

Euro wrap-up

Overview

- Despite an improvement in the Commission's sentiment indices and a pickup in bank lending, Bunds made gains as the ECB minutes suggested that it was premature to discuss a possible "landing zone" for the deposit rate.
- Gilts followed USTs lower on a quiet day for UK economic news.
- Friday will bring flash February inflation estimates from Germany, France and Italy, as well as the latest German retail sales and unemployment figures.

Emily Nicol
+44 20 7597 8331

Edward Maling
+44 20 7597 8030

Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.025	-0.033
OBL 2.4 04/30	2.161	-0.032
DBR 2½ 02/35	2.414	-0.018
UKT 4½ 01/27	4.174	+0.008
UKT 4½ 07/29	4.188	+0.011
UKT 4½ 07/34	4.514	+0.013

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

Source: Bloomberg

Euro area

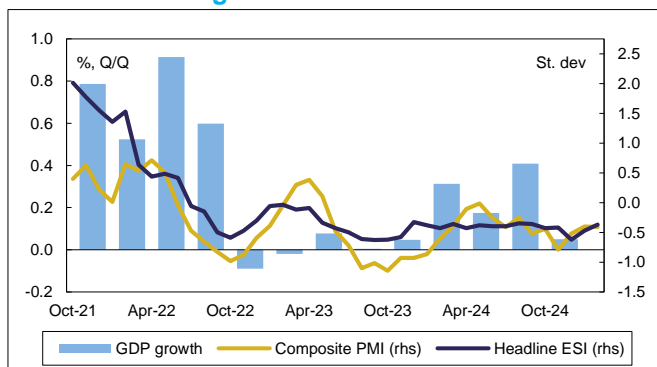
ESIs signal further improvement in February, with a return to modestly positive growth in France

Contrasting last week's flash [PMIs](#), the Commission's Economic Sentiment Indicators (ESIs) pointed to further modest improvement in the middle of Q1. In particular, the headline ESI for the euro area rose for a second successive month in February, by 1.0pt to 96.3, a five-month high and 2½pts above December's 15-month low. So, while the composite PMI was little changed from the Q4 average to signal ongoing broad stagnation so far in 2025, the ESI was trending some 0.7pt higher, consistent with modestly positive (but below trend) GDP growth in Q1. A key difference between the surveys reflected the outturn for France, for which the PMIs signalled a questionably large deterioration. Indeed, the French ESI (98.6) jumped to a six-month high in February, to be trending some 3% above the Q4 average and therefore signalling a return to growth this quarter. Meanwhile, the German ESI (89.3) similarly rose for a second successive month, albeit still well below the long-run average and a touch below the Q4 average, reinforcing our view that the largest member state maintained the broadly sideways trend in place for the past three years. While there were monthly declines in the respective ESIs from Italy, Spain, Portugal and Greece, they were nevertheless still consistent with at- or above-trend GDP growth in Q1.

Demand improves in services & construction, while industry more upbeat production outlook

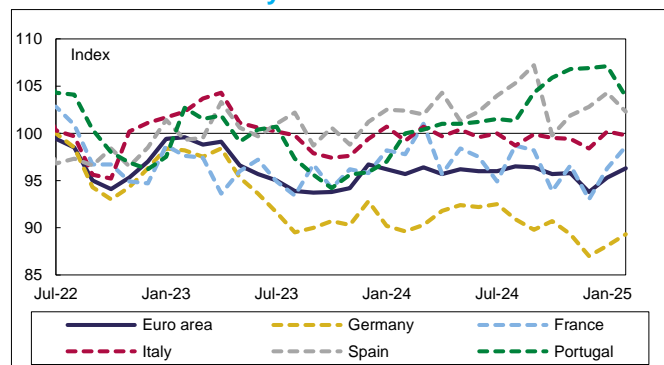
Today's survey also raised tentative hopes that the manufacturing downturn might have finally bottomed. In particular, the headline industry index rose for a second successive month, with the production trend judged to have been the best in nine months. And although order books remained historically thin, near-term production expectations improved somewhat further, with German manufacturing the most upbeat in more than a year. Of course, this perhaps reflected a rush to frontload shipments amid increasing threats of US tariff hikes. And the improvement in euro area manufacturing sentiment was again driven by the 'other transport equipment' subsector, while manufacturers of motor vehicles, machinery and energy-intensive industries such as chemicals and metals remained particularly downbeat. While sentiment in services moderated slightly it was still a touch firmer than in Q4, with demand assessed to be the strongest in more than a year. And construction firms were the least pessimistic about building work since May 2023, seemingly benefitting from the recent decline in interest rates and associated pickup in the housing market. But while consumer confidence rose to a four-month high, retailers were the most downbeat about expected sales in seven months as households continued to prefer to save than spend in the face of economic uncertainties and unemployment concerns. Indeed, firms continued to signal a desire to cut headcount in manufacturing and retail, while implied expected job growth in services was the softest for four years.

