

Euro wrap-up

Overview

- Bunds were little changed as the February flash PMIs were consistent with slight moderation in euro area GDP growth in Q1 compared to Q4.
- Despite a big upside surprise to the latest UK flash PMIs and retail sales data, Gilds made gains at the longer end of the curve as the public sector registered a record budget surplus in January.
- The coming week will bring flash estimates of inflation in February from Germany and France as well as further euro area economic survey results for this month and the expenditure breakdown of GDP in Q4.

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Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.049	+0.004
OBL 2 1/2 04/31	2.334	+0.001
DBR 2.9 02/36	2.736	-0.005
UKT 3 3/4 03/27	3.561	+0.004
UKT 4% 03/30	3.775	-0.008
UKT 4 1/2 03/35	4.349	-0.019

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

Source: Bloomberg

Euro area

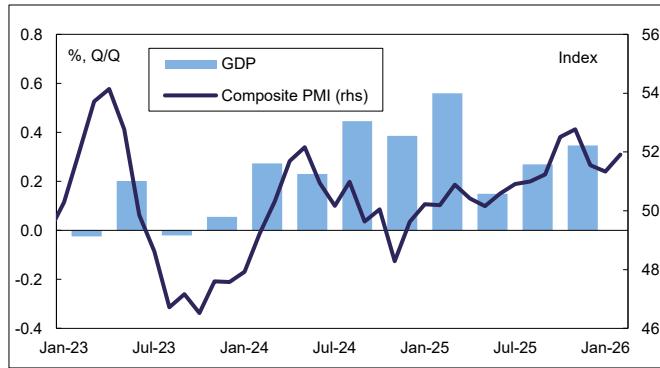
Flash PMIs consistent with slight moderation in euro area GDP growth in Q1

After a slightly softer start to the year, the flash euro area PMIs pointed to a modest pickup in economic growth in February. The headline composite activity index rose 0.6pt to a three-month high of 51.9. That, however, left the average for the first two months of Q1 some 0.7pt below the Q4 average. So, the survey reaffirms our forecast of a slight moderation in euro area GDP growth this quarter, by 0.1ppt to 0.2%Q/Q. Nevertheless, the detail was broadly satisfactory. The services activity PMI (51.8) edged up on the month to be consistent with continued moderate growth. And the manufacturing output PMI jumped a chunky 1.6pts to a six-month high (52.1, the second best in four years) to add to evidence of gradual industrial sector recovery. Indeed, the survey also flagged the firmest growth in new factory orders since mid-2022. The country breakdown was broadly encouraging too. The German composite activity PMI rose 1pt to a four-month high of 53.1, the second-best reading in more than 2½ years to leave the average for the first two months of Q1 slightly above that in Q4. That signalled the likelihood of a second-successive quarter of expansion in the euro area's largest member state in Q1, with the sectoral indices suggestive of further improvement in services and manufacturing alike. Elsewhere, the headline index for the euro area excluding Germany and France edged down just 0.2pt to 52.1, the lowest since June but still above the long-run average. So, despite evidence of a softening of momentum in Spain around the turn of the year, growth in Southern Europe likely remains broadly firm despite some inclement winter weather. Once again, the flash PMIs suggested that underlying growth is weakest in France. But we repeat that other survey indicators, such as the INSEE indices, have provided a more reliable guide to recent French economic growth. And anyway, an increase of 0.8pt in the flash French composite PMI to 49.9 left it trending slightly above the average in Q4 when French GDP rose 0.2%Q/Q.

Job growth continues to slow in services where price pressures are also reportedly moderating

