

Euro wrap-up

Overview

- Bunds made further losses today as flash February inflation estimates from France and Spain exceeded expectations.
- Gilts followed the global trend lower as comments from BoE external member Catherine Mann maintained her typically hawkish tone.
- Wednesday will bring flash inflation figures from Germany, while UK house price, mortgage approvals and lending figures are also due.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	3.119	+0.072
OBL 2.2 04/28	2.731	+0.077
DBR 2.3 02/33	2.653	+0.079
UKT 0% 06/25	3.695	+0.029
UKT 1% 10/28	3.711	+0.021
UKT 3¼ 01/33	3.833	+0.029

*Change from close as at 4:00pm GMT.
Source: Bloomberg

Euro area

French inflation boosted by food and services inflation

Ahead of Thursday's flash euro area inflation release, today's estimates from two of the larger member states – France and Spain – highlighted the upside skew of risks surrounding the anticipated drop in the euro area's headline HICP rate. Admittedly, French inflation was forecast to rise for the second successive month, although the above-average monthly increase of prices of 1.0%/M/M saw the annual harmonised rate rise a firmer-than-expected 0.2ppt to 7.2%Y/Y, a fresh series high. The national CPI measure also rose 0.2ppt to 6.2%Y/Y, matching the near-37-year high recorded in October and November last year. INSEE reported that the acceleration in inflation occurred in spite of a further moderation in the energy component, as higher regulated electricity tariffs were more than offset by lower petrol prices. Indeed, food price inflation accelerated to a new high in February (14.5%Y/Y), while services inflation rose 0.3ppt to 2.9%Y/Y, reversing the drop in January as transport services costs rebounded. Core goods inflation also edged up with the end of winter discounting. As such, today's figures implied a slight pickup in French core inflation in February.

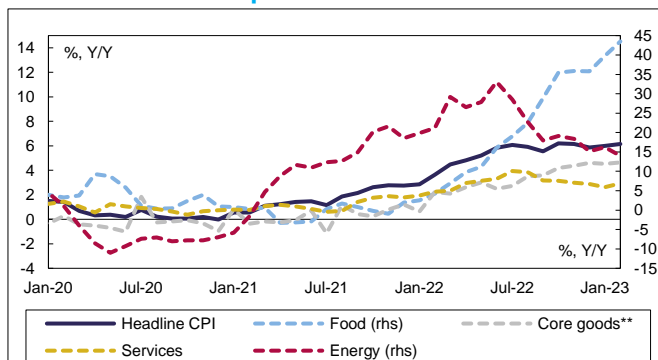
Underlying Iberian price pressures remain sticky

Spanish inflation similarly exceeded expectations in February, with both the national and harmonised CPI rates increasing 0.2ppt to 6.1%Y/Y. Spain's statistical office noted that this in part reflected higher electricity and food prices, which offset a sizeable drop in petrol and transport services costs. Meanwhile, Portugal's HICP rate moved sideways in February, contrasting with a modest easing in the national inflation rate, by 0.2ppt to 8.2%Y/Y, amid a further notable drop in energy inflation. But the national core CPI rates (excluding fresh food and energy) in Spain and Portugal continued to trend higher to 7.7%Y/Y and 7.2%Y/Y respectively. And while this is likely attributable in part to higher prices of processed food, which is excluded from Eurostat's harmonised core measure, today's figures support expectations that the euro area's core HICP rate remained close to January's record high of 5.3%Y/Y. Of course, in terms of aggregate headline inflation, much will depend on estimates from Germany (tomorrow) and Italy (Thursday), both of which are forecast to have fallen in February. National figures for February from certain other smaller member states, including Belgium and Slovenia, have already registered sharp declines.

French goods consumption recovers at the start of the year

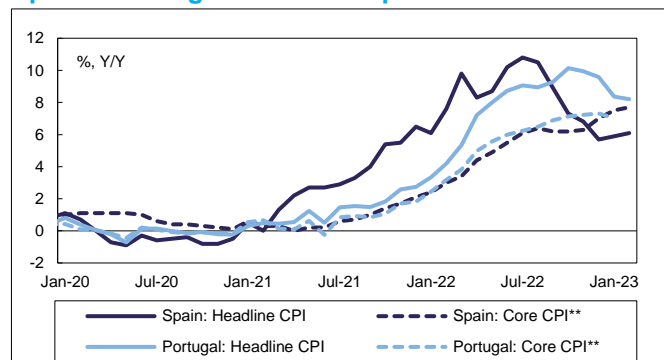
While revised French national accounts saw GDP growth confirmed at 0.1%Q/Q in Q4, the contraction in household consumption was larger than previously calculated at -1.2%Q/Q. Today's monthly expenditure numbers did at least suggest a modest recovery at the start of this year, with spending on goods rising 1.5%/M/M, boosted not least by a sharp rebound in

France: Consumer price inflation*



*National measure. **Non-energy industrial goods. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Spain & Portugal: Consumer price inflation*



*National measure. **Core inflation excludes fresh food and energy. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

energy consumption amid increased energy support for lower-income households. Spending on durable goods also rose, driven by purchases of new cars and mobile phones. Like last week's BoF retail survey, today's figures suggest that French consumption of goods was roughly 1% above the Q4 average, suggesting that even in the absence of significant further growth over coming quarters amid still depressed consumer confidence, private consumption should still provide a boost to GDP growth in the current quarter.

