

Euro wrap-up

Overview

- Bunds made big gains, with 10Y yields falling into negative territory, as the flash euro area PMIs suggested a further weakening of economic activity.
- Gilts also made significant gains as the UK Government's intentions for the next Brexit votes in Parliament remained unclear.
- The coming will see attention in the UK remain firmly on Brexit while further economic surveys and the flash estimates of inflation in March are due in the euro area.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.582	-0.015
OBL 0 04/24	-0.399	-0.036
DBR 0¼ 02/29	-0.015	-0.056
UKT 1½ 01/21	0.659	-0.041
UKT 1 04/24	0.782	-0.044
UKT 1½ 10/28	1.014	-0.051

*Change from close as at 5.00pm GMT.
Source: Bloomberg

Euro area

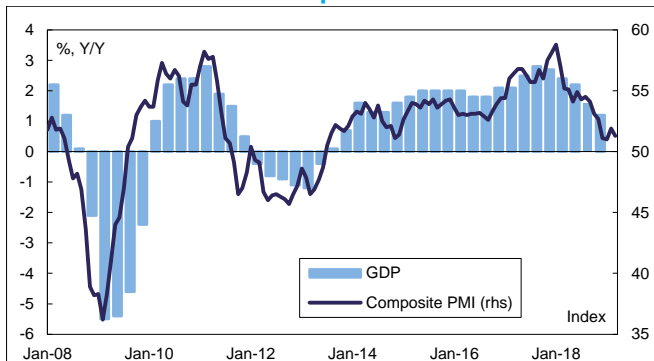
Flash PMIs point to further weakening of growth

Core euro area government bonds rallied – with 10Y Bund yields falling below zero for the first time since June 2016 – and equities went into retreat, as today's flash March PMIs seriously disappointed expectations. In particular, the euro area manufacturing PMI plunged 1.7pts to 47.6, the lowest since April 2013, suggesting that the contraction in the sector has deepened. The key manufacturing survey components all declined significantly, with those for output and new orders firmly below the neutral level of 50. And with the services PMI down a fraction to 52.7, the euro area composite PMI fell 0.6pt to 51.3, just a touch above the multi-year lows reached at the turn of the year. That left the Q1 average at just 51.4, the lowest quarterly reading since Q313 and consistent with GDP growth of just 0.1%Q/Q. Looking to the future, the quarterly average of the composite new orders index dipped below 50 suggesting that the euro area economy might be unlikely to regain momentum in the near term. The PMIs provided a relatively accurate guide to euro area GDP growth in the final quarter of last year, and so the weakening in Q1 certainly raises concerns. However, we note that the picture painted by certain other major sentiment surveys, such as the European Commission ESI, has not been quite so bleak so far this year.

Germany and France struggle at the end of Q1

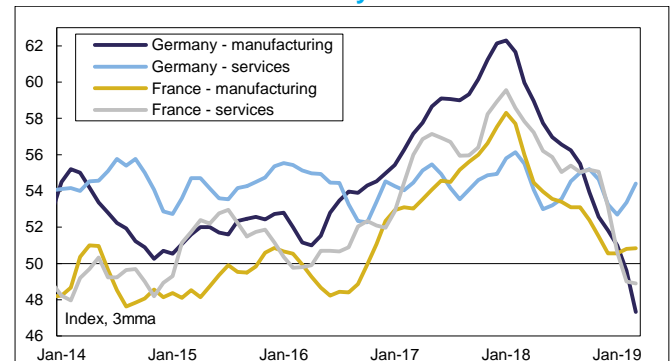
At the country level, the flash PMIs pointed to deterioration in both Germany and France. In the former, the manufacturing PMI dropped almost 3.0pts to only 44.7, a level unseen since 2012. All the details were very disappointing, but new orders stood out. Having at the end of 2017 risen above 64, the manufacturing new orders index plunged to just 40.1, a new post-financial-crisis low. The message from the German services PMI was somewhat more reassuring, with the headline index declining by 0.4pt to 54.9. But the results from both sectors combined left Germany's composite PMI at 51.5, the lowest since June 2013, suggesting another quarter of minimal growth in the euro area's largest member state in Q1. The French figures were also very disappointing with the composite PMI plummeting to 48.7, returning close to the levels seen at the turn of the year when the Gilets Jaunes protests took their toll. The French manufacturing PMI declined by 1.7pts to 49.8, only the second reading below 50 in more than two and a half years, while the services PMI dropped by a similar amount to a very weak 48.7. All in all, therefore, the PMIs were troubling.

