

Euro wrap-up

Overview

- While euro area stocks rallied, Bunds made modest gains as falling energy prices raised the likelihood of negative euro area inflation over coming months. While Italy's Central Bank suggested that its national GDP fell 5%Q/Q in Q1, BTPs outperformed.
- Gilts made losses at the short end of the curve while BoE Governor Bailey said it was not implausible that UK GDP will shrink by one third in Q2.
- The coming week will bring the flash April PMIs and data for UK inflation and retail sales, while euro area leaders will discuss how to finance the recovery from the Covid crisis.

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Daily bond market movements

| Bond | Yield | Change |
|--------------|--------|--------|
| BKO 0 03/22 | -0.727 | -0.002 |
| OBL 0 04/25 | -0.672 | -0.005 |
| DBR 0 02/30 | -0.483 | -0.005 |
| UKT 0½ 07/22 | 0.085 | +0.018 |
| UKT 0% 06/25 | 0.172 | +0.020 |
| UKT 4% 12/30 | 0.300 | -0.002 |

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

Source: Bloomberg

Euro area

Inflation confirmed at three-year low

There were no surprises whatsoever from the final estimates of euro area inflation in March, which confirmed the main flash estimates. So, the annual headline CPI rate declined 0.5ppt to 0.7%Y/Y, matching the three-year low reached in October. The deceleration was inevitably driven principally by the plunge in oil prices. So, energy inflation dropped 4.2ppt, slightly more than previously estimated, to -4.5%Y/Y, representing the sharpest annual decline since August 2016. Notwithstanding the difficulty collecting price data for certain items, services inflation also saw some downwards pressure from Covid-19, down 0.3ppt to a seven-month low of 1.3%Y/Y. So, while the annual increase in non-energy industrial goods prices remained steady (0.5%Y/Y), core inflation fell 0.2ppt to 1.0%Y/Y, a six-month low.

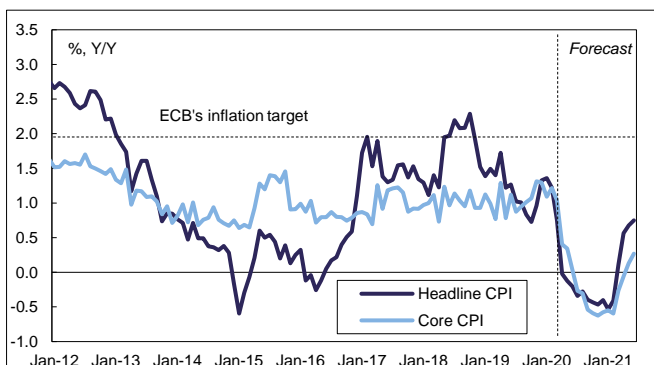
Inflation heading back to negative territory

The further slide in oil prices over recent weeks will add to downwards pressure on headline inflation over the near term. Indeed, the average petrol price in the euro area in the first week of April was already more than 5% below the March average, with prices of some fuels down more than 17% on the same basis. It is possible that the statistical agencies will not be able to collect sufficient data to produce reliable figures for the current month. However, if they do, the headline rate of CPI could well fall to zero or below in April. And looking ahead, downward pressure on prices of a range of goods and services is likely to intensify due to the impact of higher unemployment, lower incomes, strained corporate balance sheets and ongoing social distancing on demand. So, core inflation seems bound to weaken further. And once headline inflation has slipped into negative territory, we expect it to remain there into early 2021, before rising back above zero only once the impact of the recent decline in oil prices has worn off.

