

Euro wrap-up

Overview

- While euro area industrial output stabilised at the start of the year, Bunds followed USTs to close a touch firmer on the day.
- Gilts also followed USTs higher, as a UK housing survey signalled a drop in demand ahead of April's Stamp Duty increase.
- Friday will bring UK monthly GDP figures for January, along with final February estimates of German, French and Spanish inflation.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.173	-0.043
OBL 2.4 04/30	2.482	-0.036
DBR 2½ 02/35	2.851	-0.023
UKT 4¾ 03/27	4.178	-0.030
UKT 4¾ 07/29	4.297	-0.038
UKT 4¾ 07/34	4.675	-0.049

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

Euro area

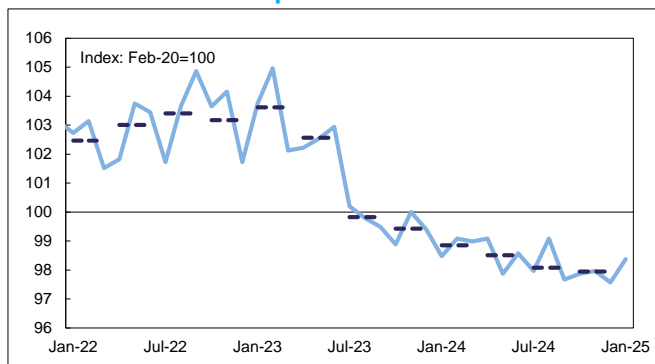
Euro area industrial production stabilises at the start of the year

Today's euro area industrial production figures for January broadly aligned with expectations, tentatively suggesting some further stabilisation in manufacturing after contractions in each of the past seven quarters. In particular, total production rose for a third month out of the past four, by 0.8%M/M, the most in five months. With the decline in December also smaller than initially estimated, this left the level of output the highest since August and 0.6% above the Q4 average. Despite the pickup in wholesale energy prices, the improvement was led by energy-intensive industries such as chemicals, basic metals and paper products. Machinery production rose to a four-month high, while there was also a partial rebound in the autos and clothing subsectors. But output of other transport equipment fell to a five-month low in January, while ICT equipment also slipped back. Additionally, having jumped almost 20%M/M to a record high in December thanks not least to a surge in Ireland, pharmaceuticals production fell back (-12.0%M/M). In the absence of the marked decline in Irish IP (-3.9%M/M), euro area industrial output would have risen a little more than 1%M/M in January. Admittedly, among the largest member states, the improvement in the euro area was largely driven by a (likely) temporary rebound in Germany (2.3%M/M). Indeed, while [investor sentiment](#) has rightly received a boost from the government's fiscal proposals, business surveys have signalled that German factory output will remain subdued for a while yet. And while the threats of widespread 'reciprocal' tariff hikes on European goods from early April might have encouraged some firms to front-load export shipments to the US, increased competition from Chinese firms seeking alternative markets to the US might weigh more heavily on demand for German and European manufactured goods going forward.

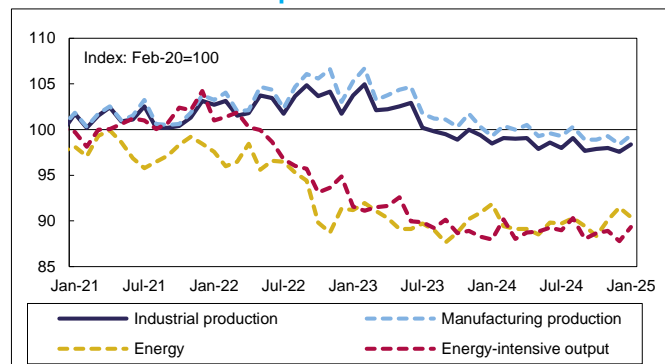
The day ahead in the euro area

Ahead of next week's final print of euro area inflation in February (due Wednesday), Friday will bring updated estimates – including the detailed component breakdown – from Germany, France and Spain. The flash readings were slightly firmer than expected in Germany and Spain, with headline HICP rates steady at 2.8%Y/Y and 2.9%Y/Y respectively, owing to upwards pressure from food and electricity prices. But a reduction (c.15%) in equivalent electricity tariffs in France drove a steep decline in inflation, which saw the headline HICP rate halve to just 0.9%Y/Y. Notwithstanding the persistence in German and Spanish headline inflation, the detail should confirm a moderation in core inflation in each member state, with the detail in tomorrow's release to confirm which components drove the decline in the key services component. Meanwhile, following today's aggregate euro area data, Italian IP figures should confirm a rebound in January following an outsized 3.1%M/M decline at the end of last year.

