

# Euro wrap-up

## Overview

- Bunds made further losses, with 5Y yields above zero percent, as German factory orders beat expectations but euro area retail sales fell sharply.
- Gilts also made significant further losses as UK car registrations remained subdued but a construction surveys signalled stronger growth in the sector.
- The coming week will bring data on German industrial production and goods trade in December and UK GDP in Q4, while ECB President Lagarde, BoE Governor Bailey and other policymakers from both central banks will speak publicly.

**Chris Scicluna**

+44 20 7597 8326

### Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	-0.267	+0.088
OBL 0 04/27	0.037	+0.097
DBR 0 02/32	0.200	+0.064
UKT 0 <sup>7</sup> / <sub>8</sub> 01/24	1.242	+0.111
UKT 0 <sup>3</sup> / <sub>8</sub> 10/26	1.299	+0.086
UKT 0 <sup>1</sup> / <sub>4</sub> 07/31	1.403	+0.039

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

## Euro area

### Retail sales fall more than expected in December but up modestly in Q4

Having trended higher since the summer, it was no surprise that euro area retail sales dropped in December, particularly in light of the wave of coronavirus and re-imposition of restrictions in many countries. But the drop of 3.0%/M to the lowest level since April was much sharper than expected. Sales were very weak in the Netherlands (-9.2%/M), Spain (-5.7%/M) and Germany (-5.5%/M), and fell in every member state to report data bar Latvia and Slovenia. Weakness was largely in non-food items (-5.2%/M) with food sales only slightly lower (-0.3%/M) and auto fuel sales essentially flat. Pandemic restrictions were not the sole cause of the drop. Online and mail order sales fell 3.8%/M, suggesting that the impact of high inflation on real disposable incomes might also have played a role. Despite the sharp drop in December, sales were still 2.5% above the pre-pandemic level with non-food sales up 3.3% on the same basis. Over Q4 as a whole, sales were up 0.3%Q/Q, marking the softest growth since the decline in the first quarter of last year. With spending on services likely more severely impacted by the pandemic, private consumption probably saw minimal growth, if any, last quarter. And we expect another quarter of subdued growth in retail sales and private consumption in the current quarter before a rebound in Q2.

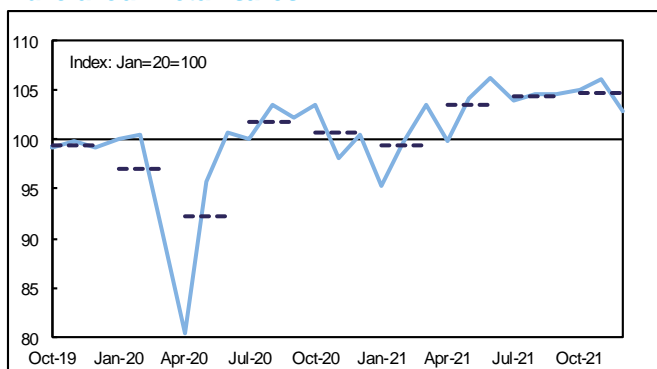
### German factory orders rise for second month in December but down over Q4 as a whole

German factory orders grew strongly for a second successive in December, up 2.8%/M following the rise of 3.6%/M in November. But given the sharp drop in October, orders were still down some 4.2%Q/Q in Q4. And while at the end of the year they were up 5.5%Y/Y and almost 10% above the pre-pandemic level in February 2020, they were still 6.6% below July's peak. Growth in December came from domestic demand, up 11.7%/M to be little changed in Q4 from Q3; in contrast foreign orders fell 3.0%/M to be down almost 7%Q/Q in Q4 with new orders from elsewhere in the euro area down 4.2%/M and those from other countries down 2.3%/M. The rise in demand was broad-based in December, with new orders for consumer goods up 5.3%/M, intermediate items up 4.1%/M and capital goods up 1.8%/M, pushing each of those categories well above pre-pandemic levels. New orders of electronic parts and devices were strong, up 8.0%/M but orders of motor vehicles edged down (-0.6%/M). Over Q4 as a whole, orders for consumer goods were also up (3.7%Q/Q), but demand for intermediate items moderated (-0.5%Q/Q) and new orders for capital goods were much weaker (-7.6%Q/Q). Despite the pickup in new orders in December, manufacturing turnover was up just 0.2%/M to be still 2.9% below the pre-pandemic level, pointing to a sluggish end to the year for production, for which the data will be released on Monday.

