

Euro wrap-up

Overview

- With the exception of the BTPs, euro area government bonds made losses as the flash euro area PMIs highlighted ongoing growth in manufacturing but contraction in services.
- Gilts made significant further losses despite a sharp drop in UK retail sales and subdued flash UK PMIs.
- The coming week brings the first estimates of February inflation from France and Spain, as well as further euro area economic survey results for the current month and the latest UK labour market data.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.697	+0.003
OBL 0 04/26	-0.619	+0.016
DBR 0 02/31	-0.315	+0.033
UKT 1¼ 09/22	-0.030	+0.021
UKT 0% 06/25	0.185	+0.050
UKT 4% 12/30	0.684	+0.064

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

Source: Bloomberg

Euro area

Flash PMIs highlight stark contrast between services and manufacturing

Broadly in line with expectations, the February flash euro area PMIs suggested minimal improvement in overall economic activity in the middle of Q1 as pandemic containment restrictions remained in place. However, the survey flagged a continued significant contrast in fortunes between the ailing services sector and resurgent manufacturers. In particular, being most directly affected by the containment measures, the services sector indices suggested ongoing contraction – the euro area activity PMI for the sector dropped 0.7pt to 44.7, still above November's recent trough but slightly below the Q4 average. The PMI for new business in services (44.8) followed a similar path. In contrast, the euro area manufacturing output PMI more than reversed January's dip, rising almost 3pts to a four-month high of 57.5, suggesting strong growth in the sector. And the new orders (57.8) and new export orders (57.9) PMIs implied decent growth ahead. Overall, however, the composite PMI rose just 0.3pt to 48.1, matching the Q4 average, with the new orders index suggestive of contraction ahead.

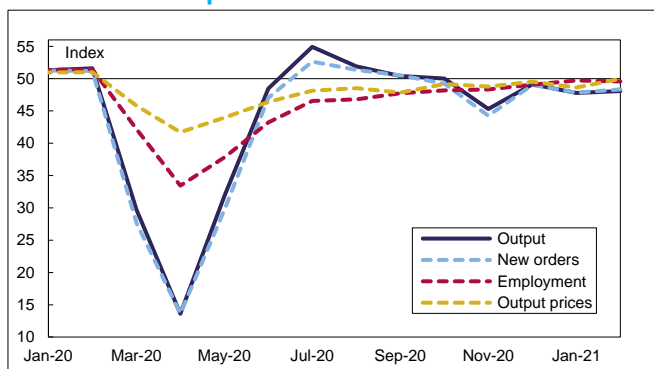
German manufacturers continue to lead the way

At the country level, the picture in Germany and France was similar to that presented by the headline euro area indices, with the former benefiting disproportionately from its manufacturing specialism. Indeed, in both countries the manufacturing output PMI more than reversed January's dips to be consistent with firm growth. But in Germany that index rose more than 3pts to a very strong 62.2, above the average level of the second half of 2020 and consistent with continued strong expansion in the sector. A pickup in growth in new manufacturing export orders was also registered in both countries, with the respective PMI in Germany rising more than 4pts to 62.8, the highest in more than four years. In contrast, services reportedly continued to shrink and at a faster pace in both countries, with France's activity PMI for the sector dropping 3.7pts to a three-month low of 43.6. While that left the French composite PMI down 2.5pts at a clearly contractionary 45.2, Germany's composite PMI edged up 0.5pt from January's seven-month low, remaining in modest expansion territory at 51.3. Contrary to what that suggests, however, we continue to think that the euro area's largest economy is contracting.

