4 money supply M/M% (Y/Y%)	Jan	-0.1 (-2.2)	-	0.5 (-0.9)	-















Auctions

Country	Auction
---------	---------


- Nothing to report -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases
Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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>2.6 (3.0)</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	49.1	48.5
	 09.00	Unemployment rate %	Jan	7.2	7.2
	 10.00	Preliminary HICP (CPI) Y/Y%	Feb	1.0 (1.0)	0.9 (0.8)
Spain	 17.00	New car registrations Y/Y%	Feb	-	10.6
	 08.15	Manufacturing PMI	Feb	49.8	49.2
	 -	New car registrations* Y/Y%	Feb	-	7.3
UK	 07.00	Nationwide house price index M/M% (Y/Y%)	Feb	0.3 (0.7)	0.7 (-0.2)
	 09.30	Final manufacturing PMI	Feb	<u>47.1</u>	47.0

Auctions and events

UK	 14:00	BoE Chief Economist Pill scheduled to speak
----	--	---

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

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.