

Euro wrap-up

Overview

- Longer-dated Bunds made small gains as German consumer confidence fell to an 11-month low.
- Gilts were little changed on a quiet day for UK economic news.
- Thursday will bring the ECB's account of its January Governing Council meeting, February's Commission economic sentiment surveys and euro area bank lending data for January.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.064	+0.008
OBL 2.4 04/30	2.200	-0.011
DBR 2½ 02/35	2.438	-0.018
UKT 4½ 01/27	4.169	+0.006
UKT 4½ 07/29	4.180	+0.003
UKT 4¼ 07/34	4.506	-0.001

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

Source: Bloomberg

Euro area

German consumer confidence falls to 11-month low amid rising uncertainty

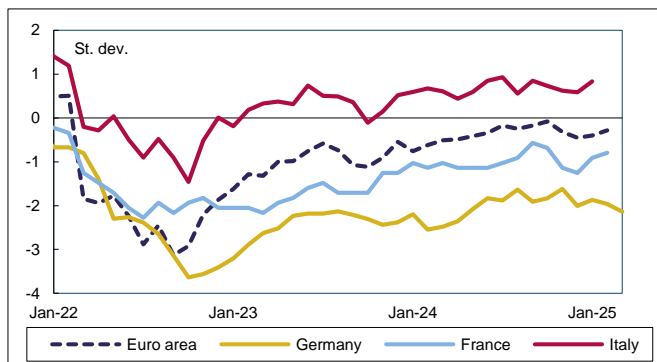
After the Commission's flash euro area consumer confidence index recovered to a four-month high in February, today's GfK German consumer climate survey disappointed. Despite the promise of improved political stability offered by Sunday's Federal election, the headline consumer confidence indicator, presented as a forecast for March, surprisingly dropped by 2.3pts to an 11-month low of -24.7. Admittedly, economic expectations were the best in six months (+1.2). But they remained comfortably below both their pre-pandemic average (+17.4) and recent high-point from the start of the ECB's rate-cutting cycle (+9.8), most likely reflecting concerns that US tariff threats may further compound Germany's economic woes, as well as questions about the ability of an incoming coalition to address more structural problems. So, with business surveys continuing to flag weak demand and intentions to reduce headcount, it is perhaps unsurprising that consumers' income expectations slipped to their weakest in little over a year (-5.4), while the fall back in major purchase intentions to an eight-month low (-11.1) is also consistent with concerns about diminished job insecurity. With German GDP having contracted at the end of last year, supported only by a marginal positive contribution from private consumption, the impact of heightened uncertainty will be particularly salient for policymakers as the data for Q1 so far have signalled softer consumer spending.

French consumer confidence resumes recovery, but points to more cautious consumers

While Germany might have subtracted from improved consumer confidence in the euro area, the equivalent French survey at least implied a positive contribution from its second largest member state. Indeed, the headline index edged up 1pt to 93 in February, marking a four-month high, and the third best reading in the three-years since Russia's invasion of Ukraine. Contrasting with the German survey, the increase was likely supported by France's improved political situation and passage of Prime Minister Bayrou's conciliatory budget. And though it might seem inevitable that political risks will resurface in the near future – given that the budget passed only after the government survived four no-confidence motions – this nonetheless marked a post-election high-point following PM Barnier's ill-fated tenure. Furthermore, with consumers set to benefit from lower regulated electricity prices starting from February, price developments were also seen to be slightly improved. Encouragingly, consumers were reportedly also more optimistic about their future incomes, for which expectations were their best since September 2021 (-4), while assessments of the current financial situation also rose back above their long-run average to their highest in little over three-years (-20).

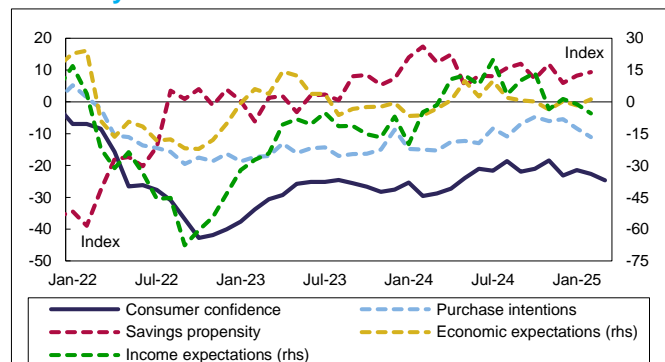
But despite improved the financial situation, major purchase intentions in France remain subdued. And with unemployment fears rising to an almost four-year high (55), consumer savings intentions increased to their highest level (43) since INSEE begun monthly survey rounds in 1987. So, also in light of the weakened sentiment reported by German consumers, political

Euro area: Headline consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: GfK – consumer confidence indices



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

and economic uncertainty could be having a widespread effect which, potentially, risks dampening policymakers' hopes for a sustained consumption-led recovery across the euro area as a whole. Indeed, the ECB has assumed that elevated savings rates should start to normalise as real incomes and savings buffers are restored. But, to the extent that today's surveys are reflective of greater consumer caution, they certainly flag a downside risk to private consumption in Q1.

