

Euro wrap-up

Overview

- Bunds made losses in line with the global trend, while French bonds outperformed as the first round Presidential vote saw Macron and Le Pen progress to the second round in line with expectations.
- Gilts also made sizeable losses despite weaker than expected UK GDP growth in February.
- Tomorrow brings the German ZEW and French BoF surveys, along with the latest UK labour market report.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	0.118	+0.076
OBL 0 04/27	0.615	+0.093
DBR 0 02/32	0.808	+0.107
UKT 1 04/24	1.553	+0.078
UKT 1¼ 07/27	1.607	+0.076
UKT 4¼ 06/32	1.842	+0.092

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

Source: Bloomberg

UK

UK GDP fall short of expectations in February, but growth trend maintained (for now)

UK GDP fell short of expectations in February, growing a smaller-than-expected 0.1%M/M. Admittedly, following strong growth in January (0.8%M/M) and upwards revisions to growth in September through to November last year, that took GDP 1.5% above the pre-Covid level in February 2020. And looking through the month-to-month volatility caused by the ebb and flow of the pandemic, it suggested that the UK's growth trend remained solid too, with the 3M/3M growth rate of 1.0% still above the BoE staff's most recent estimate (¾%) and consistent with our forecast for Q1 as a whole. But that was nevertheless down from that of the previous two months (1.3%) and seems bound to slow further over coming months.

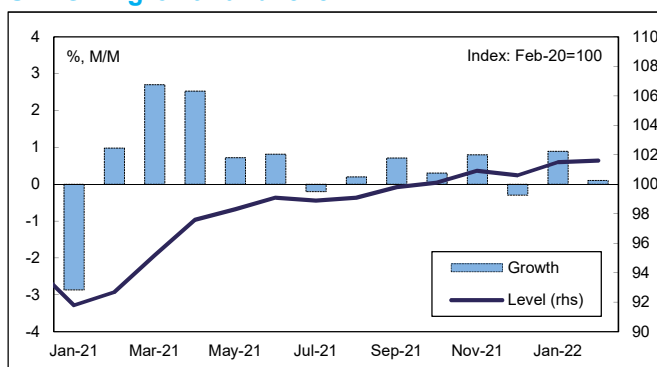
Manufacturing output in reverse amid intensified supply bottlenecks

The main weakness in February was driven by production output, with a drop of 0.6%M/M largely offsetting growth in January as supply bottlenecks continued to limit manufacturers production capacity. Indeed, manufacturing output fell 0.4%M/M to be still 0.7% lower than the pre-Covid level. However, not least reflecting the rebound seen towards the end of last year, this still left manufacturing output trending so far in Q1 roughly 1½% higher than the Q4 average. Among sub-sector performance, there was another sizeable reversal in autos output (-9.4%M/M), with production trending some 6% lower than the Q4 average. Despite falls in production of computer, electronic and optical products (-4.3%M/M) and chemicals (-5.0%M/M) in February, these sectors were still on track for solid growth in Q1. This contrasted with pharmaceuticals, which despite jumping almost 10%M/M saw output on average in the first two months of Q1 almost 12% lower than the Q4 average. Construction output was also impacted by heavy rain around the middle of the month, which fell (0.1%M/M) for the first month since October, but still left output more than 1% higher than the pre-pandemic level.

Services supported by rebound in tourism-related spending, but healthcare now a drag

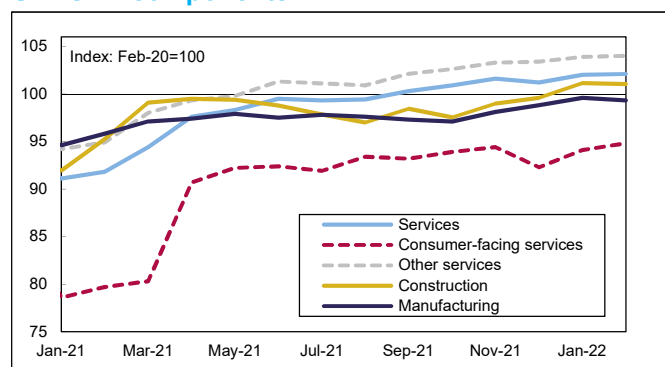
While the healthcare sector was also a drag on service sector growth as vaccinations and test and trace activities fell back, tourism-related activity was given a boost as households looked to get back to normal in light of the diminished threat from omicron, with the largest positive contributions from accommodation and food services (8.6%M/M) and recreation (8.4%M/M). In total, 10 out of the 14 subsectors reported growth in February, to leave services activity up for the sixth month out of the past seven, by 0.2%M/M, to leave output so far in Q1 average some 0.8% higher than Q4. That took the level more than 2% above the pre-pandemic peak, with consumer-facing services still down 5.2% against the same benchmark illustrating scope for further catch-up over coming months.

