

Euro wrap-up

Overview

- After pandemic containment measures were extended in France and Italy, euro area government bonds made gains even as the region's final March manufacturing PMIs were revised up from already strong levels.
- Gilts also made gains despite upwards revisions to the UK's March manufacturing PMIs.
- After the Easter holiday, next week will bring the account of the ECB's March policy meeting, the final March services PMIs, and February data for euro area unemployment and German and French industrial production.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.717	-0.019
OBL 0 04/26	-0.662	-0.031
DBR 0 02/31	-0.327	-0.033
UKT 0 ¹ / ₈ 01/23	0.065	-0.024
UKT 0 ¹ / ₈ 01/26	0.363	-0.024
UKT 4 ³ / ₄ 12/30	0.796	-0.046

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

Source: Bloomberg

Euro area

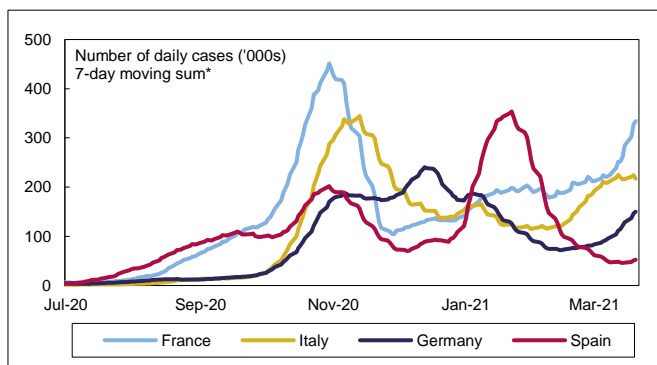
Extended French and Italian restrictions should not prevent recovery from Q2 on

As anticipated throughout the day, yesterday evening brought announcements of extensions of pandemic containment measures in France and Italy. While they will further delay economic recovery, particularly in the services sector, the overall impact on GDP growth in Q2 should be relatively modest and manageable. In particular, Emmanuel Macron announced the extension to the rest of mainland France of measures that had already been applied to regions accounting for more than one third of the population, including Paris. The restrictions, which will apply from 3 April for four weeks, will close non-essential retail and certain consumer-facing services, limit non-essential travel between regions, and implement a curfew from 19:00 each evening. Macron also announced the closure of schools for three weeks until 26 April, albeit with two of those weeks representing holidays. Mario Draghi extended Italy's tiered system of restrictions to 30 April, also limiting non-essential travel between regions. In the highest-risk "red zones", non-essential retail and restaurants will remain closed, and schools will continue to hold lessons remotely. But a large share of pupils elsewhere will still be able to attend lessons. Moreover, firms and households have learned to cope with lockdowns, with online shopping enjoying strong growth and working from home effective. Many purchases that won't be able to take place in April will simply be pushed back to May and June when economies will reopen. So, while the school closures in both countries will directly subtract from total economic output (e.g. education accounts for more than 5% of GVA in France), we continue to expect GDP to rise in France and Italy in Q2.

Final manufacturing PMIs point to strong growth and rising price pressures in the sector

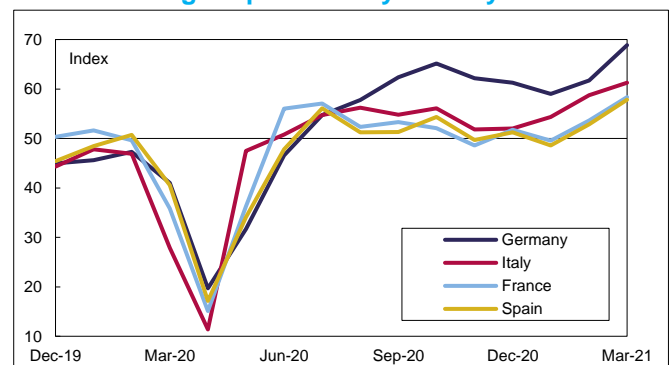
A further reason to continue to expect positive GDP growth in Q2 is the strength of the industrial sector, as underscored by today's final manufacturing PMIs for March which saw upwards revisions from the flash estimates. In particular, the euro area manufacturing output PMI was revised up by 0.3pt from the preliminary figure to a series high of 63.3. And the equivalent index for new orders was nudged up to 64.3, similarly the best on record. The output and new orders PMIs for Germany and France were similarly revised up, with the German indices (output PMI at 68.9, and the new orders PMI above 70 for the first time) similarly at series highs. And, with the exception of Greece, strength in the sector was widespread across the euro area. Italy's output and new orders PMIs rose above 60 for the first time since January 2018 with the Spanish and Dutch indices up to the highest since 2017. Encouragingly, firms in the sector also appear to be recruiting at the fastest pace since mid-2018, and across the euro area too. However, the survey again flagged further increases in pipeline price pressures. Against the backdrop of continued supply-chain challenges, record long delivery times, and the highest backlogs of work on the series, the euro area manufacturing PMIs for input costs and output prices rose to the highest since 2011.

