

# Euro wrap-up

## Overview

- Shorter-dated Bunds ended the day marginally lower, while the latest French and Italian inflation data provided mixed messages.
- Gilts were little changed as UK surveys suggested that consumers were more downbeat, while firms remained relatively optimistic.
- Tomorrow will bring the final manufacturing PMIs from the euro area and UK, along with the flash estimate of German CPI for February.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 12/18	-0.902	+0.026
OBL 0 04/22	-0.574	+0.008
DBR 0% 02/27	0.205	+0.006
UKT 1% 07/19	0.091	-0.005
UKT 0% 07/22	0.545	-0.003
UKT 4% 12/27	1.143	-0.008

\*Change from close as at 4.30pm GMT.

Source: Bloomberg

## Euro area

### French and Italian CPI a mixed bag

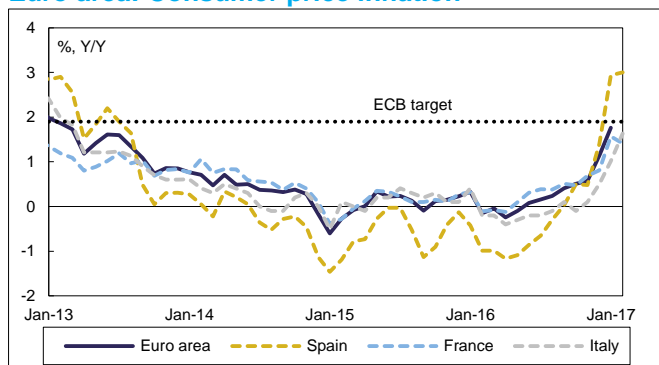
While yesterday's Commission survey suggested that price pressures were on the up, the flash estimates of CPI for February from France and Italy provided mixed messages. The French inflation release came in on the soft side, with the EU-harmonised measure unexpectedly easing, by 0.2ppt, to 1.4%Y/Y. Headline CPI on the national measure also slipped back, by 0.1ppt, to 1.2%Y/Y. While food price inflation matched the three-year high reached last August, energy costs increased at their fastest annual pace for more than five years and services inflation rose above 1% for the first time since September, there was a notable weakening in manufactured goods inflation this month to its weakest in two years. So, while we will need to wait for the final release (15 March) for a more detailed breakdown, today's release suggests that core inflation in France remained very subdued. The equivalent release from Italy today also showed that core CPI remained weak, rising 0.1ppt to just 0.6%Y/Y. But with food price inflation rising at its fastest pace for eight years and energy costs rising at a double-digit annual rate, in contrast with France, headline CPI on the national measure jumped to 1.5%Y/Y in February, the strongest for almost four years. And the rise in the EU-harmonised gauge was even more marked, rising 0.6ppt to 1.6%Y/Y, similarly the highest rate since March 2013. Overall, with Spain's equivalent CPI rate having risen to 3%Y/Y in February, even in the absence of the anticipated increase in Germany's figures, due tomorrow, the aggregate euro area estimate, due Thursday, still looks set to rise to 1.9%Y/Y, which would be the strongest for four years.

### The day ahead in the euro area and US

Tomorrow will bring the first estimate of German CPI, which is expected to show the headline EU-harmonised measure rose above 2%Y/Y for the first time since September 2012. Wednesday will also bring the latest German labour market figures for February, as well as the final euro area manufacturing PMIs for the same month. According to the flash estimate, the euro area PMI rose to 55.5, its highest level since April 2011 on the back of sustained growth of output, new orders and improved expectations for output over the coming twelve months. In the markets, Germany will sell 10Y Bunds.

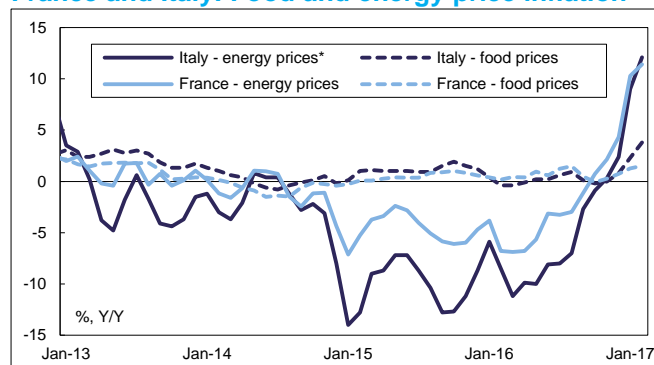
In the US, tomorrow brings several noteworthy releases including the February manufacturing ISM and the latest monthly personal income and spending figures, including the Fed's closely-watched deflators, for January. Wednesday will also see the release of the January construction spending figures, February vehicle sales numbers and the Fed's latest Beige Book. The Fed's Kaplan and Brainard are also due to speak.

### Euro area: Consumer price inflation\*



\*EU-harmonised rates. Flash estimates for national figures in February.  
 Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### France and Italy: Food and energy price inflation



\*Energy excluding administered prices.

Source: Thomson Reuters, Bloomberg and Daiwa Capital Markets Europe Ltd.



