

Euro wrap-up

Overview

- Bunds made gains as the euro area composite PMI signalled ongoing stagnation in February due to a questionable deterioration in France.
- Gilts also made gains as the UK composite PMI remained consistent with sluggish GDP growth and firms signalled the steepest cut in headcount for more than four years amid weak demand.
- After the weekend's German election, the coming week will bring flash February inflation data from various member states, the Commission's sentiment survey and the ECB account of the January policy meeting.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.089	-0.054
OBL 2.4 04/30	2.230	-0.067
DBR 2½ 02/35	2.461	-0.070
UKT 4½ 01/27	4.229	-0.027
UKT 4½ 07/29	4.258	-0.035
UKT 4¼ 07/34	4.577	-0.029

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

Euro area

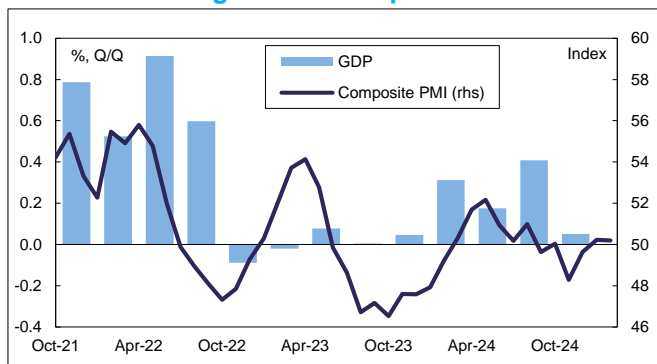
Composite PMI suggests flat GDP in February but detail hints at slight improvement

The flash February PMIs suggested no significant improvement in economic growth momentum, with the headline euro area composite PMI unchanged on the month at 50.2. While that left the average for Q1 so far 0.7pt above that in Q4 when GDP rose 0.1%Q/Q, it suggests that private sector activity remains little better than stagnant. Among the member states, however, the detail suggested some cause for cautious optimism. The German composite PMI rose for a third successive month, by 0.5pt to a 21-month high of 51.0, to raise hopes of a return to modest growth in Q1 after GDP contracted 0.2%Q/Q in Q4. In addition, the headline index for the euro area excluding Germany and France rose 1.5pts to a nine-month high of 53.0, suggesting that growth drivers remain in place in Southern Europe. So, the lack of improvement for the euro area as a whole reflected a reported deterioration in France, where the composite PMI fell more than 3pts to a 17-month low of 44.5 due to a marked weakening in the services sector. We note, however, that the flash French services PMI is typically revised significantly higher in the final estimate. And it also provides a less reliable guide to activity than other similar survey indicators such as the INSEE services index, also released today, which rose to a three-month high this month. So, while the euro area services activity index dropped to a three-month low of 50.7, we expect an upwards revision in the final estimate to maintain an uptrend in Q1 from Q4. We also note that the flash manufacturing output PMI rose to the highest in almost two years (48.7), with the new factory orders index the best in more than 2½ years, to suggest that the pace of contraction in that sector is slowing. Of course, given the threat of US tariffs, the risks to the outlook for manufacturing in particular are skewed to the downside. But while the survey index of expected future production in the sector fell slightly (59.6), it remained well above the average of the past two years.

Services firms pass rising costs on to customers, adding to case for ECB caution as it nears neutral

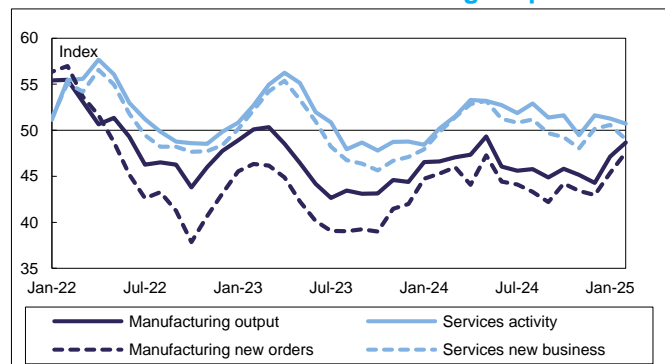
While the PMIs suggest that economic growth in Q1 will remain sub-potential, the hawks at the ECB will note the continued upwards pressures reported in the cost and prices PMIs as a reason for caution as policy approaches a neutral stance. In particular, the survey reported accelerated inflation in input costs in February (58.7), both above the long-run average and by the most since April 2023. Those pressures were still centred in services, where cost growth remained at January's nine-month high. But factory costs also reportedly rose the most in six months (52.4), albeit at a pace below the long-run average. In terms of selling prices, the flash PMIs reported a pickup in output price inflation to a ten-month high in February (53.2) due to increased pressures in services (54.3). But manufacturers appear to be less able to pass on costs to customers, as the PMIs suggested a slight drop in output prices in the sector this month (49.8). Indeed, while factory output and orders might well be closer to stabilising, manufacturing firms reportedly cut employment by the most since mid-2020 while services firms still looked to increase headcount, albeit slightly.

