

Euro wrap-up

Overview

- Bunds made modest losses while the latest German IP data slightly disappointed expectations, but BTPs again outperformed as Mario Draghi appeared firmly on course to form a new Italian government.
- Gilts ended little changed on a day free of new top-tier UK economic data.
- Tuesday will bring data for German trade and Italian IP in December along with a January retail survey from the UK.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.720	+0.006
OBL 0 10/26	-0.690	+0.002
DBR 0 02/31	-0.446	+0.004
UKT 1½ 09/22	-0.043	-0.006
UKT 0% 06/25	0.078	-
UKT 4¾ 12/30	0.475	-0.004

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

Source: Bloomberg

Euro area

German IP uptrend paused in December

The run of seven consecutive monthly increases in German industrial production (including construction) came to an end in December, as overall output was unchanged from November. That meant that IP was down 0.7%Y/Y and 3.6% below last February's pre-Covid-19 level. However, over Q4 as a whole it was up a marked 6.2%Q/Q having risen 10.5%Q/Q in Q3. Moreover, output of manufacturing and mining grew for the eighth month in row, rising 0.9%M/M. While it was still down 3.8% from the pre-pandemic level, manufacturing and mining output was up 6.7%Q/Q in Q4.

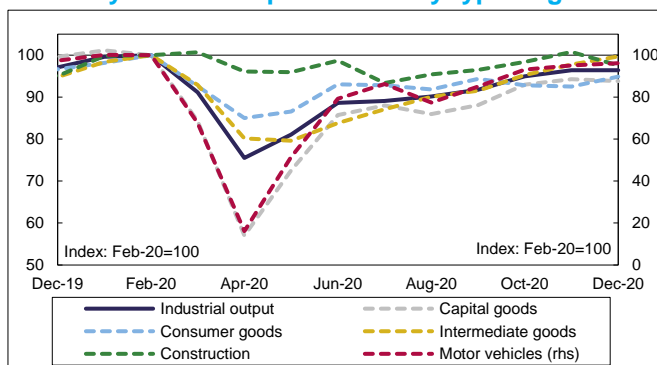
Within the detail, production of autos rose a further 1.2%M/M to be 3.8% below February's level, while output of chemicals (up 3.4%M/M), pharmaceuticals (4.2%M/M) and metals (up 1.9%M/M) also saw continued growth albeit remaining below the pre-pandemic level. Output of consumer goods rose for the first time since September, up 2.6%M/M to be about 5% below February's level. Production of machinery, however, dropped 2.4%M/M to be almost 10% below the pre-pandemic level. Beyond the manufacturing sector, construction output dropped 3.2%M/M but remained above the pre-Covid level and up 4.0%Q/Q. And energy output also dropped, falling 2.9%M/M, but was up 4.5%Q/Q albeit still more than 5% below the pre-pandemic level.

Looking ahead, the drop in German factory orders in December tallies with survey evidence that we should expect softer growth in manufacturing in the first quarter. In particular, auto production will be weighed by the hit to domestic demand from the reversal of last summer's temporary VAT cut as well as supply-chain problems associated with global semiconductor supply. Surveys also point to a possible further softening of construction output.

Spanish IP returned to growth at end-2020 before likely dip in the New Year

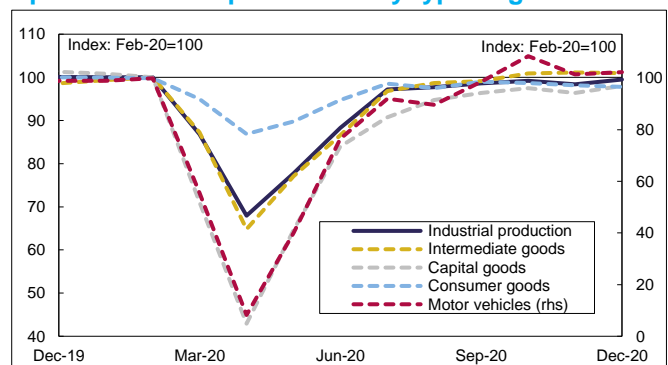
Following a dip of 0.9%M/M in November, Spanish industrial production (excluding construction) rebounded 1.1%M/M in December to be down just 0.5% from February's pre-pandemic level. Over the fourth quarter as a whole, it rose 1.2%Q/Q in Q4, perhaps unsurprisingly marking a significant slowdown from growth of 25.4%Q/Q in Q3. Growth in December was centered principally on the capital goods sector, production of which rose 1.7%M/M to be down just 2.0% from February's level. Output of consumer durables rose 0.2%M/M to be down less than 1.0% from the pre-pandemic level, while autos production rose 0.8%M/M to be 2.3% above the pre-pandemic level. And output of intermediate items fell just 0.1%M/M to remain above the pre-Covid level too. Survey indicators such as the manufacturing PMI, which fell to a seven-month low of 49.3 in January, point to a soft start to the year for Spanish production. While that was in part due to the extreme winter

Germany: Industrial production by type of good



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Spain: Industrial production by type of good



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

weather last month, supply-chain pressures related to delays to delivery of components from Asia and the ongoing pandemic are also acting as a restraint. And over Q1 as a whole, we expect Spanish production to decline from Q4.

