

# Euro wrap-up

## Overview

- Bunds followed the global trend lower, even as today's German ZEW survey suggested a loss of recovery momentum in March and diminished optimism regarding the outlook.
- Gilts also made modest losses on a quiet day for UK top-tier economic news.
- Ahead of the FOMC decision, Wednesday will bring UK inflation figures for February, while the ECB Watchers' conference will see Lagarde, Lane and Panetta speak.

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### Daily bond market movements

Bond	Yield	Change
BKO 2½ 03/25	2.583	+0.255
OBL 2.2 04/28	2.299	+0.210
DBR 2.3 02/33	2.280	+0.166
UKT 0% 06/25	3.242	+0.051
UKT 1% 10/28	3.215	+0.049
UKT 3¼ 01/33	3.365	+0.059

\*Change from close as at 4:45pm GMT.

Source: Bloomberg

## Euro area

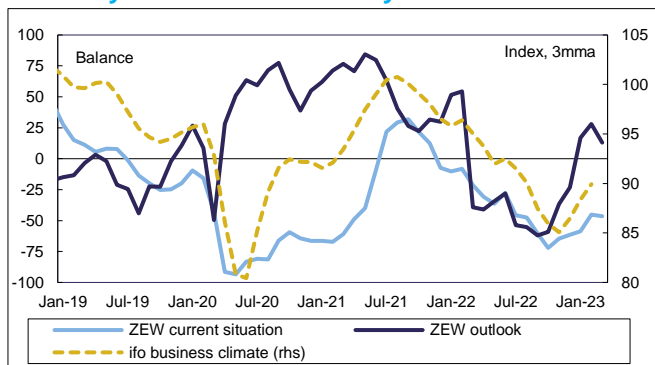
### ZEW survey suggests loss of momentum in March and diminished optimism regarding the outlook

The first results of this month's euro area economic sentiment surveys – which came from the ZEW investor survey conducted between 13-20 March – unsurprisingly bore the hallmark of recent market turbulence. Current economic conditions were judged to have worsened from already low levels to further below the 2022 averages. In particular, the German current conditions index dropped for the first month in five, albeit by only 1.4pts to -46.5, with the euro area index down 3pts to -44.6. Expectations for the economic outlook over the coming six months deteriorated more significantly, albeit remaining in positive territory. The German expectations index dropped more than 15pts to a three-month low of 13, with the euro area index down almost 20pts to 10, similarly the lowest level this year. With the economic and financial outlook murkier, and expectations for short- and long-term interest rates lower, investors' assessments of German banks' and insurers' profitability were predictably revised down significantly. But while the respective net balances fell more than 56pts and 34pts to the lowest levels since October, they remained in positive territory. In contrast, assessments of profitability in a range of other sectors, from autos to steel, chemicals, construction and retail, remained firmly in negative territory. Given the findings of the ZEW survey, the other major survey indicators – most notably the flash PMIs due on Friday and the ifo indices due at the start of next week – might also be expected to report a modest deterioration in economic conditions in March and increased downside risks to the outlook.

### Euro area construction output rebounds vigorously in January...

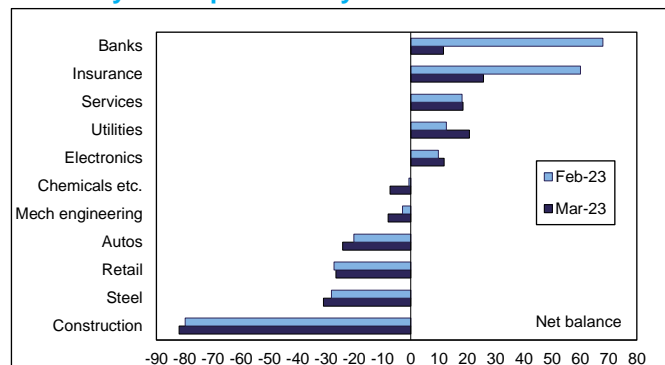
Today's euro area construction figures suggested a marked rebound in the activity in the sector at the start of the year. That, however, merely reflected unseasonably mild weather as well as the ongoing easing in supply constraints. And the outlook for the sector appears subdued. Nevertheless, the leap in construction output of 3.9%/M/M in January was the most since March 2021. It also more than reversed the drop in December, which at -2.3%/M/M was a touch softer than initially estimated. The improvement was strongest in building work, which rose 4.2%/M/M to the highest level since March 2022, while civil engineering activity increased 3.0%/M/M, only partly reversing the 4.6%/M/M drop in December. Growth in construction output in January was also widespread among the member states. But it was principally underpinned by Germany, where output jumped a whopping 12.6%/M/M, the strongest increase since the start of 2011, albeit still leaving it just below the pre-pandemic level.