Euro area: GDP growth & composite PMI



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

Euro area: Services & manufacturing output PMIs



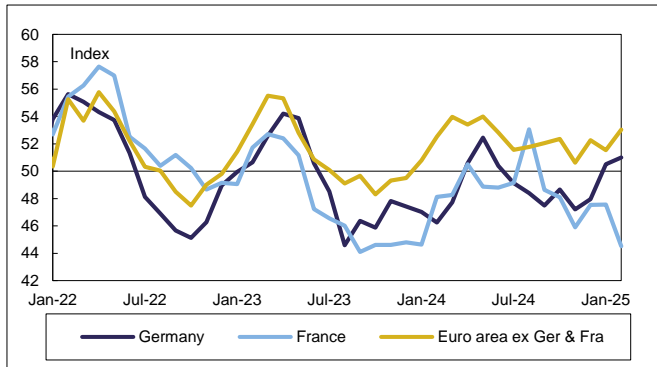
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

The week ahead in the euro area

A congested week ahead for euro area data kicks off with January's final euro area inflation print (Monday). The flash release came in a touch firmer than expected, with headline inflation rising 0.1ppt to a six-month high of 2.5%Y/Y. But this was driven principally by higher energy prices, in part related to government policy. In contrast, core inflation held steady for a fifth successive month (2.7%Y/Y), while services inflation was a touch softer, down 0.1ppt (3.9%Y/Y). This release will bring the granular component detail. But of greater interest will be the flash February inflation estimates from the largest four member states at the back end of the week. Having moved sideways in January at an eight-month high, German HICP inflation (due Friday) is expected to ease 0.2ppt to 2.6%Y/Y. French HICP inflation (also Friday) is also expected to take a sizeable step down from 1.8%Y/Y amid a near-15% decline in regulated electricity prices. In contrast, in Italy (Friday) and Spain (Thursday), regulated energy price changes will likely continue to contribute positively to headline inflation.

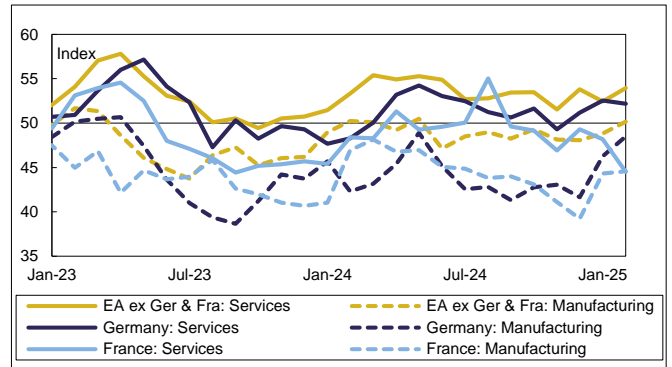
Aside from the inflation data, the incoming results of Sunday's German Federal Elections (see Tuesday's [Euro wrap-up](#) for more commentary) will likely be the key driver of market moves on Monday morning. The most probable outcome remains a CDU/CSU-SPD grand coalition, but an increasingly fractured Bundestag and opposing policy stances mean negotiations will not be straightforward and will likely prove lengthy. While prolonged uncertainty could weigh on confidence, the German ifo business survey (Monday) and GfK consumer surveys (Wednesday) might have received a pre-election boost. Meanwhile, after the flash euro area consumer confidence index rose to a four-month high in February, the Commission's full set of

