

Euro wrap-up

Overview

- Bunds followed USTs higher, even as German factory orders significantly beat expectations in February and car production surged in March.
- Shorter-dated Gilts also made modest gains, while the final UK services PMI confirmed a slightly loss of recovery momentum in March.
- Thursday will bring German industrial production data for February, along with March construction PMIs from certain European countries.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	2.498	-0.078
OBL 2.2 04/28	2.160	-0.069
DBR 2.3 02/33	2.174	-0.069
UKT 0% 06/25	3.338	-0.010
UKT 1% 10/28	3.259	-0.013
UKT 3¼ 01/33	3.429	-0.005

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

Source: Bloomberg

Euro area

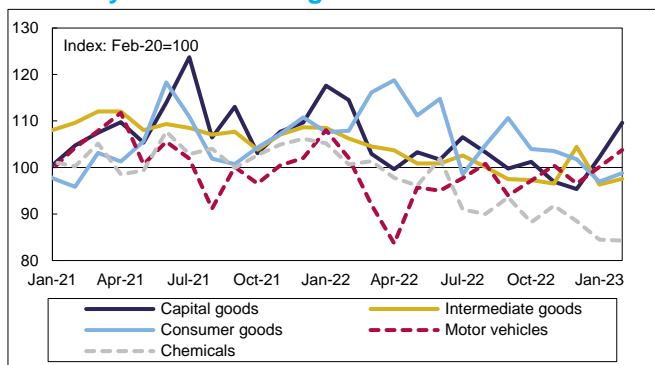
German factory orders significantly beat expectations in February

German factory orders in February significantly exceeded expectations, with growth of 4.8%M/M some 4½ppts above the consensus forecast and the strongest since June 2021. While growth in January was a touch softer than previously estimated, today's print marked the third consecutive increase to leave orders more than 7% above October's recent trough. Given the marked decline since mid-2021 through to the end of last year, however, orders were still down almost 11% from the pandemic peak, roughly 6% below the level a year earlier, and slightly below the pre-pandemic level in February 2020. Furthermore, growth in February was flattered by a large-scale order intake (55.9%M/M) for other vehicle equipment, for which the subsector includes shipbuilding, rail, aircraft, aerospace and military vehicles. Indeed, when excluding such items, orders were up a more modest 1.2%M/M and trending a little more than 1% above the Q4 average (compared with an equivalent increase of more than 3% in total orders). An improvement in demand for motor vehicles also helped support new capital goods orders, which rose a further 7.3%M/M in February. But while orders of intermediate and consumer goods were stronger in February, up 1.3%M/M and 1.9%M/M respectively, they were still trending well below the Q4 average.

German car production jumps in Q1, but surveys suggest still subdued factory output

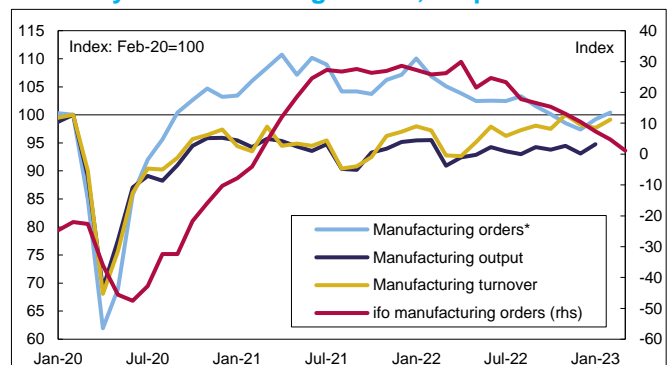
Today's release also suggested that manufacturing turnover rose for the first month in three in February, by 1.5%M/M following a revised drop of 0.6%M/M in January. Admittedly, this left turnover in the first two months of the year, merely flat compared with Q4. So there is a risk that tomorrow's German manufacturing output figures will report some payback for the growth seen in January (1.8%M/M), perhaps with renewed weakness in energy-intensive subsectors. This notwithstanding, production in the autos sector appears to have been supported by the ongoing easing of supply bottlenecks and still elevated pandemic-related order backlogs. According to the German association of the auto industry (VDA), car production jumped 66%Y/Y in March following growth of 24%Y/Y in February to the highest level since October 2020 and just 2½% below the pre-pandemic level in March 2019. The latest ifo survey suggested that automakers were the most upbeat about the current business situation since early 2022. But this survey also flagged that demand was relatively subdued. And the VDA's measure of incoming orders for German cars was down a further 31%Y/Y in March. Surveys including the ifo and PMIs suggest that total factory orders have maintained a downwards trend over recent quarters too. With the manufacturing output PMI consistent with no material growth in March and given ongoing uncertainties regarding the outlook for external demand, we think the broad sideways trend in German manufacturing output might well be maintained through Q2 at least.

