

Euro wrap-up

Overview

- Bunds and other euro area govies made further losses despite weaker-than-expected euro area industrial production data for December.
- Gilts also made losses after the weekend saw the number of UK inhabitants vaccinated again coronavirus surpass 15mn.
- Tuesday will bring the ZEW investor survey for February and euro area revised GDP and preliminary employment figures for Q4.

Chris Scicluna

+44 20 7597 8326

Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.706	+0.013
OBL 0 04/26	-0.654	+0.034
DBR 0 02/31	-0.385	+0.045
UKT 1½ 09/22	-0.046	+0.004
UKT 0% 06/25	0.099	+0.021
UKT 4% 12/30	0.567	+0.052

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

Source: Bloomberg

Euro area

Steeper than expected December drop in IP

The data focus at the start of the week was the factory sector, with December figures for euro area industrial production and goods trade released. The output figures were somewhat weaker than expected, reporting a drop of 1.6%M/M in total industrial production (excluding construction), including a fall of 1.7%M/M in manufacturing output. The main driver of the decline in overall production was capital goods, which dropped 3.1%M/M having jumped by a cumulative 9.7% in the first two months of Q4. Output of motor vehicles declined 2.0%M/M while production of machinery and equipment dropped 1.2%M/M. In contrast, supported by further growth in chemicals and metals, production of intermediate goods rose 1.0%M/M having grown 4.1% in October and November. Production of durable consumer goods rose by 0.8%M/M, but output of non-durable consumer goods slipped by 0.6%, weighed by a steep drop in the pharmaceuticals sector. Energy production rose 1.4%M/M. Among the member states, production rose in Germany (0.6%M/M) and Spain (0.7%M/M), but fell in France (0.8%M/M) and Italy (0.2%M/M). So, while Eurostat failed to provide a figure for the country, a drop of roughly one quarter in Ireland following growth of about 50%M/M in November explains the steepness of the drop in December.

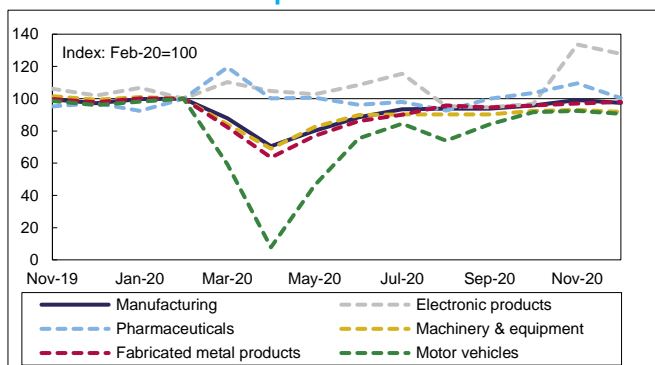
Production on track to return to pre-pandemic level by end-Q1

Given the fall in December, manufacturing production ended the year 2.6% below February's pre-pandemic level. While output of chemicals, pharmaceuticals, rubber and certain other items was above the pre-pandemic level, auto production was still down 2.2% from that benchmark, with machinery and equipment production down 8.1% on the same basis. But following the firm start to the quarter, manufacturing output rose a respectable 4.1%Q/Q in Q4 following the record jump of 17.6%Q/Q in Q3. Orders and survey indicators point to ongoing growth in Q1, albeit at a softer pace. While the gap with the pre-pandemic level is likely to be closed by March, supply-chain disruption represents one key downside risk, particularly for the autos subsector. The hit to demand from the UK due to the new post-Brexit trade rules is an additional cause for concern. So, Friday's flash PMIs – for which the euro area manufacturing output dropped 1.7pts in January to 54.6, with a similar reading for new export orders – will be closely watched.

Exports outpace imports to push trade surplus to record high

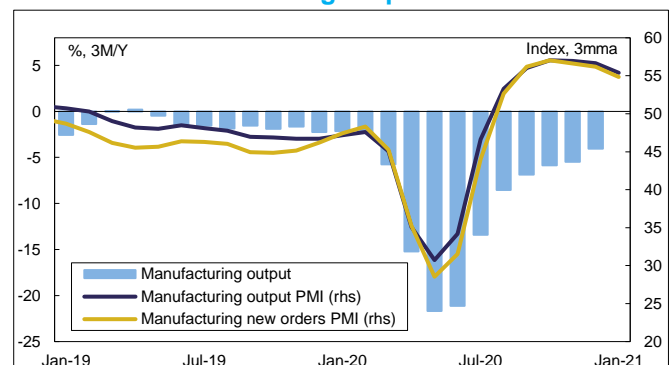
The recovery in euro area exports has provided important impetus to manufacturing output. And that was sustained in December. Indeed, export values rose for the eighth successive month and by 1.1%M/M to be 3.6% below February's pre-pandemic level. In contrast, imports fell back by 0.3%M/M to be 5.2% below the pre-pandemic level. Over Q4 as a whole, export values jumped 6.7%Q/Q, comfortably outpacing imports, which rose just 4.3%Q/Q. And the trade surplus on the same

Euro area: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output & PMI



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

seasonally adjusted basis rose in December to a record high of €27.5bn. By type of good, shipments of chemicals in December were above their level a year earlier but those of machinery and autos were down more than 10%Y/Y. By country, export growth in December was led by Asia and the US, with a drop in shipments to the UK following the Brexit-related surge the prior months. Compared to a year earlier, exports to China were up almost 14.0%Y/Y while they were up almost 9.0%Y/Y to the UK and a little more than 6½ Y/Y to the US.

