

Euro wrap-up

Overview

- Bunds made significant gains but BTPs made losses after EU leaders failed to agree a new pandemic crisis support initiative.
- Gilts made gains while Prime Minister Johnson and his Health Secretary fell ill with Covid-19.
- The coming week will bring further top-tier European economic survey results, along with German and Spanish jobless claims and flash euro area inflation data, all for March.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.738	-0.063
OBL 0 04/25	-0.660	-0.094
DBR 0 02/30	-0.485	-0.116
UKT 0½ 07/22	0.087	-0.019
UKT 0% 06/25	0.184	-0.035
UKT 4% 12/30	0.340	-0.051

*Change from close as at 4:00pm GMT.
Source: Bloomberg

Euro area

Leaders reach stalemate on crisis response

Split into two camps, EU leaders reached a stalemate at last night's videoconference in terms of how to respond to the economic costs of the Covid-19 crisis. Macron, Conte, Sanchez and like-minded leaders insisted that the common external shock of Covid-19 merits large-scale issuance of common longer-dated 'coronabonds'. But Merkel and Rutte in particular still refuse to countenance such action, insisting that the ESM's €410bn lending capacity should suffice to allow member states to fund their new support packages. Euro area finance ministers have been given two weeks to find a compromise solution for pandemic crisis support. But the leaders provided them with little guidance. And with more than 10000 deaths from the virus across the euro area over the past week alone, if leaders can't find the solidarity to issue common bonds in the current circumstances it's hard to see them ever doing so. However, while yields on BTPs rose today, the losses were modest compared with yesterday's rally. And Italy's government will continue to prepare further fiscal support at least as large as its initial €25bn package. Indeed, the massive support offered by the ECB's PEPP purchases has allowed it to schedule in the coming week its biggest auctions of longer-dated bonds and floating-rate notes so far this year.

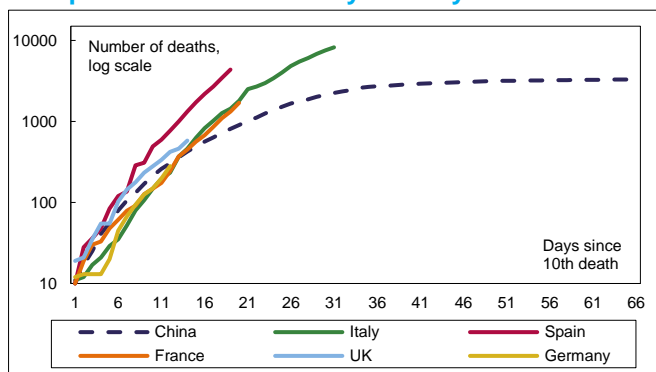
Italian sentiment deteriorates at record pace

Of course, Italy remains globally the country worst affected by Covid-19, with the number of fatalities having today risen by 919, the most in any day so far, to 9,134. And at this stage, among the euro area member states, the economic impact of the crisis similarly looks set to be the most grave in Italy. After initial controls in the North, the government enacted a nationwide lockdown from March 9, with the restrictions set to remain in place at least until 3 April, and extension to 31 July possible. Having been conducted largely in the first two weeks of the month, therefore, today's ISTAT survey results were unable to capture fully the impact of the outbreak on sentiment. Nevertheless, the indices for consumer and business confidence dropped the most on the series. Deteriorations were similarly marked among services firms, manufacturers and retailers, but less so among construction firms. Overall, however, sentiment in all categories remained above the troughs reached during the euro crisis and its aftermath. So, we expect to see a further marked deterioration in next month's survey, probably to series lows.

