

Euro wrap-up

Overview

- Bunds made losses while German Q4 GDP was revised up a touch despite a larger-than-expected drop in private consumption.
- Gilts made losses at the long end of the curve while BoE Deputy Governor Broadbent stated that it would “take significant news” for the BoE to alter the pace of Gilt purchases.
- Thursday will bring the European Commission’s economic sentiment indices for February and euro area bank lending data for January.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.695	+0.003
OBL 0 04/26	-0.615	+0.004
DBR 0 02/31	-0.306	+0.012
UKT 1½ 09/22	0.011	-0.016
UKT 0% 06/25	0.270	-0.004
UKT 4¾ 12/30	0.727	+0.011

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

Source: Bloomberg

Euro area

German GDP grew in Q4 thanks to construction, trade and inventories

Today’s revised German GDP figures nudged up the estimate of growth in Q4 by 0.2ppt to 0.3%Q/Q, which took the annual rate to -3.7%Y/Y (working day adjusted). Given the lockdown in the middle of the quarter, GDP was probably as firm as anyone might have dared hope. Indeed, the expenditure breakdown, published for the first time today, showed that the drop in household consumption was roughly double the consensus expectation, at 3.3%Q/Q to be down 6.5%Y/Y. Perhaps surprisingly, government consumption also dropped (-0.5%Q/Q), but following strong growth earlier in the year it was still up 2.6%Y/Y. So, the good news came from fixed investment, which rose 1.0%Q/Q to be down just 0.9%Y/Y. Investment in construction was up 1.8%Q/Q and 3.0%Y/Y with capex on machinery and equipment down just 0.1%Q/Q albeit still down a steep 6.0%Y/Y. And with exports of goods and services (up 4.5%Q/Q but still down 2.9%Y/Y) outpacing imports (up 3.7%Q/Q but down 5.1%Y/Y), net trade added 0.6ppt to growth. But it was only thanks to inventory accumulation, which added 1.4ppts, that GDP growth in Q4 was positive.

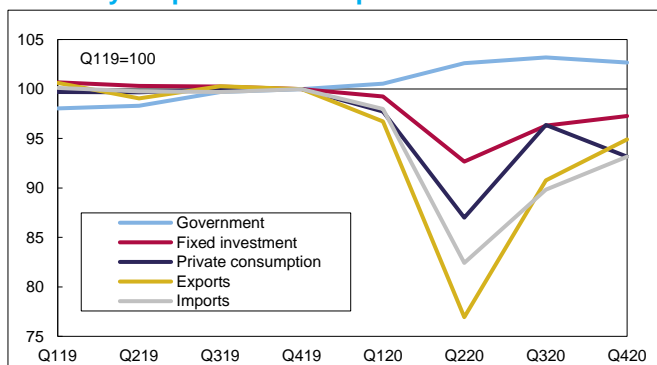
Recovery to become broader-based after likely dip in Q1

With global demand likely to pick up, not least thanks to US fiscal stimulus, net trade and inventories should continue to contribute positively to German GDP growth over coming quarters. Surveys tally with that view, with the ifo manufacturing export expectations index up to the highest since September 2018 while the flash German manufacturing new export orders PMI rose in February to the highest since late 2017. Being relatively low by historical standards, inventories should pick up further with the rise in final demand. And given the significant shortfall from the pre-Covid level, investment in machinery and equipment, like investment in intellectual property, should see solid growth over coming quarters. In contrast, surveys suggest that investment in construction will be somewhat more subdued. And the ongoing lockdown means that private consumption will contract again in Q1. Nevertheless, with real disposable income having picked up above the levels a year earlier in Q3 and Q4, household savings remain elevated – indeed, the respective savings ratio rose in the final quarter to the second highest level on the series. So, with a gradual reopening of the German services and retail sectors likely from March on, German private consumption should resume a firm upwards trend from Q2. And that should help to sustain a recovery in GDP back above the pre-Covid level in the first half of 2022. Quite how fast it gets there, however, will partly depend on the pace at which households spend their extra savings.