Germany: Manufacturing orders



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing orders, output & turnover



*Excluding major orders. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

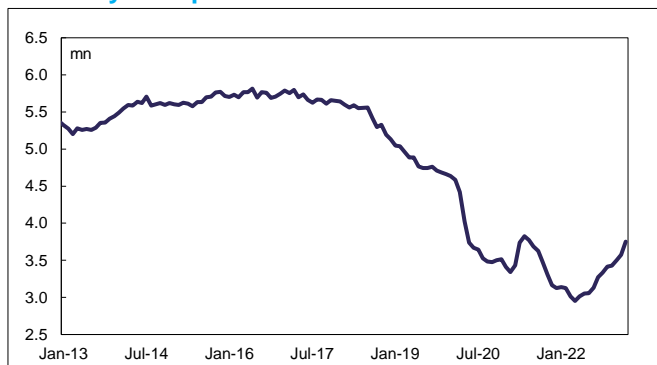
French IP beats expectations, but PMIs point to still subdued manufacturing growth

French industrial production also beat expectations in February, with growth of 1.2%M/M almost 1ppt above the consensus. The improvement was driven by transport equipment, with autos output accelerating 3.4%M/M to the highest level in six months. But despite a pickup in February, production of intermediate and consumer goods was still averaging well below the level in Q4. As such, manufacturing output was trending broadly sideways in the middle of Q1. And while construction output rose for a second successive month in February, it was merely flat compared with Q4. Due to some payback from strike-related weakness in October, energy output was trending more than 6% above the Q4 average. And so, overall, industrial production might well avoid a second successive quarterly contraction in Q1. Surveys, however, point to a lacklustre outlook for the sector. Certainly, the final manufacturing PMIs published earlier this week pointed to ongoing contraction in France in March, with the respective output PMI (46.8) the weakest of the reporting member states for the second successive month. So, while the equivalent Italian and Spanish indices (53.9 and 53.5) signalled the strongest production growth since early 2022, and the euro area manufacturing output PMI was nudged 0.5pt higher from the flash estimate, at 50.4 it was merely consistent with very soft growth at the end of Q1.

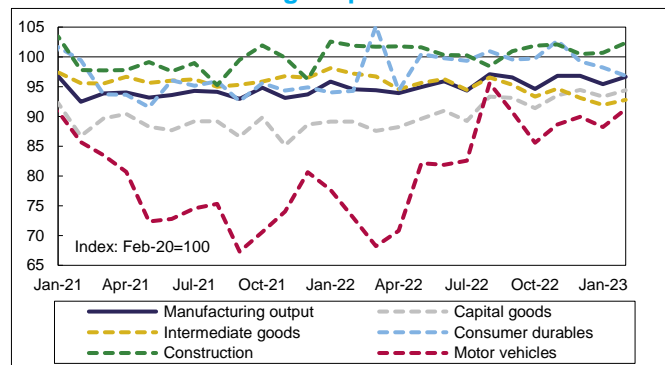
Services PMIs point to accelerating recovery momentum despite downwards revision in France

While today's final euro area services PMI results for March brought a downwards revision from the flash release, the underlying message of an acceleration in the recovery momentum at the end of Q1 was maintained. Despite a drop of 0.6pt from the preliminary estimate, the headline activity index, at 55.0, was still 2.3pts above the February reading and the firmest since May 2022, to leave the quarterly index in Q1 almost 4pts higher than in Q4. The revision was principally led by France, where the respective PMI was 1.6pts lower than initially estimated. This suggests a notably weaker assessment among the 12% of survey responses that were added to the final release, perhaps reflecting the rise of protests and strikes in response to the government's pension reform. This notwithstanding, the French activity index (up 0.8pt to 53.9) was still the highest since June 2022 and suggestive of solid growth in the sector. The equivalent German PMI was also the firmest since last May (up 2.8pts to 53.7). But today's surveys implied that the strongest growth in the sector was seen in Southern Europe, with the Italian index up 4.1pts to an eleven-month high of 55.7 and the Spanish index up 2.7pts to a sixteen-month high of 59.4. And so, while the composite output PMIs from the largest four member states were all comfortably above the key-50 expansion level, the improvements were most striking in Italy (55.2) and Spain (58.2). Overall, the euro area composite output PMI rose 1.7pts in March to a ten-month high of 53.7 and consistent with a modest pickup in GDP growth in Q1.

