

Euro wrap-up

Overview

- Against the backdrop of diminished global risk appetite, Bunds made gains as a downside surprise in the flash estimates of German inflation in February contrasted upside surprises in France and Spain.
- While a poor result for the Labour party in the Gorton and Denton by-election raised further questions about Keir Starmer's future as Prime Minister, Gilts also made gains as UK consumer confidence deteriorated.
- The coming week will bring the flash estimates of euro area inflation in February and updates on euro area unemployment and UK Gilt issuance.

Economic Research Team

+44 20 7597 8326

Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.001	-0.033
OBL 2½ 04/31	2.246	-0.047
DBR 2.9 02/36	2.651	-0.038
UKT 3¾ 03/27	3.511	-0.024
UKT 4¾ 03/30	3.680	-0.036
UKT 4½ 03/35	4.235	-0.038

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

Source: Bloomberg

Euro area

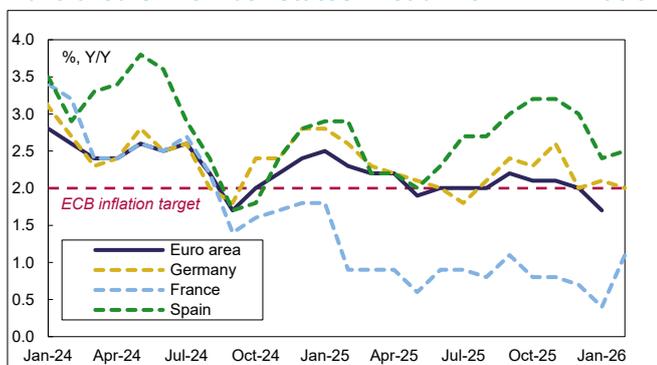
German inflation slightly undershoots expectations, falling back to 2% on the harmonised measure

Today's flash estimates of consumer price inflation in February from the larger member states were mixed. But overall, the various price shifts should prove to have been broadly offsetting to leave euro area inflation little changed from January. German inflation slightly undershot expectations, edging back down 0.1ppt in February to 2.0%Y/Y on the HICP measure and a little further on the national CPI rate to 1.9%Y/Y. The CPI detail suggested that the downwards pressure in Germany came principally from the food component, which fell 1.0ppt to 1.1%Y/Y. In contrast, energy inflation edged down only slightly (to -1.9%Y/Y) as auto fuel prices rose on the month. And with services inflation unchanged having moderated at the start of the year (3.2%Y/Y) and our estimate of core goods inflation little different to January too, German core CPI inflation was also steady in February, at 2.5%Y/Y.

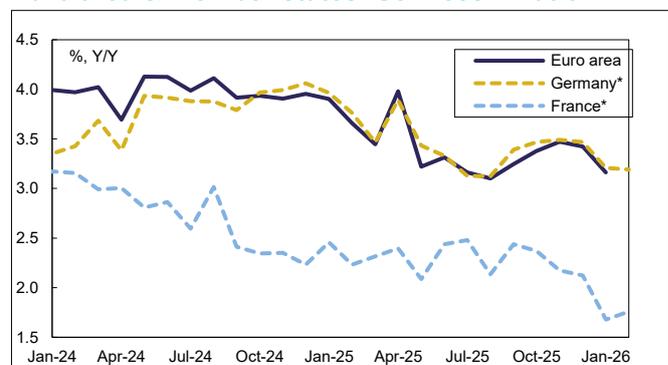
French & Spanish inflation up above expectations but euro area figures should be little changed