UK: GDP growth and level



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: GDP components



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

GDP to weaken over coming months amid higher price pressures and greater supply constraints

Of course, today's data largely reflect conditions ahead of the Russian invasion in Ukraine, which will heighten further supply challenges and cost burdens on manufacturing and construction. Certainly, the BoE's latest Decision Maker Panel survey last week suggested that nearly half of respondents expected the war to negatively impact their year-ahead sales. An extra public holiday in June for the Queen's Platinum Jubilee is also likely to reduce growth. Of more lasting importance, however, will be the continued slowing of the Covid vaccination programme and the end of free coronavirus testing at the start of this month. And, crucially, the increase in household energy bills of more than 50% this month, high petrol prices and intense inflationary pressures affecting food and other goods, along with rising national insurance contributions and interest rates, seem bound to weigh heavily on consumer confidence and spending this quarter and beyond. As such, we continue to expect household consumption to decline in Q2 resulting in a contraction in overall GDP. And while GDP will likely return to growth in Q3 we expect it to be relatively subdued.

The day ahead in the UK

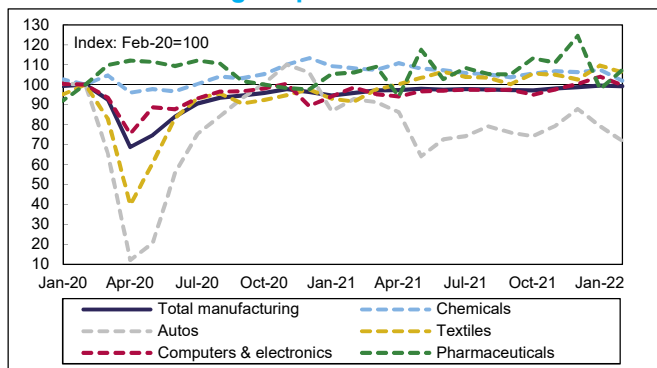
The UK data focus tomorrow shifts to the labour market, with the latest report expected to confirm that conditions remained very tight. The unemployment rate is forecast to have fallen for the eighth month out of the past nine, by 0.1ppt to 3.8% in the three months to February, while vacancies continued to grow. Growth in average regular wages is likely to remain close to the 3.8%3M/Y recorded in January, to leave real regular wage growth slipping further into negative territory. So with household budgets becoming increasingly squeezed, tomorrow's BRC retail sales monitor might well imply a further slowdown in spending on goods.

Euro area

A repeat of the French Presidential election in 2017?

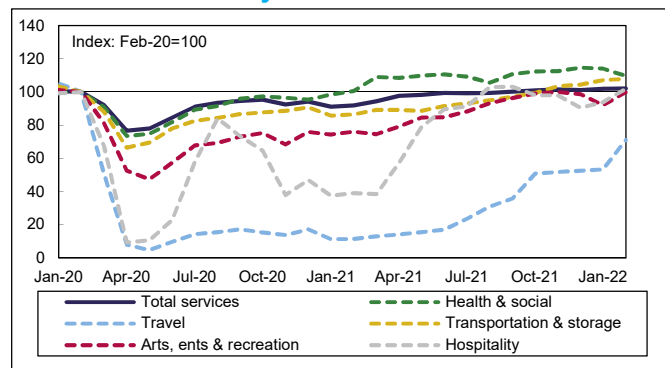
There were no major surprises from Sunday's French election first round vote, which saw President Emmanuel Macron progress to the second round on 24 April with the highest share of the vote (27.84%), with the far-right Marine Le Pen in second place (23.15%), with both candidates scoring higher than they did five years ago. While this implies that Macron has a narrow advantage when they go head to head in two weeks' time, there had been positive momentum towards Le Pen over recent weeks. And the far-right bloc – Le Pen, Zemmour and Dupont-Aignan – together garnered roughly one third of the first round vote. But the far-left populist Mélenchon came in a close third (21.95%) and while not directly endorsing Macron has advised his supporters to not give any vote to Le Pen. So, current polls still suggest that Macron will be re-

UK: Manufacturing output



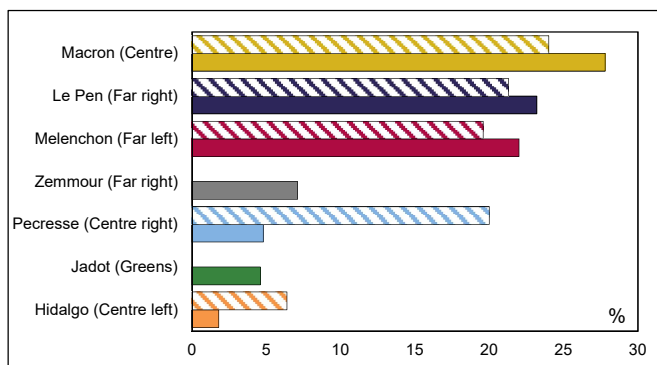
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Services activity