Sentix survey points to a modest loss of investor confidence in the region

Today's sentix survey gave a first indication of investor sentiment in the region in February. And the results were a little disappointing, with evidence of continuing restrictions on economic activity weighing slightly on confidence. Indeed, having risen in January to the highest level since before the pandemic, the sentix overall economic index for the euro area fell 1.5pts to -0.2, still nevertheless above the range from March to December 2020. Investors' assessment of both current (down 1.0pt to -25) and expected conditions six months ahead (down 2.0pts to 31.3) both declined. While the former thus remained well below the pre-Covid range, the latter remained exceptionally high by historical standards, signaling the expectation of strong economic recovery when pandemic containment measures are relaxed. Unfortunately, over the immediate term, the measures are more likely to be tightened, with Germany's restrictions set this week to be extended for a further fortnight.

The coming two days in the euro area

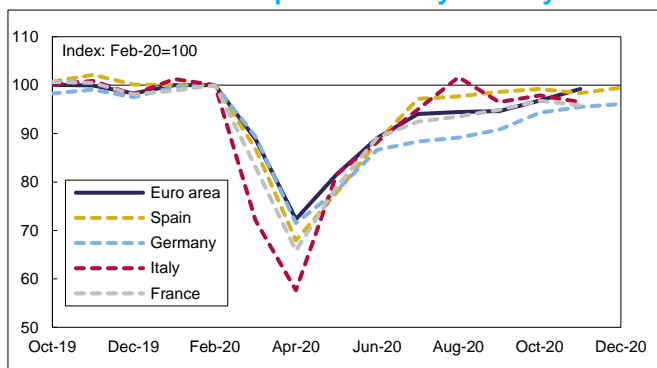
The coming two days should be relatively quiet on the euro area economic data front with the focus remaining on the manufacturing sector. Italian and French IP figures will be published tomorrow and Wednesday respectively, with monthly increases in output expected in both countries. Taken together with today's stronger than expected Spanish data the aggregate euro area number, published in a week's time, would then also likely see a further modest increase in production on the month underscoring the positive contribution to growth from the sector in Q420. German trade numbers for December will also be published tomorrow, as well as the Bank of France's business survey for January. On Wednesday, final German CPI figures are expected to confirm that inflation jumped sharply by a record amount in January, up 1.3ppts to 1.0%Y/Y on the national measure and up 2.3ppts to 1.6%Y/Y on the EU-harmonised measure. In terms of ECB speakers, Chief Economist Lane is due to speak publicly tomorrow, followed by President Lagarde on Wednesday.

UK

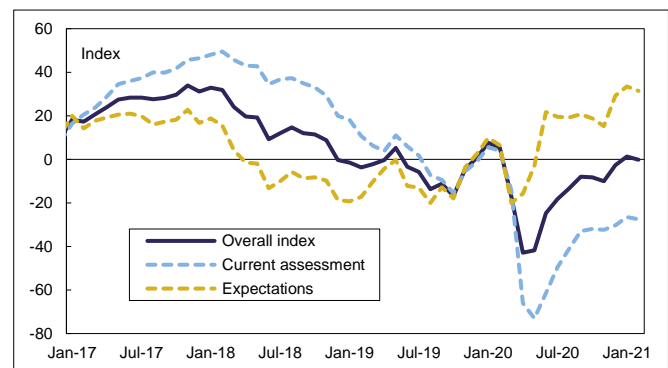
The coming two days in the UK

Data-wise, tomorrow brings the release of 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. Meanwhile, on Wednesday, the January RICS housing market survey is expected to point to a weakening in activity in the market due to the revival of the pandemic and anticipation of the approaching end to the government's stamp duty holiday. Attention on Wednesday evening will be on BoE Governor Bailey who is due to speak publicly at Mansion House.

Euro area: Industrial production by country*



Euro area: Sentix investor confidence indices






The next edition of the Euro wrap-up will be published on 10 February 2021

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Sentix investor confidence	Feb	-0.2	2.0	1.3	-
Germany	 Industrial production M/M% (Y/Y%)	Dec	0.0 (-1.0)	0.1 (-1.1)	0.9 (-2.6)	1.5 (-2.5)
Spain	 Industrial production M/M% (Y/Y%)	Dec	1.1 (-0.6)	0.2 (-2.2)	-0.9 (-3.8)	- (-3.7)





Auctions

Country	Auction
- Nothing to report -	



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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





Auctions and events

EMU	 15.00	ECB's Lane scheduled to speak
Germany	 11.30	Auction: €1.5bn of 0.1% 2033 bonds





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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

Auctions and events

EMU	 13.00	ECB President Lagarde takes part in webinar organised by the Economist
Germany	 10.30	Auction: €4bn of 0% 2026 bonds
UK	 10.00	Auction: £2bn of 1.25% 2041 bonds
	 17.00	BoE Governor Bailey scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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