### French production maintains sideways trend despite pickup in car output

Despite elevated orders and low inventories, French production has been trending broadly sideways since the summer, as elsewhere weighed by supply bottlenecks. Extending that trend, manufacturing output inched up just 0.1%/M in December

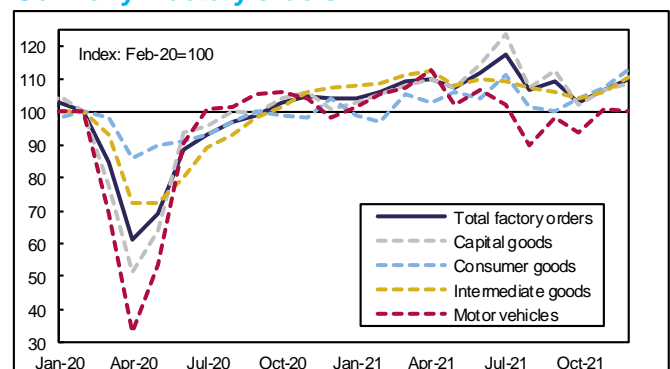
#### Euro area: Retail sales\*



\*Dashed line represents quarterly average.

Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Germany: Factory orders



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

after a drop of 0.6%MM the prior month to be down 0.2%Q/Q in Q4. Industrial production as a whole was similarly broadly flat, falling 0.2%MM in December to be down 0.2%Q/Q in Q4. But construction output ended the year on a particularly weak note, dropping 6.9%MM to be down 1.3%Q/Q in Q4. Compared to the pre-pandemic level in February 2020, manufacturing output was still down some 5.9%, with overall IP down a similar 5.3% but construction output down almost 12%. Capital goods saw the best growth at the end of the year. Indeed, production of motor vehicles rose 11.7%MM following growth of 10.1%MM in November to be up 4.0%Q/Q in Q4. But they were still more than 14% below the pre-pandemic level. Despite weakness in electronic items, output of machinery and equipment rose 0.5%MM to be down 0.3%Q/Q in Q4 and 3.8% below the pre-pandemic level. Other major components were weaker in December, e.g. production of intermediate and consumer durable goods fell respectively by 0.8%MM and 1.1%MM. And while they both rose in Q4 (0.8%Q/Q and 1.0%Q/Q), both categories were still down more than 3½% from the pre-pandemic levels.

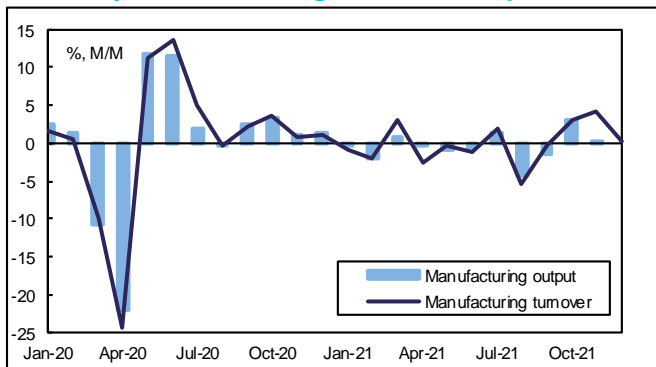
## Construction PMIs flag strong start to the year for builders

Despite the weakness in the sector reported in France at the end of 2021, the construction PMIs today signalled a strong start to the year in each of the large member states. Indeed, the headline activity index for the euro area jumped a sizeable 3.7pts in January to a well-above-average 56.6, the highest in four years. And new orders reportedly jumped the most on the series. Against the backdrop of strong house price inflation, homebuilding led the way, with the respective index rising to the highest level in more than a decade. But civil engineering work reportedly grew for the first time in 2½ years, while growth in commercial activity rose to a four-year high. Among the member states, Italy remained the front-runner, reporting growth at a new series high (68.2). But the activity index in France rose to the best in seventeen months (52.0) while Germany returned to expansion territory for the first time since the pandemic. Job creation in the sector also rose to the fastest since February 2020 reflecting the greatest optimism among firms about the outlook for the coming twelve months since June 2019. Evidence on supply bottlenecks, however, was mixed, with only slight moderation in the pace of increase in supplier delivery times and input costs, and deterioration in subcontractor quality and rates.