INSEE flags further weakening in French services and retail in February

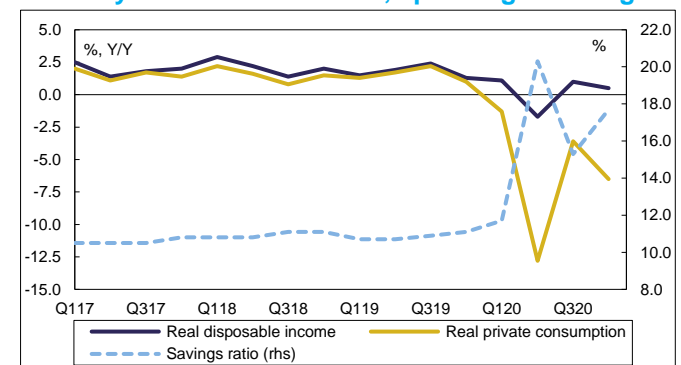
Just like the flash PMIs, today’s INSEE business survey results pointed to a deterioration in French business conditions this month, albeit with predictable differences of fortune between the various sectors. The headline business climate index

Germany: Expenditure components of GDP



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Household income, spending & savings



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

dropped 1pt in February to a three-month low of 90, 10% below the long-run average. The employment climate index fell 3pts to a three-month low of just 85, even further below the long-run average (similarly of 100). Also suggested by the flash PMIs, the INSEE survey reported notable deterioration in services, for which the headline confidence index fell 4pts to just 88, with firms more pessimistic about the outlook for demand and their own selling prices. While the survey reported a sharp additional weakening in hospitality, it also reported deterioration in ICT, administrative and support services, and technical and professional services. Likewise, the survey reported a four-point decline in the business climate index for retailers, to 89, with the assessment of recent sales down significantly, expected sales unchanged at a historically weak level, and expected selling prices stable.

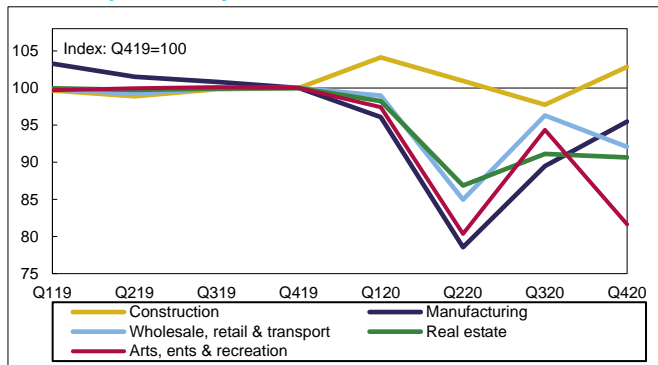
French industry and construction firms more upbeat

More positively, the headline index for industry edged up again by 1pt to 97, still nevertheless somewhat below the long-run average. Manufacturers reported increased orders and production prospects, but with the improvement most notable in the food and beverages and metals sub-sectors. Weakness in transport equipment beyond the auto sector (e.g. aviation) largely explained the shortfall from the long-run average. Finally, contradicting the downbeat construction PMI, which fell to an eight-month low of just 39.5 at the start of the year, the INSEE survey suggested that building firms are relatively optimistic about the outlook, buoyed by gradual improvement in orders.

The day ahead in the euro area

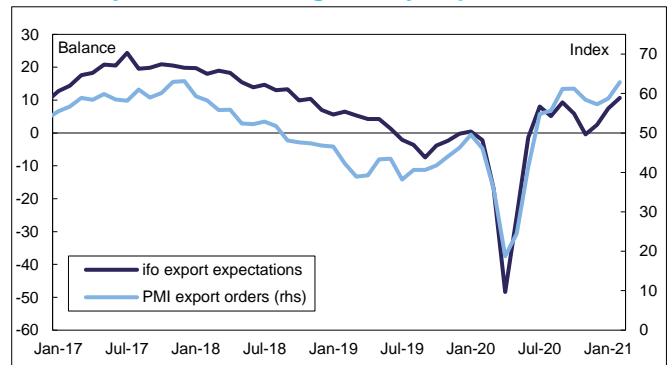
Tomorrow sees the release of the European Commission’s comprehensive economic sentiment indices for February, as well as consumer confidence surveys from Germany, France and Italy, which will provide further insight into how the euro area economy is faring in the face of continued containment measures. In particular, the Commission’s survey is expected to highlight the continued divergence between the services and manufacturing sectors with the headline confidence indicator for the former expected to remain unchanged at -17.8 in February, the lowest since July last year. In contrast, the industrial sentiment index is expected to rise 0.9pt to -5.0, which would mark the strongest reading since May 2019. Meanwhile, the Commission’s final euro area consumer confidence figure is expected to confirm the flash estimate, which was up 0.7pt to -14.8, still below the level at the end of 2020. The respective February consumer surveys from Germany, France and Italy might also thus reveal a modest improvement in confidence this month. Euro area bank lending data for January are also due for release.

