

Euro wrap-up

Overview

- Equities rallied, BTPs made gains and Bunds made losses as investors took comfort from the downwards trends in Italian and Spanish coronavirus deaths, while ECB data confirmed that it spent €30.2bn on PEPP purchases last week.
- Gilts made modest losses despite weak UK construction and car registration data, while UK PM Johnson remained hospitalised with Covid-19.
- Tuesday will bring the Eurogroup teleconference on pandemic crisis support while February data for German IP and French goods trade are due.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.687	+0.026
OBL 0 04/25	-0.614	+0.009
DBR 0 02/30	-0.429	+0.018
UKT 0½ 07/22	0.102	+0.012
UKT 0% 06/25	0.167	+0.012
UKT 4% 12/30	0.330	+0.021

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

Source: Bloomberg

Euro area

Sentix survey reports improved expectations

The financial market mood at the start of the week was somewhat brighter, with better news from some of Europe's Covid-19 epicenter. Most notable were the drops in deaths reported in Italy (yesterday) and Spain (today) to the lowest in more than two weeks, while Germany saw the lowest number of new cases in six days. Given the horrendous impact of the coronavirus so far, however, today's Sentix survey index of euro area investor sentiment plunged the most on the series, with a decline of more than 25pts to a record low of -42.9. But the sharp fall reflected a marked drop in the index for the current situation, which declined more than 50pts to -66.0. In contrast, and likely reflecting a positive assessment of recent monetary, fiscal, health and social policy initiatives, the survey measure of future expectations improved, up more than 4pts to -15.8, a level above that recorded as recently as October. Nevertheless, with lockdown measures in most member states set to be extended, and the full economic, financial and social impact of the crisis still impossible to predict with accuracy, it remains to be seen whether other top-tier surveys due over coming weeks will similarly suggest an improvement in expectations.

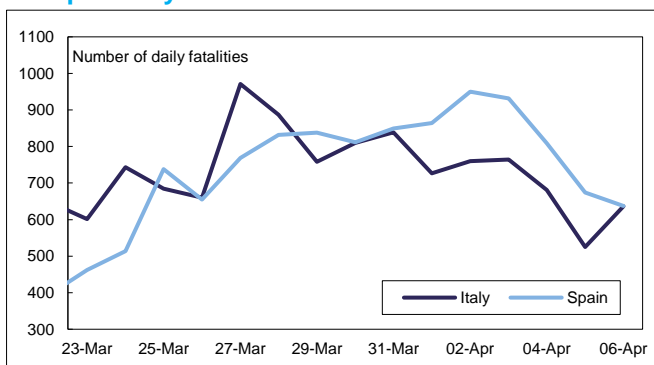
PMIs signal plunge in construction activity

Markit's construction PMIs unsurprisingly signalled a steep drop in construction output last month, with the headline euro area index falling 19pts to 33.5, the lowest since February 2009. Like the services survey results released on Friday, all member states to report construction PMIs fell deep into contraction territory, with deterioration most marked in Italy (down more than 35pts to a record low of 15.9) and least in Germany (down 13.8pts to a seven-year low of 42.0). Among the various sub-sectors, civil engineering work, home building and commercial construction activity all reported their sharpest retrenchment for 7-8 years. The survey detail also suggested that firms cut back their workforces at the quickest rate for a decade, no doubt benefiting from government-supported furlough schemes. With the sector affected by government lockdown policies – albeit to different extents across the member states – and new orders markedly lower, the survey measures of future business expectations also fell sharply. Indeed, the relevant euro area index dropped more than 23pts to 32.7, the lowest since 2009. And probably reflecting the slower initial adjustment, the respective PMI for Germany (down more than 30pts to a series low of 23.1) was the weakest of the member states in this respect.

