Daiwa Capital Markets

# Euro wrap-up

## Overview

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- While the German ZEW survey reported a marked improvement in analyst expectations, Bunds made gains and euro area periphery government bonds and stocks made significant losses as the drop in global oil prices hit risk appetite.
- Gilts made gains but sterling weakened as the UK government reported a steady flow in the number of new welfare benefit claimants.
- Wednesday will bring new data on euro area consumer confidence, the French labour market and UK inflation.

**Daily bond market movements**

| Bond | Yield | Change |
|---|---|---|
| BKO 0 03/22 | -0.714 | -0.013 |
| OBL 0 04/25 | -0.671 | -0.030 |
| DBR 0 02/30 | -0.488 | -0.034 |
| UKT 0½ 07/22 | 0.063 | -0.032 |
| UKT 0⅝ 06/25 | 0.166 | -0.032 |
| UKT 4¾ 12/30 | 0.296 | -0.041 |

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

# Euro area

### ZEW survey suggests an exceptionally weak April…

In its monthly report, the Bundesbank yesterday estimated that the drop of consumer spending in the second half of March on various goods and services – most notably catering, travel and leisure activities – would on its own have knocked a full 1ppt off the level of GDP over Q1 as whole. Reflecting that sharp drop in spending, Germany's Ministry of Finance today stated that VAT receipts in March were down more than 10%Y/Y, the steepest fall in 25 years. And given the lockdown, the quarterly decline in spending in Q2 will be several times more severe than in Q1. Certainly, today's ZEW survey of financial market professionals suggested that activity had weakened significantly further in April, with the German current situations index down 48.4pts – the most since reunification – to -91.5, the lowest since the global financial crisis.

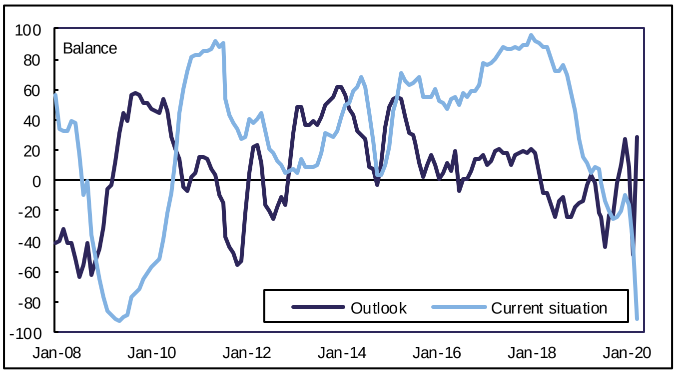
### …but expectations trace a 'V'-shaped rebound

However, most eye-catching in the ZEW survey was arguably the record increase in the survey's index for expectations of economic conditions in six-months' time, which rose 77.7pts to 28.2, a more-than 4½-year high. That tallies with the improvement in financial market conditions since the ECB announced on 18 March its €750bn PEPP asset purchase programme and other initiatives to support the flow of lending. It also reflects significant fiscal policy support provided by governments. And it matches increasing evidence that the spread of the coronavirus has been controlled by lockdown measures, and associated tentative steps to relax restrictions in economic activity. So, the 'V'-shaped rebound in expectations from a month ago seems appropriate. It does not, however, mean that we should expect a 'V'-shaped rebound in economic activity. Indeed, survey respondents remained gloomy about economic activity over the near term, with no one forecasting positive GDP growth until Q3, and output not expected to return to pre-Covid-19 levels before 2022. Moreover, with the survey's current conditions balance often providing an indication of what to expect from the flash PMI and ifo indices (due Thursday and Friday respectively), these seem bound to be terrible.