New coronavirus cases



*7-day moving average. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Manufacturing output PMIs by country



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

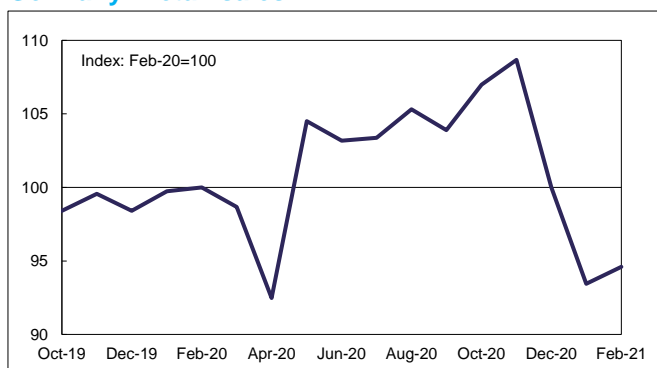
German retail sales soft in February, car registrations flattered by base effects in March

While the manufacturing PMIs were highly encouraging, the latest German retail sales figures were disappointing. Following a steep drop of 6.0%M/M in January, German retail sales (excluding cars) rose just 1.2%M/M in February to be down 5.4%Y/Y and leave the average level in the first two months of Q1 down more than 10% from the Q4 average. Within the detail, food sales were weaker (down 1.5%M/M after a jump of 4.6%M/M the prior month), but sales of clothes (26.0%M/M), IT goods (20.5%M/M) and furniture (16.0%M/M) rebounded somewhat from much sharper declines at the start of the year. Meanwhile, the first new car registrations data for March were flattered by extreme weakness a year earlier when showrooms and factories were closed. Indeed, French new car registrations rose 192%Y/Y in March to be up 21%Y/Y in Q1 while Spanish registrations were up 128%Y/Y in March but still down almost 15%Y/Y in Q1 as a whole. And Italy's rose almost 500%Y/Y in March to be up almost 29%Y/Y in Q1. However, compared to the same month in 2019, registrations in March were still down 19% in France, 30% in Spain and 13% in Italy.

The week ahead in the euro area

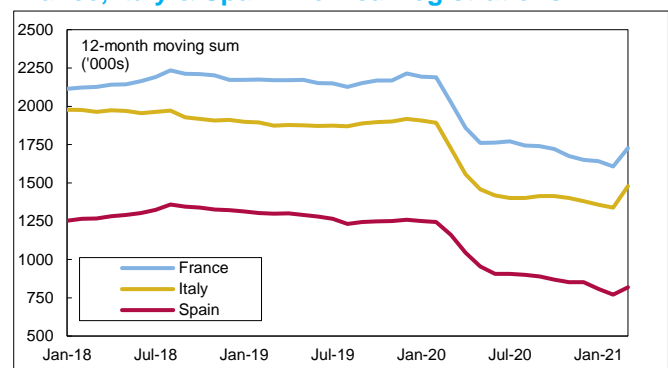
Following this weekend's Easter break, which sees many European financial markets close tomorrow and on Monday, the coming week's economic data calendar kicks off on Tuesday with the release of euro area labour market figures for February and the Sentix investor confidence survey for April. Supported by government furlough schemes, the euro area unemployment rate is expected to remain unchanged at 8.1% for a fourth month. The final services and composite PMIs (Wednesday) are expected to confirm the messages of the flash data, which pointed to a significant slowing in the pace of contraction in the services sector, with the respective euro area activity index up more than 3pts to a seven-month high of 48.8 and the new orders index at its highest in more than a year. The preliminary euro area composite output PMI rose almost 4pts to an eight-month high of 52.5, suggestive of a return to expansion at the end of Q1. Meanwhile, Thursday's construction PMIs should point to modest improvement in the building sector in March. German factory orders data for February will be published on Thursday, followed on Friday by the release of February IP numbers for Germany, France and Spain. Trade figures for France and Germany, to be published on Thursday and Friday respectively, will indicate to what extent Brexit continued to weigh on imports from the UK in the middle of Q1. Beyond the data, of significant note will be the publication of the account of the ECB's March policy meeting, when the Governing Council agreed to accelerate the pace of purchases this quarter within the current PEPP envelope.

