

Euro wrap-up

Overview

- Despite some soft euro area retail sales data, Bunds made losses as ECB hawk Holzmann called for a cumulative 200bps of additional rate hikes through to July.
- Gilts also made losses as the UK construction PMI surprised on the upside.
- The coming two days will bring revised euro area Q4 GDP and German factory orders and IP data as well as second-tier economic surveys from the euro area and UK.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	3.282	+0.094
OBL 2.2 04/28	2.866	+0.042
DBR 2.3 02/33	2.718	+0.011
UKT 0% 06/25	3.767	+0.079
UKT 1% 10/28	3.693	+0.043
UKT 3¼ 01/33	3.856	+0.007

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

Source: Bloomberg

Euro area

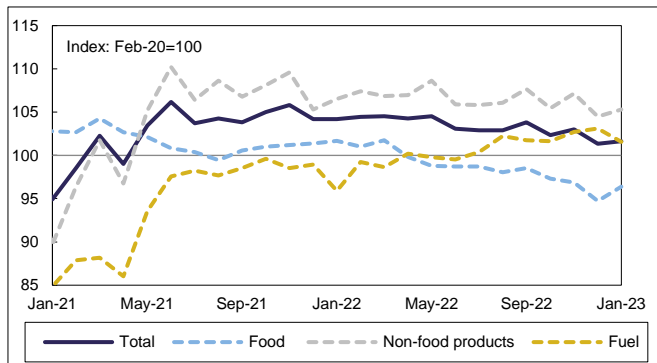
Euro area retail sales maintain a downwards trend at the start of the year

While not uniformly stronger, on balance survey indicators have pointed to a recovery in economic confidence in the euro area since the start of the year. This is particularly so for retailers, which, according to the Commission's business survey, saw sentiment in the sector rise to its highest level since early 2022. But today's retail sales figures suggest that this optimism might have been misplaced. Sales volumes rose a smaller-than-expected 0.3%M/M in January, to leave them down 2.3%Y/Y. And while the slump in December was revised to be slightly smaller than initially estimated (-1.7%M/M), it still left sales in January some 0.6% below the Q4 average. Admittedly, the weakness principally reflected a decline in fuel-store sales (-1.5%M/M), by the most in twelve months, probably in part reflecting the jump in petrol prices at the start of the year. But despite higher prices, food store sales rose in January (1.8%M/M) for the first month in four. And core sales (excluding food and fuel) also rose 0.8%M/M, even though online spending declined sharply. However, core sales were still almost ½% below the Q4 average level. And with households' purchase intentions little improved since the start of the year, we continue to expect household consumption to remain very subdued and possibly represent a drag on GDP growth for a second consecutive quarter.

Construction PMIs rise in February, but still consistent with contraction

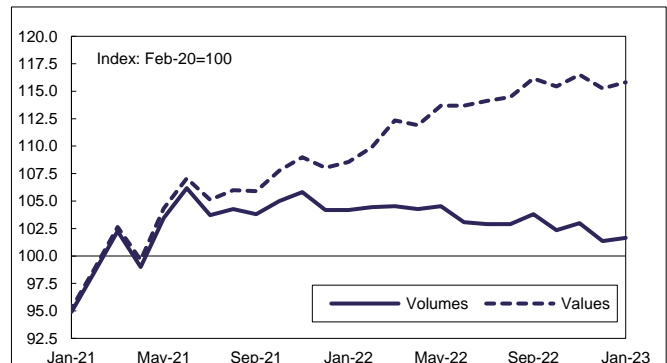
While the services PMIs implied a surprisingly firm pace of expansion in February, and the manufacturing survey suggested some stabilisation, today's construction sector indices were still consistent with contraction. Admittedly, the headline construction activity PMI rose for the second successive month in February, by 1.5pts to 47.6, a nine-month high to be trending more than 3pts above the Q4 average. The pickup was underpinned by a sizeable increase in the German activity index, by 5.3pts to an eleven-month high of 48.6, with the Italian index rising 0.7pt to 48.9. But having surged in January, the respective French PMI fell 3.2pts to 45.2. Within the euro area detail, the improvement reflected the softest pace of decline in civil engineering work (48.7) since April, with a similar rate of contraction in commercial activity (47.4). But perhaps unsurprisingly given rising borrowing costs, weak domestic demand and subdued household confidence, the respective residential PMI (44.8) still implied the sharpest decline, despite rising to its highest level since July. And construction sector conditions look set to remain challenging for the time being, with new orders still falling, supply constraints still binding and input costs still rising at an above-average rate, even though the input price PMI fell to its lowest since end-2020 to be some 26pts below its peak.