Before Covid-19, German manufacturing was improving

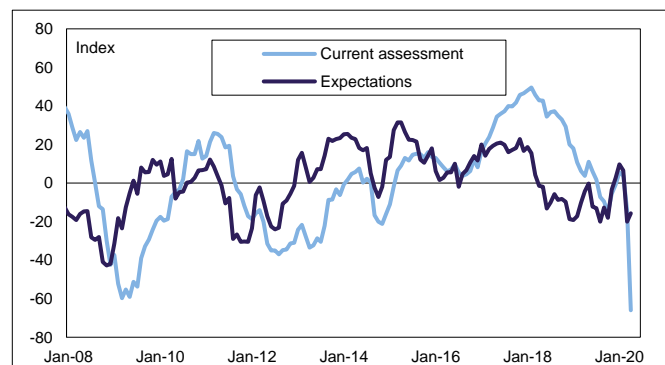
Before the Covid-19 outbreak, conditions in Germany's manufacturing sector had appeared to be turning for the better, an assessment reinforced by today's new orders data. These preliminary figures suggested that new factory orders fell back only 1.4%M/M in February following the exceptionally strong (albeit slightly downwardly-revised) growth of 4.8%M/M in

Europe: Daily rate of fatalities in selected countries



Source: WHO, Bloomberg and Daiwa Capital Markets Europe Ltd.

Euro area: Sentix sentiment indicators



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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January. That left the average level for the first two months of Q1 about 2.6% above the Q4 average. Excluding major orders, which can distort the series, new orders rose 1.1%M/M in February following growth of 2.2%M/M the previous month, to leave the average for the first two months of Q1 similarly roughly 2½% above the Q4 average. Within the detail, domestic orders rose 1.7%M/M in February (2.0%M/M excluding major orders), while foreign orders were down 3.6%M/M (but up 0.6%M/M excluding major orders). In terms of type of good, orders of consumer and intermediate goods were also trending firmly above the Q4 average. But orders of capital goods (including autos) fell 3.4%M/M to be down 0.5% from the Q4 average in January and February.

Of course, demand in most sectors took a marked turn for the worse last month as the coronavirus hit hard. German [new car registrations](#) plunged last month at the fastest rate since reunification. And new car orders fell a steep 30%Y/Y in March, with domestic car orders dropping 22%Y/Y and those from abroad down 37%Y/Y. And with the overall manufacturing new orders PMI falling below 40 in March, factory orders seem bound to have plunged across a wide spectrum of goods last month while total output will have plunged too – a trend that will be maintained in April too.

The day ahead in the euro area and US

Tuesday will bring the most notable economic event of the week, the Eurogroup videoconference, which aims to agree new common pandemic crisis support to facilitate funding the policy response to the Covid-19 outbreak. Following the previous videoconference, the Eurogroup's chair Mario Centeno reported "broad support" among the finance ministers to make support available via the ESM, which currently has a lending capacity of just €410bn. The proposal under discussion appeared to be based on making available about €240bn, with a limit of just 2% of GDP per member state. But, to be effective, funds amounting to far more than 2% of GDP would be made available, particularly to Italy and Spain. In addition, the loans would need to have minimal conditionality attached, and be of long maturity. Meanwhile, as proposals for issuance of new 'coronabonds' have been rejected by Germany, the Netherlands and Austria, alternative suggestions for a further new one-off commonly-financed fund to provide support will also be considered. The European Commission has proposed a €100bn SURE programme, requiring €25bn of guarantees from all EU member states, to help provide fund wage subsidies for furloughed workers. And the EIB has proposed its own €200bn credit support programme, similarly requiring €25bn of guarantees from member states.

Before the Eurogroup meets, February figures for German industrial production and French goods trade are due for release. Following strong growth of 3.0%M/M in January, German IP is expected to have fallen in February, although the expected decline of less than 1.0%M/M would still leave it trending firmly above the Q4 level over the first two months of Q1. In the bond markets, Germany will sell inflation-linked bonds.

