

# Euro wrap-up

## Overview

- Bunds made modest losses even while the latest German and French IP data showed that manufacturing output continued to significantly lag the recovery in orders and sentiment at the end of Q1.
- After the soft US payroll report, Gilts followed USTs higher despite another strong UK construction sector survey.
- The coming week brings the first estimate of UK GDP in Q1 along with euro area IP data from March and investor sentiment surveys for May.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.695	+0.009
OBL 0 04/26	-0.594	+0.009
DBR 0 02/31	-0.220	+0.007
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.019	-0.011
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.304	-0.025
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.769	-0.021

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

## Euro area

### Recovery in German factory output lags well behind the rebound in orders

Broadly in line with expectations, German industrial production rose a seemingly respectable 2.5%M/M in March to be up 5.1%Y/Y. That, however, followed a revised drop of 1.9%M/M in February, which was sharper than previously thought. So, the level of IP was still down a sizeable 4.3% from the pre-pandemic level in February 2020 and also down 0.9%Q/Q in Q1. Moreover, the headline figure for March was flattered by a rebound in construction output, up 10.8%M/M following a steep decline in January and February due to the VAT hike and harsh winter weather. But that still left construction output down a steep 4.0%Q/Q in Q1. Manufacturing and mining output was up just 0.7%M/M in March and unchanged over the first quarter as a whole, clearly lagging behind the jump of 2.3%Q/Q in factory orders. Within the detail, production of intermediate goods rose 1.2%M/M to be up 2.4%Q/Q in Q1. But with production of machinery dropping 0.9%M/M, output of capital goods fell 0.4%M/M in March despite a rise of 0.6%M/M in the motor vehicles category. And so, over Q1 as a whole, while production of machinery rose 6.0%Q/Q, capital goods output fell 2.4%Q/Q with production of motor vehicles down 12.2%Q/Q as supply-chain problems, particularly with respect to semiconductors, took their toll. Meanwhile, output of consumer goods rose 2.9%M/M in March but fell 0.8%Q/Q in Q1. Looking ahead, survey indicators – such as exceptionally high output and orders PMIs – point to vigorous manufacturing growth in Q2. However, a drop of 1.6%M/M in the truck toll mileage index in April suggests that the strength will likely come to an end in the second half of the quarter.

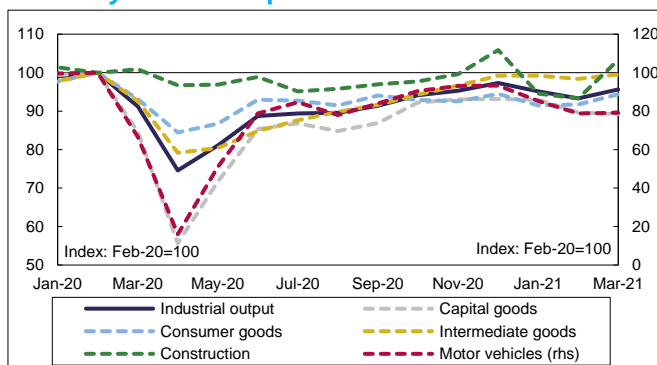
### French manufacturing output drops over first quarter as supply bottlenecks bite

French industrial production in March also disappointed. Having dropped 4.8%M/M in February, manufacturing output rose just 0.4%M/M to be down 6.8% from the pre-pandemic level. Over Q1 as a whole, French manufacturing output fell 0.2%Q/Q. Again, supply-chain issues weighed heavily on output in the transport sector, which rose just 0.4%M/M in March. That followed a drop of 11.2%M/M the prior month and so left it about one quarter below the pre-pandemic level in March and down 8.5%Q/Q in Q1. In contrast, production of machinery and equipment rose 0.4%M/M in March to be just 3.2% below the pre-pandemic level and up 3.7%Q/Q in the first quarter. Meanwhile, French construction output dropped a steep 7.3%M/M in March to be down more than one tenth from the pre-pandemic level. But it was still up 2.5%Q/Q in Q1. As in Germany, surveys and orders point to a rebound in French manufacturing production in Q2, but only as long as supply-chain bottlenecks start to ease.

