

# Euro wrap-up

## Overview

- Bunds made losses despite a significant deterioration in a survey of euro area investor sentiment, for which the index of expectations for six months ahead fell the most on the series to its lowest level since the euro crisis.
- Gilts made larger losses as the BoE commenced QT with £28bn of its Gilt holdings maturing without reinvesting proceeds, and markets priced in rate hikes of 25bps at every MPC meeting from March to September.
- Tomorrow will bring German and Spanish IP numbers for January, as well updated euro area Q4 GDP data including the first expenditure breakdown.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/24	-0.713	+0.044
OBL 0 04/27	-0.330	+0.051
DBR 0 02/32	-0.025	+0.052
UKT 1 04/24	1.146	+0.105
UKT 1½ 07/27	1.069	+0.097
UKT 4¼ 06/32	1.295	+0.090

\*Change from close as at 4:00pm GMT.  
Source: Bloomberg

## Euro area

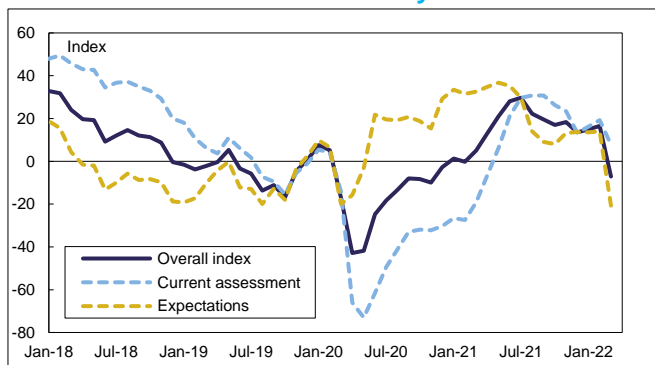
### Euro area sentix expectations index posts the largest monthly decline on record

Ahead of the [ECB's policy announcement](#) on Thursday, today brought arguably the most insightful release of late, with the euro area Sentix investor confidence survey for March – the first survey results to reflect sentiment after Russia's invasion of Ukraine. Perhaps predictably, this reported a marked deterioration in confidence, with the headline indicator down a hefty 23.6pts on the month to -7.0, the lowest reading since November 2020. Investors' perceptions of current conditions were more downbeat, with the relevant index falling 11.5pts to 7.8. However, there was a more striking drop in their expectations for the outlook for the coming six months, with the relevant index down a whopping 34.8pts to -20.8, a fraction below the April 2020 trough and the lowest level since 2012. The monthly move was some 8pts larger than the initial post-Covid decline, 13½pts lower than the biggest fall during the euro crisis and almost 22pts greater than at the onset of the global financial crisis. Not least reflecting the sharp rise in wholesale energy costs and food price pressures, the Sentix Inflation Barometer rose to a new all-time high in March. Within the survey's country detail, Germany suffered a sizeable setback this month, with the outlook component down a comparable 35pts to -19.3, its lowest since March 2020, while Austria's expectations balance similarly fell 35pts to an all-time low (-25.0). The survey also suggested that Central and Eastern Europe had been hardest hit with the headline index implying recession.

### German factory orders firmer, but for how much longer?

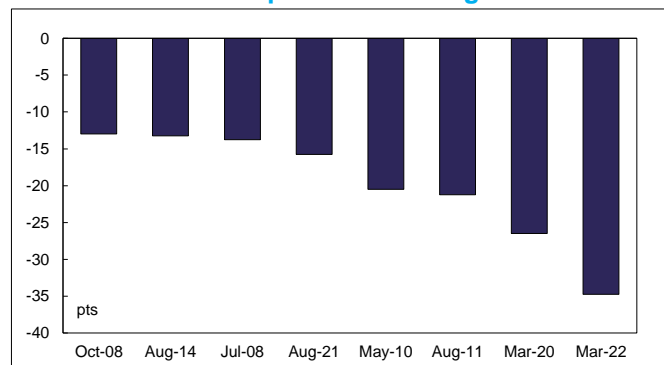
For what it's worth, today's German factory orders data provided an upside surprise. In particular, new orders rose 1.8%M/M in January following upwardly revised growth in December (3.0%M/M) to be up 7.3%Y/Y and almost 12% higher than the pre-pandemic level. Admittedly, this strength reflected bulk orders from overseas, which helped new orders from non-euro area countries to jump 17%M/M and total foreign orders to rise 9.4%M/M. By the same token, the weakness in domestic orders (-8.3%M/M) reflected a drop in bulk items. When excluding major orders, foreign orders were up just 1.5%M/M while domestic orders were down just 0.1%M/M. And overall orders excluding major items were up a moderate 0.8%M/M. By type of good, growth in January was seen only in capital goods (up 5.5%M/M), including motor vehicles up 2.5%M/M. Nevertheless, new orders of consumer, intermediate and capital goods alike remained more than 11% above the pre-pandemic level. And orders of motor vehicles were almost 4% higher than in February 2020, a marked contrast to autos production, which was still more than 22% below the pre-pandemic level at the end of last year.

