Euro wrap-up

Overview

- Gilts made losses ahead of the evening's Parliamentary votes, which saw MPs demand that the Government request an extension of the Article 50 deadline.
- Bunds also made losses as German and French inflation data provided little in the way of surprises.
- Friday will bring final euro area inflation data for February and will see the UK Government take stock of the Brexit process following today's votes

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.558	+0.002
OBL 0 04/24	-0.340	+0.014
DBR 0¼ 02/29	0.086	+0.020
UKT 2 07/20	0.771	+0.020
UKT 0¾ 07/23	0.951	+0.024
UKT 1⅝ 10/28	1.224	+0.026

*Change from close as at 5.00pm GMT.
Source: Bloomberg

UK

MPs vote to request Brexit delay

As expected, after the House of Commons voted yesterday evening to reject a no-deal Brexit – at any point in the future, not merely at end-March as Theresa May had intended – this evening MPs approved by a landslide (412 votes to 202) the Government's own motion that the Prime Minister request an extension of the Article 50 deadline at the EU summit on 21-22 March. Not least as EU leaders wish to avoid the damage of a no-deal Brexit – and also wish to avoid being blamed for such an outcome – we fully expect that extension to be granted next week. But while the Parliamentary motion called for the extension to be a one-off and last to end-June, the length of the extension to be agreed by the EU remains to be seen.

But now what?

Having this evening seen off attempts by MPs that would have impacted her ability to control the Parliamentary agenda before the summit, May will most likely on Tuesday bring her deal back to the House of Commons once again for a third meaningful vote (MV3). Despite the PM's major setbacks in the first two meaningful votes, May will still hope that – with a 'no deal' Brexit effectively ruled out – 75 MPs will be willing to reverse their opposition and vote to secure the majority in favour of the deal. If so, next Thursday she would be able to request a short 'technical extension' simply to allow time for the necessary legislation to be adopted and thus facilitate a smooth Brexit at end-June. But if she is still unable to secure that majority, she might have to make do with a lengthier Article 50 extension, perhaps to end-2020. And today May conceded that, if her deal has not found a majority in Parliament by the time of the Summit, the Government would establish a new process to work with Parliament to consider alternative ways forward, perhaps via a series of indicative votes on a range of Brexit options.

All eyes on MV3 next week

Faced with increased risks of a softer Brexit or no Brexit at all, today it appeared that the Northern Irish DUP and some Brexiter Conservatives might now be persuaded to vote in favour of May's deal next week, not least as the Attorney General Geoffrey Cox was reportedly offering them further legal assurances. But Cox's new arguments – seemingly based on the Vienna Convention that provides scope for unilateral withdrawal from international treaties – would seem unlikely to strengthen the case for the Withdrawal Agreement, and instead appeared merely to represent an excuse for those MPs finally to support the deal without a loss of face. Moreover, the continued vitriol against May's deal from a number of hardcore Conservative Brexiters in the ERG suggests that May will still struggle to find a Parliamentary majority from within the ranks of her own Party and its allies. Indeed, many of those MPs might be willing to tolerate a lengthier Article 50 extension, as that would provide scope to unseat Theresa May as Conservative Party leader and Prime Minister by the end of the year and replace her with someone with greater conviction for Brexit. In addition, although a handful of extra Labour MPs might be inclined to vote in favour of the deal if the PM concedes a greater role to Parliament in subsequent negotiations on the future relationship, most of them would seem likely to hold out hopes of achieving the softer form of Brexit advocated by their party's leadership via the new process in the House of Commons which should get underway before long.

A range of Brexit outcomes remains possible

So, while a no-deal Brexit has been avoided and an extension seems a done deal, there remains significant uncertainty about the outcome of the further votes ahead and next week's EU summit. Our central expectation is that May will once more fail to win a majority in MV3 next week, but also that Parliament will also fail at that point to agree an alternative way forward. As such, at the summit, May will likely seek and gain an Article 50 extension (on balance perhaps more likely to end-June in line with her request) to give time for MPs to find a majority in favour of one path or another. An eventual softer form of Brexit (e.g. including a permanent customs union) might on balance be the most likely outcome in such circumstances, but only just. However, if she reduces the size of her defeat next week to well below 50 votes, the PM might well try again to get the deal over the line in a fourth meaningful vote (MV4) in the final week of March. Parliamentary procedure might not allow that. And her appalling party management means that the arithmetic might remain stacked against her, with her future as Prime Minister for much longer also likely to remain in doubt. Nevertheless, if it is allowed to go ahead, the outcome of an MV4 might still be too close to call.

