

Euro wrap-up

Overview

- While IEA members unanimously agreed to release stocks from their emergency oil reserves, Bunds sold off as the impact of rising wholesale energy prices was evident on German weekly petrol and heating oil inflation data.
- Gilts again underperformed on a quiet day for UK economic news.
- The coming two days will bring January data for euro area industrial production and UK GDP.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.376	+0.133
OBL 2½ 04/31	2.589	+0.115
DBR 2.9 02/36	2.928	+0.095
UKT 4¾ 03/28	4.009	+0.152
UKT 4¾ 03/31	4.211	+0.152
UKT 4¾ 10/35	4.690	+0.140

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

Euro area

Food & utility bills pushed German inflation down in February

As expected, the final German inflation figures for February aligned with the flash estimates, which had been a touch softer than originally anticipated. So, the EU-harmonised HICP rate reversed the 0.1ppt rise in January to return to 2.0%Y/Y. And the national CPI rate declined 0.2ppt to 1.9%Y/Y, albeit with the respective core rate unchanged at 2.5%Y/Y. Indeed, services CPI inflation was steady at 3.2%Y/Y, as jumps in airfares, other transport and recreational items were broadly offset by continued softening in certain other components, from package holidays to education, restaurants and insurance. Among core goods, a pickup in clothing and motor vehicles was offset among other things by a moderation in jewellery after the sharp jump in January amid precious-metals fever. Meanwhile, the major non-core inflation groupings were both softer. Inflation of food slowed 1ppt in February to 1.1%Y/Y, close to the bottom of the range of the past 18 months, on a broad-based easing from meat to confectionary, fruit and vegetables. And the pace of decline in energy prices accelerated 0.2ppt to -1.9%Y/Y, the sharpest drop in six months. That principally reflected lower electricity prices, which slid 4.1%Y/Y, the most in 16 months, as well as a softening in gas inflation (-2.8%Y/Y).

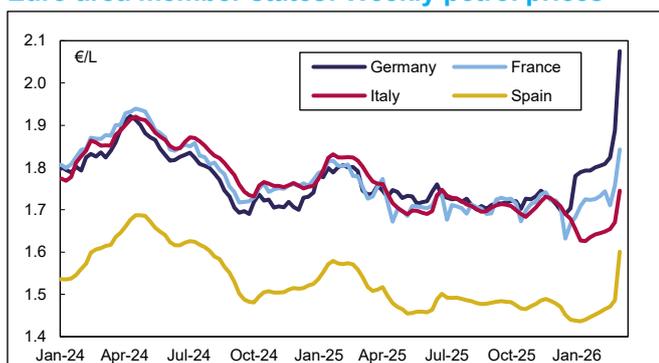
Energy prices will push German inflation significantly higher in March

The easing in household energy inflation in February in part reflected government policies, such as lower electricity transmission network charges and the abolition of the gas storage neutrality charge. But despite the government's further decision to limit the frequency of price changes at gasoline stations and its intention to release national oil reserves in line with today's IEA agreement, energy inflation is bound to leap in March as the wholesale market shocks feed through to consumers. Indeed, based on today's weekly figures, German auto fuel prices are so far this month tracking about 12½% above the February level. That suggests that inflation of that component could rise from 0.4%Y/Y in February to close to 17%Y/Y in March, adding about ½ppt to headline inflation. Meanwhile, prices of heating oil jumped 20% in the latest week. And, while most of the impact won't be felt immediately, the steep rise in wholesale gas and German power prices since the start of war in the Middle East will also feed through to household bills in due course, unless the government introduces further measures akin to the 'price brake' implemented in 2023.

German trade surplus widens in January, but exports to China & the rest of the euro area fall back

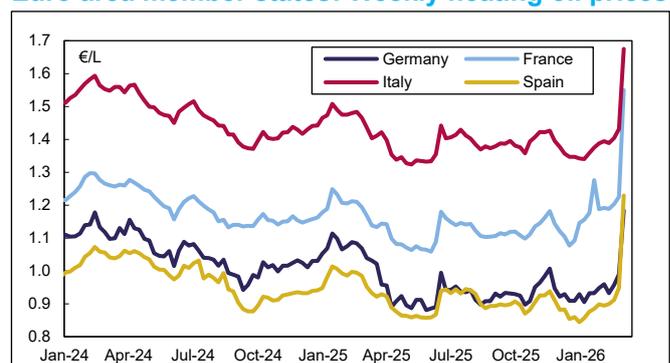
At face value, yesterday's German goods trade report was better than expected, with the headline surplus widening for a second successive month in January, to €21.2bn, the largest since August 2024. But the detail was more downbeat, adding to the run of recent data suggesting that economic growth momentum weakened at the start of the year. The increase in the