Euro area: Country composite PMIs



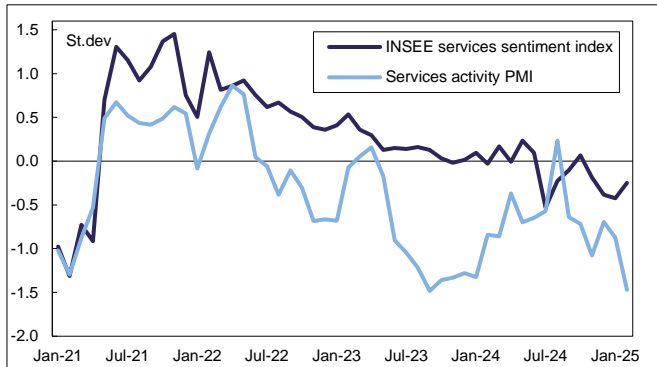
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Country services & manufacturing PMIs



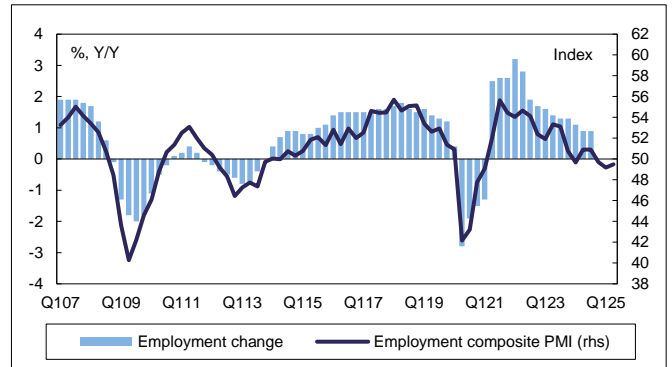
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

France: Services sentiment indices



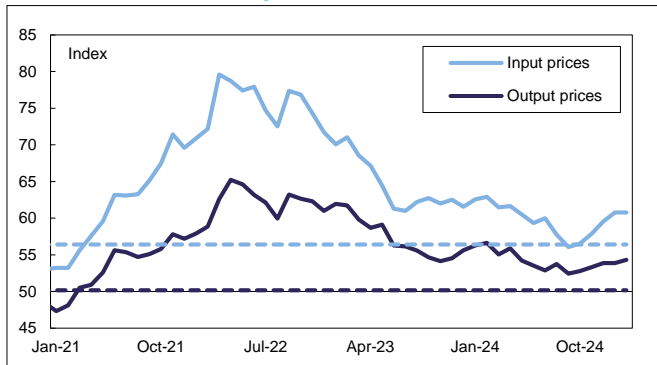
Source: Macrobond, S&P Global, INSEE and Daiwa Capital Markets Europe Ltd.

Euro area: Employment growth & PMI



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

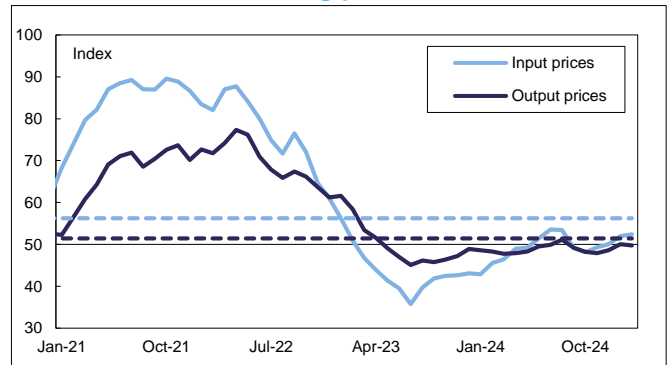
Euro area: Services price PMIs*



*Dashed lines represent pre-pandemic long-run average.

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

Euro area: Manufacturing price PMIs*



*Dashed lines represent pre-pandemic long-run average.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

economic sentiment indicators (Thursday) will provide a crosscheck for today's flash PMIs. January's bank lending data (Thursday) will be watched for further signs of recovery in business lending amid less restrictive monetary policy. Meanwhile, updated estimates for German Q4 GDP (Tuesday), for which the previous release suggested a contraction of 0.2%Q/Q, will include the first official expenditure breakdown. German retail sales figures (Friday) will offer some insight into consumption at the start of 2025 too. In focus on Thursday will also be the ECB's account of January's Governing Council meeting. At this meeting policymakers agreed unanimously to cut the deposit rate for a fifth time this cycle to 2.75% and the statement reiterated that policy remained restrictive. But in line with recent comments by influential Executive Board member Schnabel, the minutes might also flag comments from certain hawkish Governing Council members that the ECB may soon need to pause its easing cycle as rates approach the upper bounds of their estimates for the neutral rate.

