

# Euro wrap-up

## Overview

- Longer-dated Bunds made losses but shorter-dated Bunds made gains as the EU sought new trade negotiations with the US but left open the possibility of retaliatory action against Trump's 'reciprocal' tariffs.
- Gilts made big losses while the UK government insisted it would stand by its fiscal rules and responded to Trump's tariff threat by easing regulations.
- While the news flow will remain on trade policies, the coming few days will bring February figures for French trade, Italian and Irish industrial production and a UK housing market survey.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	1.771	-0.047
OBL 2.4 04/30	2.107	-0.018
DBR 2½ 02/35	2.608	+0.035
UKT 3¾ 03/27	3.981	+0.059
UKT 4¾ 03/30	4.130	+0.115
UKT 4½ 03/35	4.613	+0.163

\*Change from close as at 5.00pm BST.

Source: Bloomberg

## Euro area

### Euro area investor sentiment slumps as Trump tariffs darken the outlook

While the relaxation of Germany's debt brake to allow for a boost to spending on military and infrastructure gave a temporary boost to investor and business confidence, Trump's tariff executive orders have wiped out the improvement. Given the immediate hit to market valuations, last week's announcements were unsurprisingly reflected in today's Sentix investor survey results, the first sentiment indicators to be released for April. Indeed, the survey's headline euro area index slumped 16.7pts – the second-steepest monthly drop on the series behind the collapse in March 2022 after Russia's invasion of Ukraine – to -19.5, more than fully reversing the increase last month. As with the improvement in March, the deterioration this month related to investor expectations for the coming six months, with the respective index down some 34pts to the lowest level since October 2023. The German expectations index also more than fully reversed the rise in March, falling to a seven-month low. And while the German current conditions index edged up to a nine-month high, this was still well below the long-run average and a reading that Sentix considers to be recessionary.

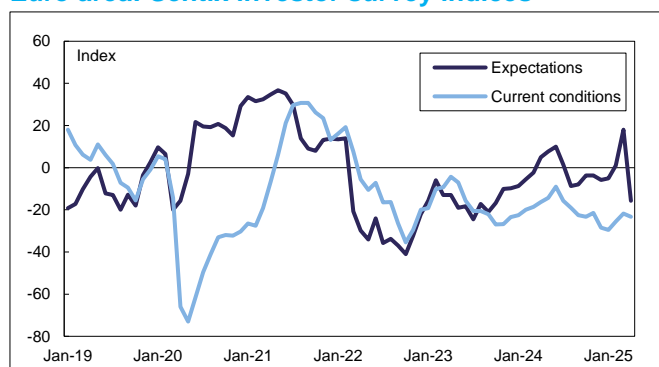
### German IP fell in February but still on track to boost GDP growth in Q1

Despite the improvement in business sentiment ahead of Trump's reciprocal tariff announcements, today's data illustrated the persistent softness of demand, with output declining 1.3%M/M in February to return close to the 4½-year low reached in December. Thankfully, given the 2.0%M/M rebound at the start of the year, this still left output trending some 0.7% above the Q4 average, to suggest that the industrial sector will contribute positively to German GDP growth in Q1 for the first quarter in two years. The detail of today's report suggested that the weakness in overall IP principally reflected a decline in construction activity (-3.2%M/M). But given the near-4% cumulative rise over the previous three months, output in the sector was still trending in January and February more than 1½% higher than in Q4. Within manufacturing, production fell a more modest 0.6%M/M in February, with steep falls in the food and pharmaceuticals subsectors reflecting payback for strong increases at the turn of the year. These were partially offset by a rise in ICT equipment, electrical and general machinery. But production of autos, which account for the largest share of German exports to the US, eased slightly in February to be trending broadly sideways in the first two months of 2025.