An inevitable steep decline in car registrations

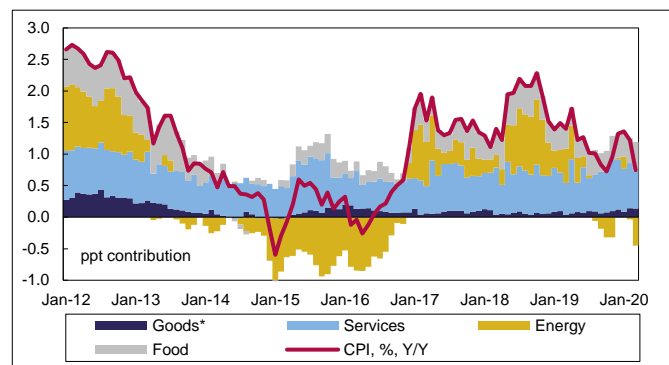
ACEA data for European car registrations in March were predictably awful. New registrations in the euro area fell at a record year-on-year rate of 58.5%Y/Y, outpacing the overall decline in Europe (defined as the EU, plus EEA countries and the UK) of 51.8%Y/Y. Indeed, the number of car registrations in the euro area was just 459k units in March, the lowest since the series began in the late 1980s. Of course, the slump in demand is hardly surprising given that lockdown measures came into force in most European markets through the second half of last month, resulting in widespread closure of car showrooms. While the weakness was widespread, the drop was most pronounced in Italy where it was already known that car registrations declined a whopping 85.4%Y/Y. Drops in France (-72.2%Y/Y) and Spain (-69.3%Y/Y) were also marked, as was the 37.7%Y/Y fall in Germany. No euro area member state posted a positive growth rate. And with lockdown measures still

Euro area: Inflation forecast



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Inflation and contributions



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



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largely in place in the largest four member states (and to remain so until at least early May), we are bound to see another extremely steep decline in car registrations this month too.

The coming week in the euro area and US

The coming week will see EU leaders' hold a teleconference on Thursday – the fourth of its kind – to discuss further the EU's response to the current Covid-19. Most difficult will be the discussion on how to fund support for the post-crisis recovery. French President Macron will argue for the establishment of a joint fund “that could issue common debt with a common guarantee” to provide up to €400bn for the worst affected member states. But Germany and the Netherlands seem highly likely to remain opposed.

Certainly, the data flow will provide a gloomy economic backdrop, with April sentiment surveys, perhaps most noteworthy the flash PMIs on Thursday, set to point to significant contraction. With lockdown measures remaining in place across much of the euro area, these are expected to show a further decline in both the headline services and manufacturing indices, with the former to drop to a new record low and the latter to reach its weakest since the global financial crisis. And so the composite PMI will similarly fall further from the record-low 29.7 reading in March, consistent with an unprecedented contraction in output at the start of the Q2. National business sentiment surveys due in the coming week, including the German ZEW (Tuesday), French INSEE (Wednesday) and German ifo (Friday) will similarly paint a gloomy picture of conditions in April, with record declines likely in the key headline sentiment indices. The European Commission's preliminary consumer confidence indicator on Wednesday will also shed some light on household sentiment at the start of Q2. Unsurprisingly, the indicator is forecast to have declined sharply, albeit merely to a level above the troughs seen during the global financial and euro crises. Germany's latest GfK consumer confidence survey will also be published on Friday, while the weekly updates of applications to the German and French wage subsidy payment schemes should be published on Wednesday and Tuesday respectively. Of less interest with respect to recent economic developments will be Monday's release of euro area goods trade and current account figures for February.

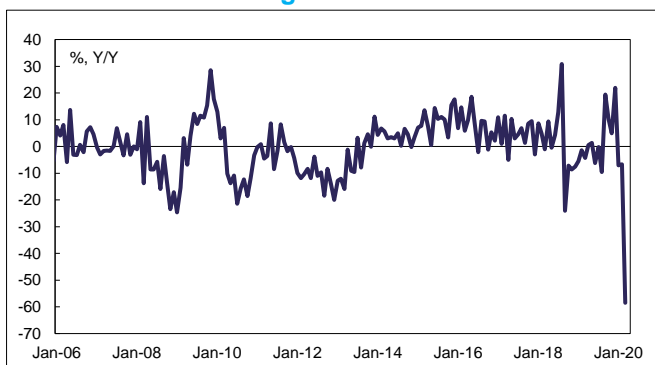
In the US, the coming week kicks off with the latest Chicago Fed national activity index for March, followed by existing and new home sales figures for the same month on Tuesday and Thursday respectively. Of course, Thursday's weekly release of jobless claims numbers will gain more attention and is likely to reveal another alarming increase in initial claims, albeit probably down from the past three weeks. The flash Markit PMIs for April are likely to report further significant declines in the headline indices. That day will also bring the Kansas Fed manufacturing activity index for April. And the week will end with durable goods orders for March, which are expected to report a double-digit monthly drop last month. And when excluding the volatile transportation items, orders are likely to post the steepest monthly decline since the global financial crisis. In the markets, the Treasury will sell 5Y TIPS on Thursday.

