

Euro wrap-up

Overview

- While German industrial production and new factory orders data came in on the soft side, euro area govies made modest losses as global energy prices rose further.
- Although the substantial sell-off at the start of the day partially reversed, shorter-dated Gilts still made big losses as market pricing of a BoE rate cut this year tempered.
- The coming two days will bring German and French goods trade data for January, final German inflation figures and a UK retail survey for February.

Emily Nicol
+44 20 7597 8331

Edward Maling
+44 20 7597 8030

Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.313	+0.010
OBL 2½ 04/31	2.525	+0.007
DBR 2.9 02/36	2.862	+0.006
UKT 4% 03/28	3.985	+0.115
UKT 4% 03/31	4.163	+0.044
UKT 4% 10/35	4.649	+0.029

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

Euro area

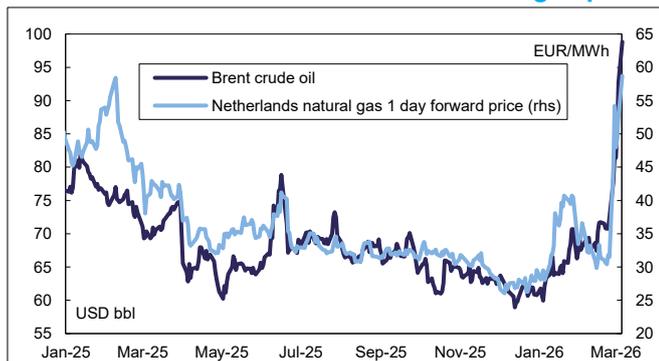
Euro area investor survey deteriorates even before today's further step up in energy prices

Growing concerns about global energy supplies caused energy prices to take a further step up at the start of the week, further clouding the near-term outlook for global inflation and economic growth. In particular, after the steepest weekly rise in almost six years (>25%) to \$93/bbl, the price of Brent crude initially leapt close to \$120/bbl in the early hours as Gulf states set to pare production in response to recent air strikes. Subsequent reports of potential coordination to release a portion of strategic oil reserves helped to calm the markets somewhat. And after the G7 suggested they were ready to take 'necessary measures' if required, the oil price ended the day close back below \$100/bbl, albeit still the highest since mid-2022. European wholesale gas prices similarly spiked before paring back to close 5½% higher on the day, to be up around 80% from end-February. Even before today's further exacerbation of the energy shock, the Sentix investor survey – responses collected 5-7 March – demonstrated the initial hit to the euro area outlook from recent events. Unsurprisingly, the euro area indices for the current conditions and six-month ahead expectations fell for the first month in four. Admittedly, the drop was relatively modest compared with the post-Russian invasion adjustment (albeit this may reflect survey timing). Indeed, current conditions were judged to be close to the top of the range over recent years, with recent conditions in Germany having ticked slightly higher. And while perceptions of the outlook fell more sharply, reflective of the steeper decline in investor sentiment for Germany, this was from a particularly high level in February, to leave it merely in line with the long-run average.

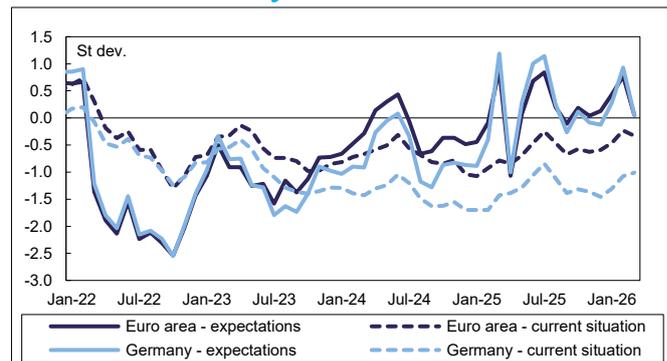
January's expected pickup in German manufacturing failed to materialise

Today's German industrial data for January came in on the soft side, suggesting that, even before the outbreak of war, recovery momentum in the manufacturing sector had stalled at the turn of the year. In particular, industrial output unexpectedly fell in January, by 0.5%M/M, to the lowest level since September. While revisions to December implied a smaller negative carry-over than previously assumed, this left production trending more than 1% below the Q4 average. And the decline would have been steeper still in the absence of a weather-related surge in energy production (+10.4%M/M) and surprisingly firm growth in construction activity (+2.9%M/M). Indeed, manufacturing output fell for a second successive month (-2.4%M/M), to match the joint-lowest level since the first Covid lockdown and 2010 besides that. While a further rise in production of weaponry and ammunition provided some slight offset, manufacturing weakness was widespread, led by near-12%M/M drops in each of fabricated metal products, pharmaceuticals and transport equipment (excluding motor vehicles). Despite a more modest monthly decline, car manufacturing also fell to a six-month low, some 5½% below the Q4 average. And even before the latest energy shock, production in energy-intensive subsectors fell for a fourth month out of five, to the lowest level since the series began more than two decades ago. In addition, today's preliminary Irish IP figures surprised significantly to the downside in January. Manufacturing output fell 10.5%M/M to the lowest level since September 2024, suggesting that risks to euro area production at the start of Q1 is skewed significantly to the downside.

