

Euro wrap-up

Overview

- Bunds were little changed as today's final euro area manufacturing PMI signalled some stabilisation in the sector at the start of the year.
- Gilts made modest gains at the short end. But sterling fell back as PM Johnson predictably insisted the UK would not align with EU regulation after the end of the Brexit transition period at year-end.
- Tuesday will bring the UK's construction PMI for January, followed on Wednesday by final European services and composite PMIs.

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0 12/21	-0.683	-0.004
OBL 0 04/25	-0.646	-
DBR 0 02/30	-0.437	-
UKT 3% 09/21	0.484	-0.023
UKT 1 04/24	0.405	-0.008
UKT 0% 10/29	0.526	+0.001

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

Source: Bloomberg

Euro area

Manufacturing PMI nudged slightly higher

After last week's Commission survey suggested that industrial sentiment had risen markedly in January to the best since the summer, today's final manufacturing PMI added to evidence of stabilisation in the sector at the start of the year. Indeed, the headline euro area index was nudged slightly higher from the flash reading (by 0.1pt) to 47.9, admittedly still in contractionary territory but nevertheless 1.6pts higher than December and the highest since April. There was a slightly larger revision to the output component (by 0.5pt) to leave it 1.8pts above the December reading at a seven-month high of 48.0. According to Markit, the consumer goods sector remained the outperformer with the relevant index suggesting a second successive month of positive growth. And given the notable improvement in the new orders component in January – the index rose 2.4pts to a fourteen-month high of 49.0 – the new orders-to-inventories ratio jumped to its highest for almost 1½ years, implying an improved production outlook ahead. Improved external demand played a role, with the new export orders index up 2.2pts to 49.5, the best since September 2018. However, some caution is required – as with other recent sentiment indicators, the PMI surveys were largely conducted before China's outbreak of the coronavirus gained particular prominence. And so, we would expect to see renewed pessimism among euro area manufacturers in the February survey.

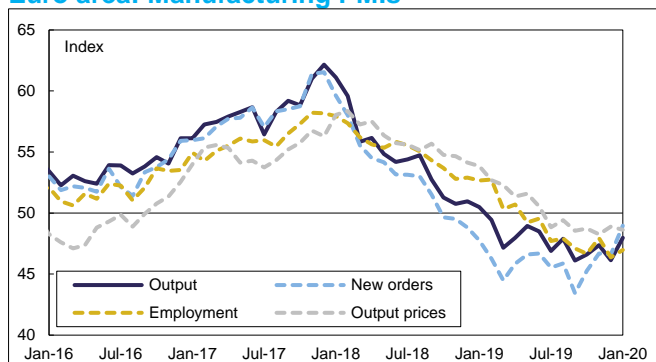
Manufacturers less downbeat across member states

Among the member states, German manufacturers will likely be most impacted by any marked dip in demand from China, with its exports to that country accounting for more than 7% of total shipments and almost 3% of GDP. But ahead of the coronavirus epidemic, German firms were more encouraged about conditions at the turn of the year. Indeed, the headline PMI of 45.3 (up 0.1pt from the flash estimate) was 1.6pts higher than in December and the strongest reading since last February, with the new orders component rising 2.8pts to 48.1, the highest since October 2018. Of course, this still suggested ongoing contraction. Meanwhile, manufacturers in France were also more upbeat in January, with the headline and output PMIs (51.1 and 51.6 respectively) signalling positive growth for the fourth consecutive month and at a pace slightly above that seen in the previous five quarters. And while the output PMIs for Italy and Spain (released for the first time) still implied contraction in January, they were markedly improved from December, up 3½pts to a four-month high of 47.8 and 3.1pts to a seven-month high of 48.5.

