

Euro wrap-up

Overview

- With the euro area manufacturing PMIs largely upbeat and unemployment stable, Bunds were little changed despite confirmation of steep drops in German retail sales and Spanish car registrations.
- Gilts were also little changed despite upwards revisions to the UK manufacturing PMIs and further strong mortgage approvals data.
- Tuesday will bring the first estimates of euro area and Italian Q4 GDP data.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.734	+0.009
OBL 0 10/26	-0.733	+0.006
DBR 0 02/31	-0.518	+0.002
UKT 1½ 09/22	-0.118	+0.001
UKT 0% 06/25	-0.039	-0.006
UKT 4¾ 12/30	0.319	-0.005

*Change from close as at 5.00pm GMT.

Source: Bloomberg

Euro area

Final manufacturing PMIs reaffirm broadly positive momentum in the sector at start of 2021

At the start of a week that will bring some noteworthy new data – not least tomorrow's first estimate of euro area GDP for Q4, which is likely to show a relatively modest drop of close to 1%Q/Q, and Wednesday's flash estimate of euro area inflation in January, which will likely show a record monthly jump in the headline rate to above ½%Y/Y – today's new releases were of passing interest. The final manufacturing PMIs for January provided no major surprises, with the headline euro area index revised up just 0.1pt from the flash to 54.8, down just 0.4ppt from December's 2½-year high to suggest still firm growth momentum in the sector at the start of 2021. Admittedly, the survey indices for output (a seven-month low of 54.6) and new orders (54.7) were down more than 1ppt apiece from December, but both were still consistent with steady expansion. And encouragingly perhaps, the employment PMI was revised up to suggest the smallest rate of decline in jobs in the sector in 2½ years. Among the sub-sectors, Markit reported 'marked rates of expansion' in the intermediate and capital goods sub-sectors, although it cautioned that the improvement in conditions at consumer goods producers was 'marginal amid a drop in new orders'.

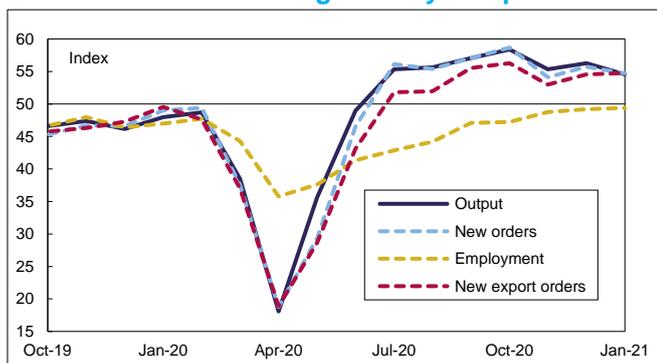
Best Italian manufacturing PMI in almost three years, but Spain's drops to seven-month low

Among the member states, the strongest conditions were recorded in Germany (57.1) and the Netherlands (58.8), with the French PMI revised up slightly to six-month high (51.6). More notably, the Italian manufacturing PMI, released for the first time, jumped more than 2pts from December to 55.1, the highest in almost three years, thanks not least to stronger output and new orders. In contrast, however, Spain's manufacturing PMI fell 1.7pts to a seven-month low (49.3), weighed partly by the extreme wintry weather brought by Storm Filomena. In addition, all member states reported a further worsening of supplier delivery times, which were the worst since April 2020 due to supply-chain issues related partly to developments in Asia (e.g. the supply of semiconductors to the auto industry). And prices paid for inputs increased at the fastest for almost three years, perhaps a function of the recent jump in the costs of shipping goods from China.

Labour market broadly stable at end-2020 thanks to government support schemes

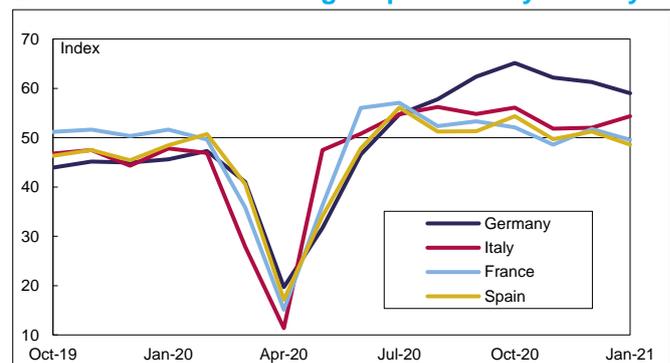
As expected, having fallen for four successive months, the euro area unemployment rate was unchanged in December at 8.3%, 0.9ppt above the level a year earlier. However, having dropped in each of the prior three months by a total of more than 500k, the number of unemployed persons edged up 55k to be up still more than 1.5mn from a year earlier. Moreover, the unemployment rates on the EU measure rose by 0.1-0.2ppt apiece in each of the four largest member states. So, it was only due to declines in the Netherlands, Portugal and certain other smaller member states that the euro area rate remained

