

# Euro wrap-up

## Overview

- As concerns about the coronavirus roiled global markets and Germany's ifo business survey disappointed expectations, Bunds made significant gains. BTPs outperformed on the weekend's Italian regional election results.
- While UK mortgage approval data surprised on the upside, Gilts also rallied.
- The coming two days will bring January surveys of UK retail activity (Tuesday), German consumer confidence and Italian economic sentiment (Wednesday) as well as the latest euro area bank lending data (also Wednesday).

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### Daily bond market movements

Bond	Yield	Change
BKO 0 12/21	-0.640	-0.019
OBL 0 10/24	-0.628	-0.036
DBR 0 02/30	-0.385	-0.048
UKT 3¼ 09/21	0.408	-0.017
UKT 1 04/24	0.350	-0.040
UKT 0% 10/29	0.511	-0.053

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

## Euro area

### Ifo disappoints as expectations soften

Friday's [flash German PMIs](#) surprised on the upside, reporting improvements in manufacturing and services activity to push the composite index to its highest since August. But today's ifo business survey for January disappointed. Admittedly, the current conditions index improved for a third successive month, rising to a six-month high (up 0.3pt to 99.1). But the survey's assessment of the outlook for the coming six months fell for the first time since September (down a larger 1.0pt to 92.9). So, contrary to the consensus expectation of a rise to a seven-month high, the headline business climate index fell 0.4pt to 95.9, below the average last year.

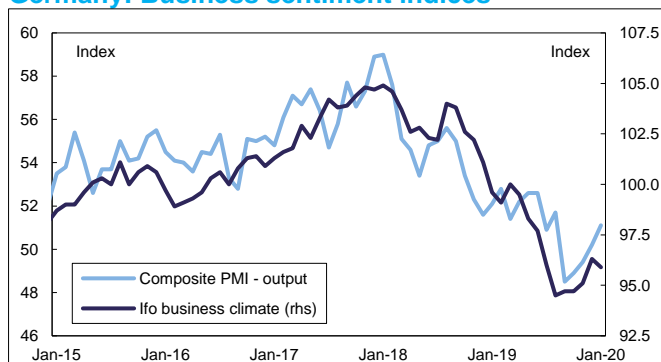
### Manufacturing improves but other sectors signal deterioration

The detailed findings were mixed. On the plus side, the survey provided further evidence of improvement in the manufacturing sector. With the sector's current conditions index rising to a six-month high and expectations for the coming six months the most positive (or strictly speaking, the least negative) for eleven months, the ifo manufacturing climate index rose the most since February 2017 to the highest level since June. On the minus side, however, reflecting renewed caution about the outlook, the business climate for services fell the most in a year, reversing its rise in December. In addition, retailers were the most downbeat since October. And construction firms' assessment of current conditions was the least favourable since June 2018, with their expectation for the outlook the weakest in more than five years. With the survey having largely been conducted before China's coronavirus outbreak gained a media profile, we would expect next month's survey to report a further increased caution about the outlook too. And, overall, despite the differences, on balance we judge the findings from today's survey and Friday's flash PMIs to be consistent with our German GDP forecast of growth of 0.2%Q/Q in Q120 following a broadly flat quarter in Q419.

### BTPs rally after Sardines scupper Salvini hopes

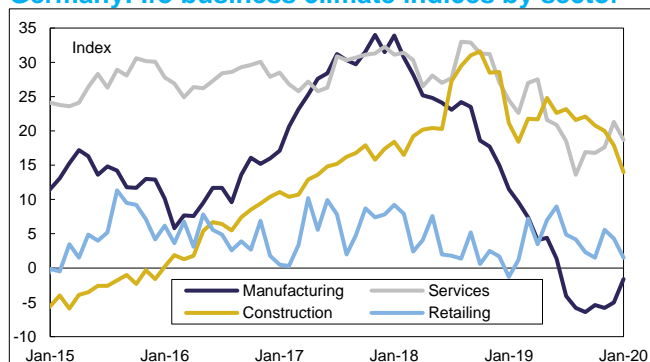
As concerns about the impact of China's coronavirus mounted, all euro area government bonds made significant gains today. But most striking was the significant outperformance of BTPs, as investors responded positively to domestic Italian news, specifically the result of yesterday's regional election in Emilia Romagna. Opinion polls had suggested that the populist nationalist League of Matteo Salvini was neck-and-neck with the centre-left Democrats (PD), which had governed the region for more than seventy years and also, of course, is in coalition in the national government with the Five Star Movement (M5S). But in the Emilia-Romagna election, the PD won comfortably, taking more than 51% of the vote, 7.5ppts above the share taken by the League. That partly reflected a successful campaign by the anti-nationalist Sardines movement