The coming two days in the euro area and US

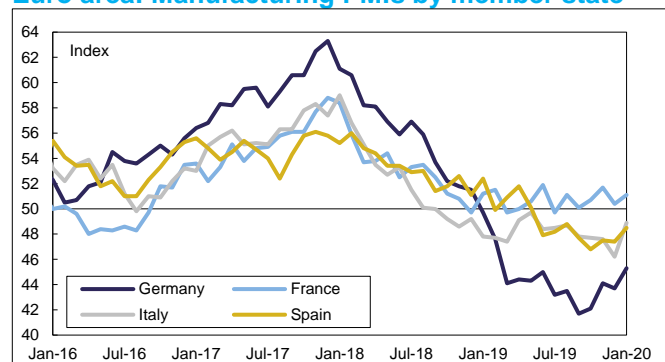
A quiet day for euro area top-tier releases tomorrow brings just euro area PPI figures for December, as well as preliminary Italian CPI numbers for January. The main release on Wednesday will be euro area retail sales figures for December, which

Euro area: Manufacturing PMIs



Source: Thomson Reuters, Markit and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing PMIs by member state



Source: Thomson Reuters, Markit and Daiwa Capital Markets Europe Ltd.



Follow us on twitter @DaiwaEurope

seem bound to post a substantive decline due to the steep drop reported last Friday in Germany. And that could leave overall sales down in Q4 for the first quarter since Q415. Meanwhile, Wednesday will see the release of final January services and composite PMIs. Contrasting with the equivalent manufacturing release, the flash services PMI fell back at the start of the year, with the headline index down 0.6pt to 52.2. So, while the improvement in today's manufacturing index might imply a modest pickup in the composite PMI in January, it will remain consistent with no material improvement in overall growth at the start of the year. Elsewhere, ECB President Lagarde and Chief Economist Lane are due to speak on Wednesday at events in Paris and Berlin respectively, while in the markets, Germany will sell index-linked bonds tomorrow.

In the US, Tuesday will bring revised durable goods data for December, followed by trade figures for the same month on Wednesday. That day will also bring the non-manufacturing ISM and final services PMI for January, both of which are expected to remain comfortably in expansionary territory.

UK

Manufacturing PMI returns to 50

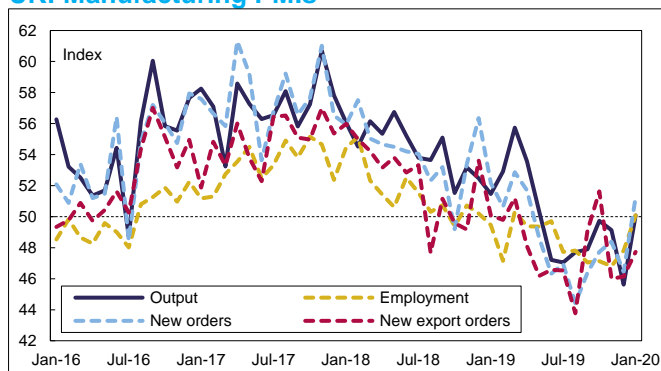
Like in the euro area, there was a modest upwards revision to today's final UK manufacturing PMI. In particular, the headline index was revised up by 0.2pt to 50.0 in January, leaving it 2½pts higher on the month and suggesting stagnation in the sector having been contracting since last April. And the output component (50.1) recorded the largely monthly increase (4.8pts) since April 2017, with output rising in the consumer and intermediate goods sector in response to a pickup in new business. In contrast, production of investment goods remained firmly in contractionary territory, consistent with an ongoing weak capex outlook. While there was also a substantial pick up in the new orders PMI, this principally reflected improved domestic demand as political uncertainty receded. Indeed, against the backdrop of subdued economic growth in the UK's key export markets, new orders from overseas continued to weigh, although the pace of decline was reportedly smaller than that seen in the final two months of 2019. As such, there were some signs of stabilisation in the number of job losses reported in the sector, with the employment PMI rising more than 2pts to 50.1. All in all, however, despite reduced near-term political uncertainty and a marked improvement in optimism, the outlook for UK manufacturing still remains far from favourable.

