

Euro wrap-up

Overview

- With the ifo survey pointing to a notable weakening in German business sentiment and expectations of a new French lockdown within days, Bunds made gains while BTPs outperformed despite ongoing Italian political uncertainty.
- Gilts followed other major government bonds higher on a quiet day for UK economic news.
- Tuesday will bring the latest UK labour market data.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.736	-0.016
OBL 0 10/26	-0.749	-0.029
DBR 0 02/31	-0.552	-0.037
UKT 1¼ 09/22	-0.143	-0.007
UKT 0% 06/25	-0.063	-0.023
UKT 4¾ 12/30	0.264	-0.041

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

Source: Bloomberg

Euro area

Softer ifo survey suggests contraction in German economic activity

While the first estimate of German GDP in Q4, to be published on Friday, will suggest little change in the final quarter, the surge in the pandemic and associated restrictions will likely result in a contraction in economic output in Q1. Although it did not decline as much as expected, Germany's flash January composite PMI, released on Friday, fell to a seven-month low (50.8). And today's ifo business survey was a little gloomier than expected, reporting widespread deterioration from the end of last year. The survey index of current business conditions fell more than 2pts in January to 89.2, the lowest in four months. And the index for expectations of conditions six-months ahead fell almost 2pts to 91.1, the lowest since June. Overall, the ifo business climate index fell 2.1pts to 90.1, the lowest since July.

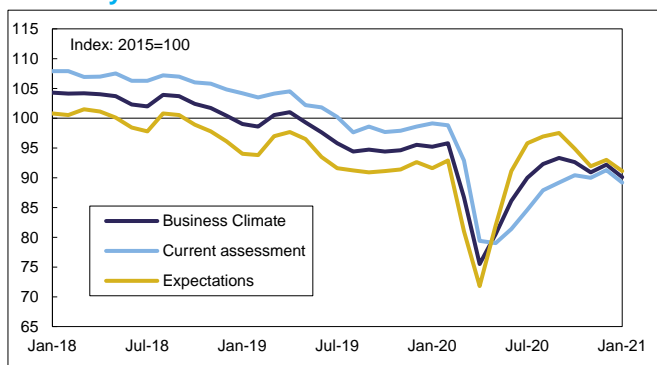
A broad-based deterioration in expectations

Given the extension of Germany's coronavirus containment measures to at least 14 February and likely well beyond, and tighter restrictions on travel, it was not a surprise to see the ifo survey signal a further deterioration in services. Indeed, the business climate indicator for the sector fell by 4pts, the most since March, to -4.4, the lowest since June. Firms in the sector revised down their assessments of current conditions and were the most downbeat about the coming six months since May. Order books were reportedly weaker, particularly in transport and logistics. Meanwhile, the falls in the indices for retail and wholesale trade were precipitous, by some margin the steepest since April for both current conditions and expectations. As a result, the overall business climate index for trade fell 17.5pts to -17.2, the lowest since May. And the equivalent index for construction fell more than 4pts to -5.1, the worst since June. More happily, the ifo survey flagged the resilience of the manufacturing sector, for which the assessment of current conditions improved further to the best since July 2019 (+8.8). However, expectations in the sector for the coming six months softened – likely in part due to concerns about disruption to production in the auto sub-sector related to semiconductor supply – to leave the overall business climate index for manufacturers down for the first time in six months.

France set soon to return to national lockdown

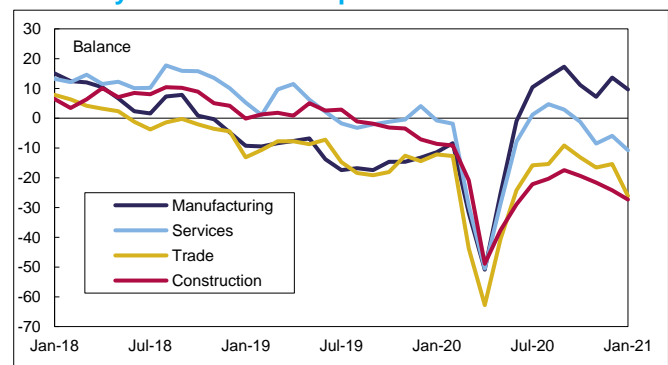
Over recent days, several euro area member states, including Germany, France, Belgium and Portugal, have tightened controls against the spread of Covid-19, banning non-essential travel and/or requiring travelers from countries declared 'high risk' to provide evidence of a negative coronavirus test. And given the steady uptrend in new cases since the start of the year, France is reportedly likely to enter another national lockdown within days, with Wednesday night mooted as the possible date for an announcement that non-essential stores will need to close once again. And unfortunately, in marked

Germany: ifo business climate indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: ifo business expectations indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

contrast to the UK, where one in ten citizens have now received an initial dose, the continued sluggish roll-out of vaccines in most euro area countries – related in part to administrative inefficiency as well as supply constraints – raises concerns about prospects for an eventual sustained relaxation of restrictions and sustainable rebound in economic activity.

