

Euro wrap-up

Overview

- Bunds made losses despite a drop in euro area industrial production and comments from ECB President Lagarde emphasising that monetary and fiscal policy support will be required “well into the recovery”.
- Gilts also made losses on a quiet day for UK economic news.
- Thursday will bring final March inflation data from Germany, France and Italy ahead of the equivalent euro area figures and February trade report on Friday.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.699	+0.012
OBL 0 04/26	-0.608	+0.026
DBR 0 02/31	-0.266	+0.028
UKT 0 ¹ / ₈ 01/23	0.052	-0.013
UKT 0 ¹ / ₈ 01/26	0.364	+0.014
UKT 4 ³ / ₄ 12/30	0.804	+0.028

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

Source: Bloomberg

Euro area

IP drop in February reflected temporary factors

Euro area industrial production suffered a setback in February. Having risen 0.8%M/M in January, industrial production (excluding construction) dropped 1.0%M/M to be down 1.6%Y/Y. Within the detail, weakness was widespread but led by capital goods, output of which dropped 1.9%M/M. Impacted by supply-chain disruption not least due to the semiconductor shortage, production of motor vehicles fell 5.2%M/M after declining 3.5%M/M in January to be down more than 23%Y/Y and explain a little more than half of the overall contraction in IP. Output of machinery and equipment also dropped, declining 1.9%M/M after rising 5.0%M/M in January. Production of intermediate items, including chemicals, fell 0.7%M/M after a flat start to the year. Output of durable consumer goods (-1.1%M/M) and non-durable consumer goods (-0.1%M/M) was also soft. And energy production fell for the first time since November, dropping 1.2%M/M. At the country level, German industrial production excluding construction dropped 1.8%M/M, with output of motor vehicles down 7.0%M/M and production of certain other items impacted by inclement weather. And French manufacturing output fell 4.6%M/M weighed by a fall of 8.3%M/M in production of motor vehicles and a steeper drop of 11.4%M/M in total transport equipment. Elsewhere, however, production was broadly flat in February in Italy and Spain. And it leapt 4.2%M/M in Ireland, with positive growth also registered in certain other smaller member states.

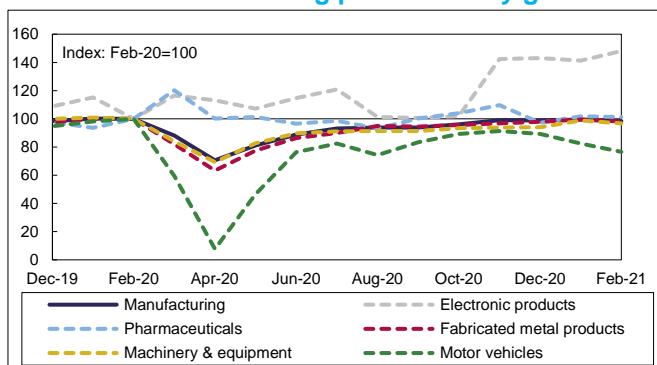
Sector likely rebounded in March with firm growth probably ahead in Q2

Despite the drop in February, euro area industrial production in the first two months of Q1 was still almost 1.0% above the average level in Q4. And surveys point to a strong end to the quarter for the sector. For example, the euro area manufacturing output PMI rose more than 5pts in March to a series high of 63.3. So, industrial production growth of more than 2%Q/Q in Q1 as a whole still looks feasible. With new orders (from at home and abroad) and backlogs of work continuing to trend higher while excess inventories have been reduced, further robust growth in the sector appears likely in Q2 too.