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

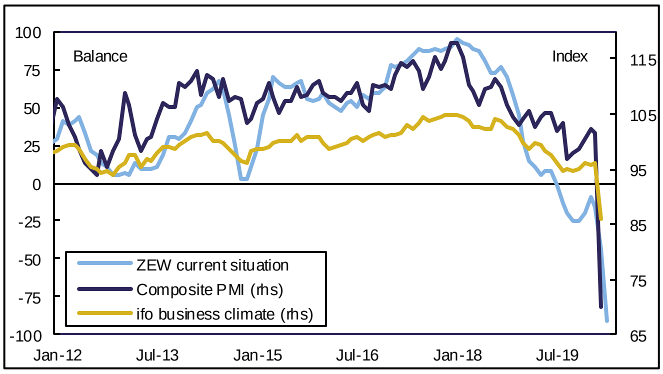
Tomorrow will bring the Commission's flash estimate of euro area consumer confidence in April, which is likely to report a marked deterioration in sentiment at the start of the second quarter as the impact of the coronavirus and associated lockdowns across various member states took their toll. Meanwhile, after the French labour minister yesterday noted that there are currently 9.6mn in temporary unemployment, tomorrow will also bring the weekly update on French labour market conditions.

**Germany: ZEW sentiment indicators**




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

**Germany: Survey sentiment indicators**




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

In the US, tomorrow will bring just the FHFA house price index for February.

# UK

## Several million workers likely now furloughed

Yesterday finally saw the UK's Coronavirus Job Retention Scheme – whereby firms can have 80% of the monthly wages of furloughed employees, up to a cap of £2.5k, paid by the government – go live. HMRC initially indicated that applications had been made by 140k firms on behalf of roughly 1mn workers. But surveys, such as the ONS's special coronavirus business survey, suggest that take-up could eventually reach more than 40% of firms and in excess of 8 million workers, more than double the level originally envisaged by HM Treasury but consistent with the levels of take-up of similar schemes in France and Germany. Moreover, on top of those furloughed, the OBR last week projected that, if the lockdown continues for three months, 'regular' unemployment could rise by more than 2mn workers by end-Q2 to above the 1980s peak. That would likely push the unemployment rate to more than 10%, 1½ppts above the global financial crisis peak. So, the Resolution Foundation estimates that 11.7mn could be either unemployed or furloughed this quarter.

## Labour market was softening before Covid crisis

Therefore, today's official ONS labour market data were already well out of date. The jobless claims data – which reported an increase of 12.2k claims in March, to take the claimant count unemployment rate just 0.1ppt higher to 3.5% from a downwardly revised rate the prior month – were collected in the second week of last month, well before the coronavirus lockdown was announced and enforced. The headline data, which reported a rise of 0.1ppt in the ILO unemployment rate to 4.0% and a 172k rise in employment, related to the three months to February and were thus very much distant history. Nevertheless, even these figures suggested that underlying conditions in the labour market were already softening over that period. Vacancies in the first week of March were down on a year-on-year basis for the tenth consecutive month, falling 52k 3M/Y albeit just 6k 3M/3M. And average labour earnings growth moderated 0.3ppt to an 18-month low of 2.8%3M/Y in February, with the ex-bonus figure dropping 0.2ppt to 2.9%3M/Y, the lowest since July 2018.

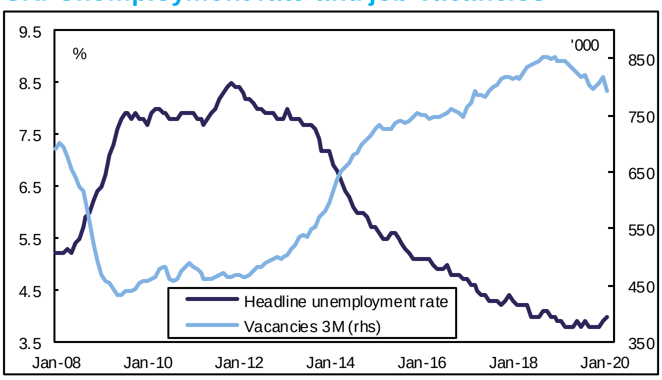
## Household incomes taking a big hit

Since then, average household incomes have taken a big hit. The government reported today that in the six weeks to 12 April the number of new claimants for Universal Credit (UC) – who can be either in or out of work – had reached 1.8mn, almost five times the number in the same period a year ago. And yesterday's publication of Markit's household finance survey reported that about one third of UK households reported a decline in income from employment this month. And the survey's headline index of financial wellbeing posted a record drop of 7.6pts to 34.9, its lowest since November 2011. Unsurprisingly, Markit's survey also suggested that job security perceptions had fallen sharply, with the relevant index similarly plummeting to a series low.

