

# Euro wrap-up

## Overview

- Despite an upside surprise to the latest euro IP data, Bunds followed USTs higher while BTPs outperformed on hopes that Italy's PM Conte would manage to keep his government coalition together.
- Gilts also made significant gains as the number of daily deaths in the UK from Covid-19 reached a new high.
- Thursday will bring the publication of the account of the ECB's December policy meeting as well as full-year 2020 GDP figures for Germany.

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### Daily bond market movements

| Bond         | Yield  | Change |
|--------------|--------|--------|
| BKO 0 12/22  | -0.713 | -0.014 |
| OBL 0 10/26  | -0.716 | -      |
| DBR 0 02/31  | -0.526 | -0.056 |
| UKT 1% 09/22 | -0.123 | -0.032 |
| UKT 0% 06/25 | -0.018 | -0.024 |
| UKT 4% 12/30 | 0.302  | -0.047 |

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

Source: Bloomberg

## Euro area

### Industrial production up again thanks to extraordinary jump in Ireland

Euro area industrial production (excluding construction) was significantly stronger than expected in November, rising for a seventh successive month and by 2.5%M/M to be down just 0.6%Y/Y and 0.8% below February's pre-pandemic level. However, the data were significantly distorted by a barely plausible rise of 52.8%M/M in Ireland – related to seasonal adjustment quirks and perhaps also multinational accounting practices – without which euro area production would have dropped 0.6%M/M. Elsewhere, production rose 0.8%M/M in Germany but fell in France (-0.9%M/M), Italy (-1.4%M/M) and Spain (-0.6%M/M). By type of good, euro area production of capital goods (up an eye-catching 7.1%M/M to 1.7% above the February level, with electronic products up more than 37%M/M) was similarly exaggerated by Ireland, which accounts for roughly one tenth of the total for such items. Growth in the other categories at the euro area level was more consistent with the large member states, with production of intermediate goods up 1.5%M/M but production of durable (-1.2%M/M) and non-durable consumer goods (-1.7%M/M) down. Unaffected by Irish shenanigans, production of motor vehicles rose 1.1%M/M but was still more than 7.0% below February's level. And energy output fell significantly (-3.9%M/M).

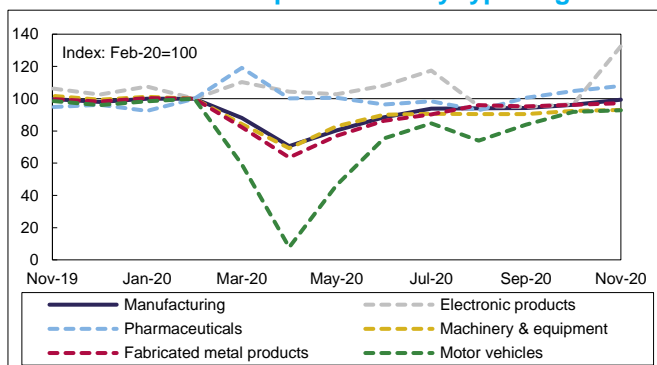
### Strength in Q4 unlikely to be repeated in Q1

Surveys suggest that momentum remained broadly positive in the manufacturing sector at the end of last year, not least thanks to strength in Germany. But the likelihood of some payback in Ireland means that we should expect a non-negligible drop in December. Nevertheless, even full reversal of November's growth would leave production up 3.4%Q/Q in Q4, providing welcome (albeit likely partial) offset to the weakness in services last quarter. Such vigorous growth is unlikely to be repeated in Q1, however, not least as supply-chain issues in the auto sector will coincide with a likely pull back in demand in Germany related to the reversal of last year's temporary VAT cut.