The coming two days in the euro area

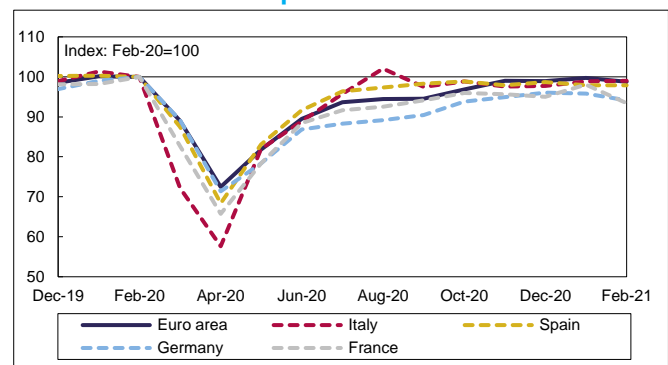
Looking ahead, Thursday will bring final German, French and Italian CPI data for March, with the euro area data due on Friday. Like the final Spanish estimates released today – which confirmed the 1.3ppt rise in the EU-harmonised HICP measure to a near two-year high of 1.2%Y/Y – these are expected to confirm the respective flash estimates. For the euro area, that would confirm that headline inflation rose 0.4ppt in March to a fourteen-month high of 1.3%Y/Y due to shifts in

Euro area: Manufacturing production by good



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

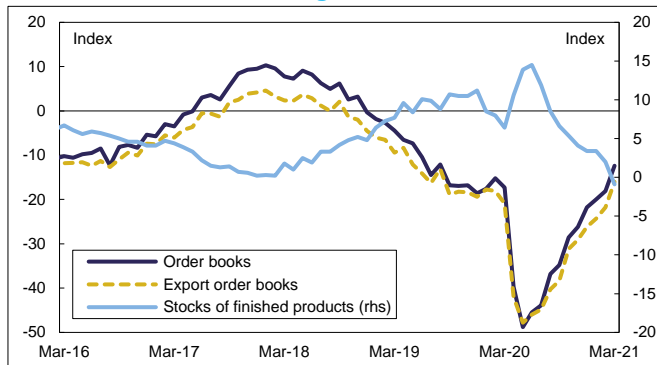
Euro area: Industrial production indices*



*Excluding construction. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

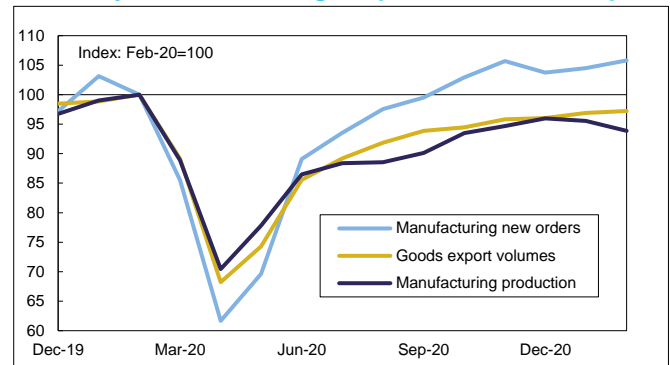
energy prices but the core rate remained unchanged at 0.9%Y/Y. Euro area goods trade data for February are also due on Friday along with final European new car registrations figures for March.

Euro area: Manufacturing orders & stocks*



*European Commission survey indices.
 Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing output, orders and exports



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK

The coming two days in the UK



After a quiet day for economic news in the UK today, Thursday will bring the BoE's latest Credit Conditions Survey, while Friday again be quiet with no top-tier data due.

The next edition of the Euro wrap-up will be published on 16th April 2021



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Industrial production M/M% (Y/Y%)	Feb	-1.0 (-1.6)	-1.2 (-1.4)	0.8 (0.1)	-
Spain	 Final CPI (EU-harmonised CPI) Y/Y%	Mar	1.3 (1.2)	1.3 (1.2)	0.0 (-0.1)	-




Auctions

Country	Auction
Germany	 Sold €1.29bn of 1.25% 2048 bonds at an average yield of 0.22%
UK	 Sold £600mn of 0.125% 2051 inflation-linked bonds at an average yield of -1.979%


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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)




Auctions and events

UK	 09.30	BoE publishes Q221 Credit Conditions Survey
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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	22.0	24.2

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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