# Euro wrap-up

## Overview

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- Before a late announcement by the ECB that it will temporarily allow lower capital requirements for market risk, Bunds made modest gains at the longer end of the curve after the German government decided to ease gradually its restrictions on activity.
- Longer-dated Gilts were little changed as a survey of UK businesses highlighted the major shock to the labour market from Covid-19.
- Friday will bring final euro area inflation and car registration data for March.

**Daily bond market movements**

| Bond | Yield | Change |
|---|---|---|
| BKO 0 03/22 | -0.718 | +0.010 |
| OBL 0 04/25 | -0.667 | -0.003 |
| DBR 0 02/30 | -0.482 | -0.010 |
| UKT 0½ 07/22 | 0.064 | +0.030 |
| UKT 0⅝ 06/25 | 0.151 | +0.016 |
| UKT 4¾ 12/30 | 0.298 | -0.004 |

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

# Euro area

### A modest easing of German restrictions

Some of the recent data on the spread of Covid-19 in the large member states has been disappointing, suggesting persistence of the outbreak in the face of ongoing lockdowns. Indeed, today's Spanish data reported the biggest number of daily new cases in a week (5183). But the trends remain favourable. And with Germany's so-called 'reproduction number' – the mean number of persons infected by any one case – still estimated to be below 1, the German government yesterday announced modest steps to lift some of its lockdown measures. From Monday, smaller retailers will be allowed to open under specific conditions, including with respect to social distancing. Schools will start to open from 4 May as will hair salons. But restaurants, bars, theatres and cinemas will remain closed for until further notice. And large gatherings will remain banned through to end-August. Activities accounting for more than 5% of total GDP are likely to remain shut for the foreseeable future while others will continue to run well below normal capacity. So, we currently forecast a drop in German GDP of more than 15%Q/Q in Q2 and a decline of more than 11%Y/Y in 2020 as a whole.

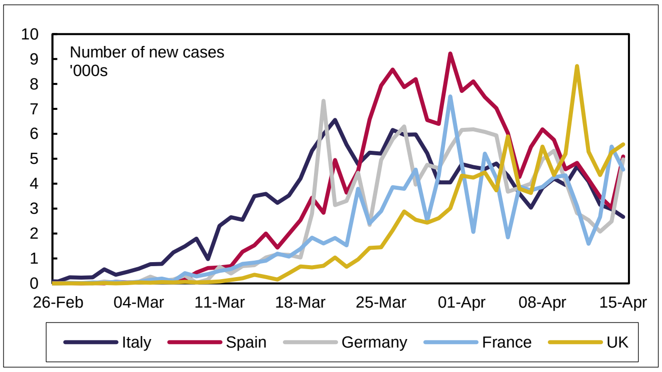
### German and French firms take advantage of furlough schemes

Yesterday's data from the large member states shone a light on the extent to which government-funded furlough schemes are absorbing the labour market impact of the Covid-19 shock. In particular, in France more than 730k firms (more than half of the total) have taken advantage of the government's programme, with 8.7mn workers (more than a quarter of employees) now temporarily laid off receiving up to 87% of their previous net salary. In Germany, a similar number of firms (725k, up 12%W/W) have applied for support under the government's kurzabeit scheme for subsidised reduced (or zero) working hours, offering between 60-67% of net salary. While the number of workers affected is not yet clear, several millions, likely accounting for more than one fifth of the German labour force, are probably now 'shadow' unemployed on this basis.

