

Euro wrap-up

Overview

- While euro area GDP growth beat expectations, the unemployment rate fell back to a series low and German inflation surprised to the upside, Bunds ended the week little changed.
- Gilts followed longer-dated USTs slightly lower on a quiet day for UK data.
- In the coming week, the ECB and BoE will keep interest rates unchanged. The BoE will also publish updated macroeconomic projections while flash euro area inflation numbers for January are due.

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Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.081	+0.007
OBL 2½ 04/31	2.415	0.000
DBR 2.9 02/36	2.842	+0.004
UKT 3½ 03/27	3.701	+0.003
UKT 4% 03/30	3.945	+0.003
UKT 4½ 03/35	4.520	+0.011

*Change from close as at 5.00pm GMT.

Source: Bloomberg

Euro area

Euro area GDP beats expectations in Q4, unemployment rate falls back to series low in December

According to today's preliminary estimate, euro area GDP growth held steady at 0.3%Q/Q in Q4, in line with our expectations but slightly stronger than the Bloomberg survey consensus and the ECB's projection. To two decimal places, growth accelerated 0.06ppt to 0.33%Q/Q, the firmest since Q1 when activity was boosted temporarily by the front-running of shipments to the US. While the annual rate slowed slightly to a four-quarter low of 1.3%Y/Y, this pace was still likely broadly in line with euro area potential. Full-year growth in 2025 of 1.5%Y/Y was slightly firmer than the ECB expected and almost double the rate in 2024. And having expanded for a ninth quarter, the level of economic output at the end of 2025 was almost 7% above the pre-pandemic level six years earlier. The stronger economic growth momentum towards year-end helped push down the euro area unemployment rate in December to 6.2%, 0.2ppt below the levels from May to September and back in line with the series low. Labour markets were broadly stable in the euro area and continued to tighten in parts of Southern Europe where economic growth remained most vigorous.

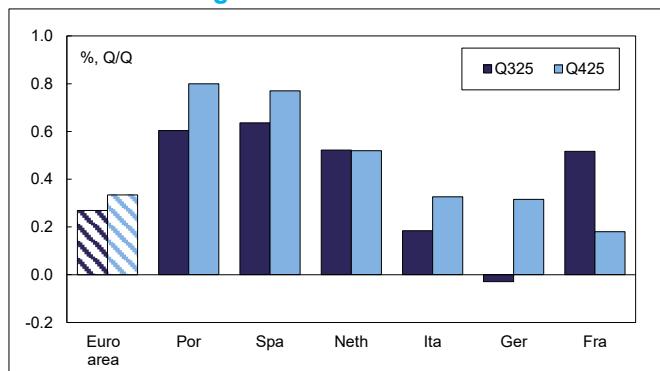
Broad-based expansion across the member states

Despite continued variation in growth rates among the member states, most of the data were encouraging. German GDP was firmer than expected, with growth of 0.3%Q/Q the strongest for more than three years when excluding the tariff related surge in Q1, adding roughly 0.1ppt to the euro area quarterly rate. Italian GDP growth matched that in Germany, similarly beating expectations. And the Netherlands marked an eighth successive expansion (0.5%Q/Q). Of the larger Northern European countries, France reported the softest expansion, slowing 0.3ppt to 0.2%Q/Q, although this marked almost four years of unbroken growth. Elsewhere, Iberian outperformance continued, with GDP in Spain and Portugal rising 0.8%Q/Q. Ireland was the only member state to report negative growth in Q4 (-0.6%Q/Q). So, when excluding Ireland – where economic data are often distorted significantly by the activities of multinational corporations – euro area GDP rose 0.4%Q/Q, the strongest growth for 3½ years.

