

Euro wrap-up

Overview

- Bunds were little changed as the euro area PMIs suggested only modest GDP growth despite the best factory output index in almost three years.
- After the government on the weekend signalled its commitment to cut public spending, Gilts closed broadly unchanged despite an upwards surprise to the UK composite PMI on the strongest services demand in nine months.
- Tuesday's release of the German ifo business survey will provide a cross check on today's PMIs, while the results of a UK retail survey are also due.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.117	-0.008
OBL 2.4 04/30	2.401	-
DBR 2½ 02/35	2.765	+0.003
UKT 3% 03/27	4.251	-0.003
UKT 4% 03/30	4.338	-0.002
UKT 4½ 03/35	4.712	-0.003

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

Euro area

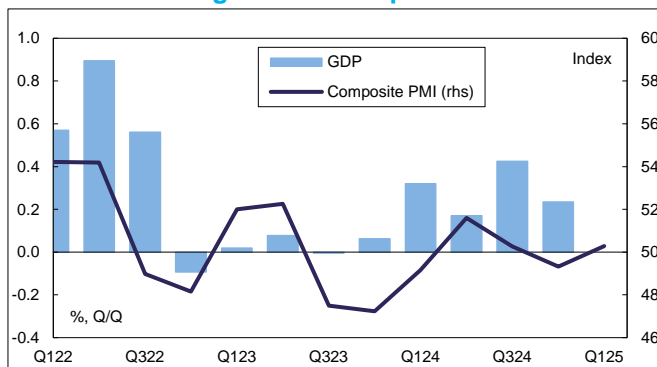
Composite PMI up to 7-month high with factory output index best in almost 3 years

According to today's flash PMIs, euro area economic activity grew in March, albeit only very slightly. The headline composite PMI edged up just 0.2pt to a seven-month high of 50.4 to suggest minimal growth for a third successive month. The indices for both major sectors pointed to very mild expansion. But while the services activity PMI (50.4) fell to a four-month low, the manufacturing output index (50.7) suggested growth in the sector for the first time in two years and by the most since May 2022. A reportedly marked pickup in factory production by the most in three years also helped to push the German composite PMI (50.9) to a 10-month high indicative of modest expansion for a third consecutive month. While the equivalent French index (47.0) picked up from February's 13-month low, it remained consistent with contraction for a sixth successive month. And as has been the case for more than a year, the composite PMI for the rest of the euro area (52.4) was suggestive of significantly firmer growth than in the two largest member states. Over the first quarter as a whole, the average euro area composite PMI (50.3) reversed the drop of 1pt in Q4. And while before the pandemic that level would still have been consistent with nothing better than flat economic output, over the past six quarters the PMIs have typically underestimated the extent of growth. So, euro area GDP likely rose again in Q1 for the sixth successive quarter, and – thanks not least to a better showing in Germany – perhaps at least as strong as the pace of 0.2%Q/Q in Q4.

Firms less upbeat about the outlook but cost & price pressures moderate

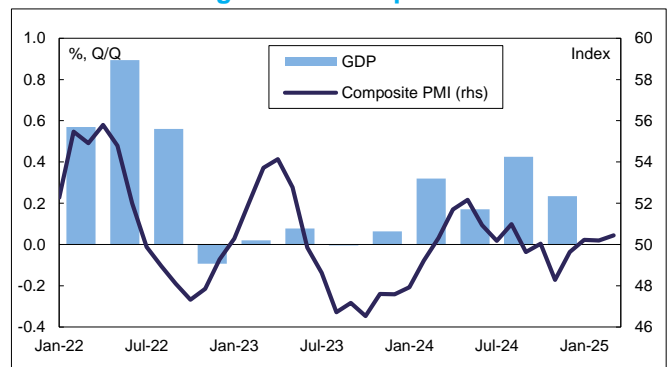
We suspect that the pickup in factory output at the end of Q1 was related in part to temporary front-loading of shipments ahead of the announcement and possible imposition of US tariffs on imports from Europe. Indeed, while it rose to a 35-month high, the euro area new factory orders index remained sub-50 to suggest no material boost to demand. Indeed, export orders in both manufacturing and services reportedly fell again and by more than new domestic demand. And reflecting deterioration in both major sectors, the overall business expectations index fell to a four-month low firmly below the long-run average to suggest that firms are becoming more pessimistic in the face of continued concerns about trade wars and disconcerting geopolitics. Nevertheless, coinciding with the reported modest pickup in output at the end of Q1, the flash PMIs suggested that firms stopped cutting headcount for the first time in eight months as the pace of job cuts in manufacturing slowed and recruitment in services picked up to a six-month high. The ECB will also note the better news with respect to price pressures. Thanks to an easing in services, the PMIs for input costs and selling prices softened to multi-month lows. Indeed, the composite input cost index fell back below the long-run average, likely in part due to moderation in wage growth as well as lower energy prices.