### German and French imports outpace exports at end-Q1

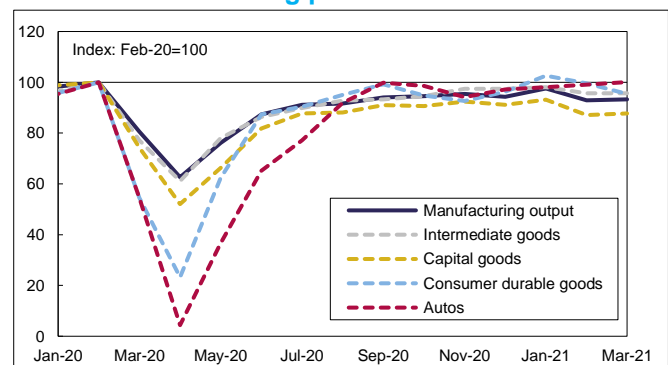
Just as supply-chain issues weighed on production in March, so too they appear to have restrained the pace of recovery in exports. Indeed, while the value of German goods exports rose 1.2%M/M in March they were still 0.9% below the pre-

#### Germany: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### France: Manufacturing production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

pandemic level. In contrast, having fallen sharply at the start of the year, the value of German imports rebounded a vigorous 6.5%M/M in March to be 6.7% above February's pre-pandemic level. While that might hopefully be a sign that bottlenecks are starting to ease, it partly reflected a continued recovery in shipments from the UK, which were down 13.2%Y/Y in March after falling by more than 50%Y/Y in January and by more than 25%Y/Y in February. Likewise, French merchandise import values (up 4.4%M/M to be 3.1% below the pre-pandemic level) outpaced exports (up 2.6%M/M to be 4.3% below the pre-pandemic level). As for production, weakness in the transportation component – aerospace as well as autos – weighed particularly on French exports. And in contrast to Germany, over the quarter as a whole, French imports outpaced exports so that net trade subtracted from GDP growth in Q1.

## The week ahead in the euro area

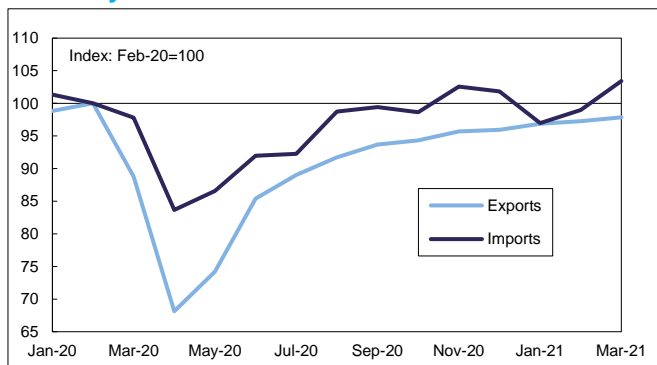
The coming week's euro area economic data calendar is relatively quiet with little in terms of new top-tier data to come. Italian and euro area industrial production figures for March will be published on Tuesday and Wednesday respectively. Italian IP is expected to rise 0.4%M/M to be still down around 0.5% from the pre-pandemic level in February 2020. For the euro area as a whole, IP is expected to rise 0.7%M/M and 11.7%Y/Y in March, which would leave it 0.6% below the pre-Covid level. We will also get final April inflation figures for Germany and France on Wednesday, followed by the Spanish numbers on Friday – these are highly likely to confirm the flash figures confirming that inflation accelerated across the member states due principally to energy inflation. The preliminary April data revealed that German inflation on the EU harmonised measure (HICP) rose 0.1ppt to 2.1%Y/Y, the highest since November 2018. In France, the HICP rate rose 0.3ppt to 1.7%Y/Y, the highest since December 2018, while in Spain the equivalent rate leapt 0.7ppt to 1.9%Y/Y, the highest since October 2018. Survey-wise, Monday sees the release of the euro area Sentix investor confidence indices for May, as well as the Bank of France business indices for April, while Tuesday will bring the German ZEW investor confidence survey for May.