Growth appears domestically driven led by household consumption

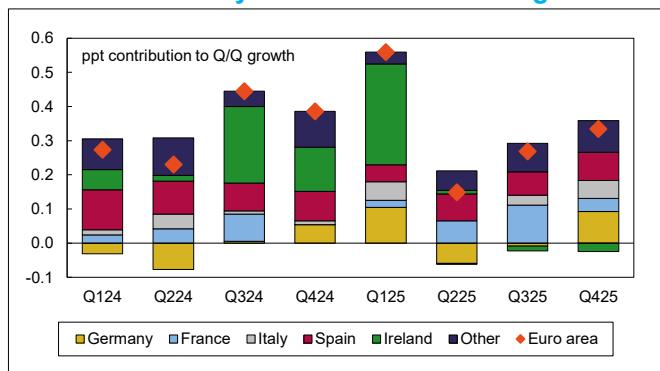
While the euro area GDP figures were published without an expenditure breakdown, the detail provided by various member states suggests that economic growth was domestically driven. Destatis reported that household and government consumption led the pickup in German GDP. Private consumption in France fully accounted for GDP growth in Q4, while consumer spending in Spain rose a vigorous 1.0%Q/Q for a third successive quarter. But while fixed investment slowed in France, it continued to contribute positively to Spanish growth, adding a further ½ppt in Q4. And the main divergence in

Euro area: GDP growth in selected member states



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Country contributions to GDP growth



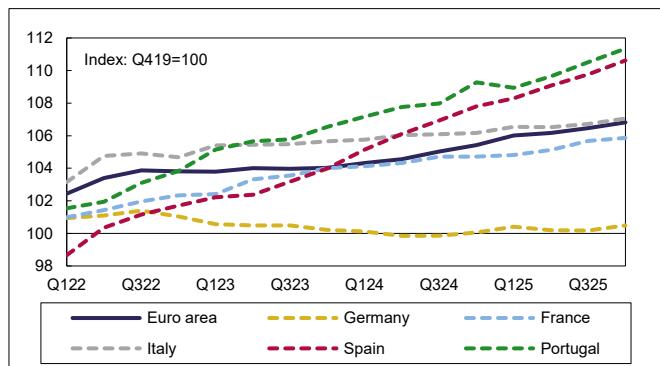
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

growth last quarter seemingly related to trade. ISTAT suggested that net exports subtracted from Italian GDP in Q4. And a notable increase in imports more than offset the services-led rise in Spanish exports. Net exports contributed the most to French GDP growth in two years, but their impact was more than offset by a further rundown of inventories, which subtracted 0.9ppt. Overall, household consumption appears to have provided the largest contribution to euro area GDP growth, with government consumption and fixed investment likely contributing modestly too.

German inflation ticks higher as food prices jump, but services component moderates

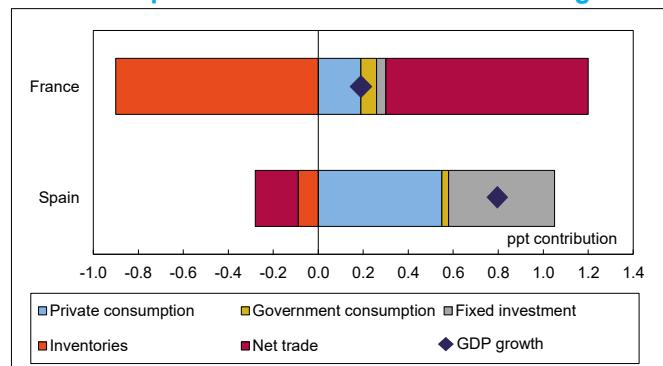
As with today's GDP figures, the flash German inflation estimates for January slightly exceeded expectations. But having dropped more than 1/2ppt in December to a six-month low of 2.0%Y/Y, the 0.1ppt increase in the headline HICP rate to 2.1%Y/Y won't be overly concerning to monetary policymakers. On the national measure, headline inflation rose 0.3ppt, also to 2.1%Y/Y, but this similarly remained a touch below the average rate of the past year. Within the national detail, a spike in food prices provided the principal upwards impulse this month, pushing inflation of that component up 1.3ppts to 2.1%Y/Y, a three-month high. Core goods inflation also largely reversed the 0.7ppt drop in December taking it to 1.3%Y/Y on our calculation, with the regional data hinting at possible smaller discounting in clothing and household goods compared with last year. In contrast, energy inflation fell further into negative territory in January to a five-month low (-1.7%Y/Y) supported not least by lower electricity tariffs. And despite the increase in the price of the Deutschland-Ticket, services CPI inflation