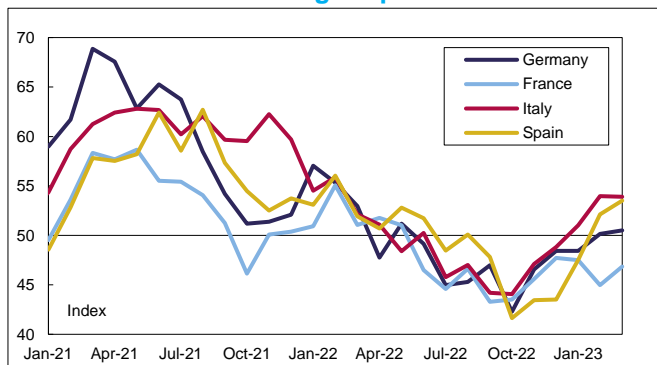
Germany: Car production



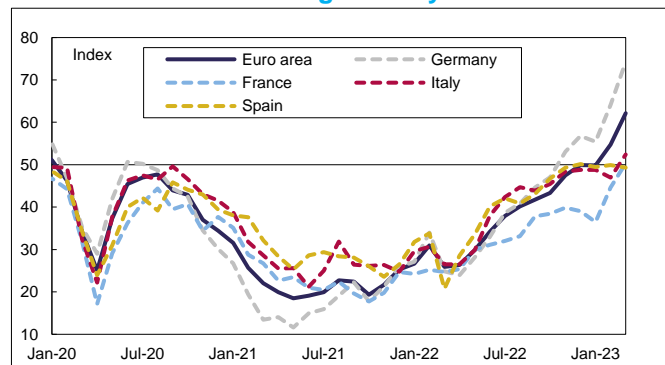
France: Manufacturing output



Euro area: Manufacturing output PMIs



Euro area: Manufacturing delivery times PMIs



Services PMIs suggest sticky price pressures, but ECB survey indicates easing in expectations

Today's final services confirmed that price pressures in the sector remain relatively sticky. Admittedly, the input price index fell in March for the fifth month out of the past six to a seventeen-month low of 68.5 to be some 11pts below last year's peak. But this was still 12pts above the long-run average. The decline in the services prices charged PMI was also slightly smaller than estimated in the flash release, so at 59.8 it remains almost 10pts above the pre-pandemic average, with the composite output price index some 8½pts above the long-run average too. And so this might do little to ease the ECB hawks concerns about the persisting rise in core inflation. But when assessing the risks of second-round effects, they may take some relief from the latest findings of the ECB's monthly household survey. In particular, this showed that the median household inflation expectation three years ahead dropped for a second successive month in February, by 0.1ppt to 2.4%Y/Y, the lowest in twelve months, with the equivalent figure for Germany down a further 0.5ppt to just 1.5%Y/Y, the lowest since October 2020.

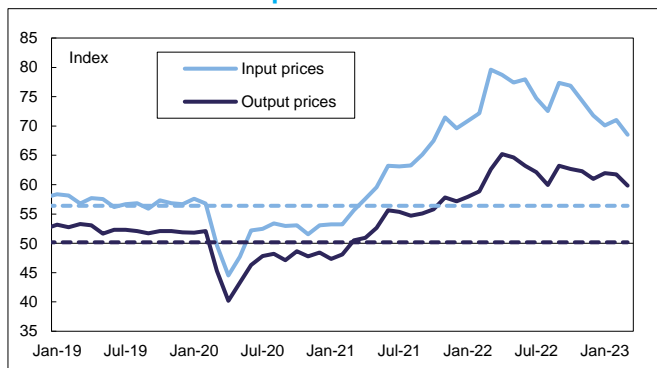
Euro area producer prices fall further as energy costs and supply constraints ease

