

Euro wrap-up

Overview

- Amid significant risk aversion, Bunds rallied hard while German factory orders data suggested that German goods demand remains weak and French IP remained on course for a drop in Q1.
- Gilts also made further big gains on a quiet day for UK economic news.
- EU trade ministers will meet to discuss retaliation to Trump's tariffs on Monday while the coming week will also bring February data on euro area retail sales, German IP and trade, and UK GDP.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	1.809	-0.134
OBL 2.4 04/30	2.114	-0.115
DBR 2½ 02/35	2.564	-0.085
UKT 3% 03/27	3.921	-0.080
UKT 4% 03/30	4.012	-0.078
UKT 4½ 03/35	4.444	-0.079

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

Euro area

German new factory orders badly miss expectations to point to continued demand weakness

Ahead of Trump's announcements of autos and 'reciprocal' tariffs, sentiment in the German manufacturing sector had appeared to been turning gradually for the better. Indeed, survey indicators such as the PMIs suggested the first quarterly increase in production for a year in Q1. But the improved sentiment seemed more related to optimism regarding German fiscal policy and the prospect of future increases in government spending on infrastructure and defence than any material pickup in demand. And today's data underscored the continued weakness of new factory orders, which – contrary to expectations of a significant rebound – were merely unchanged in February following the sharp (albeit favourably revised) drop of 5.5% M/M at the start of the year. As a result, new orders were still at a six-month low at one of the weakest levels of the past dozen years outside of the initial Covid shock. They were also trending some 3½% lower in Q1 than in Q4, with domestic and foreign down at a similar rate.

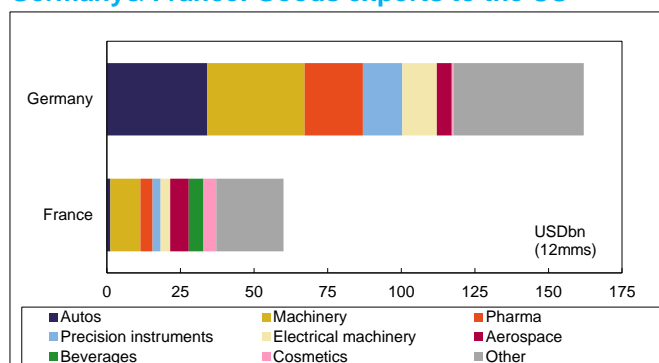
Decline in core orders less marked & manufacturing production still on track for Q1 gain

German factory orders data are highly volatile and often distorted by bulk orders or major one-offs. But adjusting for such large-scale items, core goods orders were still down marginally in February at a five-month low. Not least given payback in shipbuilding, core orders were also trending ½% below the Q4 level. Elsewhere within the detail, new orders in high-profile sectors such as autos and chemicals were trending down more than 1½% in the first two months of Q1. Demand for machinery and equipment was also slightly lower on the same basis. So, underlying demand for German goods certainly remains soft. Manufacturing turnover was also fairly limp in February, falling 0.2% M/M after a drop of 1.0% M/M at the start of the year. We note that the turnover figure failed to provide a useful guide to manufacturing production in January, which jumped 2.6% M/M that month. While we brace for negative payback in February for that spurt at the start of the year, a drop in production of around 1.5% M/M would still leave German factory output on course for positive growth of some ½% over Q1 as a whole.

While somewhat less exposed to the US, French IP on track for Q1 dip as mood darkens

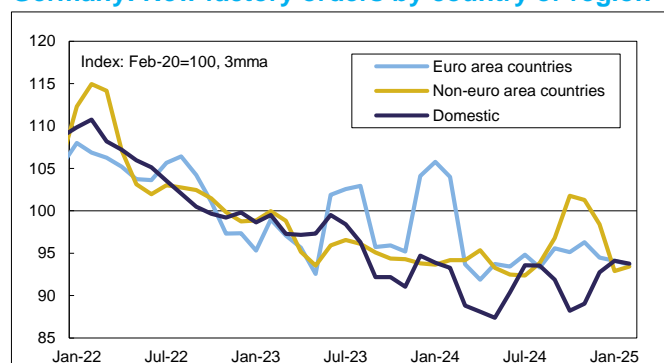
Unlike German factory output, French industrial production was already on track for a second successive quarterly contraction before the Trump tariff shock. That, however, reflects significant negative carry-over from the end of Q4 and a soft January. And the broad trend in French manufacturing output over the past couple of years has been flat. Factory production in February rebounded 1.4% M/M – the most in 21 months – to a five-month high. All major categories – capital, intermediate and consumer durables and non-durables – posted respectable growth that month. But over the first two