Euro area: Manufacturing PMIs by component



Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output PMIs by country



Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

unchanged. We caution that, in the face of the intensified pandemic, many people out of work were not able to search for a new job and so were classified as inactive rather than unemployed. Moreover, the broad stability in the jobless figures partly reflects the success of government short-term working schemes, which continued to subsidise millions of jobs in December. With the extension of pandemic containment measures, the recourse to such schemes appears to have increased in the New Year – the ifo institute today estimated that the number of workers on the kurzarbeit scheme rose by almost 20% in January to 2.6mn, representing 7.8% of all employees subject to social insurance contributions.

German retail sales likely to fall further in January after plunge in December

While Germany's [Q4 GDP](#) figure, released on Friday, flagged the broad resilience of the economy to the intensification of the pandemic, today's data highlighted the marked impact of the closure of non-essential stores from 16 December on retail sales. In particular, the volume of retail turnover dropped 9.6%M/M in December to the lowest level since April. Given the strength of sales over prior months, however, that left retail turnover down just 0.2%3M/3M and up 1.5%Y/Y. Nevertheless, given the more significant weakness of spending on services, household consumption will still have contracted in Q4. And with the store closures set to persist into mid-February and possibly beyond, we expect sales to drop again in January and over Q1 as a whole.

New car registrations off to a slow start in 2021

After euro area new car registrations in 2020 suffered their worst year since the launch of the single currency, falling 23%Y/Y, today's first January data from the member states pointed to a soft start to 2021. French new car registrations dropped 5.8%Y/Y from a weak base (French registrations had fallen 13.4%Y/Y in January 2020). In addition, new car registrations fell 14.0%Y/Y in Italy and an even steeper 27.2%Y/Y in Belgium. Most striking, however, Spanish new car registrations dropped a whopping 51.5%Y/Y to the lowest level since May as the impact of bad winter weather combined with pandemic restrictions. While we expect a pickup in sales across much of the euro area as and when lockdown restrictions are eased, most likely from the second quarter on, we still expect full-year registrations to remain more than 10% down from the 2019 pre-pandemic level in 2021.

The day ahead in the euro area

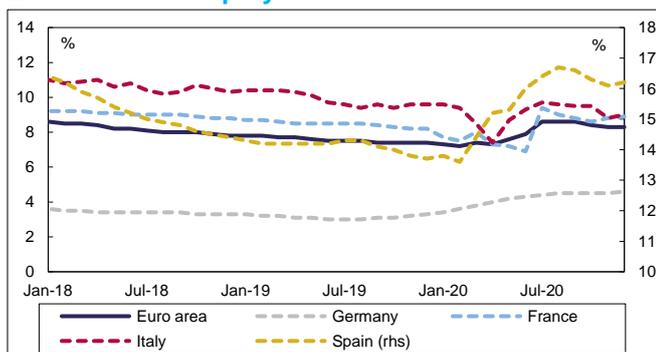
Tuesday's data focus will be euro area and Italian GDP figures for Q4. Following last week's better-than-expected Q4 GDP results from several member states, not least France and Spain, we expect GDP for the euro area as a whole to have contracted by around 1.0%Q/Q in the final quarter of last year to be down 5.4%Y/Y. Much will depend on the Italian data, however, for which the consensus expectation is for a drop of about 2.0%Q/Q. Meanwhile, with respect to inflation, the French HICP rate is expected to rise 0.5ppt to 0.5%Y/Y in January – not as steep as the jumps seen in German and Spanish inflation last week but marked nevertheless.

