

Euro wrap-up

Overview

- Despite softer-than-expected German factory orders data, Bunds made modest losses while BTPs again outperformed on hopes that Mario Draghi was moving closer to forming a new Italian government.
- On a quiet day for UK economic news, Gilts made further losses as yesterday's BoE optimism continued to resonate.
- The coming week brings updates on December industrial production in various euro area member states and Q4 GDP in the UK.

Chris Scicluna

+44 20 7597 8326

Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.721	+0.000
OBL 0 10/26	-0.688	+0.002
DBR 0 02/31	-0.445	+0.011
UKT 1¼ 09/22	-0.029	+0.011
UKT 0% 06/25	0.085	+0.031
UKT 4¾ 12/30	0.488	+0.050

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

Source: Bloomberg

Euro area

German factory orders December dip points to a softer start to 2021 for production

On a quiet end to the week for euro area economic data, Germany's factory order figures for December slightly disappointed expectations. Following seven successive months of growth, it was no surprise that orders took a step back at the end of last year. However, the decline of 1.9%M/M in December was roughly double the expected drop and pointed to a softer near-term outlook for the sector which had provided significant support to economic activity in Q4. Nevertheless, it still left orders up 7.0%Q/Q in Q4 and up 6.4%Y/Y and 2.6% above February's pre-Covid level at the end of the year.

Drop in auto sector weighs on total orders

The weakness in demand in December came from the rest of the euro area, for which new orders dropped a steep 7.5%M/M, no doubt accentuated by the intensification of the pandemic heading towards the New Year. Domestic orders were also softer, down 0.9%M/M, but orders from other countries rose 0.5%M/M. By sub-sector, orders of consumer goods jumped 6.4%M/M to a 2½-year high. And orders of intermediate goods rose 0.8%M/M to the best since April 2018. But orders of capital goods dropped 4.6%M/M to the lowest since September and back just below the pre-Covid level. That category was weighed in particular by a drop of 5.1%M/M in the auto sector, also back below the February level, likely due in part to the end of Germany's VAT cut and the global semiconductor shortage. Most categories of goods, however, including chemicals, metals and mechanical engineering, ended the year at or above the pre-Covid level.

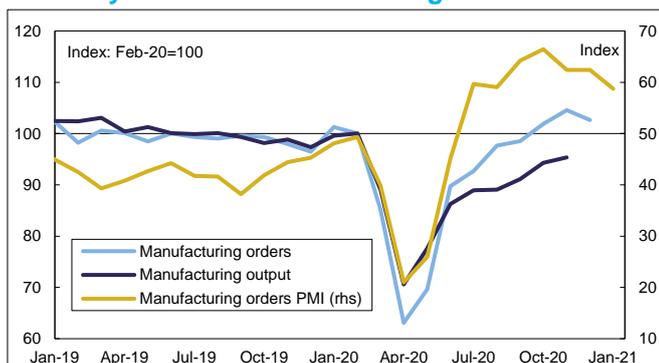
Manufacturing likely to slow but not shrink in the New Year

Meanwhile, manufacturing turnover rose for the fourth successive month in December and by a firm 2.1%M/M. While that left it still 1.8% below February's pre-Covid level, it suggests that Monday's production data for December should avoid a decline. The weaker December factory orders figures, however, seem highly likely to be followed by a drop in manufacturing production in January. But, while surveys and high-frequency data (such as the truck-toll index) also point to a softening of momentum in the sector early in the New Year, with some exceptions (e.g. the supply-chain afflicted auto sector), manufacturing output seems likely to continue to expand in Q1, albeit at a much softer pace than in Q4.

The week ahead in the euro area

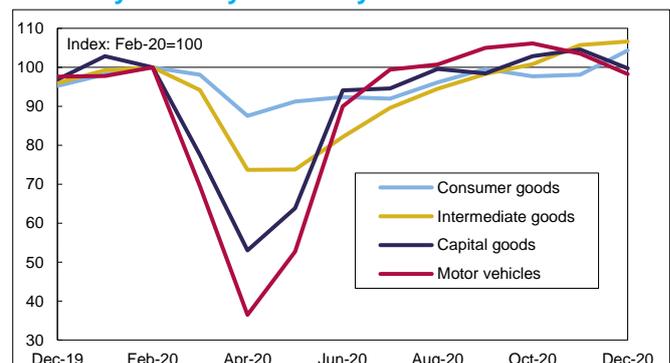
December data from the manufacturing sector are set to dominate the coming week's data-flow, starting with industrial production reports from Germany and Spain on Monday. In light of today's turnover data, German manufacturing output

