

Euro wrap-up

Overview

- Following overnight moves in USTs, Bunds made losses while German consumer confidence was broadly stable.
- Gilts also made losses despite downbeat surveys of UK retail sales and business turnover.
- Friday will bring the first estimates of Q4 GDP in Germany, France and Spain as well as the Commission's economic sentiment indices for January.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/23	-0.631	+0.027
OBL 0 10/26	-0.324	+0.036
DBR 0 02/32	-0.061	+0.018
UKT 0 ¹ / ₈ 01/24	0.954	+0.048
UKT 0 ³ / ₈ 10/26	1.065	+0.048
UKT 0 ¹ / ₂ 07/31	1.230	+0.035

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

Euro area

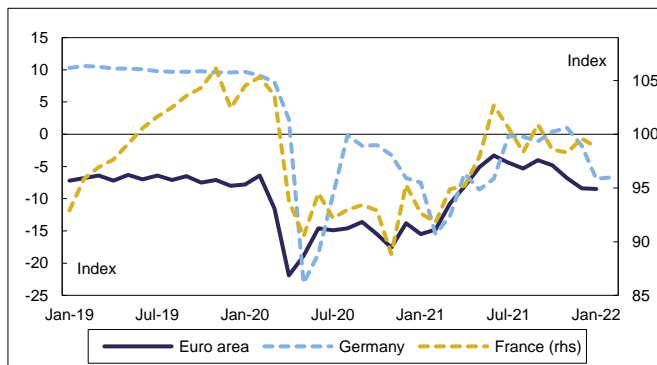
German consumer confidence stabilises at the start of the year

After last week's flash estimate of euro area consumer confidence suggested only a very modest deterioration in January, albeit to a ten-month low, further colour was provided by the detailed surveys from Germany and France. Like the euro area indicator, both of these surveys indicated resilience to the latest wave of coronavirus. Indeed, today's German GfK survey reported a modest increase in its headline sentiment indicator, presented as a forecast for February. The rise of just 0.2pt from the prior month's seven-month low to -6.7, nevertheless left the index at a level that was still above all but one reading in the first half of last year. So, while it failed to mark a significant improvement, it tallied with this month's firmer business survey indicators – including the flash PMIs and ifo indices – to suggest a stabilisation in conditions in the euro area's largest member state at the start of the year. Indeed, having fallen sharply in December to the lowest level since April, the index of consumer expectations about the economic outlook rose for the first month in three in January, albeit leaving it at the second-lowest level since April. Household income expectations were somewhat more positive too, with the respective index similarly rising for the first time since September. And so, consumers' willingness to buy also reportedly improved having plunged to an eleven-month low in December. Admittedly, this was still the second-lowest reading in a year, and remained well below the 2021 average. And with households still concerned about near-term inflation – with the price expectations index rising to its highest since 2008 – and the number of new coronavirus cases still on the rise, we expect only a moderate recovery in consumer spending from weakness at end-2021 rather than a sudden rebound over the near term.

French consumer sentiment softens slightly amid increased reluctance to spend

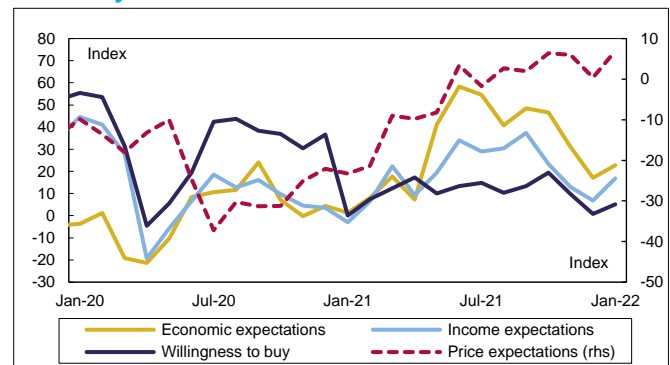
Amid the ongoing wave of coronavirus, and with surveys and high-frequency data suggesting a hit to demand for consumer-facing services, yesterday's INSEE survey unsurprisingly reported a moderation in consumer confidence. But the headline sentiment indicator fell just 1pt in January to 99, only a touch below the long-run average, which left it just 4pts below the summer peak and still 10pts higher than the pandemic trough. Consumers were less upbeat about the economic outlook over the coming twelve months, for which optimism fell to a five-month low. But concerns about unemployment remained stable. And consumers were somewhat more upbeat about their financial situation. Nevertheless, perhaps reflecting higher inflation as well as the intensification of the pandemic, the share of households considering it to be an appropriate time to make major purchases fell to a fourteen-month low, back below its long-run average. While this also remains considerably higher than the pandemic trough, it suggests that French consumer spending remained subdued at the start of the year.