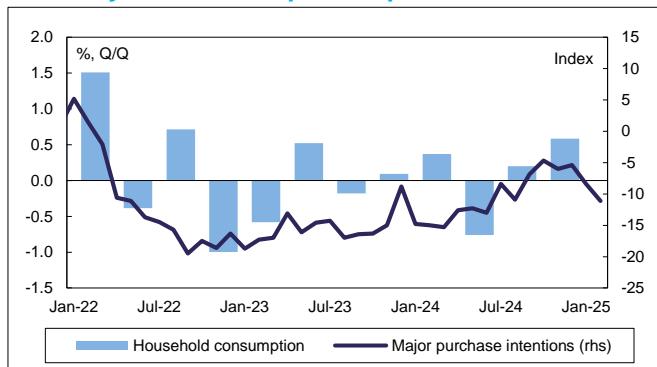
The day ahead in the euro area

Tomorrow's Commission surveys will most likely confirm the aforementioned pickup in the euro area consumer confidence index (to -13.6). ISTAT might also be expected to report a subtle increase in Italian consumer sentiment, in addition to those reported in France and Belgium. But the focus will also be on the rest of the Commission's economic sentiment surveys, for which a modest improvement is expected. The ESI's will also serve as crosscheck to last week's flash euro area PMIs, which suggested no overall pickup in growth momentum, albeit only due to a notable deterioration in French services. Meanwhile, the account of January's Governing Council meeting is expected to underscore that continued moderation in underlying price pressures and tepid growth momentum motivated the ECB's decision to continue cutting rates. And while it should signal the likelihood of further easing to come at next month's policy meeting, it may also flag comments from hawkish Governing Council members that the ECB may soon need to pause its easing cycle as rates approach the upper bound of neutral rate estimates. January's bank lending figures will provide another data point for policymakers seeking to judge the restrictiveness of the current policy stance. Meanwhile, February's flash Spanish inflation estimates will also mark the first gauge of price pressure this month from the euro area's largest member states. January's increase in regulated energy prices is expected to sustain upwards pressure on the headline inflation rate, although a softening in core inflation components is expected to leave the headline HICP rate unchanged at 2.9%Y/Y.

The day ahead in the UK

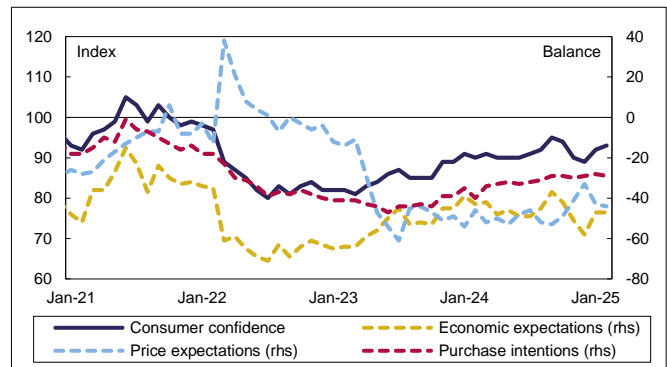
With no data scheduled before Friday, it should be another quiet day ahead in the UK.

Germany: HH consumption & purchase intentions



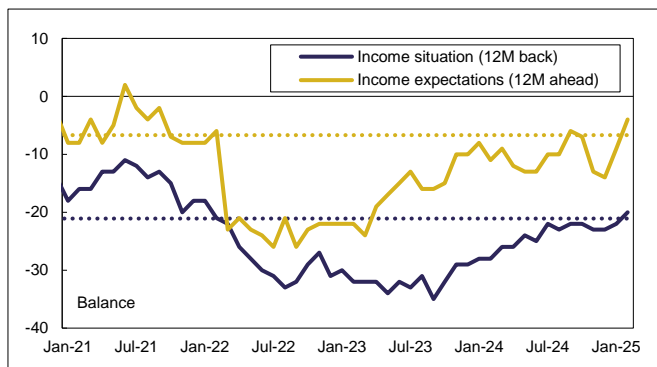
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: INSEE – consumer confidence indices



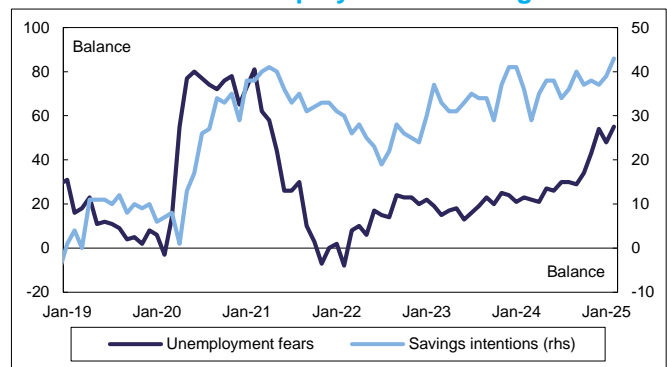
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: INSEE – financial situation*



*Dotted lines show long-run average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: INSEE – unemployment & saving intentions






Source: Macrobond 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
Germany 	GfK consumer confidence indicator	Mar	-24.7	-21.6	-22.4	-22.6
France 	INSEE consumer confidence indicator	Feb	93	92	92	-
Spain 	PPI Y/Y%	Jan	2.6	-	2.3	-









Auctions

Country	Auction
Germany 	sold €401mn of 0% 2036 bonds at an average yield of 2.51%
	sold €1.25bn of 1% 2038 bonds at an average yield of 2.6%






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	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	-13.6	-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	2.9 (3.0)	2.9 (2.9)

Auctions and events

Euro area 	12.30	ECB to publish monetary policy account of 29-30 Jan Governing Council meeting
Italy 	10.00	Auction: to sell up to €3.75bn of 2.95% 2030 bonds
	10.00	Auction: to sell up to €2.75bn of 2033 floating bonds
	10.00	Auction: to sell up to €3bn of 3.65% 2035 bonds
UK 	10.00	Auction: to sell £3.25bn of 4.375% 2040 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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