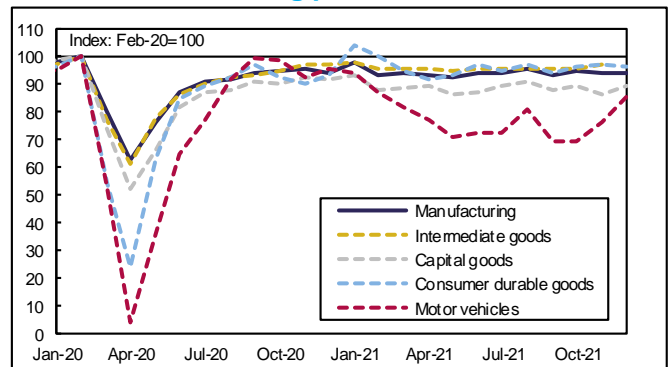
## The week ahead in the euro area

After Wednesday's big upside surprise to the flash estimate of euro area inflation in January and yesterday's hawkish ECB press conference, most notable in the coming week will be the commentary from various Governing Council members. President Lagarde will speak to the European Parliament on Monday while ECB Chief Economist Lane and Vice President Guindos will speak publicly on Thursday. The coming week is set to be much quieter on the euro area economic data front, however, with top-tier releases thin on the ground. The focus will be on the manufacturing sector, with German and Spanish industrial production data for December due on Monday and Tuesday respectively, and French and German trade figures for the same month due Tuesday and Wednesday. German IP is expected to have risen 0.4%MM in December, more than

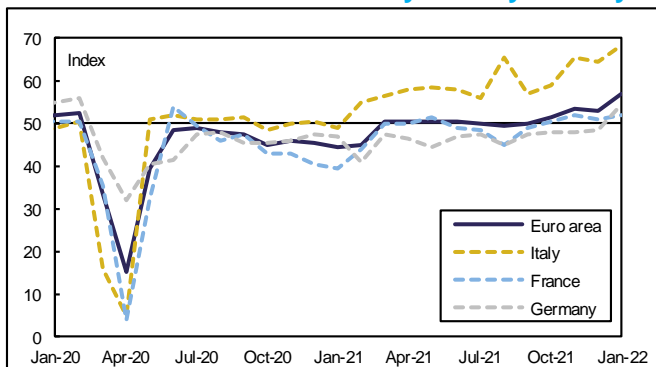
### Germany: Manufacturing turnover and production



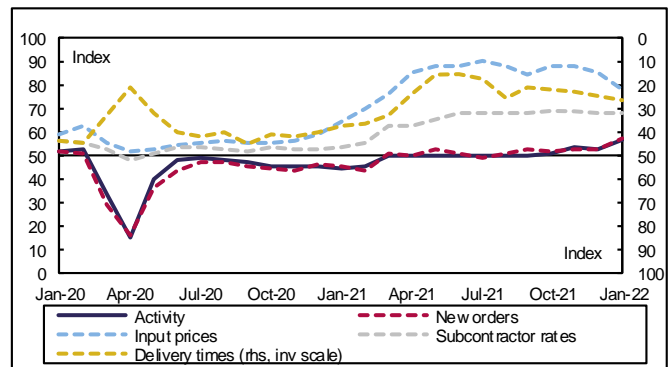
### France: Manufacturing production



### Euro area: Construction activity PMIs by country



### Euro area: Construction PMIs



reversing November's 0.2% M/M decline, although today's soft turnover figure points to downside risks to this forecast. A result in line with expectations would leave industrial output up 0.8% Q/Q in Q4, but still below the pre-pandemic level. In contrast, after posting strong growth of 4.5% M/M in November, an unchanged level for Spanish manufacturing output in December would result in growth of 2.5% Q/Q in Q4 and leave it firmly above its pre-pandemic level. Separately, the Bank of France should publish its business survey results for January on Wednesday. While manufacturing production likely held up at the start of the year, the survey is likely to point to a marked hit to activity in consumer-facing sectors due to the pandemic suggestive of a decline in GDP as a whole. Among other survey indicators, the euro area's Sentix investor confidence survey results for February will be published on Monday.

## UK

### New car registrations subdued in January and unlikely to accelerate significantly in 2022

According to SMMT, UK new car registrations were up 27.5% Y/Y at 115.1k in January. That, however, left them still 23% below the level in January 2020 before the pandemic and more than 30% below the average level in the five Januaries prior to that. Lack of availability due to production bottlenecks continues to weigh on new car sales. But the Omicron wave and squeeze on real disposable incomes also likely played a role in January. With post-tax real labour incomes now expected to decline by 2% or more this year, and consumer confidence weak, car sales seem unlikely to rise back to their pre-pandemic levels this year. Indeed, the GfK consumer confidence survey's index of willingness to make major purchases fell back in January to match the lowest in nine months, and stands well below pre-pandemic norms. And, of course, the increase in Bank Rate to 0.50%, from 0.10% in early December, and the MPC's signal of further tightening to come, will push up the cost of car loans.