UK

The coming week in the UK

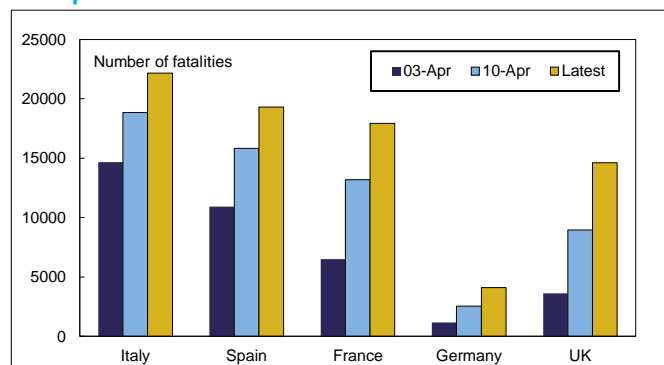
Following a quiet end to the week for UK economic news, it will be a busy week ahead for top-tier UK economic data, with the flash April PMIs on Thursday a key focus and set to provide further insight into the marked deterioration in economic conditions since the official lockdown came into effect in the final week of March. Having fallen by a record 18.6pts to 34.5 in March, the headline services PMI is once again set to see the most striking decline in April. The manufacturing PMI will also point to marked contraction, albeit the headline index will be held up to some extent by a further lengthening of supplier delivery times. Indeed, the CBI's industrial trends survey (due the same day) will likely point to the steepest drop in manufacturing orders for decades. Overall, the composite PMI will fall to a new record low and a level consistent with a deep contraction at the start of Q2. Friday, meanwhile, will bring the official retail sales figures for March, which, in line with

Euro area: New car registrations



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Europe: Number of Covid-19 fatalities



Source: WHO and Daiwa Capital Markets Europe Ltd.

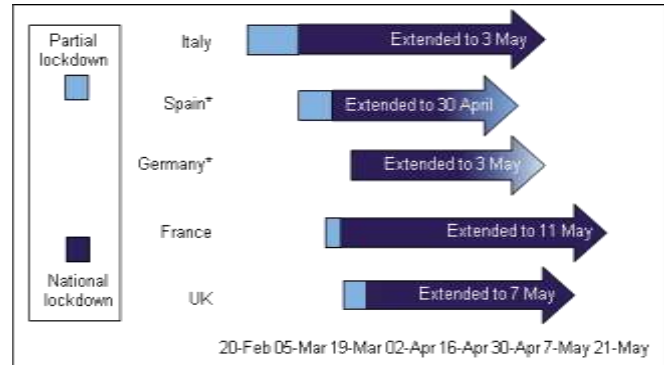
yesterday's BRC survey, are expected to show a marked decline in underlying spending at the end of Q1. And Friday's GfK consumer confidence survey seems bound to show a further marked deterioration in household sentiment at the start of Q2. Ahead of this, the latest labour market report (on Tuesday) will be less informative with respect to the current conjecture as the employment and wage figures will relate to February. The accompanying claimant count numbers for March might be of more interest. These will be followed on Wednesday by March CPI data, which are expected to show a further notable drop in headline inflation on the back of weaker energy inflation.