## UK

### Construction PMI adds to evidence of broad-based recovery

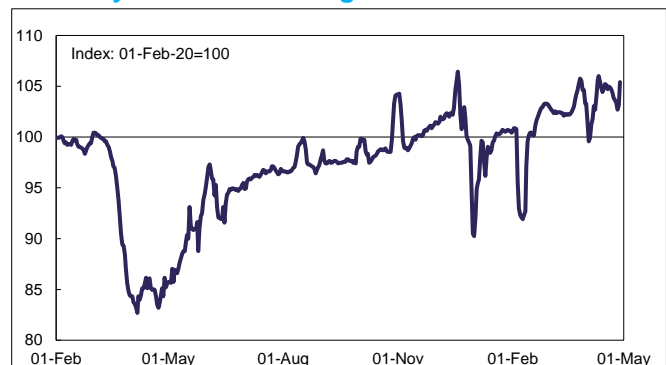
Surveys point to broad-based strength in the UK economic recovery. Like the equivalent manufacturing and services indices, the construction activity PMI was at the top end of its historical range in April, edging down just 0.1pt from March's 6½-year high to 61.6. And the activity indices for each main sub-sector – commercial, new housing work, and, for the first time this year, civil engineering and – were all above 60 too. Growth in orders also rose to a 6½-year high, while employment in the

#### Germany: Goods trade\*



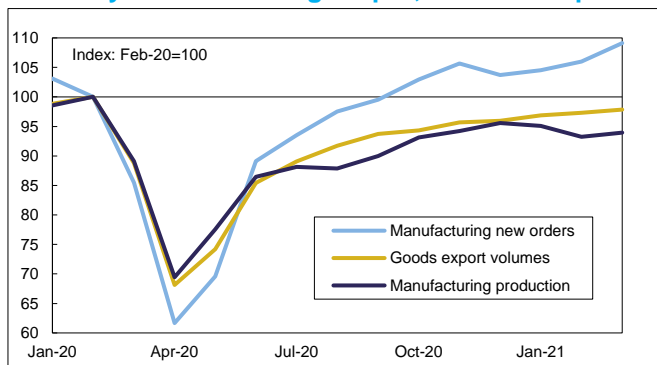
\*Volume terms. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Germany: Truck toll mileage index



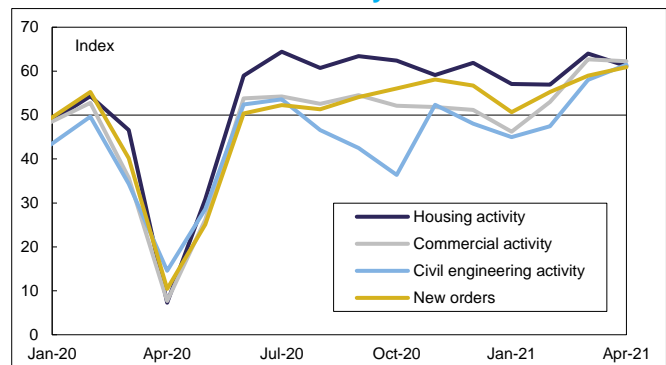
Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

#### Germany: Manufacturing output, orders & exports



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Construction PMI activity indices


















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

sector rose at the fastest pace since December 2015. The survey was not exclusively good news, reporting the fastest rate of cost inflation in the sector on the 24-year-old series (the respective PMI rose almost 7pts to 84.6), with respondents emphasizing price pressures in steel, timber and transportation costs. And while lengthy delivery times (the third longest on the series) might restrain growth over the near term, more than half of firms surveyed expect activity to grow over the coming twelve months. And while existential concerns about the future of city-centre retail and office space might weigh, strong demand for new housing, a pickup in business activity on the back of the new capital allowance 'super deduction' and increased public sector infrastructure projects too should all more than compensate. So, like GDP as a whole, construction output should be back at the pre-pandemic level by year-end.