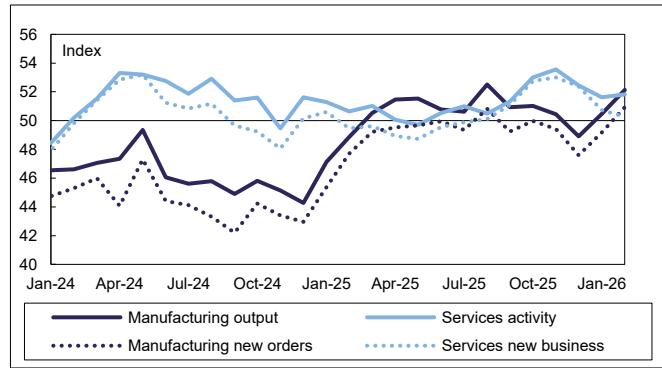
With greater evidence of a turn for the better in manufacturing, the employment PMIs suggested that firms in the sector are becoming less inclined to cut headcount. But at the same time, the survey also suggested that labour demand from services businesses has slowed to a halt or thereabouts for the first time in five years. That might reflect continued cost pressures, in part due to wage growth. But while input costs in aggregate reportedly picked up in February to match the strongest rise in almost three years, that acceleration was registered in the factory sector. In contrast, while the pace of increase in costs in services was still reportedly elevated, it moderated a touch from January. Moreover, according to the respective flash PMIs, firms hiked their selling prices at a slightly softer pace this month, albeit at the second-fastest rate of the past year. Tallying with the picture on costs, a softening of services inflation – sought by the ECB – contrasted a slight pickup in selling price inflation from a low level in the factory sector. Overall, therefore, the flash PMIs likely offered little news in terms of growth, jobs or prices to persuade the Governing Council that it suddenly needs to reconsider its current monetary stance.

Euro area: GDP growth & composite PMI



Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing & services PMIs



Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

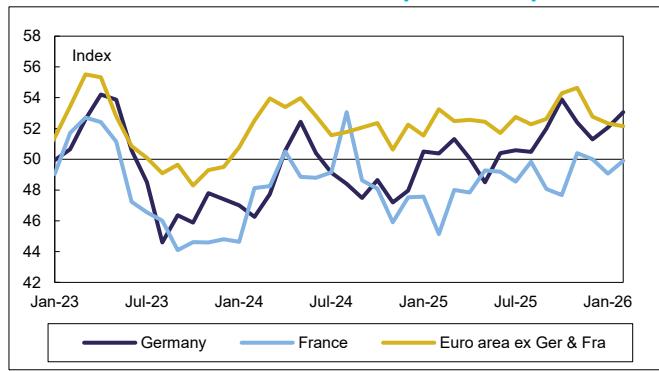
The week ahead in the euro area

Inflation data will be one focus of the coming week's euro area dataflow, starting with January's final euro area inflation print (Wednesday). The flash estimates, which showed a 0.3ppts drop in headline inflation to 1.7%Y/Y, were softer than expected. Core inflation was also nudged down to 2.2%Y/Y, its weakest since October 2021. Notwithstanding the final estimates out of Italy (due Monday), we don't expect any change to those headline figures. The detail should attribute most of the softness to a larger drag from energy inflation tied to base effects from a steeper rise in electricity and fuel prices a year earlier. Core goods prices remained subdued, likely thanks to weakness in clothing and cheaper imports. And the available granularity from the member states implies that disinflation in services was probably more broad-based too. But February's flash estimates from Germany, France and Spain (Friday) will be of greater interest. Little change to headline rates in Germany and Spain is expected. But, in France, payback for softness in January's core goods numbers and a smaller decline in regulated electricity prices compared to last February will push headline inflation back closer to 1%Y/Y from the five-year low of 0.4%Y/Y in January. German import prices and French PPI data for January, also due Friday, will provide an update on input costs at the start of the year. Today's German PPI release suggested that pipeline pressures remained broadly absent. And considering the broader softness in January's HICP readings, the ECB might also hope to see a corresponding moderation in consumers' inflation expectations (also due Friday).

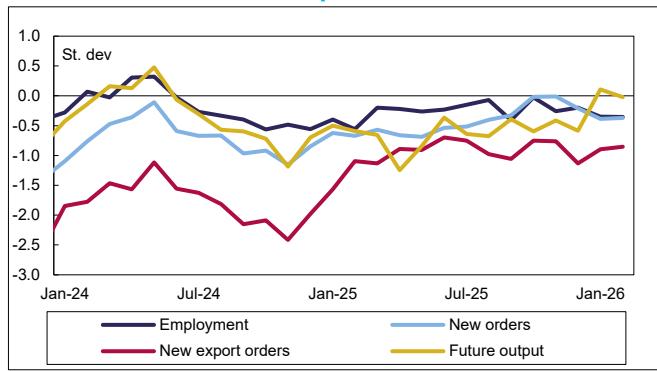
Otherwise, the week ahead will continue to bring a steady flow of February business surveys. As ever, the Commission's Economic Sentiment Indices (Thursday) will provide a cross-check on the flash PMIs. Germany's ifo survey (Monday) will also be watched for signs of a pickup in production, while the INSEE survey (Tuesday) might provide a more reliable guide to French activity. National consumer confidence surveys (Wednesday) will also provide some context ahead of the Commission's final euro area reading (Thursday). After a marked improvement in January, a further modest pickup in Germany might have led the uptick signalled by the [flash euro area](#) release.