Euro area: GDP growth & composite PMI



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

Euro area: GDP growth & composite PMI

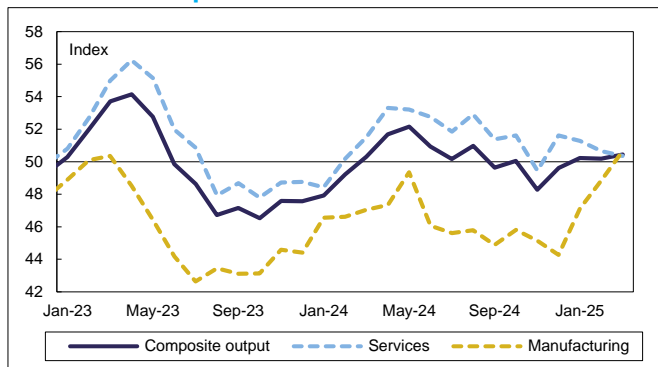


Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

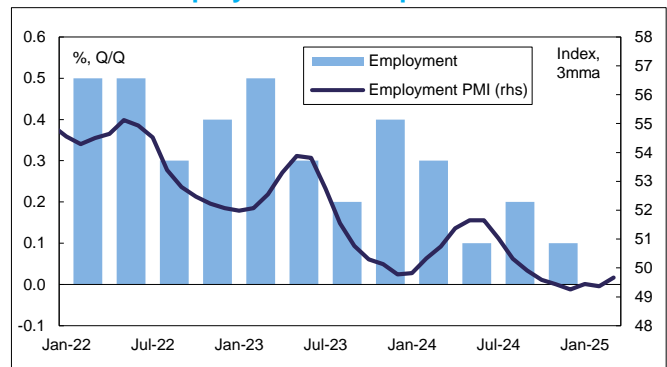
Consistent with the modest uptick in today's German flash composite PMI, tomorrow's ifo survey is expected to report a similar improvement in business conditions in March. Admittedly, the increase in the index of current conditions is likely to be relatively restrained, not least given the prevailing uncertainties from US tariff measures. But last week's passage of constitutional amendments to the *schuldenbremse* (constitutional debt brake) and provisioning for a €500bn infrastructure fund will surely provide a tailwind for expectations, most notably among manufacturers. Indeed, the Bloomberg consensus currently calls for an almost 2pts rise to that index (87.3), driving expectations for an increase of 1½pts in the headline business climate index to what would be an eight-month high (86.7). Spanish PPI data for February are also due tomorrow.

Euro area: Output PMIs



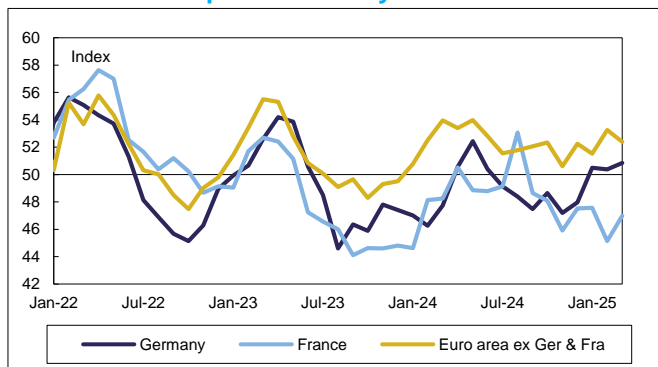
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Employment & composite PMIs