The coming two days in the UK

January sentiment indicators will continue to dominate the data flow over coming days. Tomorrow's construction PMI will likely tally with increasing signs of stabilisation in the housing market, with the headline index forecast to rise to an eight-month high. Wednesday will bring the revised services PMI, which is likely to confirm the marked improvement seen in the flash estimate – the headline index increased 2.9pts to a sixteen-month high of 52.9. And so, given the upwards revision to today's manufacturing survey, the final composite PMI might also be nudged higher from the preliminary reading, which itself was 3.1pts higher than December at 52.4, its highest since September 2018. Wednesday will also bring new car registrations figures for January, which might also report a second successive month of positive growth as near-term uncertainties have receded somewhat.

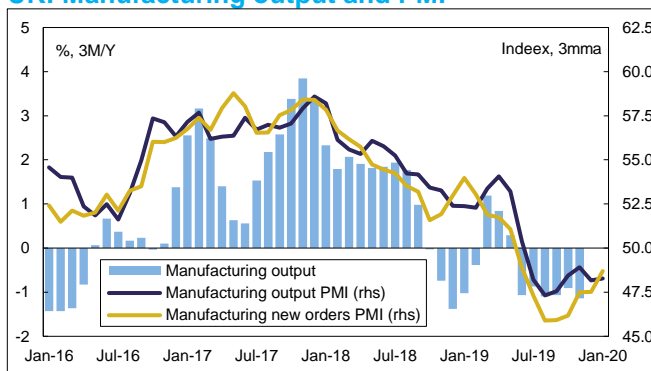
In the absence of significant news, the next edition of the Euro wrap-up will be published on 05 February 2020

UK: Manufacturing PMIs



Source: Thomson Reuters, Markit and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing output and PMI









Source: Thomson Reuters, Markit 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
EMU	 Final manufacturing PMI	Jan	47.9	47.8	46.3	-
Germany	 Final manufacturing PMI	Jan	45.3	45.2	43.7	-
France	 Final manufacturing PMI	Jan	51.1	51.0	50.4	-
Italy	 Manufacturing PMI	Jan	48.9	47.5	46.2	-
Spain	 Manufacturing PMI	Jan	48.5	48.8	47.4	-
UK	 Final manufacturing PMI	Jan	50.0	49.8	47.5	-




Auctions

Country	Auction
- Nothing to report -	




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	 10.00	PPI Y/Y%	Dec	-0.7	-1.4
Italy	 10.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Jan	0.5 (0.5)	0.5 (0.5)
UK	 09.30	Construction PMI	Jan	47.1	44.4









Auctions and events

Country	GMT	Auction / Event
Germany	 10.30	Auction: €250mn of 0.5% 2030 index-linked bonds
	 10.30	Auction: €250mn of 0.1% 2046 index-linked bonds
UK	 10.30	Auction: £800mn of 0.125% 2036 index-linked bonds



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's data releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	 09.00	Final services (composite) PMI	Jan	52.2 (50.9)	52.8 (50.9)
	 10.00	Retail sales M/M% (Y/Y%)	Dec	-1.1 (2.2)	1.0 (2.2)
Germany	 08.55	Final services (composite) PMI	Jan	54.2 (51.1)	52.9 (50.2)
France	 08.50	Final services (composite) PMI	Jan	51.7 (51.5)	52.4 (52.0)
Italy	 08.45	Services (composite) PMI	Jan	50.5 (49.4)	51.1 (49.3)
Spain	 08.15	Services (composite) PMI	Jan	54.0 (52.6)	54.9 (52.7)
UK	 09.00	New car registrations Y/Y%	Jan	-	3.4
	 09.30	Final services (composite) PMI	Jan	52.9 (52.4)	50.0 (49.3)

Auctions and events

Country	GMT	Auction / Event
EMU	 11.30	ECB Chief Economist Lane scheduled to speak in Berlin
	 12.15	ECB President Lagarde scheduled to speak in Paris

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.