The week ahead in the euro area

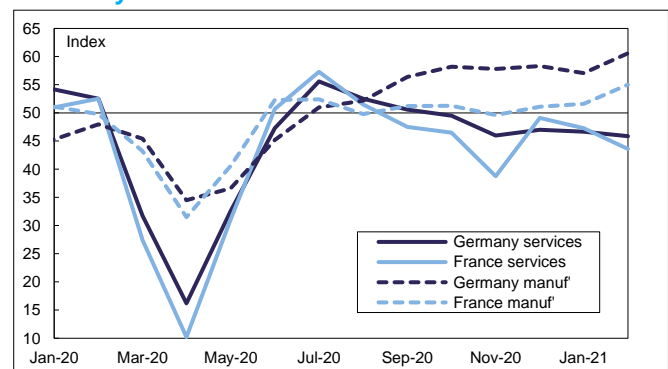
Looking ahead, the economic data calendar in the coming week seems likely to reaffirm the messages of recent data, featuring further sentiment survey results for February, final estimates of inflation in January, and revised estimates of Q4 GDP in certain member states. But the first flash estimates of inflation in February – which will come from France and Spain on Friday – will be closely watched given the steep increases across the euro area in January.

Euro area: Composite PMIs*



*Flash PMIs for February 2021. Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany & France: Selected PMIs*



*Flash PMIs for February 2021. Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

First up, however, comes the German ifo business sentiment survey for February on Monday. Given the extension of Germany's coronavirus containment measures to at least 7 March, this survey is expected to tally with the flash PMIs to suggest no overall improvement in the assessment of current conditions, with the respective index expected to drop slightly from 89.2 in January. Having declined in January to 91.1, the survey index of expectations for the coming six months is expected to pick up slightly, albeit not quite as far as December's level (93.0). Today's very strong manufacturing PMIs, however, might suggest that the risks are skewed to the upside. Meanwhile in France, the INSEE business sentiment survey is expected to suggest broadly stable confidence in February, although today's flash PMIs suggest that the risks there are to be skewed to the downside. If yesterday's flash Commission euro area index (up 0.7pt this month to -14.8) is anything to go by, February consumer sentiment surveys from Germany, France and Italy (to be published on Thursday) will likely suggest a modest improvement in household confidence this month. And the Commission's economic sentiment indices, due the same day, will give the most comprehensive guide to economic conditions this month.

Beyond the surveys, the final euro area inflation figures for January are due on Tuesday with updated Q4 GDP data from Germany and France following on Wednesday and Friday respectively. Euro area bank lending figures for January are due on Thursday. The flash estimate of headline euro area inflation jumped to 0.9%Y/Y in January, from -0.3%Y/Y previously, while the core inflation rate rose a record 1.2ppts to 1.4%Y/Y. Final data from the member states suggest these figures will be confirmed. The leap in inflation in January largely reflects temporary factors, including a reweighting of the price basket to reflect changes to consumption patterns during the pandemic, the reversal of Germany's VAT cut, the introduction of Germany's carbon tax, the timing of France's winter sales, Spain's freak snow storms, and shifts in oil prices.

UK

Retail sales fall by more than expected in January

Tighter pandemic containment measures took a larger toll on UK retail sales than expected last month, with the volume of total sales down 8.2%M/M compared to the Bloomberg survey median expectation of a drop of 3.0%M/M. That left sales down 5.9%Y/Y and 5.5% below the pre-pandemic level in February 2020. And it represented the second sharpest monthly drop on the series, albeit one that was far smaller than the plunge of 18.0%M/M last April during the first wave of Covid-19. Within the detail, all main sub-sectors registered a fall in sales, with the exception of food stores (+1.4%M/M) and non-store retailers (+3.7%M/M, with the proportion spent online up to a record 35.2%). Sales at clothes stores fell by more than one third on the month to the lowest since May and almost 43% below the level before the pandemic last February. But while sales at household goods stores fell by about one fifth they were down 9.9% from the pre-Covid 19 level. The steep drop in January left the level of sales down 9.2% from the Q4 level, illustrating the strong likelihood of a significant fall in private consumption over the current quarter as a whole.