Euro area: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Sentix survey flags ongoing uncertainties ahead

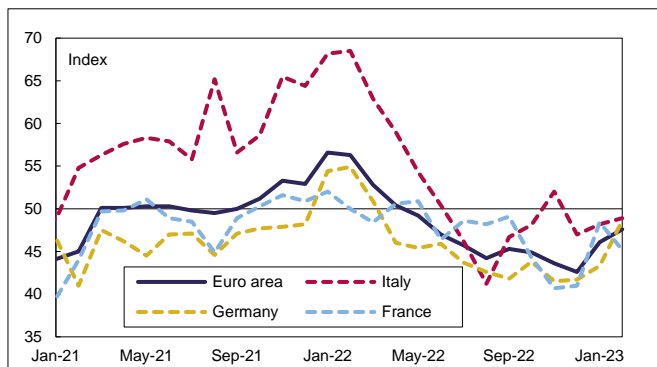
The sentix investor survey also flagged persisting potential headwinds ahead, with the headline sentiment index having edged lower in March, by 3.1pts to -11.1. Admittedly, the current situation balance rose for the fifth month in a row and to the highest level since June, albeit a level that sentix considered to consistent with stagnation at best. And while the expectations balance remains above the troughs seen last year, it fell back this month amid increasing concerns about the impact of high inflation on the ECB's tightening cycle. In this context, Austrian Central Bank Governor Holzmann today made some typically hawkish comments, stating that he would back hikes of 50bps at each of the ECB's four policy-setting meetings through to July. But those remarks were countered by more balanced commentary from Portugal's Central Bank Governor Centeno, who reminded that the ECB will likely be presented with a notably lower headline inflation forecast at its policy meeting next week and so should temper its policy decisions accordingly. Moreover, although ECB Chief Economist Lane today suggested that further tightening beyond March will be appropriate given the current information on underlying inflation pressures, he also reiterated that the lagged effects of past policy tightening should be monitored. And after the ECB effectively pre-committed to the magnitude of tightening for March, he emphasised that the decision in May should be data dependent – with the inflation figures for March and April, Q1 GDP and certain survey indicators being particularly important – and warned against the ECB setting policy on autopilot.

The coming two days in the euro area

In light of the upside surprise to last week's flash [consumer price inflation](#) estimates, focus in the euro area tomorrow will be on the publication of the ECB's monthly survey of consumer expectations, which will shed more light on households' perceptions about the outlook for inflation at the start of this year. Tomorrow will also bring German factory orders data for January, which are expected to reveal a modest 0.7%M/M decline in January, following a temporary increase in December, which would leave them down more than 12% compared to a year earlier. German IP figures (Wednesday) will provide an indication into how the manufacturing sector performed at the start of Q1, while the typically volatile Irish IP numbers are due tomorrow. Wednesday will also bring the final release of euro area GDP and employment figures for Q4. Given the downwards revision to German GDP and significant revision to the Irish GDP estimate, the minimal growth initially estimated in Q4 (0.1%Q/Q) seems likely to be revised away, with a non-negligible chance of a negative print. This release will include the official expenditure breakdown, which seems likely to confirm a slump in private domestic demand.

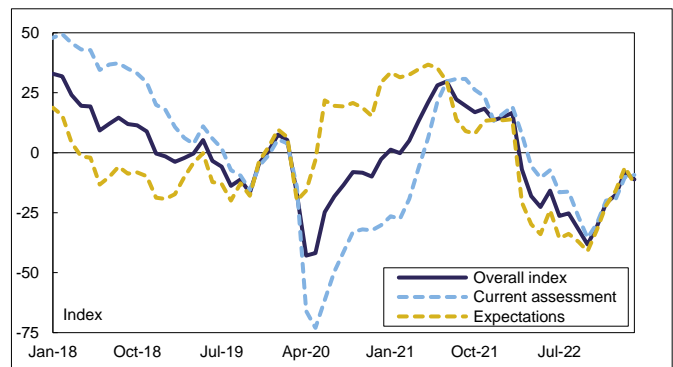
UK

Euro area: Construction PMIs



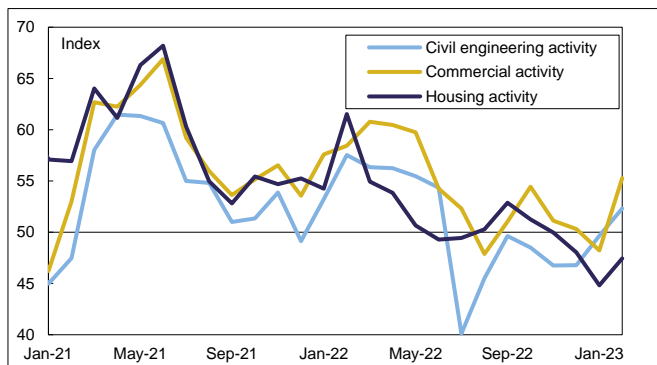
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: sentix sentiment indices