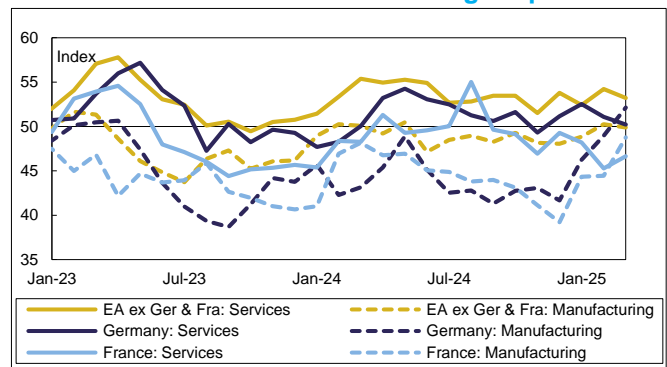
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Composite PMIs by member state



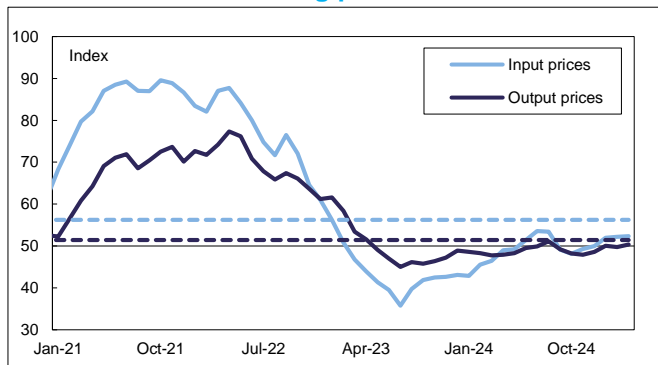
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Services & manufacturing output PMIs



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

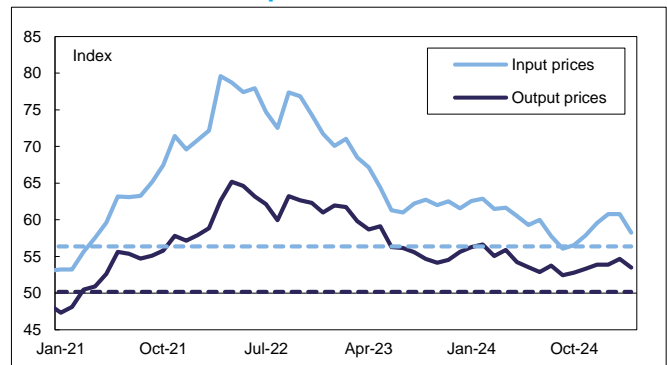
Euro area: Manufacturing price PMIs*



*Dashed lines represent pre-pandemic long-run average.

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

Euro area: Services price PMIs*



*Dashed lines represent pre-pandemic long-run average.

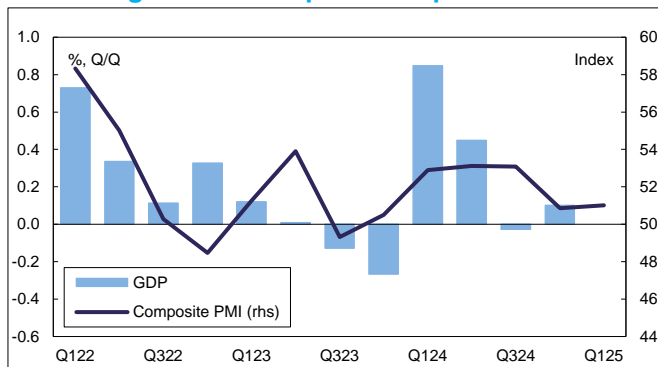
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK

UK services PMI surprises to the upside, with demand reportedly the firmest in seven months