In terms of official activity data, euro area bank lending figures for January (Thursday) are also due, as too are final Q4 GDP estimates from Germany (Wednesday) and France (Friday). Despite a disappointing end to the quarter for the industrial sector, we do not expect any top-line revisions to GDP growth in either member state. For Germany, the final release will also be accompanied by a first breakdown by expenditure components. Those will likely confirm that a return to GDP growth in Q4 (0.3%Q/Q) was led by domestic factors, with private consumption continuing to benefit from higher real wages. Government stimulus and investment also likely contributed to that pickup. Net trade likely weighed modestly. Finally, in terms of ECB-speak, President Lagarde – who today downplayed the likelihood of her standing down from her position before October 2027 – will hold her quarterly briefing with the EU Parliament's Committee on Economic and Monetary Affairs (ECON) on Thursday. Governing Council member and Croatian Governor Boris Vujčić will attend an ECON hearing the day prior to be appointed as the successor to ECB Vice President Luis de Guindos, whose term expires at the end of May.

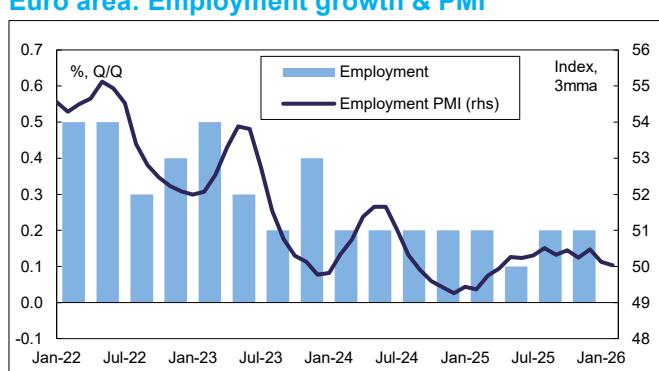
Euro area member states: Composite output PMIs



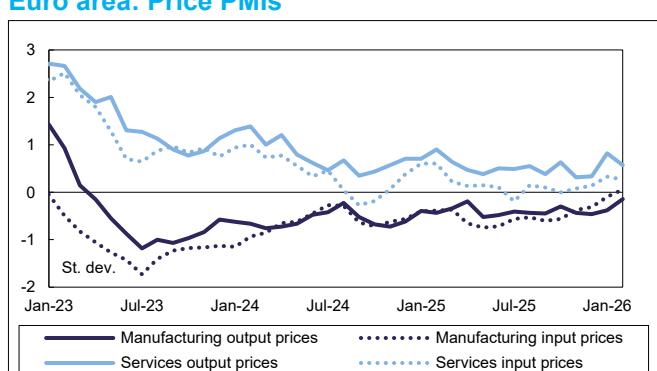
Euro area: Selected composite PMIs



Euro area: Employment growth & PMI



Euro area: Price PMIs



UK

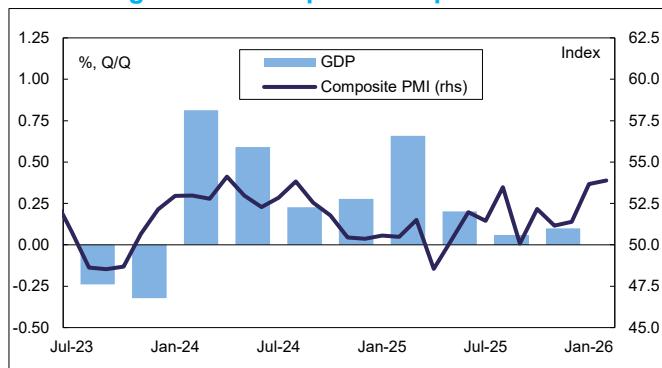
Composite PMI points to best growth in almost 2 years, but firms flag ongoing cuts to headcount