Germany: GVA by economic sector



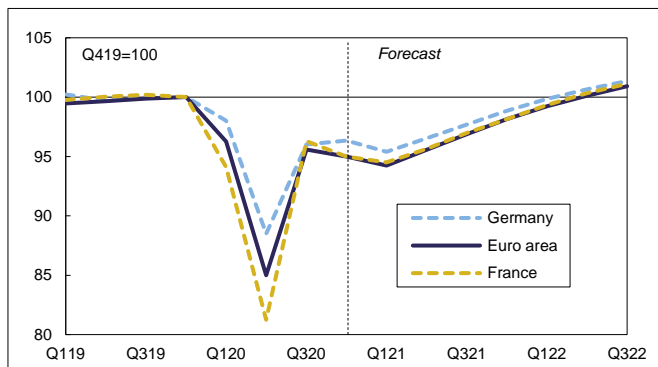
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing survey export indices



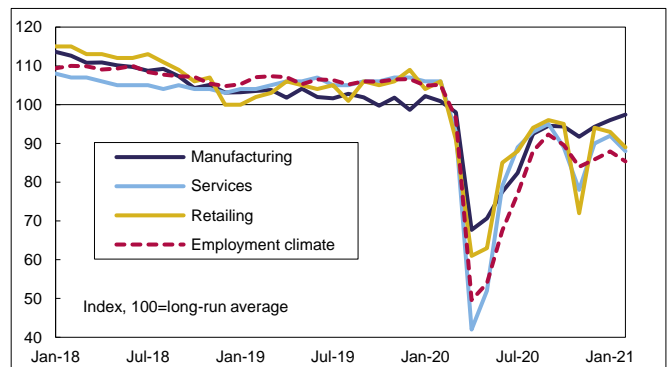
Source: ifo, Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: GDP forecasts



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: INSEE business climate indices







Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK














The day ahead in the UK

Data-wise, tomorrow will be another quiet day in the UK, with no key releases scheduled.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Final GDP Q/Q% (Y/Y%)	Q4	0.3 (-2.7)	0.1 (-3.9)	8.5 (-4.0)	-
France	 INSEE business confidence	Feb	90	92	92	91
	 INSEE manufacturing confidence (production outlook)	Feb	97 (-8)	99 (-8)	98 (-9)	96 (-10)
Auctions						
Country	Auction					
Germany	 sold €3.3bn of 0% 2031 bonds at an average yield of -0.32%					

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		09.00 M3 money supply Y/Y%	Jan	12.5	12.3	
		10.00 Final European Commission's consumer confidence	Feb	-14.8	-15.5	
		10.00 European Commission's industrial confidence (services)	Feb	-5.0 (-17.8)	-5.9 (-17.8)	
		10.00 European Commission's economic confidence	Feb	92.0	91.5	
Germany		07.00 GfK consumer confidence	Feb	-14.0	-15.6	
France		07.45 INSEE consumer confidence	Feb	92	92	
Italy		09.00 ISTAT consumer (manufacturing) confidence	Feb	101.0 (96.0)	100.7 (95.1)	
		09.00 ISTAT economic confidence	Feb	-	87.9	
Spain		08.00 PPI Y/Y%	Jan	-	-1.4	
Auctions and events						
EMU		10.45 ECB Chief Economist Lane scheduled to speak				
		14.00 ECB's de Guindos scheduled to speak				
Italy		10.00 Auction: €5bn of 0% 2026 bonds				
		10.00 Auction: €1.25bn of 2023 floating rate bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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