Euro area: Consumer confidence



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Consumer confidence



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

The day ahead in the euro area

Ahead of the forthcoming ECB meeting on 3 February, tomorrow brings several top-tier data releases, including the first estimates of Q4 GDP from the large member states and the Commission's January economic sentiment indices. With a new wave of coronavirus underway in the final months of 2021 prompting tighter restrictions in various member states, and persisting supply bottlenecks limiting production, GDP growth seems bound to have slowed sharply. Among the larger member states, this will be most pronounced in Germany, where we expect output to have contracted by about ½%Q/Q. Surveys suggest France (and Italy, whose data come next week) fared better, with growth of roughly ½%Q/Q or more. And given the recent strength in retail sales and industrial output, Spanish GDP is forecast to have expanded by more than 1%Q/Q.

Meanwhile the Commission's detailed survey results are expected to align with Monday's [preliminary PMIs](#) and suggest a weakening in services activity at the start of the year. The headline services index is expected to fall to a nine-month low of 9.6. But reflecting a modest easing in supply constraints, expectations are for a modest improvement in manufacturing conditions, with the respective index edging up to a series-high of 15.0. The survey's various inflation expectations indices will also be watched for hints of an easing of supply-side pressures. Tomorrow also brings the release of the euro area's latest bank lending numbers and French consumer spending and producer price figures for December.

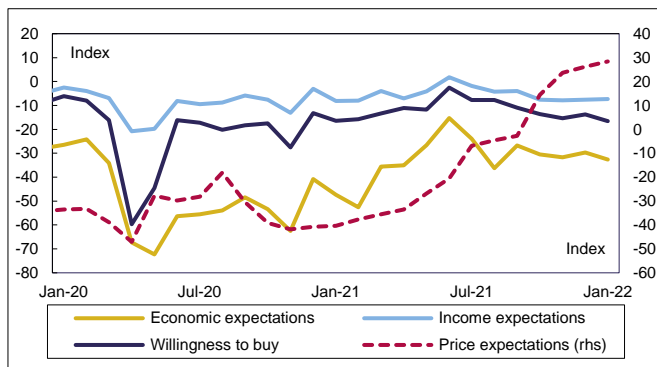
In terms of politics, Friday will bring a fifth round of voting in the Italian Presidential election. After the first three votes proved inconsequential, today's fourth round – in which a mere simple majority of votes was required to gain the Presidency – similarly failed as the main parties chose not to back any candidate. Given the lack of traction for him so far, expectations are now that Mario Draghi will remain as Prime Minister rather than become President, an outcome with which BTP investors might take some comfort. But so far, the identity of an alternative mutually acceptable compromise for the Presidency remains elusive.

UK

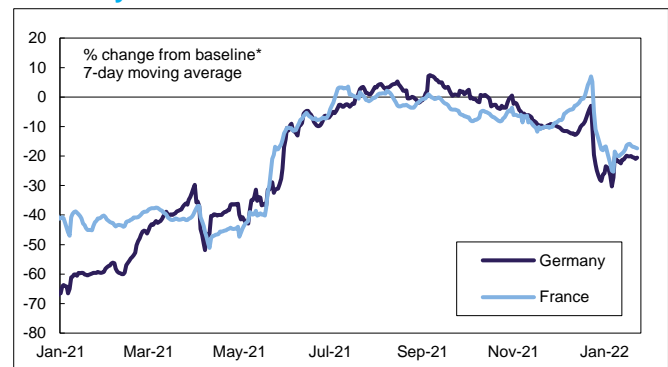
CBI survey flags disappointing start to 2022 for retailers

Last week's official [retail sales](#) data for December were much weaker than expected, reporting the biggest drop in sales in eleven months to a nine-month low. At first glance, today's CBI distributive sales survey might have looked more positive, as