French sentiment not adequately reflected in INSEE survey

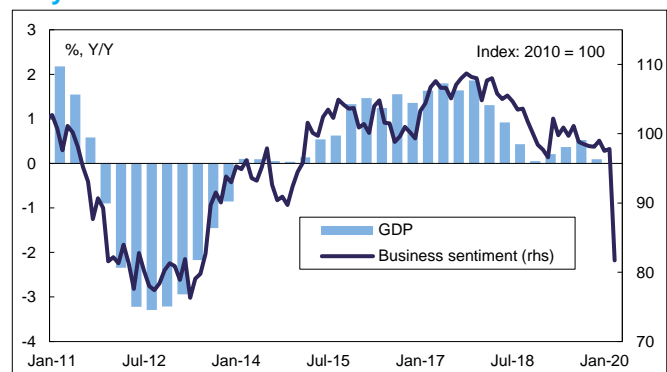
Like the ISTAT survey, the French INSEE consumer confidence survey was conducted largely before the escalation of the Covid-19 outbreak across the euro area's second largest member state, which yesterday had seen the number of fatalities reach almost 1,700. So, the headline confidence index, which fell just 1pt to 103, still well above the long-run average,

Europe: Covid-19 deaths by country



Source: WHO and Daiwa Capital Markets Europe Ltd.

Italy: Business sentiment and GDP



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



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should be taken with a pinch of salt. Nevertheless, the detail of the report did imply rising concerns about the near-term outlook. For example, the survey's future economic outlook indicator fell sharply to a fifteen-month low and concerns about future unemployment rose to the highest for eleven months. As such, the share of households assessing it to be an appropriate time to make major purchases fell to its lowest for a year to a level below the long-run average. And with the crisis having seriously intensified since the survey was conducted, and the country now on lockdown, next month's survey seems bound to present a seriously depressed picture.

The coming week in the euro area and US

Sentiment surveys will continue to dominate the euro area data flow in the coming week, with Monday kicking off with a noteworthy release, the Commission's Economic Sentiment Index (ESI). This often provides the most accurate guide to euro area economic activity. However, as with today's INSEE and ISTAT surveys, the information reflected in the Commission survey will to some extent be out of date given the continued escalation of the Covid-19 outbreak over the past week or so. Nevertheless, while the flash consumer confidence indicator in March remained significantly higher than level seen during the euro crisis, the monthly drop was still the largest since the series began since 1990. And we expect this index to have been revised lower. Moreover, in line with the marked deterioration in the flash PMIs, business confidence (particularly services) looks set to have fallen at a record rate too – indeed, the headline ESI is forecast to decline more than 10pts to its lowest since the euro crisis. The final manufacturing and services PMIs (Wednesday and Friday respectively) also seem likely to be revised down from the already very weak flash estimates, which saw the manufacturing output PMI drop 9pts to 39.5 and the services PMI slump more than 24pts to 28.4, leaving the composite at a record low of 31.4.

Friday will also bring euro area retail sales figures for February, while Wednesday will bring euro area unemployment figures for the same month, both of which might well show some initial signs of weakening. German and Spanish labour market figures for March (Tuesday and Thursday respectively) will likely be more closely watched, although the former should provide support from the government's short-term working subsidies (Kurzarbeitsgeld). Finally, the euro area's flash CPI estimate for March (Tuesday) seems bound to show a notable drop in headline inflation on the back of the weaker oil price, with an anticipated decline of ½ppt to 0.7%Y/Y matching the three-year low hit in October. Core inflation, however, is expected to move sideways at 1.2%Y/Y.

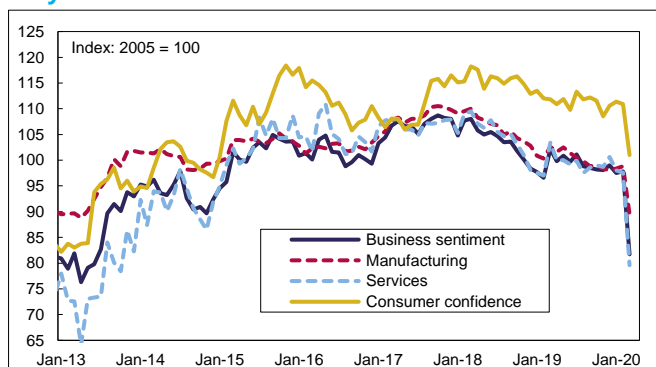
In the US, after yesterday's shocking weekly initial jobless claims figures (3.283mn, totaling roughly 2% of the labour force), all eyes in the coming week will be on the various labour market releases, including Friday's non-farm payrolls report. Expectations are for a marked decline this month for the first time since 2010, although the extent of the drop will be tempered by the reference period, which is the week containing the 12 March. So, the April payroll data to be released in early May will provide a clearer indication of the impact of Covid-19 on the labour market and Thursday's weekly jobless claims figures will again be watched particularly closely. The coming week will also bring several US sentiment surveys of note, including the Conference Board's consumer confidence indices (Tuesday), and manufacturing and non-manufacturing ISM indicators (Wednesday and Friday respectively). The final manufacturing and services PMIs are also due the same days. The past week's flash estimates showed a marked decline in the headline services PMI by more than 10pts to 39.1, while the manufacturing output PMI fell 3pts to 47.6. And with the coronavirus crisis having intensified over the past week, we would expect these declines to be even steeper in the final release. Other releases due from the US include February pending home sales figures (Monday), construction spending data and vehicle sales numbers (Tuesday), trade and factory orders data (Thursday).