Euro area: Brent crude oil & Netherlands gas price



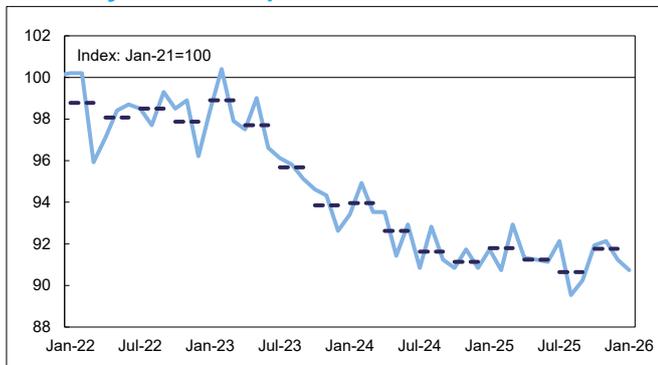
Euro area & Germany: Sentix investor indices



German new factory orders fall sharply in January as prior large-scale orders normalise

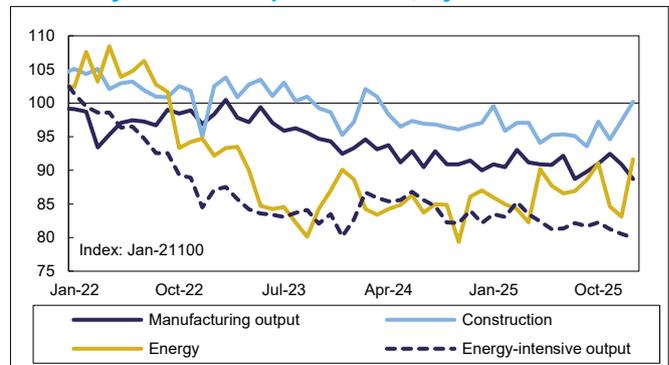
While evidently a poor guide to German output at the start of the year, surveys had pointed to continued manufacturing growth in February supported by improving demand. This tallied with the recent uptrend in new factory orders, which in December rose to the highest level since spring 2022. But having increased by a cumulative 16% in the previous four months, total factory orders predictably fell in January, by a steeper-than-expected 11.1%M/M, back to the lowest level since August. Admittedly, this principally reflected some normalisation in certain subsectors – such as weaponry and ammunition and machinery – that had surged at the end of 2025 on substantial large-scale domestic orders. When excluding bulk items, core orders were down a more modest 0.4%M/M in January, albeit still signalling an ongoing absence of momentum in underlying demand. More encouragingly, new car orders (20.8%M/M) more than reversed the decline in December to a six-month high, due a pickup in domestic and overseas demand. And given the recent uptrend in order backlogs in certain industries – including electrical and ICT equipment, fabricated metals (i.e. weapons and ammunition), and transport equipment (aerospace) – German production might be expected to return to growth in February and be relatively well maintained over coming months too. Of course, like in 2022, production in energy-intensive subsectors – such as chemicals, basic metals, paper and glassware – is likely to be hit hard by the spike in wholesale gas prices. And risks to German manufacturing more broadly will be skewed to the downside over the near term as risk aversion weighs on global demand.

Germany: Industrial production*



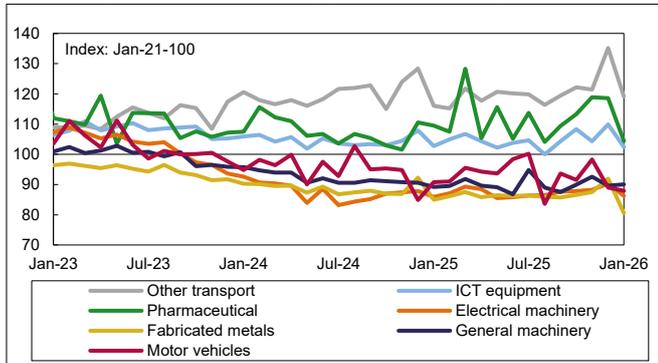
*Dashed dark blue lines represent quarterly average.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Industrial production, by sector



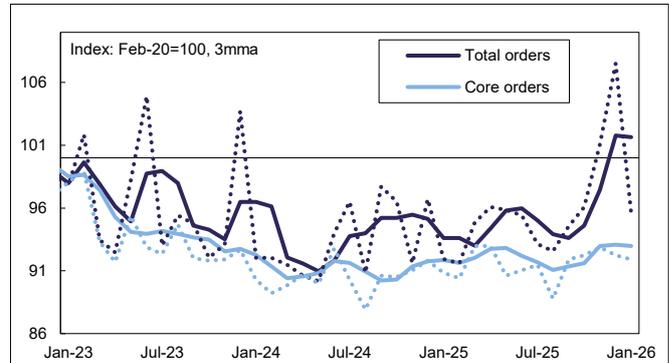
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing production, by subsector