Euro area: GDP levels



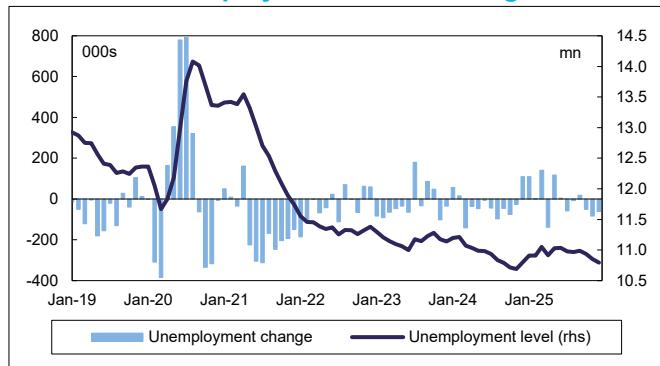
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France & Spain: Contributions to Q425 GDP growth



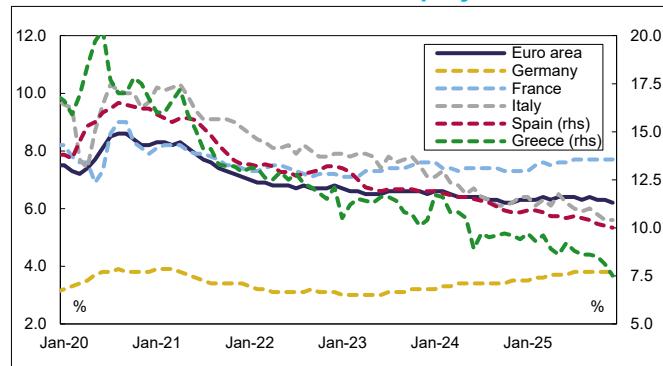
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Unemployment level & change



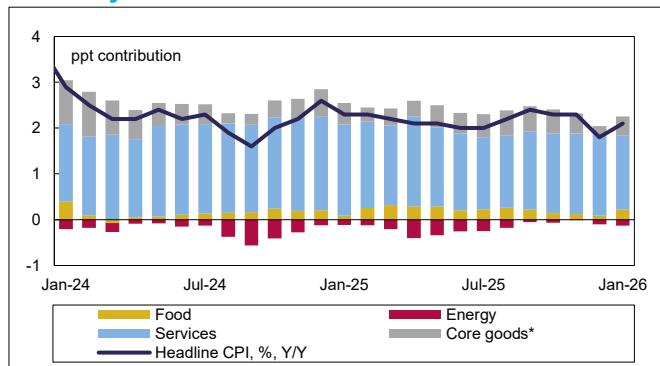
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Unemployment rate



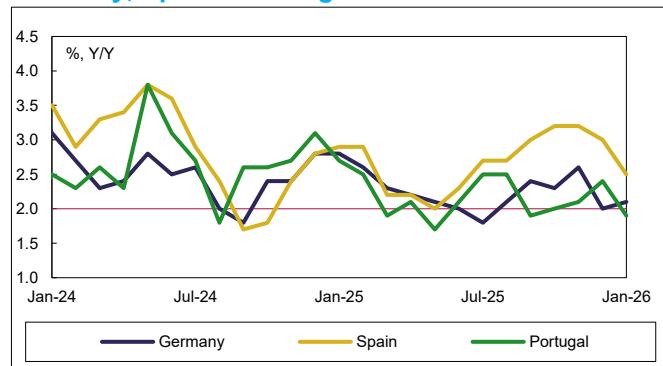
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Contributions to headline CPI inflation



