

# Euro wrap-up

## Overview

- Despite stronger-than-expected German IP growth in January, Bunds made gains as the Green Party sought concessions from the CDU/CSU and SPD in return for its support for their proposed reforms to increase public borrowing.
- Gilts were little changed while a UK labour market survey signalled a further decline in job vacancies and the slowest wage growth in four years.
- The coming few days will bring the release of the ECB's wage trackers, euro area industrial production figures and UK retail and residential surveys.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.212	-0.025
OBL 2.4 04/30	2.492	-0.020
DBR 2½ 02/35	2.831	-0.002
UKT 4½ 01/27	4.187	-0.004
UKT 4½ 07/29	4.283	+0.004
UKT 4½ 07/34	4.644	+0.004

\*Change from close as at 4:30pm GMT.  
Source: Bloomberg

## Euro area

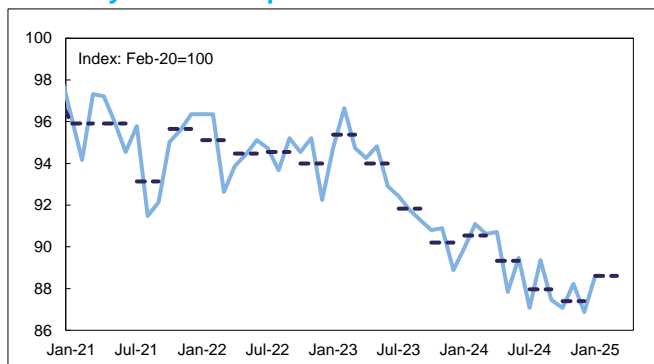
### German IP in January beats expectations

Today's German industrial production figures provided a positive surprise, suggesting some welcome stabilisation in activity in the sector at the start of the year. They also raised some tentative hopes that the German economy might avoid a successive quarterly contraction in Q1. In particular, industrial output rose 2.0%M/M in January, the most in five months. With the drop in December smaller than initially estimated (by 0.9ppt to -1.5%M/M), this left the level at its highest since August and some 1½% above the Q4 average. The recovery was driven by a partial rebound in autos (6.4%M/M), but offset by a drop in other transport equipment. Production of general machinery and equipment also rose for a second successive month (1.0%M/M) to a four-month high, while output from the food and beverage industry jumped to its highest since before the pandemic. Despite an increase in wholesale energy prices, production in energy-intensive industries – including chemicals, basic metals and paper – rose 3.4%M/M, the most in eleven months. And although energy production eased slightly in January (-0.4%M/M), it was still some 3½% above the Q4 average after a surge in November and December. Construction activity also rose (0.4%M/M) for a third consecutive month to its highest level since April. While this principally reflected a jump in civil engineering activity (2.0%M/M), the level of building work was still more than 1% above the Q4 average despite moderating at the start of the year.

### Soft demand likely to limit German manufacturing recovery

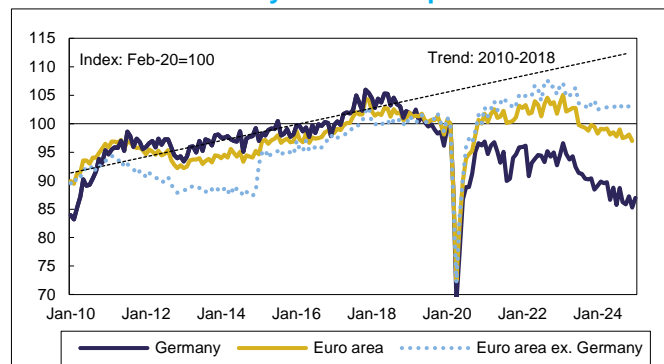
Notwithstanding the likelihood of an eventual boost from increased government-financed military and infrastructure spending, the near-term outlook for German manufacturing remains underwhelming. Friday's [factory orders](#) data reported a sharp fall in January and pointed to an ongoing absence of underlying demand. With no evidence of front-running ahead of possible new US 'reciprocal' tariffs, today's goods trade report suggested that export values declined in January (-2½%M/M) due to a notable drop in shipments within the euro area, partially reversing the jump at the end of 2024. Truck toll mileage – often a guide to factory output – disappointed in February with the steepest monthly drop (-2½%M/M) for more than two years. And according to Germany's auto industry association (VDA), car production also declined in February as new registrations continued to fall. But while new car orders remain relatively subdued, backlogs in certain other subsectors – including electrical and ICT equipment – remain well above pre-Covid-19 levels. And a recent uptick in demand for other transport equipment should support output over the near term. Despite uncertainty surrounding US tariffs, business surveys have signalled an improvement in sentiment since the start of the year, with the respective output components rising to a nine-month high in February. The new export orders PMI also jumped to the joint-highest level for almost three years. So, while we expect some payback in February for the strength at the start of the year and risks appear skewed to the downside, factory output should provide a modest boost to GDP growth in Q1 for the first quarter in two years.

