

Euro wrap-up

Overview

- Bunds made modest losses as Germany's Economy Minister noted that the contraction in GDP will be deeper than during the global financial crisis. Spanish government bonds were little changed despite a record rise in unemployment.
- Gilts made modest losses at the longer end of the curve despite a massive increase in UK welfare benefit claims.
- Friday will bring final March PMIs as well as euro area retail sales data for February.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.683	+0.016
OBL 0 04/25	-0.606	+0.022
DBR 0 02/30	-0.443	+0.024
UKT 0½ 07/22	0.126	-0.004
UKT 0% 06/25	0.183	-0.003
UKT 4% 12/30	0.335	+0.022

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

Euro area

A record rise in Spanish unemployment

The initial impact of Covid-19 on Spain's labour market was revealed in Spain's figures for March, which broke records in almost every way. In particular, registered employment on a seasonally adjusted basis fell 415.8k (2.1%M/M) in March to fall to the lowest level since end-2018. On the same basis, registered unemployment claims rose a record 311k (9.9%M/M) to almost 3.44mn. Roughly two-thirds of the increase came from the services sector, not least hospitality. But more than one fifth of registered construction workers also lost their jobs.

True picture worse than headline figures suggest

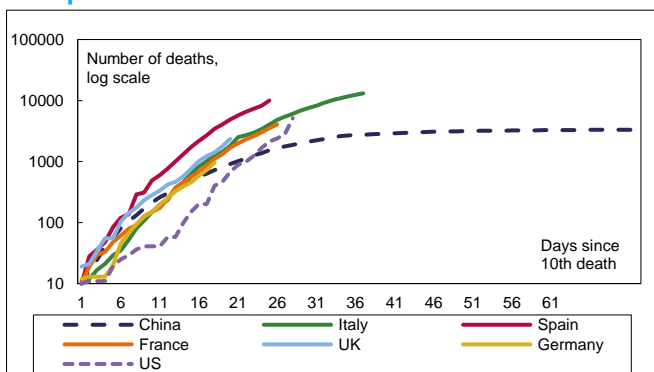
Sadly, the number of affiliates for the social security system suggests that the total number of jobs lost was far more severe than those headline numbers suggest. In particular, while the total number of workers in employment had continued to rise at the start of the month, the social security system data revealed a drop of more than 898k in the number of members between 12 and 31 March. And those figures imply that about 550k temporary workers lost their jobs due to the coronavirus on top of the 300k permanent workers who registered as unemployed. Unfortunately, the dynamics of the crisis in Spain – with a record number of deaths (950) recorded yesterday to take the total above 10k, all non-essential workers asked to stay at home from 30 March, and the lockdown set to be extended well beyond Easter – suggests that the number of job losses will continue to rise for some time to come. And the drop of almost 10ppts in the headline unemployment rate on the EU measure since the euro crisis to 13.6% in February might well, before long, be reversed.

The day ahead in the euro area and US

Friday will bring 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 yesterday's [German release](#) seem likely to post another month of solid growth, as well as Spanish IP data for the same month.

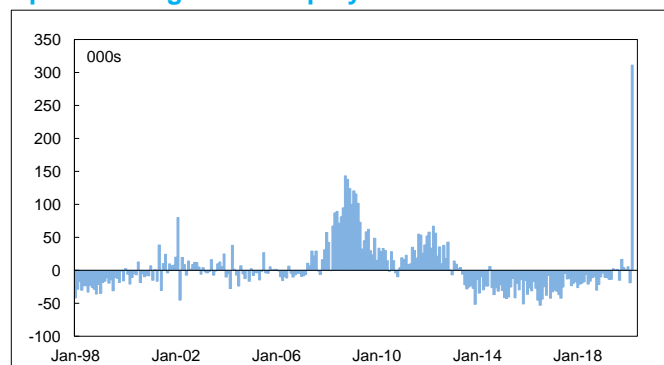
In the US, after today's shocking jobless claims data, tomorrow's non-farm payrolls report will be inevitably be closely watched. Expectations are for a marked decline this month for the first time since 2010. But the extent of the drop will be tempered by the reference period, which is the week containing the 12 March. So, the April payroll data to be released early

Europe: Number of Covid-19 fatalities



Source: WHO and Daiwa Capital Markets Europe Ltd.

Spain: Change in unemployment claims



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



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next month will provide a much more reliable indication of the impact of Covid-19 on the labour market. Friday will also bring the US non-manufacturing ISM and final services PMIs for March. Last week's flash estimates 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.