UK

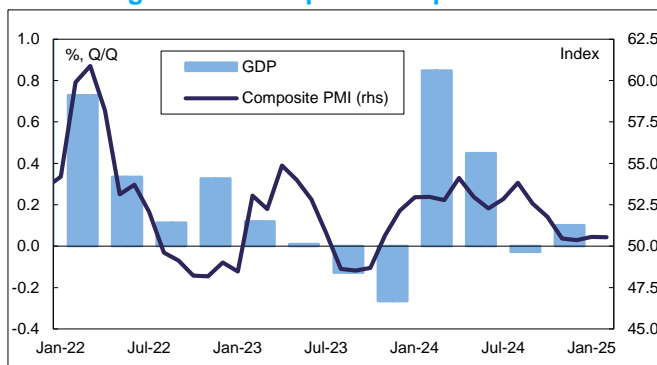
Composite PMI consistent with sluggish GDP in February amid declining demand

While UK GDP beat expectations in Q4 – eking out modest growth of 0.1%Q/Q – and firmer activity in December suggested a positive carryover into 2025, today's flash February PMIs implied a lack of underlying economic momentum in the middle of Q1. In particular, the headline composite PMI (50.5) moved broadly sideways for a fourth successive month in February. This left the average index so far in Q1 just 0.2pt below the Q4 average and at a level that before the pandemic would have been consistent with modest contraction. Weakness remains most acute in the manufacturing sector, where the output component fell 1.9pts to 47.4, the second-lowest in 13 months. And with new export orders declining the most in a year, manufacturers signalled the steepest job cuts since the global financial crisis outside of the initial pandemic lockdown. More encouragingly, the services activity PMI – up 0.3pt to 51.1 – remained consistent with modest expansion, albeit at a sub-trend pace. But the near-term outlook appears to be clouded by weakening demand, with the new business component (48.0) the lowest for more than two years and the export services index (45.4) the weakest since the second Covid-19 lockdown February 2021. As such, services firms similarly signalled the sharpest decline in headcount in over four years.

Price pressures continue to rise, reinforcing cautious removal of monetary policy restrictiveness

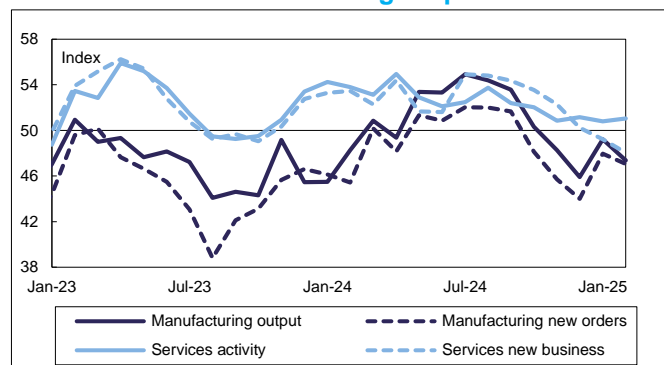
While the PMIs suggest that economic growth in Q1 will remain lacklustre, the continued upwards pressure reported in the cost and price PMIs will further support the MPC's 'cautious' approach to the removal of policy restrictiveness over the near term. In particular, the survey reported accelerated inflation in input costs in February (65.5) above the long-run average and by the most since May 2023. While this reflected renewed momentum in factory costs perhaps relating to the impact of sterling weakness on import prices, services costs remained elevated due to high pay growth ahead of the forthcoming

UK: GDP growth & composite output PMI



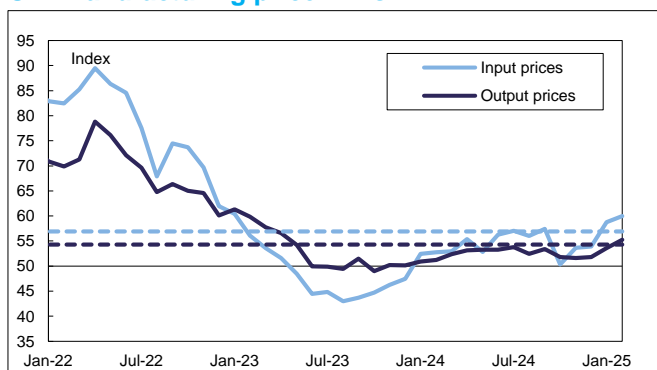
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Services & manufacturing output PMIs



