

# Euro wrap-up

## Overview

- While Bunds and other euro area government bonds made losses, equities fell sharply as the initial impact of the Covid-19 crisis was evident in sharp declines in new car registrations and very weak manufacturing PMIs.
- Despite a huge volume of new issuance this month, Gilts made gains as the final UK manufacturing PMIs signalled a significantly worse production outlook.
- Looking ahead, Spanish labour market figures for March are due tomorrow, while final services and composite PMIs from the euro area and UK on Friday will bring downwards revisions to already weak flash estimates.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.696	+0.020
OBL 0 04/25	-0.634	+0.028
DBR 0 02/30	-0.476	+0.001
UKT 0½ 07/22	0.121	-0.018
UKT 0% 06/25	0.180	-0.030
UKT 4% 12/30	0.311	-0.045

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

## Euro area

### Car registrations plunge in March

While it remains too soon for most economic data to capture the impact of the hit to incomes, confidence and spending from the ongoing Covid-19 crisis, today's first new car registration figures for March went close. In particular, according to the respective national trade associations, French new car registrations last month fell an extraordinary 72%Y/Y to the lowest level in more than 30 years. Even worse, those in Italy fell 85%Y/Y to their lowest level on the series dating back to 1979. And Spanish registrations fell 69%Y/Y to the lowest level in more than three decades barring one month during the euro crisis in 2012. Given the tighter lockdowns and rising death tolls in all three countries, we expect registrations in each of the three member states to fall further in April.

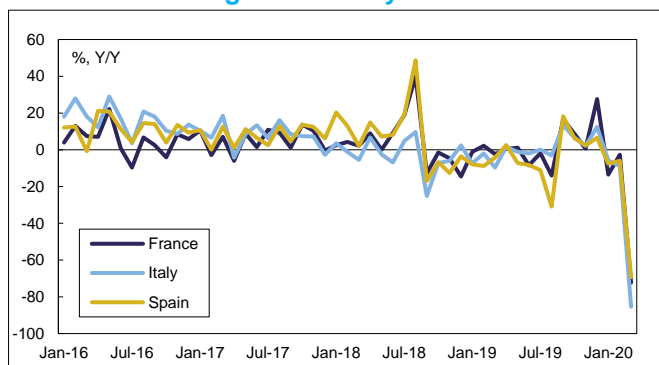
### PMIs signal plunge in production at the periphery

The most notable of today's March manufacturing PMIs were the surveys from those member states which published results for the first time, in particular Italy, Spain and Greece. All, unsurprisingly, reported a marked deterioration in conditions over the past month. The headline Italian PMI fell more than 8pts to 40.3 in March, the lowest since April 2009. And as with the surveys from other countries, that figure was artificially boosted by the sharp increase in supplier deliver times. So, the detailed indices painted an even gloomier picture. The respective Italian indicator for total new orders fell very sharply (down more than 17pts) also to the lowest since the global financial crisis (31.1). And the output PMI plunged to a survey low (down almost 20pts to just 27.8) suggesting extremely deep contraction as businesses shut and restrictions on travel bit hard. Markit stated that producers of consumer goods were worst hit. In Spain, where the outbreak has lagged that in Italy, the declines in the PMIs for output and new orders were not quite so bad, falling a little more than 10pts apiece to the lowest since the euro crisis in 2012 (40.6 and 40.0 respectively). We should expect far worse in the April survey. And the deterioration in the PMIs was sharper in Greece, where the equivalent indices fell more than 20pts to just 35.0 and 33.2. Those, however, were still merely the lowest since 2015.