UK

Manufacturing PMI revised up, but supply-side problems intensify

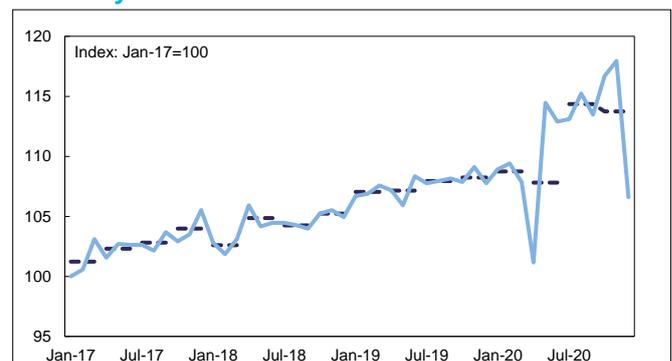
The UK's flash January PMIs, released a couple of weeks ago, had surprised significantly on the downside, reporting a significant loss of momentum in manufacturing. So, perhaps reassuringly, today's final estimates saw significant upwards revisions. In particular, the headline PMI was revised up 1.2pts from the flash estimate to 54.1, still nevertheless 1.5pts below the Q4 average. The survey indices for output (50.8) and new orders (49.9) were also revised up, although they suggested nothing better than inertia in the sector and not expansion. Indeed, Markit stated that consumer goods producers reported steep falls in output and new orders. Moreover, the headline manufacturing PMI was still flattered by a sharp increase in the survey measure of supplier delivery times – representing the second-worst month of supply-side disruption in almost 30 years and worse than originally estimated – and an associated steep increase in input costs, related as much to Brexit as to the impacts of Covid-19 restrictions and developments in Asia reflected in the euro area survey. Looking ahead,

Euro area: Unemployment rates



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Retail sales*



*Dashed line represents quarterly average. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

the imposition of the significant non-tariff barriers to trade with the EU from the start of the year – which has already caused significant disruptions for the agri-food sector and for smaller businesses more generally – will persistently increase costs and weigh on exports and overall activity in the sector.

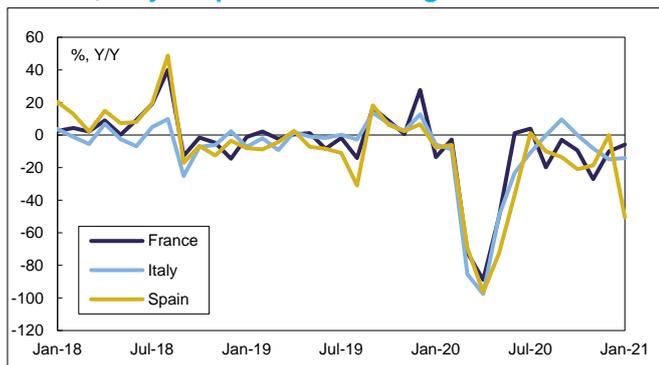
Mortgage approvals in 2020 up to highest since 2007, consumer credit repaid at a record rate

Perhaps most notable among the latest BoE lending data, the number of UK mortgage approvals remained exceptionally elevated in December, dropping just 1.9k from November's 13-year high, to 103.4k. So, despite the record low of just 9.4k during the first lockdown in May, total approvals in 2020 reached 818.5k, up almost 30k from 2019 to be the highest since 2007. Net new mortgage borrowing also remained strong at £5.6bn despite a rise in effective interest rates on those loans to the highest since October 2019. Mortgage approvals and net lending will likely remain high up to the end of March when the current stamp duty holiday is set to come to an end. The solid recovery in UK mortgage borrowing contrasted with the continued desire of households to reduce unsecured debt, with a further net repayment of £1.5bn made last month taking the total in 2020 to a record £16.6bn. The equivalent growth rate in unsecured credit outstanding in December similarly fell to a record low of -7.5%Y/Y. At the same time, households continued to add to their stock of deposits, which rose last month by a further £20.9bn, the most since May. Meanwhile, non-financial corporations repaid a net £0.5bn of loans in December following net borrowing of £2.4bn the prior month. But they raised £1.6bn from financial markets last month, taking the total net capital issuance over 2020 as a whole to a record high of £52.6bn.

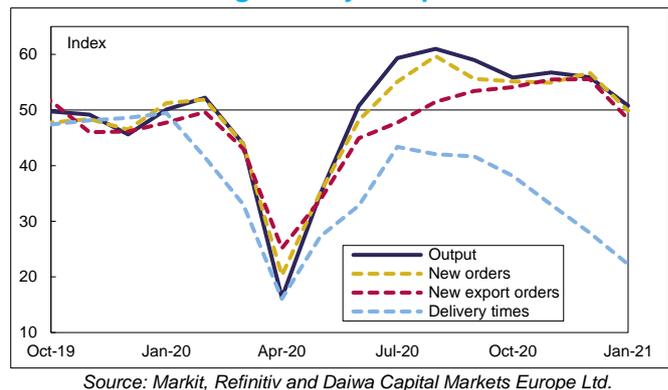
The day ahead in the UK

On a relatively quiet day for UK economic data, tomorrow will bring the latest Nationwide house price data, which are expected to see a modest slowdown in national home price growth to 6.9%Y/Y in January from the six-year high of 7.3%Y/Y in December.