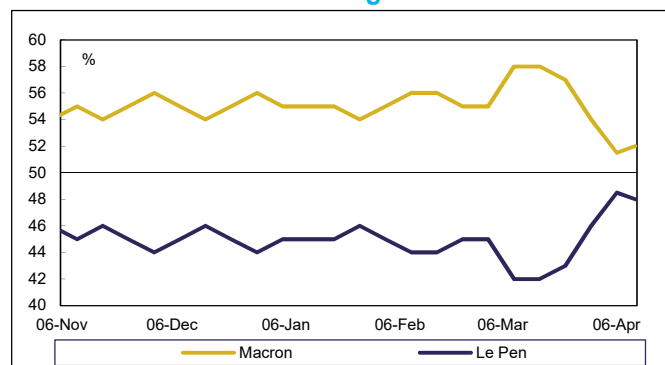
Source: Refinitiv, ONS and Daiwa Capital Markets Europe Ltd.

France: First round Presidential election results*



*Solid bars represent 2022. Stripped bars represent 2017. Zemmour and Jadot had no equivalent representation in 2017. Source: Ministère de L'intérieur

France: Second round voting intentions



Source: Latest Harris opinion poll conducted 10 April

elected. And not least due to voting in the second round being better focused on the policy platforms of the candidates that is our central view. However, there is a risk that he could be defeated in the event of a low turnout on 24 April, and the margin of his victory will be certainly narrower margin than his 66%-34% success in 2017.







The day ahead in the euro area

After a day bereft of euro area economic data today, Tuesday will bring several surveys from the largest two member states. Germany's ZEW is likely to echo the further significant deterioration seen in last week's [sentix](#) survey, with German investors likely to be much more downbeat about current conditions in April than in March, but also more pessimistic about the outlook for the coming six months. The Bank of France's business survey for March might well signal a less severe impact on conditions than in Germany, with increased demand in tourism and recreation following the lifting of restrictions likely to offset to some extent the impacts from the Ukraine conflict. Based on this survey, the BoF will update its forecast for GDP growth in Q1, which it had previously estimated at around ½%Q/Q. Revised German CPI inflation figures for March are also due and expected to align with the preliminary estimate that saw prices rise at a record monthly pace (2.5%M/M) to leave the headline HICP rate up a whopping 2.1ppts to 7.6%Y/Y.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 GDP M/M% (3M/3M%)	Feb	0.1 (1.0)	<u>0.5 (1.0)</u>	0.8 (1.1)	- (1.3)
	 Industrial production M/M% (Y/Y%)	Feb	-0.6 (1.6)	0.3 (2.1)	0.7 (2.3)	- (3.0)
	 Manufacturing production M/M% (Y/Y%)	Feb	-0.4 (3.6)	-	0.8 (3.6)	0.9 (5.3)
	 Index of services M/M% (3M/3M%)	Feb	0.2 (0.8)	-	0.8 (1.0)	- (1.4)
	 Construction production M/M% (Y/Y%)	Feb	-0.1 (6.1)	-	1.1 (9.9)	1.6 (10.0)
	 Goods trade balance £bn	Feb	-20.6	-	-26.5	-23.9











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		07.00 Final CPI (EU-harmonised CPI) Y/Y%	Mar	<u>7.3 (7.6)</u>	5.1 (5.5)
		10.00 ZEW current situation (expectations) balance	Apr	-35.0 (-48.5)	-21.4 (-39.3)
France		07.45 Trade balance €bn	Feb	-	-8.0
		- Bank of France industrial sentiment*	Mar	104	107
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	Mar	-	2.7
		07.00 Unemployment claimant count rate % (change '000s)	Mar	-	4.4 (-48.1)
		07.00 Payrolled employees, monthly change '000s	Mar	113	275
		07.00 Employment change 3M/3M, '000s	Feb	52	-12
		07.00 ILO unemployment rate 3M%	Feb	3.8	3.9
		07.00 Average wages including (excluding) bonuses 3M/Y%	Feb	5.4 (4.0)	4.8 (3.8)

Auctions and events

Germany		10.30 Auction: €5.5bn of 0% 2024 bonds
UK		10.00 Auction: £2.5bn of 1% 2032 bonds

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

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<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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