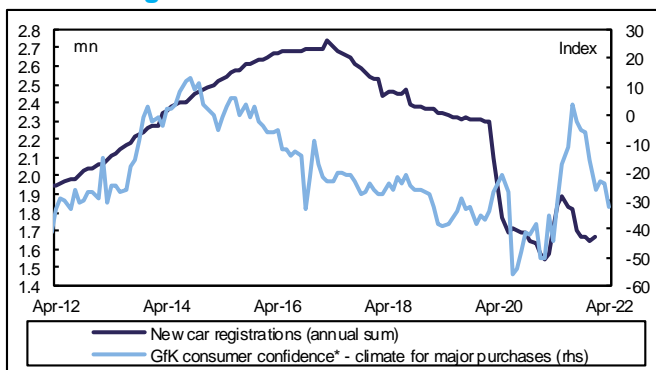
### Construction PMIs signal stronger start to the year

More happily, like in the euro area, the construction PMIs suggested an acceleration in UK growth in the sector at the start of 2022. Most notably, the headline activity index rose 2pts in January to a six-month high of 56.3, firmly above the long-run average. Growth was led by commercial activity while house-building growth moderated to a four-month low. Civil engineering activity returned to modest growth after a dip at the end of the year. Encouragingly, the survey reported a pickup in new work in the sector by the most since August. And it also suggested an easing of supply bottlenecks, with firms reporting the least widespread delays in sixteen months and the softest pace of input cost inflation in ten months. Overall, optimism in the construction sector was the highest in seven months with more than half of responding firms expecting to increase output this year but only 5% predicting a contraction. That optimism might start to pale if, as we expect, the BoE pushes ahead with further interest rate rises at the next two MPC meetings.

### The week ahead in the UK

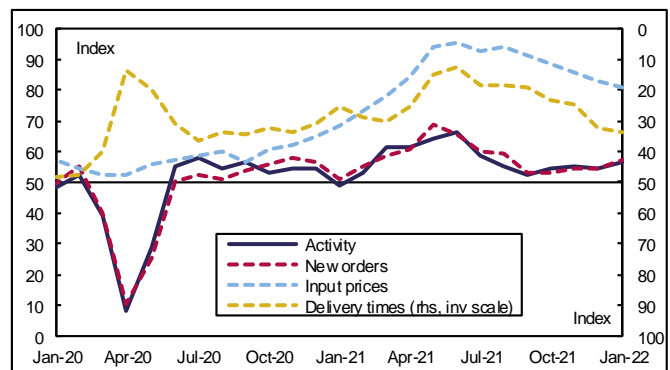
After yesterday's BoE rate hike and signal of further tightening to come, there were no additional major insights from the today's briefing by MPC members Broadbent and Pill to BoE agents' contacts. In the coming week, Governor Bailey will speak publicly at the CityUK annual dinner on Thursday evening while Pill will speak publicly on the monetary policy outlook the previous day. Data-wise, Friday will bring the only top-tier release of the week in the shape of the first Q4 GDP estimate alongside the monthly deluge of output and trade numbers for December. After rising 1.1% Q/Q in Q3, GDP growth looks set to have slowed slightly to 0.9% Q/Q in Q4. But this will mask a more significant slowing in activity towards the end of the quarter – particularly in consumer-facing services – amid a rise in coronavirus infections in December and reintroduction of certain restrictions. Indeed, we forecast GDP to have contracted by about 1% M/M in December, with weakness among services, manufacturing and construction alike, with production still impeded by supply bottlenecks. Beyond the GDP data, Tuesday will bring the BRC's retail sales monitor for January, while Thursday sees the release of the RICS house price survey and REC/KPMG jobs report for January.

#### UK: Car registrations and consumer confidence



\*3month-lead. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.



















