

# Euro wrap-up

## Overview

- Bunds made losses as German industrial production data beat expectations and the Sentix survey pointed to a further significant improvement in investor perceptions of the economic outlook.
- Gilts made somewhat smaller losses as the KPMG/REC survey of recruitment consultants reported that UK pay growth continues to moderate amid a rise in candidate availability and a decline in recruitment activity.
- Tuesday will bring the ECB's latest Bank Lending Survey as well as a UK retail survey and Irish industrial production data.

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### Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/26	2.919	+0.052
OBL 2.1 04/29	2.437	+0.052
DBR 2.2 02/34	2.433	+0.037
UKT 0½ 01/26	4.219	+0.006
UKT 0½ 01/29	3.942	+0.023
UKT 4% 01/34	4.083	+0.016

\*Change from close as at 5:00pm BST.

Source: Bloomberg

## Euro area

### German industrial production beats expectations with rise to seven-month high

German industrial production beat expectations for a second successive month in February, rising 2.1%M/M after upwardly revised growth of 1.3%M/M in January. So, having fallen in December to the lowest level since the first wave of Covid-19 in May 2020, IP rose in February to the highest level since July. Admittedly, it was still some 8.0% below the pre-pandemic level in February 2020 and down 4.9%Y/Y. However, it was also trending 1.0% above the Q4 average, strongly suggesting that the industrial sector added to German GDP growth in Q1 for the first time in four quarters. Growth in the industrial sector in February also appears to have been relatively broad-based. Most encouragingly, and tallying with the pickup in [turnover](#) reported on Friday, as well as the rise in truck toll mileage over the month, manufacturing output rose for the second successive month and by 1.8%M/M, with firm growth in production of consumer (1.5%M/M), capital (1.9%M/M) and intermediate goods (2.5%M/M) alike. Having dropped in each of the prior three months, output of motor vehicles rebounded (5.7%M/M), more than offsetting a third successive decline in machinery and equipment (-1.0%M/M). And likely benefiting from the ongoing decline in producer energy prices – which were down 23.5%Y/Y and almost 40% below their 2022 peak that month – and in part reflecting another strong month for chemicals (4.6%M/M), production of energy-intensive items grew vigorously for a second successive month (4.2%M/M), only slightly less than the pace in January, to a thirteen-month high.

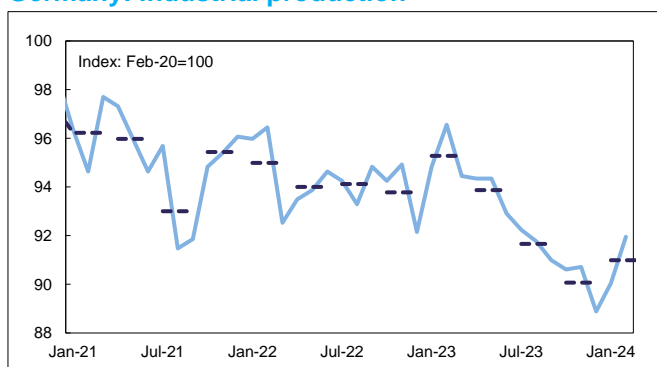
### Construction output leaps to highest since March 2022 on record mild temperatures

While energy-intensive manufacturing registered firm growth in February, energy production fell the most in nine months (-6.5%M/M) to a four-month low. However, that in part reflected the exceptionally mild weather, as average temperatures reached a record high for the month. And that simultaneously facilitated a second successive increase in construction output, which leapt an extreme 7.9%M/M, the most in 13 months, to be up 1.5%Y/Y and at the highest level since March 2022, just 1.0% below the pre-pandemic benchmark. Both house-building and civil engineering registered vigorous growth. But we caution that, as well as the weather, unusual calendar effects – February's extra working day for the leap year and the early Easter effect in March – will also have added noise to the underlying trend. And certainly, following such a marked surge at the start of the year, a decline in construction output in March seems near-inevitable, particularly in light of the downbeat survey indicators – e.g. the German construction PMI fell 0.8pt that month to 38.3, below the average between over the second half of last year when production in the sector cumulatively declined almost 6.0% from June's level.