In contrast to the German figures, the flash French and Spanish estimates of inflation in February exceeded expectations. While still very low, French inflation had always seemed bound to rise due to the sharp cut to electricity prices a year earlier. But the 0.7ppt increase in the EU-harmonised HICP rate to a five-month high of 1.1%Y/Y was a chunky 0.3ppt above the Bloomberg consensus forecast. Energy certainly accounted for more than half of that increase. However, the detail published on the French national CPI measure suggested that the pickup was relatively broad-based with core inflation firmer too. Nevertheless, a rise in manufactured goods inflation was not unexpected given the unusually large number of days in January's sample capturing new year discounts. And the slight pickup in services inflation was perhaps related to a rebound in the airfare category after a very weak January. So, a rise in core CPI inflation back closer to 1%Y/Y need not be a cause for concern. Finally, reflecting higher prices of fresh produce, likely in part due to inclement weather, French inflation of food, alcohol and tobacco was also higher this month. In Spain, meanwhile, HICP inflation unexpectedly ticked up slightly to 2.5%Y/Y, still nevertheless below last year's average. Here, the base effect related to electricity prices a year ago was favourable. But, as in France, auto fuel and food made positive contributions. And with hospitality also adding to inflation, core inflation on the national measure edged up slightly to 2.7%Y/Y. Based on the national data released so far, the flash February estimate of euro area headline inflation (due Tuesday) is likely to be unchanged from January at 1.7%Y/Y with the core rate also likely unchanged at 2.2%Y/Y.

Euro area & member states: Headline HICP inflation



Euro area & member states: Services inflation

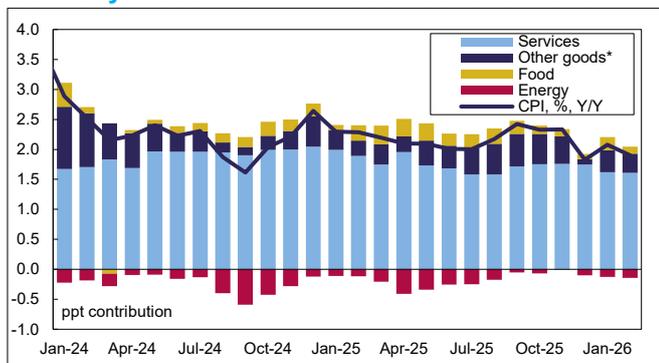


The week ahead in the euro area

A key focus in the euro area in the coming week will be the aforementioned flash February inflation estimates on Tuesday. Notwithstanding possible surprise outturns from Italy or the Netherlands (due the same day), we forecast headline euro area inflation to move sideways at 1.7%Y/Y. While a softer decline in energy inflation will provide a modest upwards impulse, the food component could have moved in the opposite direction to provide an offset. And services and core goods inflation rates are both likely to move broadly sideways. As such, we expect core HICP inflation to remain unchanged at 2.2%Y/Y. The latest PPI figures (due Wednesday) will likely signal an ongoing absence of pipeline price pressures in the factory sector amid intense global competition and the continued impact of the strong euro. But the hawks on the Governing Council might place greater weight on potential upside risks to the services inflation outlook from stickier pay growth, supported in part by the resilient labour market. Indeed, January jobless data (also due Wednesday) will likely leave the unemployment rate around December's series low (6.2%). The account from the ECB's 4-5 February Governing Council meeting (Thursday) will therefore continue to flag two-sided risks to the inflation outlook over the medium term, although it will be scrutinised for hints that policymakers are likely to be more inclined to cut rates again if inflation undershoots the expected path this year, particularly if the euro appreciates significantly further.

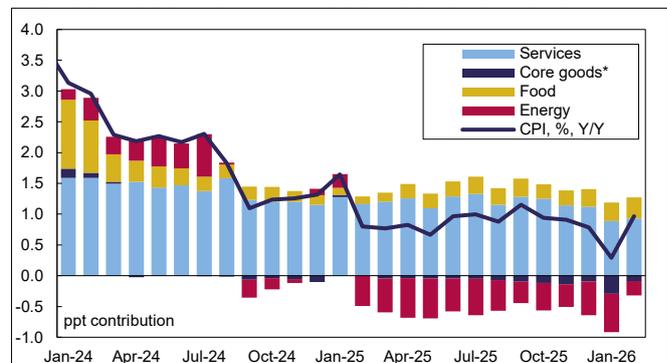
Meanwhile, January activity data will provide a cross-check on signals from business and consumer surveys that positive economic growth momentum was maintained into 2026. An upwards revision to German sales volumes growth in December (by 0.7ppt to 0.8%M/M) will give a boost to aggregate euro area sales that month from the initial estimate of a drop of 0.5%M/M. And a pickup in consumer confidence and a rebound in France at the start of the year should see a return to positive euro area sales growth in January (data due Thursday). Updated national accounts data (Friday) are likely to confirm euro area GDP growth of 0.3%Q/Q in Q4 for a second successive quarter. But due to rounding (0.347%Q/Q on the prior estimate) there is a significant risk of an upwards revision, not least when considering today's final French (still 0.2%Q/Q, but 0.04ppt firmer) and Portuguese (0.9%Q/Q, up 0.1ppt) figures. As is often the case of late, final readings from Ireland (Thursday) could be decisive to the regional figure. Otherwise, the first official expenditure breakdown will confirm that the expansion was domestically driven, with solid growth in household spending, government consumption and capital spending, the latter boosted not least by a surge in [public investment in Germany](#). But having risen in the previous four months – by a cumulative 18% – German factory orders data (also Friday) look set to temporarily fall back in January. And due to weather-associated disruption last month, German manufacturing turnover figures might also disappoint after the near-1½%M/M growth in December. January industrial production figures from France and Spain are also due (Thursday). And the final February manufacturing, services and construction PMIs will likely confirm the initial signals of a modest pickup in growth momentum in the middle of Q1.

