

# Euro wrap-up

## Overview

- Bunds weakened as Germany's ruling CDU/CSU alliance failed to agree on its candidate to try to succeed Merkel as Chancellor while the latest euro area retail sales data beat expectations.
- Gilts also made losses on a quiet start to the week for UK economic data.
- Tuesday will bring UK GDP and trade data for February and the April ZEW investor sentiment survey results.

**Chris Scicluna**

+44 20 7597 8326

### Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.718	-0.006
OBL 0 04/26	-0.633	+0.003
DBR 0 02/31	-0.296	+0.009
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.044	+0.010
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.357	+0.010
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.790	+0.020

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

Source: Bloomberg

## Euro area

### Retail sales beat expectations in February but on track for Q1 decline

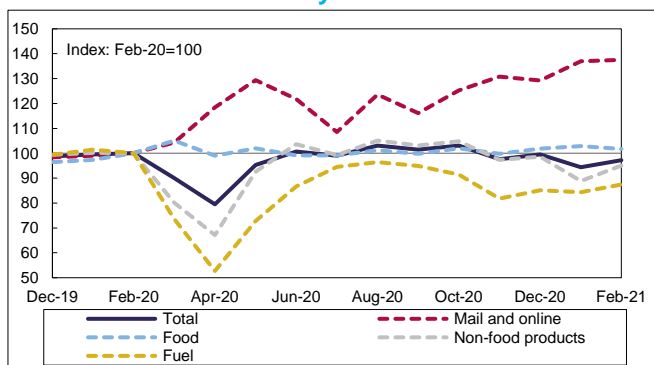
On a quiet start to the week for European economic data, the euro area's retail sales figures for February beat expectations with growth of 3.0%M/M, roughly twice as strong as the Bloomberg consensus. Following the drop of 5.2%M/M in January as lockdown restrictions were tightened in many member states, however, that still left sales down 2.9%Y/Y. Within the detail, sales of food, drinks and tobacco slipped back 1.1%M/M but were still up 1.9%Y/Y. Sales of core items (neither food nor auto fuel) rebounded 6.8%M/M to be down 5.5%Y/Y. With greater mobility, auto fuel sales rose 3.7%M/M but were still down 13.0%Y/Y. And online and mail order sales rose just 0.4%M/M, albeit up 37.3%Y/Y to a new series high. Among the member states, there was significant variation depending on the dynamics of the pandemic and associated containment measures. So, for example, sales in Germany rose a modest 1.2%M/M to be down a relatively marked 5.3%Y/Y. But while French sales fell for a second month and by 1.2%M/M they were still up 1.6%Y/Y. Although Italian sales rebounded 8.4%M/M as some restrictions were eased, they were still down 5.6%Y/Y. And sales also posted strong growth from the prior month in Austria (28.2%M/M), Slovenia (16.4%M/M) and Ireland (7.9%M/M) to explain the better-than-expected outturn.

Despite the return to growth in February, the average level of sales in the euro area in the first two months of Q1 was still 4.3% below the Q4 average with weakness in Germany (down more than 10% from the Q4 average) and Spain (down almost 5% from Q4) more than offsetting growth in France (up 1.5% from Q4) and little change in Italy. And so even assuming further moderate growth in March, retail sales look set to have declined by perhaps 3% or more over Q1 as a whole, underscoring the likelihood of a further contraction in GDP in the first quarter too.

### CDU and CSU fail to agree choice of candidate to succeed Merkel

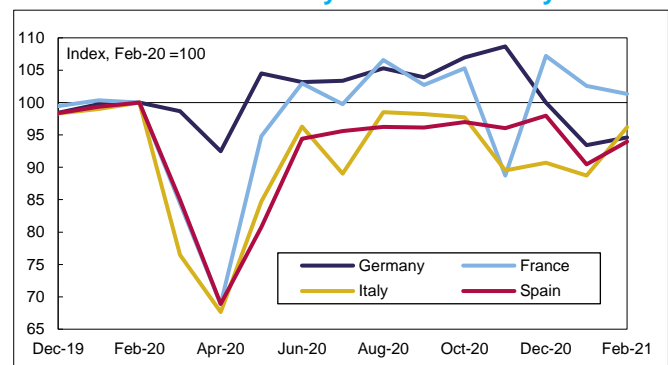
Beyond the economic data, German politics was in focus today as the centre-right CDU and CSU parties failed to agree on a preferred joint candidate to try to succeed Angela Merkel as German Chancellor at the 26 September general election. Yesterday both CDU Chairman Armin Laschet and CSU leader Markus Soeder announced their intention to run as the candidate for the centre-right alliance. Today North-Rhine Westphalia Premier Laschet – who would broadly represent centrist continuity from Merkel – received broad backing from the CDU's leadership committee. And shortly afterwards, the leadership of the CSU gave its own support to the populist conservative Soeder. While the CSU is the clear junior partner and has only managed to persuade the CDU of the merits of its candidates on two occasions in the past – both times leading the centre-right alliance to defeat against the SPD – opinion polls strongly suggest that the parties would fare far better if Soeder was the candidate. For example, an RTL/NTV survey by Forsa last week suggested that 38% of voters nationwide might support Soeder as Chancellor compared to just 17% for Laschet. A separate poll published by WDR on the weekend

### Euro area: Retail sales by sub-sector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Retail sales by selected country



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

suggest that Soeder was even far more popular than Laschet – by 49% to 24% - in the latter’s home state of North-Rhine Westphalia. And the centre-right parties currently need all the support they can get. Given rising dissatisfaction at the government’s handling of the pandemic, on average opinion polls suggest that support for the CDU/CSU has dropped by almost 10ppts since the start of the year, to about 27%. At the same time, the Greens have consolidated their position as the second-placed party, with average ratings up to about 22%, roughly 6ppts ahead of the centre-left SPD in third. Based on these polls, there might only be two possible workable federal governments to emerge from September’s general election. Either the CDU/CSU would have to form a new coalition with (and perhaps led by) the Greens; or they might drop out of federal government altogether at the expense of an alternative “traffic-light” coalition of the Greens, SPD and centre-right Free Democrats. So, assuming that the Parliamentary caucus of the CDU/CSU will be given the task this week to select the alliance’s candidate, we see a strong probability that Soeder will finally get the nod.

