

# Euro wrap-up

## Overview

- While German factory orders fell once again, Bunds made modest losses at the short end of the curve after Lagarde noted that the ECB has reduced scope to ease monetary policy in the event of an economic downturn.
- Gilts made gains on a day without significant economic news from the UK.
- Friday will bring IP and trade data from Germany and France, as well as a jobs survey from the UK.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 12/21	-0.644	+0.011
OBL 0 04/25	-0.591	+0.004
DBR 0 02/30	-0.367	-0.004
UKT 3% 09/21	0.495	-0.010
UKT 1 04/24	0.435	-0.029
UKT 0% 10/29	0.589	-0.026

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

## Euro area

### German orders disappoint at year-end

Germany's manufacturing PMIs had suggested some stabilisation in the sector in the final months of 2019, e.g. with the survey's new orders component in December rising to a level more than 7pts above September's trough. But today's data showed that German factory orders actually ended the year on a disappointingly soft note. In particular, orders in December fell 2.1%M/M, the most since February, to their lowest level since 2015. So that left them down a whopping 8.7%Y/Y, the steepest annual decline since the global financial crisis more than a decade ago. And over Q4 as a whole, they were down for a fourth consecutive quarter (and a seventh quarter out of the past eight), falling 0.6%3M/3M to suggest that the long-awaited recovery in German manufacturing will remain elusive for a while yet.

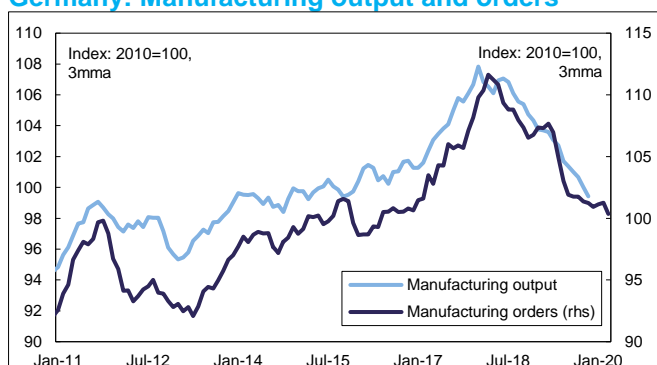
### Orders from within euro area fell back in December

With domestic orders up 1.4%M/M and orders from beyond the euro area up 2.1%M/M, the weakness at the end of last year emanated from other countries within the euro area, from where orders fell an extreme 13.9%M/M. That was partly a correction to strength earlier in the quarter due to exceptional major items. Nevertheless, stripping out such large-scale orders, total orders were still down a sizeable 1.3%M/M, falling from all major destinations. And total domestic and foreign orders were both similarly down more than 8%Y/Y. By type of good, orders of intermediate goods rose 1.4%M/M to be up 0.7%Q/Q over Q4 as a whole, but were still down 3.6%Y/Y. Consumer goods orders also rose almost 1%Q/Q in Q4 despite falling 3.8%M/M and 2.7%Y/Y in December. But those of capital goods were down a little more than 1½%Q/Q, falling a whopping 3.9%M/M and 12.2%Y/Y in December.

### Manufacturing turnover implies a drop in IP

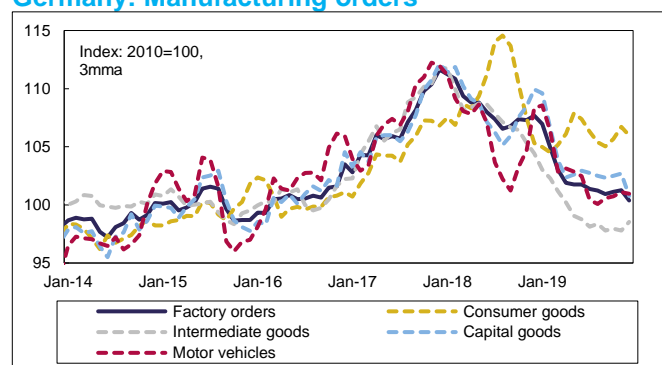
Today's release also showed that real manufacturing turnover dropped 1.3%M/M in December following a decline of 0.4%M/M the prior month. That suggests that the output figures, due tomorrow, will be weaker than suggested by the current Bloomberg consensus forecast of a drop in overall industrial production of just 0.2%M/M. Part of the weakness in December will likely reflect payback from decent growth in November, when manufacturing output (up 0.9%M/M) was supported by stronger production of capital and consumer goods. Indeed, having risen in November by 2.7%M/M, the most since May, production of motor vehicles appears to have fallen markedly in December. But construction also gave IP a boost (the 2.6%M/M increase was the biggest since February). And, consistent with the recent oscillating trend, activity in this sector likely slipped back in December too, albeit still maintaining an upwards drift over the fourth quarter as a whole.