### Germany: Business sentiment indices



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

### Germany: Ifo business climate indices by sector



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



to rally the vote against Salvini and the League. Indeed, with the ballot seemingly turned into a referendum on the League's suitability for government, turnout near-doubled from the previous election. The result suggests that Salvini's party could struggle to win certain other forthcoming regional elections, such as that in neighbouring Tuscany. Indeed, the election in the smaller region of Calabria saw the candidate of Berlusconi's Forza Italia win more than 55% of the vote, a reminder that the League is not even the leading right-wing party in certain other parts of Italy.

### Five Star in free-fall

The weekend's results, however, were certainly bad news for M5S. Having last week seen its national [party leader resign](#), M5S failed to win a double-digit share in either election. That highlighted the dramatic deterioration in fortunes for the party since the 2018 general election, when it won about one third vote of the vote nationwide. Nevertheless, given the confirmation of such a dramatic loss of support, M5S would now not dare provoke a collapse of the national coalition government for the foreseeable future. And with PD likely to hope that the Sardines movement can gain further momentum over coming months, it too seems unwilling to want an early general election. So, we continue to expect the national coalition government to remain in office at least through to the autumn, and quite possibly beyond.

### The coming two days in the euro area and US

Tuesday should be very quiet for economic news from the euro area with no new top-tier data due. Wednesday will bring euro area bank lending figures for December along with further national economic surveys, including the German GfK consumer sentiment indices and ISTAT Italian economic sentiment indices. Italy will sell short-dated zero-coupon and inflation-linked bonds on Tuesday while Germany will sell 5Y Bunds on Wednesday. Bank of France President Villeroy de Galhau and ECB Chief Economist Lane will speak publicly on Tuesday.

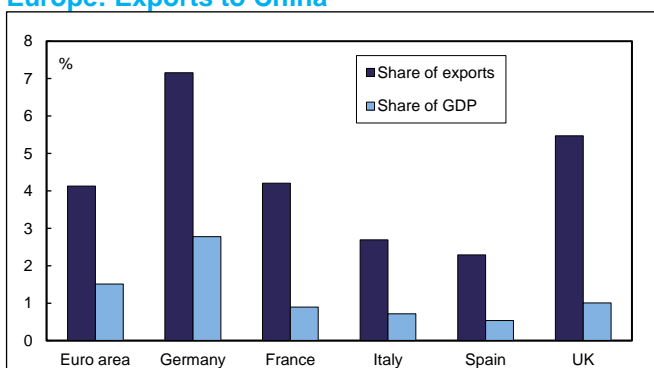
The main event of the coming two days, of course, will be the conclusion of the FOMC meeting on Wednesday. The Fed Funds Rate target range is bound to be left unchanged at 1.50-1.75%. However, the Fed might nudge slightly higher the interest rate on required and excess reserves from the current level of 1.55% to push the Fed Funds Rate back to the middle of the target range. And the Fed will also probably provide more information on its balance sheet policy, including updated plans for bill purchases and repurchase operations. Data-wise in the US, Tuesday will bring preliminary figures for durable goods orders in December as well as the Conference Board's consumer confidence survey for January and the S&P CoreLogic Case Shiller house price indices for November. Wednesday will bring the advanced goods trade report for December along with inventories figures for the same month. The Treasury will sell 2Y FRNs and 7Y Notes on Tuesday.