The day ahead in the euro area

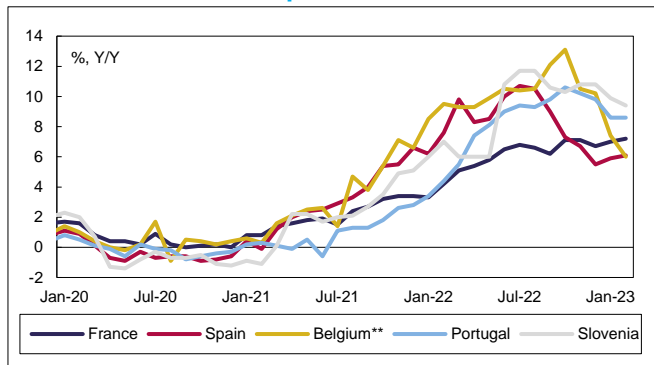
The data highlight in the euro area tomorrow will be the flash inflation figures from the largest member state. Contrasting with today's increase, German harmonised inflation is forecast to have moderated for the fourth successive month, by 0.2ppt in February, to 9.0%Y/Y, while the national CPI rate is expected to have resumed a downwards trend following the jump in January. Germany will also publish its latest labour market figures, which are expected to report a third successive drop in the clamant count in February to be consistent with ongoing tightness in the labour market. Also due for release tomorrow are the final manufacturing PMIs for February, which are expected to align with the flash estimates that recorded the first non-contractory reading in the output component for nine months, rising by 1.5pts to 50.4.

UK

The day ahead in the UK

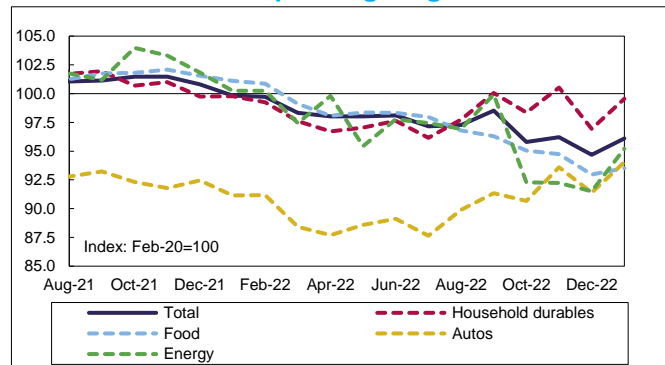
After another relatively quiet day for UK economic releases, tomorrow will bring updates on housing market activity. In particular, the Nationwide house price index is expected to show that prices fell in February for the fifth consecutive month to be below the level a year earlier. Given higher borrowing costs, the BoE's bank lending numbers for January are likely to report that the number of mortgage approvals moderated for the fifth successive month, from December's 2½-year low of 35.6k, while mortgage lending is also likely to have fallen back. Separately, the BRC's measure of shop price inflation is expected to remain close to January's record high of 8%Y/Y, as retailers continue to pass on higher costs from producer prices, energy bills and rising wages. But with wholesale energy and commodity prices having fallen further, the final manufacturing PMI survey is likely again to suggest a further easing in manufacturing input costs, as well as an easing in the pace of increase in output prices. This survey is also expected to confirm the signal that production made an unexpected return to growth in February, with the respective flash PMI up more than 4½pts to a ten-month high of 51.6.

Euro area: Consumer price inflation*



*HICP measure. **February 2023 figure based on national measure.
 Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: Household spending on goods



Source: Refinitiv 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	Import price index Y/Y%	Jan	6.6	5.8	12.6	-
France	Preliminary HICP (CPI) Y/Y%	Feb	7.2 (6.2)	7.0 (6.1)	7.0 (6.0)	-
	PPI Y/Y%	Jan	17.9	-	20.7	20.5
	Consumer goods spending M/M% (Y/Y%)	Jan	1.5 (-3.7)	0.4 (-4.6)	-1.3 (-5.6)	-1.6 (-6.1)
	Final GDP Q/Q% (Y/Y%)	Q4	0.1 (0.5)	<u>0.1 (0.5)</u>	0.2 (1.0)	
Spain	Preliminary HICP (CPI) Y/Y%	Feb	6.1 (6.1)	5.3 (5.7)	5.9 (5.9)	-
UK	Lloyds business barometer	Feb	21	-	22	-

Auctions

Country	Auction
Germany	sold €4.9bn of 2.5% 2025 bonds at an average yield of 3.14%

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	Final manufacturing PMI	Feb	<u>48.5</u>	48.8
Germany	08.55	Final manufacturing PMI	Feb	<u>46.5</u>	47.3
	08.55	Unemployment rate % (change 000s)	Feb	5.5 (-10.0)	5.5 (-22)
	13.00	Preliminary HICP (CPI) Y/Y%	Feb	9.0 (8.6)	9.2 (8.7)
France	08.50	Final manufacturing PMI	Feb	<u>47.9</u>	50.5
Italy	08.45	Manufacturing PMI	Feb	50.6	50.4
Spain	08.15	Manufacturing PMI	Feb	48.8	48.4
UK	00.01	BRC shop price index Y/Y%	Feb	-	8.0
	07.00	Nationwide house price index M/M% (Y/Y%)	Feb	-0.6 (-1.0)	-0.6 (1.1)
	09.30	Final manufacturing PMI	Feb	<u>49.2</u>	47.0
	09.30	Consumer credit £bn (Y/Y%)	Jan	0.7 (-)	0.5 (7.2)
	09.30	Mortgage lending £bn (approvals 000s)	Jan	2.9 (35.0)	3.2 (35.6)

Auctions and events

Euro area	15.00	ECB's Visco scheduled to speak on "monetary policy and the return of inflation"
UK	10.00	BoE Governor Bailey scheduled to speak at a conference on the cost of living crisis

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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