### Member state inflation markedly lower in March

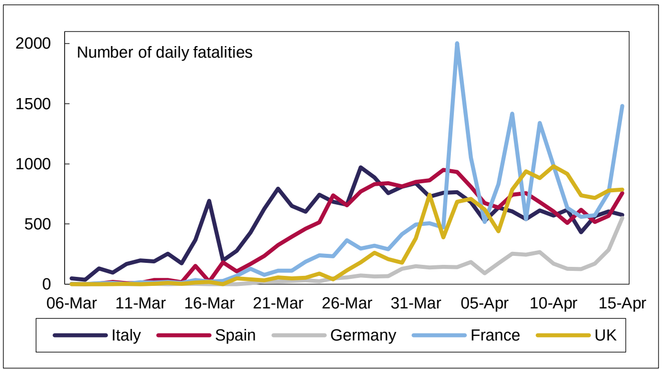
Today's final German inflation data for March provided no surprises, with the headline rate on the EU-harmonised measure confirmed at the flash estimate of 1.3%Y/Y. That marked a drop of 0.4ppt from February due not least to falling energy inflation (down 3ppts on the national measure to -0.8%Y/Y). But services inflation was also lower (down 0.2ppt to 1.3%Y/Y, a six-month low) as costs of package holidays fell on the back of sharply weaker demand. So, despite a pickup in non-energy industrial goods inflation, core inflation declined 0.1ppt to 1.3%Y/Y. Yesterday's final French inflation figures confirmed that core inflation (on a harmonised basis) fell a more significant 0.6ppt to 0.6%Y/Y in March. The notable drop in energy inflation (down 4.9ppts to -3.9%Y/Y) was also unrevised. But due to stronger food prices, headline inflation was revised slightly

**Europe: Daily confirmed Covid-19 cases**




*Source: WHO and Daiwa Capital Markets Europe Ltd.*

**Europe: Daily fatalities caused by Covid-19***




**NB Only French numbers include deaths outside hospitals. Source: WHO and Daiwa Capital Markets Europe Ltd.*

higher by 0.1ppt to 0.8%Y/Y, nevertheless still representing a drop of 0.8ppt from February. So, while headline inflation in Spain was revised lower, by 0.1ppt to 0.1%Y/Y, we see a non-negligible risk that final euro area figures – due tomorrow – will see overall inflation nudged slightly higher from the flash (0.74%Y/Y). Nevertheless, this will still reflect a notable easing from 1.2%Y/Y in February. Moreover, with the impact of lower oil prices to become more marked in April and beyond, we expect overall inflation in the euro area to slide into negative territory over the near term. In addition, we caution that underlying inflation is likely to be even weaker than that calculated by the statistical agencies, as prices of many services and goods are now impossible to collect. Indeed, prices of almost 10% of the items in the French inflation basket in March were imputed based on their levels at the start of the month, before lockdowns kicked in.

### The day ahead in the euro area and US

Tomorrow will bring a couple of new euro area releases including car registrations figures for March. Not least given the sizeable double-digit declines previously reported in Germany (38%Y/Y), France (72%Y/Y), Italy (85%Y/Y) and Spain (69%Y/Y), aggregate euro area car sales are highly likely to have plunged at a record year-on-year rate. Friday will also bring final euro area inflation data for March. In light of revised member state figures published over recent days, and given the rounding in the flash release, headline inflation for the euro area as a whole might well be nudged higher from the flash by 0.1ppt to 0.8%Y/Y. But this would still represent a drop of 0.4ppt from February on the back of weaker energy inflation. Indeed, flash core inflation eased just 0.2ppt to 1.0%Y/Y. Of less interest on Friday will be euro area construction figures for February which are expected to show a decline following a surge in January.

It should be a relatively quiet end to the week for US economic data, with just the Conference Board's Leading index for March due for release.

## UK

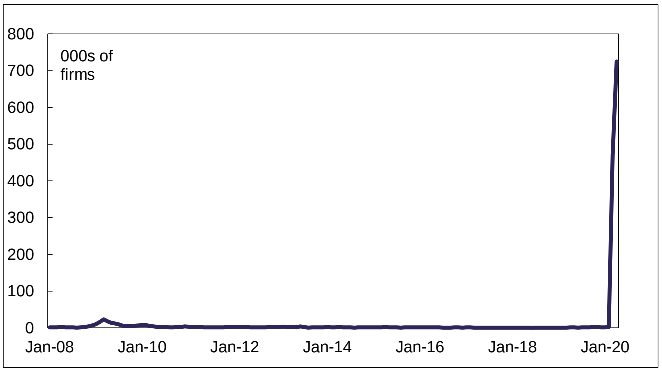
### Retail sales survey predictably weaker in March

The headline figures of the BRC's March retail sales survey were inevitably weak, but perhaps not quite as bad as might have been feared. Indeed, while the reported drop in total sales of 4.3%Y/Y was steep, it was slightly less marked than the recent Brexit-related trough in November (-4.4%Y/Y). And, on a like-for-like basis, 'same store' sales were down a more moderate 3.5%Y/Y. Of course, those aggregate numbers masked very significant swings in sales across the range of items, and over the course of the month, as the UK lockdown only kicked in from 23 March. Indeed, the BRC reported that sales of food and essentials saw an unprecedented surge in demand in the early part of the month but dropped significantly after the lockdown and introduction of social distancing in stores. Overall, food store sales were up 5.1%3M/Y in March. In contrast, the closure of non-essential shops led to high double-digit declines in sales of other items – the sharpest on record – for which the reported rise in online shopping failed to compensate. Sales of non-food items were down 6.6%3M/Y even though online sales of such items were up 8.6%3M/Y. With high streets now deserted due to the lockdown, the extent of the decline in non-essential sales will be far more extreme in the April data.