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

Germany, Spain & Portugal: Headline HICP inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

declined 0.3ppt to 3.2%Y/Y, the softest since August, at least in part likely reflecting a lower hospitality component. In contrast to the modest upside surprise in today's German headline numbers, inflation data from other member states have so far come in on the soft side. Due to base effects in energy prices, harmonised inflation rates in Spain, Portugal and Belgium dropped sharply in January. Taken together with expectations of a further moderation in France and Italy, euro area inflation looks set to have eased slightly further in January to 1.8%Y/Y, albeit with the risks skewed slightly to the upside due to rounding.

ECB to keep policy steady amid growing downside risks

The principal focus in Europe over the coming week will be on monetary policy, with announcements from the ECB and BoE (see below) both scheduled for Thursday. Neither central bank is expected to change policy rates at this juncture. But given the Governing Council's broad consensus in favour of its current policy stance, and with no new macroeconomic projections to pore over, the ECB's meeting should be the relatively more straightforward affair. The monetary policy statement will, inevitably, maintain that decisions will continue to follow a 'data-dependent and meeting-by-meeting approach'. The inflation and activity data released since December's decision will have done little to materially contradict the Governing Council's current macroeconomic projections. That should permit President Lagarde to re-emphasise that the ECB is in no rush to alter its stance in either direction. We might, however, expect her to steer clear of hawkish statements. We would be unsurprised, for example, if Lagarde were to reiterate that uncertainty remains higher than usual, given the latest US tariff threats levied against certain member states earlier this month. And she will surely be wary of the latest bout of dollar weakness, which saw the euro earlier this week briefly peek above \$1.20 to a 4½-year high. As the account of December's Governing Council meeting inferred that slightly more policymakers already saw inflation risks to be skewed to the downside, recent currency moves might have amplified concerns about the potential disinflationary implications of further euro appreciation. Still, uncertainty is likely to underpin the ECB's caution for now. And with inflation risks still broadly two-sided, economic activity in Q4 as firm as might have been hoped, forward-looking surveys picking up, and with a view to giving the ECB optionality in responding to unexpected shifts in the economic outlook, Lagarde will surely remain non-committal with respect to future decisions.

The week ahead in the euro area for data

Most of the coming week's economic data should be broadly supportive of the case for continued ECB patience. However, we expect January's flash estimates of euro area inflation (Wednesday) to show further signs of moderation. With inflation having softened in December, to marginally undershoot the inflation target (1.94%Y/Y), the 0.1ppt decline that we expect would pose a downside risk to the ECB's projections for this quarter. But that softness should principally reflect a favourable energy base effect, while services inflation is likely to remain more stubborn before eventually taking a step down in Q2. So, while headline inflation should remain below target, we expect core inflation to edge up 0.1ppt to 2.4%Y/Y in January. Like today's flash German and Spanish estimates, the data from France (Tuesday) will provide additional insights.

The coming week's hard activity data should continue to verify a rebound across most sectors at the end of last year. Industrial production, for example, looked well positioned to return to growth thanks to a broad-based pickup across the member states. Growth was led by a rebound in Germany, with IP in the first two months of Q4 trending 1¾% above its Q3 level after a third consecutive monthly expansion in November (0.8%M/M). That recent strength probably implies that some payback in December's data (Friday) is likely. But a return to growth in German IP over Q4 is practically assured. The same is likely to be true of German new factory orders (Thursday), which were boosted to a two-year high in November (5.6%M/M) on large defence-related items. Considerable payback is expected, but orders should still finish the year on a strong note, with the recent recovery in core orders having offered particular encouragement for underlying demand. French and Spanish IP data are also due on Thursday, while German goods trade data (Friday) might infer that net trade provided no support to GDP growth at the end of last year.