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

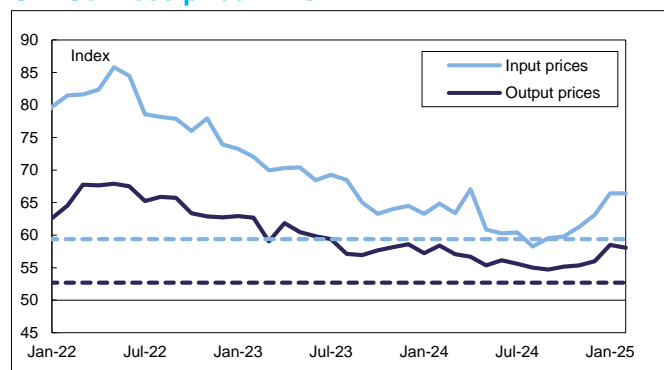
UK: Manufacturing price PMIs*



*Dashed lines represent pre-pandemic long-run average.

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

UK: Services price PMIs*



*Dashed lines represent pre-pandemic long-run average.

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

increase in the National Living Wage and with the increase in employers' NICs still to come. As a result, firms in both sectors reported above-average increases in prices charged. Nevertheless, the services output price PMI (58.1) eased slightly from January to suggest that margins are being squeezed somewhat. And we suspect that the ongoing weakness in demand will further constrain pass through to consumers over coming months.

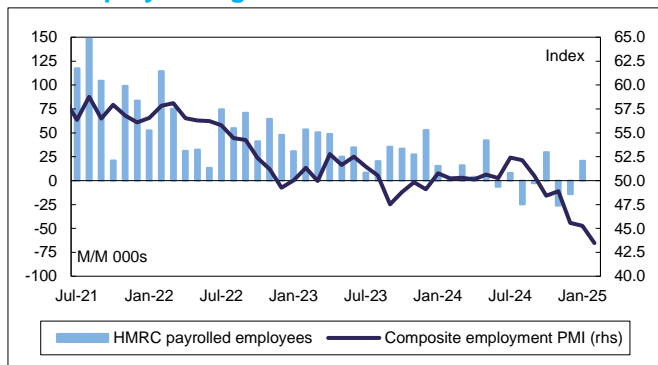
Retail sales bounce back in January, but subdued consumer confidence clouds spending outlook

Today's retail sales data for January surprised to the upside, with the monthly rise (1.7%M/M) the strongest in eight months, taking the level to the highest since August. Admittedly, the improvement at the start of the year follows a subdued festive season and left sales down 0.6%3M/3M. The extended sampling period (29 December to 1 February) might also have flattered the rebound. Furthermore, the detail suggested that the increase was more than fully accounted for by food store sales (5.6%M/M), which rose for the first month in five from the lowest level since April 2013, and by the most since March 2020 when the UK entered the first Covid-19 lockdown. Retailers suggested that the jump in January might reflect a growing preference to eat at home given high restaurant prices. In contrast, spending on auto fuel fell back as petrol prices continued to rise. And following a temporary pre-Christmas bounce, non-food store sales fell to a five-month low, with steep declines in expenditure on clothing and household goods. While consumer confidence edged slightly higher in February (-20) it still remained below the average in 2024 and well below the long-run norm. Although strong pay growth pushed income expectations to a six-month high bang in line with the long-run average, households were still relatively downbeat about the economic outlook. And an ongoing preference to save amid a slowing jobs market will likely restrain the pace of recovery in consumption over the near term.

A smaller surplus in January leaves public sector net borrowing tracking above OBR forecast

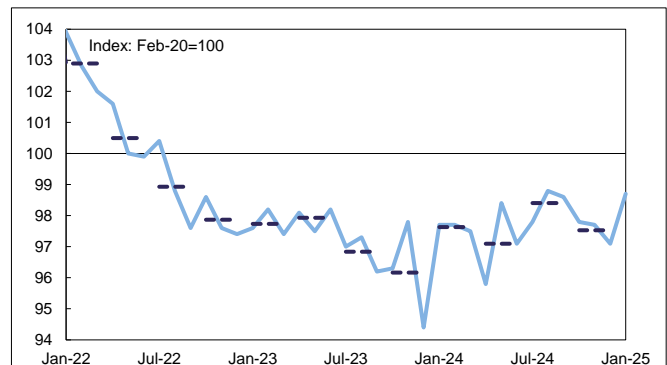
Today's public finance figures will have made for uncomfortable reading for Chancellor Reeves ahead of her Spring Statement on 26 March. A smaller-than-expected surplus in January (£15.4bn) left public sector net borrowing in the first ten months of the financial year at £118.2bn, some £11½bn higher than in the equivalent period in FY23 and £12.8bn above the Office for Budget Responsibility's (OBR) end-October projection. The shortfall largely reflected lower-than-expected receipts, particularly self-assessed income and corporation tax returns, while borrowing by local authorities and public corporations was also higher than expected. But roughly half of the overshoot relative to the OBR target for the year-to-date reflects an earlier than expected one-off payment by the Ministry of Defence to bring Armed Services homes back into public ownership, which will provide future savings on rents. And central government spending was close to the OBR's forecast. A material portion of self-assessment tax returns and payments are also typically received in February, and so the mismatch with the OBR's forecast might well narrow next month. But with economic growth soft amid weak productivity, and Gilt yields still well