Meanwhile, after the downside surprise to last Friday's flash [euro area CPI](#) estimate, yesterday's euro area PPI inflation numbers reported a further moderation in goods price pressures, with producer prices down for the fourth month out of the past five in February (-0.5%M/M). This took the annual inflation rate down to a nineteen-month low of 13.3%Y/Y, roughly 30ppts below last August's peak. Once again, the downwards impulse largely reflected energy prices – down 1.7%M/M following a record decline of 9.2%M/M in January – for which the annual rate of that component (17.3%Y/Y) was the lowest for almost two years and exactly 100ppts below August's peak. But intermediate prices resumed a downwards trend, to take the annual rate (9.3%Y/Y) to the lowest since May 2021. And while food prices continue to keep consumer goods inflation at an elevated level (14.6%Y/Y), consumer durable goods inflation fell a further 0.3ppt to 8.7%Y/Y, a ten-month low, not least related to a further easing in supply constraints. Indeed, the latest manufacturing PMIs reported a survey-record shortening in suppliers' delivery times, which were most striking in Germany. Taken together with lower energy costs, this survey also signalled the first decline in euro area factory input prices since the early stages of the pandemic, with the index almost 10ppts below the pre-pandemic average. As such, we expect euro area PPI to slow further over coming months. And while the pass through will come with a lag, consumer goods inflation should start to moderate too.

The day ahead in the euro area

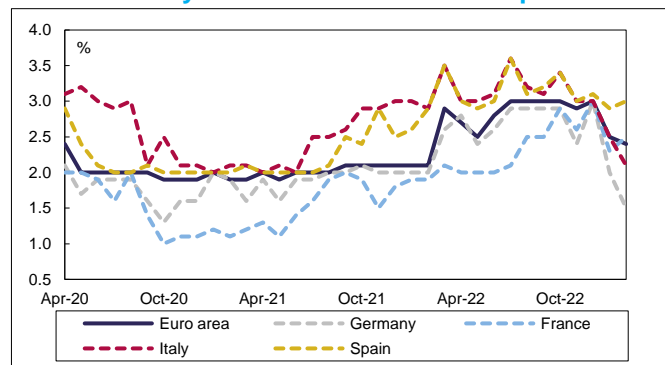
The data highlight tomorrow will be the release of the aforementioned German industrial production figures, which will provide a further update on manufacturing activity in the middle of Q1. Contrasting with the growth reported in today's turnover data, we might well see some payback for the strength in January (3.5%M/M). Thursday will also bring the

Euro area: Services price PMIs*



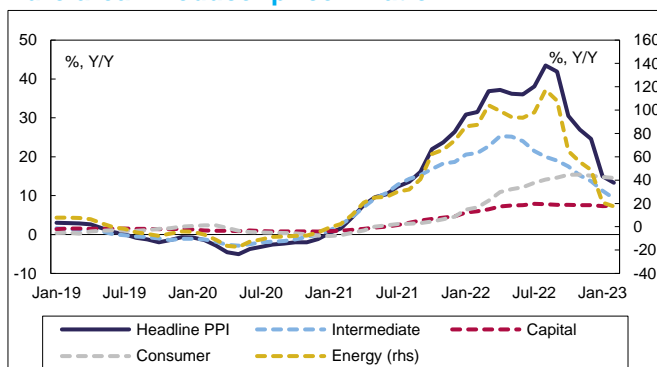
*Dashed lines represent pre-pandemic average. Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: 3-year consumer inflation expectations



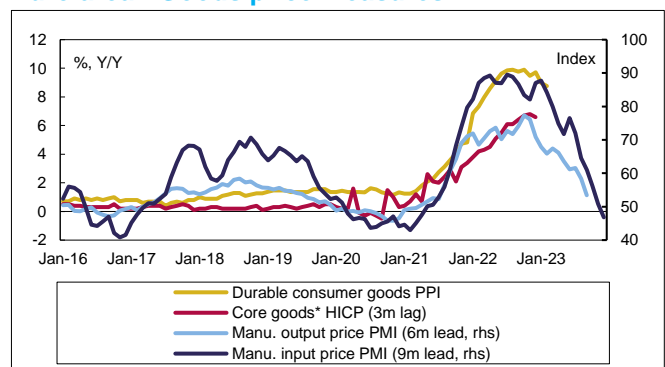
Source: ECB Consumer Expectations Survey and Daiwa Capital Markets Europe Ltd.

Euro area: Producer price inflation



Source: Refinitiv, and Daiwa Capital Markets Europe Ltd.

Euro area: Goods price measures



*Non-energy industrial goods. Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

construction PMIs for March, which are expected to reveal a further modest improvement in conditions in the sector, albeit still likely suggesting that the activity indices remained in contractionary territory.