Euro area: Industrial production*



Euro area: Industrial production



UK

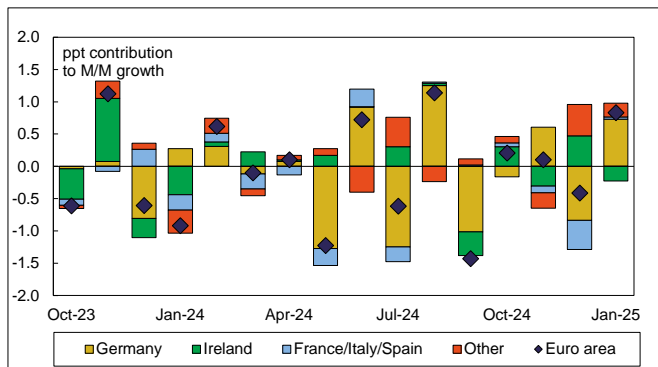
RICS residential survey flags distortion to demand ahead of April's Stamp Duty adjustments

Coming on the back of the recent deterioration in the construction PMIs – which saw the housing activity component in February fall to the lowest since late-2023 – today's RICS residential survey further pointed to a temporary slowing in the housing market recovery as heightened uncertainties, still-elevated borrowing costs and an increase in Stamp Duty from April weighed on demand. Indeed, according to surveyors, buyer enquiries fell for a second successive month in February and by the most since October 2023, while new instructions fell to a six-month low. Newly agreed sales dipped to the lowest since last May. And so, perhaps unsurprisingly, price expectations for the three months ahead also fell the most since 2023. While the uncertain economic environment might cause some to delay or reconsider a house move over the near term, we suspect that the forthcoming Stamp Duty adjustments are having a greater impact on the market. Certainly, today's survey suggested that expectations for house price growth and sales 12 months ahead remain well above the long-run average. And with borrowing costs likely to fall gradually further over coming quarters as the BoE gradually removes policy restrictiveness, we suspect the housing recovery will resume over the summer.

Retail sales growth slows in February

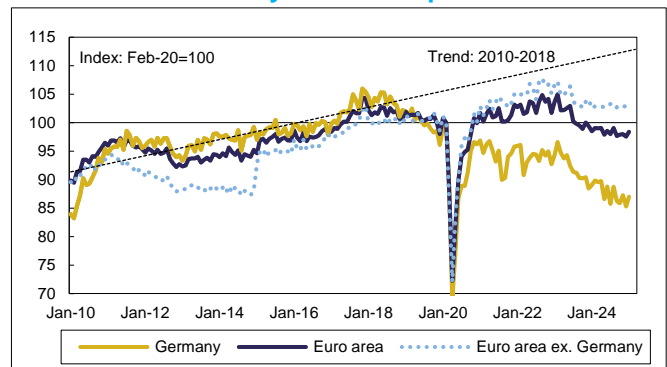
Amid an ongoing preference to save, and given an uptick in consumer prices at the start of the year, yesterday's BRC retail survey, at face value, suggested that spending on goods slowed in February. In particular, the BRC's measure of sales growth moderated 1.5ppts to 1.1%Y/Y, with like-for-like sales down to 0.9%Y/Y, a three-month low. Admittedly, the weakness in the headline sales index (in values terms) was exacerbated by persisting deflation on the high street. Indeed, when adjusting for the BRC's shop price measure (-0.7%Y/Y), sales volumes growth (1.8%Y/Y) matched the average of the past six months and was 1ppt stronger than the average of the past year. When also smoothing for monthly volatility, sales growth (3.2%3M/Y) was the second-strongest reading in almost three years, although this was flattered by the inclusion of Black Friday sales in December last year. While food sales were soft (0.5%3M/Y on a price-adjusted basis), spending on other goods was relatively strong (4.6%3M/Y), reportedly supported by higher sales of jewellery, watches and beauty products than a year ago and strong online sales of computer and electronics, while furniture sales also returned to growth. But heavy rainfall last month likely dampened demand for certain items such as clothing. And, overall, given the persisting weakness in consumer confidence, economic uncertainties and expected deterioration in household disposable income as energy and water tariffs are hiked in April, we expect discretionary spending to remain subdued for the time being.

