Daiwa Capital Markets

Overview

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- While the ECB announced that it purchased €15.6bn of bonds over the first two days of its new PEPP programme last week, Bunds made gains and BTPs made losses as the prospect of issuance of common euro area 'coronabonds' appeared to diminish further.
- Gilts made gains, ignoring Friday's one-notch UK sovereign downgrade by Fitch, as the UK deputy chief medical officer said that current lockdown measures could be in place for six months.
- Tuesday will bring March data for German unemployment and euro area inflation.

Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.753	+0.001
OBL 0 04/25	-0.701	-0.033
DBR 0 02/30	-0.535	-0.051
UKT 0½ 07/22	0.128	-0.004
UKT 0⅝ 06/25	0.190	-0.026
UKT 4¾ 12/30	0.324	-0.040

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

Euro area

Commission sentiment survey superseded by events

Like last week's flash PMIs, today's European Commission economic sentiment survey was bound to report a marked deterioration in conditions in March. Indeed, the headline euro area ESI fell the most on the series dating back to 1985, dropping almost 9pts to 94.5, the lowest since September 2013. However, a large majority of responses were submitted, via the national surveys, well before government actions to control economic activity and freedom of movement were implemented. So, next month's survey seems bound to report a marked further deterioration with key sentiment indices likely to plunge to series lows.

Confidence still much weaker in all sectors

Within the detail, all sectors nevertheless recorded sharp declines in confidence, with the indices for services, retail and financial firms falling the most on the respective series to the lowest since the euro crisis. Industrial firms also signalled that they were the most downbeat since 2013. Given marked revisions to firms' hiring and firing intentions, the employment intentions index fell by a record margin too. And the deterioration in the flash consumer confidence index, to the lowest since 2014, was affirmed.

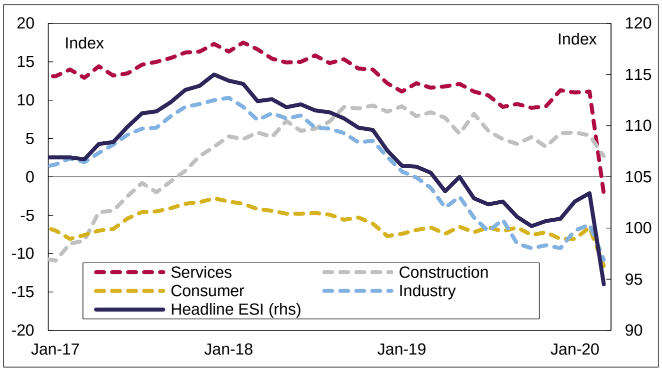
INSEE calculations better guide to French activity

At the country level, sentiment was hit in all member states. But Italy – the worst affected by Covid-19 – recorded the sharpest deterioration in conditions, with its headline ESI declining a record 17.6pts to the lowest since the euro crisis. Germany's ESI also fell by a series-high margin, almost 10pts (-9.8) to the lowest since 2009. But in France, where more than 95% of responses were submitted before the national shutdown, the headline ESI fell less than 5pts merely to an eleven-month low. However, INSEE, the national statistical agency, last week estimated that economic activity has now fallen to about 35% below the normal level, due roughly in equal measure to the halting of business in services and non-food industry. And with the country's lockdown set to last for at least four weeks, until 15 April, and probably beyond, the April ESI seems bound to fall precipitously and French GDP could face a double-digit percentage decline in Q2.

Lower fuel prices weigh on German inflation

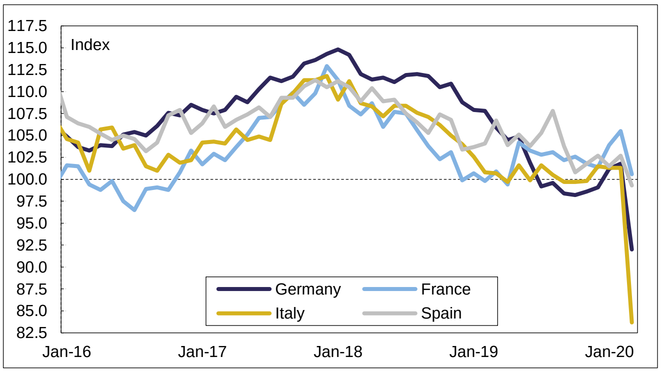
As expected, the flash estimate of German inflation on the EU-harmonised measure dropped 0.4ppt in March to 1.3%Y/Y,

Euro area: Economic sentiment indices by sector



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

Euro area: Economic sentiment indices



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

the lowest since November. The sharp drop was principally due to the plunge in oil prices – energy inflation on the national measure fell 2.9ppts to -0.9%Y/Y. In contrast, food inflation on the same basis rose 0.4ppt to 3.7%Y/Y, while inflation of other goods was also a touch firmer. Services inflation, however, fell 0.2ppt to 1.4%Y/Y, also probably at least in part due to lower fuel prices. And so, the core rate also appears to have fallen slightly too. The equivalent flash inflation figures for the euro area and member states seem bound to post similar declines tomorrow. And assuming no significant recovery in oil prices over coming weeks, we see a significant probability that euro area inflation will soon fall into negative territory, perhaps as soon as April.