Daiwa economic forecasts

| | | Q120 | Q220 | Q320 | Q420 | 2020 | 2021 |
|------------------------------------|--|------|-------|------|------|-------|------|
| GDP forecasts % , Q/Q | | | | | | | |
| Euro area | | -5.4 | -19.0 | 11.5 | 5.5 | -13.0 | 5.2 |
| Germany | | -4.0 | -17.0 | 9.0 | 5.0 | -11.5 | 4.8 |
| France | | -5.8 | -25.0 | 15.0 | 7.0 | -16.5 | 8.2 |
| Italy | | -6.5 | -25.5 | 8.5 | 3.0 | -21.0 | 1.0 |
| Spain | | -6.5 | -23.0 | 13.0 | 6.0 | -16.0 | 6.5 |
| UK | | -5.0 | -25.0 | 13.0 | 4.0 | -17.2 | 4.5 |
| Inflation forecasts % , Y/Y | | | | | | | |
| Euro area | | | | | | | |
| Headline CPI | | 1.1 | -0.1 | -0.3 | -0.4 | 0.1 | 0.6 |
| Core CPI | | 1.1 | 0.3 | -0.4 | -0.6 | 0.1 | 0.3 |
| UK | | | | | | | |
| Headline CPI | | 1.6 | 0.6 | 0.4 | 0.4 | 0.7 | 0.8 |
| Core CPI | | 1.5 | 0.9 | 0.7 | 0.5 | 0.9 | 0.6 |

Source: Daiwa Capital Markets Europe Ltd.

Europe: Covid-19 national lockdowns



European calendar

Today's results

Economic data

| Country | Release | Period | Actual | Market consensus/ Daiwa forecast | Previous | Revised |
|---------|------------------------------------|--------|--------------------|-------------------------------------|-----------|-----------|
| EMU | EU27 new car registrations Y/Y% | Mar | -55.1 | - | -7.4 | - |
| | Final headline CPI (core CPI) Y/Y% | Mar | 0.7 (1.0) | 0.7 (1.0) | 1.2 (1.2) | - |
| | Construction output M/M% (Y/Y%) | Feb | -1.5 (-0.9) | - | 3.6 (6.0) | 4.0 (6.9) |
| Italy | Trade balance €bn | Feb | 6.1 | - | 0.5 | - |

Auctions



































| Country | Auction |
|-----------------------|---------|
| - Nothing to report - | |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

In the absence of significant economic news, the next edition of the Euro wrap-up will be published on 21 April 2020