### Goods trade surplus narrows in February from series high as imports rebound

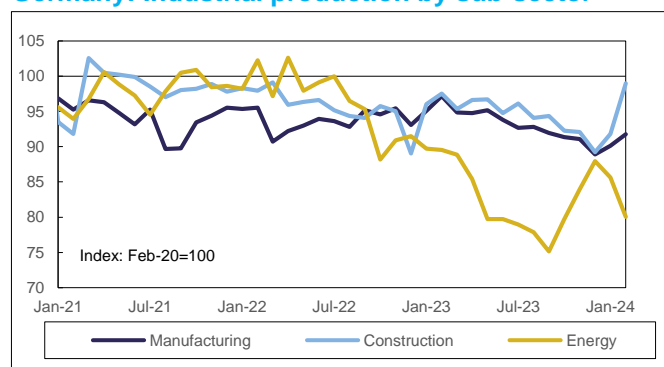
Not all of the data from the manufacturing sector were upbeat today either. For example, despite a slight pickup in export prices, the value of exports fell 2.0%M/M in February. And despite a drop in import prices, import values rose more than

#### Germany: Industrial production\*



\*Dashed lines are quarterly averages. Source: Macrobond & Daiwa Capital Markets Europe Ltd.

#### Germany: Industrial production by sub-sector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

3.0%M/M for a second successive month, so the adjusted goods trade surplus fell back from January's post-reunification high to a four-month low. Nevertheless, momentum in export values (1.3%3M/3M) remains firmer than that in import values (-2.6%3M/3M) and the picture is likely to have been similar in volume terms. And survey indicators in the manufacturing sector improved at the end of the quarter. For example, the ifo survey suggested that the overall business situation in the manufacturing sector in March was the best in four months, and expectations for the coming six months were the best in ten months. But those indicators remain well below their respective long-run averages. And in many subsectors, inventories are still elevated relative to orders. So, while industrial production has likely limited the extent of any further drop in GDP in Q1, and demand for goods should pick up over coming quarters as German household real disposable incomes rise further and imports from elsewhere in the euro area pick up, we doubt that it will offer a significant impetus to economic growth before the second half of the year.

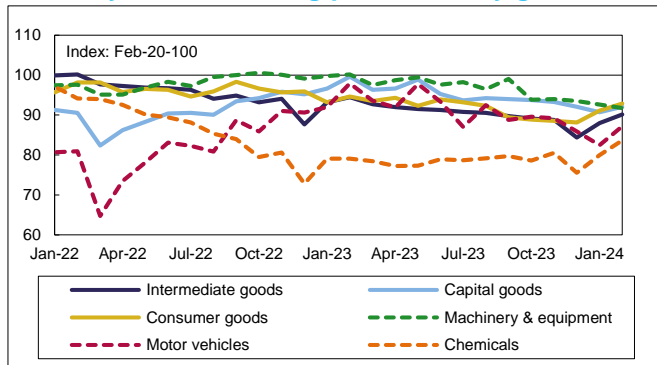
### Investor optimism in German economic outlook at 2-year high according to the Sentix survey

With increasing evidence that Germany's industrial sector has at least passed the bottom, and expectations that the ECB will soon cut rates, investor confidence in the outlook has improved. Today's Sentix survey of investors for April reported a rise in its six-month expectations index of more than 10pts – the most in more than three years – to -3.5, the highest since February 2022. Admittedly, that was still in negative territory and below the long-run average. And with the improvement in the current conditions index much smaller (4.5pts) and up to a mere three-month high and still more firmly in negative terms, investors consider the economic situation still to be challenging as the German economy faces up to non-negligible structural challenges. Nevertheless, that left the headline German Sentix index at an eleven-month high (-20.5). And the equivalent index for the euro area rose to a two-year high (-5.9), with the respective six-month expectations indicator up into positive territory for the first time since the Russian invasion of Ukraine.