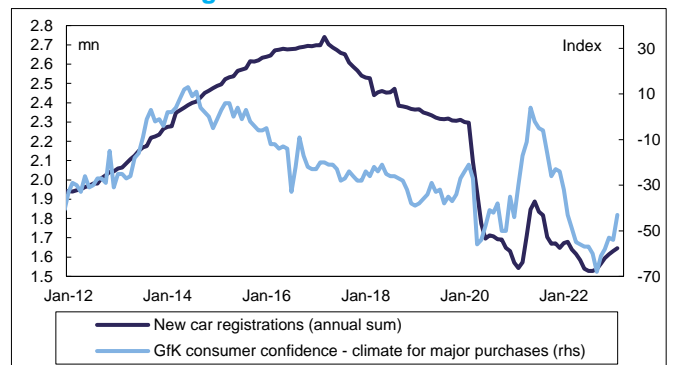
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Construction PMIs



Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: New car registrations & consumer confidence



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK construction PMI leaps to its highest since May 2022, but housing activity still very weak

Following the surprisingly strong recovery in the February services and manufacturing PMIs, today's UK construction sector survey similarly beat expectations. In particular, the headline activity PMI rose for the first month in four and by more than 6pts, the most for almost two years, to 54.6, the highest since May 2022. The rebound was driven by a significant improvement in commercial activity and a positive contribution from civil engineering, not least boosted by increased work on major projects such as the HS2 railway, while the new orders component similarly jumped to its highest since May (54.5) to be broadly back in line with the long-run average. But the survey continued to flag persisting weakness in the housing subsector, with elevated borrowing costs and an anticipation of persisting weaker demand weighing on projects. And although construction firms were seemingly the most upbeat about the year ahead since last March, less than 50% of respondent firms were expecting activity to rise over that period.

UK car registrations continue to benefit from easing supply constraints









Today's new car registrations numbers also signalled a strong rebound amid the ongoing easing in supply bottlenecks in the autos sector. In particular, new car sales rose for the fifth consecutive month in February and by 26.2%Y/Y. Again, this reflected another strong increase in registrations of fleet vehicles (46.2%Y/Y), with a more modest increase in private sales (5.8%Y/Y). Indeed, in the year-to-date, private registrations were still down compared with a year earlier. Moreover, in total, new car sales for the month of February were still roughly 10% below the pre-pandemic five-year average for that month, and still trending well below the pre-Brexit referendum levels. And while the pandemic backlog of orders might well provide another boost to registrations over the near term, this seems unlikely to persist amid still very weak consumer confidence and declining disposable incomes.

The coming two days ahead in the UK

Looking ahead on the UK's data calendar, tomorrow brings the release of the BRC retail sales monitor for February, which will likely suggest that discretionary spending remains weak, as rising prices continue to erode household purchasing power. On Wednesday, the KPMG/REC report on jobs is expected to reveal continued tightness in the labour market, albeit also report a further easing in demand for new placements as well as a continued moderation in growth of starting salaries.

The next edition of the Euro wrap-up will be published on 8 March 2023




European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
Euro area	 Construction PMI	Feb	47.6	-	46.1	-	
	 Sentix investor confidence	Mar	-11.1	-5.5	-8.0	-	
	 Retail sales M/M% (Y/Y%)	Jan	0.3 (-2.3)	0.8 (-1.8)	-2.7 (-2.8)	-1.7 (-)	
Germany	 Construction PMI	Feb	48.6	-	43.3	-	
France	 Construction PMI	Feb	45.2	-	48.4	-	
Italy	 Construction PMI	Feb	48.9	-	48.2	-	
UK	 New car registrations Y/Y%	Feb	26.2	-	14.7	-	
	 Construction PMI	Feb	54.6	48.6	48.4	-	
Auctions							
Country	Auction	- Nothing to report -					




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany 	07.00	Factory orders M/M% (Y/Y%)	Jan	-0.7 (-12.3)	3.2 (-10.1)
Spain 	08.00	Industrial production M/M% (Y/Y%)	Jan	0.2 (0.8)	0.8 (0.6)
UK 	00.01	BRC retail sales monitor, like-for-like Y/Y%	Feb	-	3.9






Auctions and events

Euro area 	09.00	ECB consumer expectations survey, January 2023
Germany 	10.30	Auction: €500mn of 0.1% 2033 index-linked bonds
UK 	10.00	Auction: £4.5bn of 3.5% 2025 bonds






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area 	10.00	Final GDP Q/Q% (Y/Y%)	Q4	-0.1 (1.7)	0.3 (2.4)
Euro area 	10.00	Final employment Q/Q% (Y/Y%)	Q4	0.4 (1.5)	0.3 (1.8)
Germany 	07.00	Retail sales M/M% (Y/Y%)	Jan	2.3 (-5.0)	-4.9 (-6.2)
Germany 	07.00	Industrial production M/M% (Y/Y%)	Jan	1.4 (-3.7)	-3.1 (-3.9)
Italy 	09.00	Retail sales M/M% (Y/Y%)	Jan	0.2 (-)	-0.2 (3.4)

Auctions and events

Euro area 	11.00	ECB President Christine Lagarde scheduled to speak
Germany 	10.30	Auction: €4bn of 2.1% 2029 bonds
UK 	00.01	KPMG/REC report on jobs, February 2023
UK 	09.30	BoE's Swati Dhingra scheduled to speak
UK 	10.00	Auction: £2.0bn of 0.5% 2061 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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