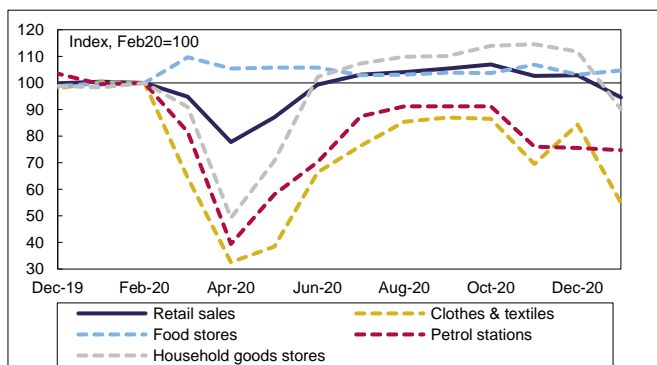
Consumer confidence up to eleven-month high

In contrast to the disappointing retail sales figures, today's survey indicators for February beat expectations. Indeed, judging from the GfK consumer confidence survey, the near-term outlook for private consumption appears much more favourable, with the headline index rising 5pts in February to -23. That represented the highest level in eleven months, albeit being still well below the range for the seven years before the pandemic. The survey indices assessing the climate for making major purchases, expectations for future economic conditions and personal financial situation over the coming twelve months also all rose to the highest since February 2020.

February flash PMIs suggest stabilisation in services

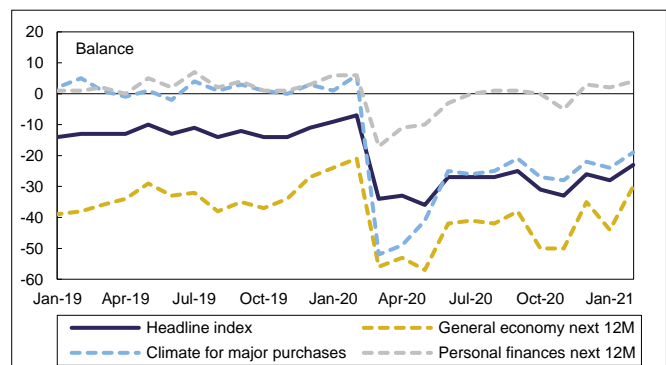
Like the GfK consumer confidence survey, the February flash PMIs also beat expectations to point to a stabilisation of economic activity after a very soft start to the first quarter. The improvement was registered in services, suggesting an

UK: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence



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

improved ability of firms in the sector to cope with pandemic containment measures. In particular, having dropped almost 10pts in January to an eight-month low of 39.5, the services activity PMI rebounded to 49.7. The PMI for new business in services jumped 6pts to a five-month high of 49.1, although the equivalent index for new export business in the sector rose a less impressive 2.4pts to just 43.4, suggesting a continued adverse impact from new barriers to trade with the EU.

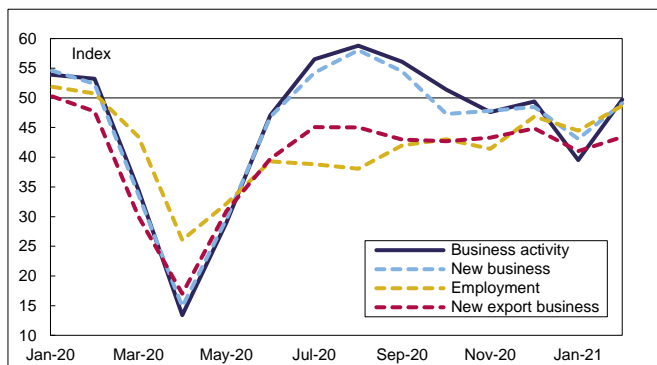
Inertia in manufacturing

Disruption to trade with the EU, as well as continued delays to international freight, continued to hit some manufacturing firms too, with the delivery times PMI dropping further in February to the second-lowest on the series (21.5) to suggest significant supply-chain disruption – a development that counterintuitively added to, and thus significantly flattered, the headline PMI for the sector. Indeed, the manufacturing output PMI edged down to 50.5, the lowest since last May, to suggest that the strong conditions seen in the euro area are not being shared with the UK. And while the new factory orders PMI rose back above 50, the new exports index failed to do so, similarly illustrating the damaging impact of the UK's post-Brexit trading arrangements to many manufacturers. Nevertheless, the stabilisation of conditions in the services sector helped the composite PMI rise more than 8pts in February to 49.8, still down from December but consistent with an economy that was moving broadly sideways in the middle of Q1. Inflation-wise, however, the flash PMIs suggested the strongest input price pressures in more than two years and the firmest rise in output prices in twelve months.