UK

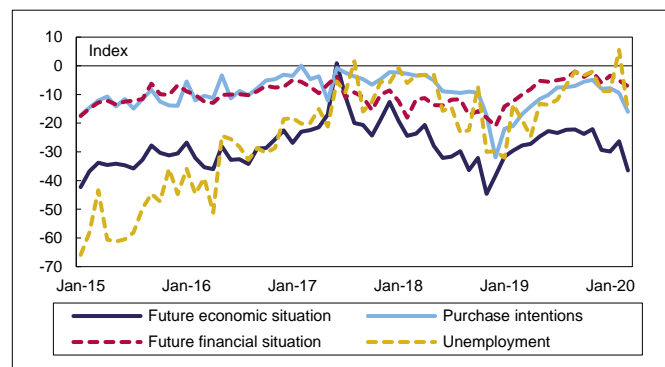
The coming week in the UK

Like elsewhere in Europe, all eyes in the UK in the coming week will be on the spread of the coronavirus. Along with his Health Secretary, PM Boris Johnson today became the latest high-profile casualty of Covid-19 – while he intends to continue

Italy: Economic sentiment indices






France: Consumer confidence indices



working, Foreign Secretary (and former Brexit Secretary) Dominic Raab is nominated to become acting Prime Minister if Johnson becomes incapacitated. Meanwhile, the dataflow will also provide further insight into the initial economic impact on household and business sentiment in March. First up will be the Gfk consumer confidence survey on Tuesday, which is expected to show a notable deterioration in sentiment even before tighter restrictions to activity came into place a week ago and official lockdown was enforced on Monday evening. The following day will bring the final manufacturing PMI for March. While the preliminary release reported only a modest drop in the headline rate (3.7pt to 48) last month, this partly reflected the counter-intuitive boost from the survey's lengthening supplier delivery time component. And the output component might well be revised down from the flash estimate of 44.3, almost 8pt below the February level and a seven-year low. In the same vein, we would expect the final services PMI (due Friday) to show a more marked worsening than the record drop (17pts, to a series low of 35.7) in the headline measure initially reported. Ahead of these, Monday will bring the SMMT release of auto production for February alongside the BoE's latest lending figures for the same month, while the final release of Q4 GDP (current estimate of zero growth on the quarter) will be published on Tuesday.







































European calendar

Today's results							
Economic data							
Country	Release		Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France		Consumer confidence indicator	Mar	103	91	104	-
Italy		Economic sentiment indicator	Mar	81.7	-	99.8	97.8
		Consumer confidence indicator (manufacturing)	Mar	101.0 (89.5)	100.5 (88.0)	111.4 (100.6)	110.9 (98.8)
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.