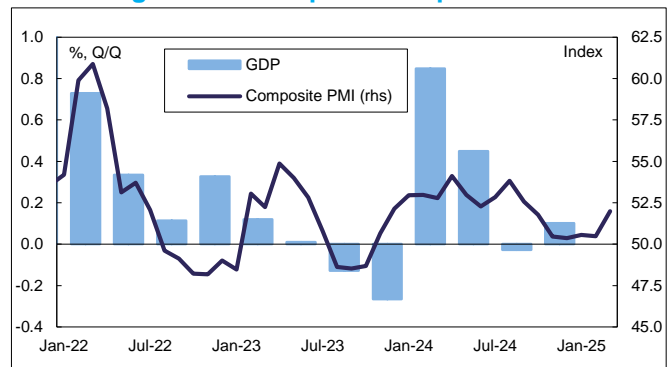
Compared to the euro area, the flash UK PMIs pointed to a more substantive improvement in economic activity at the end of Q1, with the composite output PMI in March rising 1.5pts – the most in 15 months – to 52.0, the highest since September. Admittedly, this was still 1½pts below the long-run average and suggestive of relatively underwhelming underlying growth momentum. Certainly, having moved broadly sideways in the previous four months at a lacklustre 50.5, this left the quarterly index at 51.0, only a touch firmer than in Q4. Nevertheless, given the positive carryover from the strength in economic activity in December, we continue to think that GDP rose in Q1 at an accelerated rate of 0.25%Q/Q, in line with the BoE's latest estimate. The PMIs suggest that growth was again services-led, with the respective activity index up a chunky 2.2pts to a seven-month high of 53.2, with demand likely in part boosted by the return of better weather. However, the new business component rose for the first month in eight, with overseas demand rising the most in five months to suggest that the improvement had more to do with than sunshine. So, despite reports of delayed investment plans and cutbacks to non-essential spending due to heightened geopolitical uncertainty, services firms were the most upbeat about the year ahead since October, with the implied rate of job shedding in the sector the smallest since November.

UK: GDP growth & composite output PMI



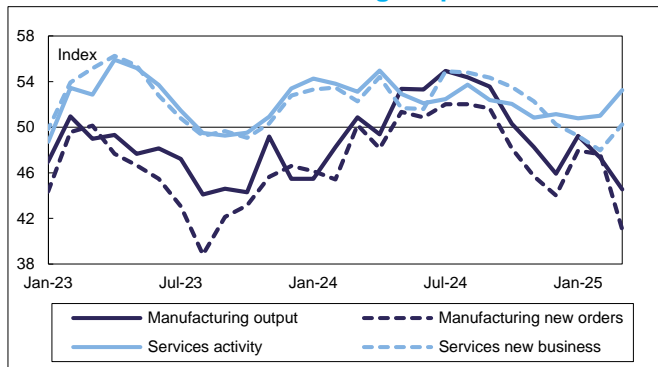
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: GDP growth & composite output PMI



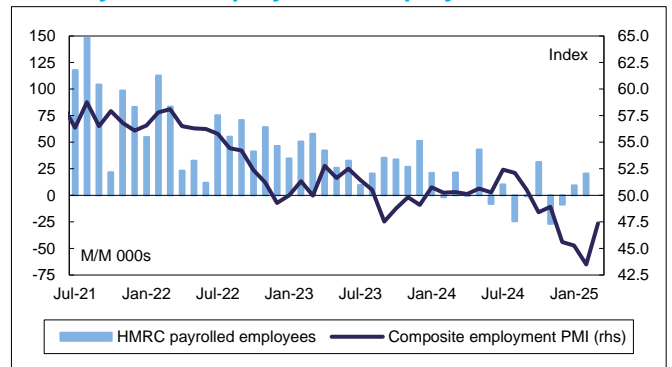
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Services & manufacturing output PMIs



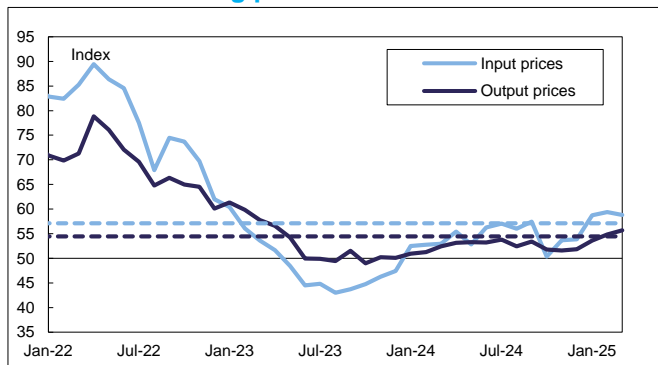
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Payrolled employees & employment PMI