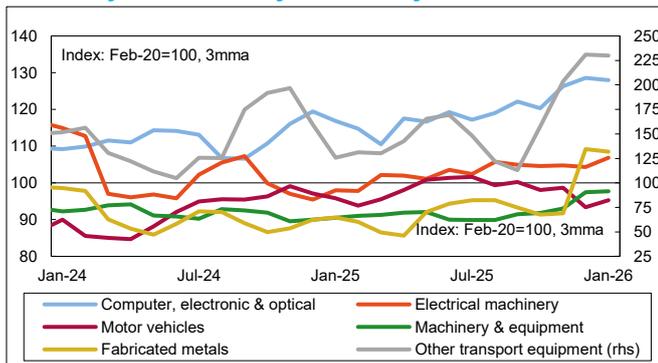
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders*



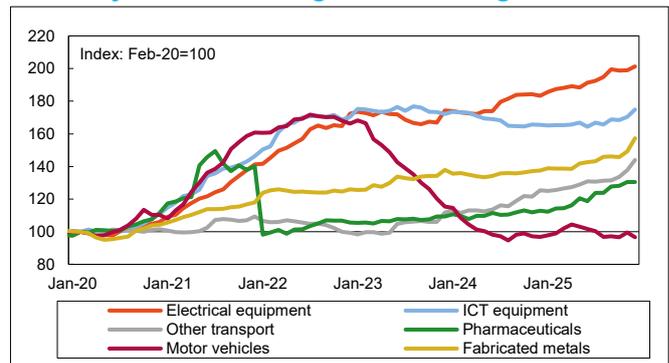
* Core orders exclude bulk items. Dotted lines represent unsmoothed data.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders, by subsector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing order backlogs



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The coming two days in the euro area

As recent events have diminished the value of the backward-looking economic data and with the ECB's pre-Governing Council meeting quiet period looming into view (from Thursday), the most important news over the coming two days might pertain to ECB speak. In particular, comments from ECB Executive Board member Schnabel (on Wednesday afternoon) will probably mark the last from a senior ECB policymaker before next week's Governing Council meeting. And while we expect the ECB to keep policy steady next week, her comments might be helpful in informing about the ECB's potential reaction function to a more pronounced and prolonged price shock. In terms of data, final German inflation figures (also Wednesday) will provide additional insights into the drivers of last month's moderation in headline inflation. The flash release suggested that headline inflation eased back to target (2.0%Y/Y) owing principally to a sizeable moderation in food inflation. Otherwise, January goods trade figures from Germany and France will provide the highlights of Tuesday's economic dataflow. Just as today's manufacturing orders data flagged a predictable lull in demand for their strength at the end of last year, German export performance looks likely to have softened.

The coming two days in the UK

In terms of the usual flow of economic data, the coming two days should be relatively quiet for the UK. A retail survey from the BRC (due Tuesday) will provide the sole release and an indication sales volumes before hostilities in the Middle East escalated. Given the strength of retail sales growth at the start of the year, supported not least by seasonal discounts, we see the risks to February's data to the downside. We would expect the BRC to follow the lead of last month's [CBI](#) distributive trades and [GfK](#) consumer confidence surveys, both of which implied softer spending in February.

The next Euro wrap-up will be published on Wednesday 11 March 2026

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Sentix investor confidence indicator	Mar	-3.1	-3.0	4.2	-
Germany	 Industrial production M/M% (Y/Y%)	Jan	-0.5 (-1.2)	1.0 (-0.8)	-1.9 (-0.6)	-1.0 (0.4)
	 Factory orders M/M% (Y/Y%)	Jan	-11.1 (3.7)	-4.3 (13.2)	7.8 (13.0)	6.4 (11.7)

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tuesday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	 07.00	Trade balance €bn	Jan	15.2	17.2
France	 07.45	Trade balance €bn	Jan	-	-4.8
Italy	 09.00	PPI Y/Y%	Jan	-	-2.0
UK	 00.01	BRC retail monitor – like-for-like sales Y/Y%	Feb	2.0	2.3

Auctions and events

Germany	 10.30	Auction: to sell up to €5bn of 2.1% 2028 bonds
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany 	07.00	Final HICP (CPI) Y/Y%	Feb	<u>2.0 (1.9)</u>	2.1 (2.1)
Spain 	08.00	Retail sales Y/Y%	Jan	-	2.9

Auctions and events

Euro area 	15.00	ECB's Schnabel scheduled to give keynote speech in Frankfurt			
Germany 	10.30	Auction: to sell up to €5bn of 2.9% 2036 bonds			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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