Euro area member states: Weekly petrol prices*



*Euro-super 95. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

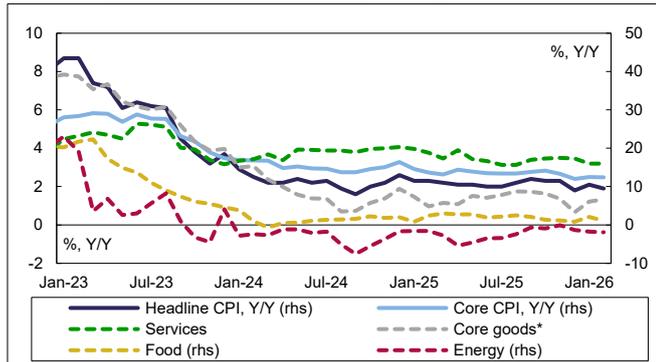
Euro area member states: Weekly heating oil prices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

surplus reflected a near-6%M/M decline in the value of imports – the most since the first Covid-19 lockdown and January 2009 before that – while export values fell 2.3%M/M. Admittedly, this drop in exports partly reflected payback for strength at the end of 2025. And the timing of the Lunar New Year hit imports from and exports to China (-8.3%M/M and -13.2%M/M respectively). But the weakness in exports in January was principally led by shipments to other euro area member states, which fell to an eight-month low. In contrast, exports to the US rose for a second successive month (11.7%M/M) to the highest level since March ahead of Trump’s “Liberation Day” announcements. If surveys are to be believed, exports returned to growth in February. The latest Chinese trade figures suggested that shipments from Germany to the Mainland over January and February were up some 3%Y/Y. But they also showed a further surge in Chinese exports to Germany (31%YTD/Y) illustrating again the severe competitiveness challenge facing German manufacturers. As such, having reached a record high in 2025 (€90bn), Germany’s bilateral goods trade deficit with China looks to have deteriorated further at the start of this year.

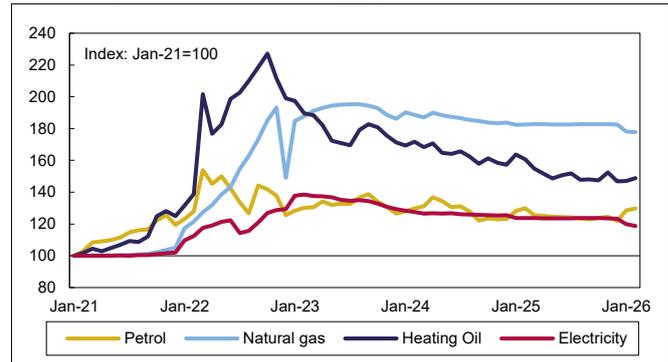
Germany: CPI inflation & key components



*Daiwa estimate of non-energy industrial goods.

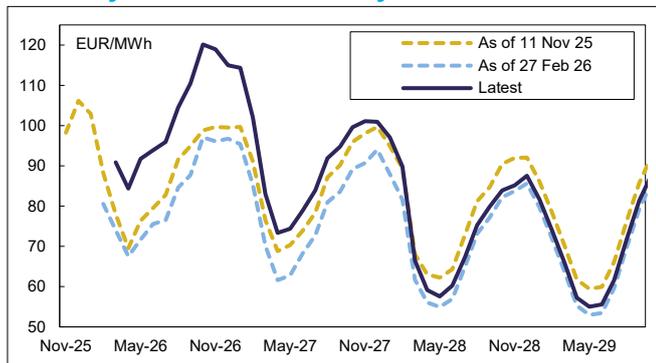
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Consumer energy price levels



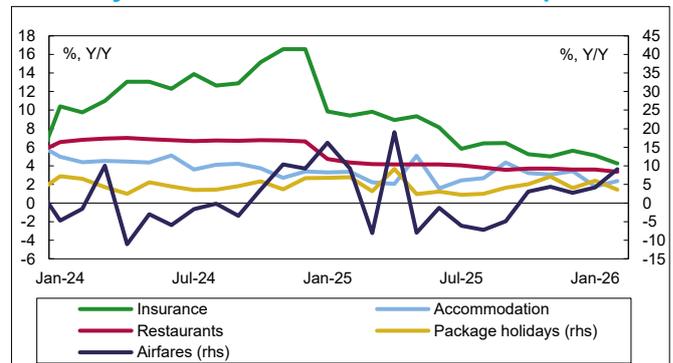
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Baseload electricity forward curves



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Germany: Selected services inflation components



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The coming two days in the euro area