Euro area: GDP growth & sentiment indices



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

Euro area: EC survey – member state ESIs

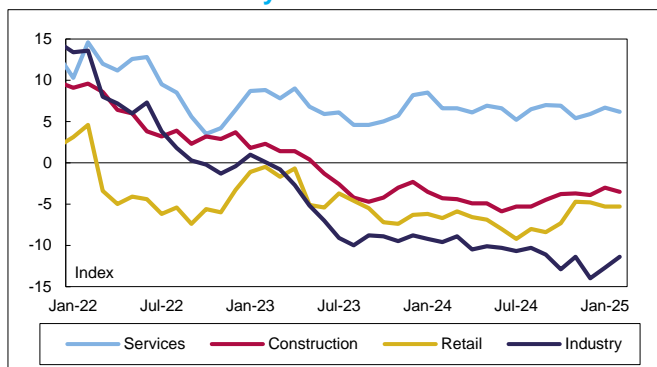


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Consumer price expectations increase but services selling price intentions ease to 3½ year low

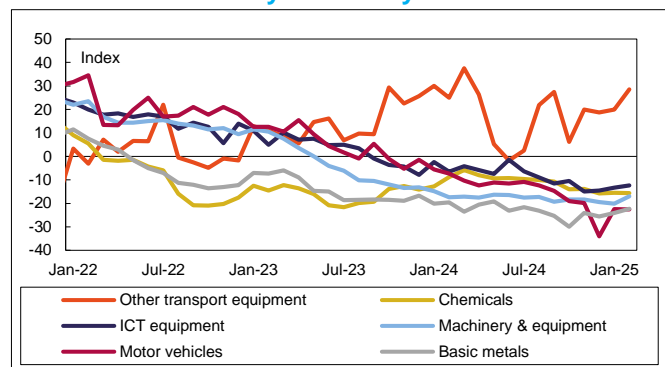
Despite subdued economic activity, downbeat confidence and fading labour cost pressures, inflation expectations have edged higher over recent months amid a rise in energy prices. And today's survey saw consumer expectations for the coming twelve months almost match December's two-year high. But the respective index was only a touch above the long-run average, therefore still broadly consistent with a return to the ECB's 2% target. Certainly, we expect the recent rise in euro area [HICP inflation](#) to prove temporary, with a disinflationary trend to resume this month and a return to target likely by mid-year. Admittedly, there was a surprising increase in manufacturers' selling-price intentions in February, to the highest in almost two years. But declining factory orders, intense competition and economic uncertainty will almost certainly continue to restrain firms' pricing power over the near term. Moreover, services selling-price expectations for the coming three months fell in February, to the second-softest in more than 3½ years. So, while the ECB account from January's Governing Council meeting today flagged some evidence that inflation risks might be shifting to the upside, it also suggested that, even before the intensification of tariff threats, risks to economic growth remained tilted to the downside. As such, with monetary policy still widely considered restrictive, an undershooting of the inflation target could not be ruled out. So, while it was argued that greater caution was needed as policy rates approach neutral territory, the Governing Council also felt it was premature to discuss a possible "landing zone" for the deposit rate.

Euro area: EC survey – sectoral ESIs



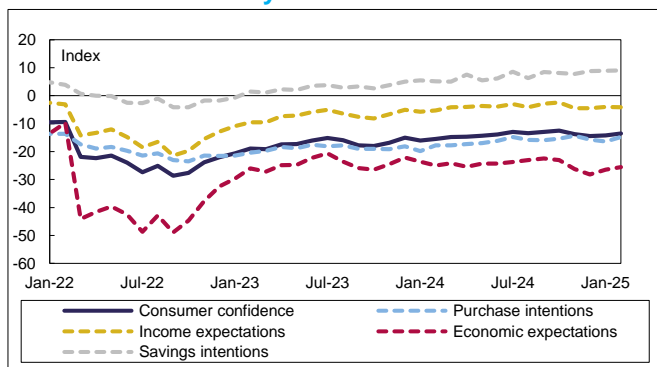
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: EC survey – industry sentiment