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## UK

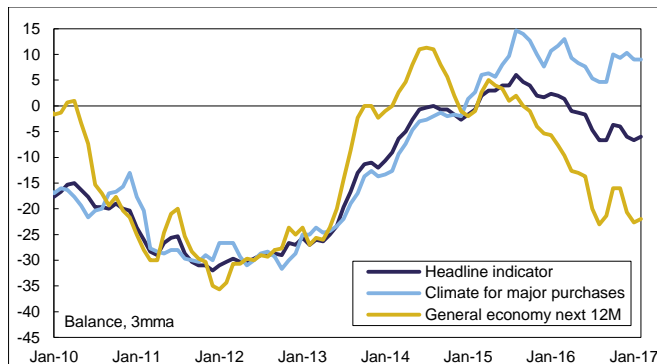
### Consumers more worried about personal finances

While UK consumers appeared to be more upbeat around the turn of the year, the latest release of the GfK Consumer Confidence survey for February was a touch weaker, with the headline indicator falling from -5 to -6 to match its post-referendum average. With inflation having accelerated significantly in recent months and nominal wage growth continuing to stagnate, the drop reflected a weaker assessment of consumers' personal financial situation. And so it was perhaps not surprising to see that consumers also assessed the climate for major purchases to have deteriorated notably. While consumers' expectations of how the economy is going to perform over the coming twelve months improved slightly, this was from a relatively low level in January to leave the relevant index still well below its level this time last year. And although a similar survey from Lloyds Bank showed that consumers' confidence in the financial system, the UK housing market and their job security increased at the start of the year, the proportion of respondents who believe that their discretionary income will be higher in six months decreased. Meanwhile, a separate survey of business sentiment released by Lloyds today was more upbeat about conditions in February, with the headline indicator rising from 29 to 40 its highest level since April 2016, albeit still well below levels seen through 2014 and 2015.

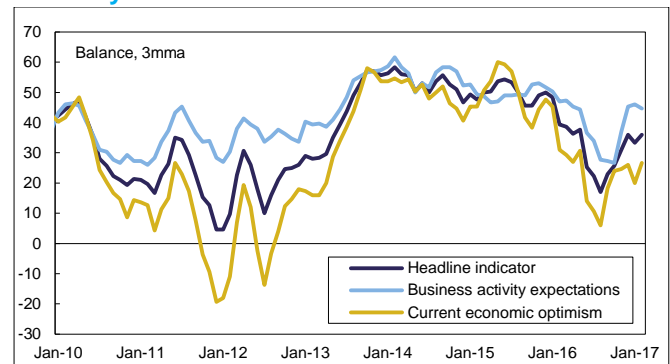
### The day ahead in the UK

Business sentiment will be the data focus in the UK tomorrow, with the manufacturing PMI for February, which is expected to have moved broadly sideways on the month. Tomorrow will also bring the BoE's lending figures for January, which should be consistent with the data release from the BBA last week showing consumer credit growth inching higher that month, while mortgage approvals rose. With inflationary pressures rising rapidly, the BRC figures on retail prices should be worth keeping an eye on too.

#### UK: GfK Consumer Confidence



#### UK: Lloyds Business Barometer



## European calendar

### Today's results














#### Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
France	GDP – 2nd release Q/Q% (Y/Y%)	Q4	<b>0.4 (1.2)</b>	0.4 (1.1)	0.2 (0.9)	-
	Preliminary EU-harmonised CPI Y/Y%	Feb	<b>1.4</b>	1.7	1.6	-
	Consumer spending M/M% (Y/Y%)	Jan	<b>0.6 (1.4)</b>	0.6 (1.6)	-0.8 (1.5)	<b>-1.0 (1.3)</b>
Italy	Preliminary EU-harmonised CPI Y/Y%	Feb	<b>1.6</b>	1.3	1.0	-
Spain	Current account balance €bn	Dec	<b>3.4</b>	-	3.3	-
UK	Lloyds business barometer	Feb	<b>40</b>	-	29	-
	GfK consumer confidence survey	Feb	<b>-6</b>	-6	-5	-
Country	Auction					
Germany sold	€4.1bn of 0% 2019 bonds (15-Mar-2019) at an average yield of -0.92%					
UK	BoE APF operation purchased £775mn of 15Y+ Gilts (2.93 cover ratio)					



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tomorrow's data releases

### Economic data

Country		GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU		09:00	Final manufacturing PMI	Feb	55.5	55.2
Germany		08:55	Final manufacturing PMI	Feb	57.0	56.4
		08:55	Unemployment change `000s (rate %)	Feb	-10 (5.9)	-26 (5.9)
		13:00	Preliminary EU-harmonised CPI Y/Y%	Feb	2.1	1.9
France		08:50	Final manufacturing PMI	Feb	52.3	53.6
Italy		08:45	Manufacturing PMI	Feb	53.5	53.0
		09:00	GDP Y/Y%	2016	1.0	0.7
Spain		08:15	Manufacturing PMI	Feb	55.8	55.6
UK		00:01	BRC shop price index Y/Y%	Feb	-1.4	-1.7
		07:00	Nationwide house price index M/M% (Y/Y%)	Feb	0.2 (4.1)	0.2 (4.3)
		09:30	Manufacturing PMI	Feb	55.8	55.9
		09:30	Mortgage approvals `000s	Jan	68.7	67.9
		09:30	Net consumer credit (net lending secured on dwellings) £bn	Jan	1.4 (3.7)	1.0 (3.8)

### Auctions and events

Country		GMT	Auction / Event
Germany		10:30	Auction: To sell €3bn of 0.25% 2027 bonds (15-Feb-2027)
UK		14:50	BoE APF operation: To purchase 7-15Y Gilts

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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