Following what should be a quiet Thursday for economic news in the euro area, the end of the week will bring a handful of data releases including January industrial production and inflation data from France and Spain. Contrasting hopes for a rebound in manufacturing output after a deterioration at the end of last year, further weakness in Germany (-1.3%M/M) and Ireland (-9.8%M/M) looks set to lead the aggregate euro area level lower still. Notwithstanding the lack of data from Italy (due just before the euro release) and Belgium, we expect a decline of around 1½%M/M. Despite a probable upwards revision to December’s figure and given downside risks posed to energy-intensive sectors in March, such an outturn would raise concerns of a drop in IP over Q1 as a whole. In terms of the price data, February’s French and Spanish releases will offer further clues ahead of the final euro area print (next Wednesday). Unlike in Germany, the flash estimates suggested that headline inflation picked up by 0.1ppt in Spain and a chunkier 0.7ppt in France. The breakdown for the latter should attribute most of that increase to a smaller decline in electricity prices this year, as well as payback for a temporarily weak core goods figure in January. But both may also point towards modestly broader pressures across fuels, food and services prices.

UK

Retail survey flags subdued sales even ahead of the latest energy shock

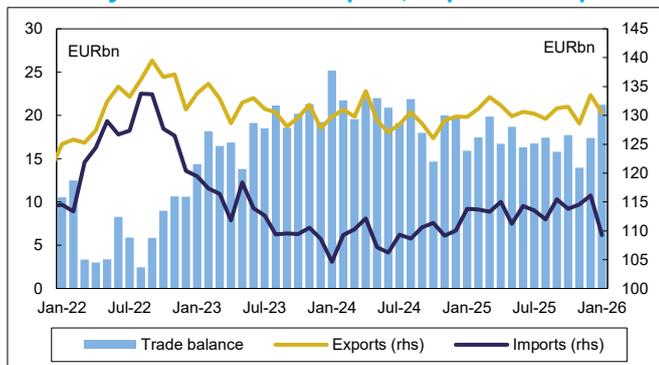
While UK [retail sales](#) surprised to the upside in January, supported in part by seasonal discounting, yesterday's BRC retail monitor suggested that spending momentum in February was dampened by inclement weather. In particular, the BRC suggested that retail sales growth slowed 1.6ppts to 1.1%Y/Y, the softest rate in nine months. And when adjusting for prices, sales volumes were flat and like-for-like sales were down compared with a year earlier, the weakest in 15 months. Spending was subdued across most categories as households pulled back after the post-Christmas bounce. While the survey suggested growth in sales at jewellery, watches and perfume retailers, spending on non-food items was broadly flat in real terms. And like-for-like food sales in real terms fell compared with a year earlier for a sixth month in seven and by the most since mid-2024. Of course, this might simply reflect higher numbers of people eating out, with restaurant bookings on OpenTable reportedly some 10% higher than a year earlier. But subdued retail spending will also likely relate to weak consumer confidence. And with sentiment likely to have deteriorated further since the escalation of conflict in the Middle East and associated energy shock, we expect minimal growth in consumer spending over coming months.

The coming two days in the UK

Jumping ahead to Friday, January's monthly GDP report will provide the highlight of the remaining UK data this week. A decline in manufacturing and construction output led GDP growth to slow in December (0.1%M/M, 0.1%3M/3M), but business surveys have been broadly more upbeat since the start of the year. In particular, the UK composite output PMI in January (53.7) pointed towards the fastest expansion in private sector activity for two years, while retail sales also beat expectations around the New Year sales period. But while we might see some payback for the decline in industrial output in December, unseasonably cold and wet weather poses a further downside risk to construction activity, as well as other consumer-facing services more broadly. Overall, we expect GDP growth to hold steady at 0.1%M/M. While just on the low side of consensus estimates, that would still push the three-month growth rate up to 0.3%3M/3M, supported by a strong showing in November and flattered by weakness in the run-up to the Budget. The trade data might also report some payback for the decline in export and import values the previous month, although the sharp rise in prices of precious metals risks adding some distortion. Otherwise, Thursday will bring an update on housing market activity in February's from the RICS surveyors' survey.

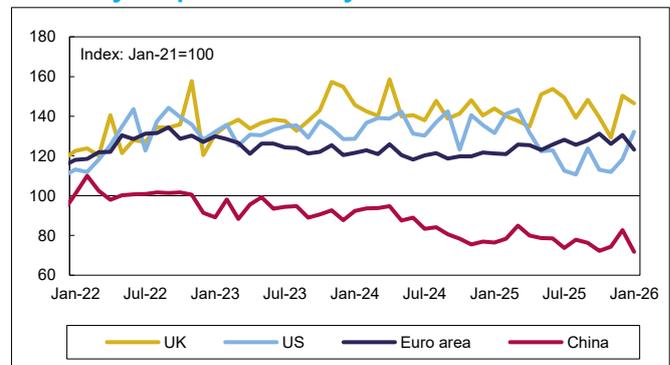
The next Euro wrap-up will be published on Friday 13 March 2026