Euro area: GDP and composite PMI



Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: PMIs in Germany and France



Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.



The week ahead in the euro area and US

The coming week in the euro area will be a busy one for economic data, dominated by March sentiment surveys, including the Commission's business and consumer sentiment surveys on Thursday, and preliminary national inflation figures for the same month. While the Commission's flash consumer confidence indicator this week signalled a modest improvement, today's PMIs pointed to a deterioration in business sentiment. So, we do not expect an overall improvement in the headline ESI, and the average index in Q1 will remain well down on Q4, suggesting subdued GDP growth this quarter. Other euro area data include bank lending figures for February, which are also due on Thursday.

Turning to the national releases, the first half of the week will bring various sentiment surveys, including the German Ifo (Monday); German GfK consumer confidence and French INSEE business survey (Tuesday); and French INSEE consumer confidence and Italian ISTAT economic surveys (Wednesday). The back end of the week will also bring preliminary March inflation numbers from Germany and Spain (Thursday), as well as France and Italy (Friday). Among other releases, final Q4 GDP data from France, Spain and the Netherlands are due, along with German labour market and French consumer spending figures. Elsewhere, various Governing Council members, including President Draghi and Chief Economist Praet will speak at the annual ECB watchers' conference on Wednesday. In the markets, Germany will sell 2Y bonds on Tuesday and 10Y bonds on Wednesday, while Italy will sell fixed-rate and index-linked bonds on Tuesday.

In the US, it will be a relatively low-key start to the week, with just the latest Chicago Fed national activity and Dallas Fed manufacturing indices due on Monday. The following day brings the Conference Board's consumer survey for March, housing starts and permits data for February, and the S&P/CoreLogic house price index for January. The full trade balance for January will be released on Wednesday while the 'final' estimate of Q4 GDP growth and the February pending home sales report will be the focus on Thursday. On Friday we will receive personal spending data for January, along with the core PCE deflator for that month (personal income data for February will also be released). That day will also bring new home sales data for February, the final results of the University of Michigan's consumer survey for March and the Chicago PMI for March. In the bond market the US Treasury will auction 2-year notes on Tuesday, 2-year FRNs and 5-year notes on Wednesday and 7-year notes on Thursday.

UK

A pivotal week for Brexit lies ahead

After last night's decision by EU leaders to extend the Article 50 deadline to avoid a no-deal Brexit on 29 March, the coming week could well be pivotal. If the House of Commons approves the Withdrawal Agreement, Brexit Day will be put back to 22 May and the UK will likely leave the EU and enter a transition from that day. But if, as seems more likely, the Withdrawal Agreement is not approved, the Article 50 extension will initially be brought forward to 12 April – the date at which the UK would need to set legislation if it is to participate in May's European Parliament elections – with the UK by then having to indicate a clear alternative way forward for EU leaders to consider. That, of course, could in due course trigger a further longer extension. And, in reality, all possible Brexit scenarios (from a hard no-deal Brexit to a soft Brexit to no Brexit at all) are still on the table.

At the time of writing, the likely timetable for events in Parliament in the coming week was unclear. If the House of Commons Speaker allows it to go ahead – perhaps on Tuesday – we strongly doubt that Theresa May would win a majority outright in favour of her deal to qualify for the 22 May deadline. We would not, however, rule out the possibility that the deal be passed subject to confirmation by a second referendum later in the year.
















If May's deal is rejected once again, we would still expect an alternative path for Brexit to be found. The House of Commons on Monday looks set to vote on a variant of the 'Cooper-Letwin' proposal, narrowly defeated last week, to allow MPs to launch a new process of indicative votes on a full range of different Brexit scenarios (perhaps as soon as Wednesday) to try to find agreement on a new compromise. At the same time, a report from Sky News today suggested that the Government itself intended to run such a process of indicative votes in coming days whereby MPs would be able to express their support for up to seven options – the PM's deal and variants thereof including a Customs Union and Single Market participation, Article 50 revocation, a second referendum, or no deal – to try to find a resolution to the current impasse. On balance, the probability of finding a majority in favour of any one particular option would seem to be less than 50%, although we would attach the greatest likelihood of success to the softer Brexit scenarios.

