

Euro wrap-up

Overview

- Shorter-dated Bunds made modest losses, while German IP in February rose to its highest level since end-2020 but the construction activity PMI fell sharply in March.
- Gilts were little changed today as the UK's construction PMIs fell more than expected in March but remained consistent with modest expansion.
- The coming week will bring February results for euro area retail sales, industrial production and UK GDP.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	2.528	+0.026
OBL 2.2 04/28	2.168	+0.001
DBR 2.3 02/33	2.175	-0.001
UKT 0% 06/25	3.367	+0.019
UKT 1% 10/28	3.269	+0.005
UKT 3¼ 01/33	3.431	+0.006

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

Euro area

German IP rises to its highest level since end-2020 driving by a rebound in autos production

After yesterday's upside surprise to German [factory orders](#) in February, today's industrial production release also beat expectations, raising cautious optimism that a more buoyant manufacturing recovery might help avoid another contraction in Germany's GDP in Q1. In particular, industrial production increased 2.0%/M/M in February, following an upwardly revised print in January (3.7%/M/M). This left output at its highest level since the end of 2020, some 5.8% above December's trough and trending so far in Q1 some 3% above the Q4 average, albeit still a little more than 2% below the pre-pandemic level three years ago. Production in February was principally driven by an acceleration in the autos sector (7.6%/M/M) similarly to the highest level in more than two years, as improving supply bottlenecks permitted car manufacturers to work through the pandemic-related order backlog. The recovery in energy-intensive subsectors also continued in February, where output rose 1.9%/M/M to a five-month high and up a cumulative 7½% since December, albeit still 12% below the level a year ago before the Russian invasion of Ukraine. Within this category, production of chemical products rose for the third month out of the past four, while basic metals rose to its highest level for a year. And following the surge in January (13.6%/M/M), construction activity surprisingly rose a further 1.5%/M/M in February to its highest level since March 2021.

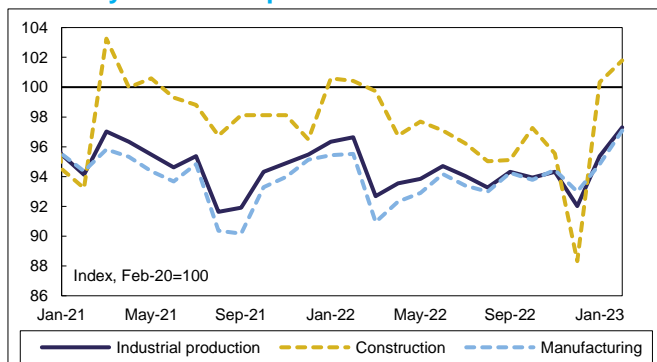
Production rebound at odds with other manufacturing indicators

The strength in today's production data are, however, at odds with the message from various other manufacturing indicators. Certainly, yesterday's turnover numbers implied a broadly sideways trend so far in Q1. While the manufacturing output PMI rose to a nine-month high in February, at 50.2, it was also merely consistent with stagnation in the sector. And with new orders continuing to decline sharply, the survey signalled little improvement in production in March. This broadly tallied with the latest ifo survey, which reported manufacturing order books dipping to their lowest in two years, while truck toll mileage numbers remained at a relatively weak level in March. Furthermore, a notable drop in industrial gas usage last month suggests some retrenchment in energy-intensive production too. We therefore expect German manufacturing output to fall back in March and would not be surprised to see a downwards revision to the February outturn in due course too. This notwithstanding, the manufacturing sector looks on track to provide a non-negligible boost to Germany's GDP growth in Q1.