### Businesses feeling the effect of lockdown

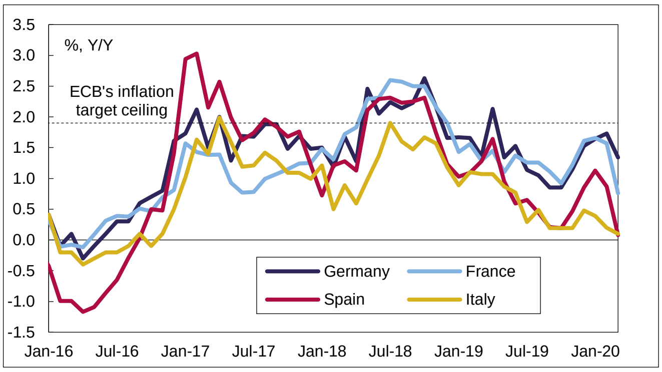
As the UK's restrictions on activity were today set to be officially extended through to early May, the ONS' latest bi-weekly survey of the impact of Covid-19 on business conditions was the first to fully reflect the UK's official lockdown since 23 March. And this showed perhaps inevitably that around one quarter of respondent firms had temporarily closed or paused trading in the first two weeks of lockdown. Of those that were still trading, 38% indicated that turnover was substantially lower than normal, with a further 17% suggesting it was slightly lower. But while a little more than one third of firms signalled that turnover was so far unaffected, this share was down from two weeks ago and we would expect it to maintain a downward trend the longer the lockdown persists. Against this backdrop, on average about one fifth of the workforce of those firms still

**Germany: Applications to short-time work scheme***




**Kurzabeit. Latest two observations are unofficial estimates. Data point for April is estimate for the first two weeks of the month. Source: Bundesbank, Arbeitsagentur and Daiwa Capital Markets Europe Ltd.*

**Euro area: Headline inflation in member states***



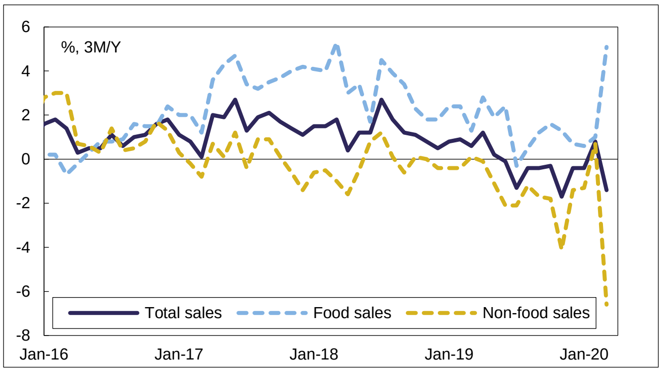

**EU-harmonised basis. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.*

trading had already been furloughed. And around 40% of firms signalled that they were reducing staff in the short term (compared with almost 30% in the previous two weeks), while 29% of businesses reported that were reducing working hours. The longer the lockdown and social distancing rules remain in place, the greater and longer-lasting the impacts of the current crisis will be on business conditions and the labour market.

### The day ahead in the UK

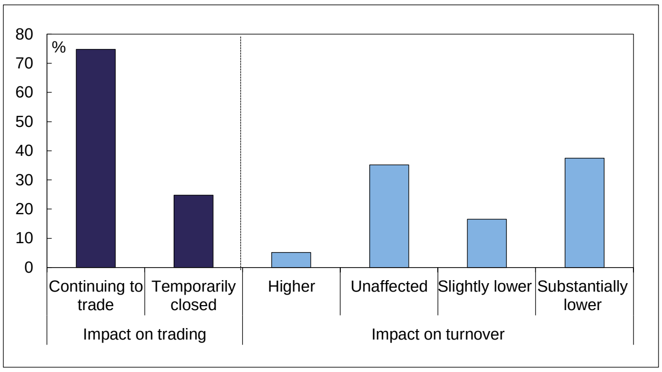
It will be a quiet end to the week for UK economic data with no releases of note due for release.