### Germany: ZEW\* and ifo survey indices



\*Expectations for the coming six months.  
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: ZEW profitability indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

## ...but near-term outlook in the sector remains challenging

Despite the rebound in activity at the start of the year, construction sector conditions remain challenging, not least reflecting a weakening in demand amid rising borrowing costs, tighter lending conditions and persisting economic uncertainties. Certainly, the Commission's survey and the PMIs both flagged a further decline in new orders since the start of the year. And survey results published yesterday by the ifo institute suggest that around 23% of German residential construction businesses consider demand to be inadequate. Indeed, roughly 14% of surveyed construction firms reported cancelled orders in February, a figure well above the long-run average. And so, according to this survey, even before the recent financial market turbulence, business expectations in the sector were considered to be the worst since the series began in 1996.

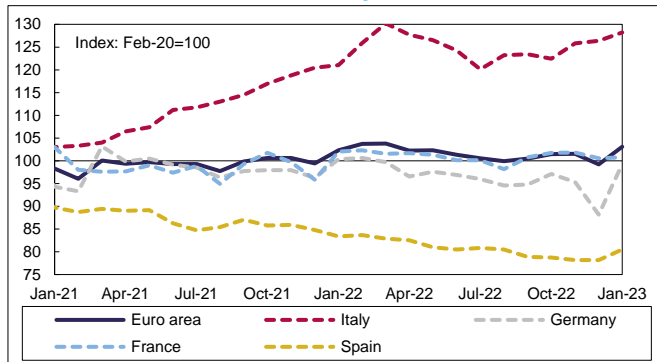
## German exports appear to extend rise in February

Like construction output, euro area manufacturing production also grew at the start of the year – with output rising an admittedly more modest 0.7%M/M – principally reflecting a surge in Ireland (9.4%M/M) and a return to positive growth in Germany (1.9%M/M). This was matched by a rebound in German export volumes in January (3.1%M/M), while today's preliminary German trade numbers for February suggested that the value of exports to non-EU countries rose for a second successive month. Indeed, the value of exports beyond the EU increased 5.2%M/M, to be up 7.4%Y/Y, with solid growth in shipments to the US (19.4%Y/Y) and UK (6.1%Y/Y) offsetting a drop to China (-12.4%Y/Y) related to the timing of the Lunar New Year. However, given the plunge in December, the value of exports in the first two months of Q1 was trending almost 2% below the Q4 average. Moreover, when adjusting for prices, Destatis suggested that export volumes to countries outside of the EU were still down by almost 5½%Y/Y.

## Euro area trade deficit narrows in January as drop in imports outpaced exports

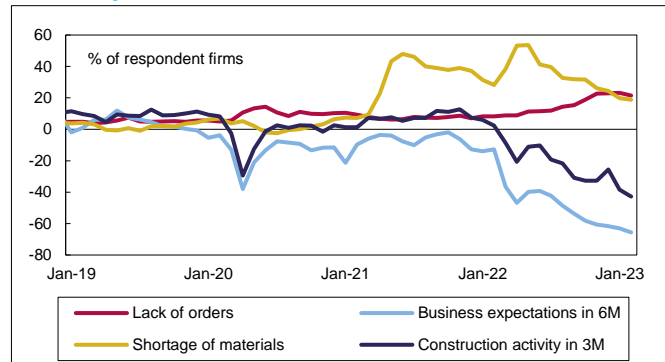
Contrasting with the German data, yesterday's aggregate euro area goods trade report suggested that, even in values terms, exports maintained a downwards trend at the start of the year. In particular, the value of exports fell for the second successive month in January, by 1.1%M/M, to leave them at their lowest level for six months and more than 2% below the Q4 average. But the value of imports was down a steeper 1.8%M/M in January to be some 14% below last year's peak and some 5% below the Q4 average. As such, the goods trade deficit narrowed for the fifth successive month, by €2.1bn to €10.3bn, the smallest since November 2021. While the weakness in the value of imports will in good part reflect lower prices – not least of energy and other commodities – we suspect that volumes also slipped back at the start of the year amid still