The coming days in the euro area

Looking ahead, tomorrow's updated estimate of euro area GDP will likely reaffirm the smaller-than-expected drop of about 0.7%Q/Q to be down 5.1%Y/Y. The figures will be accompanied with preliminary data for employment that quarter, which are likely to suggest further growth in jobs towards year-end. Further sentiment surveys for February will also be published in the coming days, with Germany's ZEW investor sentiment survey to be published tomorrow, followed by the European Commission's preliminary consumer confidence survey on Thursday. Also of note on Thursday will be the publication of the account of the ECB's [January policy meeting](#), when Lagarde's insistence that the ECB might well not buy the full PEPP envelope and was also not targeting yields prompted a sell-off of bonds. The most notable new data of the week will come on Friday in the shape of February's flash PMIs. These are likely to show very little change from January's indices, which pointed to expansion in manufacturing (with the respective euro area PMI at 54.8) but contraction in services (the respective euro area PMI at 45.4) and overall GDP (euro area composite PMI at 47.8).

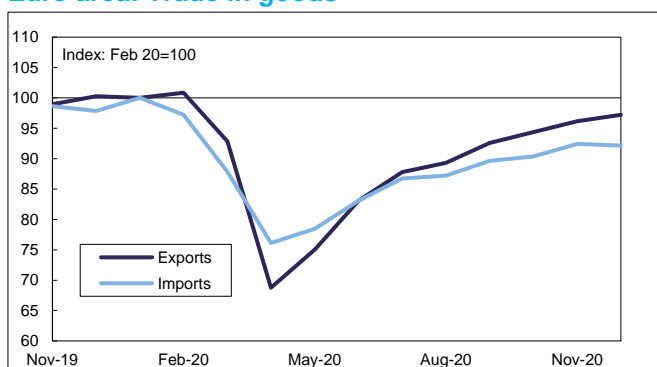
The coming days in the UK

After an uneventful start to the week, the quiet tone in the UK continues tomorrow, with no economic data scheduled for release. On Wednesday, the focus will be on January's inflation data. The intensification of the pandemic and tightening of containment measures at the start of the year might be expected to add some downwards pressure to inflation. But the extra costs faced by businesses due to Brexit are likely to provide an upwards impulse, particularly to prices of imported items and goods containing a large share of imported components. On balance, we expect inflation to continue to move broadly sideways in Q1 and the consensus for January is for CPI to fall 0.1ppt to 0.5%Y/Y. BoE Deputy Governor Ramsden will also be speaking on Wednesday about the BoE's QE policy. The comments might be of interest in light of the MPC's decision this month to review its current tightening strategy, whereby the BoE would not reduce its asset holdings until Bank Rate had risen to 1.5%.

After a quiet day on Thursday, with no data scheduled for release, Friday's retail sales data will reveal how the sector is fairing in England's third lockdown. Recent retail survey data has brought somewhat contrasting impressions of the extent of the hit to consumer spending at the start of the year, with spending on the high street and on fuel reportedly lower last month as people stayed home. In contrast, spending on food and durable goods for the home (including IT equipment to support home-schooling) via online retailing was reported to have risen last month. Excluding fuel, retail sales are forecast to fall 1% on the month in January, albeit leaving them 4.7% higher compared to their pre-pandemic level. Friday's consumer confidence survey from the GfK will offer some insight into spending intentions going forward. And the preliminary manufacturing and services sector PMIs for February, also to be published that day, will, as in the euro area, likely be little changed from January.