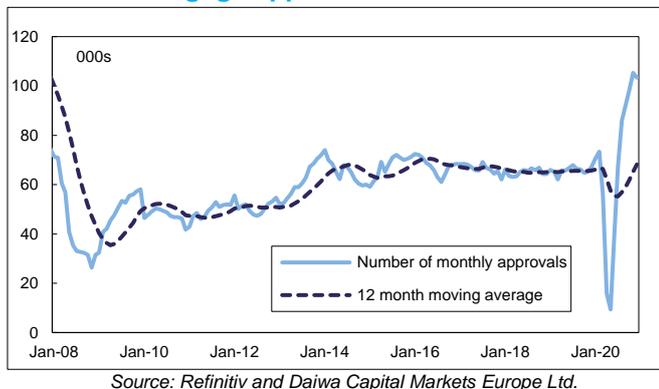
France, Italy & Spain: New car registrations



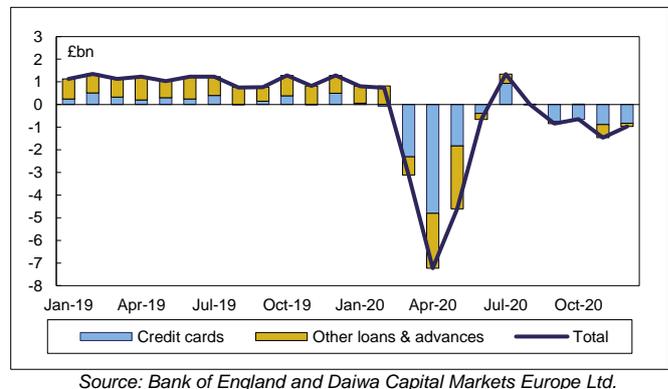
UK: Manufacturing PMIs by component



UK: New mortgage approvals



UK: Net consumer credit



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Final manufacturing PMI	Jan	54.8	54.7	55.2	-
	 Unemployment rate %	Dec	8.3	8.3	8.3	-
Germany	 Retail sales M/M% (Y/Y%)	Jan	-9.6 (1.5)	-2.3 (4.7)	1.9 (5.6)	1.1 (5.0)
	 Final manufacturing PMI	Jan	57.1	57.0	58.3	-
France	 Final manufacturing PMI	Jan	51.6	51.5	51.1	-
	 New car registrations Y/Y%	Jan	-5.9	-	-10.1	-
Italy	 Manufacturing PMI	Jan	55.1	52.5	52.8	-
	 Preliminary unemployment rate %	Dec	9.0	9.0	8.9	8.8
	 New car registrations Y/Y%	Jan	-14.0	-	-15.0	-14.9
Spain	 Manufacturing PMI	Jan	49.3	50.1	51.0	-
	 New car registrations Y/Y%	Jan	-51.5	-	0.0	-
UK	 Final manufacturing PMI	Jan	54.1	52.9	57.5	-
	 Net consumer credit £bn (Y/Y%)	Dec	-1.0 (-7.5)	-1.1 (-)	-1.5 (-6.7)	- (-6.5)
	 Net mortgage lending £bn (approvals '000s)	Dec	5.6 (103.4)	5.5 (100.0)	5.7 (105.0)	- (105.3)
	 M4 money supply Y/Y%	Dec	13.4	-	12.8	12.9

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
EMU	10.00	 Preliminary GDP Q/Q% (Y/Y%)	Q4	-1.0 (-5.4)	12.5 (-4.3)
France	07.45	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jan	0.3 (0.5)	0.0 (0.0)
Italy	09.00	 Preliminary GDP Q/Q% (Y/Y%)	Q4	-2.0 (-6.6)	15.9 (-5.0)
Spain	08.00	 Unemployment change '000s	Jan	-	36.8
UK	07.00	 Nationwide house price index M/M% (Y/Y%)	Jan	0.3 (6.9)	0.8 (7.3)

Auctions and events

Germany	 10.30	Auction: €6bn of 0% 2023 bonds
UK	 10.00	Auction: £3bn of 0.125% 2026 bonds
	 11.30	Auction: £1bn of 1.625% 2071 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

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