The week ahead in the UK

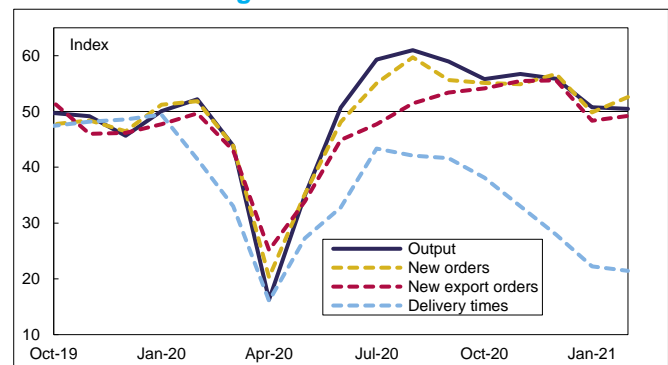
The main data release out of the UK in the coming week will be Tuesday's labour market report, which is likely to show that the number of payrolls weakened at the start of the year due to the re-imposition of nationwide pandemic containment restrictions. The ILO unemployment rate is expected to rise 0.2ppt in the three months to December to 5.2%, which would be the highest level since September 2015. And ongoing job cuts will likely be reflected in a further monthly rise in the claimant count rate, which includes those working on low incomes or hours as well as those who are not working at all, from 7.4% in December. Tuesday's CBI distributive trades survey for February will also be of some interest. With Covid containment restrictions in place and consumer confidence deteriorating, retail sales are expected to have remained weak this month after the sharper-than-expected drop in January.

UK: Services PMIs*


















*Flash PMIs for February 2021. Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing PMIs*




















*Flash PMIs for February 2021. Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

		2020	2021				2022	2020	2021	2022
		Q4	Q1	Q2	Q3	Q4	Q1			
GDP growth, %, Q/Q										
Euro area		-0.7	-0.8	1.4	1.4	1.3	1.1	-6.8	3.4	4.4
Germany		0.1	-1.0	1.2	1.2	1.2	1.0	-5.3	2.3	4.0
France		-1.3	-0.5	1.2	1.4	1.2	1.2	-8.3	5.1	4.5
Italy		-2.0	-0.5	1.5	1.5	1.4	1.2	-8.9	4.0	4.7
Spain		0.4	-1.0	1.5	1.4	1.2	1.2	-11.0	3.9	5.0
UK		1.0	-2.8	3.5	3.0	2.2	1.5	-9.9	4.5	6.9
CPI										
Euro area										
Headline CPI		-0.3	1.0	1.6	1.9	2.2	1.1	0.3	1.7	1.2
Core CPI		0.2	1.3	1.3	1.5	1.7	0.8	0.7	1.5	0.9
UK										
Headline CPI		0.5	0.9	1.9	1.9	2.1	2.1	0.9	1.7	1.7
Core CPI		1.3	1.6	2.1	2.1	1.9	1.7	1.4	1.9	1.5
ECB										
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
PEPP envelope* (€bn)		1850	1850	1850	1850	1850	1850	1850	1850	1850
BoE										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases** (£bn)		895	895	895	895	895	895	895	895	895