After a marked slowdown in the second half of 2025, today's flash PMIs for February suggest that GDP growth started 2026 on a much firmer footing. Contrasting the anticipated deterioration this month, the composite output PMI rose for a third successive month to 53.9, the highest reading since April 2022. As such, the index was trending more than 2pts above the Q4 average and at a level that ahead of the pandemic would have been consistent with GDP growth of up to 0.4%Q/Q. And the detail suggested relatively broad-based growth. Despite edging down slightly from January's five-month high, the services activity index (53.9) remained comfortably above the long-run average. And after the outage at Jaguar Land Rover last autumn, the survey suggested ongoing recovery in manufacturing, where the output component (53.6) jumped to an 18-month high, tracking almost 4½pts above the Q4 average. The composite new orders PMI similarly rose to the highest level since September 2024 supported by stronger demand for services and an acceleration in overseas factory orders. And firms were more confident regarding the outlook for the coming 12 months, with manufacturers reportedly the most upbeat in 1½ years due to that firmer external demand. Nevertheless, with profit margins squeezed by elevated input costs – particularly in services – today's survey signalled an ongoing decline in employment this quarter. So, BoE policymakers will have to make a judgement as to whether and by how much, if sustained, the recovery in economic activity will in due course translate into a stronger labour market and halt or even reverse the recent steady upwards drift in unemployment. We think that process will take time. And so, we continue to expect the majority on the MPC to support a rate cut at the March policy-setting meeting, with a further 25bps cut still a good bet in Q226 too.

Strongest retail sales growth in 20 months flattered by special factors

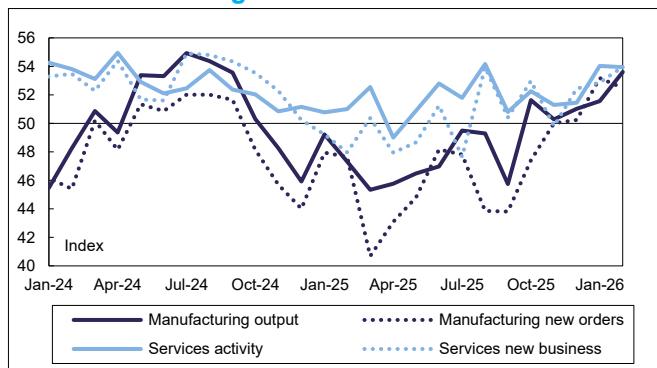
Today's retail sales figures for January also exceeded expectations to suggest that consumer spending provided a non-negligible boost to GDP growth at the start of the year despite above-average rainfall that month. Total sales volumes jumped 1.8%M/M in January – the most since May 2024 – to be up 4.5%Y/Y, the firmest annual rate in almost seven years outside of Covid-related distortions. The major categories suggested that the strength was relatively broad-based, with growth in food store sales (1.2%M/M) and non-food store sales (2.2%M/M) the highest in six and eleven months respectively. To some extent, that reflected payback for weakness in the prior two months. And when smoothing for monthly volatility, sales growth on a three-month basis remained lacklustre at just 0.1%3M/3M. Moreover, the surge at the start of the year was flattered by some extraordinary factors. Strong sales at commercial art galleries gave a significant boost while furniture sales benefitted from seasonal discounting. The ONS also flagged unprecedented demand for jewellery, linked to the spike in wholesale prices of gold and silver last month, which pushed total non-store sales up almost 20%Y/Y. As such,