#### UK: Construction PMIs



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



## The coming week's data calendar

### The coming week's key data releases













Country	GMT	Release	Period	Market consensus/ <i>Daiwa</i>		Previous
				<i>forecast/actual</i>		
<b>Monday 07 February 2022</b>						
Euro area 	09.30	Sentix investor confidence	Feb	15.5		14.9
Germany 	07.00	Industrial production M/M% (Y/Y%)	Dec	0.4 (-3.7)		-0.2 (-2.4)
<b>Tuesday 08 February 2022</b>						
France 	07.45	Trade balance €bn	Dec	-		-9.7
Italy 	09.00	Retail sales M/M% (Y/Y%)	Dec	-0.2 (-)		-0.4 (12.5)
Spain 	08.00	Industrial production M/M% (Y/Y%)	Dec	-0.1 (4.4)		4.5 (4.8)
UK 	00.01	BRC retail sales, like-for-like Y/Y%	Jan	-		0.6
<b>Wednesday 09 February 2022</b>						
Germany 	07.00	Trade balance €bn	Dec	11.0		11.6
France 	-	Bank of France industrial sentiment*	Jan	-		108
Italy 	09.00	Industrial production M/M% (Y/Y%)	Dec	-0.6 (4.6)		1.9 (6.3)
<b>Thursday 10 February 2022</b>						
UK 	00.01	RICS house price balance %	Jan	68		69
<b>Friday 11 February 2022</b>						
Germany 	07.00	Final CPI (EU-harmonised CPI) Y/Y%	Jan	4.9 (5.1)		5.3 (5.7)
UK 	07.00	Preliminary GDP Q/Q% (Y/Y%)	Q4	<u>0.9 (6.2)</u>		1.1 (6.8)
	07.00	GDP M/M%	Dec	<u>-1.0</u>		0.9
	07.00	Industrial production M/M% (Y/Y%)	Dec	0.1 (0.6)		1.0 (0.1)
	07.00	Manufacturing production M/M% (Y/Y%)	Dec	-0.1 (1.6)		1.1 (0.4)
	07.00	Construction output M/M% (Y/Y%)	Dec	-0.8 (6.1)		3.5 (6.8)
	07.00	Index of services M/M% (3M/3M%)	Dec	-0.7 (1.2)		0.7 (1.3)
	07.00	Goods trade balance €bn	Dec	-13.0		-11.3

\*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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

Country	GMT	Event / Auction
<b>Monday 07 February 2022</b>		
Euro area 	15.45	ECB President Lagarde gives opening statement at European Parliament hearing on economic and monetary affairs
<b>Tuesday 08 February 2022</b>		
Euro area 	17.00	ECB's Villeroy scheduled to speak
Germany 	10.30	Auction: Index-linked bonds
<b>Wednesday 09 February 2022</b>		
Germany 	10.30	Auction: €1.5bn of 2050 bonds
UK 	13.10	BoE Chief Economist Pill scheduled to speak on 'UK monetary policy outlook'
<b>Thursday 10 February 2022</b>		
Euro area 	10.00	European Commission publishes Economic Forecasts
	12.30	ECB's Villeroy scheduled to speak
	13.00	ECB's de Guindos scheduled to speak on 'Managing Europe's economic post-covid recovery'
	14.15	ECB Chief Economist Lane participates in panel discussion - 'The impact of supply chain disruptions on the European economy'
UK 	01.01	Markit/REC report on jobs
	20.15	BoE Governor Bailey scheduled to speak
<b>Friday 11 February 2022</b>		
Euro area 	17.00	ECB publishes Survey of Monetary Analysts

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
Euro area	 Retail sales M/M% (Y/Y%)	Dec	<b>-3.0 (2.0)</b>	-0.9 (5.0)	1.0 (7.8)	-	
	 Construction PMI	Dec	<b>56.6</b>	-	52.0	-	
Germany	 Factory orders M/M% (Y/Y%)	Dec	<b>2.8 (5.5)</b>	0.3 (3.0)	3.7 (1.3)	<b>3.6 (2.3)</b>	
	 Construction PMI	Jan	<b>54.4</b>	-	48.2	-	
France	 Preliminary private sector pay rolls Q/Q%	Q4	<b>0.5</b>	0.4	0.5	-	
	 Preliminary wages Q/Q%	Q4	<b>0.5</b>	0.5	0.3	-	
	 Industrial production M/M% (Y/Y%)	Dec	<b>-0.2 (-0.5)</b>	0.5 (0.5)	-0.4 (-0.5)	<b>-0.5 (-)</b>	
	 Manufacturing production M/M% (Y/Y%)	Dec	<b>0.1 (-0.3)</b>	0.8 (-)	-0.6 (-1.2)	<b>- (-1.4)</b>	
Italy	 Construction PMI	Jan	<b>52.0</b>	-	50.9	-	
	 Construction PMI	Jan	<b>68.2</b>	-	64.4	-	
UK	 New car registrations Y/Y%	Jan	<b>27.5</b>	-	-18.2	-	
	 Construction PMI	Jan	<b>56.3</b>	54.3	54.3	-	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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