### German exports in February boosted by shipments to the US

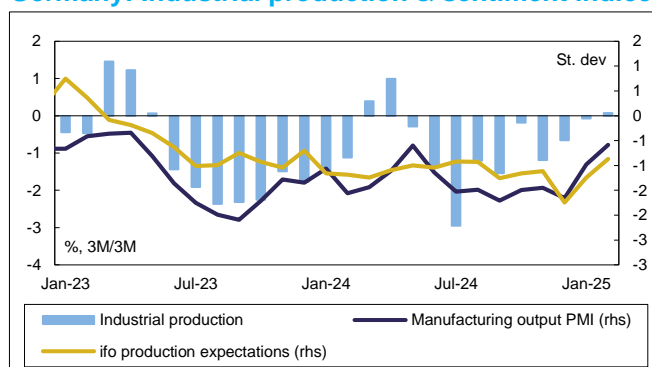
Admittedly, the latest German auto association (VDA) figures signalled some recovery in March, with car production up 9%Y/Y, while car exports rose the most in two years that month. And today's German goods trade figures for February showed some hints of front-loading of shipments in certain other sectors too. Overall, the value of exports rose 1.8%M/M to a

### Euro area: Sentix investor survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Industrial production & sentiment indices



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

ten-month high, to be trending so far in Q1 almost 2% higher than in Q4. Among the largest exporters, there was double-digit growth in the first two months of Q1 in shipments of iron and steel, plastics and mineral fuels, as well as solid growth in pharmaceutical products. While the detailed commodity breakdown by destination will be published with a lag, total exports to the US rose 8.5%M/M in February to a near-2½ year high suggesting some front-loading of shipments ahead of the imposition of tariffs. Total imports were up a more modest 0.7%M/M in February, allowing the Germany trade surplus to widen slightly by €1.5bn to €17.7bn. And while this followed a marked rise at the start of the year (5.0%M/M), we think that net trade made a positive contribution to German GDP growth in Q1 for the first quarter in four.

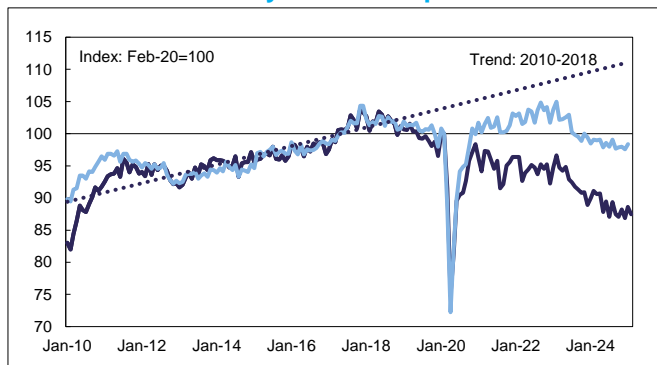
### Retail sales return to growth, while services production also rose at the start of the year

Today's euro area retail sales figures signalled a return to growth in February (0.3%M/M) for the first month in five. Within the detail, food store sales rose for a second successive month (0.3%M/M), while core sales (i.e. non-food & fuel) also returned to growth (0.3%M/M). But this merely left total retail sales in the first two months of Q1 just 0.1% higher than in Q4. Among the larger member states the monthly increase in February was stronger in Germany (0.7%M/M) and Spain (1.3%M/M), but softer in France (0.2%M/M) while sales fell in Italy (-0.1%M/M) and the Netherlands (-1.4%M/M). And with consumer confidence having deteriorated in March to an eleven-month low, we suspect that retail sales might well fall back at the end of Q1. Of course, the weakness in consumption of goods will likely in part be offset by increased expenditure on services. In this respect, services production was encouraging in January, rising 0.4%M/M. Real estate activity (1.7%M/M) was seemingly supported by the recent recovery in the housing market, and transportation and storage (0.4%M/M), information and communications (0.5%M/M) and hospitality (0.1%M/M) also posted modest gains.