With regards to the retail sector, December's euro area figures (Thursday) should confirm a further modest increase in sales volumes for a ninth consecutive quarter. Their release will be preceded by data from Germany (Monday), which should also confirm a return to positive, albeit subdued, retail sales growth consistent with expansion in private consumption in Q4. The coming week will also bring January's final manufacturing (Monday) and services (Wednesday) PMIs for January. Despite a disappointing French services survey, the flash release was broadly consistent with the message from other surveys of firming growth momentum at the start of the new year.

UK

BoE to pause in February awaiting increased certainty on disinflation

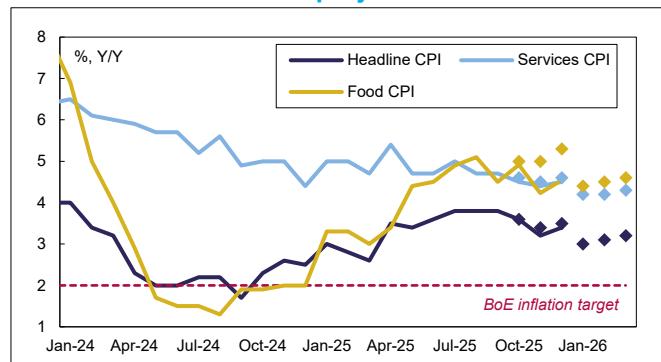
All eyes in the UK this coming week will be on Thursday's monetary policy announcement. The decision will be accompanied by the BoE's latest Monetary Policy Report and macroeconomic projections. Like the ECB, the BoE is wholly expected to leave policy unchanged, keeping Bank Rate steady at 3.75%. The MPC's decision to ease its stance by a further 25bps in December was framed by ongoing softness in inflation, labour market and activity data. It also reflected the greater clarity on fiscal policy, which the BoE concluded would help inflation to 'fall back towards target more quickly'. But the vote to cut, once again, was close (5-4). The policy summary maintained that rates were likely to 'continue on a gradual downward path'. But,

as rates had been cut by 150bps over the past six quarters, it cautioned that policy restrictiveness had fallen. And with Bank Rate only slightly above the MPC's upper estimates for neutral, it added that 'judgements around further policy easing will become a closer call'. We expect the BoE to maintain that cautious tone, effectively suggesting a departure from its previous quarterly cadence of rate cuts. Moreover, amid signs of only further gradual loosening in the labour market and still-elevated services inflation, a number of MPC members – notably including three of the five doves who voted to cut in December – have highlighted concerns about the stubbornness of forward-looking pay indicators, including the DMP survey (next due Thursday). Assuming that the pickup in the flash January PMIs will be confirmed in the final estimates (Monday and Wednesday), concerns about the weakness of activity might be allayed somewhat while those about inflation persistence might be reinforced. So, as in September, we expect the MPC to vote by a margin of 7-2 to hold Bank Rate, with the dovish external members Dhingra and Taylor – whose assessments of restrictiveness are, on average, greater than the median MPC view – preferring to ease rates further.

Projections to show inflation converging to target sooner as Budget measures kick in

