

# Euro wrap-up

## Overview

- Bunds made modest losses as the German ZEW survey reported an improved assessment of current conditions but slightly less upbeat expectations of the economic outlook.
- Gilts were little changed as the BoE announced the imminent departure of the MPC's most hawkish member while UK GDP and trade data for February provided few surprises.
- Wednesday will bring data for euro area industrial production in February while Christine Lagarde and other ECB Executive Board members will speak publicly.

**Chris Scicluna**

+44 20 7597 8326

### Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.712	+0.009
OBL 0 04/26	-0.633	+0.006
DBR 0 02/31	-0.292	+0.005
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.041	-
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.354	-0.002
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.780	-0.006

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

Source: Bloomberg

## Euro area

### ZEW survey suggests that optimism has been tempered by resurgence in pandemic

Today's ZEW investor survey for April was a touch disappointing. Likely reflecting recent intensification of the pandemic and concerns of an extended lockdown hitting consumer spending throughout Q2, but contrary to the findings of last week's Sentix survey, the ZEW indices suggested a softening of expectations with respect to German economic conditions over the coming six months. Nevertheless, while it dropped almost 6pts from March, the expectations index of 70.7 was still very high by historical standards, suggestive of continued widespread optimism about the outlook. Moreover, the survey's index of perceptions of German current conditions rose significantly further than expected, up more than 12pts – the most since September – to a thirteen-month high, albeit still firmly in negative territory at -48.8. The survey for the euro area as a whole provided similar findings, with an improved assessment of current conditions but somewhat dampened optimism with respect to the outlook. And the detail suggested that inflation expectations for the coming six months eased slightly but remained elevated in April (the respective index for the euro area dropped 5.5pts to 75.1), as did expectations for long-term interest rates. While overall optimism regarding the outlook for stocks moderated, the outlook for German corporate profits was judged to have improved further in several key sectors, including autos, chemicals, mechanical engineering and IT.

### The day ahead in the euro area

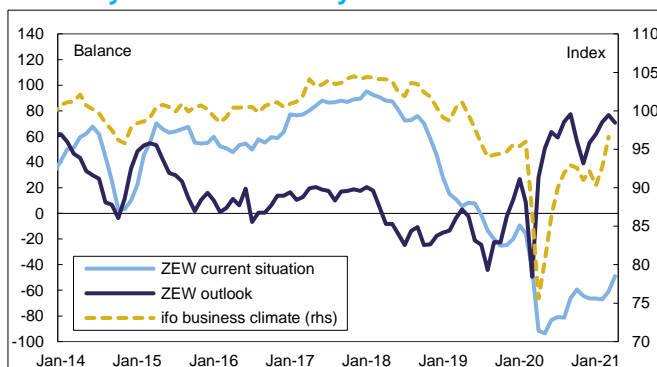
Wednesday will bring euro area figures for industrial production in February. While new orders have continued to pick up, manufacturing output dropped 1.8%M/M in Germany and a steep 4.6%M/M in France, weighed not least by supply-chain disruption in the auto sector. So, while industrial production edged up in Italy and strengthened in some smaller member states, euro area IP likely dropped about 1.5%M/M in February to be down 1.6%Y/Y. Also due are final Spanish CPI figures for March, which are likely to confirm that the EU-harmonised measure of inflation jumped 1.3ppts to 1.2%Y/Y, the highest since April 2019. In addition, several ECB policymakers will make their final public comments ahead of next week's monetary policy meeting, with a 'fireside chat' and Q&A with Christine Lagarde most notable.

## UK

### UK GDP growth modest in February as restrictions remained in place

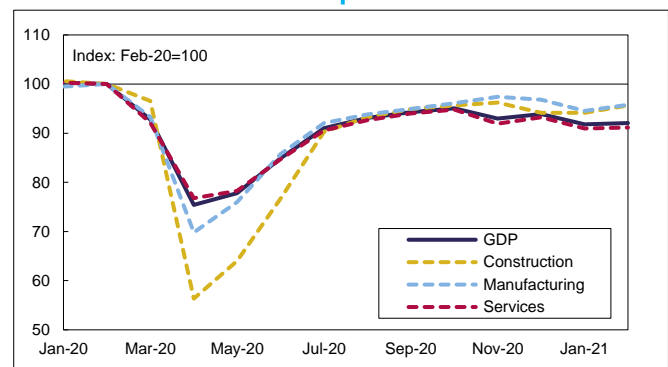
Broadly in line with expectations, UK GDP grew a modest 0.4%M/M in February, as pandemic containment measures remained in place. The extent of the decline in January was revised from 2.9%M/M to 2.2%M/M. As a result, total economic output in February was down 7.8%Y/Y and 3.1% below October's initial recovery peak. Output in the service sector was little