**UK: BRC retail sales monitor**




*Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.*

**UK: Impact of Covid-19 on trading and turnover***




**Between 23 March and 5 April. Source: ONS business survey and Daiwa Capital Markets Europe Ltd.*

# European calendar

**Today's results**

**Economic data**

| Country | | Release | Period | Actual | Market consensus/ *Daiwa forecast* | Previous | Revised |
|---|---|---|---|---|---|---|---|
| EMU | | Industrial production M/M% (Y/Y%) | Feb | **-0.1 (-1.9)** | -0.1 (-1.9) | 2.3 (-1.9) | - (-1.7) |
| Germany | | Final CPI (EU-harmonised CPI) Y/Y% | Mar | **1.4 (1.3)** | 1.4 (1.3) | 1.7 (1.7) | - |
| UK | | BRC retail sales monitor, like-for-like sales Y/Y% | Mar | **-3.5** | -5.5 | -0.4 | - |

**Auctions**

| Country | | Auction |
|---|---|---|
| France | | sold €1.87bn of 0% 2023 bonds at an average yield of -0.43% |
| | | sold €2.04bn of 0% 2024 bonds at an average yield of -0.36% |
| | | sold €2.32bn of 3.5% 2026 bonds at an average yield of -0.17% |
| | | sold €197mn of 0.1% 2047 index-linked bonds at an average yield of -0.32% |
| | | sold €630mn of 0.1% 2029 index-linked bonds at an average yield of -0.54% |
| | | sold €260mn of 0.1% 2028 index-linked bonds at an average yield of -0.35% |
| Spain | | sold €1.97bn of 0% 2023 bonds at an average yield of 0.266% |
| | | sold €1.19bn of 0% 2025 bonds at an average yield of 0.411% |
| | | sold €2.23bn of 1.3% 2026 bonds at an average yield of 0.592% |
| | | sold €1.14bn of 1.85% 2035 bonds at an average yield of 1.193% |
| UK | | sold £3bn of 1.5% 2026 bonds at an average yield of 0.117% |
| | | sold £2bn of 1.75% 2049 bonds at an average yield of 0.676% |

*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

## Yesterday's results

**Economic data**

| Country | | Release | Period | **Actual** | Market consensus/ *Daiwa forecast* | Previous | Revised |
|---|---|---|---|---|---|---|---|
| France | | Final CPI (EU-harmonised CPI) Y/Y% | Mar | **0.7 (0.8)** | 0.6 (0.7) | 1.4 (1.6) | - |
| Italy | | Final CPI (EU-harmonised CPI) Y/Y% | Mar | **0.2 (0.1)** | 0.2 (0.1) | 0.2 (0.2) | - |
| Spain | | Final CPI (EU-harmonised CPI) Y/Y% | Mar | **0.0 (0.1)** | 0.1 (0.2) | 0.7 (0.9) | - |

**Auctions**

| Country | | Auction |
|---|---|---|
| Germany | | sold €820mn of 2.5% 2044 bonds at an average yield of -0.09% |
| UK | | sold £3bn of 0.875% 2029 bonds at an average yield of 0.269% |
| | | sold £2bn of 1.75% 2037 bonds at an average yield of 0.625% |

*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

## Tomorrow's releases

| Country | | BST | Release | Period | Market consensus/ *Daiwa forecast* | Previous |
|---|---|---|---|---|---|---|
| EMU | | 07.00 | EU27 new car registrations | Mar | - | -7.4 |
| | | 10.00 | Final headline CPI (core CPI) Y/Y% | Mar | 0.7 (1.0) | 1.2 (1.2) |
| | | 10.00 | Construction output M/M% (Y/Y%) | Feb | - | 3.6 (6.0) |
| Italy | | 09.00 | Trade balance €bn | Feb | - | 0.5 |

**Key events and auctions**

| Country | | BST | Auction/Event |
|---|---|---|---|
| UK | | - | UK sovereign credit rating update from Moody's |

*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

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