

# Euro wrap-up

## Overview

- Bunds made modest gains at the longer end of the curve as the German ifo business survey provided a more positive impression of business conditions than Friday's flash PMIs.
- Gilts made gains as Theresa May clung on to her job as PM but still failed to find support for her Brexit deal at the start of a key week in Parliament.
- Tuesday will bring further economic survey results from Germany and France while Brexit uncertainty will continue to dominate in the UK.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.582	-0.002
OBL 0 04/24	-0.399	+0.002
DBR 0¼ 02/29	-0.028	-0.012
UKT 1½ 01/21	0.639	-0.015
UKT 1 04/24	0.759	-0.018
UKT 1½ 10/28	0.986	-0.027

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

## Euro area

### Ifo survey not quite as dire as Germany's flash PMIs

On Friday, global markets were rocked by the flash German PMIs for March, which suggested a notable weakening in economic activity at the end of Q1. In particular, the manufacturing PMI fell the most in six months to the lowest since August 2012 and a level suggestive of ongoing marked contraction in the sector, while the services index was also down to leave the composite PMI at its weakest since June 2013. However, today's German ifo business survey was not so downbeat. Certainly, like the PMIs, the ifo indices suggested further deterioration in manufacturing, with a notable worsening in perceptions of the outlook for the sector to the worst since November 2012. But, according to this survey, other sectors – services, construction and particularly retailers – were more optimistic this month.

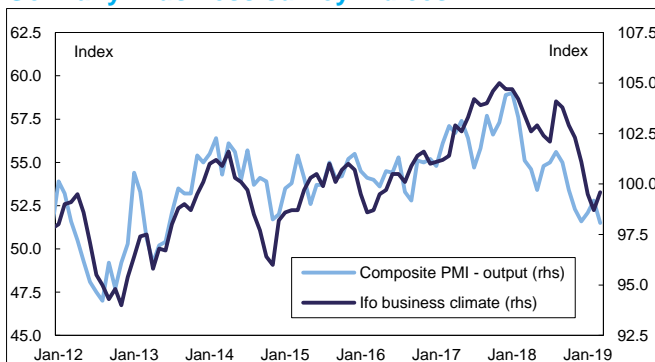
As a result, having declined in each of the previous six months, the headline ifo Business Climate Index rose 0.9pt in March to a three-month high of 99.6, with firms slightly more content about current conditions and significantly more upbeat about the outlook for the coming six months. Given this result, the ifo Institute concluded that "the German economy is showing resilience". However, we note that the average headline index for Q1 of 99.3 was almost 3pts lower than in Q4 and indeed the weakest since Q116. As a result, we have nudged down our forecast for German GDP growth in Q1 to 0.1%Q/Q, and our forecast for full-year growth in 2019 to just 0.6%Y/Y, which would represent the weakest since 2013.

### The day ahead in the euro area and US

Tuesday will bring further sentiment survey results with the latest German GfK consumer confidence indices and French INSEE business confidence indices due. Also out are the final French national accounts for Q4, which seem highly likely to confirm GDP growth of 0.3%Q/Q and 0.9%Y/Y. In the bond markets, Germany will sell 2Y bonds while Italy will sell short-dated zero-coupon bonds and 2028 index-linked bonds.

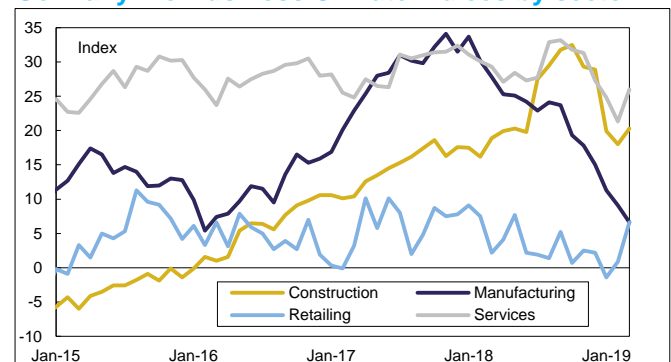
In the US, Tuesday will bring the Conference Board consumer confidence survey for March. In addition, a raft of housing market data are due, including February housing starts and building permits data, and the January FHFA and S&P CoreLogic price indices. In addition, the Treasury will sell 2Y notes.

### Germany: Business survey indices



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Germany: Ifo Business Climate Indices by sector



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



## UK

### **Brexit timetable for coming days still up in the air**

After last week's humiliation at the EU Summit and extraordinarily ill-judged public statement attacking MPs, it was no surprise that the past weekend brought intense speculation about Theresa May's future as Prime Minister. The denials of interest in succeeding her as leader by the ministers considered most likely to do so were unconvincing. And May's term as Prime Minister is certainly now hanging by a thread. Moreover, she still appears to have come up with no new strategy to implement Brexit, simply keeping her fingers crossed that a majority in favour of her deal might eventually be found. Addressing the House of Commons today, however, she seemingly acknowledged that she was still unable to find that majority of MPs willing to back her deal – indeed the Northern Irish DUP, many Tory Brexiters and the vast majority of Labour MPs remain strongly opposed – so the timing of the third meaningful vote, which would need to be held this week and see the Withdrawal Agreement approved if the UK is to leave the EU on 22 May, was still up in the air.




### **Soft Brexit or Second Referendum most likely scenarios**

At the time of writing, MPs looked set this evening to vote on – and probably approve – a variant of the 'Cooper-Letwin' proposal to allow them to hold a new series of indicative votes on a full range of Brexit scenarios on Wednesday. However, the Prime Minister refused to commit to implementing any particular proposal emerging from that process – such as a softer Brexit – that might find majority support. And her Deputy appeared set to propose a different process of indicative votes this week to try to keep control of the process. So, the path ahead in this pivotal week for Brexit still looked unclear. At this stage, however, we would strongly expect a longer extension of the Article 50 deadline in due course to be agreed with the EU before 12 April. Indeed, we attach a probability of little more than 10% that May's deal will be approved unconditionally this week to allow Brexit to happen on 22 May. More likely is that May's deal will be eventually confirmed only subject to a second referendum (approximately 30%). And we attach an even higher probability (about 35% or more) that MPs will eventually endorse a softer Brexit. Other possible scenarios are a General Election (about 20% probability) and a no-deal Brexit on 12 April, which we see as highly unlikely (probability of less than 5%).










### **The day ahead in the UK**

Brexit will continue to dominate in the UK on Tuesday although Theresa May seems unlikely be able to hold her third Parliamentary meaningful vote (MV3) then. Meanwhile, it will be another quiet day for economic data from the UK with no top-tier releases due. In the bond market, the DMO will sell 30Y index-linked Gilts.

## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Ifo business climate index	Mar	<b>99.6</b>	98.5	98.5	<b>98.7</b>
	 Ifo current assessment balance (expectations)	Mar	<b>103.8 (95.6)</b>	102.9 (94.0)	103.4 (93.8)	<b>103.6 (94.0)</b>
Spain	 PPI M/M% (Y/Y%)	Feb	<b>0.2 (1.9)</b>	-	0.2 (1.8)	<b>0.1 (1.7)</b>
Auctions and events						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases						
Economic data						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
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 (-5)	103 (-5)	
	 07:45	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.3 (0.9)</u>	0.3 (1.3)	
Auctions and events						
Country	GMT	Auction / Event				
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				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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