### Germany: Industrial production\*



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area & Germany: Industrial production



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

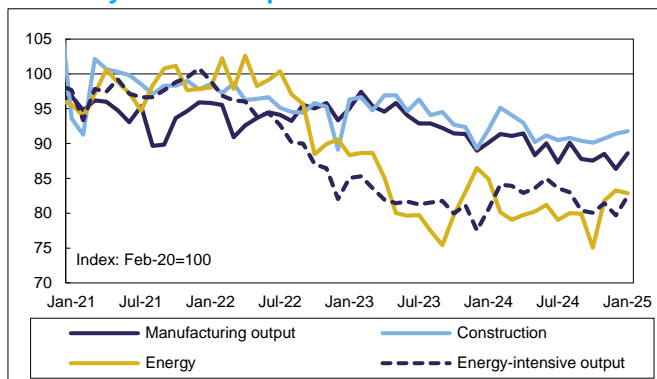
## As Greens prevaricate, prospect of German fiscal deal gives record boost to investor optimism

Following last week's major sell-off, Bunds were firmer today as investors started to question whether last week's agreement between the CDU/CSU and SPD to relax the constitutional debt brake might fail to find agreement from the Greens, whose MPs' votes will be required to pass the measures in parliament. We interpret the Greens' opposition to the current plan as a normal part of negotiations, as the party seeks to extract concessions in return for its eventual consent. And we still expect a deal eventually to be reached to facilitate a substantive fiscal easing over coming years. Optimism regarding the impact of last week's agreement was reflected in today's Sentix investor survey results, the first sentiment indicator to be released for March. The German current conditions index rose more than 10pts to an eight-month high, albeit remaining significantly in negative territory and a long way below the long-run average at -40.5. However, the indicator for investor expectations regarding the German six-month outlook jumped by more than 26pts – the biggest rise on the series – to 20.5, well in excess of one standard deviation above the long-run average and the highest since July 2021. Similarly, the euro area expectations index rose 17pts, the third biggest rise on the series, to 18.0, also above the long-run average and the best in 3½ years.

## The coming few days in the euro area

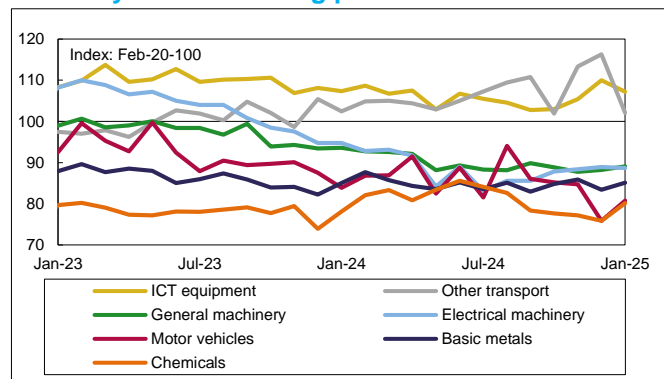
The strength of today's German IP rebound in January bodes well for the respective euro area figure, due to be published on Thursday. Admittedly, any increase in January will be dampened by declines in France (-0.6%M/M), Spain (-1.0%M/M) and Ireland, for which data also published today saw notable payback in January, down 3.9%M/M, following a bumper end to last year (8.0%M/M). Nonetheless, aggregate euro area IP likely picked up in January, in the region of 0.5%M/M, while backwards revisions to December's data may also downplay the extent of the decline that month. In an otherwise quiet few days for euro area data beforehand, the ECB's updated wage trackers on Wednesday will be of interest, owing to their relevance for policymakers' assessments of underlying inflationary pressures. These are likely to signal a steady moderation in pay growth from the second half of this year onwards. Aside from the data, ECB President Lagarde will give the keynote speech at the opening of the ECB Watchers conference in Frankfurt (also Wednesday). Her speech will almost certainly reiterate the ECB's non-committal stance with respect to future easing. Other Governing Council members – including Chief Economist Lane and Governors Nagel, Villeroy and Escriva are also due to speak throughout the conference.