### Germany: Business survey indicators



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### UK: GDP and sectoral output



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

better than flat, rising just 0.2%M/M benefiting to be down 8.8%Y/Y and 3.1% below October's level. Following steep drops at the start of the year, wholesale and retail activity picked up 3.3%M/M, while accommodation and food services rose 2.6%M/M. However, overall, consumer-facing services were estimated to be still 18.6% below the pre-pandemic level one year earlier. In contrast, health services fell back 2.7%M/M after growth of 5.9%M/M in January but were still up 2.3%Y/Y. Meanwhile, in industry, thanks to renewed growth in the auto sector, manufacturing production rose for the first time since November and by 1.3%M/M to be down 4.2%Y/Y and just 0.3% below October's level. And growth of 1.6%M/M in construction output left it down a similar 4.3%Y/Y and unchanged from October.

### Growth likely to have picked up in March, and will accelerate further in Q2

GDP growth in March of a similar pace to February would leave economic output down about 2.0%Q/Q over Q1 as a whole. But surveys suggest a firmer pickup last month, e.g. the composite output index rose 6.8ppts in March to a six-month high of 56.4. Moreover, the reopening of schools will arithmetically have provided an additional boost. So, we now forecast a slightly more modest drop in GDP of 1.5%Q/Q in Q1. Given the reopening of English retail and outdoors hospitality yesterday, the marked drop in new coronavirus cases, and rapid progress with vaccine roll-out, a significant rebound in Q2 – perhaps of 3%Q/Q or more – now seems likely. And with recovery set to continue throughout the summer too, bar a renewed intense wave of pandemic in the autumn, the pre-Covid level of GDP should be reached around the turn of the year.

### Goods exports to EU rebound partially in February, but trade deficit widens

The UK's February trade data reported a partial rebound in exports of goods to the EU. Having dropped by a record £5.7bn (42.0%M/M) in January, goods exports to the EU (excluding non-monetary gold and other precious metals) grew by £3.7bn (46.6%M/M) in February thanks not least to stronger shipments of cars, machinery and pharmaceuticals. That, however, left them down 12.1%Y/Y. In part reflecting stock-piling before the end of the Brexit transition, imports of goods from the EU on the same basis rose a softer £1.2bn (7.3%M/M) in February having dropped £6.7bn (29.7%M/M) in January to be down 11.4%Y/Y. But many more goods previously imported from the EU appear to have been shipped into the UK from outside the region, with imports from outside the EU riding £1.7bn (10.7%M/M) to be up 4.7%Y/Y. In contrast, UK goods exports beyond the EU fell £1.7bn (10.5%M/M) to be down 8.6%Y/Y. So, the underlying goods trade deficit rose £0.6bn to £10.7bn. And with minimal change to services imports and exports, growth in total imports (up £2.8bn and 8.8%M/M) exceeded that in exports (up £2.2bn and 9.9%M/M), so the total underlying trade deficit widened by £0.5bn to £1.4bn. Looking through recent volatility, the underlying trade deficit narrowed £2.1bn in the three months to February to £6.3bn. But we expect the deficit to widen over the near term. Imports are set to pick up further as consumption rebounds, but surveys suggest that exports will rebound less firmly than in other industrialised countries, likely still hampered by the new barriers to trade imposed by Brexit.

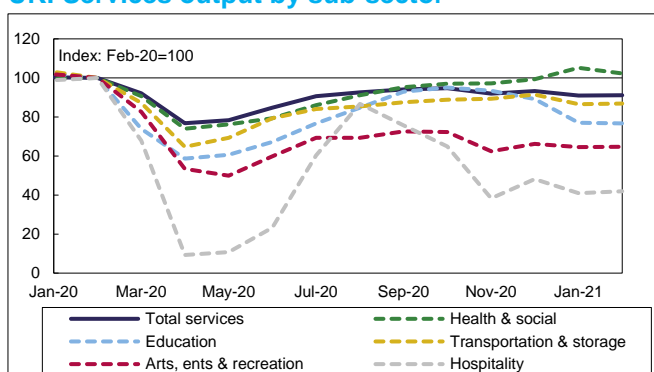
### Hawkish Haldane to leave Bank of England

In an unexpected development, the BoE today announced that its Chief Economist Andy Haldane will leave the MPC after its June meeting for a new job at the Royal Society of Arts. His term had been scheduled to last until June 2023. But for some time, Haldane had been the MPC's most hawkish member, unambiguously bullish about the UK's economic outlook and seemingly more likely than the others to vote for a tightening of policy sooner rather than later. He also appeared very much an outlier, with differences of opinion among the other eight MPC members seemingly more modest. The terms of two other MPC members – the external members Jonathan Haskel and Gertjan Vlieghe, both of whose views are currently dovish – will conclude in August. Haskel might be expected to take a second term on the MPC. And while Vlieghe is scheduled to leave the Bank, he would be a strong candidate to replace Haldane should he wish to be considered.