But rejection of a third meaningful vote and the launch of such a process of indicative votes – whether instigated by Parliament or Government – would represent a significant humiliation for Theresa May. While she might try to fight on, given her total lack of authority within Cabinet, Party and Parliament, as well as among EU leaders, we therefore see a significant probability that her term as Prime Minister will end in the coming week. But the consequences of such a step would also be unpredictable, with uncertainty whether Conservative MPs would be able to rally around an alternative PM, or if a General Election would be triggered, or indeed a Government of National Unity eventually formed to see through the process of indicative votes.

The week ahead in the UK









Beyond the aforementioned Brexit drama, the most notable economic data release in the coming week's UK calendar is the final estimate of Q4 GDP, which is due on Friday. There is little chance of a revision to the preliminary estimates of 0.2%Q/Q of 1.3%Y/Y growth and the figures will probably confirm that public and private consumption was the main driver, while investment and trade provided negative contributions. Data so far this quarter suggest that consumption has remained the main source of growth at the start of this year, while business investment and net trade has remained a drag. And following the upside surprises to this week's employment and retail sales figures, we now think that GDP growth will remain unchanged in Q1 at 0.2%Q/Q. Beyond the national accounts, economic sentiment surveys will provide more up-to-date information in the coming week about where the economy is heading. Most notably, the GfK survey for March, also out at the end of the week, will be worth watching for any clues about how consumers are reacting to the turbulent political events. The CBI Distributive Trades survey, due Wednesday, will provide similar information, bringing the latest update on consumer spending on the High Street this month. More clues about that and momentum in the housing market will come from BoE lending data, out at the end of the week. Supply-wise, the DMO will issue 20Y linkers on Tuesday.

Daiwa economic forecasts

		2018		2019				2020		2018	2019	2020
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
GDP forecasts %, Q/Q												
Euro area		0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	1.8	1.0	1.0
Germany		-0.2	0.0	0.2	0.3	0.3	0.3	0.3	0.3	1.4	0.8	1.2
France		0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	1.5	1.1	0.9
Italy		-0.1	-0.1	0.1	0.2	0.1	0.2	0.1	0.2	0.8	0.1	0.5
Spain		0.6	0.7	0.5	0.4	0.4	0.4	0.4	0.4	2.5	2.0	1.7
UK		0.6	0.2	0.2	0.1	0.4	0.3	0.3	0.3	1.4	1.1	1.1
Inflation forecasts %, Y/Y												
Euro area												
Headline CPI		2.1	1.9	1.5	1.4	1.2	1.2	1.5	1.4	1.8	1.3	1.4
Core CPI		1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.0	1.1	1.2
UK												
Headline CPI		2.5	2.3	1.9	1.9	1.8	1.8	2.0	1.9	2.5	1.8	1.9
Core CPI		2.0	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.1	1.9	1.9
Monetary policy												
ECB												
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
Net asset purchases*		30	15	0	0	0	0	0	0	15	0	0
BoE												
Bank Rate %		0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Net asset purchases**		0	0	0	0	0	0	0	0	0	0	0

































*Monthly target €bn, end of period. **Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE 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	
EMU	 Current account balance €bn	Jan	36.8	-	16.2	-	
	 Preliminary manufacturing PMI	Mar	47.6	49.5	49.3	-	
	 Preliminary services PMI (composite PMI)	Mar	52.7 (51.3)	52.7 (52.0)	52.8 (51.9)	-	
Germany	 Preliminary manufacturing PMI	Mar	44.7	48.0	47.6	-	
	 Preliminary services PMI (composite PMI)	Mar	54.9 (51.5)	54.8 (52.8)	55.3 (52.8)	-	
France	 Preliminary manufacturing PMI	Mar	49.8	51.4	51.5	-	
	 Preliminary services PMI (composite PMI)	Mar	48.7 (48.7)	50.6 (50.7)	50.2 (50.4)	-	
Italy	 Current account balance €bn	Jan	0.0	-	4.2	4.4	
Auctions and events							
Country	Auction						
- Nothing to report -							

















Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

Key data releases						
Country		GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 25 March 2019						
Germany		09:00	Ifo business climate index	Mar	98.7	98.5
		09:00	Ifo current assessment balance (expectations)	Mar	103.0 (94.0)	103.4 (93.8)
Spain		08:00	PPI M/M% (Y/Y%)	Feb	-	0.2 (1.8)
Tuesday 26 March 2019						
Germany		07:00	GfK Consumer confidence indicator	Apr	10.8	10.8
France		07:45	Business sentiment indicator	Mar	103	103
		07:45	Manufacturing confidence (production outlook) indicator	Mar	103 (-6)	103 (-5)
		07:45	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.3 (0.9)</u>	0.3 (1.3)
UK		09:30	UK Finance mortgage approvals 000's	Feb	39.6	40.6
Wednesday 27 March 2019						
France		07:45	Consumer confidence indicator	Mar	96	95
Italy		09:00	Consumer confidence indicator	Mar	112.5	112.4
		09:00	Manufacturing confidence indicator	Mar	101.3	101.7
		09:00	Economic sentiment indicator	Mar		98.3
UK		11:00	CBI distributive trades survey, total retail sales	Mar	5	0
Thursday 28 March 2019						
EMU		09:00	M3 money supply Y/Y%	Feb	3.9	3.8
		10:00	Final consumer confidence indicator	Mar	-7.2	-7.4
		10:00	Economic sentiment indicator	Mar	105.9	106.1
		10:00	Services (industrial) confidence	Mar	12.0 (-0.6)	12.1 (-0.4)
Germany		13:00	Preliminary EU-harmonised CPI Y/Y%	Mar	1.6	1.7
Spain		08:00	Preliminary EU-harmonised CPI Y/Y%	Mar	1.6	1.1
Friday 29 March 2019						
Germany		08:55	Unemployment change 000s (rate %)	Mar	-10 (4.9)	-21 (5.0)
France		07:45	Preliminary EU-harmonised CPI Y/Y%	Mar	1.4	1.6
		07:45	Consumer spending M/M% (Y/Y%)	Feb	0.2 (-1.2)	1.2 (1.0)
Italy		10:00	Preliminary EU-harmonised CPI Y/Y%	Mar	1.0	1.1
Spain		08:00	Retail sales Y/Y%	Feb	1.0	0.8
		08:00	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.7 (2.4)</u>	0.6 (2.4)
		09:00	Current account balance €bn	Jan	-	4.7
UK		00:01	Lloyds business barometer	Mar	-	4
		00:01	GfK consumer confidence indicator	Mar	-14	-13
		09:30	Net consumer credit (net mortgage lending) £bn	Feb	0.9 (3.7)	1.1 (3.7)
		09:30	Mortgage approvals (000's)	Feb	65.0	66.8
		09:30	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.2 (1.3)</u>	0.6 (1.6)
		09:30	Current account balance £bn	Q4	-22.9	-26.5

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country	GMT	Event / Auction	
Monday 25 March 2019			
EMU		09:15	ECB's Costa scheduled to speak in Lisbon
		09:30	ECB's Coeure scheduled to speak in Lisbon
Tuesday 26 March 2019			
Germany		10:30	Auction: to sell €4bn of 0% 2021 bonds (12-Mar-2021)
Italy		10:00	Auction: to sell up to €2bn of 2020 zero bonds (27-Nov-2020)
		10:00	Auction: to sell €1bn of 1.3% 2028 index-linked bonds (15-May-2028)
UK		10:30	Auction: to sell £325mn of 0.125% 2048 index-linked bonds (10-Aug-2048)
		11:00	BoE's Broadbent scheduled to speak in London
Wednesday 27 March 2019			
EMU		08:00	ECB's President Draghi scheduled to speak in Frankfurt
		08:45	ECB's Praet scheduled to speak in Frankfurt
		10:45	ECB's De Guindos scheduled to speak in Frankfurt
		13:30	ECB's Mersch scheduled to speak in Frankfurt
		17:30	ECB's Villeroy de Galhau scheduled to speak in Geneva
Germany		10:30	Auction: to sell €3bn of 0.25% 2029 bonds (15-Feb-2029)
Thursday 28 March 2019			
EMU		12:40	ECB's Villeroy de Galhau scheduled to speak in Paris
Italy		10:00	Auction: to sell bonds
Friday 29 March 2019			
EMU		09:45	ECB's Coeure scheduled to speak in Paris

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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