Germany: Headline CPI inflation contributions



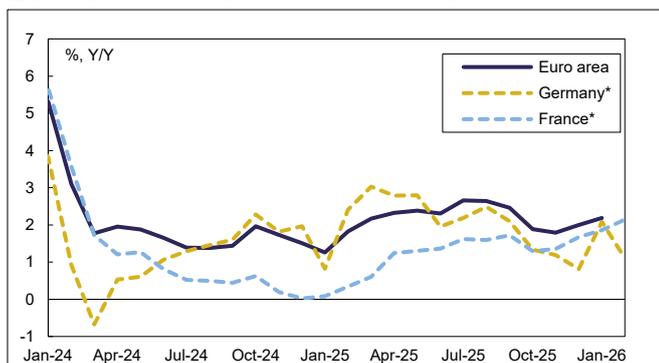
*Non-energy industrial goods, alcoholic beverages & tobacco.
 Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Headline CPI inflation contributions



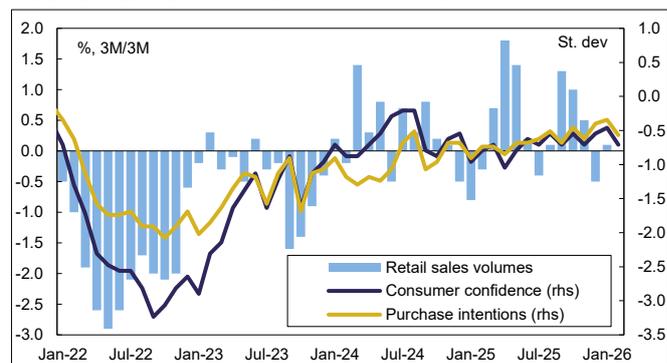
*Non-energy industrial goods.
 Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area & member states: Food inflation



*National CPI measures.
 Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes & consumer confidence



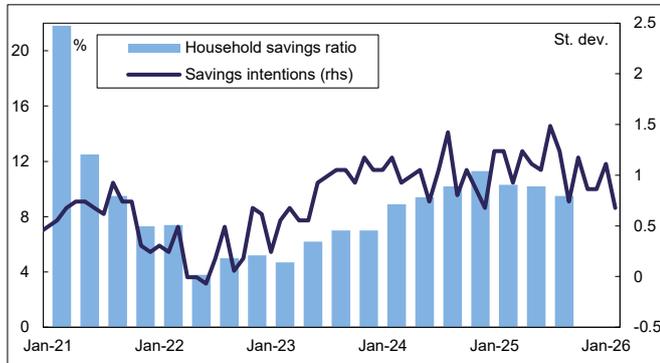
Source: Macrobond, GfK and Daiwa Capital Markets Europe Ltd.