RICS survey points to housing market weakness

Persisting Brexit uncertainty continues to take its toll on the UK economy. And today's RICS survey once again highlighted the detrimental effects it is having on the housing market. The major survey indicators pointed to a further slowdown in market activity, with three quarters of respondents attributing the deterioration to Brexit. New vendor instructions continued to decline rapidly underlying problems associated with a lack of available stock. But the drop in new buyer enquiries, a key indicator of demand, was even more pronounced and the largest since the global financial crisis. Against that backdrop, the survey's headline indicator for price growth declined further, by 6ppts to an eight-year low of -28%. Looking ahead, near-term price expectations remained very subdued, perhaps as market participants did not expect a quick resolution to the Brexit stalemate. But longer-term expectations for the coming twelve months were slightly more positive and edged higher for a second consecutive month. We broadly agree with this assessment – with unemployment still low and wage growth having firmed up, if and when we get at least a partial resolution in the Brexit process, housing market sentiment should at least stabilise if not improve markedly.

The day ahead in the UK

There are no major UK economic data releases scheduled for tomorrow, so full attention will remain on politics, the fallout from the week's momentous events in Parliament and the prospects for a majority to be found in favour of any one particular form of Brexit.

Euro area

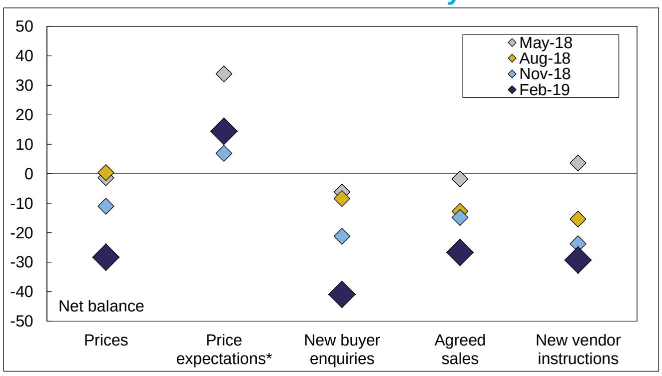
Germany's harmonised CPI unrevised

Ahead of tomorrow's release of final euro area inflation figures for February, today brought the equivalent reports from the largest two member states. In Germany, the EU harmonised figures aligned with the preliminary estimate, showing that prices rose 0.5%M/M in February to leave annual inflation unchanged at 1.7%Y/Y for the third consecutive month, still ½ppt below the average rate of the previous six months. On the national measure, however, there was a modest upwards revision to the flash reading of headline CPI by 0.1ppt to 1.5%Y/Y, up from 1.4%Y/Y in January. Within the detail, energy price inflation accelerated in February (up 0.6ppt to 2.9%Y/Y), with the highest increase recorded for heating oil (14.2%Y/Y), while food price inflation also jumped (up 0.6ppt to 1.4%Y/Y) on the back of higher seasonal vegetable prices. While prices of package holidays fell sharply compared with a year earlier, services inflation moved sideways at 1.4%Y/Y. But with non-durable consumer goods inflation higher (up 0.4ppt to 2.1%Y/Y), German core inflation also edged slightly higher in February, up 0.1ppt to 1.4%Y/Y, a four-month high, but only a touch firmer than the average of recent years.