UK

An alarming jump in benefit claims

More evidence about the immediate impact of the Covid-19 crisis on the UK economy has been made available by the government, ONS and BoE. Most striking, the Department for Work and Pensions announced yesterday evening that the number of successful applications for its Universal Credit benefits – available to those out of work and on low incomes – rose by 950k over the two weeks since 16 March, almost ten times the normal number. Universal Credit was only introduced from 2013 as a replacement for several different schemes including Job Seekers Allowance (JSA) for those out of work. And the wider scope of Universal Credit, including workers on low (and reduced) pay and furloughed employees, means that direct comparison with earlier periods cannot yet be made with confidence. Nevertheless, the data suggest that job losses have likely been made at a far quicker pace than during the global financial crisis, when new JSA claims peaked at just 165k in a fortnight in February 2009, and the rise in claimant count unemployment from trough in February 2008 to the peak in October 2009 was 'just' 840k. Moreover, the figures also suggest that the government was too slow to put into place its Coronavirus Job Retention Scheme of wage subsidies for employees and, subsequently, the self-employed. And it also suggests that the recent peak unemployment rate of 8.4% in 2011 is likely to be surpassed, even if the series high of 11.4% in 1984 is not beaten.

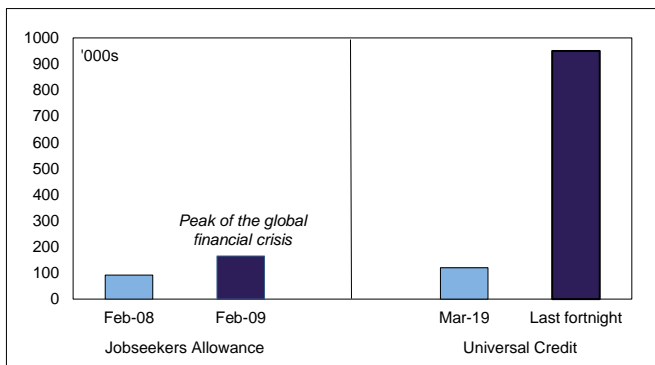
Surveys shine light on firms' intentions

The ONS has cautioned that it might struggle to produce reliable economic data over coming months due to the disruption to normal activity caused by the coronavirus and lockdown. However, today it published the first results of a special new fortnightly survey of businesses aimed at more timely monitoring of the economic impact. Conducted between 9-22 March, this initial release reported that 27% of responding firms said they would cut staffing levels in the short term, while 5% reported plans to recruit staff. Of course all of the responses to that survey will have been submitted before lockdown on 23 March. And an alternative survey (admittedly with a smaller sample) published by the British Chamber of Commerce, conducted between 25-27 March, suggested that 44% of firms expected to furlough at least 50% of their workforce, with 32% planning to furlough between 75-100% of their employees over the next week. The survey also suggested that 18% of firms surveyed reported less than one month's worth of cash in reserve, while 44% reported between one and three months' worth of cash in reserve. Only 6% reported more than twelve months' worth of cash in reserve. 18% of respondents reported closing operations temporarily, with 66% resorting to remote-working.

Limited impact on prices reported so far

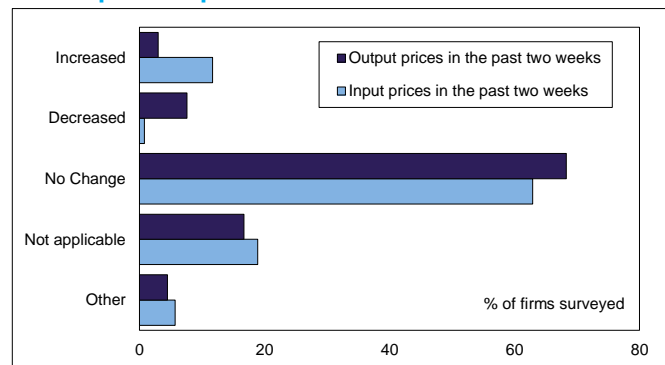
Among other things, the ONS business survey suggested that there had so far been relatively little significant impact on price-setting behavior from the Covid-19 crisis. 68% of firms who responded reported no change to their selling prices and 63% reported that their costs of goods and services had generally stayed the same too. A separate ONS survey of online prices of items that have seen a significant increase in household demand due to the spread of the coronavirus – from cleaning and sanitary products to painkillers and staple foods – suggested that prices of most of these items had increased by an average of 1.1%W/W over the period from week 1 (16 - 22 March) to week 2 (23-29 March). About 60% of items showed price changes ranging between -1.0%W/W to +1.0%W/W, with more than one third of the basket experiencing falling prices. By a large margin, prices on cough and cold medication rose the most (more than 10%W/W). Meanwhile, the business survey suggested that more than half of exporters and importers had reported some disruption to trade from the

UK: New welfare benefit claims*



*Jobseekers Allowance (JSA) and Universal Credit (UC) not directly comparable because UC is available to those still in work. JSA figures adjusted to be fortnightly. Source: Resolution Foundation & Daiwa Capital Markets Europe Ltd.