Germany: Retail sales



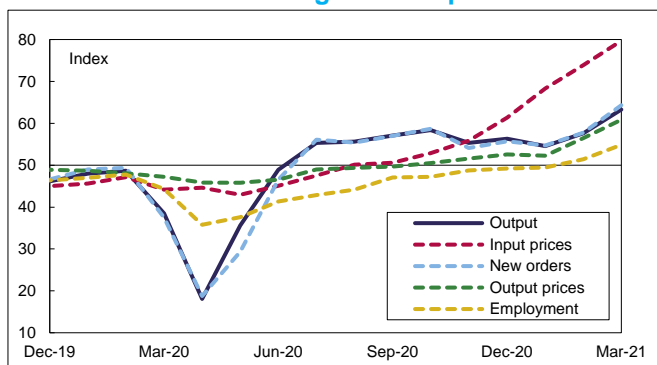
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France, Italy & Spain: New car registrations



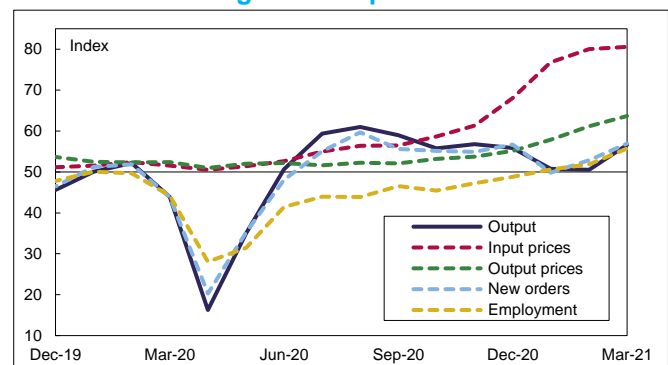
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing PMI components



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

UK: Manufacturing PMI components



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

UK

UK manufacturing output strengthens but export orders remain sluggish
















Like in the euro area, the final UK manufacturing PMIs were upwardly revised to add a dose of cautious optimism about the outlook for the sector. But while the output PMI was revised up 1pt from the flash estimate to 56.6, that was only the highest since November, while the new orders PMI of 57.0 was the highest since February 2018. And strikingly, in marked contrast to the equivalent index for the euro area (a record high of 63.0), the UK's new export orders PMI pointed to minimal growth at just 51.6 suggesting that the new barriers to trade from Brexit remained disruptive. Thankfully, the survey suggested that firms in the sector were recruiting new staff at the fastest rate in more than seven years. But, also as in the euro area, delivery times and backlogs approached record magnitudes amid supply-chain disruption accentuated by Brexit issues. And input-cost and output-price pressures were reported to be the highest since 2011.

The week ahead in the UK

The holiday-shortened week ahead will be very quiet on the UK economic data front, with no top-tier releases scheduled. Like in the much of the euro area, the Easter break sees UK financial markets closed tomorrow and on Monday. The remainder of the week brings new car registrations data on Tuesday, the final services and composite PMIs on Wednesday and lastly, on Thursday, the February construction PMIs and RICS house price balance for March. The preliminary services activity PMI jumped more than 7pts, the highest since August, to 56.8, a level surpassing the equivalent index for manufacturing for the first time since the pandemic hit. And plans for a gradual easing of restrictions over coming months helped the PMI for new business in services rise to a seven-month high.