UK

Consumer confidence pares recent rise on weaker income expectations

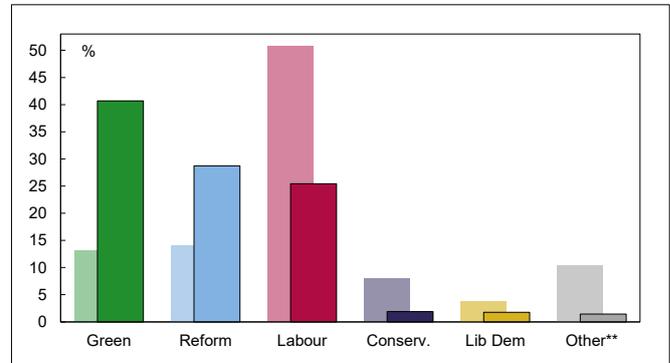
Consistent with a supposed post-Budget pickup in economic activity and a solid gain in retail sales over the new year sales period, last month's GfK survey had offered some encouragement about the prospects for a sustained recovery in household spending. Albeit still some way below its long-run average, January's headline consumer confidence index was the least downbeat since August 2024, while the climate for major purchases was adjudged to be the best in four years. Against that backdrop, however, February's survey was disappointing. Contrasting expectations of a third consecutive monthly improvement, consumer confidence pared 3pts to a three-month low of -19, broadly in line with its average level in 2025. Economic expectations for the coming 12 months also remained subdued around last year's norm. More optimistically perhaps, households' savings intentions fell sharply to a 14-month low. But that measure remained well above the long-run average. And as consumers were also inclined to make big-ticket purchases, even if sustained, a decline in household savings might seem unlikely to translate into greater support for consumption. Indeed, we suspect that is more closely associated with a deterioration in households' income expectations as opposed to a diminished desire for precautionary saving. Like us, the BoE expects private consumption growth to remain subdued this year as real disposable income growth slows on softer wage settlements and a rising tax burden. At the very least, today's GfK survey results provided another reason to expect adverse payback to retail sales and other consumer spending gauges in February.

UK: Savings ratio & GfK savings intentions index



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

UK: Party vote shares: Gorton & Denton by-election*



*Shaded bars show results from 2024 General Election. **Other represents the Workers Party in 2024, and multiple parties in 2026.

Source: UK Parliament, BBC and Daiwa Capital Markets Europe Ltd.

The week ahead in the UK

The Government's loss in yesterday's Gorton and Denton by-election was not unforeseen, and so Gilts were unharmed today. But its nature – the ruling Labour party finishing in a distant third (25%) behind both the far-right Reform (29%) and the Greens (41%) – will surely keep speculation about Keir Starmer's longevity as Prime Minister in the headlines for the foreseeable future. Regardless of the by-election result, politics was always bound to hold sway over the coming week's UK news flow, given the Chancellor's Spring Statement on Tuesday. Adhering to the spirit of its commitment to hold only one key fiscal event each year, however, the announcement should be largely insignificant for broader fiscal policy. Few, if any, substantive policy announcements are expected, not least on the revenue side following the good news of [January's monthly public sector finance](#) statistics. So, updated economic and fiscal projections from the OBR – the fiscal watchdog – and the DMO's mandate for gross gilt issuance should be of most interest. With respect to the latter, the DMO is likely to announce a reduction in full-year planned gilt sales for the first time in four years. Indeed, gilt sales in the coming fiscal year are expected to be cut from £304bn in FY25/6 by more than £50bn, with issuance at the long end of the curve likely to be reduced again.

Otherwise, February's Decision Maker Panel survey (Thursday) will be most notable among the familiar UK dataflow in the coming week. Several MPC members have recently reemphasised the survey's significance for their respective reaction functions, including external MPC member Catherine Mann, who is one of the two potential 'swing' members most likely to switch from backing a pause in February to voting for a cut at March's monetary policy meeting. Certainly, we expect that she will be looking for renewed signs of moderation in firms' year-ahead wage and price-setting expectations, as well as softer CPI inflation expectations. The BRC's shop price index (Tuesday) will also look to give an early indication as to February's inflation, albeit noting the apparent divergence between developments in goods and food prices highlighted by that survey relative to the ONS' inflation data last month. Meanwhile, January's money and credit statistics (Monday) will reveal whether further easing in monetary policy offered support to the upturn in bank lending at the end of last year. While BoE surveys were pessimistic about loan demand prospects for Q1, the recovering housing market activity flagged by the RICS, January's retail sales bounce and better activity indicators might suggest that lending remained respectable. To that end, the final February manufacturing and services PMI survey results (Monday and Wednesday) will be expected to confirm that firmer growth momentum was sustained midway through Q1. Stronger activity could yet spill over to the UK construction PMIs (Thursday), although poor weather likely remained a headwind.