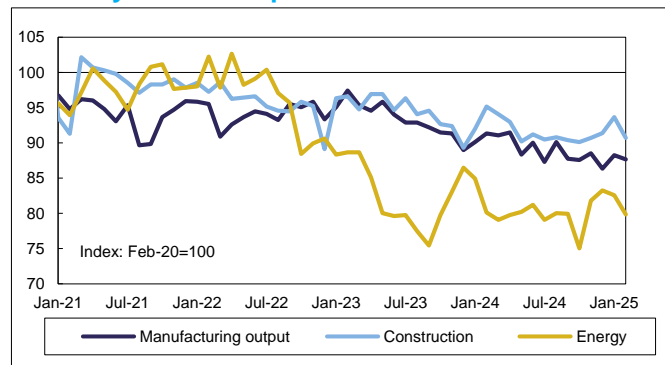
### The coming few days ahead in the euro area

With European officials continuing to weigh up their response to the US 'reciprocal' tariffs, which are due to take effect on Wednesday, we expect trade news to continue to dominate the narrative this week. Certainly, the minimal economic data due over coming days will be of secondary importance. As with today's German release, French trade data for February (Tuesday) will be monitored for any temporary boost to exports to the US ahead of tariff hikes. Meanwhile, February's industrial production figures from Italy (Thursday) and Ireland (Tuesday), the latter of which are often volatile and have a non-negligible impact on euro area IP, are also scheduled for release.

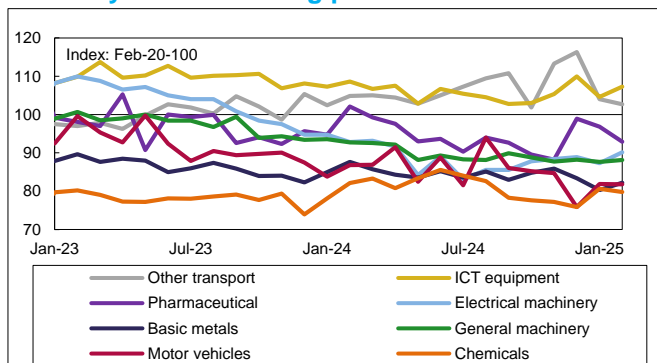
#### Euro area & Germany: Industrial production



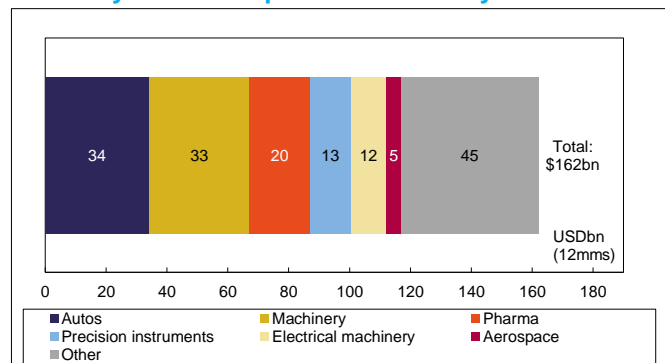
#### Germany: Industrial production



#### Germany: Manufacturing production



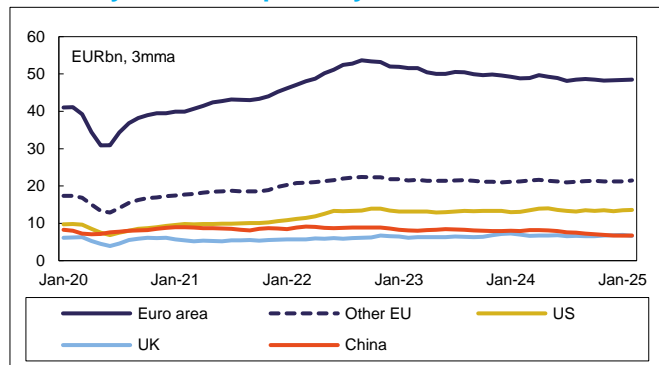
#### Germany: Goods exports to the US by sector