### Final euro area survey weaker than the flash

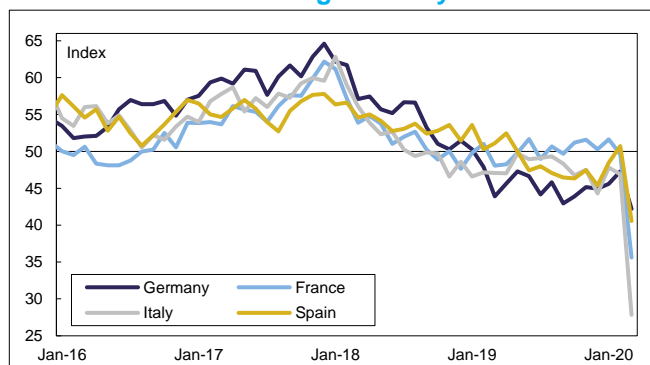
With the additional information provided later in the month as the impact of the Covid-19 outbreak and national lockdown measures intensified, the final euro area manufacturing PMIs were largely worse than the flash estimates. So, for example, the euro area indices for output and new orders were both revised down to their lowest since April 2009, the former by 1pt to just 38.5, more than 10pts lower than in February. The equivalent German PMIs were also revised down by more than 1pt, with the output index of 41.0 also the lowest since the global financial crisis, with Markit reporting that producers of capital

### Euro area: Car registrations by member state



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: Manufacturing PMIs\* by member state



\*Output indices. Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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goods, including autos and machinery, were worst affected. And while the respective French indices were unusually revised up marginally from the preliminary survey, the output PMI of 35.8 was still the lowest since March 2009 and consistent with extremely sharp contraction. Overall, the surveys point to a double-digit annual rate of decline in production. And with the survey's indicator of future production expectations down to a series low, worse is probably to come.

### German retail boost from stock-piling

Today's German retail sales data confirmed that some stores have benefited from increased demand due to the coronavirus. Indeed, in real terms, sales rose 1.2%M/M in February following growth of 1.0%M/M in January to be up a whopping 6.4%Y/Y, the strongest annual rate in fourteen months. That figure was flattered by the extra trading day in February this year compared to 2019. More notably, however, pandemic-related stock-building of essential items by households was the main driver, with sales of food and tobacco up 5.2%M/M and those of pharmaceuticals and cosmetics up 1.7%M/M, but other main categories of sales down. This trend seems likely to have intensified in March, as the nation progressively went into lockdown and stores of non-essential items closed. Germany's government today extended that lockdown until 19 April, but Chancellor Merkel signalled the likelihood of a further extension beyond that date.

### Unemployment fell to post-crisis low in February

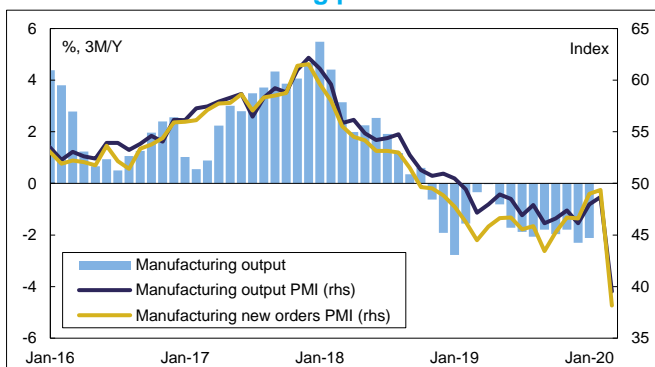
Finally, the latest unemployment data revealed a drop of 0.1ppt in the headline euro area rate in February to a twelve-year low of 7.3%. The decline in the jobless level of 88k, to 12.047mn, was the biggest since October and was well above last year's average. And the drop in the headline rate reflected falls of 0.1ppt apiece in France (8.1%), Italy (9.7%) and Spain (13.6%). Alas, while wage subsidies and job protection might imply a somewhat more moderate increase in joblessness than the US over the near term, the euro area unemployment rate seems bound to jump sharply over the near term, with a headline rate soon back over 10% highly likely.

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

It should be a relatively quiet day for euro area economic releases tomorrow, with just PPI data for February. Likely of more interest will be Spanish labour market figures for March, although like yesterday's [German](#) release, these are unlikely to fully reflect the deterioration over the past month. This report will be followed on Friday by the final March services PMIs from the euro area and member states. These are expected to confirm a record decline (-24pts) in the euro area's headline index to 28.2, well below the lows seen during the Global Financial Crisis. While the weakness was widespread the publication of the Italian and Spanish indices for the first time will likely see even larger drops than the euro area aggregate as these countries have seen the largest outbreak of coronavirus cases and fatalities. Friday will also bring euro area retail sales figures for February, which in light of today's German release seem likely to post another month of solid growth, as well as Spanish IP data for the same month. In the markets, France and Spain will sell bonds with various maturities.