### Euro area: Construction output



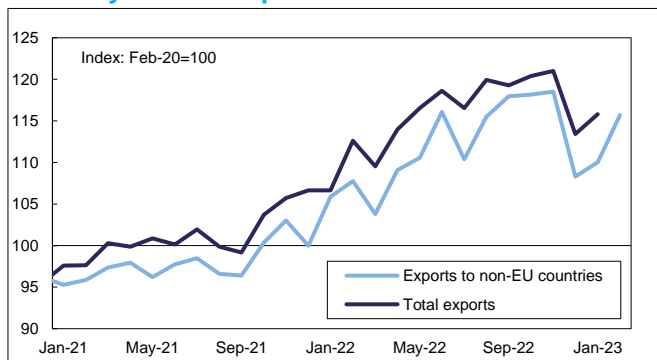
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: ifo residential construction indices



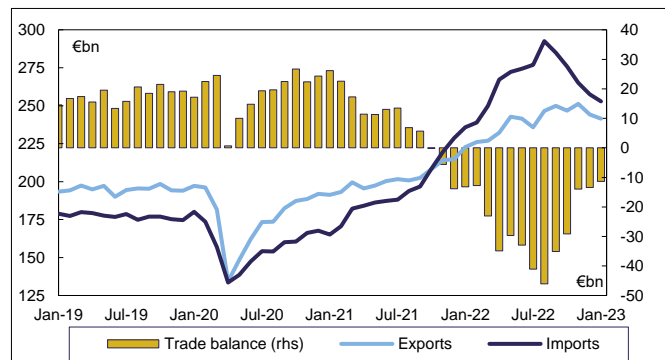
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: Goods exports\*



\*Seasonally adjusted values. Source: Destatis, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Goods trade balance\*



\*Seasonally adjusted values. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

relatively subdued domestic demand. And so, overall, we continue to expect that net trade should make a second successive positive contribution to euro area and German economic growth in Q1.

### Pent-up demand continues to drive car registrations

Today's euro area car registrations figures pointed to ongoing moderate recovery in the sector so far in 2023 as pent-up demand amid the easing of supply bottlenecks continued to boost sales. According to the ACEA, registrations posted the seventh consecutive year-on-year increase in February, by 11.5%Y/Y. Admittedly, this was the softest pace for five months and the number of units sold still remains almost a quarter below the pre-pandemic amount in 2019. Within the country detail, growth in sales was relatively modest in Germany (2.8%Y/Y), but firmer in France (9.4%Y/Y), Italy (17.4%Y/Y) and Spain (19.2%Y/Y). Separately, the Bank of France retail survey today also flagged the pickup in new car sales in February, with the near-2½%M/M increase on that measure leaving them trending some 6% above the Q4 average. Sales of consumer electronics also continued to trend higher, with a return to positive growth in clothing and furniture sales too. But not least due to more acute price pressures in the sector, the survey's measure of food sales remained weak in February (-1.7%M/M), to mark the seventh decline out of the past eight months and the steepest drop since last May. And so, overall retail sales volumes fell for the first month in four in February, by 0.4%M/M, to leave them down 4.4%Y/Y and 0.1%3M/3M. Nevertheless, given the recent monthly profile, sales were still trending in the first two months of Q1 roughly 0.9% above the Q4 average.

### The day ahead in the euro area

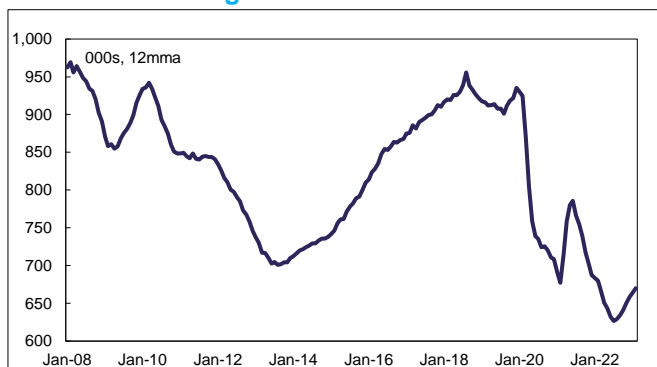
After last week's [ECB](#) decision to raise rates by a further 50bps despite uncertainties about banking sector stability, focus tomorrow will be on the annual ECB Watchers' conference, where we will hear from ECB President Lagarde and Chief Economist Lane and dovish Executive Board Member Panetta. Lagarde last week suggested that we might expect to hear a more thorough assessment from her of how recent financial market developments might affect the transmission of monetary policy. Bundesbank President Nagel and Bank of France Governor Villeroy will also speak at separate events tomorrow.