The day ahead in the euro area and US

Tomorrow brings the euro area's flash CPI estimates for March along with the equivalent figures for France and Italy. Today's German figures underscore the likelihood of a significant drop in headline inflation due to the lower oil price. We currently expect a decline of 0.5ppt to 0.7%Y/Y to match the three-year low hit in October. Core inflation, however, might ease back only slightly, if at all, from February's rate of 1.2%Y/Y. German labour market figures for March will be closely watched, and are likely to show the biggest monthly increase in jobless claims since 2009 (with the exception of May 2019, which was affected by a change in classification). Nevertheless, support from the government's short-term working subsidies (Kurzarbeitergeld) should still contain the rise in the unemployment rate, perhaps to just 0.1ppt to 5.1%, which would be the highest rate since 2018. Meanwhile, hawkish Austrian central bank Governor Holzmann, whose comments triggered a massive sell-off in BTPs earlier this month, will speak publicly. And Italy will sell BTPs and floating-rate notes.

In the US, Tuesday will bring the results from two further March surveys – the Conference Board's consumer confidence indices and MNI Chicago PMIs – which both seem bound to illustrate the significant deterioration in economic conditions since February.

UK

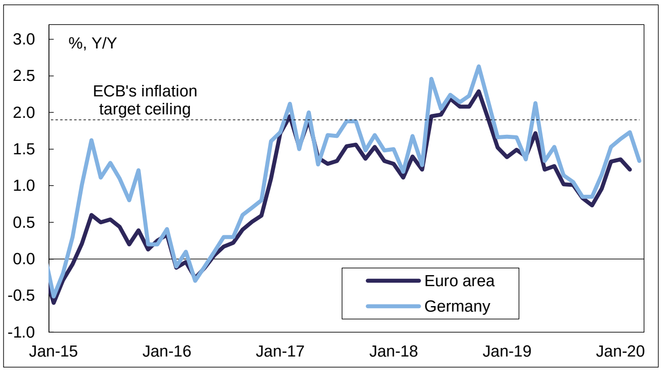
Mortgage approvals hit a 6-year high before market ground to a halt

On a quiet start to the week for UK economic data, the BoE's latest lending data revealed that the number of mortgage approvals rose in February to the highest since January 2014 before the Covid-19 outbreak hit. In particular, the number of mortgage approvals increased by more than 2k to 73.5k as confidence in the housing market revived in the wake of December's general election outcome, which reduced near-term Brexit uncertainty. Over recent weeks, however, the spread of the coronavirus has seen housing market activity all but grind to a halt, with purchase completions increasingly difficult and surveys near-impossible. Banks have committed, however, to grant homebuyers who have exchanged contracts an extension of their mortgage offer for up to three months. And existing mortgage holders who may face financial difficulties are being given the option of a repayment holiday of similar length. Nevertheless, as with all aspects of the UK economy, the outlook for the housing market is now highly uncertain.

The day ahead in the UK

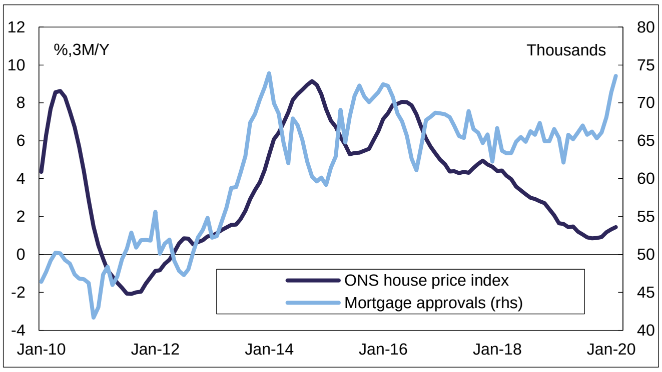
Two further UK economic surveys for March – the GfK consumer confidence survey and the Lloyds Business Barometer – are due tomorrow, and are bound to report a notable deterioration in sentiment even before tighter restrictions on activity came into place a week ago. The final release of Q4 GDP (current estimate of zero growth on the quarter) is also due.

Euro area and Germany: Inflation*



HICP inflation. Flash German estimate for March 2020. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Mortgage approvals and house prices



Source: Bank of England, Thomson Reuters, Bloomberg and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country		Release	Period	Actual	Market consensus/ *Daiwa forecast*	Previous	Revised
EMU		Economic confidence	Mar	**94.5**	91.3	103.5	103.4
		Industrial confidence (services)	Mar	**-10.8 (-2.2)**	-12.6 (-5.0)	-6.1 (11.2)	-6.2 (11.1)
		Final consumer confidence	Mar	**-11.6**	-11.6	-6.6	-
Germany		Preliminary CPI (EU-harmonised CPI) Y/Y%	Mar	**1.4 (1.3)**	1.4 (1.3)	1.7 (1.7)	-
Spain		Preliminary CPI (EU-haromised CPI) Y/Y%	Mar	**0.1 (0.2)**	0.4 (0.4)	0.7 (0.9)	-
		Retail sales Y/Y%	Feb	**1.8**	-	1.7	-
UK		Net consumer credit £bn (Y/Y%)	Feb	**0.9 (5.7)**	1.1 (-)	1.2 (6.1)	1.1 (6.0)
		Net mortgage lending £bn (mortgage approvals '000s)	Feb	**4.0 (73.5)**	4.0 (68.4)	4.0 (70.9)	- (71.3)

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Country		BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
EMU		10.00	Preliminary CPI (core CPI) Y/Y%	Mar	0.7 (1.1)	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 (1.1)	1.4 (1.6)
		07.45	Consumer spending M/M% (Y/Y%)	Feb	0.7 (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)

Key events and auctions

Country		BST	Auction/Event
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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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