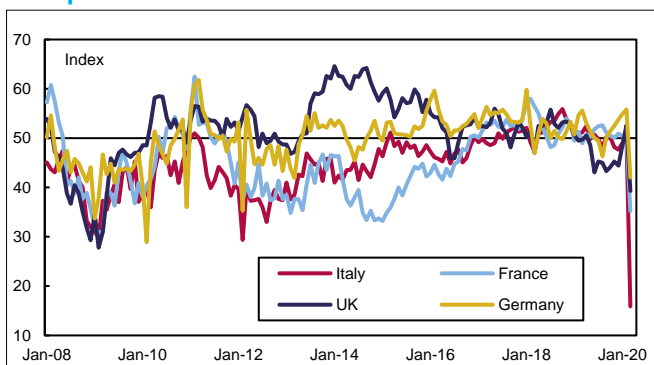
In the US, another quiet day for economic data will bring just February consumer credit and JOLTS job numbers. In the markets, the Treasury will sell 10Y Notes while the Fed will continue its securities purchase programme.

UK

Consumer confidence posts record decline

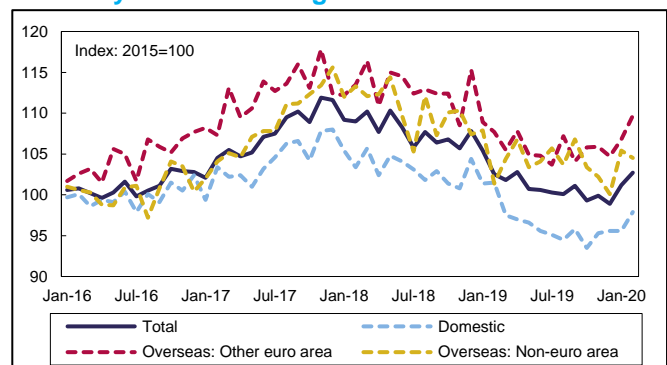
Like in the euro area, the news flow in the UK continues to be dominated by Covid-19, not least with PM Johnson hospitalised since Sunday evening with "persistent symptoms" including a temperature and cough. Today's data releases also provided more insight into the initial economic impact. A special GfK consumer confidence release certainly flagged a significant, but not surprising, deterioration in conditions through the second half of March. In particular, the headline sentiment indicator fell 25pts between the first two weeks and second two weeks of the month – the largest drop since records began in 1974 – to -34, the weakest reading since the height of the global financial crisis. And there was a dramatic drop in the major purchase index by 50pts to -52pts, the lowest level since the series began in the mid-1990s, despite record

Europe: Construction PMIs



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

Germany: Manufacturing orders*



*Excluding major one-off orders. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

grocery sales and surge in demand for home office equipment, freezers and televisions. Households were also notably more downbeat about the outlook over the coming twelve months, with the relevant survey component almost 30pts lower from the first two weeks of the month to a record low of -56. Moreover, with only four days of the official lockdown period included in this survey, and it being set to continue for some time to come, consumer sentiment seems likely to be weakening further in April.

Car registrations fall sharply

Consistent with weaker confidence, the latest car registrations figures for March reported a further significant drop in March. In particular, total registrations fell 44.4%Y/Y, the steepest decline since the late 1990s when the bi-annual plate change system was introduced and well below the weakest reading during the global financial crisis. Given that March is usually a strong month for new registrations, and tighter Covid-19-related restrictions came into place in the UK towards the end of the month, the contraction last month was not as severe as the outturns from [France, Italy and Spain](#). But with the UK figures having been boosted by the delivery in the first half of the month of a significant number of advanced orders for the new number plate, and car show rooms set to remain closed for the time being, we would expect to see a much steeper pace of decline, similar to those seen in other European countries, over coming months.