*Monthly target €bn, end of period. **Monthly target £bn, end of period. 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	
EMU	 Preliminary manufacturing (services) PMI	Feb	57.7 (44.7)	54.4 (45.9)	54.8 (45.4)	-	
	 Preliminary composite PMI	Feb	48.1	48.0	47.8	-	
Germany	 PPI Y/Y%	Jan	0.9	0.3	0.2	-	
	 Preliminary manufacturing (services) PMI	Feb	60.6 (45.9)	56.5 (46.5)	57.1 (46.7)	-	
	 Preliminary composite PMI	Feb	51.3	50.5	50.8	-	
France	 Final CPI (EU-harmonised CPI) Y/Y%	Jan	0.6 (0.8)	0.6 (0.8)	0.0 (0.0)	-	
	 Preliminary manufacturing (services) PMI	Feb	55.0 (43.6)	51.3 (47.0)	51.6 (47.3)	-	
	 Preliminary composite PMI	Feb	45.2	48.4	47.7	-	
Italy	 Final CPI (EU-harmonised CPI) Y/Y%	Jan	0.4 (0.7)	0.2 (0.5)	-0.2 (-0.3)	-	
Spain	 Trade balance €bn	Dec	-1.1	-	-0.6	-	
UK	 GfK consumer confidence	Feb	-23	-26	-28	-	
	 Retail sales including fuel M/M% (Y/Y%)	Jan	-8.2 (-5.9)	-3.0 (-0.8)	0.3 (2.9)	0.4 (3.1)	
	 Retail sales excluding fuel M/M% (Y/Y%)	Jan	-8.8 (-3.8)	-2.1 (2.7)	0.4 (6.4)	-(6.7)	
	 Public sector net borrowing £bn	Jan	8.0	22.0	33.4	26.1	
	 Preliminary manufacturing (services) PMI	Feb	54.9 (49.7)	53.0 (42.0)	54.1 (39.5)	-	
	 Preliminary composite PMI	Feb	49.8	43.0	41.2	-	
	 CBI industrial trends survey, total orders	Feb	-24	-32	-38	-	
Auctions							
Country	Auction	- Nothing to report -					











Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 European Commission's preliminary consumer confidence	Feb	-14.8	-15.0	-15.5	-






Auctions

Country	Auction
France	 sold €4.34bn of 0% 2024 bonds at an average yield of -0.6%
	 sold €2.66bn of 0% 2026 bonds at an average yield of -0.5%
	 sold €3.04bn of 0.5% 2029 bonds at an average yield of -0.25%
	 sold €883mn of 0.1% 2026 index-linked bonds at an average yield of -1.51%
	 sold €275mn of 0.1% 2036 index-linked bonds at an average yield of -0.98%
	 sold €498mn of 0.1% 2047 index-linked bonds at an average yield of -0.88%
Spain	 sold €2.035bn of 0% 2024 bonds at an average yield of -0.41%
	 sold €1.11bn of 0.8% 2027 bonds at an average yield of -0.121%
	 sold €1.5bn of 0.1% 2031 bonds at an average yield of 0.271%
	 sold €465.9mn of 4.9% 2040 bonds at an average yield of 0.752%



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
EMU	 EU27 new car registrations Y/Y%	Jan	-24.0	-	-3.3	-
	 Construction output M/M% (Y/Y%)	Dec	-3.7 (-2.3)	-	1.4 (-1.3)	2.3 (-0.6)
UK	 CPI (core CPI) Y/Y%	Jan	0.7 (1.4)	0.6 (1.3)	0.6 (1.4)	-
	 PPI input prices (output prices) Y/Y%	Jan	1.3 (-0.2)	0.6 (-0.4)	0.2 (-0.4)	0.6 (-0.5)
	 Land Registry house price index Y/Y%	Dec	8.5	7.5	7.6	7.1







Auctions

Country	Auction
Germany	 sold €1.23bn of 1.25% 2048 bonds at an average yield of 0.1%
UK	 sold £2.5bn of 0.625% 2035 bonds at an average yield of 0.969%



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
EMU	 Preliminary GDP Q/Q% (Y/Y%)	Q4	-0.6 (-5.0)	-0.7 (-5.1)	12.5 (-4.3)	-
	 Preliminary employment Q/Q% (Y/Y%)	Q4	0.3 (-2.0)	-	1.0 (-2.3)	-
Germany	 ZEW current assessment balance (expectations)	Feb	-67.2 (71.2)	-66.3 (60.0)	-66.4 (61.8)	-
France	 ILO unemployment rate (mainland unemployment rate) %	Q4	8.0 (7.7)	9.1 (8.9)	9.0 (8.8)	9.1 (8.9)
	 Bank of France retail sales Y/Y%	Jan	-0.8	-	15.4	16.2
Italy	 Total trade balance €bn	Dec	6.8	-	6.8	-





























Auctions

Country	Auction
UK	 sold £3.25bn of 0.125% 2024 bonds at an average yield of 0.073%
	 sold £1.25bn of 1.75% 2057 bonds at an average yield of 1.132%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.










Coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 22 February 2021					
Germany		09.00 IFO current assessment balance (expectations)	Feb	89.0 (91.6)	89.2 (91.1)
		09.00 IFO business climate	Feb	90.4	90.1
Tuesday 23 February 2021					
EMU		10.00 Final CPI (core CPI) Y/Y%	Jan	0.9 (1.4)	-0.3 (0.2)
Italy		09.00 Industrial orders M/M% (Y/Y%)	Dec	-	-1.3 (5.3)
		09.00 Industrial sales M/M% (Y/Y%)	Dec	-	-2.0 (-4.6)
UK		07.00 Unemployment claimant count rate % (change '000s)	Jan	-	7.4 (7.0)
		07.00 Average earnings including bonuses (excluding bonuses) 3M/Y%	Dec	4.1 (4.0)	3.6 (3.6)
		07.00 ILO unemployment rate 3M%	Dec	5.1	5.0
		07.00 Employment change '000s, 3M/3M	Dec	-35	-88
		07.00 Preliminary output per hour Y/Y%	Q4	-	4.0
		11.00 CBI distributive trades survey, reported sales	Feb	-	-44
Wednesday 24 February 2021					
Germany		07.00 Final GDP Q/Q% (Y/Y%)	Q4	0.1 (-3.9)	8.5 (-4.0)
France		07.45 Business confidence	Feb	92	92
		07.45 Manufacturing confidence (production outlook)	Feb	99 (-8)	98 (-9)
Thursday 25 February 2021					
EMU		09.00 M3 money supply Y/Y%	Jan	12.5	12.3
		10.00 Final European Commission's consumer confidence	Feb	-14.8	-15.5
		10.00 European Commission's industrial confidence (services)	Feb	-5.3 (-17.4)	-5.9 (-17.8)
		10.00 European Commission's economic confidence	Feb	92.0	91.5
Germany		07.00 GfK consumer confidence	Feb	-14.0	-15.6
France		07.45 INSEE consumer confidence	Feb	92	92
Italy		09.00 ISTAT consumer (manufacturing) confidence	Feb	101.0 (96.0)	100.7 (95.1)
Spain		08.00 PPI Y/Y%	Jan	-	-1.4
Friday 26 February 2021					
France		07.45 Consumer spending M/M% (Y/Y%)	Jan	-3.4 (1.3)	23.0 (3.7)
		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Feb	-	0.6 (0.8)
		07.45 Final GDP Q/Q% (Y/Y%)	Q4	-1.3 (-5.0)	18.5 (-3.9)
		07.45 PPI Y/Y%	Jan	-	-1.2
Spain		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Feb	0.5 (0.6)	0.5 (0.4)
UK		00.01 Lloyd's business barometer	Feb	-	-7

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 22 February 2021		
EMU 	13.45	ECB President Lagarde scheduled to speak on "Investing in our climate, social and economic resilience"
Tuesday 23 February 2021		
Italy 	10.00	Auction: €2.5bn of 0% 2022 bonds
	10.00	Auction: index-linked bonds
UK 	10.00	Auction: £2bn of 0.625% 2050 bonds
Wednesday 24 February 2021		
Germany 	10.30	Auction: €4bn of 0% 2031 bonds
UK 	12.00	BoE Chief Economist Haldane scheduled to speak
Thursday 25 February 2021		
EMU 	10.45	ECB Chief Economist Lane scheduled to speak
	14.00	ECB's de Guindos scheduled to speak
Italy 	10.00	Auction: 5Y and 10Y bonds
Friday 26 February 2021		
EMU 	08.30	ECB's Schnabel scheduled to speak
UK 	10.00	BoE Chief Economist Haldane scheduled to speak on the inflation outlook
	-	BoE Deputy Governor Ramsden scheduled to speak
Global	-	G20 finance ministers and central banks governors virtual meeting

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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