## The day ahead in the UK

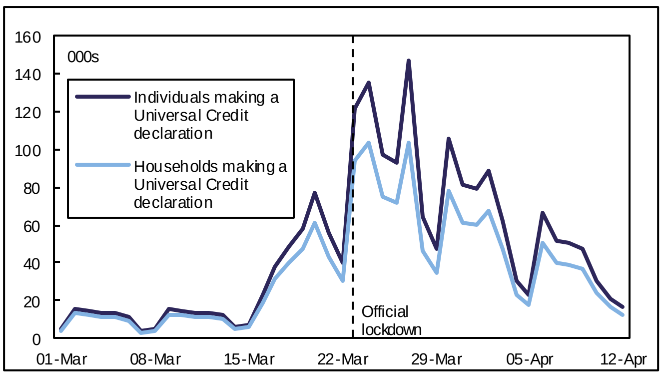
Wednesday will bring UK CPI figures for March, which are expected to show another fall in headline inflation on the back of lower energy prices. Against the backdrop of weaker demand, core inflation is also expected to have edged lower. Tomorrow will also bring the ONS house price index for February, although this will provide no insight into current housing market conditions.

**UK: Unemployment rate and job vacancies**




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

**UK: Universal Credit declarations**




*Source: Department for Work and Pensions and Daiwa Capital Markets Europe Ltd.*

# European calendar

## Today's results

**Economic data**

| Country | Release | Period | **Actual** | Market consensus/ _Daiwa forecast_ | Previous | Revised |
|---|---|---|---|---|---|---|
| Gemany | ZEW current situation balance (expectations) | Apr | **-91.5 (28.2)** | -80.0 (-41.5) | -43.1 (-49.5) | - |
| Spain | Trade balance €bn | Feb | **-2.1** | - | -3.5 | - |
| UK | Unemployment claimant count rate % (change '000s) | Mar | **3.5 (12.2)** | - | 3.5 (17.3) | **3.4 (5.9)** |
| | Average earnings including bonuses (excluding bonuses) 3M/Y% | Feb | **2.8 (2.9)** | 3.0 (3.0) | 3.1 (3.1) | - |
| | ILO unemployment rate 3M% | Feb | **4.0** | 3.9 | 3.9 | - |
| | Employment change '000s 3M/3M | Feb | **172** | 92 | 184 | - |

**Auctions**

| Country | Auction |
|---|---|
| Germany | sold €4.1bn of 0% 2022 bonds at an average yield of -0.68% |
| UK | sold £3.25bn of 0.625% 2025 bonds at an average yield of 0.168% |
| | sold £1.5bn 1.625% 2054 bonds at an average yield of 0.584% |

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

## Yesterday's results

**Economic data**

| Country | Release | Period | **Actual** | Market consensus/ _Daiwa forecast_ | Previous | Revised |
|---|---|---|---|---|---|---|
| EMU | Trade balance €bn | Feb | **25.8** | - | 17.3 | **18.2** |
| | Current account €bn | Feb | **40.2** | - | 34.7 | **21.8** |
| Germany | PPI Y/Y% | Mar | **-0.8** | -0.4 | -0.1 | - |
| UK | Rightmove house price index M/M% (Y/Y%) | Apr | **-0.2 (2.1)** | - | 1.0 (3.5) | - |

**Auctions**

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

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

## Tomorrow's data releases

**Economic data**

| Country | BST | Release | Period | Market consensus/ _Daiwa forecast_ | Previous |
|---|---|---|---|---|---|
| EMU | 10.00 | Government debt to GDP ratio % | 2019 | - | 85.9 |
| | 15.00 | Preliminary consumer confidence | Apr | -19.8 | -11.6 |
| 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 | ONS house price index Y/Y% | Feb | - | 1.3 |

**Auctions and events**

| Country | BST | Auction / Event |
|---|---|---|
| UK | 10.00 | Auction: £3bn of 1.25% 2027 bonds |
| | 11.30 | Auction: £3.25bn of 1% 2024 bonds |

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

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