UK: Employment growth & PMI



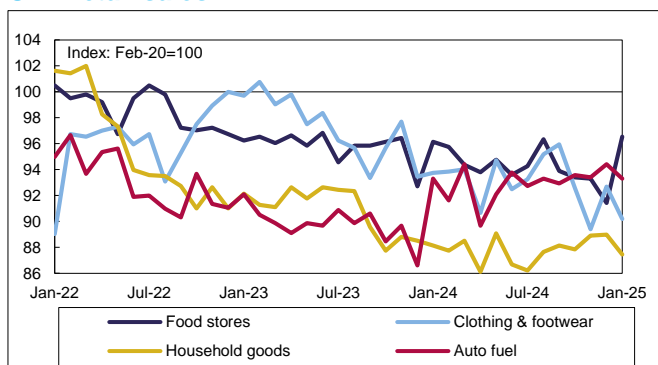
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Retail sales*



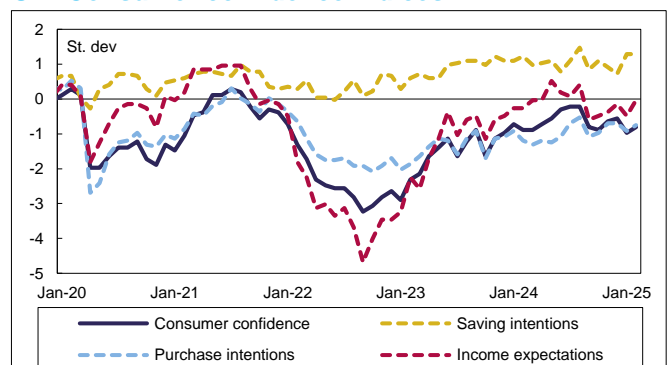
*Dashed dark blue lines represent quarterly average.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

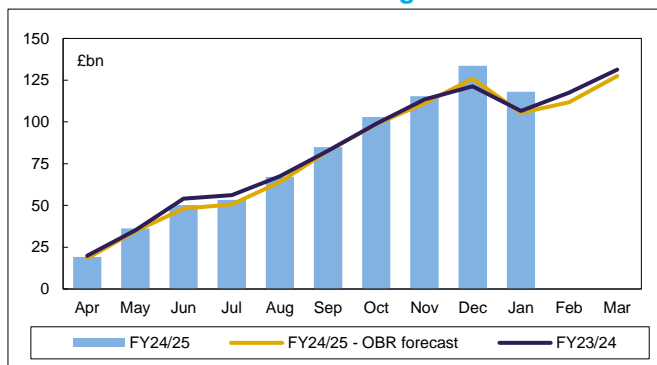
above levels ahead of the US election, today's figures will undeniably add to concerns that further fiscal tightening will at some stage be required to meet the Chancellors' fiscal targets.

The week ahead in the UK

It looks set to be a quiet week ahead for UK economic news. Following today's aforementioned rebound in retail sales in January, the CBI's distributive trades survey (Tuesday) will provide insight into whether the improved momentum at the start of the year was carried over into February. Given still subdued consumer confidence, however, we expect retailers to signal that spending remained soft for the time of the year. With annual house price growth having moderated back at the start of the year following an uptick in mortgage rates, the Nationwide house price report (Friday) might well show renewed recovery in February. Meanwhile, Ofgem's announcement of the household energy price cap between April-June (Tuesday) will also have a bearing on the near-term inflation outlook.