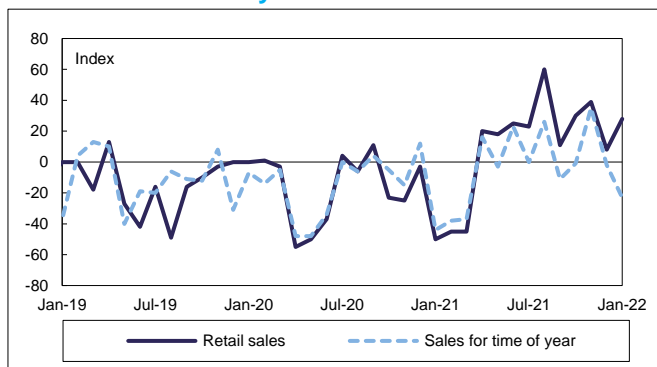
France: Consumer confidence



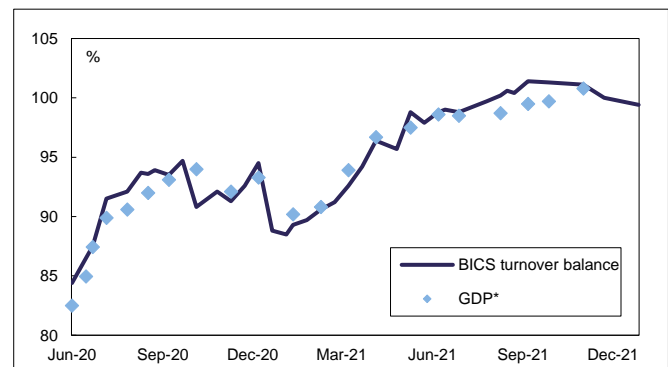
Germany & France: Travel to recreation & retail



UK: CBI retail survey indices



UK: BICS turnover balance and GDP



it beat expectations with the headline growth rate of reported sales up 20ppts to 28%Y/Y. But that figure was flattered by the very weak base from a year ago when non-essential stores were required to close. More importantly, retailers judged that sales in January were the worst for the time of year in ten months, with the respective indicator dropping more than 20ppts to -23%. And while the latest wave of pandemic might provide one explanation, internet sales were judged to be broadly flat for a second successive month. In addition, sales were expected by retailers to remain inferior to seasonal norms next month, albeit to a slightly lesser extent (-17%). Moreover, growth in orders placed with suppliers moderated significantly (down almost 40ppts to +17%). More positively, wholesalers and motor traders judged sales to be good for the time of year and expected that to remain the case in February. Nevertheless, with real disposable incomes under pressure and consumer confidence having weakened, retail sales in the current quarter seem likely to remain subdued, and are at risk of negative growth for a third successive quarter.

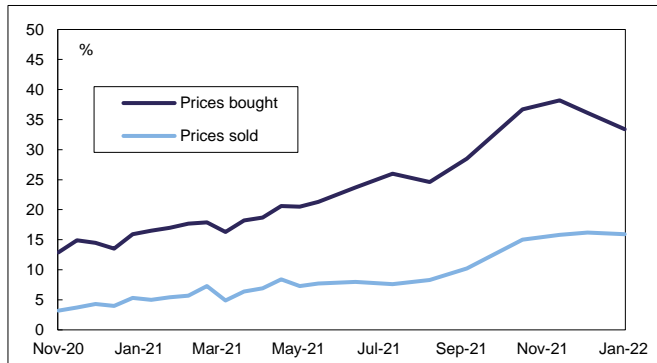
BICS survey highlights ongoing supply restraints on growth

Today's disappointing retail sales survey tallied with the subdued picture of wider economic activity presented by the ONS's latest Business Insights and Conditions Survey (BICS). Most notably, the BICS measure of weighted and standardised net turnover – which typically acts as a good guide to monthly GDP – declined again in early January to be 1.7% below the late November level. While soft demand was one factor acting as a brake on activity, supply-side factors were also still damaging. 13% of all businesses reported worker shortages, with hospitality worst affected (28%). Almost 4% of all firms were unable to source the materials, goods and services required, with a further 11.4% of firms having to change suppliers or find alternative solutions. And more than one third of firms in accommodation and food service activities reported procurement difficulties. More happily perhaps, there was a slight drop in the share of firms reporting a greater-than-normal increase in prices sold in the month to 23 January, down 0.3ppt to 15.9%. And there was a larger and second successive monthly fall in the share of firms reporting a greater-than-normal increase in prices paid in the month to 23 January, down 2.7ppt to 33.4%, almost 5ppts down from November and the lowest since September.