UK: GDP growth & composite output PMI



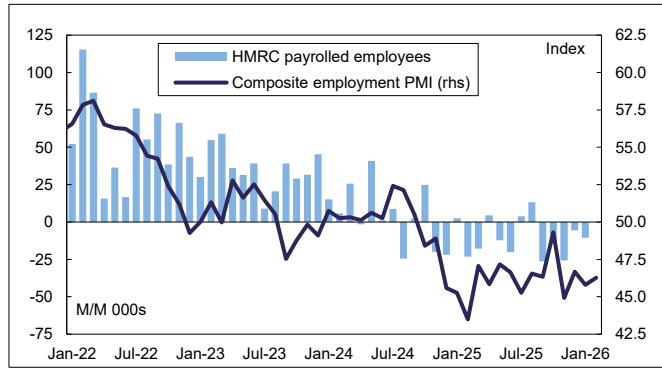
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing & services PMIs



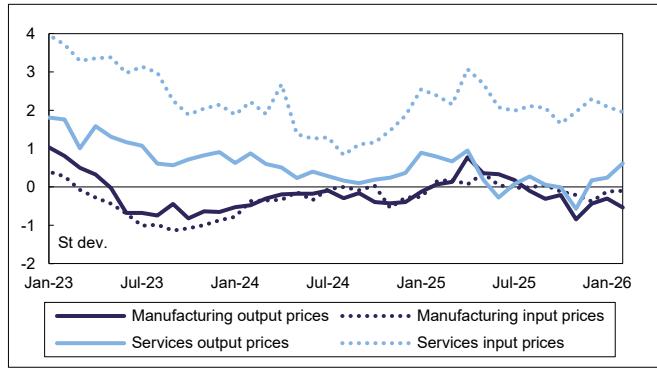
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Employment growth & PMI



Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Price PMIs



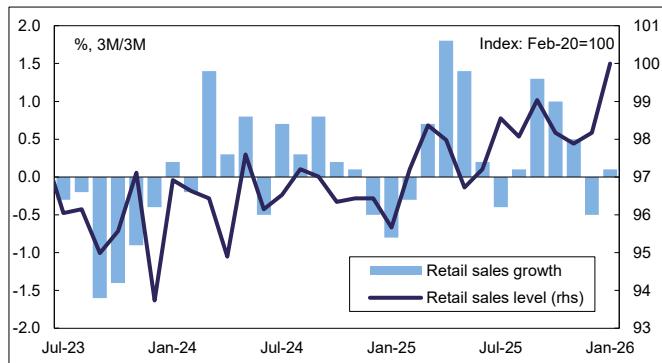
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

we expect payback for last month's strength in February. And despite rising real incomes, rising unemployment raises risks that many households will delay purchases of big-ticket items until the labour market stabilises.

Record high public sector surplus in January as past tightening translates into higher tax receipts

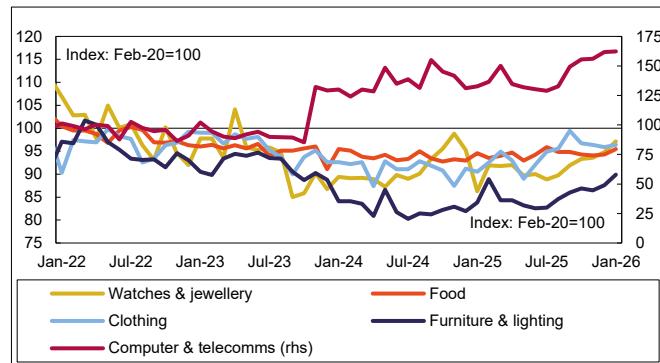
Ahead of the Spring Statement on 3 March, Chancellor Reeves will also take encouragement from today's update on the state of the public finances at the start of the year. Strikingly, the data showed a record public sector surplus of £30.4bn in January, double that of January 2025 and a little more than £6bn above the OBR's forecast published last November. This took cumulative borrowing in the financial year-to-date to £112.1bn (3.7% of GDP), some £14.6bn (0.7ppt of GDP) lower than in the equivalent period in the previous financial year and more than £8bn below the OBR's expectation. The improvement was partly due to higher tax receipts than last January, with a chunky rise in individual self-assessment income and capital gains tax receipts, the latter probably a function of past budget-related uncertainty and tax changes. Taken together with higher employer National Insurance Contributions, central government current receipts were roughly 14% higher than a year earlier, albeit tracking a touch lower in the year-to-date. Central government expenditure was also a touch lower in January due to a fall in debt interest related to the recent drop in inflation. But it was still tracking almost 7% higher than in the same 10-month period a year ago due not least to higher public sector labour costs. Overall, today's data reaffirm expectations that, due to the tax-based fiscal tightening of the past couple of years, public borrowing as share of GDP is now set on a gradual downwards path. But whether there remains sufficient headroom within the government's fiscal rules to avoid the need for further tightening in future remains unclear, with much to depend on the strength of broader economic activity and the inflation outlook.