UK

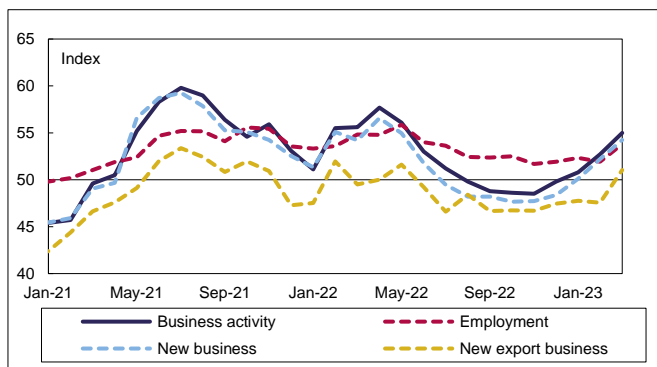
UK services PMIs lost a little momentum in March but still consistent with expansion

Contrasting with the euro area, today's final UK services PMIs delivered a very modest upwards revision to the activity component, although this still left the index (52.9) down 0.6pt on the month. Given the surge in February, the services PMIs was on average in Q1 (51.7) some 2.5pts above the Q4 level and consistent with moderate growth in the sector. So, while the manufacturing survey still pointed to ongoing contraction, the composite output PMI remained comfortably in expansionary territory in March, albeit down 0.9pt to 52.2. Moreover, the quarterly composite index in Q1 (51.3) was the strongest since Q222 and consistent with positive GDP growth. The survey also signalled ongoing recovery momentum ahead, with the fastest increase in services new business orders in a year, reflecting not least the strongest rise in tourism-related export sales since the series began in 2014. Admittedly, the outlook for manufacturers was more lacklustre, with subdued domestic demand and ongoing declines in overseas demand. Like in the euro area, the combination of subdued demand and improved supply constraints saw UK manufacturer cost burdens ease further in March, with the input price PMI (53.6) dipping below the pre-pandemic average for the first time since June 2020. Price pressures remain stickier in the services sector. But the respective input price PMI did however maintain a downwards trend to a 22-month low of 70.0. And the prices charged index was down more than 3½pts in March – the most since the start of the pandemic – to the lowest since August 2021.

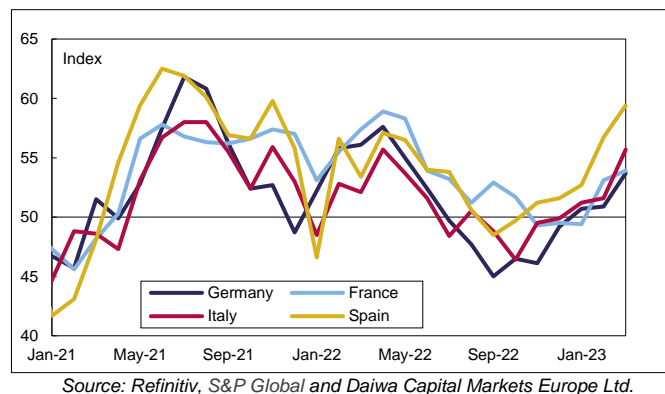
The day ahead in the UK

It should be a quiet day for economic news in the UK tomorrow, with only the construction PMI for March scheduled for release. The headline activity index is expected to have declined slightly following the surprising jump in February, albeit still pointing to expansion in the sector.