Construction PMIs point to marked contraction in March

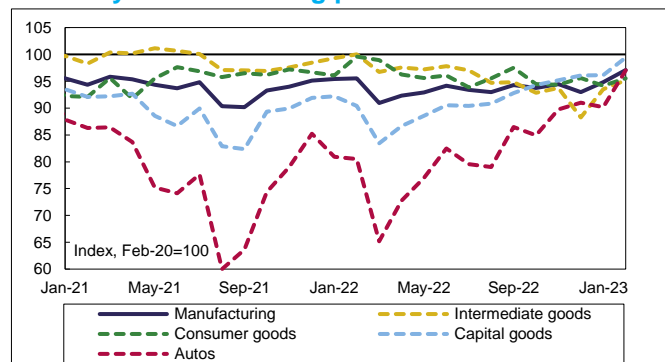
Likewise, the rebound in German construction activity contrasts with the steady deterioration in conditions reported in the ifo's business survey. And while the construction activity PMI jumped in February to an eleven-month high (48.6) this remained consistent with ongoing contraction. Moreover, today's PMI release suggested that this improvement was reversed

Germany: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

in March, with the headline activity index down 5.7pts to 42.9, while the new orders component (35.6) implied the steepest drop since November. Despite an easing in supply constraints, the French PMI (45.3) similarly signalled ongoing contraction, while the Italian index fell to a three-month low (47.4). Overall, the euro area activity PMI declined 2.6pts to 45.0. Perhaps somewhat unsurprisingly given rising borrowing costs, weak domestic demand and the first drop in house prices (-1.7%Q/Q in Q422) since the start of 2015, the respective residential PMI (42.3) still implied the steepest decline. But, according to the PMIs, commercial activity and civil engineering continued to contract too. Amid improving supply bottlenecks, today's survey did however report a further easing in input cost burdens in March, with the respective index (60.1) falling to its lowest since end-2020 and back at the pre-pandemic average.

The week ahead in the euro area

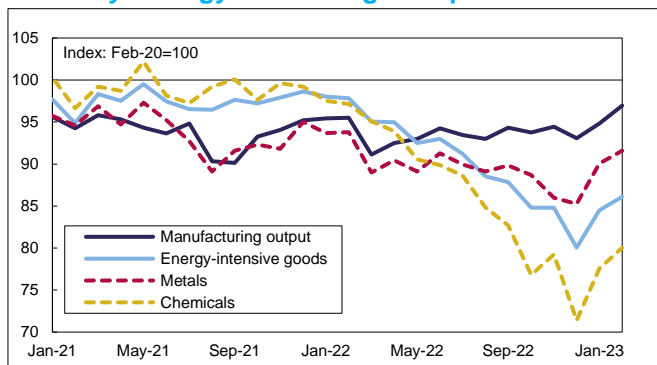
After the extended Easter holiday weekend, the coming week's euro area data calendar will be relative light for top-tier economic releases. Of most note will be February results for retail sales (Tuesday) and industrial production (Thursday), which will provide an update on economic activity in the middle of Q1. Figures from [Germany](#) (-1.3%M/M), [France](#) (-0.4%M/M) and Italy (-0.1%M/M) suggest that aggregate retail sales fell in February, likely more than reversing the increase recorded in January (0.3%M/M). In contrast, the national IP numbers point to a further pickup in euro area production in February. Indeed, based on available data published so far (including the notoriously volatile Irish figures, which today reported growth of 3.1%M/M), euro area industrial production (excluding construction) is forecast to rise a little more than 1.0%M/M. Tuesday will also bring the Sentix investor survey for April, which will provide the first insight into sentiment at the start of Q2. Final March inflation estimates will be published from Germany (Thursday), France and Spain (Friday). The preliminary releases saw the headline CPI rates decline sharply last month, but also hint that core inflation edged higher.

UK

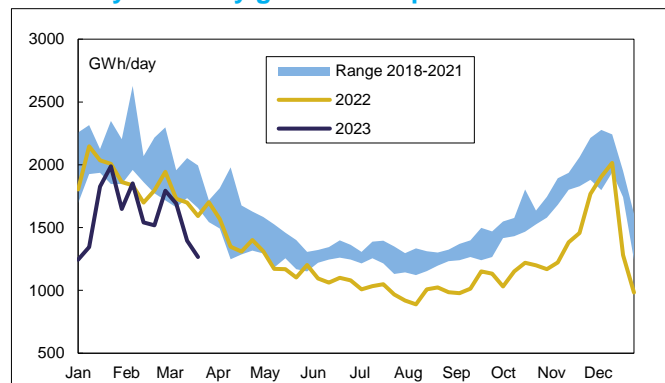
UK construction PMIs flag ongoing downward adjustments in residential sector