Germany: Goods trade surplus, exports & imports*



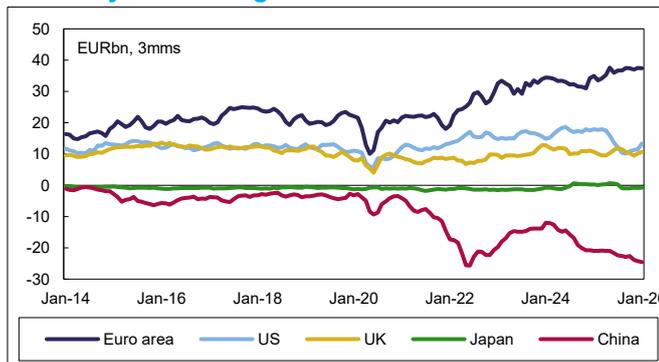
*Seasonally adjusted values.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Export values by destination*



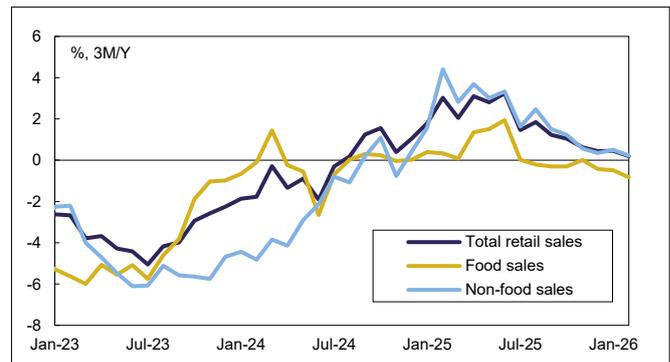
*Seasonally adjusted values.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Bilateral goods trade balance*



*Seasonally adjusted values.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: BRC like-for-like retail sales volumes*



*Adjusted using BRC shop price index.
Source: Macrobond 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 	Final HICP (CPI) Y/Y%	Feb	2.0 (1.9)	<u>2.0 (1.9)</u>	2.1 (2.1)	-
Spain 	Retail sales Y/Y%	Jan	4.0	-	2.9	2.8

Auctions

Country	Auction
Germany 	sold €3.811bn of 2.9% 2036 bonds at an average yield of 2.89%

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
Germany 	Trade balance €bn	Jan	21.2	15.4	17.1	17.4
France 	Trade balance €bn	Jan	-1.8	-	-4.8	-4.3
Italy 	PPI Y/Y%	Jan	-2.1	-	-2.0	-
UK 	BRC retail monitor – like-for-like sales Y/Y%	Feb	0.7	2.0	2.3	-

Auctions

Country	Auction
Germany 	sold €3.871bn of 2.1% 2028 bonds at an average yield of 2.27%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
UK 	00.01	RICS house price balance %	Feb	-8	-10

Auctions and events

Italy 	10.00	Auction: to sell up to €2bn of 2.4% 2029 bonds			
	10.00	Auction: to sell up to €2.5bn of 3.15% 2033 bonds			
	10.00	Auction: to sell up to €1.5bn of 3.25% 2038 bonds			
UK 	10.00	Auction: to sell £500mn of 1.875% 2049 inflation-linked bonds			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area 	10.00	Industrial production M/M% (Y/Y%)	Jan	<i>-1.5 (-1.0)</i>	-1.4 (1.2)
France 	07.45	Final HICP (CPI) Y/Y%	Feb	<i>1.1 (1.0)</i>	0.4 (0.3)
Italy 	09.00	Industrial production M/M% (Y/Y%)	Jan	0.4 (0.8)	-0.4 (3.2)
Spain 	08.00	Final HICP (CPI) Y/Y%	Feb	<i>2.5 (2.3)</i>	2.4 (2.3)
UK 	07.00	Monthly GDP M/M% (3M/3M%)	Jan	0.2 (0.3)	0.1 (0.1)
	07.00	Services output M/M% (3M/3M%)	Jan	0.2 (0.3)	0.3 (0.0)
	07.00	Industrial output M/M% (Y/Y%)	Jan	0.2 (0.6)	-0.9 (0.5)
	07.00	Construction output M/M% (Y/Y%)	Jan	0.0 (-0.1)	-0.5 (-0.3)
	07.00	Trade (goods trade) balance £bn	Jan	-3.9 (-22.2)	-4.3 (-22.7)
	09.30	BoE/Ipsos inflation attitudes survey – 1Y ahead CPI Y/Y%	Q1	-	3.5

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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