## The week ahead in the UK

The most notable UK data of the coming week are all due on Wednesday, when the first estimates of Q1 GDP are published. While we expect March to post growth of 1.3%M/M, the strongest since August last year, weakness at the beginning of the quarter will see GDP contract for the quarter as a whole. We forecast a drop of 1.5%Q/Q (-6.1%Y/Y), following growth of 1.3%Q/Q (-7.3%Y/Y) in Q420 to leave GDP down 8.7% from the pre-pandemic level. Among the components, private consumption and investment are both likely to have fallen last quarter, while declining exports and imports will probably result in a negative contribution from net trade. The contribution from inventories, which had been substantive in the two quarters ahead of the Brexit transition at the start of year, is expected to fall back in Q1. Ahead of the GDP release, Tuesday will bring the BRC's April retail sales survey, which seems bound to report an increase in high-street sales, as non-essential shops in England reopened their doors on 12 April. In other news, BoE Governor Bailey is due to speak publicly on Tuesday, Wednesday and Thursday. Tuesday sees the Governor taking part in a discussion on LIBOR, while on Wednesday he will attend a swaps and derivatives event and on Thursday, he will be speaking on a citizens' panel. Meanwhile, Deputy Governor Cunliffe is due to talk about digital currencies on Thursday.

## Daiwa economic forecasts









		2020	2021				2022	2020	2021	2022
		Q4	Q1	Q2	Q3	Q4	Q1			
<b>GDP growth, %, Q/Q</b>										
Euro area		-0.7	-0.6	1.4	1.4	1.3	1.1	-6.7	3.7	4.4
Germany		0.5	-1.7	1.8	1.5	1.4	1.0	-5.1	2.7	4.4
France		-1.4	0.4	1.0	1.4	1.2	1.2	-8.2	5.9	4.4
Italy		-1.8	-0.4	1.5	1.6	1.4	1.3	-8.9	4.2	5.1
Spain		0.0	-1.0	1.6	1.8	1.6	1.5	-10.8	4.8	6.2
UK		1.3	-1.5	3.4	3.2	2.5	1.0	-9.8	6.5	6.1
<b>Euro area</b>										
Headline CPI		-0.3	1.1	1.7	1.9	2.1	1.0	0.3	1.7	1.1
Core CPI		0.2	1.2	0.7	0.8	1.2	0.4	0.7	1.0	0.8
<b>UK</b>										
Headline CPI		0.5	0.6	1.6	1.8	2.4	2.3	0.9	1.6	1.9
Core CPI		1.3	1.1	1.5	1.7	2.0	1.9	1.4	1.6	1.7
<b>ECB</b>										
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
PEPP envelope* (€bn)		1850	1850	1850	1850	1850	1850	1850	1850	1850
<b>BoE</b>										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases** (£bn)		895	895	895	895	895	895	895	895	895