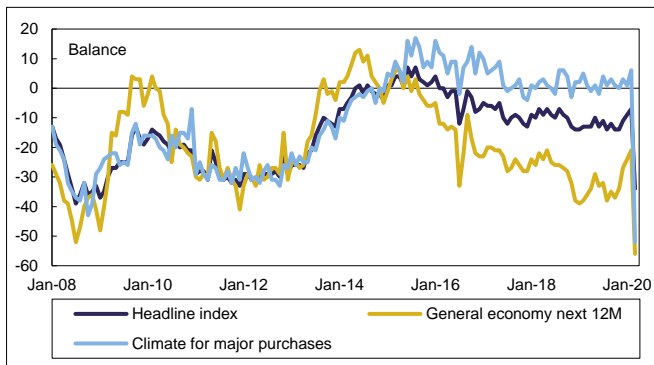
Construction starting to collapse

Like last week's manufacturing and services PMIs, today's equivalent construction sector survey pointed to a marked weakening in activity, with the headline index declining by a record margin of 13.3pts to 39.3, the lowest reading for almost a decade. Among the various sub-sectors, the civil engineering and commercial construction activity indices similarly reported their steepest declines on record and implied the sharpest retrenchment since the global financial crisis. While the headline indices suggested that the drop in house building was relatively modest (down 7.8pts to 46.6), the survey also reported that firms had expected a collapse in activity going forward as sites closed due to Covid-19. Indeed, the new orders and business expectations components posted record-double-digit declines in March, with the latter to the second-lowest reading on record. As a result, construction companies inevitably cut back their workforces, by the most since September 2010. And with the UK lockdown set to continue for some time to come and demand for new projects likely to be significantly weaker, the outlook for construction activity over the near term will remain particularly gloomy.

The day ahead in the UK

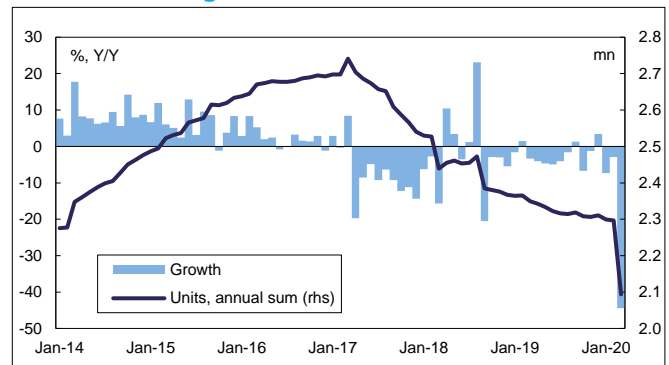
It should be a relatively quiet day for UK top-tier releases, with just revised productivity and unit labour costs figures for Q4 due for release.

UK: Consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: New car registrations










Source: SMMT, Thomson Reuters 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	 Sentix investor confidence	Apr	-42.9	-37.5	-17.1	-
	 Construction PMI	Mar	33.5	-	52.5	-
Germany	 Factory orders M/M% (Y/Y%)	Feb	-1.4 (1.5)	-2.5 (-0.2)	5.5 (-1.4)	4.8 (-0.8)
	 Construction PMI	Mar	42.0	42.0	55.8	-
UK	 Final GfK consumer confidence	Mar	-34	-9	-7	-
	 New car registrations Y/Y%	Mar	-44.4	-	-2.9	-
	 Construction PMI	Mar	39.3	44.0	52.6	-

Auctions





Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	 07.00	Industrial production M/M% (Y/Y%)	Feb	-0.8 (-3.0)	3.0 (-1.3)
France	 07.45	Trade balance €bn	Feb	-5.1	-5.9
Italy	 09.00	Retail sales M/M% (Y/Y%)	Feb	-0.5 (1.6)	0.0 (1.4)
UK	 09.30	Unit labour costs (output per hour) Y/Y%	Q4	- (0.3)	3.6 (0.3)

Key events and auctions

Country	BST	Auction/Event
Germany	 10.30	Auction: €250mn of 0.5% 2030 index-linked bonds
	 10.30	Auction: €250mn of 0.1% 2046 index-linked bonds
UK	 10.00	Auction: £3.25bn of 0.125% 2023 bonds
	 11.30	Auction: £1.25bn of 1.75% 2057 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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