UK: Retail sales volumes



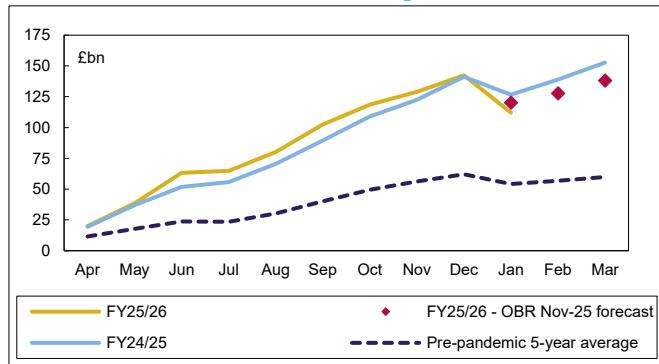
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes



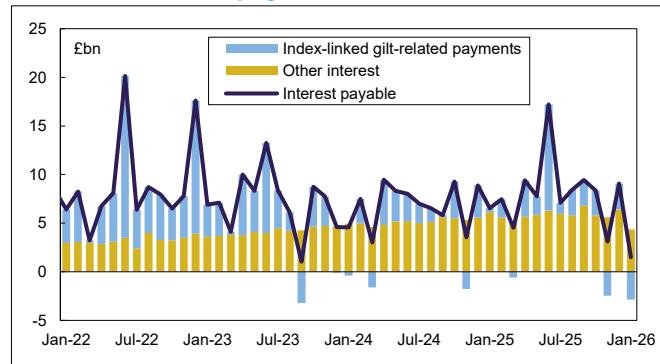
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Public sector net borrowing



Source: OBR, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Debt interest payments



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the UK

Despite the absence of top-tier UK economic data over the coming week, there will still be a couple of notable events for markets. Headlines at the end of the week are likely to be dominated by politics as voters in the Manchester constituency of Gorton and Denton go to the polls for a by-election on Thursday (the results are likely to be announced sometime in the early hours of Friday morning). Despite being a comfortable Labour hold in the 2024 general election, the Government faces intense competition from the populist far-right Reform UK and left-wing Greens in particular. At present, Labour trails both parties at the bookies, with the Greens favourites to increase their Parliamentary seat count to five. Despite its insignificance for the Parliamentary arithmetic, the result could provoke a market impact if they were to surprise sufficiently in either direction. Indeed, ahead of May's local elections, a much heavier than expected defeat for the Government could provide a flashpoint for a potential challenge to PM Starmer's leadership. Equally, a stronger-than-expected performance, particularly an unexpected Labour hold, could significantly strengthen Starmer's position, at least until May.

Otherwise, the most important update will arguably come from the energy regulator, Ofgem, whose energy price cap announcement for Q2 (Wednesday) will have a bearing on the near-term inflation outlook. As set out in the February MPR, the BoE expects the price cap to be cut considerably, to £1,616 in Q2 from £1,758 in Q1, or a little more than 8%Q/Q. That would predominantly reflect the £150 reduction in energy bills (via repealed policy costs) announced at Budget 2025.

Evidently, the BoE expects a slight additional contribution from lower wholesale gas prices too, although last month's temporary spike in wholesale gas markets could pose an upside risk to that view. In any case, a non-negligible reduction should be assured. Indeed, a decline of the magnitude forecast by the MPC would be worth around ½ppt off the headline CPI rate come April, bringing inflation considerably closer to the 2% inflation target as forecast.