## UK

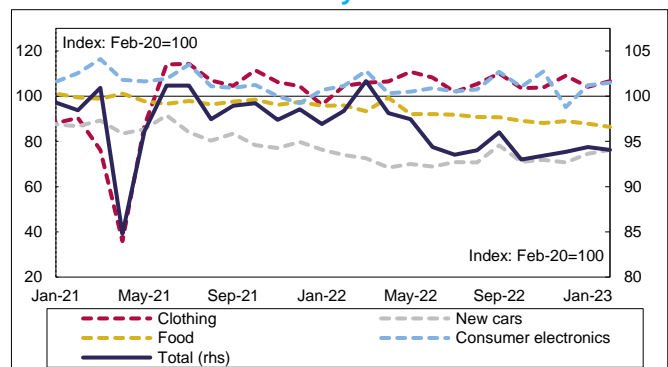
### The day ahead in the UK

Ahead of the BoE's policy announcement on Thursday, attention tomorrow will be on the latest UK inflation data. Having peaked in October at a 40-year high, headline inflation looks to set to return to single digits in February. We forecast a fall of 0.4ppt in the headline CPI rate, to an eight-month low of 9.7%Y/Y, with the core rate easing 0.2ppt to 5.6%Y/Y, the lowest level in a year. But the services price data in particular will be closely watched by the MPC and could have a bearing on Thursday's rate decision. Meanwhile, the latest PPI figures, also due to be published tomorrow, are expected to reveal further easing in pipeline pressures, with the annual rate of output prices expected to fall more than 1ppt to a twelve-month low from 13.5%Y/Y in January. The latest ONS house price figures for January are also due, while the CBI industrial trends survey will give an insight into manufacturing sector conditions ahead of Friday's flash PMIs.

### Euro area: Car registrations








### France: Retail sales survey





## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 EU27 new car registrations Y/Y%	Feb	11.5	-	11.3	-
	 Construction output M/M% (Y/Y%)	Jan	3.9 (0.9)	-	-2.5 (-1.3)	-2.3 (-0.6)
Germany	 ZEW current assessment (expectations)	Mar	-46.5 (13.0)	-48.0 (20.0)	-45.1 (28.1)	-
France	 Bank of France retail sales Y/Y%	Feb	-4.3	-	-2.6	-
UK	 Public sector net borrowing (excl. banks) £bn	Feb	15.9 (16.7)	10.2 (11.5)	-6.2 (-5.4)	-9.1 (-8.3)




#### Auctions

Country	Auction
Germany	 sold €1.37bn of 1.3% 2027 bonds at an average yield of 2.18%
UK	 sold £2bn of 3.75% 2053 bonds at an average yield of 3.864%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Yesterday's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Trade balance €bn	Jan	-11.3	-	-18.1	-13.4
Germany	 PPI M/M% (Y/Y%)	Feb	-0.3 (15.8)	-1.4 (14.4)	-1.0 (17.8)	-1.2 (17.6)
UK	 Rightmove house prices M/M% (Y/Y%)	Mar	0.8 (3.0)	-	0.0 (3.9)	-

#### 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
Euro area	09.00	ECB current account balance €bn	Jan	-	15.9
UK	07.00	CPI M/M% (Y/Y%)	Feb	0.5 (9.7)	-0.6 (10.1)
	07.00	Core CPI Y/Y%	Feb	5.6	5.8
	07.00	PPI output prices M/M% (Y/Y%)	Feb	0.1 (12.4)	0.5 (13.5)
	07.00	PPI input prices M/M% (Y/Y%)	Feb	-0.2 (12.0)	-0.1 (14.1)
	11.00	CBI industrial trends, total orders (selling prices)	Mar	-15 (37)	-16 (40)

#### Auctions and events

Euro area	 08.45	The ECB and its Watchers conference – President Lagarde, Chief Economist Lane, and Panetta due to speak
	 11.30	ECB Board Member Rehn scheduled to speak – Lessons from Europe's Crises
Germany	 10.30	Auction: €5bn of 2.3% 2033 bonds
UK	 11.30	Auction: £3.5bn of 4.125% 2027 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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