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

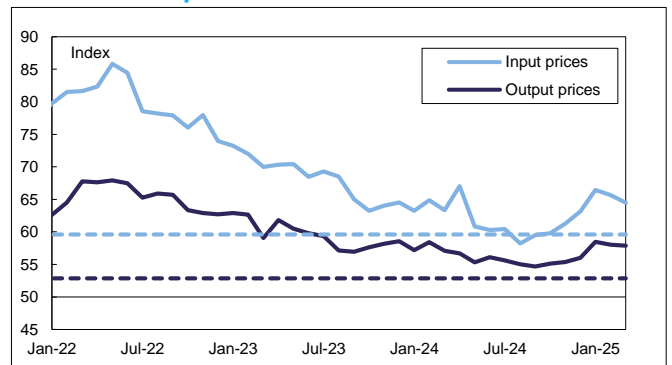
UK: Manufacturing price PMIs*



*Dashed lines represent pre-pandemic long-run average.

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

UK: Services price PMIs*



*Dashed lines represent pre-pandemic long-run average.

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

Manufacturers the most downbeat about outlook for 2½ years as new orders plunge

Better conditions in the services sector, however, contrasted markedly with a deterioration in manufacturing. The factory production PMI fell for a seventh month out of the past eight, by 2.8pts to 44.6, a 16-month low. Amid US trade policy uncertainty, the new orders index dropped a hefty 6.6pts to 41.0, with the overseas component down the most since the end of the Brexit transition period in January 2021. And that left manufacturers the most downbeat about the year ahead in almost 2½ years. Increased pessimism among manufacturers might also relate to rising cost pressures, which firms attributed to imminent hikes in the National Minimum Wage and employers National Insurance contributions. But while that might be squeezing profit margins somewhat, the factory output price PMI rose to the highest level for almost two years suggesting that many firms are still able to pass their increased costs onto customers. More encouragingly and importantly for the BoE, however, the services input and output indices moderated in March to three-month lows, albeit still remaining above the long-run average.









The day ahead in the UK

Ahead of Friday's official release of retail sales data in February, tomorrow's CBI distributive trades survey will provide a first view of this month's retail activity. Last month's survey continued to portray a downcast view of conditions, helping to underscore our expectation for a subdued retail sales report at the end of the week. Indeed, reported sales volumes continued to hover below their levels at the end of last year, and comfortably below their long-run average. However, while the uncertain economic outlook and subdued consumer confidence will likely have continued to weigh, we expect the CBI survey to report a pickup in sales in March not least due to much improved weather.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Preliminary manufacturing (services) PMI	Mar	48.7 (50.4)	48.2 (51.1)	47.6 (50.6)	-
	 Preliminary composite PMI	Mar	50.4	50.7	50.2	-
Germany	 Preliminary manufacturing (services) PMI	Mar	48.3 (50.2)	47.0 (52.0)	46.5 (51.1)	-
	 Preliminary composite PMI	Mar	50.9	51.1	50.4	-
France	 Preliminary manufacturing (services) PMI	Mar	48.9 (46.6)	46.0 (46.1)	45.8 (45.3)	-
	 Preliminary composite PMI	Mar	47.0	46.1	45.1	-
UK	 Preliminary manufacturing (services) PMI	Mar	44.6 (53.2)	47.2 (51.1)	46.9 (51.0)	-
	 Preliminary composite PMI	Mar	52.0	50.5	50.5	-

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
Euro area	05.00	New car registrations Y/Y%	Feb	-2.4	-3.5
Germany	09.00	ifo business climate indicator	Mar	86.8	85.2
	09.00	ifo current assessment (expectations) indicator	Mar	85.6 (87.5)	85.0 (85.4)
Spain	08.00	PPI Y/Y%	Feb	-	2.6
UK	11.00	CBI distributive trades survey – retail sales balance %	Mar	-24	-23

Auctions and events

Germany	 10.30	Auction: to sell up to €4.5bn of 2.40% 2030 bonds
UK	 10.00	Auction: to sell £2bn of 4.75% 2043 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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