In terms of the more typical UK dataflow, the GfK consumer confidence survey (Friday) will show whether the upturn in household sentiment signalled at the start of the year (up 1pt to a 17-month high of -16) was sustained into February. The CBI's distributive trades survey (Tuesday), despite its questionable relationship to the official ONS data in recent times, will provide an indication as to the strength of retail sales this month amid continued downside risks posed by the wet weather. Data aside, a handful of speaking arrangements by MPC rate-setters is also scheduled. Of most interest will be the appearance on Tuesday of Governor Bailey, Chief Economist Pill and external MPC members Taylor and Greene before the Treasury Select Committee to discuss the Bank's latest Monetary Policy Report. Taylor and Pill's opposing and well-established stances are unlikely to provide new insights with respect to near-term policy decisions, but given that Bailey was getting close to supporting a rate cut his assessment of the past week's data will be closely watched.

Daiwa economic forecast

	2025		2026				2025	2026	2027	
	Q3	Q4	Q1	Q2	Q3	Q4				
GDP	%, Q/Q							%, Y/Y		
Euro area		0.3	0.3	0.2	0.3	0.3	0.3	1.5	1.1	1.3
UK		0.1	0.1	0.3	0.3	0.3	0.3	1.3	0.9	1.3
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.1	2.1	1.7	1.7	1.7	1.9	2.1	1.7	1.8
Core HICP		2.3	2.4	2.1	1.6	1.5	1.6	2.4	1.7	1.6
UK										
Headline CPI		3.8	3.4	3.0	2.2	2.2	2.1	3.4	2.4	2.1
Core CPI		3.6	3.3	3.1	2.6	2.6	2.5	3.5	2.7	1.9
Monetary policy, %										
ECB										
Deposit Rate		2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Refi Rate		2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
BoE										
Bank Rate		4.00	3.75	3.50	3.25	3.25	3.25	3.75	3.25	3.25

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

The next Euro wrap-up will be published on Tuesday 24 February 2026

The coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <u>Daiwa forecast</u>	Previous
Monday 23 February 2026					
Germany		09.00 ifo current assessment (expectations) indicator	Feb	86.2 (90.0)	85.7 (89.5)
		09.00 ifo business climate indicator	Feb	88.3	87.6
Italy		09.00 Final HICP (CPI) Y/Y%	Jan	<u>1.0 (1.0)</u>	1.2 (1.2)
Tuesday 24 February 2026					
Euro area		05.00 New car registrations Y/Y%	Jan	-	5.8
France		07.45 INSEE business (manufacturing) confidence indicator	Feb	99 (103)	99 (105)
		07.45 INSEE production outlook (own company) indicator	Feb	-5 (13)	-4 (17)
UK		11.00 CBI distributive trades survey – retailing reported sales net balance %	Feb	-27	-17
Wednesday 25 February 2026					
Euro area		10.00 Final headline (core) HICP Y/Y%	Jan	<u>1.7 (2.2)</u>	2.0 (2.3)
Germany		07.00 GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.3 (0.6)</u>	0.0 (0.3)
		07.00 GDP – private consumption Q/Q%	Q4	0.2	-0.3
		07.00 GDP – government spending Q/Q%	Q4	0.8	0.8
		07.00 GDP – capital investment Q/Q%	Q4	0.6	0.3
		07.00 GfK consumer confidence indicator	Mar	-23.0	-24.1
France		07.45 INSEE consumer confidence indicator	Feb	90	90
Spain		08.00 PPI Y/Y%	Jan	-	-3.0
Thursday 26 February 2026					
Euro area		09.00 M3 money supply Y/Y%	Jan	2.9	2.8
		10.00 Commission economic sentiment indicator	Feb	99.8	99.4
		10.00 Commission services (industrial) confidence indicator	Feb	7.4 (-6.5)	7.2 (-6.8)
Italy		10.00 Final Commission consumer confidence indicator	Feb	<u>-12.2</u>	-12.4
		09.00 Istat business (manufacturing) confidence indicator	Feb	- (89.6)	97.6 (89.2)
		09.00 Istat consumer confidence indicator	Feb	97.0	96.8
Friday 27 February 2026					
Euro area		09.00 ECB consumer expectations survey – 1Y (3Y) ahead CPI Y/Y%	Jan	2.5 (2.7)	2.8 (2.6)
Germany		07.00 Import prices M/M% (Y/Y%)	Jan	0.6 (-2.8)	-0.1 (-2.3)
		08.55 Unemployment claims rate % (change 000s)	Feb	6.3 (3)	6.3 (0)
		13.00 Preliminary HICP (CPI) Y/Y%	Feb	2.1 (2.0)	2.1 (2.1)
France		07.45 Preliminary HICP (CPI) YY%	Feb	0.7 (0.8)	0.4 (0.3)
		07.45 PPI Y/Y%	Jan	-	-2.0
		07.45 GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.2 (1.1)</u>	0.5 (0.9)
		07.45 Consumer spending M/M% (Y/Y%)	Jan	-	-0.6 (-1.0)
		07.45 Total (private sector) payrolls Q/Q%	Q4	<u>- (-0.1)</u>	0.0 (-0.1)
Spain		08.00 Preliminary HICP (CPI) Y/Y%	Feb	2.3 (2.2)	2.4 (2.3)
UK		00.01 GfK consumer confidence indicator	Feb	-15	-16
		00.01 Lloyds business barometer (own price expectations) % balance	Feb	-	44 (62)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 23 February 2026		
Euro area		17.30 ECB President Lagarde to give speech, Washington D.C.
UK		11.00 External MPC member Taylor participates in fireside chat, London
Tuesday 24 February 2026		
Italy		10.00 Auction: to sell up to €2.5bn of 2.2% 2028 bonds
		10.00 Auction: to sell up to €1bn of 1.1% 2031 inflation-linked bonds
		10.00 Auction: to sell up to €1bn of 1.8% 2036 inflation-linked bonds
UK		10.00 Auction: to sell £3bn of 4.125% 2033 bonds
		10.00 BoE's Bailey, Pill, Green & Taylor to testify before the Treasury Select Committee on February Monetary Policy Report
Wednesday 25 February 2026		
Euro area		10.00 Governing Council member Vujcic attends EU Parliament ECON hearing ahead of appointment as ECB Vice-President
Germany		10.30 Auction: to sell up to €1bn of 1% 2038 bonds
		10.30 Auction: to sell up to €1bn of 2.6% 2041 bonds
UK		07.00 Ofgem to announce UK energy price cap level for Q226
Thursday 26 February 2026		
Euro area		08.30 ECB President Lagarde testifies on monetary policy before the EU Parliament's ECON Committee
Italy		10.00 Auction: to sell bonds*
UK		09.00 BoE Deputy Governor Lombardelli speaks at annual networking event for the UK Women in Economics, London
		22.00 Voting closes in the Gorton-and-Denton parliamentary by-election
Friday 27 February 2026		
UK		13.00 BoE Chief Economist Pill to speak on SPE webinar on 'UK & US economics'