The day ahead in the euro area

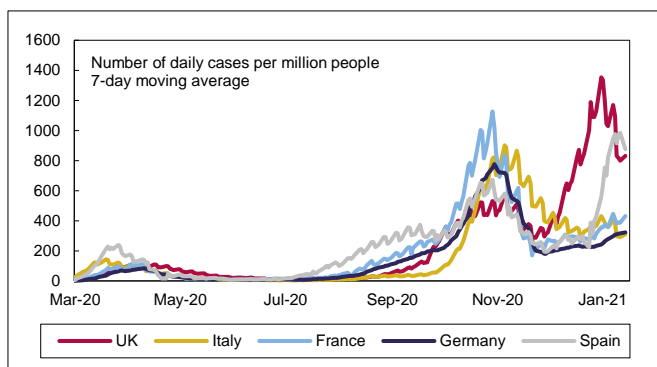
Tuesday is set to be a very quiet day on the euro area economic data front, with only Spanish producer price inflation numbers for December scheduled for release.

UK

The day ahead in the UK

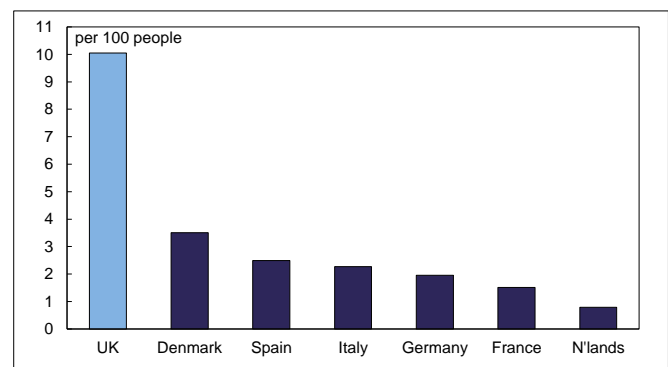
The most significant data release out of the UK this week will come tomorrow in the shape of the latest labour market report, which is likely to show that redundancies remained elevated after rising to a record high in the three months to October. Indeed, ongoing job cuts will likely be reflected in a further drop in payrolls in December, which the prior month were already down 819k from February's pre-pandemic level, and a rise in the claimant count rate from 7.4% in November. The ILO unemployment rate is also expected to rise, by 0.2ppt in the three months to November to 5.1%, which would be the highest level since March 2016. That, however, will mask the significant labour market shake-out over the past year, which appears to have disproportionately hit foreign-born workers, many of whom as a result have left the UK and hence fallen out of the arithmetic. Of course, the ongoing support for businesses via the Job Protection Scheme will also have contained the rise in unemployment. Separately, the CBI distributive trades survey for January will also be of some interest tomorrow. With Covid containment restrictions in place and consumer confidence deteriorating, retail sales are expected to have fallen at the start of the year.

New Covid-19 cases



Source: John Hopkins, Bloomberg and Daiwa Capital Markets Europe Ltd.

Covid-19 vaccinations*





*At least one dose. Source: Politico 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	 ifo business climate index	Jan	90.1	91.3	92.1	92.2
	 ifo current assessment (expectations)	Jan	89.2 (91.1)	90.5 (93.5)	91.3 (92.8)	93.0 (-)







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
Spain		08.00 PPI Y/Y%	Dec	-	-2.8
UK		07.00 Unemployment claimant count rate % (change '000s)	Dec	-	7.4 (64.3)
		07.00 Average earnings including bonuses (excluding bonuses) 3M/Y%	Nov	2.9 (3.2)	2.7 (2.8)
		07.00 ILO unemployment rate %	Nov	5.1	4.9
		07.00 Employment change '000s, 3M/3M	Nov	-104	-144
		11.00 CBI distributive trades survey, reported sales	Jan	-25	-2

Auctions and events

EMU		11.00 ECB's Panetta scheduled to speak
Germany		10.30 Auction: €4bn of 0% 2031 bonds
Italy		10.00 Auction: €1bn of 0.65% 2026 index-linked bonds
		10.00 Auction: €3bn of 0% 2022 bonds
UK		10.00 Auction: £2.5bn of 0.625% 2035 bonds
		11.30 Auction: £1bn of 0.125% 2031 index-linked bonds
		17.00 BoE Governor Bailey scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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