After yesterday's services PMIs implied a moderation in the UK's recovery momentum at the end of Q1, today's construction PMI pointed to a more marked slowdown in activity. In particular, the headline activity index dropped a larger-than-expected 3.9pts in March to 50.7, to reverse much of the jump recorded in February (6.2pts) and imply only moderate growth last month. While this partly reflected softer growth in commercial activity (down 4.2pts to 51.1), the survey flagged greatest weakness in the housing subsector, with elevated borrowing costs and an anticipation of persisting weaker demand weighing on new projects. Indeed, the respective residential PMI fell a further 3.3pts to 44.2, the lowest since the onset of the

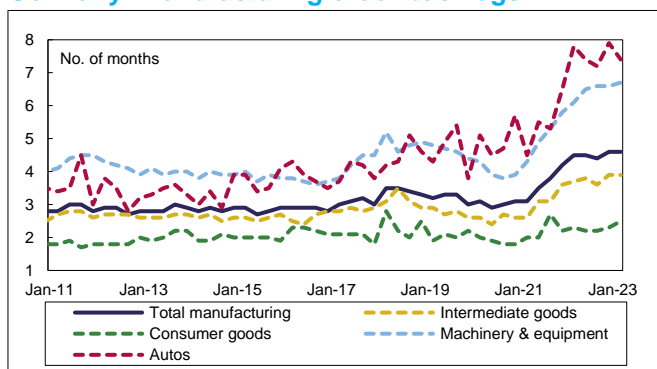
Germany: Energy-intensive goods production



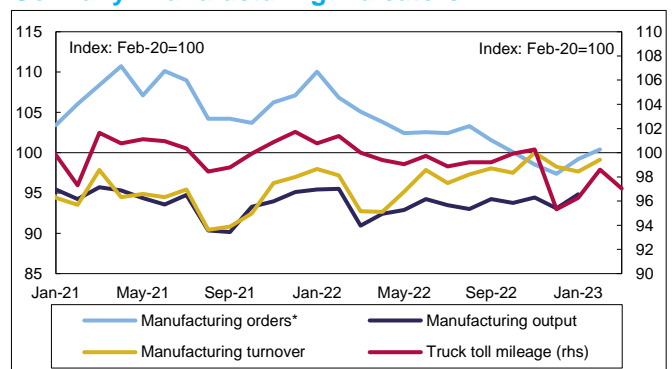
Germany: Industry gas consumption



Germany: Manufacturing order backlogs



Germany: Manufacturing indicators

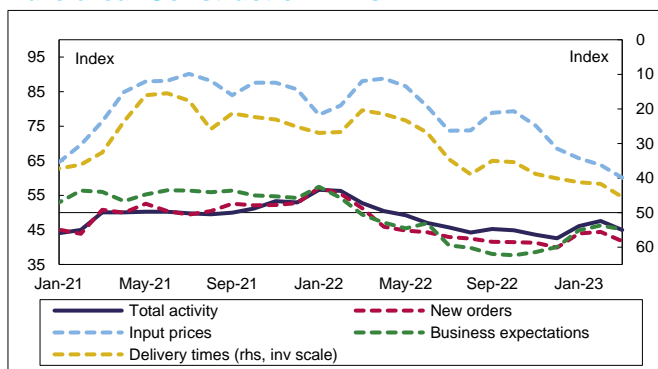


pandemic and before that the month of the Brexit referendum vote in June 2016. Although construction firms were seemingly the most upbeat about the year ahead since February 2022, less than 50% of respondent firms were expecting activity to rise over that period. While today's survey signalled the fastest improvement in suppliers' delivery times for more than thirteen years, survey respondents suggested that energy costs and wage pressures continued to keep input cost burdens elevated. This notwithstanding, the respective index stood at the second-lowest level since November 2020.