### The day ahead in the UK

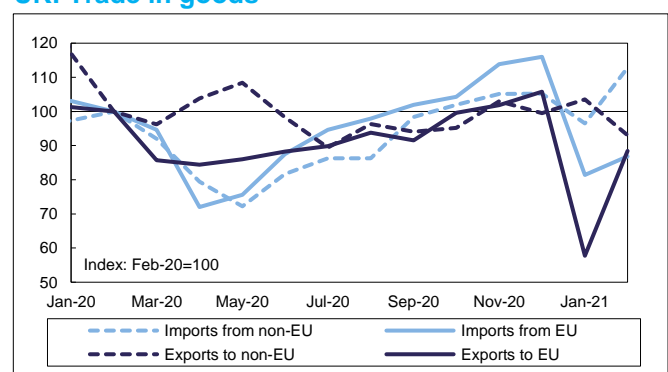
Wednesday should be relatively uneventful in the UK with just final Q4 productivity and unit labour cost data due.

#### UK: Services output by sub-sector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Trade in goods



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
Germany	ZEW current assessment (expectations)	Apr	<b>-48.8 (70.7)</b>	-55.0 (79.0)	--61.0 (76.6)	-
Italy	Industrial production M/M% (Y/Y%)	Feb	<b>0.2 (-0.6)</b>	0.7 (-2.1)	1.0 (-2.4)	<b>1.1 (-2.1)</b>
UK	Monthly GDP M/M% (3M/3M)	Feb	<b>0.4 (-1.6)</b>	0.5 (-1.9)	-2.9 (-1.7)	<b>-2.2 (-1.4)</b>
	Industrial production M/M% (Y/Y%)	Feb	<b>1.0 (-3.5)</b>	0.5 (-4.5)	-1.5 (-4.9)	<b>-1.8 (-4.3)</b>
	Manufacturing production M/M% (Y/Y%)	Feb	<b>1.3 (-4.2)</b>	0.5 (-5.1)	-2.3 (-5.2)	<b>- (-5.0)</b>
	Construction output M/M% (Y/Y%)	Feb	<b>1.6 (-4.3)</b>	0.5 (-2.1)	0.9 (-3.0)	<b>0.0 (-6.5)</b>
	Index of services M/M% (3M/3M)	Feb	<b>0.2 (-1.9)</b>	0.6 (-2.3)	-3.5 (-2.4)	<b>-2.5 (-1.9)</b>
	Goods trade balance €bn	Feb	<b>-16.4</b>	-10.5	-9.8	<b>-12.6</b>
	BRC retail sales monitor Y/Y%	Mar	<b>20.3</b>	12.0	9.5	-

#### Auctions

Country	Auction
Germany	sold €387mn of 0.1% 2033 linkers at a yield of -1.57%
Italy	sold €4bn of 2024 bonds at a yield of -0.17%
	sold €1.75bn of 2026 bonds at a yield of 0.12%
	sold €2.0bn of 2037 bonds at a yield of 1.26%
UK	sold €1bn of 1.625% 2071 bonds at a yield of 1.117%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Wednesday's releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	10.00	Industrial production M/M% (Y/Y%)	Feb	<b>-1.5 (-1.6)</b>	0.8 (0.1)
Spain	08.00	Final CPI (EU-harmonised CPI) Y/Y%	Mar	<b>1.3 (1.2)</b>	0.0 (-0.1)
UK	09.30	Final output per hour Y/Y%	Q4	-1.1	4.0

#### Auctions and events

EMU	08.00	ECB's Guindos speaks to European Parliament
EMU	12.45	ECB's Panetta speaks to European Parliament
EMU	15.00	ECB's Lagarde speaks at Reuters event
EMU	18.00	ECB's Schnabel speaks at webinar
Germany	10.30	Auction: €1.5bn of 2048 bonds
UK	10.00	Auction: 0.125% 2051 index-linked bonds
	15.30	BoE's Haskel speaks on webinar

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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