## UK

### Mortgage approvals at highest since mid-2015

After the upside surprises in the January [flash PMIs](#) and [CBI industrial trends](#) surveys last week, today's UK Finance figures similarly suggested that the case for a near-term BoE rate cut was far from clear-cut. In particular, the UK's major high street banks reported a notable increase in mortgage approvals in December, up by 2.8k, the most since April 2015, to 46.8k, the highest level since August 2015. That left the total number of mortgages approved in 2019 almost 7½% higher than in 2018. This release also suggested that the recent uptrend in the value of mortgage lending by the major high street banks was maintained in December, rising to 3.3%Y/Y. Today's UK Finance figures followed a number of other indicators, including a pick-up in house price inflation and a more upbeat [RICS house price survey](#), suggesting somewhat firmer momentum in the residential property market in the New Year. And we expect to see a surge in foreign buyers completing purchases ahead of the 11 March Budget, when Chancellor Javid is expected to announce a 3ppt increase in the rate of stamp duty paid by non-UK residents. After that, however, the trend is likely to be more subdued, particularly as uncertainty surrounding the nature of the UK's future relationship with the EU seems likely to grow.

### Europe: Exports to China



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### UK: Mortgage lending and approvals



\*Figures include loans for house purchase, remortgaging and other secured lending. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Today's figures also suggested that personal borrowing from the major high street banks jumped at the end of 2019, by 14%Y/Y. However, this was flattered by exceptionally weak demand in December 2018. Meanwhile, the UK Finance measure of spending on credit cards was more than 7% higher than a year earlier, although repayments continued to offset new expenditure to leave the level of borrowing on cards up just 2½%Y/Y, maintaining the downward trend from the peak above 6½% in late-2018. And BoE figures for total borrowing – on mortgages and consumer credit – have been weaker than the UK Finance figures for the major high street banks some time.

### The coming two days in the UK




Tuesday will bring the CBI's Distributive Trades Survey for January, which will give an indication of the strength of retail spending at the start of the year. A slight pickup in the survey measure of sales growth is expected. Wednesday will bring the BRC shop price survey for Wednesday, which is likely to highlight intense competition on the High Street. The Nationwide house price indices for January are also due. The DMO will sell 10Y Gilts on Tuesday.

*In the absence of significant news, the next edition of the Euro wrap-up will be published on 29 January 2020*

## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Ifo business climate index	Jan	<b>95.9</b>	97.0	96.3	-
	 Ifo current assessment balance (expectations)	Jan	<b>99.1 (92.9)</b>	99.2 (94.9)	98.8 (93.8)	- <b>(93.9)</b>
UK	 UK Finance loans for housing £bn	Dec	<b>46.8</b>	43.9	43.7	<b>44.0</b>


#### Auctions

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
UK	 11.00	CBI distributive trades survey, reported sales	Jan	5	0







#### Auctions and events

Country	GMT	Auction / Event
Euro area	 16.00	ECB Economist Lane to participate in panel discussion on 'Fiscal rules in Europe'
Italy	 10.00	Auction: €2bn of 2021 0% bonds
	 10.00	Auction: 0.1% 2023 index-linked bonds
UK	 10.30	Auction: 0.875% 2029 bonds


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Wednesday's data releases

### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU 	09.00	M3 money supply Y/Y%	Dec	5.5	5.6
Germany 	07.00	GfK consumer confidence indicator	Feb	9.6	9.6
France 	07.45	Consumer confidence indicator	Jan	102	102
Italy 	09.00	Economic sentiment indicator	Jan	-	100.7
	09.00	Consumer confidence indicator (manufacturing)	Jan	110.5 (99.4)	110.8 (99.1)
Spain 	08.00	Retail sales Y/Y%	Dec	-	2.9
UK 	00.01	BRC shop price index Y/Y%	Jan	-	-0.4
	07.00	Nationwide house price index M/M% (Y/Y%)	Jan	0.2 (1.5)	0.1 (1.4)

### Auctions and events

Country	GMT	Auction / Event
Germany 	10.30	Auction: €4bn of 2025 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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