### Euro area: Sentix investor survey indicators



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Sentix expectations – largest declines



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

## Manufacturing turnover up, but risks to the production outlook skewed sharply to the downside

Looking ahead to tomorrow's industrial output data, today's figures showed that manufacturing turnover in January rose for a fourth consecutive month and by 1.8%M/M, to leave it just 0.7% below the pre-pandemic level. As such, risks to the consensus forecast increase in German industrial production of 0.5%M/M – which would leave it still more than 6% below the pre-pandemic level – look to be skewed to the upside, particularly given the likelihood of a rebound in construction output, which contracted more than 7%M/M in December. Moreover, survey and high-frequency indicators, such as the truck toll mileage index, point to what could prove to be a fifth successive month of manufacturing growth in February. And with inventories low and orders elevated, the near-term production outlook would normally look strong. However, in light of the conflict, supply-chain bottlenecks look set to tighten further. That is true not least in the motor vehicle sector where all firms were reporting shortages of intermediate inputs before the conflict, and production at BMW and VW plants has now stalled due to a shortage of Ukraine-produced wiring harnesses. And the supply of numerous other key inputs from Ukraine and Russia also appears at risk over coming months. So, unless the conflict reaches a prompt cease-fire, and energy prices come down soon – something that looked unlikely today as European natural gas contracts leapt to new record highs and the price of Brent crude also rose sharply – the demand outlook will also soon sour, not least reflecting the marked deterioration in sentiment, sharply rising costs and falling domestic real incomes.

### The day ahead in the euro area

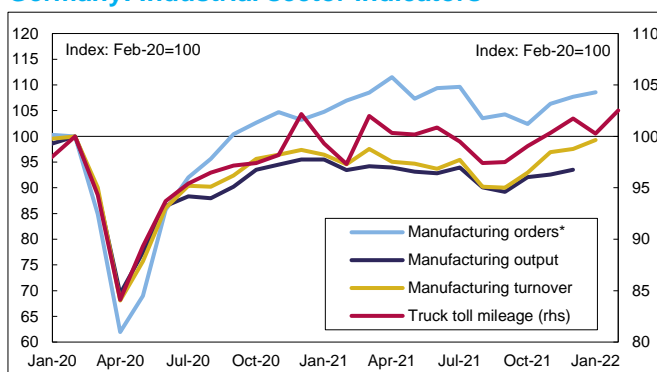
Tomorrow's economic data calendar includes the aforementioned German industrial production figures, as well as equivalent numbers from Spain. The German data are expected to reveal a moderate rebound in industrial output as supply bottlenecks eased modestly following a dip in December that was due to a marked decline in construction. The Bloomberg consensus is for IP to rise 0.5%M/M in January, although risks to this forecast are skewed to the upside. Euro area Q4 GDP and employment numbers are also due and will include a detailed expenditure breakdown for the first time. GDP growth in Q421 slowed sharply to 0.3%Q/Q from 2.3%Q/Q in Q3 as the latest wave of coronavirus weighed particularly on household consumption while construction investment was also soft. Tomorrow will also bring Italian retail sales figures for January.

## UK

### The day ahead in the UK

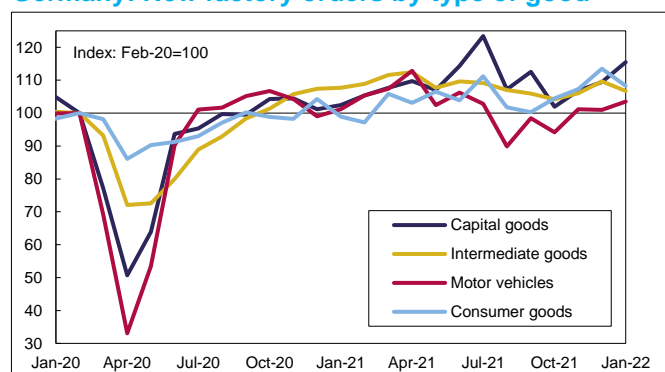
After a quiet day for UK economic releases today, tomorrow we will get the BRC retail sales monitor for February, which will provide an update on spending on the High Street last month as many restrictions in England were lifted. However, any resulting pickup in spending is likely to prove temporary, as the ongoing significant erosion of real disposable incomes – due to higher inflation, taxes and interest rates – seems bound to weigh on discretionary spending over coming quarters.

Germany: Industrial sector indicators






Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders by type of good












Source: Refinitiv 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
Euro area	 Sentix investor confidence	Mar	<b>-7.0</b>	5.3	16.6	-
Germany	 Factory orders M/M% (Y/Y%)	Jan	<b>1.8 (7.3)</b>	0.8 (5.5)	2.8 (5.5)	<b>3.0 (5.9)</b>
	 Retail sales M/M% (Y/Y%)	Jan	<b>2.0 (10.3)</b>	<u>2.0 (10.3)</u>	-4.6 (0.8)	<b>-4.6 (0.8)</b>
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	
Euro area		10.00	Final GDP Q/Q% (Y/Y%)	Q4	<u>0.3 (4.6)</u>	2.3 (3.9)
		10.00	Final employment Q/Q% (Y/Y%)	Q4	<u>0.5 (2.1)</u>	1.0 (2.1)
Germany		07.00	Industrial production M/M% (Y/Y%)	Jan	0.5 (-1.9)	-0.3 (-4.1)
Spain		08.00	Industrial production M/M% (Y/Y%)	Jan	1.0 (2.7)	-2.6 (1.3)
UK		00.01	BRC retail sales monitor, like-for-like Y/Y%	Feb	-	8.1
Auctions and events						
Euro area		10.00	OECD publishes interim economic outlook			
Germany		10.30	Auction: €250mn of 2030 inflation-linked bonds			
		10.30	Auction: €500mn of 2033 inflation-linked bonds			
UK		10.00	Auction: £1.5bn of 1.25% 2051 bonds			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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