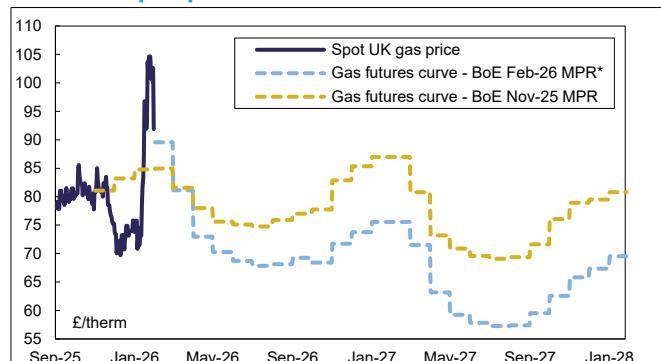
As inferred by December's summary, the BoE's updated macroeconomic projections should revise down materially the near-term inflation outlook. The most pronounced change is expected from Q2 due principally to policy measures announced in November's Budget, including support to cut household energy bills and a freeze of regulated rail fares. Indeed, the MPC previously stated that new fiscal measures should knock almost ½ppt off headline CPI inflation in Q2. As a result, the updated projection should see inflation converging closer to target relatively sooner than before, albeit still only sustainably at 2%Y/Y from around the start of 2027. Changes to the Bank's conditioning assumptions are also likely to support a softer inflation outlook. In particular, despite the recent spike in natural gas prices in January, futures have remained well below their levels from November, by 8% in 2026 and 15% in 2027. Recent dollar weakness, however, is likely to have had only a negligible effect on the Banks' assumptions, with sterling likely only ½ppt stronger in trade-weighted terms than previously assumed. Otherwise, the changes to the projections for GDP growth are likely to be relatively subtle. While admittedly stronger than expected at the time of December's decision, the MPC should assess that GDP growth at the end of last year fell short of expectations set in November (0.3%Q/Q). And notwithstanding some modestly positive payback this quarter, we expect the BoE to assume a similar trajectory thereafter, with GDP growth around 1¼%Y/Y in 2026 and 1½%Y/Y in 2027.

UK: CPI inflation & BoE projections



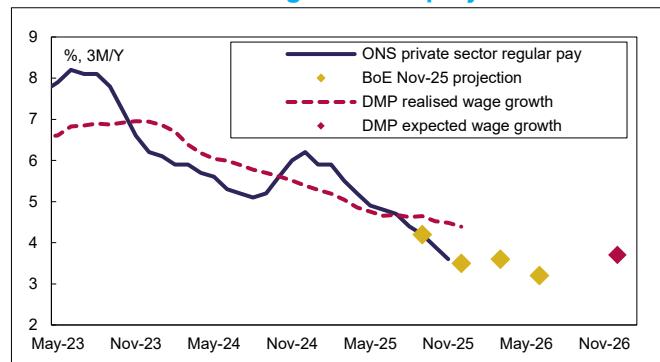
*Diamonds show BoE projections from Nov-25 MPR.
Source: BoE, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Gas spot price & futures curve



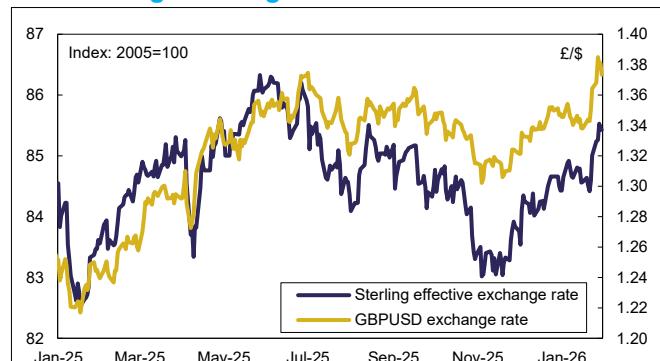
*Daiwa estimate for BoE Feb-26 MPR assumptions.
Source: Bloomberg, BoE and Daiwa Capital Markets Europe Ltd.