Germany: Selected manufacturing indices



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

Germany: Factory orders by sub-sector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

could post an eight successive monthly rise but construction output is likely to decline following growth earlier in the quarter. German goods trade figures for the same month follow on Tuesday along with Italy's production data. French goods trade data published today suggested that the value of exports was unchanged on the month despite increased shipments to China and the UK, the latter related to stock-building ahead of the end of the Brexit transition. The French industrial output numbers come the following day. New survey results due include the Sentix investor survey for February (Monday) and the Bank of France's business survey for January (Tuesday). Final January inflation numbers – whose flash estimates shocked on the upside upon their release – will come from Germany and Portugal (Wednesday), the Netherlands (Thursday) and Spain (Friday).

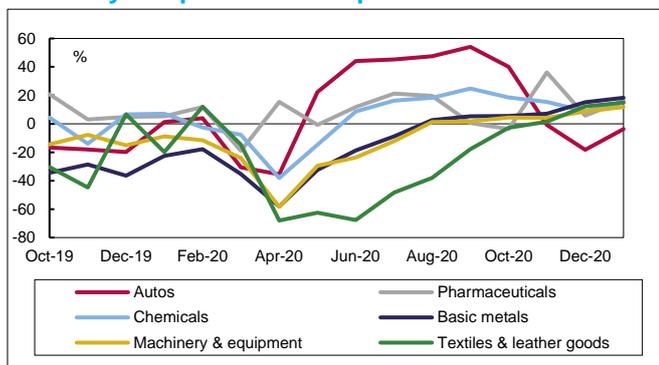
Beyond the economic data, attention at the start of the week will be on Italy, with Mario Draghi tomorrow set to conclude his first round of consultations with the political party leaders. With the centre-left Democrats, centrist Italia Viva, and centre-right Forza Italia of Silvio Berlusconi having pledged support, the talks with the Five Star Movement leadership could be crucial, with many members possibly open to backing Draghi's efforts if a senior role can be found in the new government for former PM Giuseppe Conte. Draghi will also consult with Italy's unions and the Confindustria business association before reverting to President Mattarella for further discussions on a possible way forward.

UK

The week ahead in the UK

The most notable UK data of the coming week are all due on Friday, when the first estimates of Q4 GDP are due. With December set to have seen a return to positive growth following November's dip, we now expect GDP to have grown by about 0.5%Q/Q following the jump of 16.0%Y/Y in Q3. That, however, will still leave GDP down about 8.2%Y/Y. Among the components, private consumption is likely to have dipped but fixed investment, inventories and a surge in exports ahead of the end of the Brexit transition should have provided support. In an otherwise quiet week for new UK data, Tuesday will bring the BRC's January retail sales survey, which seems bound to report a sharp drop in high-street sales due to the closure of non-essential stores nationwide for much of the month.

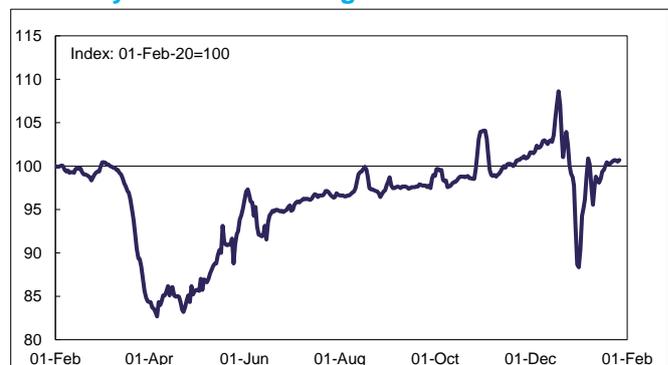
Germany: ifo production expectations index*



*3 months ahead expectations.

Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Truck toll mileage index



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

		2020	2021				2022	2020	2021	2022
		Q4	Q1	Q2	Q3	Q4	Q1			
GDP growth, %, Q/Q										
Euro area		-0.7	-0.8	1.4	1.4	1.3	1.1	-6.8	3.4	4.4
Germany		0.1	-1.0	1.2	1.2	1.2	1.0	-5.3	2.3	4.0
France		-1.3	-0.5	1.2	1.4	1.2	1.2	-8.3	5.1	4.5
Italy		-2.0	-0.5	1.5	1.5	1.4	1.2	-8.9	4.0	4.7
Spain		0.4	-1.0	1.5	1.4	1.2	1.2	-11.0	3.9	5.0
UK		0.5	-3.0	4.0	3.5	2.2	1.5	-10.0	4.6	7.1
Inflation forecasts, %, Y/Y										
Euro area										
Headline CPI		-0.3	1.0	1.6	1.9	2.2	1.1	0.3	1.7	1.2
Core CPI		0.2	1.3	1.3	1.5	1.7	0.8	0.7	1.5	0.9
UK										
Headline CPI		0.5	0.9	1.9	1.9	2.1	2.1	0.9	1.7	1.7
Core CPI		1.3	1.6	2.1	2.1	1.9	1.7	1.4	1.9	1.5
Monetary policy										
ECB										
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
PEPP envelope* (€bn)		1850	1850	1850	1850	1850	1850	1850	1850	1850
BoE										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases** (£bn)		895	895	895	895	895	895	895	895	895

*Monthly target €bn, end of period. **Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE 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	 Factory orders M/M% (Y/Y%)	Dec	-1.9 (6.4)	-1.0 (6.7)	2.3 (6.3)	2.7 (6.7)	
France	 Total trade balance €bn	Dec	-3.4	-4.3	-3.6	-3.8	
	 Preliminary private sector payrolls Q/Q%	Q4	-0.2	-0.7	1.6	-	
Italy	 Retail sales M/M% (Y/Y%)	Dec	2.5 (-3.1)	1.6 (-4.8)	-6.9 (-8.1)	- (-8.5)	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 08 February 2021					
EMU		09.30 Sentix investor confidence	Feb	2.0	1.3
Germany		07.00 Industrial production M/M% (Y/Y%)	Dec	0.1 (-1.1)	0.9 (-2.6)
Spain		08.00 Industrial production M/M% (Y/Y%)	Dec	0.2 (-2.2)	-0.9 (-3.8)
Tuesday 09 February 2021					
Germany		07.00 Trade balance, €bn	Dec	15.0	16.7
France		- Bank of France industrial sentiment	Jan	98	97
Italy		09.00 Industrial production M/M% (Y/Y%)	Dec	0.3 (-1.4)	-1.4 (-4.2)
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	Jan	-	4.8
Wednesday 10 February 2021					
Germany		07.00 Final CPI (EU-harmonised CPI) Y/Y%	Jan	1.0 (1.6)	-0.3 (-0.7)
France		07.45 Industrial production M/M% (Y/Y%)	Dec	0.4 (-1.7)	-0.9 (-4.6)
		07.45 Manufacturing production M/M% (Y/Y%)	Dec	-	0.5 (-4.3)
Uk		00.01 RICS house price balance, %	Jan	60	65
Thursday 11 February 2021					
- Nothing scheduled -					
Friday 12 February 2021					
Spain		08.00 Final CPI (EU-harmonised CPI) Y/Y%	Jan	0.6 (0.6)	-0.5 (-0.6)
UK		07.00 Preliminary GDP Q/Q% (Y/Y%)	Dec	<u>0.5 (-8.1)</u>	16.0 (-8.6)
		07.00 Monthly GDP M/M%	Dec	1.0	-2.6
		07.00 Industrial production M/M% (Y/Y%)	Dec	0.5 (-3.8)	-0.1 (-4.7)
		07.00 Manufacturing production M/M% (Y/Y%)	Dec	0.6 (-3.4)	0.7 (-3.8)
		07.00 Construction output M/M% (Y/Y%)	Dec	0.2 (-0.4)	1.9 (-1.4)
		07.00 Index of services M/M% (3M/3M%)	Dec	1.1 (-0.1)	-3.4 (3.7)
		07.00 Goods trade balance, £bn	Dec	-15.3	-16.0

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 08 February 2021		
- Nothing scheduled -		
Tuesday 09 February 2021		
EMU		15.00 ECB's Lane scheduled to speak
Germany		11.30 Auction: €1.5bn of 0.1% 2033 bonds
UK		10.00 Auction: £2bn of 1.25% 2041 bonds
Wednesday 10 February 2021		
EMU		13.00 ECB President Lagarde takes part in webinar organised by the Economist
Germany		18.30 Auction: €4bn of 0% 2026 bonds
UK		17.00 BoE Governor Bailey scheduled to speak
Thursday 11 February 2021		
EMU		07.45 ECB's Villeroy scheduled to speak
		08.00 ECB's de Guindos scheduled to speak
		10.00 European Commission publishes economic forecasts
		11.00 ECB's Knot scheduled to speak
Italy		10.00 Auction: 3Y and 7Y bonds
Friday 12 February 2021		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.