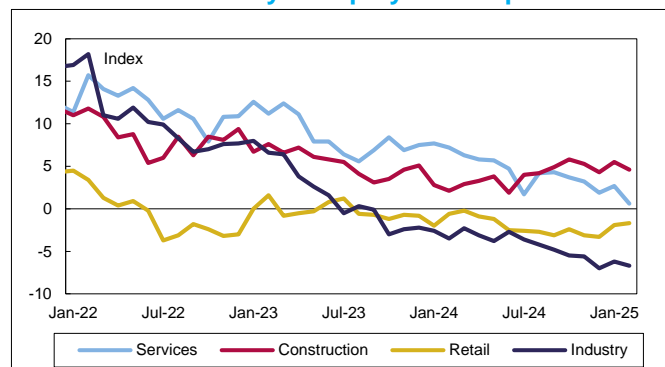
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: EC survey - consumer confidence



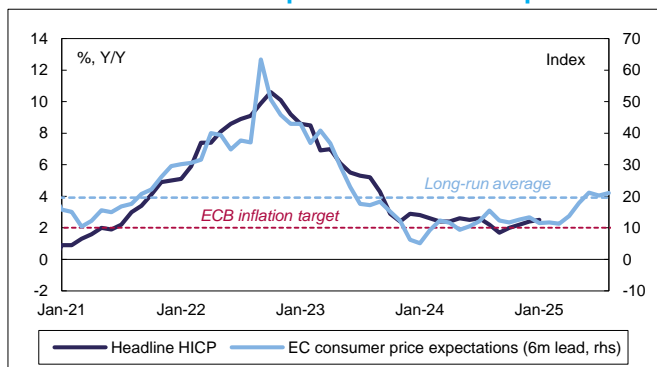
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: EC survey – employment expectations



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

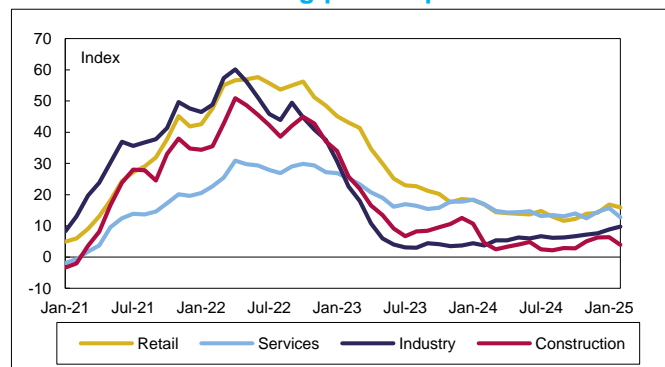
Euro area: Consumer price inflation & expectations



*Twelve months ahead.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Firms selling-price expectations*



*Three months ahead.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Mortgage lending rises the most in more than two years

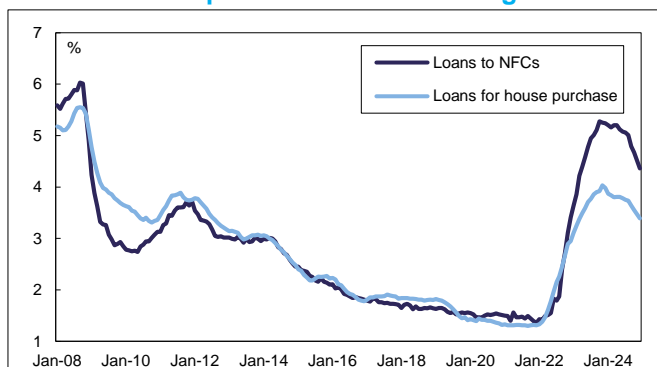
Certainly, Governing Council policymakers continued to flag that financing conditions remain tight despite the recent decline in interest rates, which was keeping bank lending historically subdued and therefore a constraint on economic growth. This notwithstanding, today's monetary data reported a further welcome pick up in lending at the start of the year, to suggest that the credit cycle is gradually turning for the better. Indeed, the monthly net flow of household loans of €15bn in January was the strongest since November 2022. This principally reflected a pickup in mortgage lending, to leave annual growth at the highest in 19 months, albeit still a relatively subdued 1.1%Y/Y. Growth in consumer credit was firmer, rising to a near-five-year high of 3.9%Y/Y. And while the monthly net flow of loans to businesses slowed from €39bn in December to €7bn, the cumulative net flow in the three months to January (€48bn) was the highest since November 2022. This took the annual growth in business loans to an 18-month high (2.0%Y/Y), albeit still slightly negative in real terms. Encouragingly, the increase in lending over the past three months was concentrated in medium-term (i.e. with a maturity of between 1-5 years) and long-term loans (i.e. those over 5 years), which are likely to be more closely correlated with business fixed investments.