## The day ahead in the euro area

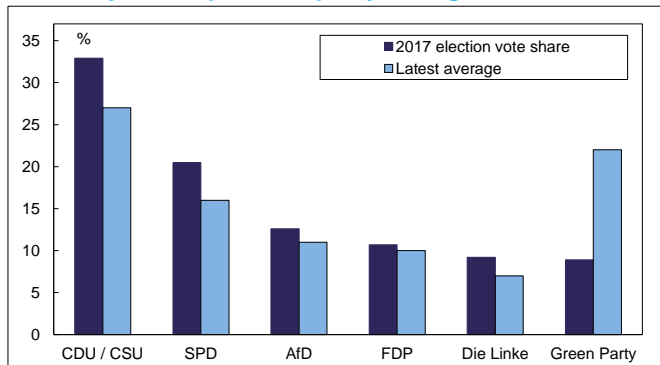
Looking ahead, tomorrow brings the release of the German ZEW investor sentiment survey for April. Last month’s survey exceeded expectations, with improvements in both the current assessment and expectations balances. And like last week’s Sentix survey, the April ZEW indices should point to improved perceptions of current conditions despite recent lockdown tightening as well as highly upbeat expectations of future conditions. Tuesday will also bring the release of Italian industrial production numbers for February, which are expected to report a third successive month of positive growth, albeit of less than 1.0%M/M to be down roughly 2.0%Y/Y. In addition, the process to determine the CDU/CSU candidate for Chancellor in the autumn’s general election might also become somewhat clearer than at present.

## UK

### The day ahead in the UK

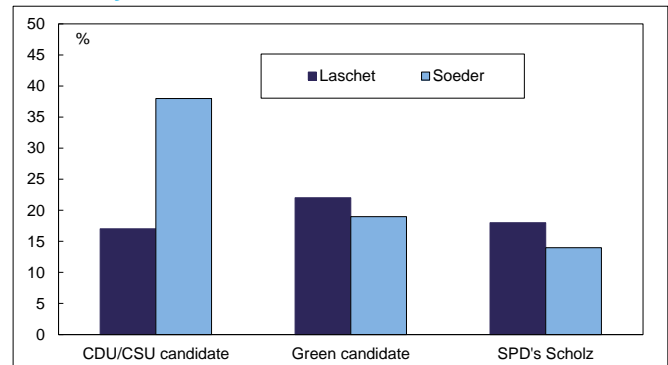
All of this week’s most noteworthy UK economic data will come tomorrow, with the February GDP and trade reports of greatest interest. With most pandemic containment measures still in effect that month, and indeed many restrictions on activity only being lifted from today (e.g. with non-essential retail reopening and outdoor dining and drinking permitted in England), overall economic activity remained subdued in February. Modest growth of about ½%M/M in GDP seems most likely – with similar rates of growth in services, manufacturing and construction – to have left GDP still down more than 8½%Y/Y. On the trade side, exports to the EU are likely to have seen a partial rebound after falling more than 40%M/M in January. The BRC retail sales monitor for March will also be published tomorrow and is likely to report only modest improvement from February.

### Germany: Main political party ratings



Source: Politico and Daiwa Capital Markets Europe Ltd.

### Germany: Preference for Chancellor\*




\*Survey shows preferences if survey respondents could vote directly for Chancellor, depending on whether Laschet or Soeder was the CDU/CSU candidate. The Green candidate results show the average for the party's two candidates, Annalena Baerbock and Robert Habeck.  
 Source: Forsa 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	 Retail sales M/M% (Y/Y%)	Feb	<b>3.0 (-2.9)</b>	1.7 (-5.3)	-5.9 (-6.4)	<b>-5.2 (-5.2)</b>




#### Auctions

Country	Auction
- Nothing to report -	





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany		10.00 ZEW current assessment (expectations)	Apr	-55.0 (79.0)	-61.0 (76.6)
Italy		09.00 Industrial production M/M% (Y/Y%)	Feb	0.7 (-2.1)	1.0 (-2.4)
UK		00.01 BRC retail sales monitor Y/Y%	Mar	12.0	9.5
		07.00 Monthly GDP M/M% (3M/3M)	Feb	0.5 (-1.9)	-2.9 (-1.7)
		07.00 Industrial production M/M% (Y/Y%)	Feb	0.5 (-4.5)	-1.5 (-4.9)
		07.00 Manufacturing production M/M% (Y/Y%)	Feb	0.5 (-5.1)	-2.3 (-5.2)
		07.00 Construction output M/M% (Y/Y%)	Feb	0.5 (-2.1)	0.9 (-3.0)
		07.00 Index of services M/M% (3M/3M)	Feb	0.6 (-2.3)	-3.5 (-2.4)
		07.00 Goods trade balance €bn	Feb	-10.5	-9.8

#### Auctions and events

EMU		15.30 ECB's Villeroy de Galhau speaks on webinar
Germany		10.30 Auction: 2033 index-linked bonds
Italy		10.00 Auction: 2024, 2026 and 2037 bonds
UK		10.00 Auction: 1.625% 2071 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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