### Central bank survey signals improvement in French economy in December as restrictions lifted

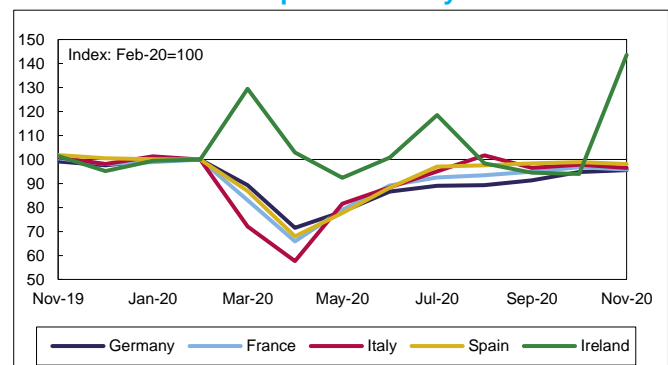
Based on its latest business survey released this morning, the Bank of France judged that the level of French manufacturing production in December was little changed last month from November. But while construction output was also little changed, overall activity in the French economy picked up thanks to an improvement in services related to the lifting of many lockdown restrictions, including the reopening of non-essential retail and leisure activities from 28 November. Indeed, the level of services activity in December was judged to be down just 9% from the pre-Covid level having been down about 15% on the same basis the prior month. As a result, total economic output in December was estimated to be down about 7% from the pre-Covid level having been down about 11% in November, suggesting that GDP dropped about 4.0%Q/Q over Q4 as a

### Euro area: Industrial production by type of good



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Industrial production by member state



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

whole. In addition, the Bank of France judged the levels of activity in all main sectors in January to be little changed from December.

### The day ahead in the euro area

Thursday will bring the publication of the ECB's account of the 9-10 December policy meeting when the Governing Council extended and augmented its asset purchase and liquidity schemes. That policy decision was calibrated on the basis of updated economic projections, which at a Reuters event today President Lagarde insisted were still realistic despite the intensification of the pandemic. Indeed, Lagarde noted that the forecasts assumed that containment measures would remain in place throughout the first quarter. But they also assumed that progress implementing vaccination programmes would deliver 'sufficient' levels of herd immunity by year-end, something that Lagarde today acknowledged might be at risk given the 'laborious' start to vaccination programmes in the euro area member states.

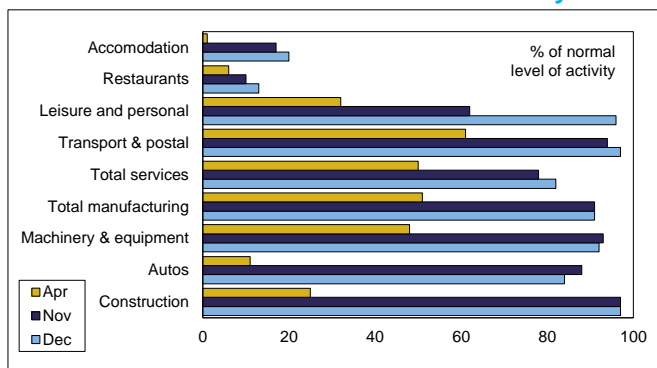
Datewise, tomorrow Germany will publish full-year GDP and fiscal figures for 2020. Given weakness at the end of the year, we forecast an economic contraction of about 5.5%Y/Y. And the general government budget is expected to show a deficit for the first time since 2011, and of a magnitude of about 6% of GDP following a surplus of 1.5% of GDP in 2019.

## UK

### The day ahead in the UK

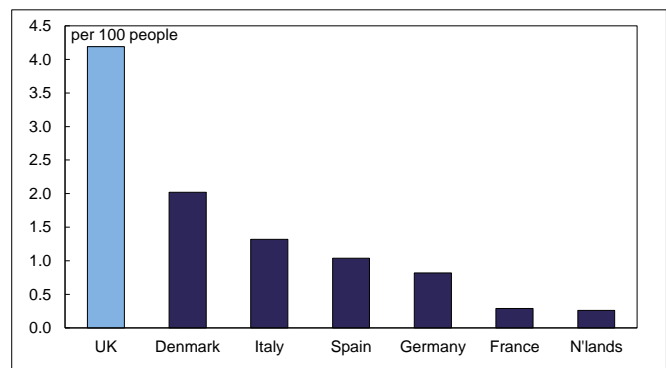
The UK's quiet economic data calendar sees only the RICS house price survey for December published tomorrow.