The day ahead in the euro area

After January's VAT increase on Spanish electricity prices drove an uptick in inflation that month, today's flash estimates for February unsurprisingly suggested that this component maintained a notable upwards impulse. Indeed, headline inflation remained stubbornly elevated, unchanged on both the national (3.0%Y/Y) and EU-harmonised (2.9%Y/Y) measures. But, ahead of next week's monetary policy announcement, the decline in the national core measure (excluding energy and fresh foods) will offer greater encouragement to policymakers. Indeed, core inflation dropped 0.3ppt to 2.1%Y/Y, marking its softest reading since December 2021. Ahead of the equivalent euro area figure on Monday, tomorrow's focus will be on the February flash inflation estimates from Germany, France and Italy, which together comprise some 60% of the aggregate euro area figure. Overall, we expect to see further evidence of softening price pressures. In particular, French inflation is expected to take a notable step down following a 15% decrease in regulated electricity prices this month. Meanwhile, having moved sideways in January at an eight-month high, German HICP inflation is expected to ease 0.2ppt to 2.6%Y/Y. Contrastingly, Italian inflation is expected to edge up to a 17-month high as an uptick in regulated electricity prices at the start of the year lend upwards pressure, albeit remaining below the 2% target. The ECB's consumer expectations survey, also due tomorrow, should continue to show that inflation expectations remain relatively well anchored

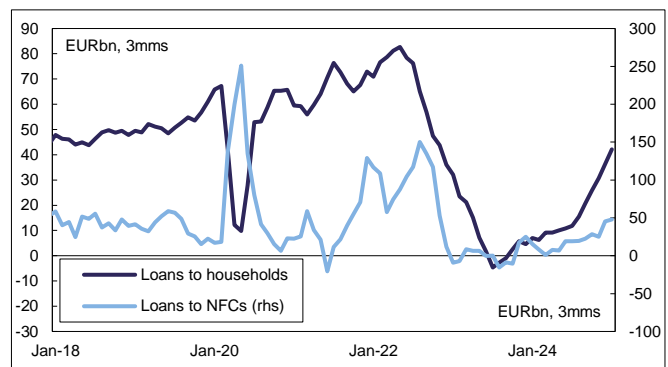
Elsewhere, German unemployment claims are expected to continue creeping upwards in February, though the claimant count rate will likely remain steady (6.2%) after edging up in January. German retail sales data for January will also provide a

Euro area: Composite cost of borrowing



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

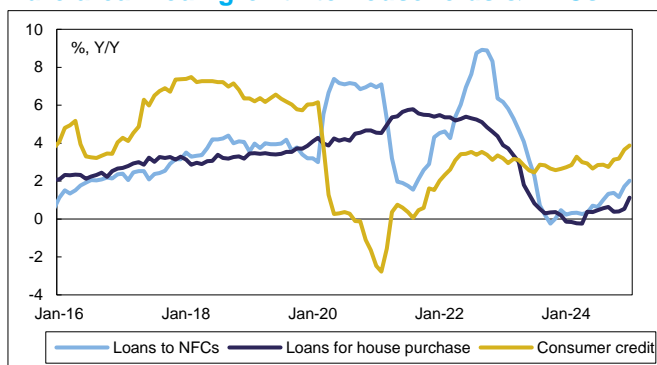
Euro area: Loans to households & NFCs*



*Adjusted for sales and securitisations.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

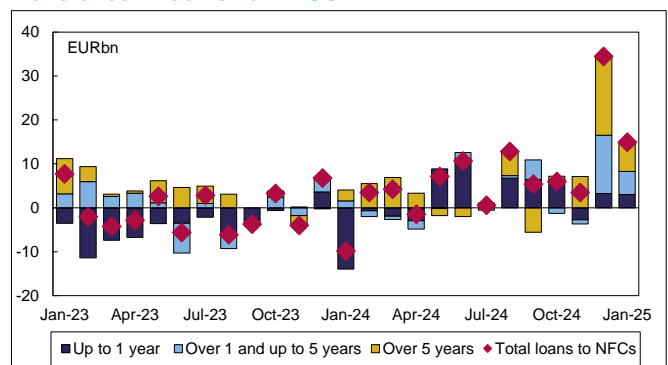
Euro area: Loan growth to households & NFCs*



*Adjusted for sales and securitisations.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loans to NFCs*