### Germany: Industrial production



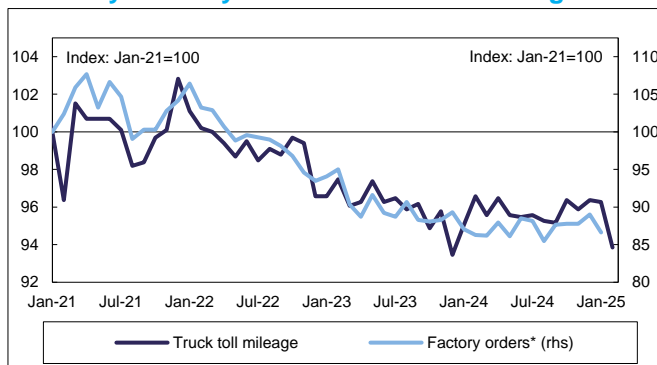
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Manufacturing production



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

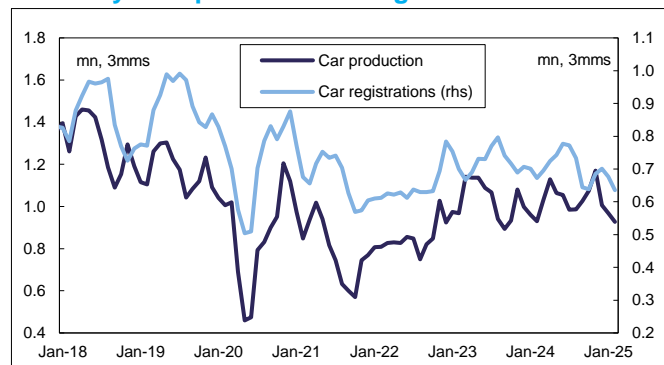
### Germany: Factory orders & truck toll mileage



\*Excluding major orders.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Car production & registrations

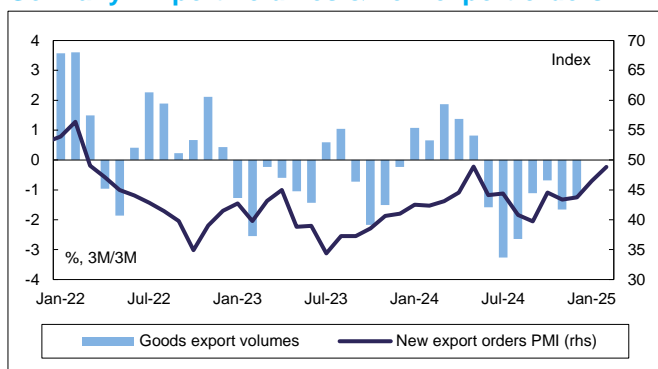


Source: VDA, Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming few days in the UK

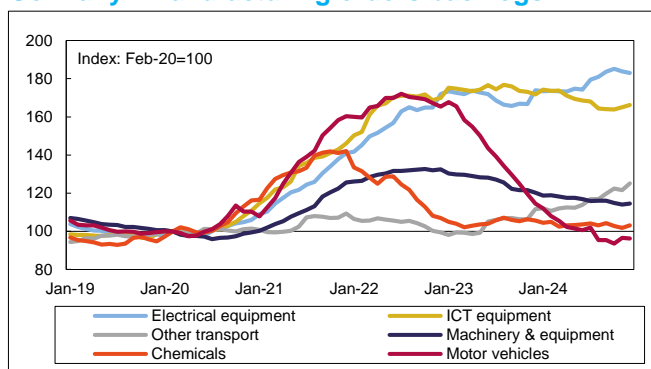
It should also be a relatively quiet couple of days for UK economic news. After today's REC Report on Jobs suggested that labour demand continued to decline and wage growth slowed to a four-year low in February, tomorrow's BRC retail monitor will likely suggest that sales weakened after the boost in January, echoing the downbeat CBI survey that month. And while changes to stamp duty land tax thresholds could offer a temporary boost to housing market activity before April's deadline, its effects on February's RICS housing market report (due Thursday) may be dampened by the impacts of heightened uncertainty and still elevated mortgage interest rates.