Coming week's data calendar

The coming week's key data releases

Country		BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 30 March 2020						
EMU		10.00	Economic confidence	Mar	91.3	103.5
		10.00	Industrial confidence (services)	Mar	-12.3 (-34.4)	-6.1 (11.2)
		10.00	Final consumer confidence	Mar	-11.6	-6.6
Germany		13.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	1.4 (1.4)	1.7 (1.7)
Spain		08.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	0.3 (0.4)	0.7 (0.9)
		08.00	Retail sales Y/Y%	Feb	-	1.7
UK		09.30	Net consumer credit £bn (Y/Y%)	Feb	1.1 (-)	1.2 (6.1)
		09.30	Net mortgage lending £bn (mortgage approvals '000s)	Feb	4.0 (68.4)	4.0 (70.9)
		-	Nationwide house price index* M/M% (Y/Y%)	Mar	0.0 (2.0)	0.3 (2.3)
Tuesday 31 March 2020						
EMU		10.00	Preliminary CPI (core CPI) Y/Y%	Mar	0.8 (1.2)	1.2 (1.2)
Germany		08.55	Unemployment rate % (change '000s)	Mar	5.1 (25.0)	5.0 (-10.0)
France		07.45	Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	1.0 (1.0)	1.4 (1.6)
		07.45	Consumer spending M/M% (Y/Y%)	Feb	- (0.0)	-1.1 (-0.9)
Italy		10.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	0.1 (-0.1)	0.3 (0.2)
Spain		08.00	Final GDP Q/Q% (Y/Y%)	Q4	0.5 (1.8)	0.4 (1.9)
UK		00.01	GfK consumer confidence	Mar	-15	-7
		00.01	Lloyds business barometer	Mar	-	23
		07.00	Final GDP Q/Q% (Y/Y%)	Q4	0.0 (1.1)	0.4 (1.1)
Wednesday 01 April 2020						
EMU		09.00	Final manufacturing PMI	Mar	44.8	49.2
		10.00	Unemployment rate %	Feb	7.4	7.4
Germany		07.00	Retail sales M/M% (Y/Y%)	Feb	0.2 (1.5)	1.0 (2.1)
		08.55	Final manufacturing PMI	Mar	45.7	48.0
France		08.50	Final manufacturing PMI	Mar	42.9	49.8
Italy		08.45	Manufacturing PMI	Mar	41.0	48.7
		08.45	Preliminary unemployment rate %	Feb	10.0	9.8
Spain		08.15	Manufacturing PMI	Mar	44.0	50.4
UK		00.01	BRC shop price index Y/Y%	Mar	-0.6	-0.6
		09.30	Final manufacturing PMI	Mar	48.0	51.7
Thursday 02 April 2020						
EMU		10.00	PPI Y/Y%	Feb	-0.1	-0.5
Spain		08.00	Unemployment change '000s	Mar	-	-7.8
Friday 03 April 2020						
EMU		09.00	Final services PMI (composite PMI)	Mar	28.4 (31.4)	52.6 (51.6)
		10.00	Retail sales M/M% (Y/Y%)	Feb	0.1 (1.7)	0.6 (1.7)
Germany		08.55	Final services PMI (composite PMI)	Mar	34.5 (37.2)	52.5 (50.7)
France		08.50	Final services PMI (composite PMI)	Mar	29.0 (30.2)	52.5 (52.0)
Italy		08.45	Services PMI (composite PMI)	Mar	23.4 (25.0)	52.1 (50.7)
Spain		08.00	Industrial production M/M% (Y/Y%)	Feb	-	0.2 (-2.1)
		08.15	Services PMI (composite PMI)	Mar	26.0 (31.0)	52.1 (51.8)
UK		09.30	Final services PMI (composite PMI)	Mar	35.7 (37.1)	53.2 (53.0)

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 30 March 2020		
- Nothing scheduled -		
Tuesday 31 March 2020		
Italy		10.00 Auction: up to €2.75bn of 0.35% 2025 bonds
		10.00 Auction: up to €3.5bn of 0.95% 2030 bonds
		10.00 Auction: up to €1.5bn of 1.5% 2030 bonds
		10.00 Auction: up to €750mn of 2023 floating-rate bonds
Wednesday 01 April 2020		
Germany		10.30 Auction: €4bn of 0% 2025 bonds
Thursday 02 April 2020		
France		09.50 Auction: 0.75% 2028 bonds
		09.50 Auction: 0% 2029 bonds
		09.50 Auction: 1.75% 2039 bonds
UK		10.30 Auction: £2bn of 1.25% 2041 bonds
Friday 03 April 2020		
Germany		- S&P to publish regular German sovereign debt rating review
France		- S&P to publish regular French sovereign debt rating review

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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