#### France: Estimated level of economic activity



Source: Bank of France and Daiwa Capital Markets Europe Ltd.

#### Coronavirus vaccinations administered\*






\*Latest total number of doses administered. Source: Our World in Data and Daiwa Capital Markets Europe Ltd.



## European calendar

### Today's results

#### Economic data

| Country | Release   | Period | Actual             | Market consensus/<br><i>Daiwa forecast</i> | Previous   | Revised           |
|---------|---|--------|--------------------|--|------------|-------------------|
| EMU     |  Industrial production M/M% (Y/Y%)   | Nov    | <b>2.5 (-0.6)</b>  | 0.3 (-3.2)                                 | 2.1 (-3.8) | <b>2.3 (-3.5)</b> |
| France  |  Bank of France industrial sentiment | Dec    | <b>97</b>          | 97   | 96         | -                 |
| Italy   |  Industrial production M/M% (Y/Y%)   | Nov    | <b>-1.4 (-4.2)</b> | 0.0 (-2.6)                                 | 1.3 (-2.1) | <b>1.4 (-1.9)</b> |


#### Auctions

| Country | Auction  |
|---------|--|
| Germany |  sold €4.06bn of 0% 2026 bonds at an average yield of -0.7%                   |
| UK      |  sold £300mn of 0.125% 2065 index-linked bonds at an average yield of -1.981% |





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Yesterday's results

#### Economic data

| Country | Release  | Period | Actual     | Market consensus/<br><i>Daiwa forecast</i> | Previous | Revised |
|---------|--|--------|------------|--|----------|---------|
| UK      |  BRC retail sales monitor, like-for-like sales Y/Y% | Dec    | <b>4.8</b> | -  | 7.7      | -       |



#### Auctions

| Country | Auction   |
|---------|---|
| Germany |  sold €330mn of 0.5% 2030 index-linked bonds at an average yield of -1.55% |
|         |  sold €113mn of 0.1% 2046 Index-linked bonds at an average yield of -1.48% |
| UK      |  sold £3bn of 0.125% 2028 bonds at an average yield of 0.176%              |
|         |  sold £1.25bn of 1.625% 2054 bonds at an average yield of 0.889%           |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Monday's results

#### Economic data

| Country | Release   | Period | Actual             | Market consensus/<br><i>Daiwa forecast</i> | Previous   | Revised        |
|---------|---|--------|--------------------|--|------------|----------------|
| EMU     |  Sentix investor confidence        | Jan    | <b>1.3</b>         | 1.9  | -2.7       | -              |
| Spain   |  Industrial production M/M% (Y/Y%) | Nov    | <b>-0.9 (-3.8)</b> | 0.2 (-2.5)                                 | 1.0 (-1.6) | <b>0.5 (-)</b> |

#### Auctions

| Country | Auction |
|---------|---------|
|---------|---------|




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

| Country | GMT   | Release                                      | Period | Market consensus/<br><i>Daiwa forecast</i> | Previous |
|---------|---|--|--------|--|----------|
| Germany |  09.00 | GDP Y/Y%                                     | 2020   | <b>-5.5</b>                                | 0.6      |
|         |  09.00 | General government deficit/surplus, % of GDP | 2020   | -6.0                                       | 1.5      |
| UK      |  00.01 | RICS house price balance %                   | Dec    | 61   | 66       |

#### Auctions and events

|       |   |  |
|-------|---|--|
| EMU   |  14:30 | ECB publishes the account of the 9-10 December MPC meeting |
|       |  16.00 | ECB's Hernández de Cos scheduled to speak                  |
| Italy |  10.00 | Auction: 3Y and 7Y bonds                                   |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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