Euro area member states: Contributions to IP



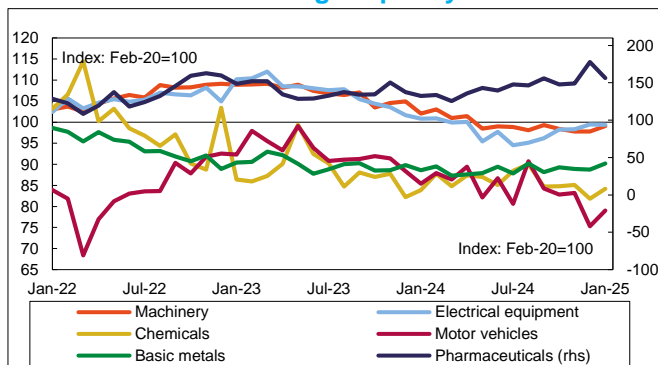
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area & Germany: Industrial production



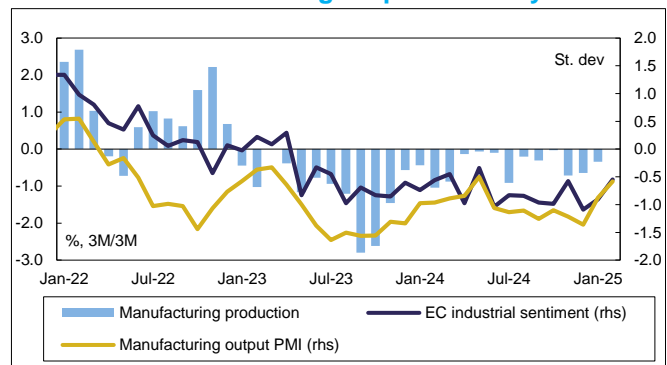
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output by sector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output & survey indices

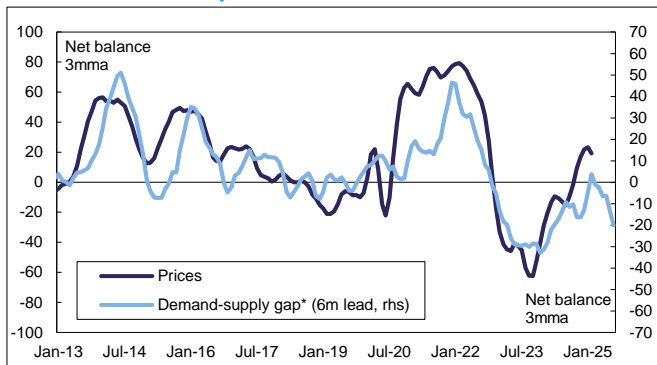


Source: Macrobond, EC, S&P Global and Daiwa Capital Markets Europe Ltd.

The day ahead in the UK

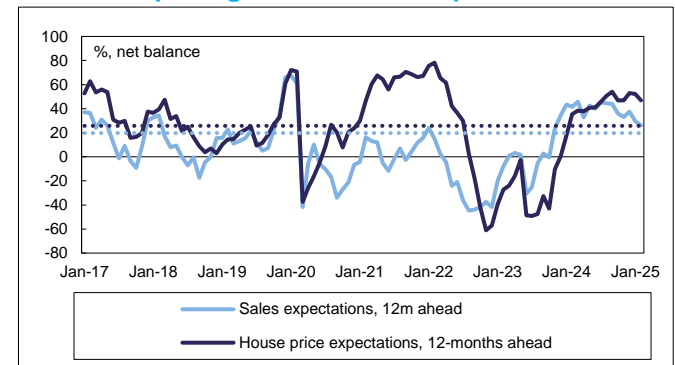
The end of the week in the UK will bring a first official reading for growth momentum at the start of the year with the release of January’s monthly GDP figures. After December’s GDP report (0.4%M/M) surprised notably to the upside, some payback in January appears probable. Subdued consumer and business confidence indicators – like the PMIs – point to an absence of growth at the start of the year. So, despite surprisingly strong retail sales in January, we expect GDP to have moved broadly sideways at the start of the year. But, given the positive carryover from December, growth on a three-month basis should still pick up to its fastest rate in six months, of 0.2%3M/3M or more. While tomorrow’s data releases will include the monthly production breakdown for services, manufacturing and construction, January’s trade statistics have been postponed by the ONS today until 28 March.