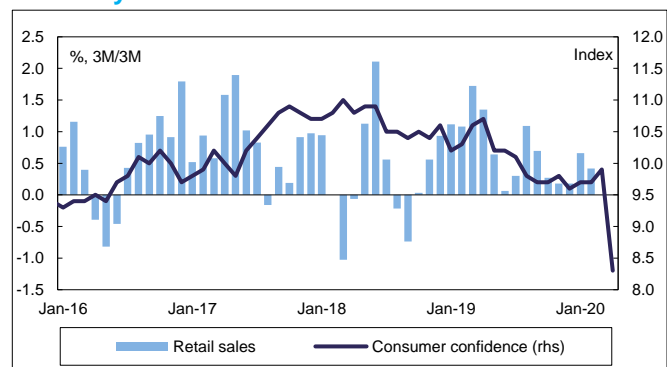
In the US, the main data focus over the coming two days will be various labour market releases. Most noteworthy will be tomorrow's weekly jobless claims figures, which are expected to show that layoffs surpassed the shocking level of 3.283mn (totaling roughly 2% of the labour force) reported last week. Friday's non-farm payrolls report will also be closely watched. 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 much clearer indication of the impact of Covid-19 on the labour market. Friday will also bring the non-manufacturing ISM and final services PMIs for March. Last week's flash estimate showed a marked decline in the headline services PMI by more than 10pts to 39.1. And with the coronavirus crisis having intensified over the past week, we would expect these declines to be even steeper. Meanwhile, forthcoming February releases include trade and factory orders data on Thursday.

### Euro area: Manufacturing production and PMI



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

### Germany: Retail sales and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

## UK

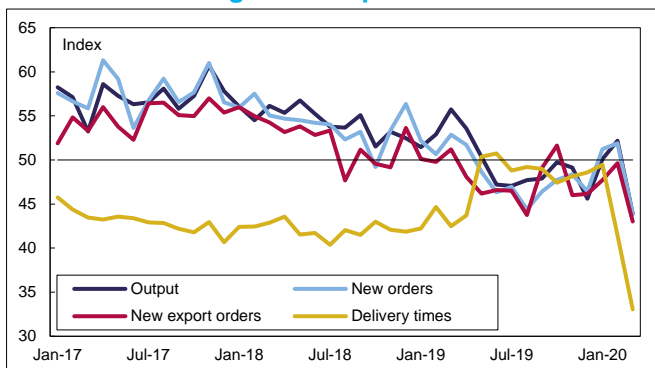
### Manufacturing outlook worsens significantly

Like in the euro area, the final UK headline manufacturing PMI saw only a modest downwards revision from the flash survey, of 0.2pt to 47.8. That, nevertheless, left it almost 4pts lower than in February albeit still higher than the December low. However, while only 12% of respondent firms submitted their assessments subsequent to the flash release, the detail of the report offered greater evidence of a more significant hit as tighter restrictions on activity came into place and lockdown was enforced. For example, there was a further significant lengthening of suppliers' delivery times, with the revised PMI having declined by an additional 1.8pts to leave the monthly decline of 8.4pts the steepest in the survey's 28-year history. In addition, the downwards revision to the new orders PMI was striking, down 1pt from the flash estimate (8½pts in weighted terms). Manufacturers were more downbeat about recent production too, with the respective index revised down to 43.9, the lowest since mid-2012, and output of consumer goods reportedly contracting at the fastest pace since early 2009. And with the future output PMI having declined a whopping 11pts in March and the lockdown set to be in place at least until 13 April and most likely significantly beyond that date, we would expect to see the PMIs take a further marked downturn in April.