Germany& France: Goods exports to the US



Source: Macrobond, US Census Bureau and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders by country or region



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

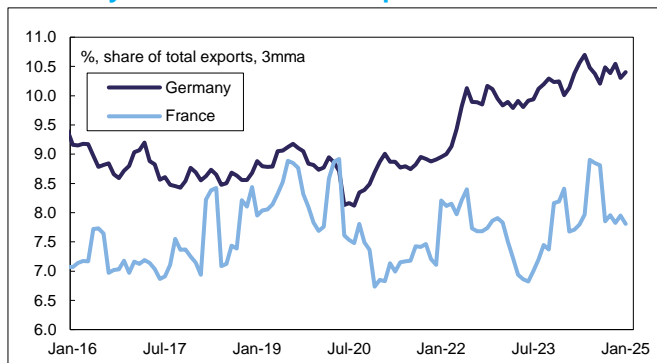
months of Q1, overall manufacturing output was still trending 0.4% below the Q4 average. And in part due to a more downbeat assessment of order books, but likely also due to events in the US, survey indicators point to a deterioration in mood in March. Indeed, the INSEE manufacturing business climate index dropped last month some 4% below the long-run average with producers of food products, beverages and autos reporting a notable darkening in outlook. It is perhaps only cold comfort for French industry that the US demand accounts for a smaller share of exports (by more than 3ppts) and smaller share of GDP (by more than 2ppts) than its German counterpart.

The week ahead in the euro area

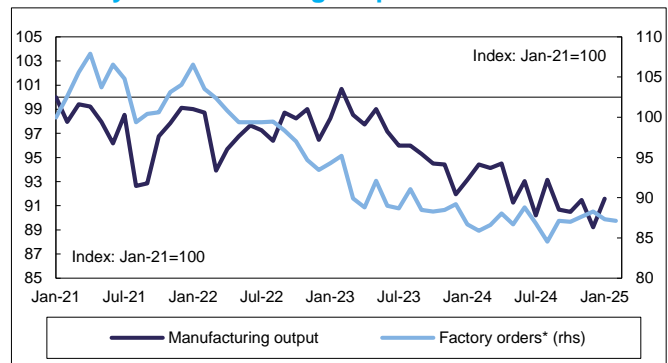
With the implementation of US reciprocal tariffs penciled in for Wednesday, the primary focus in the coming week will remain tied to the news-cycle regarding protectionist measures, including potential EU retaliatory actions as well as possible extension of tariffs to the as-yet spared pharmaceuticals sector. A meeting of trade ministers will be held on Monday to coordinate the EU response to the new US tariffs. Increased tariffs on symbolic US goods imports (for example, on consumer brands, alcohol and motorcycles) and measures aimed at US digital services will be on the table. In addition, the deployment of the EU's anti-coercion instrument would seemingly permit the use of measures relating to intellectual property rights, foreign direct investment access, and public procurement from US companies.