UK: Private sector wages & BoE projections



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

UK: Sterling exchange rate



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecast

	2025		2026				2025	2026	2027
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	%, Q/Q						%, Y/Y		
Euro area	0.3	0.3	0.3	0.3	0.3	0.3	1.5	1.1	1.3
UK	0.1	0.1	0.3	0.3	0.3	0.3	1.4	0.9	1.3
Inflation, %, Y/Y									
Euro area									
Headline HICP	2.1	2.1	1.8	1.8	1.7	1.9	2.1	1.8	1.8
Core HICP	2.3	2.4	2.3	1.8	1.6	1.7	2.4	1.8	1.6
UK									
Headline CPI	3.8	3.4	3.0	2.3	2.4	2.4	3.4	2.5	2.1
Core CPI	3.6	3.3	3.1	2.5	2.6	2.6	3.5	2.7	1.9
Monetary policy, %									
ECB									
Deposit Rate	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Refi Rate	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
BoE									
Bank Rate	4.00	3.75	3.75	3.50	3.25	3.25	3.75	3.25	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/ Daiwa forecast	Previous	Revised
Euro area	GDP – first estimate Q/Q% (Y/Y%)	Q4	0.3 (1.3)	0.3 (1.2)	0.3 (1.4)	-
	Unemployment rate %	Dec	6.2	6.3	6.3	-
Germany	ECB consumer expectations survey – 1Y (3Y) ahead CPI Y/Y%	Dec	2.8 (2.6)	2.7 (2.4)	2.8 (2.5)	-
	GDP – first estimate Q/Q% (Y/Y%)	Q4	0.3 (0.6)	0.2 (0.2)	0.0 (0.3)	-
France	Preliminary HICP (CPI) Y/Y%	Jan	2.1 (2.1)	2.0 (2.0)	2.0 (1.8)	-
	Import prices M/M% (Y/Y%)	Dec	-0.1 (-2.3)	-0.4 (-2.6)	0.5 (-1.9)	-
Italy	Unemployment claims rate % (change 000s)	Jan	6.3 (0)	6.3 (3)	6.3 (3)	-
	GDP – first estimate Q/Q% (Y/Y%)	Q4	0.2 (1.1)	0.2 (1.2)	0.5 (0.9)	-
Spain	Consumer spending M/M% (Y/Y%)	Dec	-0.6 (-1.0)	-0.4 (-0.6)	-0.3 (0.0)	- (0.1)
	PPI Y/Y%	Dec	-2.0	-	-3.3	-1.5
UK	GDP – first estimate Q/Q% (Y/Y%)	Q4	0.3 (0.8)	0.2 (0.6)	0.1 (0.6)	0.2 (-)
	PPI Y/Y%	Dec	-2.0	-	-0.3	-
	GDP – first estimate Q/Q% (Y/Y%)	Q4	0.8 (2.6)	0.6 (2.9)	0.6 (2.8)	- (2.7)
	Preliminary HICP (CPI) Y/Y%	Jan	2.5 (2.4)	2.4 (2.4)	3.0 (2.9)	-
	Net consumer credit £bn (Y/Y%)	Dec	1.5 (8.2)	-	2.1 (8.1)	- (8.2)
	Net mortgage lending £bn (approvals 000s)	Dec	4.6 (61.0)	4.4 (64.9)	4.5 (64.5)	-4.6 (64.1)