The week ahead in the UK

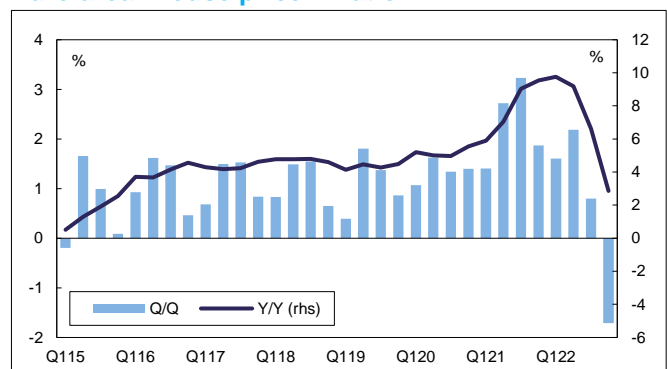
When markets reopen on Tuesday, the UK's data calendar gets underway with the BRC's retail sales monitor for March. But of most interest in the coming week will be Thursday's publication of February results for GDP, as well as the services, industrial and construction activity breakdown and monthly trade figures. While the PMIs pointed to an accelerated recovery momentum in February, and [retail sales](#) were surprisingly strong that month too, we expect overall GDP growth to have remained relatively subdued, with strikes likely to have weighed on output from the transport, education and healthcare subsectors. Like the Bloomberg survey consensus, we forecast growth of just 0.1%M/M. Also of interest on Thursday will be the RICS latest residential survey for March, as well as the BoE's latest Credit Conditions Survey for Q1, which will likely flag a further tightening of financial conditions.

Euro area: Construction PMIs



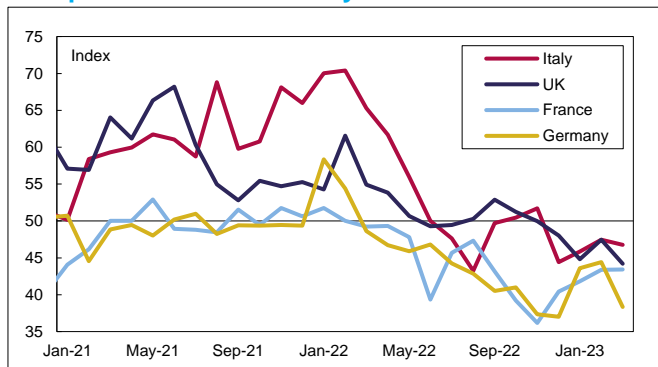
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: House price inflation



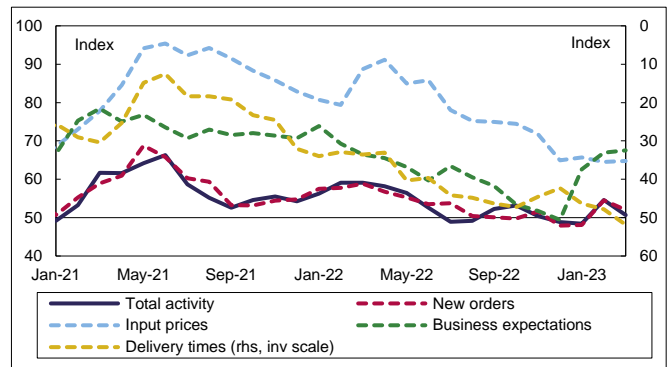
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Europe: Residential activity PMIs



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










UK: Construction PMIs



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







The next edition of the Euro wrap-up will be published on 11th April 2023

Daiwa economic forecasts

	2022		2023				2023	2024	2025
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.4	0.0	0.1	0.1	0.1	0.2	0.7	1.0	1.7
UK 	-0.1	0.1	-0.1	-0.1	0.0	0.1	-0.1	0.5	0.9
Inflation, %, Y/Y									
Euro area									
Headline HICP 	9.3	10.0	8.0	6.1	4.6	2.8	5.3	2.3	1.7
Core HICP 	4.4	5.1	5.5	5.1	4.5	3.7	4.7	2.4	1.8
UK									
Headline CPI 	10.0	10.7	10.0	6.8	5.4	2.9	6.2	2.1	1.4
Core CPI 	6.3	6.4	5.9	5.1	4.2	3.4	4.6	2.7	1.6
Monetary policy, %									
ECB									
Refi Rate 	1.25	2.50	3.50	4.00	4.00	4.00	4.00	3.25	3.00
Deposit Rate 	0.75	2.00	3.00	3.50	3.50	3.50	3.50	2.75	2.50
BoE									
Bank Rate 	2.25	3.50	4.25	4.25	4.25	4.25	4.25	3.25	2.75