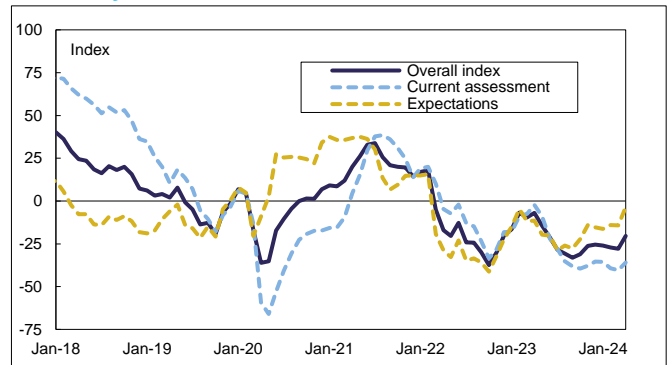
### The day ahead in the euro area

Tomorrow will bring the results of the ECB's latest Bank Lending Survey (BLS), which will inform the Governing Council's discussions of the monetary policy transmission mechanism. In the previous survey, the BLS suggested that banks expected a further modest net tightening in credit standards in Q1 for households and businesses alike. But having declined for five consecutive quarters, lenders also expected a modest net increase in business loan demand in Q1, which would tally with the recent bank lending figures. While banks had also expected a modest increase in demand for mortgage lending, the latest monthly figures reported a further decline in such loans the three months to February. Tuesday will also bring February data for French goods trade and Irish industrial production, the latter of which is extremely volatile and can often have a significant impact on the aggregate euro area figure.

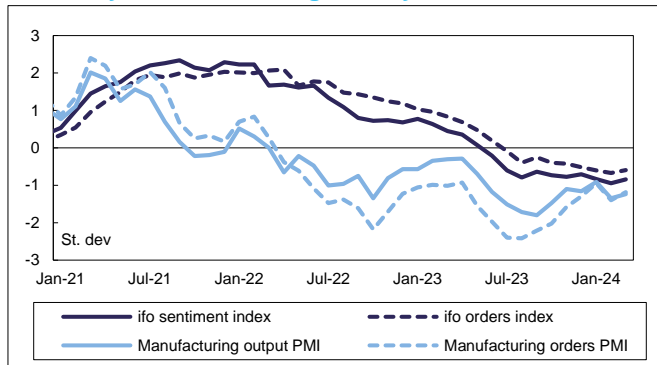
#### Germany: Manufacturing production by good



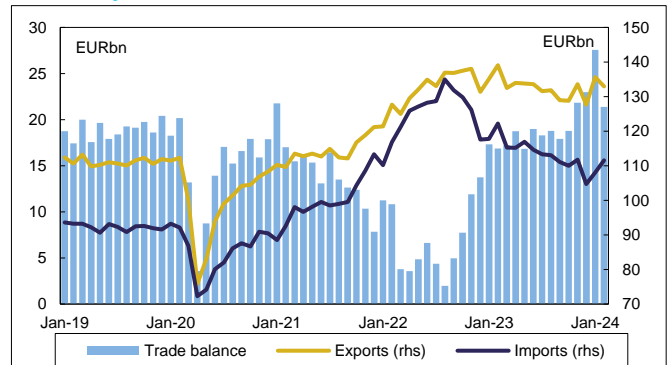
#### Germany: Sentix investor sentiment indices



#### Germany: Manufacturing survey indices



#### Germany: Goods trade balance\*



## UK





### The day ahead in the UK

Tomorrow, the BRC retail sales survey will provide a guide to spending on the UK high street in March. According to the CBI's distributive trades survey published late last month, sales were broadly flat in the year to March following ten consecutive months of decline, likely supported to some extent by the early timing of Easter. Indeed, given the Easter effect, sales were expected to weaken again in April and the pace of decline of retail order volumes accelerated.

## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area 	Sentix investor confidence index	Apr	<b>-5.9</b>	-8.5	-10.5	-
Germany 	Industrial production M/M% (Y/Y%)	Feb	<b>2.1 (-4.9)</b>	0.4 (-6.8)	1.0 (-5.5)	1.3 (-5.3)
	Trade balance €bn	Feb	<b>21.4</b>	26.0	27.6	27.6
	Exports (imports) M/M%	Feb	<b>-2.0 (3.2)</b>	0.0 (-1.0)	6.3 (3.6)	-(3.3)



#### 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
France 	07.45	Trade balance €bn	Feb	-	-7.4
UK 	00.01	BRC retail monitor, like-for-like sales Y/Y%	Mar	1.8	1.0

#### Auctions and events

Euro area 	09.00	ECB Bank Lending Survey to be published
Germany 	10.30	Auction: €4.0bn of 2.1% 2029 bonds
UK 	10.00	Auction: £2.25bn of 4.75% 2043 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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