\*Monthly target €bn, end of period. \*\*Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE 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	 Industrial production M/M% (Y/Y%)	Mar	<b>2.5 (5.1)</b>	2.0 (5.6)	-1.6 (-6.4)	<b>-1.9 (-6.8)</b>
	 Trade balance €bn	Mar	<b>20.5</b>	21.1	18.1	<b>18.2</b>
France	 Trade balance €bn	Mar	<b>-6.1</b>	-	-5.2	<b>-5.1</b>
	 Industrial production M/M% (Y/Y%)	Mar	<b>0.8 (13.7)</b>	2.0 (15.2)	-4.7 (-6.6)	<b>-4.8 (-)</b>
	 Manufacturing production M/M% (Y/Y%)	Mar	<b>0.4 (15.7)</b>	-	-4.6 (-7.1)	<b>-4.8 (-)</b>
Italy	 Retail sales M/M% (Y/Y%)	Mar	<b>-0.1 (22.9)</b>	-0.6 (-)	6.6 (-5.7)	<b>5.9 (-)</b>
Spain	 Industrial production M/M% (Y/Y%)	Mar	<b>0.4 (12.4)</b>	0.5 (12.6)	0.0 (-2.1)	<b>-0.1 (-2.3)</b>
UK	 Construction PMI	Apr	<b>61.6</b>	62.1	61.7	-


















#### Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's data calendar

### The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast/actual</i>	Previous
<b>Monday 10 May 2021</b>					
EMU		09.30 Sentix investor confidence indicator	May	15.3	13.1
France		- Bank of France industrial sentiment	Apr	106	105
<b>Tuesday 11 May 2021</b>					
Germany		10.00 ZEW current assessment balance (expectations)	May	-42.2 (71.5)	-48.8 (70.7)
Italy		09.00 Industrial production M/M% (Y/Y%)	Mar	0.4 (37.1)	0.2 (-0.6)
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	Apr	-	20.3
<b>Wednesday 12 May 2021</b>					
EMU		10.00 Industrial production M/M% (Y/Y%)	Mar	0.7 (11.7)	-1.0 (-1.6)
Germany		07.00 Final CPI (EU-harmonised CPI) Y/Y%	Apr	2.0 (2.1)	1.7 (2.0)
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	Apr	1.3 (1.7)	1.1 (1.4)
UK		07.00 Preliminary GDP Q/Q% (Y/Y%)	Q1	<b>-1.5 (-6.1)</b>	1.3 (-7.3)
		07.00 Monthly GDP M/M%	Mar	1.3	0.4
		07.00 Industrial production M/M% (Y/Y%)	Mar	1.0 (2.8)	1.0 (-3.5)
		07.00 Manufacturing production M/M% (Y/Y%)	Mar	1.0 (3.7)	1.3 (-4.2)
		07.00 Construction output M/M% (Y/Y%)	Mar	1.3 (0.1)	1.6 (-4.3)
		07.00 Index of services M/M% (3M/3M)	Mar	2.0 (-1.7)	0.2 (-1.9)
		07.00 Goods trade balance £bn	Mar	-14.5	-16.4
<b>Thursday 13 May 2021</b>					
UK		00.01 RICS house price balance %	Apr	62	59
<b>Friday 14 May 2021</b>					
Spain		08.00 Final CPI (EU-harmonised CPI) Y/Y%	Apr	2.2 (1.9)	1.3 (1.2)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 10 May 2021</b>		
- Nothing scheduled -		
<b>Tuesday 11 May 2021</b>		
EMU	 16.30	ECB's Knot speaks at a webinar on 'The global economy, post-COVID'
	 17.00	ECB's Hernández de Cos speaks at an online University event
UK	 10.00	Auction: £3bn of 0.35% 2026 bonds
	 11.30	Auction: £1.5bn of 0.5% 2061 bonds
	 15.30	BoE Governor Bailey takes part in a discussion on LIBOR
<b>Wednesday 12 May 2021</b>		
EMU	 10.05	ECB's Centeno delivers speech on 'How to guarantee economic recovery in a post-pandemic Europe'
UK	 10.00	BoE Governor Bailey speaks at International Swaps and Derivatives Association event
<b>Thursday 13 May 2021</b>		
Italy	 10.00	Auction: 3Y and 7Y bonds
UK	 13.00	BoE Deputy Governor Cunliffe speaks on digital currencies
	 17.00	BoE Governor Bailey speaks on a citizens' panel
<b>Friday 14 May 2021</b>		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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