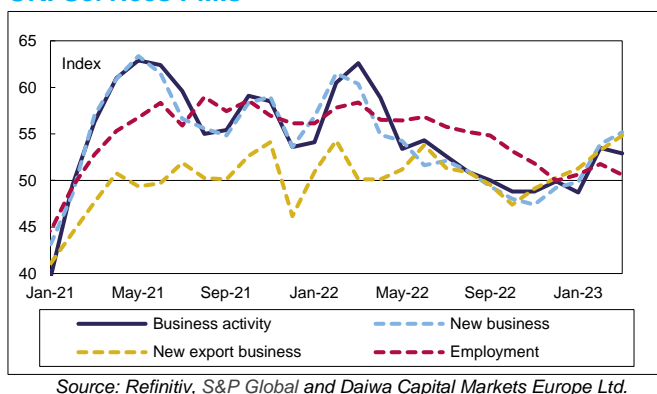
Euro area: Services PMIs



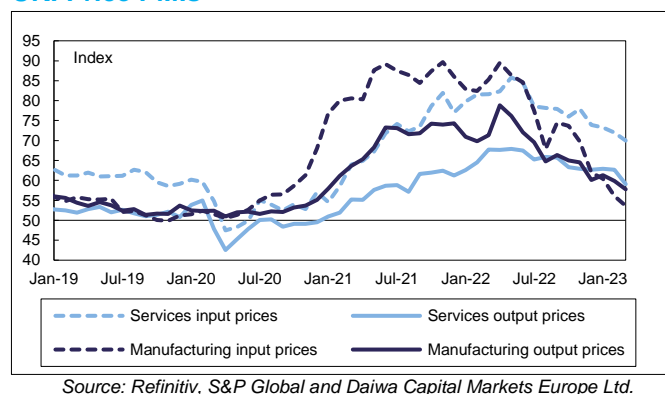
Euro area: Services PMIs



UK: Services PMIs



UK: Price PMIs



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Final services (composite) PMI	Mar	55.0 (53.7)	55.6 (54.1)	52.7 (52.0)	-
Germany	Factory orders M/M% (Y/Y%)	Feb	4.8 (-5.7)	-0.5 (-9.2)	1.0 (-10.9)	0.5 (-12.0)
	New car production (registrations) Y/Y%	Mar	66.1 (16.6)	-	23.6 (2.8)	-
	Final services (composite) PMI	Mar	53.7 (52.6)	53.9 (52.6)	50.9 (50.7)	-
France	Final services (composite) PMI	Mar	53.9 (52.7)	55.5 (54.0)	53.1 (51.7)	-
	Industrial production M/M% (Y/Y%)	Feb	1.2 (1.3)	-	-1.9 (-2.2)	-1.4 (-1.6)
Italy	Services (composite) PMI	Mar	55.7 (55.2)	53.0 (53.0)	51.6 (52.2)	-
	Retail sales M/M% (Y/Y%)	Feb	-0.1 (5.8)	-	1.7 (6.2)	- (6.0)
Spain	Industrial production M/M% (Y/Y%)	Feb	0.6 (-0.4)	-	-0.9 (-0.4)	-0.8 (-0.2)
	Services (composite) PMI	Mar	59.4 (58.2)	57.5 (56.0)	56.7 (55.7)	-
UK	Final services (composite) PMI	Mar	52.9 (52.2)	52.8 (52.2)	52.8 (52.2)	-
	New car registrations Y/Y%	Mar	18.2	-	26.2	-

Auctions

Country	Auction
Germany	sold €3.3bn of 2.1% 2029 bonds at an average yield of 2.28%
UK	sold £3.5bn of 0.5% 2029 bonds at an average yield of 3.497%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Monday and Tuesday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Monday 03 April 2023						
Euro area	Final manufacturing PMI	Mar	47.3	47.1	48.5	-
Germany	Final manufacturing PMI	Mar	44.7	44.4	46.3	-
France	Final manufacturing PMI	Mar	47.3	47.7	47.4	-
	New car registrations* Y/Y%	Mar	24.2	-	9.4	-
Italy	Manufacturing PMI	Mar	51.0	51.4	52.0	-
	New car registrations Y/Y%	Mar	40.8	-	17.5	-
Spain	Manufacturing PMI	Mar	51.3	50.5	50.7	-
	New car registrations* Y/Y%	Mar	66.1	-	19.2	-
UK	Final manufacturing PMI	Mar	47.9	48.0	49.3	-
Tuesday 04 April 2023						
Euro area	PPI Y/Y%	Feb	13.2	12.9	15.0	15.1
Germany	Trade balance €bn	Feb	16.0	16.6	16.0	-
Spain	Unemployment change '000s	Mar	-48.8	-	2.6	-







Auctions

Country	Auction
Tuesday 04 April 2023	
Germany	sold €352mn of 0.1% 2033 index-linked bonds at an average yield of -0.11%
	sold €82mn of 0.1% 2046 index-linked bonds at an average yield of -0.18%
UK	sold £2.25bn of 1.125% 2039 bonds at an average yield of 3.78%




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area		09.00 Construction PMI	Mar	-	47.6
Germany		07.00 Industrial production M/M% (Y/Y%)	Feb	-0.1 (-1.6)	3.5 (-1.6)
		08.55 Construction PMI	Mar	-	48.6
France		08.50 Construction PMI	Mar	-	45.2
Italy		08.45 Construction PMI	Mar	-	48.9
UK		09.30 Construction PMI	Mar	-	54.6

Auctions and events

France		09.50 Auction: 3.0% 2033 bonds
		09.50 Auction: 2.5% 2043 bonds
		09.50 Auction: 3.0% 2054 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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