The day ahead in the UK

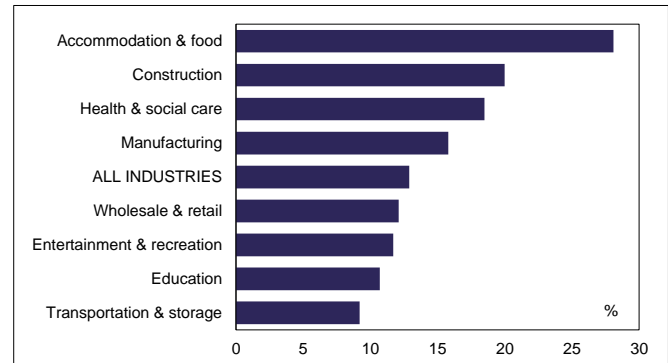
It is set to be a quiet end to the week on the UK economic data front, with no key releases scheduled tomorrow. The focus therefore will remain on politics, as Prime Minister Johnson clings to power ahead of the publication of the highly anticipated report by senior civil servant Sue Gray into his 'party-gate' scandal, into which the Metropolitan Police is also now conducting an inquiry. Reports today suggested that the Gray report was unlikely to be published before Monday, although in truth it could well come any time either before or beyond that day. Regardless, once it is published we would strongly expect Johnson to face a vote of no confidence from his MPs, the outcome of which might be determined by the report's findings.

UK: BICS: Share of firms reporting higher prices*



*Higher prices compared with the normal price fluctuations for the time of year.
 Source: ONS Business Insights and Conditions Survey and Daiwa Capital Markets Europe Ltd.

UK: BICS: Share of firms reporting worker shortages



Source: ONS Business Insights and Conditions Survey and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	GfK consumer confidence	Feb	-6.7	-8.0	-6.8	-6.9
Italy	Industrial sales M/M% (Y/Y%)	Nov	2.4 (22.2)	-	2.8 (16.9)	2.9 (17.0)
Spain	Unemployment rate %	Q4	13.3	14.2	14.6	-
UK	CBI distributive sales, reported retail sales	Jan	28	10	8	-

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterdays results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France	INSEE consumer confidence	Jan	99	99	100	-
	Total jobseekers '000s	Q4	3102	-	3307	-

Auctions

Country	Auction
Germany	sold €3.4bn of 0% 2032 bonds at an average yield of -0.08%
Italy	sold €3.75bn of 0% 2023 bonds at an average yield of -0.13%
	sold €591mn of 0.65% 2026 inflation-linked bonds at an average yield of -1.18%
	sold €409mn of 2.55% 2041 inflation-linked bonds at an average yield of 0.04%
UK	sold £600mn of 0.125% 2051 inflation-linked bonds at an average yield of -2.191%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	09.00	M3 money supply Y/Y%	Dec	6.8	7.3
	10.00	Commission's Economic Sentiment Indicator	Jan	114.5	115.3
	10.00	Commission's industrial (services) confidence	Jan	15.0 (9.6)	14.9 (11.2)
	10.00	Commission's final consumer confidence	Jan	-8.5	-8.3
Germany	09.00	Preliminary GDP Q/Q% (Y/Y%)	Q4	<u>-0.5 (1.3)</u>	1.7 (2.6)
France	06.30	Preliminary GDP Q/Q% (Y/Y%)	Q4	<u>0.6 (4.9)</u>	3.0 (3.3)
	06.30	Consumer spending M/M% (Y/Y%)	Dec	0.0 (-5.2)	0.8 (14.8)
	07.45	PPI Y/Y%	Dec	-	17.4
Italy	09.00	ISTAT consumer (manufacturing) confidence	Jan	116.5 (115.0)	117.7 (115.2)
	09.00	ISTAT economic sentiment	Jan	-	113.1
	10.00	PPI Y/Y%	Dec	-	27.1
Spain	08.00	Preliminary GDP Q/Q% (Y/Y%)	Q4	<u>1.2 (4.4)</u>	2.6 (3.4)

Auctions and events

Italy	10.00	Auction: €3bn of 0% 2026 bonds
	10.00	Auction: €3.5bn of 0.95% 2032 bonds
	10.00	Auction: €1.5bn of 0.126% 2029 floating rate bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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