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/ <u>Daiwa forecast</u>	Previous
Monday 2 February 2026					
Euro area	09.00	Final manufacturing PMI	Jan	<u>49.4</u>	48.8
Germany	07.00	Retail sales M/M% (Y/Y%)	Dec	-	-0.3 (-1.4)
	08.55	Final manufacturing PMI	Jan	<u>48.7</u>	47.0
France	08.50	Final manufacturing PMI	Jan	<u>51.0</u>	50.7
Italy	08.45	Manufacturing PMI	Jan	48.5	47.9
Spain	08.15	Manufacturing PMI	Jan	50.2	49.6
UK	07.00	Nationwide house prices M/M% (Y/Y%)	Jan	0.3 (0.7)	-0.4 (0.6)
	09.30	Final manufacturing PMI	Jan	<u>51.6</u>	50.6
Tuesday 3 February 2026					
France	07.45	Preliminary HICP (CPI) Y/Y%	Jan	0.6 (0.7)	0.7 (0.8)
Spain	08.00	Unemployment (net employment) change 000s	Jan	-	-16.3 (33.1)
Wednesday 4 February 2026					
Euro area	09.00	Final composite (services) PMI	Jan	<u>51.5 (51.9)</u>	51.5 (52.4)
	10.00	Preliminary headline (core) HICP Y/Y%	Jan	<u>1.8 (2.4)</u>	1.9 (2.3)
	10.00	PPI Y/Y%	Dec	-1.9	-1.7
Germany	08.55	Final composite (services) PMI	Jan	<u>52.5 (53.3)</u>	51.3 (52.7)
France	08.50	Final composite (services) PMI	Jan	<u>48.6 (47.9)</u>	50.0 (50.1)
Italy	08.45	Composite (services) PMI	Jan	-	50.3 (51.5)
	10.00	Preliminary HICP (CPI) Y/Y%	Jan	1.0 (1.0)	1.2 (1.2)
Spain	08.15	Composite (services) PMI	Jan	-	55.6 (57.1)
UK	09.30	Final composite (services) PMI	Jan	<u>53.9 (54.3)</u>	51.4 (51.4)
Thursday 5 February 2026					
Euro area	08.30	Construction PMI	Jan	-	47.4
	10.00	Retail sales M/M% (Y/Y%)	Dec	-0.3 (1.7)	0.2 (2.3)
	13.15	ECB Deposit (Refinancing) Rate %	Feb	<u>2.00 (2.15)</u>	2.00 (2.15)
Germany	07.00	Factory orders M/M% (Y/Y%)	Dec	-2.2 (1.2)	5.6 (10.5)
	08.30	Construction PMI	Jan	-	50.3
France	07.45	Industrial production M/M% (Y/Y%)	Dec	0.1 (2.3)	-0.1 (2.1)
	08.30	Construction PMI	Jan	-	43.4
Italy	08.30	Construction PMI	Jan	-	47.9
UK	09.00	New car registrations Y/Y%	Jan	-	3.9
	09.30	Construction PMI	Jan	42.0	40.1
	12.00	BoE Bank Rate %	Feb	<u>3.75</u>	3.75
	14.00	DMP 3M output price (1Y CPI) expectations Y/Y%	Jan	3.5 (3.2)	3.6 (3.2)
Friday 6 February 2026					
Germany	07.00	Industrial production M/M% (Y/Y%)	Dec	-0.3 (1.9)	0.8 (0.8)
	07.00	Trade balance €bn	Dec	14.7	13.1
France	07.45	Trade balance €bn	Dec	-	-4.2
	07.45	Preliminary wages Q/Q%	Q4	0.3	0.3
Spain	08.00	Industrial production M/M% (Y/Y%)	Dec	-	1.0 (4.5)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 2 February 2026		
Euro area		09.00 ECB to publish quarterly Survey on the Access to Finance of Enterprises for Q425
Tuesday 3 February 2026		
Euro area		09.00 ECB to publish quarterly Bank Lending Survey for Q425/Q126
Germany		10.30 Auction: to sell up to €1.5bn of 2.5% 2035 green bonds
UK		10.00 Auction: to sell £4.25bn of 4.75% 2035 bonds
Wednesday 4 February 2026		
Germany		10.30 Auction: to sell up to €4bn of 2.5% 2032 bonds
Thursday 5 February 2026		
Euro area		13.15 ECB monetary policy announcement
		13.45 ECB President Lagarde to hold post-Governing Council meeting press conference
France		09.50 Auction: to sell up to €13.5bn of 3.2% 2035, 3.5% 2035, 3.6% 2042 & 3% 2049 bonds
Spain		09.30 Auction: to sell 2.35% 2029, 3% 2033 & 3.2% 2035 bonds and 0.7% 2033 inflation-linked bonds
UK		12.00 BoE monetary policy announcement, summary and minutes, and Monetary Policy Report to be published
		12.30 BoE Governor Bailey to conduct post-MPC press conference
Friday 6 February 2026		
Euro area		09.00 ECB to publish quarterly Survey of Professional Forecasters for Q126
UK		12.15 BoE Chief Economist Pill to speak publicly on updated macroeconomic projections

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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