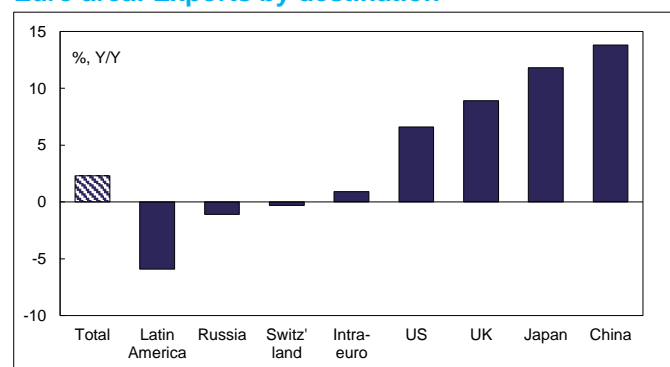
Due to annual leave, the next edition of the Euro wrap-up will be published on 19 February 2021

Euro area: Trade in goods



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Exports by destination







Source: Refinitiv 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
EMU	 Industrial production M/M% (Y/Y%)	Dec	-1.6 (-0.8)	-0.5 (-0.2)	2.5 (-0.6)	2.6 (-0.6)
	 Trade balance €bn	Dec	27.5	-	25.1	24.9
Spain	 House transactions Y/Y%	Dec	3.7	-	1.9	-
UK	 Rightmove house price index M/M% (Y/Y%)	Feb	0.5 (3.0)	-	-0.9 (3.3)	-







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
EMU		10.00 Preliminary GDP Q/Q% (Y/Y%)	Q4	-0.7 (-5.1)	12.5 (-4.3)
		10.00 Preliminary employment Q/Q% (Y/Y%)	Q4	-	1.0 (-2.3)
Germany		10.00 ZEW current assessment balance (expectations)	Feb	-66.5 (59.5)	-66.4 (61.8)
France		06.30 ILO unemployment rate (mainland unemployment rate) %	Q4	9.1 (8.9)	9.0 (8.8)
		- Bank of France retail sales Y/Y%	Jan	-	15.4
Italy		09.00 Total trade balance €bn	Dec	-	6.7

Auctions and events

UK		10.00 Auction: £3.25bn of 0.125% 2024 bonds
		11.30 Auction: £1.25bn of 1.75% 2057 bonds














Upcoming releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Wednesday 17 February 2021					
EMU		07.00 EU27 new car registrations Y/Y%	Jan	-	-3.3
		10.00 Construction output M/M% (Y/Y%)	Dec	-	1.4 (-1.3)
UK		07.00 CPI (core CPI) Y/Y%	Jan	0.5 (1.3)	0.6 (1.4)
		07.00 PPI input prices (output prices) Y/Y%	Jan	-	0.2 (-0.4)
		09.30 Land Registry house price index Y/Y%	Dec	-	7.6
Thursday 18 February 2021					
EMU		15.00 European Commission's preliminary consumer confidence	Feb	-15.0	-15.5
Friday 19 February 2021					
EMU		09.00 Preliminary manufacturing (services) PMI	Feb	54.4 (45.9)	54.8 (45.4)
		09.00 Preliminary composite PMI	Feb	48.0	47.8
Germany		07.00 PPI Y/Y%	Jan	-	0.2
		08.30 Preliminary manufacturing (services) PMI	Feb	57.0 (46.5)	57.1 (46.7)
		08.30 Preliminary composite PMI	Feb	50.5	50.8
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	Jan	0.6 (0.8)	0.0 (0.0)
		08.15 Preliminary manufacturing (services) PMI	Feb	51.3 (47.0)	51.6 (47.3)
		08.15 Preliminary composite PMI	Feb	48.4	47.7
Italy		09.00 Final CPI (EU-harmonised CPI) Y/Y%	Jan	0.2 (0.5)	-0.2 (-0.3)
Spain		09.00 Trade balance €bn	Dec	-	-0.6
UK		00.01 GfK consumer confidence	Feb	-25	-28
		07.00 Retail sales including fuel M/M% (Y/Y%)	Jan	-1.0 (1.4)	0.3 (2.9)
		07.00 Retail sales excluding fuel M/M% (Y/Y%)	Jan	-0.9 (4.0)	0.4 (6.4)
		07.00 Public sector net borrowing £bn	Jan	19.8	33.4
		09.30 Preliminary manufacturing (services) PMI	Feb	53.0 (42.0)	54.1 (39.5)
		09.30 Preliminary composite PMI	Feb	43.0	41.2
		11.00 CBI industrial trends survey, total orders	Feb	-32	-38

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Auctions and events

Wednesday 17 February 2021					
Germany		10.30 Auction: €1.5bn of 1.25% 2048 bonds			
UK		10.00 Auction: £2.5bn of 0.625% 2035 bonds			
		16.00 BoE Deputy Governor Ramsden scheduled to speak on quantitative easing			
Thursday 18 February 2021					
EMU		12.30 ECB publishes the minutes of the 20-21 st January monetary policy meeting			
		16.15 ECB's Schnabel scheduled to speak			
France		09.50 Auction: 0% 2024 bonds			
		09.50 Auction: 0% 2026 bonds			
		09.50 Auction: 0.5% 2029 bonds			
		09.50 Auction: 0.1% 2026 index-linked bonds			
		09.50 Auction: 0.1% 2036 index-linked bonds			
		09.50 Auction: 0.1% 2047 index-linked bonds			
Spain		09.30 Auction: fixed rate bonds			
UK		11.00 BoE's Saunders scheduled to speak			
Friday 19 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>.