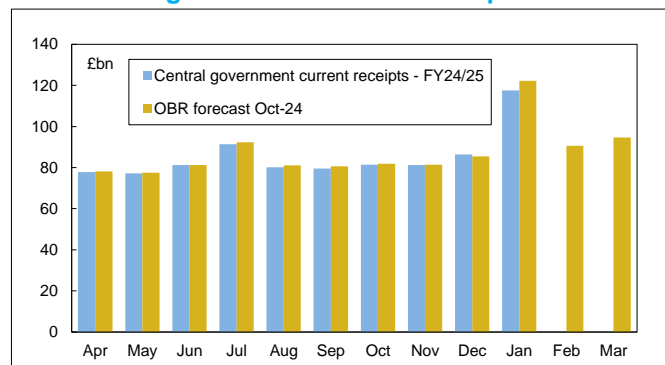
Aside from the data, the BoE will host the 2025 BEAR research conference at the start of the coming week, which will include brief opening and closing remarks from Deputy Governor Lombardelli and Chief Economist Pill respectively, while Deputy Governor Ramsden will chair a panel on central bank balance sheets during QT. But these sessions are unlikely to provide further insight into near-term monetary policy decisions. Likely of more interest will be Ramsden's speech (Friday) on "monetary policy in a world of geopolitical fragmentation". In addition, the uber-dovish external MPC Member Dhingra (Monday) will be expected to justify her vote for an outsized 50bps cut at February's monetary policy meeting, further outlining her concerns that the subdued demand outlook and impact of past monetary restrictiveness will weigh on inflation over the medium term.