France's harmonised CPI nudged higher

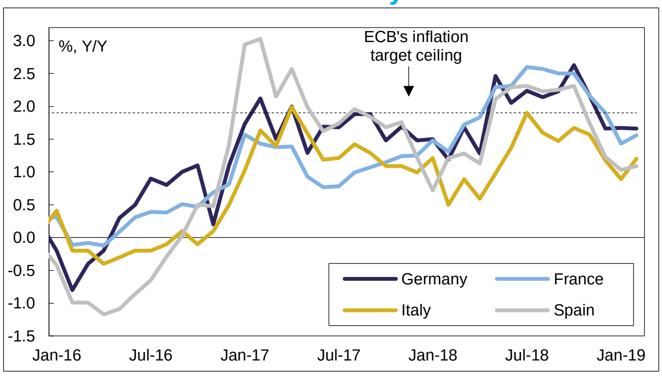
In contrast, in France, while the national measure of inflation aligned with the preliminary release, the harmonised measure was nudged higher. In particular, the headline harmonised rate was now estimated at 1.6%Y/Y in February, 0.1ppt higher than the preliminary figure and 0.2ppt higher than January. On the national measure, headline CPI was unrevised at 1.3%Y/Y in February, with an acceleration in energy price inflation (up 2.3ppts to 3.2%Y/Y) and food price inflation (up 0.4ppt to 3.1%Y/Y) in part offset by a moderation in services inflation (down 0.1ppt to 0.9%Y/Y). And with manufactured goods prices continuing to decline on an annual basis (-0.5%Y/Y), French core inflation was unchanged for the fourth consecutive month at a very subdued 0.7%Y/Y. Moreover, the harmonised core rate fell 0.1ppt to just 0.5%Y/Y, its weakest reading since May 2017. On

UK: RICS Residential Market Survey



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Headline inflation by member state*



**EU-harmonised measure. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.*

balance, despite the revisions to the French figures, a notable upwards revision to Italian inflation tomorrow would also be required to nudge the aggregate euro area number higher from the flash reading of 1.5%Y/Y, up from 1.4%Y/Y in January. Indeed, we would likely need to see the Italian CPI estimate upwardly revised by 0.3ppt to 1.5%Y/Y, resulting in a large, albeit not unprecedented, increase of 0.6ppt from the previous month. But despite the upwards shift in Germany's core inflation, not least due to rounding, we anticipate the 0.1ppt drop in the euro area's core CPI rate to 1.0%Y/Y to be confirmed too.

The day ahead in the euro area and US

Aside from the aforementioned euro area CPI release, Friday will also bring the latest euro area new car registrations figures, which will provide an update on household spending on big-ticket items in February. Tomorrow will also see Finnish Central Bank Governor – and potential candidate to succeed Mario Draghi as ECB President – Olli Rehn speak at a conference in Helsinki on the economic outlook and monetary policy.

In the US, tomorrow will bring a number of top-tier releases including February's industrial production data, which are expected to report growth of 0.4%M/M, almost fully reversing the decline in January. In contrast, manufacturing output is likely to have remained soft last month despite the sharp decline in January (-0.9%M/M). March's Empire Manufacturing survey is also due alongside the preliminary University of Michigan's consumer sentiment survey for the same month.

European calendar

Today's results							
Economic data							
Country		Release	Period	Actual	Market consensus/ *Daiwa forecast*	Previous	Revised
Germany		Final EU-harmonised CPI Y/Y%	Feb	**1.7**	1.7	1.7	-
France		Final EU-harmonised CPI Y/Y%	Feb	**1.6**	1.5	1.4	-
UK		RICS house price balance %	Feb	**-28**	-24	-22	-
Auctions and events							
Country		Auction					
UK sold		£1.5bn of 1.75% 2049 bonds (22-Jan-2049) at an average yield of 1.739%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd

Tomorrow's data releases						
Economic data						
Country		GMT	Release	Period	Market consensus/ *Daiwa forecast*	Previous
EMU		07:00	EU27 new car registrations Y/Y%	Feb	-	-4.6
		10:00	Final CPI (core CPI) Y/Y%	Feb	1.5 (1.0)	1.4 (1.1)
Italy		10:00	Final EU-harmonised CPI Y/Y%	Feb	1.2	0.9
Auctions and events						
Country		GMT	Auction / Event			
EMU		09:00	ECB's Rehn scheduled to speak in Helsinki			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd

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