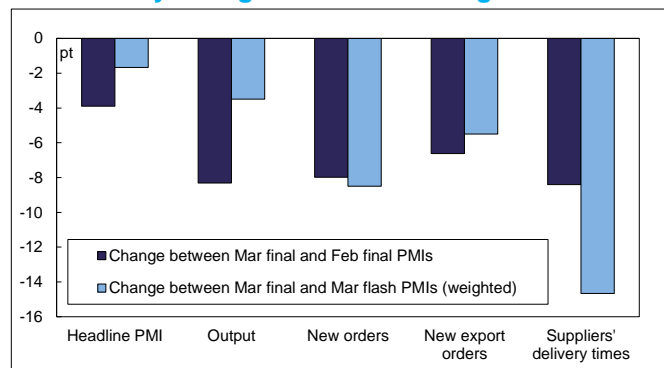
### The coming two days in the UK

Like with today's PMI, Friday's release of the final services survey is likely to show an even more marked decline than the record drop (17pts, to a series low of 35.7) in the headline measure initially reported in the flash estimate. As such, the final composite PMI will also sink further from the flash estimate of 37.1. Meanwhile, tomorrow will bring the Nationwide house price index for March. In the markets, Thursday will see the DMO sell longer-dated Gilts.

#### UK: Manufacturing PMI components



#### UK: Monthly change in manufacturing PMIs\*
















**In the absence of significant economic news, the next edition of the Euro wrap-up will be published on 03 April 2020**



# European calendar

## Today's results

### Economic data




Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Final manufacturing PMI	Mar	<b>44.5</b>	44.8	49.2	-
	 Unemployment rate %	Feb	<b>7.3</b>	7.4	7.4	-
Germany	 Retail sales M/M% (Y/Y%)	Feb	<b>1.2 (6.4)</b>	0.1 (1.5)	0.9 (1.8)	1.0 (2.1)
	 Final manufacturing PMI	Mar	<b>45.4</b>	45.7	48.0	-
France	 Final manufacturing PMI	Mar	<b>43.2</b>	42.9	49.8	-
	 New car registrations Y/Y%	Mar	<b>-72.2</b>	-	-2.7	-
Italy	 Manufacturing PMI	Mar	<b>40.3</b>	41.0	48.7	-
	 Unemployment rate %	Feb	<b>9.7</b>	10.0	9.8	-
	 New car registrations Y/Y%	Mar	<b>-85.4</b>	-	-8.8	-
Spain	 Manufacturing PMI	Mar	<b>45.7</b>	44.0	50.4	-
	 New car registrations Y/Y%	Mar	<b>-69.3</b>	-	-6.0	-
UK	 BRC shop price index Y/Y%	Mar	<b>-0.8</b>	-0.6	-0.6	-
	 Final manufacturing PMI	Mar	<b>47.8</b>	48.0	51.7	-

### Auctions









Country	Auction
Germany	 sold €2.7bn of 0% 2025 bonds at an average yield of -0.66%
UK	 sold £3bn of 1.625% 2028 bonds at an average yield of 0.204%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tomorrow's releases









Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	 10.00	PPI Y/Y%	Feb	-0.8	-0.5
Spain	 08.00	Unemployment change '000s	Mar	30.0	-7.8
UK	 07.00	Nationwide house price index M/M% (Y/Y%)	Mar	0.0 (2.1)	0.3 (2.3)

### Key events and auctions



Country	BST	Auction/Event
France	 09.50	Auction: 0.75% 2028 bonds
	 09.50	Auction: 0% 2029 bonds
	 09.50	Auction: 1.75% 2039 bonds
Spain	 09.40	Auction: 0% 2023 bonds
	 09.40	Auction: 0% 2025 bonds
	 09.40	Auction: 0.5% 2030 bonds
	 09.40	Auction: 1% 2050 bonds
	 09.40	Auction: £2bn of 1.25% 2041 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Friday's releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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	0.5 (2.0)	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	22.5 (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	25.8 (30.8)	52.1 (51.8)
UK	 09.30	Final services PMI (composite PMI)	Mar	35.7 (37.1)	53.2 (53.0)

## Key events and auctions

Country	BST	Auction/Event
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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