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	
Euro area 	Construction PMI	Mar	45.0	-	47.6	-	
Germany 	Industrial production M/M% (Y/Y%)	Feb	2.0 (0.6)	-0.1 (-1.6)	3.5 (-1.6)	3.7 (-)	
	Construction PMI	Mar	42.9	-	48.6	-	
France 	Construction PMI	Mar	45.3	-	45.2	-	
Italy 	Construction PMI	Mar	47.4	-	48.9	-	
UK 	Construction PMI	Mar	50.7	-	54.6	-	
Auctions							
Country	Auction						
France 	sold €6.66bn of 3.0% 2033 bonds at an average yield of 2.70%						
	sold €2.07bn of 2.5% 2043 bonds at an average yield of 3.06%						
	sold €2.27bn of 3.0% 2054 bonds at an average yield of 3.12%						

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</i> <i>forecast/actual</i>	Previous
Monday 10 April 2023					
- Nothing scheduled -					
Tuesday 11 April 2023					
Euro area		09.30 Sentix investor confidence	Apr	-18.0	-11.1
		10.00 Retail sales M/M% (Y/Y%)	Feb	-0.8 (-3.3)	0.3 (-2.3)
UK		00.01 BRC retail sales, like-for-like Y/Y%	Mar	-	4.9
Wednesday 12 April 2023					
- Nothing scheduled -					
Thursday 13 April 2023					
Euro area		10.00 Industrial production M/M% (Y/Y%)	Feb	<u>1.1 (1.4)</u>	0.7 (0.9)
Germany		07.00 Final HICP (CPI) Y/Y%	Mar	7.8 (7.4)	9.3 (8.7)
Italy		09.00 Industrial production M/M% (Y/Y%)	Feb	-	-0.7 (1.4)
UK		00.01 RICS house price balance %	Mar	-48	-48
		07.00 GDP M/M% (3M/3M%)	Feb	<u>0.1 (-0.1)</u>	0.3 (0.0)
		07.00 Industrial production M/M% (Y/Y%)	Feb	0.2 (-3.7)	-0.3 (-4.3)
		07.00 Manufacturing production M/M% (Y/Y%)	Feb	0.2 (-4.6)	-0.4 (-5.2)
		07.00 Index of services M/M% (3M/3M%)	Feb	0.0 (0.0)	0.5 (0.0)
		07.00 Construction output M/M% (Y/Y%)	Feb	0.5 (1.5)	-1.7 (0.6)
		07.00 Total trade balance (goods trade balance) £bn	Feb	-5.0 (-17.0)	-5.9 (-17.9)
Friday 14 April 2023					
France		07.45 Final HICP (CPI) Y/Y%	Mar	6.6 (5.6)	7.3 (6.3)
Spain		08.00 Final HICP (CPI) Y/Y%	Mar	3.1 (3.3)	6.0 (6.0)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 10 April 2023		
Euro area/UK		- Easter holiday
Euro area		15.00 ECB's De Cos scheduled to speak
Tuesday 11 April 2023		
Germany		10.30 Auction: €5bn of 2.2% 2028 bonds
Wednesday 12 April 2023		
Euro area		19.15 Banque de France Governor Villeroy de Galhau scheduled to speak
Germany		10.30 Auction: €1.0bn of 1.25% 2048 bonds
		10.30 Auction: €1.5bn of 0% 2052 bonds
UK		10.00 Auction: £900mn of 0.125% 2039 index-linked bonds
		14.00 BoE Governor Bailey scheduled to speak
Thursday 13 April 2023		
Euro area		19.15 Bundesbank President Nagel scheduled to speak
Italy		10.00 Auction: 3Y and 7Y bonds
UK		09.30 BoE Credit Conditions Survey
		10.00 Auction: 3.25% 2033 bonds
		14.00 BoE Chief Economist Pill scheduled to speak
Friday 14 April 2023		
UK		17.00 BoE's Teneyro scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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