#### Germany: Export volumes & new export orders



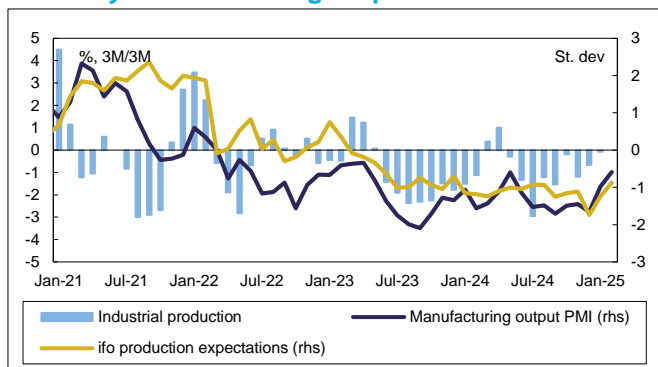
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### Germany: Manufacturing orders backlogs



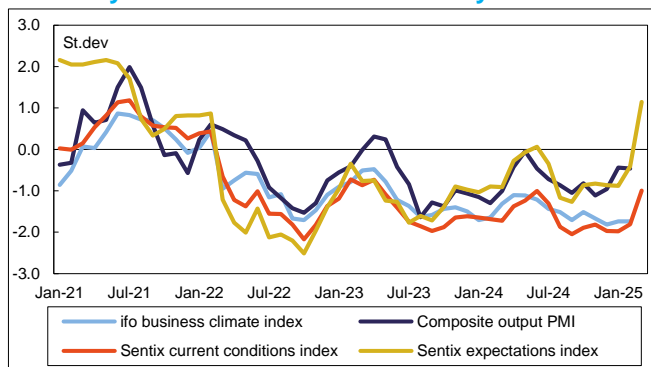
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Manufacturing output & sentiment indices



Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### Germany: Business & investor survey indices







Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**The next edition of the Euro wrap-up will be published on Thursday 13 March 2025**



## European calendar

### Today's results

Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Sentix investor confidence indicator	Mar	-2.9	-9.3	-12.7	-
Germany	 Industrial production M/M% (Y/Y%)	Jan	2.0 (-1.6)	1.5 (-2.8)	-2.4 (-3.1)	-1.5 (-2.2)
	 Trade balance €bn	Jan	16.0	19.9	20.7	-
Italy	 PPI Y/Y%	Jan	6.0	-	1.3	-
Auctions						
Country	Auction					
- Nothing to report -						






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tuesday's releases

Economic data						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
UK	 00.01	BRC retail sales monitor – like-for-like sales Y/Y%	Feb	2.0	2.5	
Auctions and events						
Germany	 10.30	Auction: to sell up to €4.5bn of 2.2% 2027 bonds				






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Wednesday's releases

Economic data						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Spain	 08.00	Retail sales Y/Y%	Jan	3.8	4.0	
Auctions and events						
Euro area	 08.45	ECB President Lagarde to introduce the ECB and Its Watchers conference, Frankfurt				
	 09.30	ECB wage tracker data to be published				
Germany	 10.30	Auction: to sell up to €4.5bn of 2.5% 2035 bonds				
UK	 10.00	Auction: to sell £4bn of 4.5% 2035 bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Thursday's releases

Economic data						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Euro area	 10.00	Industrial production M/M% (Y/Y%)	Jan	0.6 (-0.8)	-1.1 (-2.0)	
Italy	 09.00	Unemployment rate %	Q4	6.2	6.1	
UK	 00.01	RICS house price balance %	Feb	20	22	
Auctions and events						
Euro area	 17.30	ECB Governing Council members Nagel & Villeroy join panel discussion on European growth, Paris				
Italy	 10.00	Auction: to sell bonds*				

\*To be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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