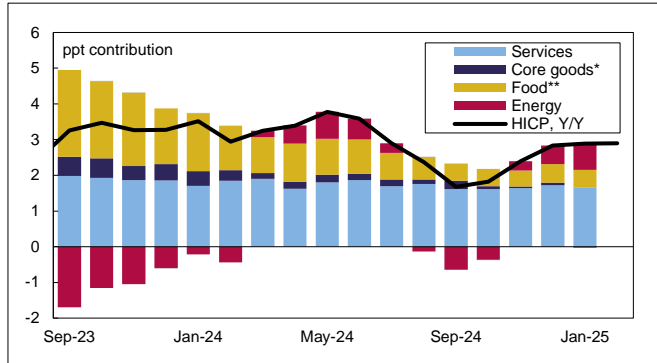


*Unadjusted for sales & securitisations.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

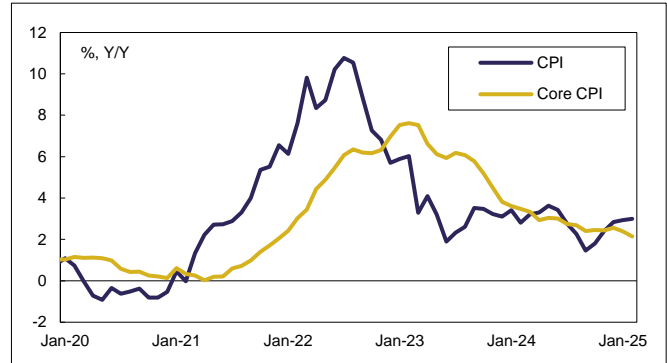
first official indication of consumer spending at the start of the year. Following a weak end to Q4, retail sales will be expected see some payback in January, though heightened uncertainty and suppressed consumer confidence will be expected to dampen any pickup. Meanwhile, the final estimates for French GDP in Q4 are expected to confirm a contraction of 0.1%Q/Q at the end of last year.

Spain: Contributions to HICP inflation



*Non-energy industrial goods. **Includes unprocessed food and tobacco.
 Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Spain: National CPI inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.









The day ahead in the UK

After a quiet couple of days for economic news in the UK, likely of most interest tomorrow will be an early speech from BoE Deputy Governor Ramsden on geopolitical fragmentation and monetary policy. Ramsden's speech should offer further insights into the MPC's view of the balance of risks posed by new US tariffs to its inflation outlook, after fellow MPC rate-setter Dhingra (in a broad sense) sought to downplay the effects of an 'orderly' fragmentation on UK inflation in her speech on Wednesday. Also, with Ramsden seemingly the more dovish of the Bank staff on the Committee, the tone of his speech will be particularly scrutinised. Meanwhile, on the data front, February's Nationwide house price report may signal renewed recovery in house price inflation, having moderated back at the start of the year following an uptick in mortgage rates, and ahead of the change in stamp duty due from April.





European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Commission economic sentiment indicator	Feb	96.3	95.9	95.2	95.3
	 Commission industrial (services) confidence indicator	Feb	-11.4 (6.2)	-12.0 (6.8)	-12.9 (6.6)	-12.7 (6.7)
	 Final Commission consumer confidence indicator	Feb	-13.6	<u>-13.6</u>	-14.2	-
	 M3 money supply Y/Y%	Jan	3.6	3.8	3.5	3.4
France	 PPI Y/Y%	Feb	-2.1	-	-3.8	-
Italy	 ISTAT consumer confidence indicator	Feb	98.8	98.5	98.2	-
	 ISTAT business (manufacturing) confidence indicator	Feb	94.8 (87.0)	-(87.0)	95.7 (86.8)	-
Spain	 Preliminary HICP (CPI) Y/Y%	Feb	2.9 (3.0)	2.9 (3.0)	2.9 (2.9)	-












Auctions

Country	Auction
Italy	 sold €3.75bn of 2.95% 2030 bonds at an average yield of 2.93%
	 sold €2.75bn of 2033 floating bonds at an average yield of 4.11%
	 sold €3bn of 3.65% 2035 bonds at an average yield of 3.55%
UK	 sold £3.25bn of 4.375% 2040 bonds at an average yield of 4.836%


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	ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Jan	2.8 (2.5)	2.8 (2.4)
Germany	 07.00	Retail sales M/M% (Y/Y%)	Jan	0.5 (1.7)	-1.1 (1.8)
	 08.55	Unemployment rate % (change 000s)	Feb	6.2 (15)	6.2 (11)
France	 13.00	Preliminary HICP (CPI) Y/Y%	Feb	2.7 (2.3)	2.8 (2.3)
	 07.45	Preliminary HICP (CPI) Y/Y%	Feb	1.2 (1.1)	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	- <u>(-0.2)</u>	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	0.2 (3.4)	0.1 (4.1)

Auctions and events

UK	 07.00	BoE Deputy Governor Ramsden to deliver speech on monetary policy and geopolitical fragmentation, South Africa
----	---	---

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.