UK: RICS house price indices



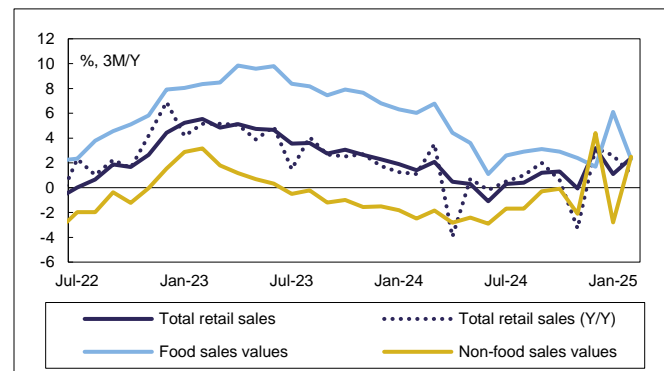
*Difference between new buyer enquiries and new instructions.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: House price growth & sales expectations*



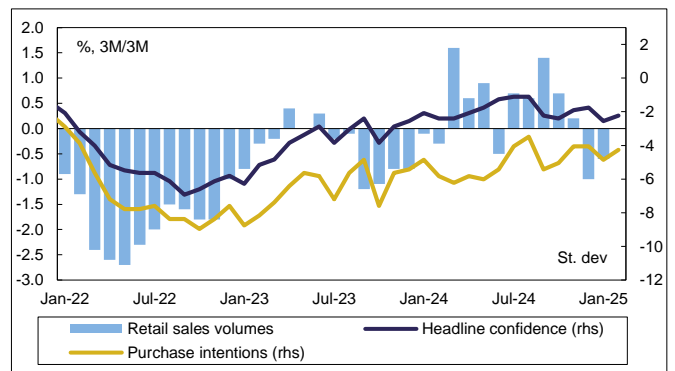
*Dotted lines represent long-run average.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: BRC retail sales monitor



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence






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
Euro area	 Industrial production M/M% (Y/Y%)	Jan	0.8 (0.0)	0.6 (-0.8)	-1.1 (-2.0)	-0.4 (-1.5)
Italy	 Unemployment rate %	Q4	6.1	6.2	6.1	6.3
UK	 RICS house price balance %	Feb	11	20	22	21


Auctions

Country	Auction
Italy	 sold €4bn of 2.65% 2028 bonds at an average yield of 2.77%
	 sold €1.5bn of 4% 2031 bonds at an average yield of 3.4%
	 sold €1.25bn of 2.45% 2033 bonds at an average yield of 3.72%
	 sold €1.5bn of 4.3% 2054 bonds at an average yield of 4.7%


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tuesday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 BRC retail sales monitor – like-for-like sales Y/Y%	Feb	0.9	2.0	2.5	-


Auctions

Country	Auction
Germany	 sold €3.497bn of 2.2% 2027 bonds at an average yield of 2.22%



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Spain	 Retail sales Y/Y%	Jan	2.2	3.8	4.0	-









Auctions

Country	Auction
Germany	 sold €3.455bn of 2.5% 2035 bonds at an average yield of 2.92%
UK	 sold £4bn of 4.5% 2035 bonds at an average yield of 4.679%

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	Final HICP (CPI) Y/Y%	Feb	<u>2.8 (2.3)</u>	2.8 (2.3)
France	 07.45	Final HICP (CPI) Y/Y%	Feb	<u>0.9 (0.8)</u>	1.8 (1.7)
Italy	 09.00	Industrial production M/M% (Y/Y%)	Jan	1.1 (-2.9)	-3.1 (-7.1)
Spain	 08.00	Final HICP (CPI) Y/Y%	Feb	<u>2.9 (3.0)</u>	2.9 (2.9)
UK	 07.00	Monthly GDP M/M% (3M/3M%)	Jan	0.1 (0.2)	0.4 (0.0)
	 07.00	Services output M/M% (3M/3M%)	Jan	0.1 (0.3)	0.4 (0.2)
	 07.00	Industrial output M/M% (Y/Y%)	Jan	-0.1 (-0.6)	0.5 (-1.9)
	 07.00	Construction output M/M% (Y/Y%)	Jan	-0.2 (0.4)	-0.2 (1.5)

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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