### Germany: Manufacturing output and orders\*



\*Orders have a three-month lead. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Germany: Manufacturing orders



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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## German construction PMI at a ten-month high

The latest ifo survey had flagged some concerns about the near-term construction outlook, with the headline business climate index declining in January to its lowest level since mid-2017. But this might have principally reflected local concerns, in particular a hit to sentiment in the East following Berlin city government's determination to press ahead with a freeze in residential rents for five years. Despite that fall in confidence, the ifo had nevertheless suggested that construction firms expected a notable pickup in activity over the coming three months – indeed, the relevant index rose to a post-reunification high. And this upbeat assessment was echoed in today's German construction PMI, with the headline index rising to a ten-month high of 54.9 in January, signalling the second-strongest pace of monthly growth in the past two years.

The improvement in the construction PMI in January was again led by the housing sector (up 1pt to 56.3), while commercial activity (up 1.4pt to 51.3) expanded for the first month in seven. In contrast, the civil engineering output PMI (48.2) implied ongoing contraction, albeit at the softest pace since March. While the improvement was partly attributed to unseasonably mild weather at the start of the year, firms also reported a pickup in new orders and a sizeable increase in optimism about future output (the relevant index jumped 7.3pts to a seven-month high of 52.8, albeit remaining relatively subdued compared with the average over the previous two years). And so, consistent with the Bundesbank's most recent assessment, and supported by very low mortgage rates, firm growth in real household incomes and rising house prices (up around 5%Y/Y), today's survey gave no indication that Germany's construction boom is set to come to an end.

## The day ahead in the euro area and US

Alongside the aforementioned German production release, Friday will also bring December industrial output figures from France and Spain, which are expected to reverse the respective 0.3%M/M and 1.0%M/M increases seen in November. This would leave output in Q4 up around ½%Q/Q in France, but down by the same magnitude in Spain. Tomorrow will also bring the latest goods trade reports from Germany and France, as well as Italian retail sales figures, all for December.

Of course, all eyes tomorrow will be on the US payrolls report, which is currently expected to show a slightly stronger increase in January (160k) than December, albeit a touch below the average for the past year as whole. But the surprising strength of the ADP report released on Wednesday – the 291k increase was the largest since May 2015 – suggests that risks to this forecast are skewed to the upside. Meanwhile, the unemployment rate is expected to move sideways at 3.5%, while average weekly earnings growth is expected to be little changed at 2.9%Y/Y. Friday will also see the Fed publish its semi-annual Monetary Policy Report, which will be followed by Chair Powell's testimony to the Senate and House committees next week.

## UK

### The day ahead in the UK

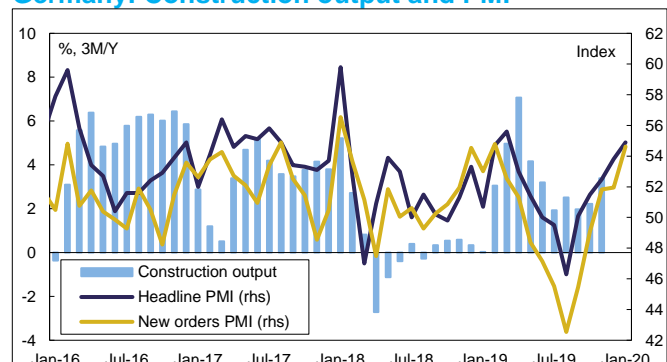
Following day bereft of top-tier UK data, Friday will bring the latest KPMG/REC report on UK jobs, which will provide an update on activity at recruitment consultants at the start of the year.

Germany: Ifo construction sector indicators



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: Construction output and PMI





Source: Markit, Thomson Reuters 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
Germany	 Factory orders M/M% (Y/Y%)	Dec	<b>-2.1 (-8.7)</b>	0.6 (-6.7)	-1.3 (-6.5)	<b>-0.8 (-6.0)</b>
	 Construction PMI	Jan	<b>54.9</b>	-	53.8	-







### Auctions

Country	Auction
France	 sold €1.5bn of 1.75% 2039 bonds at an average yield of 0.38%  sold €4.9bn of 0% 2029 bonds at an average yield of -0.11%  sold €1.6bn of 1.25% 2034 bonds at an average yield of 0.16%  sold €982mn of 1.75% 2066 bonds at an average yield of 0.83%
Spain	 sold €1.6bn of 0% 2023 bonds at an average yield of -0.301%  sold €1.1bn of 1.95% 2026 bonds at an average yield of -0.018%  sold €1.7bn of 0.5% 2030 bonds at an average yield of 0.347%  sold €525mn of 0.65% 2027 index-linked bonds at an average yield of -0.917%


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
Germany	 07.00	Trade balance €bn	Dec	14.0	18.6
	 07.00	Industrial production M/M% (Y/Y%)	Dec	-0.2 (-3.6)	1.1 (-2.6)
France	 07.45	Industrial production M/M% (Y/Y%)	Dec	-0.3 (0.9)	0.3 (1.3)
	 07.45	Trade balance €bn	Dec	-5.2	-5.6
Italy	 09.00	Retail sales M/M% (Y/Y%)	Dec	-	-0.2 (0.9)
Spain	 08.00	Industrial production M/M% (Y/Y%)	Dec	-1.0 (2.1)	1.0 (2.1)

### Auctions and events

Country	GMT	Auction / Event
Italy	 -	Italian sovereign credit rating update by Fitch

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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