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	0.2	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	1.3	0.9	1.3
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.1	2.1	1.7	1.8	1.8	1.9	2.1	1.8	1.8
Core HICP 	2.3	2.4	2.2	1.8	1.7	1.7	2.4	1.8	1.7
UK									
Headline CPI 	3.8	3.4	3.0	2.2	2.2	2.2	3.4	2.4	2.1
Core CPI 	3.6	3.3	3.1	2.6	2.6	2.5	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	3.50	3.25	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 	ECB consumer expectations survey – 1Y (3Y) ahead CPI Y/Y%	Jan	2.6 (2.6)	2.5 (2.7)	2.8 (2.6)	-	
Germany 	Import prices M/M% (Y/Y%)	Jan	1.1 (-2.3)	0.6 (-2.8)	-0.1 (-2.3)	-	
	Unemployment claims rate % (change 000s)	Feb	6.3 (1)	6.3 (3)	6.3 (0)	-(1)	
	Preliminary HICP (CPI) Y/Y%	Feb	2.0 (1.9)	2.1 (2.0)	2.1 (2.1)	-	
France 	Preliminary HICP (CPI) Y/Y%	Feb	1.1 (1.0)	0.8 (0.8)	0.4 (0.3)	-	
	PPI Y/Y%	Jan	-2.3	-	-2.0	-1.9	
	Consumer spending M/M% (Y/Y%)	Jan	0.5 (0.4)	-	-0.6 (-1.0)	-0.5 (-0.8)	
	GDP – final estimate Q/Q% (Y/Y%)	Q4	0.2 (1.2)	<u>0.2 (1.1)</u>	0.5 (0.9)	-	
	Total (private sector) payrolls Q/Q%	Q4	-0.1 (-0.1)	0.0 <u>(-0.1)</u>	0.0 (-0.1)	-	
Spain 	Preliminary HICP (CPI) Y/Y%	Feb	2.5 (2.3)	2.3 (2.2)	2.4 (2.3)	-	
UK 	GfK consumer confidence indicator	Feb	-19	-15	-16	-	
	Lloyds business barometer (own price expectations) % balance	Feb	44 (65)	-	44 (62)	-	
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</i>	Previous	
Monday 2 March 2026						
Euro area		09.00	Final manufacturing PMI	Feb	<u>50.8</u>	49.5
Germany		07.00	Retail sales M/M% (Y/Y%)	Jan	0.0 (1.2)	0.8 (3.9)
		08.55	Final manufacturing PMI	Feb	<u>50.7</u>	49.1
France		08.50	Final manufacturing PMI	Feb	<u>49.9</u>	51.2
Italy		08.45	Manufacturing PMI	Feb	49.2	48.1
		09.00	General Government deficit to GDP %	2025	-	3.4
Spain		08.15	Manufacturing PMI	Feb	50.0	49.2
UK		07.00	Nationwide house prices M/M% (Y/Y%)	Feb	0.3 (0.7)	0.3 (1.0)
		09.30	Final manufacturing PMI	Feb	<u>52.0</u>	51.8
		09.30	Net consumer credit £bn (Y/Y%)	Jan	1.7 (-)	1.5 (8.2)
		09.30	Net mortgage lending £bn (approvals 000s)	Jan	4.6 (62.0)	4.6 (61.0)
Tuesday 3 March 2026						
Euro area		10.00	Preliminary headline (core) HICP Y/Y%	Feb	<u>1.7 (2.2)</u>	1.7 (2.2)
Italy		10.00	Preliminary HICP (CPI) Y/Y%	Feb	1.1 (1.1)	1.0 (1.0)
Spain		08.00	Unemployment (net employment) change 000s	Feb	-	30.4 (17.3)
UK		00.01	BRC shop price index Y/Y%	Feb	1.4	1.5
Wednesday 4 March 2026						
Euro area		09.00	Final composite (services) PMI	Feb	<u>51.9 (51.8)</u>	51.3 (51.6)
		10.00	Unemployment rate %	Jan	<u>6.2</u>	6.2
		10.00	PPI Y/Y%	Jan	-2.6	-2.1
Germany		07.00	Final composite (services) PMI	Feb	<u>53.1 (53.4)</u>	52.1 (52.4)
France		07.00	Final composite (services) PMI	Feb	<u>49.9 (49.6)</u>	49.1 (48.4)