UK: Impact on prices of the Coronavirus



Source: ONS and Daiwa Capital Markets Europe Ltd.

virus. While such supply-side disruption might be expected to add to price pressures on certain items, overall we expect the impact of the sharp drop in prices of oil and commodities to push overall inflation sharply lower over coming months.

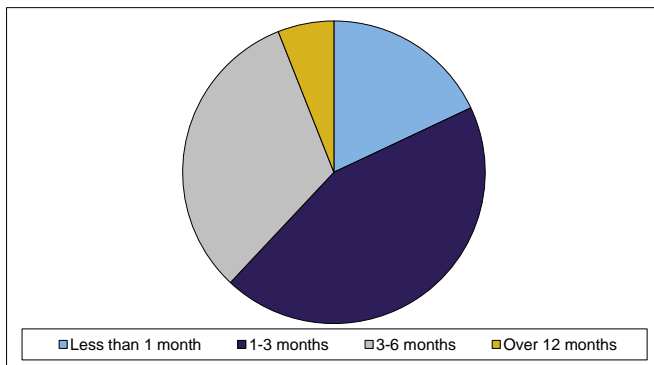
BoE announces corporate bond purchase target

On 19 March, the MPC agreed to relaunch QE, committing to increase the BoE's holdings of Gilts and sterling non-financial investment-grade corporate bonds by £200bn to a total of £645 bn. On that occasion it stated that Gilts would represent the majority of the additional asset purchases. Today, it clarified that it intends to purchase at least £10bn of corporate bonds, thus doubling its total holdings of such bonds. The purchases will commence on 7 April, with the aim to reach the targeted amount as quickly as possible. After announcing its previous set of corporate bond purchases in August 2016, the BoE had achieved the £10bn target by April the following year.

The day ahead in the UK

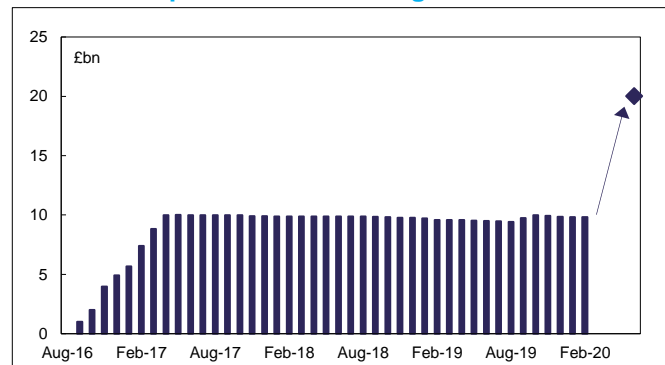
Like in the euro area, and Wednesday's [manufacturing PMIs](#), tomorrow's release of the final services survey is likely to show an even more marked decline than the record drop in the headline measure initially reported in the flash estimate (down 17pts to a series low of 35.7). As such, the final composite PMI will also sink further from the flash estimate of 37.1.

UK: Businesses' cash flow



Source: British Chamber of Commerce and Daiwa Capital Markets Europe Ltd.

UK: BoE corporate bond holdings*






*Diamond represents BoE planned purchase target announced in March 2020. Time frame for latest purchases unspecified. Source: BoE, Bloomberg and Daiwa Capital Markets Europe Ltd.









European calendar

Today's results

Economic data









Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 PPI Y/Y%	Feb	-1.3	-0.8	-0.5	-0.7
Spain	 Unemployment change '000s	Mar	311	-	-19	-
UK	 Nationwide house price index M/M% (Y/Y%)	Mar	0.8 (3.0)	0.0 (2.1)	0.3 (2.3)	-

Auctions



Country	Auction
France	 sold €4.9bn of 0.75% 2028 bonds at an average yield of -0.04%
	 sold €2.6bn of 0% 2029 bonds at an average yield of 0.04%
	 sold €2.0bn of 1.75% 2039 bonds at an average yield of 0.51%
Spain	 sold €2.3bn of 0% 2023 bonds at an average yield of 0.071%
	 sold €1.2bn of 0% 2025 bonds at an average yield of 0.238%
	 sold €1.2bn of 0.5% 2030 bonds at an average yield of 0.694%
	 sold €1.3bn of 1% 2050 bonds at an average yield of 1.565%
UK	 sold £2bn of 1.25% 2041 bonds at an average yield of 0.8%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow'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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