Due to staff annual leave, the next edition of the Euro wrap-up will be published on 12th April 2021























Daiwa economic forecasts

	2020	2021				2022	2020	2021	2022
	Q4	Q1	Q2	Q3	Q4	Q1			
GDP growth, %, Q/Q									
Euro area 	-0.7	-0.8	1.4	1.4	1.3	1.1	-6.8	3.5	4.4
Germany 	0.3	-1.0	1.2	1.2	1.2	1.0	-5.3	2.5	4.0
France 	-1.4	-0.5	1.2	1.4	1.2	1.2	-8.2	5.0	4.5
Italy 	-1.9	-0.5	1.5	1.5	1.4	1.2	-8.9	4.0	4.7
Spain 	0.4	-1.0	1.5	1.4	1.2	1.2	-11.0	3.9	5.0
UK 	1.3	-2.0	3.1	2.7	2.2	1.5	-9.8	5.4	6.6
Euro area									
Headline CPI 	0.0	-0.3	1.1	1.6	1.8	2.0	0.3	1.6	1.0
Core CPI 	0.6	0.2	1.2	0.7	0.8	1.1	0.7	1.0	0.8
UK									
Headline CPI 	0.5	0.6	1.7	1.7	2.2	2.1	0.9	1.6	2.0
Core CPI 	1.3	1.2	1.6	1.6	1.7	1.6	1.4	1.5	1.9
ECB									
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate % 	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
PEPP envelope* (€bn) 	1850	1850	1850	1850	1850	1850	1850	1850	1850
BoE									
Bank Rate % 	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases** (£bn) 	895	895	895	895	895	895	895	895	895

*Monthly target €bn, end of period. **Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

European calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 05 April 2021					
- Nothing scheduled -					
Tuesday 06 April 2021					
EMU		09.30 Sentix investor confidence	Apr	5.0	5.0
		10.00 Unemployment rate %	Feb	8.1	8.1
Germany		- New car registrations* Y/Y%	Mar	-	-19.0
Italy		09.00 Preliminary unemployment rate %	Feb	-	9.0
Spain		08.00 Unemployment change '000s	Mar	-	44.4
UK		09.00 New car registrations Y/Y%	Mar	-	-35.5
Wednesday 07 April 2021					
EMU		09.00 Final services (composite) PMI	Mar	48.8 (52.5)	45.7 (48.8)
Germany		08.55 Final services (composite) PMI	Mar	50.8 (49.5)	45.7 (47.0)
France		08.50 Final services (composite) PMI	Mar	47.8 (49.5)	45.6 (47.0)
Italy		08.45 Services (composite) PMI	Mar	49.1 (52.1)	48.8 (51.4)
Spain		08.15 Services (composite) PMI	Mar	45.5 (48.0)	43.1 (45.1)
UK		09.30 Final services (composite) PMI	Mar	56.8 (56.6)	49.5 (49.6)
Thursday 08 April 2021					
EMU		08.30 Construction PMI	Feb	-	45.0
		10.00 PPI Y/Y%	Feb	1.3	0.0
Germany		07.00 Factory orders M/M% (Y/Y%)	Feb	1.3 (5.0)	1.4 (2.5)
		08.30 Construction PMI	Mar	-	41.0
France		07.45 Trade balance €bn	Feb	-	-3.9
		08.30 Construction PMI	Feb	-	44.0
Italy		08.30 Construction PMI	Feb	-	54.8
UK		00.01 RICS house price balance %	Mar	54	52
		08.30 Construction PMI	Feb	55.1	53.3
Friday 09 April 2021					
Germany		07.00 Industrial production M/M% (Y/Y%)	Feb	1.5 (-2.5)	-2.5 (-3.9)
		07.00 Trade balance €bn	Feb	20.1	13.8
France		07.45 Industrial production M/M% (Y/Y%)	Feb	0.4 (-1.5)	3.3 (-0.2)
		07.45 Manufacturing production M/M% (Y/Y%)	Feb	-	3.3 (-6.9)
Italy		09.00 Retail sales M/M% (Y/Y%)	Feb	-	-3.0 (-6.8)
Spain		08.00 Industrial production M/M% (Y/Y%)	Feb	-	-0.7 (-2.2)





















*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 05 April 2021		
EMU/UK	-	Public holiday – Easter Monday
Tuesday 06 April 2021		
- Nothing scheduled -		
Wednesday 07 April 2021		
Germany		10.30 Germany €4bn of 0% 2026 bonds
UK		10.00 Auction: £3bn of 0.375% 2026 bonds
		11.30 Auction: £2bn of 0.875% 2046 bonds
Thursday 08 April 2021		
EMU		12.30 ECB publishes account of its 10-11 th March policy meeting
France		09.50 Auction: fixed-rate bonds
Spain		09.30 Auction: 0% 2026 bonds
		09.30 Auction: 0% 2028 bonds
		09.30 Auction: 0.7% 2033 index-linked bonds
		09.30 Auction: 5.15% 2044 bonds
UK		10.00 Auction: 0.25% 2031 bonds
Friday 09 April 2021		
UK		12.00 BoE publishes Q121 Quarterly Bulletin