## The coming few days in the UK

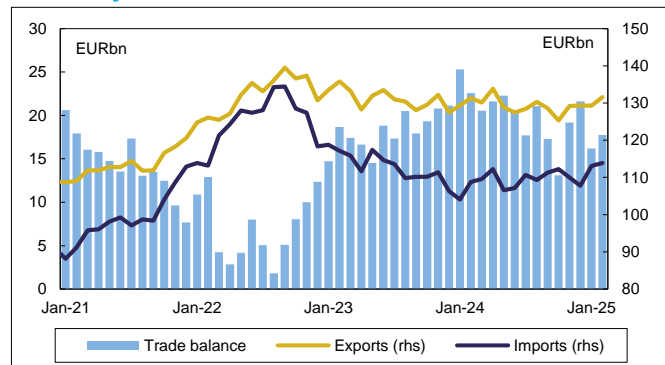
With February's monthly GDP figures not scheduled until Friday (see last week's [Euro wrap-up](#) for our preview), the UK dataflow over the coming few days will remain particularly thin. The RICS residential survey for March (Thursday) will mark the sole data release over the coming three days. Consistent with the decline (-0.5%M/M) reported by today's Halifax house price index, we expect the RICS survey to signal weaker housing market activity in the run up to April's stamp duty changes. Otherwise, comments from BoE Deputy Governors Lombardelli (Tuesday) and Breeden (Thursday) – on the respective topics of UK productivity and financial stability – might also be of interest.

### Germany: Goods exports by destination



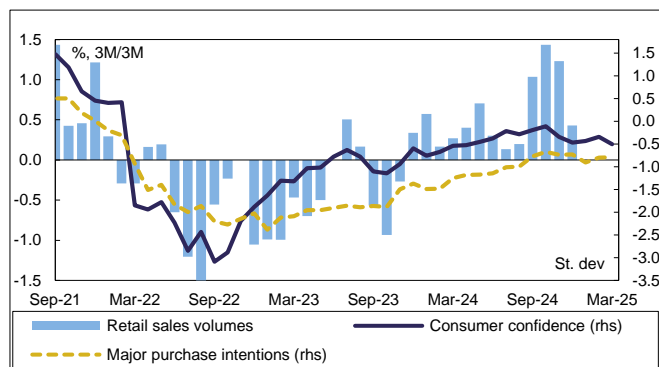
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Goods trade balance



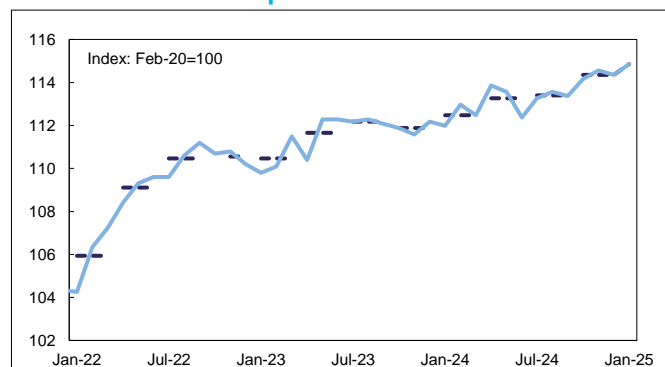
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Retail sales & consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Services production\*



\*Dashed lines show quarterly averages.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on Thursday 10 April 2025

# European calendar

## Today's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Retail sales M/M% (Y/Y%)	Feb	<b>0.3 (2.3)</b>	0.5 (1.9)	-0.3 (1.5)	0.0 (1.8)
	Services production M/M% (Y/Y%)	Jan	<b>0.4 (2.9)</b>	-	-0.2 (1.7)	-
	Sentix investor confidence indicator	Apr	<b>-19.5</b>	-9.0	-2.9	-
Germany	Industrial production M/M% (Y/Y%)	Feb	<b>-1.3 (-4.0)</b>	-1.0 (-3.6)	2.0 (-1.6)	-
	Trade balance €bn	Feb	<b>17.7</b>	18.5	16.0	16.2

### Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tuesday's releases

### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
France	07.45	Trade balance €bn	Feb	-	-6.5

### Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Wednesday's releases

### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
- Nothing scheduled -					

### Auctions and events

Euro area	08.35	DnB President & Governing Council member Knot participates in fireside chat at a Bruegel conference
UK	10.00	Auction: to sell £4.5bn of 4.375% 2030 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Thursday's releases

### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Italy	09.00	Industrial production M/M% (Y/Y%)	Feb	-1.0 (-1.5)	3.2 (-0.6)
UK	00.01	RICS house price balance %	Mar	8	11

### Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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