Coming week's data calendar

The coming week's key data releases

| Country | BST | Release | Period | Market consensus/ <i>Daiwa forecast</i> | Previous |
|--------------------------------|---|--|--------|--|---------------|
| Monday 20 April 2020 | | | | | |
| EMU |  | 10.00 Trade balance €bn | Feb | - | 17.3 |
| |  | 10.00 Current account €bn | Feb | - | 34.7 |
| Germany |  | 07.00 PPI Y/Y% | Mar | -0.4 | -0.1 |
| UK |  | 00.01 Rightmove house price index M/M% (Y/Y%) | Apr | - | 1.0 (3.5) |
| Tuesday 21 April 2020 | | | | | |
| Germany |  | 10.00 ZEW current situation balance (expectations) | Apr | -80.0 (-41.5) | -43.1 (-49.5) |
| Spain |  | 08.00 Trade balance €bn | Feb | - | -3.5 |
| UK |  | 07.00 Unemployment claimant count rate % (change '000s) | Mar | - | 3.5 (17.3) |
| |  | 07.00 Average earnings including bonuses (excluding bonuses) 3M/Y% | Feb | 3.0 (3.0) | 3.1 (3.1) |
| |  | 07.00 ILO unemployment rate 3M% | Feb | 3.9 | 3.9 |
| |  | 07.00 Employment change '000s 3M/3M | Feb | 92 | 184 |
| Wednesday 22 April 2020 | | | | | |
| EMU |  | 10.00 Government debt to GDP ratio % | 2019 | - | 85.9 |
| |  | 15.00 Preliminary consumer confidence | Apr | -19.8 | -11.6 |
| France |  | 07.45 Business confidence indicator | Apr | 70 | 95 |
| |  | 07.45 Manufacturing confidence (production outlook) | Apr | - | 98 (-33) |
| Italy |  | 09.00 Industrial orders (sales) Y/Y% | Feb | - | -1.8 (3.8) |
| UK |  | 07.00 CPI (core CPI) Y/Y% | Mar | 1.5 (1.6) | 1.7 (1.7) |
| |  | 07.00 PPI input prices (output prices) Y/Y% | Mar | -3.3 (0.2) | -0.5 (0.4) |
| |  | 09.30 House price index Y/Y% | Feb | - | 1.3 |
| Thursday 23 April 2020 | | | | | |
| EMU |  | 09.00 Preliminary manufacturing PMI (services PMI) | Apr | 39.8 (24.0) | 44.5 (26.4) |
| |  | 09.00 Preliminary composite PMI | Apr | 26.0 | 29.7 |
| Germany |  | 07.00 GfK consumer confidence | May | -2.0 | 2.7 |
| |  | 08.30 Preliminary manufacturing PMI (services PMI) | Apr | 39.0 (28.4) | 45.4 |
| |  | 08.30 Preliminary composite PMI | Apr | 29.8 | 35.0 |
| France |  | 08.15 Preliminary manufacturing PMI (services PMI) | Apr | 38.8 (25.0) | 43.2 (27.4) |
| |  | 08.15 Preliminary composite PMI | Apr | 26.0 | 28.9 |
| UK |  | 07.00 Public sector net borrowing £bn | Mar | - | -0.4 |
| |  | 09.30 Preliminary manufacturing PMI (services PMI) | Apr | 43.0 (29.5) | 47.8 (34.5) |
| |  | 09.30 Preliminary composite PMI | Apr | 32.0 | 36.0 |
| |  | 11.00 CBI industrial trends, total orders (business optimism) | Apr | -50 (-50) | -29 (23) |
| Friday 24 April 2020 | | | | | |
| Germany |  | 09.00 Ifo business climate | Apr | 80.0 | 86.1 |
| |  | 09.00 Ifo current assessment balance (expectations) | Apr | 80.0 (75.0) | 93.0 (79.7) |
| UK |  | 00.01 GfK consumer confidence | Apr | -40 | -34 |
| |  | 07.00 Retail sales including fuel M/M% (Y/Y%) | Mar | -3.5 (-4.0) | -0.3 (0.0) |
| |  | 07.00 Retail sales excluding fuel M/M% (Y/Y%) | Mar | -2.0 (-3.1) | -0.5 (0.5) |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

| Country | BST | Event / Auction |
|--------------------------------|--|--|
| Monday 20 April 2020 | | |
| UK |  | 09.30 BoE's Haldane and Broadbent scheduled to hold a briefing with businesses |
| Tuesday 21 April 2020 | | |
| EMU |  | 14.00 ECB's Stournaras scheduled to speak |
| Germany |  | 10.30 Auction: €5bn of 0% 2022 bonds |
| UK |  | 10.00 Auction: £3.25bn of 0.625% 2025 bonds |
| |  | 11.30 Auction: £1.5bn 1.625% 2054 bonds |
| Wednesday 22 April 2020 | | |
| UK |  | 10.00 Auction: £3bn of 1.25% 2027 bonds |
| |  | 11.30 Auction: £3.25bn of 1% 2024 bonds |
| Thursday 23 April 2020 | | |
| EMU |  | - EU leaders' teleconference |
| Friday 24 April 2020 | | |
| Italy |  | 10.00 Auction: fixed rate and inflation-linked bonds |
| |  | - Sovereign debt credit rating update by S&P |
| UK |  | - Sovereign debt credit rating update by S&P |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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