Against that backdrop, next week's dataflow will play second fiddle. April's Sentix investor confidence indicator (Monday) might be expected to reverse much, if not all, of its German fiscal-led 10pt resurgence last month. Following today's disappointing factory orders data, and contrasting improvements in France and Spain, we expect German IP (Monday) to decline about 1½%M/M in part due to payback for the firm outturn at the start of the year (2.0%M/M). That may continue to weigh on German trade data (also Monday), after January's trade balance narrowed to a three-month low (€16.0bn). Both German and French (Tuesday) trade data will be watched for evidence of exporters front-running US tariffs. But the official US data this week failed to note a distinguishable pick up in imports from the euro area in February beyond another outsized shipment of Irish chemicals. Meanwhile, despite softening at the start of the year, we expect euro area retail sales in February (Monday) to rebound, consistent with the rising sales reported in Germany, France and Italy that month. January's service sector output (Monday) will – cumulatively with earlier releases for industrial (0.2%M/M) and construction (0.8%M/M) output in that month – provide a more comprehensive picture of Q1 GDP growth prospects in the euro area. The end of the week will bring final estimates for German and Spanish HICP inflation in March (both Friday), which should align with their flash estimates. In both cases, these surprised notably to the downside (down 0.3ppts to 2.3%Y/Y, and 0.7ppts to 2.2%Y/Y respectively) owing in part to ongoing moderation in services inflation.

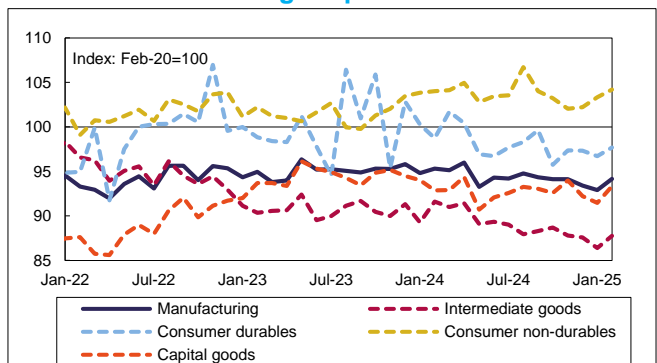
Germany & France: Goods exports to the US



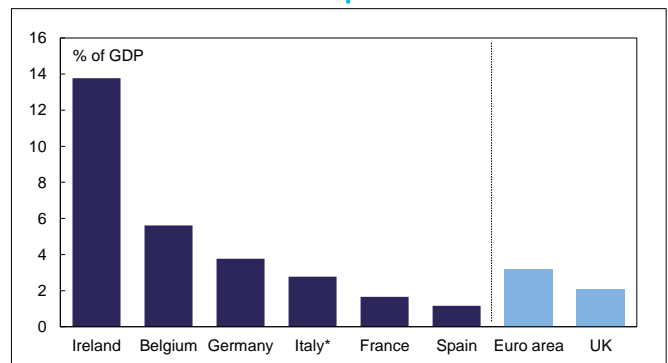
Germany: Manufacturing output & new orders



France: Manufacturing output













Euro area & UK: Goods exports as % of GDP



The week ahead in the UK

Notwithstanding any news flow regarding potential UK retaliatory trade measures in response to US tariffs, which would be far more modest in scope than measures being prepared by the EU, it should be a particularly quiet start to the coming week in the UK. The main event with regards to UK economic data will be February's monthly GDP report (Friday). Given the extent of December's expansion (0.4%M/M), the decline in GDP at the start of the year (-0.1%M/M) came as little surprise. Indeed, consumer and business sentiment indicators, including the PMIs, had been particularly subdued through January. But while they also flagged a lack of growth momentum in February, retail sales surprised to the upside in that month. And having been preceded by two weather-affected monthly contractions, we also expect to see a positive contribution from construction. Hard data have also, thus far, proved relatively resilient when compared to the weakness in survey indicators. So, we expect a marginal expansion in GDP in February, of 0.1%M/M. And that could push growth on a three-monthly basis to 0.4%3M/3M, the strongest since June. We also view the prospects for growth in March as positive. Certainly, the uptick in the services PMIs last month marked a departure from recent stagnation in the sector. And more favourable weather conditions – last month being the sunniest March for 96 years – should give a particular boost to consumer-facing services, not least hospitality. Nevertheless, we suspect that March's RICS survey (Thursday) may flag some weakening of housing market activity just ahead of this month's changes to stamp duty tax thresholds. And aside from the dataflow, comments from BoE Deputy Governors Lombardelli and Breeden, respectively with regards to UK productivity and financial stability, might also be of interest.
