Italy		07.00	Composite (services) PMI	Feb	51.8 (52.5)	51.4 (52.9)
		07.00	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.3 (0.8)</u>	0.2 (0.6)
Spain		07.00	Composite (services) PMI	Feb	52.5 (52.8)	52.9 (53.5)
UK		07.45	Final composite (services) PMI	Feb	<u>53.9 (53.9)</u>	53.7 (54.0)
Thursday 5 March 2026						
Euro area		08.30	Construction PMI	Feb	-	45.3
		10.00	Retail sales M/M% (Y/Y%)	Jan	0.3 (1.7)	-0.5 (1.3)
Germany		08.30	Construction PMI	Feb	-	44.7
France		07.45	Industrial production M/M% (Y/Y%)	Jan	0.4 (2.4)	-0.7 (1.7)
		08.30	Construction PMI	Feb	-	43.5
Italy		08.30	Construction PMI	Feb	-	47.7
		09.00	Retail sales M/M% (Y/Y%)	Jan	-	-0.8 (0.9)
Spain		08.00	Industrial production M/M% (Y/Y%)	Jan	0.5 (1.1)	-2.5 (-0.3)
UK		09.00	New car registrations Y/Y%	Feb	-	3.4
		09.30	DMP 3M output price (1Y CPI) expectations Y/Y%	Feb	3.4 (2.8)	3.5 (2.9)
		09.30	Construction PMI	Feb	47.0	46.4
Friday 6 March 2026						
Euro area		10.00	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.3 (1.3)</u>	0.3 (1.4)
		10.00	GDP – household consumption Q/Q%	Q4	0.4	0.1
		10.00	GDP – government spending Q/Q%	Q4	0.5	0.7
		10.00	GDP – fixed investment Q/Q%	Q4	0.7	1.0
		10.00	Employment – second estimate Q/Q% (Y/Y%)	Q4	<u>0.2 (0.6)</u>	0.2 (0.6)
Germany		07.00	Factory orders M/M% (Y/Y%)	Jan	-4.0 (13.2)	7.8 (13.0)
Spain		08.00	INE house price index Q/Q% (Y/Y%)	Q4	-	2.9 (12.8)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 2 March 2026		
UK		12.30 External MPC member Taylor participates in panel discussion at Norges Bank conference on monetary policy, Oslo
Tuesday 3 March 2026		
Germany		10.30 Auction: to sell up to €5bn of 2.5% 2031 bonds
UK		12.30 UK Chancellor of the Exchequer Reeves to deliver Spring Statement to Parliament
Wednesday 4 March 2026		
Germany		10.30 Auction: to sell up to €1bn of 2.3% 2033 green bonds
Thursday 5 March 2026		
Euro area		12.30 ECB to publish monetary policy account of 4-5 February Governing Council meeting
		17.00 ECB President Lagarde to deliver 2026 Annual Global Risk Lecture at John Hopkins University in Bologna
Germany		10.00 Governing Council member Nagel to present the Bundesbank 2025 annual report
France		09.50 Auction: to sell up €13.5bn of 3.5% 2035, 1.25% 2036, 2.5% 2043 and 4.1% 2046 bonds
Spain		09.30 Auction: to sell 2.35% 2029, 3% 2033, 3.5% 2041 bonds and 1.15% 2036 inflation-linked bonds
UK		10.00 Auction: to sell £3.5bn of 4% 2029 bonds
Friday 6 March 2026		
Euro area		17.00 ECB Executive Board member Schnabel gives keynote speech at Booth Business School event, New York
UK		00.01 REC, KPMG & S&P Global UK Report on Jobs for February

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

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