UK: Public sector net borrowing












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

UK: Central government current receipts

















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

Daiwa economic forecasts

	2024		2025				2024	2025	2026
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.4	0.1	0.1	0.2	0.2	0.3	0.7	0.8	1.2
UK 	0.0	0.1	0.2	0.1	0.2	0.3	0.9	0.7	1.1
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.2	2.2	2.4	2.1	2.1	2.5	2.4	2.3	1.9
Core HICP 	2.8	2.7	2.5	2.0	1.8	2.2	2.8	2.1	1.8
UK									
Headline CPI 	2.0	2.5	2.9	3.2	3.7	3.5	2.5	3.3	2.3
Core CPI 	3.3	3.3	3.6	3.1	3.2	3.2	3.7	3.3	2.2
Monetary policy, %									
ECB									
Deposit Rate 	3.50	3.00	2.50	2.25	2.00	2.00	3.00	2.00	2.00
Refi Rate 	3.65	3.15	2.65	2.40	2.15	2.15	3.15	2.15	2.15
BoE									
Bank Rate 	5.00	4.75	4.50	4.25	4.00	3.75	4.75	3.75	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	
Euro area 	Preliminary manufacturing (services) PMI	Feb	47.3 (50.7)	<u>46.8 (51.6)</u>	46.6 (51.3)	-	
	Preliminary composite PMI	Feb	50.2	<u>50.5</u>	50.2	-	
Germany 	Preliminary manufacturing (services) PMI	Feb	46.1 (52.2)	45.5 (52.5)	45.0 (52.5)	-	
	Preliminary composite PMI	Feb	51.0	50.8	50.5	-	
France 	Preliminary manufacturing (services) PMI	Feb	45.5 (44.5)	45.4 (49.0)	45.0 (48.2)	-	
	Preliminary composite PMI	Feb	44.5	48.0	47.6	-	
	INSEE business (manufacturing) confidence indicator	Feb	96 (97)	96 (96)	95 (95)	- (96)	
Italy 	Final HICP (CPI) Y/Y%	Jan	1.7 (1.5)	<u>1.7 (1.5)</u>	1.4 (1.3)	-	
UK 	Retail sales – including auto fuel M/M% (Y/Y%)	Jan	1.7 (1.0)	0.5 (0.7)	-0.3 (3.6)	-0.6 (2.8)	
	Retail sales – excluding auto fuel M/M% (Y/Y%)	Jan	2.1 (1.2)	0.9 (0.6)	-0.6 (2.9)	-0.9 (2.1)	
	Preliminary manufacturing (services) PMI	Feb	46.4 (51.1)	<u>48.1 (51.1)</u>	48.3 (50.8)	-	
	Preliminary composite PMI	Feb	50.5	<u>50.7</u>	50.6	-	
	GfK consumer confidence indicator	Feb	-20	-22	-22	-	
	Public sector net borrowing £bn	Jan	-15.4	-20.3	17.8	18.1	
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 forecast/Actual</i>	Previous	
Monday 24 February 2025						
Euro area		10.00	Final headline (core) HICP Y/Y%	Jan	<u>2.5 (2.7)</u>	2.4 (2.7)
Germany		09.00	ifo business climate indicator	Feb	85.8	85.1
		09.00	ifo current assessment (expectations) indicator	Feb	86.3 (85.0)	86.1 (84.2)
Tuesday 25 February 2025						
Euro area		05.00	New car registrations Y/Y%	Jan	-	3.6
Germany		07.00	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>-0.2 (-0.2)</u>	0.1 (-0.3)
UK		11.00	CBI distributive trades survey – reported sales volumes %	Feb	-	-24
Wednesday 26 February 2025						
Germany		07.00	GfK consumer confidence indicator	Mar	-21.2	-22.4
France		07.45	INSEE consumer confidence indicator	Feb	93	92
Spain		08.00	PPI Y/Y%	Jan	-	2.3
Thursday 27 February 2025						
Euro area		09.00	M3 money supply Y/Y%	Jan	3.8	3.5
		10.00	Commission economic sentiment indicator	Feb	95.9	95.2
		10.00	Commission industrial (services) confidence indicator	Feb	-12.0 (6.8)	-12.9 (6.6)
		10.00	Final Commission consumer confidence indicator	Feb	<u>-13.6</u>	-14.2
France		07.45	PPI Y/Y%	Feb	-	-3.8
Italy		09.00	ISTAT consumer confidence indicator	Feb	98.5	98.2
		09.00	ISTAT business (manufacturing) confidence indicator	Feb	- (87.0)	95.7 (86.8)
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Feb	3.0 (3.0)	2.9 (2.9)
Friday 28 February 2025						
Euro area		09.00	ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Jan	2.5 (2.8)	2.8 (2.4)
Germany		07.00	Retail sales M/M% (Y/Y%)	Jan	0.3 (1.7)	-1.1 (1.8)
		08.55	Unemployment rate % (change 000s)	Feb	6.2 (15)	6.2 (11)
		13.00	Preliminary HICP (CPI) Y/Y%	Feb	2.6 (2.3)	2.8 (2.3)
France		07.45	Preliminary HICP (CPI) Y/Y%	Feb	1.2 (1.2)	1.8 (1.7)
		07.45	Consumer spending M/M% (Y/Y%)	Jan	-0.7 (0.5)	0.7 (0.9)
		07.45	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>-0.1 (0.7)</u>	0.4 (1.2)
		07.45	Total (final private sector) payroll employment Q/Q%	Q4	- (-0.2)	0.2 (0.1)
Italy		10.00	Preliminary HICP (CPI) Y/Y%	Feb	1.8 (1.6)	1.7 (1.5)
UK		00.01	Lloyd's business barometer (own price expectations)	Feb	-	37 (59)
		07.00	Nationwide house price index M/M% (Y/Y%)	Feb	-	0.1 (4.1)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 24 February 2025		
UK	 13.15	BoE Deputy Governor Ramsden chairs panel on Central Bank balance sheets at BoE 2025 BEAR conference, London
	 18.00	MPC External Member Dhingra to deliver speech on UK monetary policy, London
Tuesday 25 February 2025		
Euro area	 09.00	ECB negotiated wage figures for Q424
	 13.00	External Board Member Schnabel to give speech at BoE 2025 BEAR conference, London
Germany	 10.00	President Nagel to hold press conference for the publication of the Bundesbank 2024 Annual Report
	 10.30	Auction: to sell up to €1.5bn of 1.8% 2053 green bonds
Italy	 10.00	Auction: to sell up to €2.75bn of 2.55% 2027 bonds
	 10.00	Auction: to sell up to €1.5bn of 1.8% 2036 inflation-linked bonds
UK	 10.00	Auction: to sell £1.6bn of 1.125% 2035 inflation-linked bonds
Wednesday 26 February 2025		
Germany	 10.30	Auction: to sell up to €500m of 0% 2036 bonds
	 10.30	Auction: to sell up to €1.5bn of 1% 2038 bonds
UK	 16.30	MPC External Member Dhingra to deliver lecture on trade fragmentation and monetary policy at NIESR, London
Thursday 27 February 2025		
Euro area	 12.30	ECB to publish monetary policy account of 29-30 Jan Governing Council meeting
Italy	 10.00	Auction: to sell bonds*
UK	 10.00	Auction: to sell £3.25bn of 4.375% 2040 bonds
Friday 28 February 2025		
UK	 07.00	BoE Deputy Governor Ramsden to deliver speech on monetary policy and geopolitical fragmentation, South Africa

*Details to be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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