European calendar

Today's results							
Economic data							
Country		Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area		Construction PMI	Mar	44.8	-	42.7	-
Germany		Factory orders M/M% (Y/Y%)	Feb	0.0 (-0.2)	3.4 (1.5)	-7.0 (-2.6)	-5.5 (0.1)
		Construction PMI	Mar	40.3	-	41.2	-
France		Industrial production M/M% (Y/Y%)	Feb	0.7 (-0.4)	0.5 (-1.3)	-0.6 (-1.6)	-0.5 (-1.2)
		Construction PMI	Mar	43.8	-	39.8	-
Italy		Retail sales M/M% (Y/Y%)	Feb	0.1 (-1.5)	-	-0.4 (0.9)	-
		Construction PMI	Mar	52.4	-	48.2	-
Spain		Industrial production M/M% (Y/Y%)	Feb	0.7 (-1.9)	-	-1.0 (-1.0)	-1.2 (-1.2)
UK		Construction PMI	Mar	46.4	46.3	44.6	-
		New car registrations Y/Y%	Mar	12.4	-	-1.0	-
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.











The coming week's data calendar

The coming week's key data releases

Country		BST	Release	Period	Market consensus/ <i>Daiwa forecast/Actual</i>	Previous
Monday 7 April 2025						
Euro area		09.30	Sentix investor confidence indicator	Apr	-9.0	-2.9
		10.00	Retail sales M/M% (Y/Y%)	Feb	0.5 (1.9)	-0.3 (1.5)
		10.00	Services production M/M% (Y/Y%)	Jan	-	
Germany		07.00	Industrial production M/M% (Y/Y%)	Feb	-1.0 (-3.6)	2.0 (-1.6)
		07.00	Trade balance €bn	Feb	18.5	16.0
Tuesday 8 April 2025						
France		07.45	Trade balance €bn	Feb	-	-6.5
Wednesday 9 April 2025						
- Nothing scheduled -						
Thursday 10 April 2025						
Italy		09.00	Industrial production M/M% (Y/Y%)	Feb	-1.0 (-1.7)	3.2 (-0.6)
UK		00.01	RICS house price balance %	Mar	9	11
Friday 11 April 2025						
Germany		07.00	Final HICP (CPI) Y/Y%	Mar	<u>2.3 (2.2)</u>	2.6 (2.3)
Spain		08.00	Final HICP (CPI) Y/Y%	Mar	<u>2.2 (2.3)</u>	2.9 (3.0)
UK		07.00	Monthly GDP M/M% (3M/3M%)	Feb	<u>0.1 (0.4)</u>	-0.1 (0.2)
		07.00	Services output M/M% (3M/3M%)	Feb	0.1 (0.5)	0.1 (0.4)
		07.00	Industrial output M/M% (Y/Y%)	Feb	0.1 (-2.3)	-0.9 (-1.5)
		07.00	Construction output M/M% (Y/Y%)	Feb	0.2 (1.7)	-0.2 (0.2)
		07.00	Trade (goods trade) balance £bn	Feb	-1.4 (-17.9)	-0.6 (-17.8)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 7 March 2025		
- Nothing scheduled -		
Tuesday 8 April 2025		
Germany		10.30 Auction: to sell up to €3bn of 0% 2035 green bonds
UK		10.00 Auction: to sell £2.25bn of 4.375% 2054 bonds
		17.00 BoE Deputy Governor Lombardelli participates in Resolution Foundation panel on productivity, London
Wednesday 9 April 2025		
Euro area		08.35 DnB President & Governing Council member Knot participates in fireside chat at Bruegel conference, Amsterdam
UK		10.00 Auction: to sell £4.5bn of 4.375% 2030 bonds
Thursday 10 April 2025		
Spain		09.30 Auction: to sell 3.5% 2029, 2.55% 2032, and 3.15% 2035 bonds
UK		10.00 Auction: to sell £3.25bn of 4.375% 2040 bonds
		14.00 BoE Deputy Governor Breeden participates in MNI virtual event on UK economic and financial stability prospects, London
Friday 11 April 2025		
Italy		10.00 Auction: to sell bonds*
UK		00.01 REC, KPMG & S&P Global UK Report on Jobs for March

*Details to be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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