*Details to be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Today's results

Economic data						
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Euro area	 Preliminary services (manufacturing) PMI	Feb	51.8 (50.8)	51.9 (50.0)	51.6 (49.5)	-
	 Preliminary composite PMI	Feb	51.9	51.5	51.3	-
	 Negotiated wages Y/Y%	Q4	2.95	2.90	1.87	1.89
Germany	 Preliminary services (manufacturing) PMI	Feb	53.4 (50.7)	52.4 (49.5)	52.4 (49.1)	-
	 Preliminary composite PMI	Feb	53.1	52.3	52.1	-
	 PPI Y/Y%	Jan	-3.0	-2.2	-2.5	-
France	 Preliminary services (manufacturing) PMI	Feb	49.6 (49.9)	49.2 (50.9)	48.4 (51.2)	-
	 Preliminary composite PMI	Feb	49.9	49.6	49.1	-
UK	 Preliminary services (manufacturing) PMI	Feb	53.9 (52.0)	53.5 (51.5)	54.0 (51.8)	-
	 Preliminary composite PMI	Feb	53.9	53.2	53.7	-
	 Retail sales – incl. auto fuels M/M% (Y/Y%)	Jan	1.8 (4.5)	0.2 (2.8)	0.4 (2.5)	- (1.9)
	 Retail sales – excl. auto fuels M/M% (Y/Y%)	Jan	2.0 (5.5)	0.3 (3.6)	0.3 (3.1)	- (2.5)
	 Public sector net borrowing £bn	Jan	-30.4	-24.0	11.6	13.4
Auctions						
Country	Auction	- Nothing to report -				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research reports at:

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