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Key data releases – The week beginning 12th April

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 12 April 2021					
EMU		10.00 Retail sales M/M% (Y/Y%)	Feb	-	-5.9 (-6.4)
France		- Bank of France industrial sentiment	Mar	-	99
UK		07.00 Monthly GDP M/M% (3M/3M)	Feb	-	-2.9 (-1.7)
		07.00 Industrial production M/M% (Y/Y%)	Feb	-	-1.5 (-4.9)
		07.00 Manufacturing production M/M% (Y/Y%)	Feb	-	-2.3 (-5.2)
		07.00 Construction output M/M% (Y/Y%)	Feb	-	0.9 (-3.0)
		07.00 Index of services M/M% (3M/3M)	Feb	-	-3.5 (-2.4)
		07.00 Goods trade balance €bn	Feb	-	-9.8
Tuesday 13 April 2021					
Germany		10.00 ZEW current assessment (expectations)	Apr	-	-61.0 (76.6)
Italy		09.00 Industrial production M/M% (Y/Y%)	Feb	-	1.0 (-2.4)
UK		00.01 BRC retail sales monitor Y/Y%	Mar	-	9.5
		09.30 Final output per hour Y/Y%	Q4	-1.1	4.0
Wednesday 14 April 2021					
EMU		10.00 Industrial production M/M% (Y/Y%)	Feb	-	0.8 (0.1)
Spain		08.00 Final CPI (EU-harmonised CPI) Y/Y%	Mar	1.3 (1.2)	0.0 (-0.1)
Thursday 15 April 2021					
Germany		07.00 Final CPI (EU-harmonised CPI) Y/Y%	Mar	1.7 (2.0)	1.3 (1.6)
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	Mar	1.1 (1.4)	0.6 (0.8)
Italy		09.00 Final CPI (EU-harmonised CPI) Y/Y%	Mar	0.5 (0.6)	0.3 (1.0)
Friday 16 April 2021					
EMU		07.00 EU27 new car registrations Y/Y%	Mar	-	-19.3
		10.00 Final CPI (core) Y/Y%	Mar	1.3 (0.9)	0.9 (1.1)
		10.00 Trade balance €bn	Feb	-	24.2











Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Key events & auctions – The week beginning 12th April

Country	BST	Event / Auction
Monday 12 April 2021		
- Nothing scheduled -		
Tuesday 13 April 2021		
Germany		10.30 Auction: index-linked bonds
Italy		10.00 Auction: 3Y and 7Y bonds
UK		10.00 Auction: 1.625% 2071 bonds
Wednesday 14 April 2021		
EMU		18.00 ECB's Schnabel speaks at webinar
Germany		10.30 Auction: €1.5bn of 2048 bonds
UK		10.00 Auction: 0.125% 2051 index-linked bonds
Thursday 15 April 2021		
UK		09.30 BoE publishes Q121 Credit Conditions Survey
Friday 16 April 2021		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Today's results

Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Final manufacturing PMI	Mar	62.5	62.4	57.9	-
Germany	 Final manufacturing PMI	Mar	66.6	66.6	60.7	-
	 Retail sales M/M% (Y/Y%)	Feb	1.2 (-9.0)	2.0 (-5.0)	-4.5 (-8.7)	-6.5 (-9.3)
France	 Final manufacturing PMI	Mar	59.3	58.8	56.1	-
	 New car registrations Y/Y%	Mar	192	-	-20.9	-
Italy	 Manufacturing PMI	Mar	59.8	59.8	56.9	-
	 New car registrations Y/Y%	Mar	497	-	-12.3	-
Spain	 Manufacturing PMI	Mar	56.9	55.9	52.9	-
	 New car registrations Y/Y%	Mar	128	-	-38.4	-
UK	 Final manufacturing PMI	Mar	58.9	57.9	55.1	-
Auctions						
Country	Auction	- Nothing to report -				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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