

Euro wrap-up

Overview

- Bunds made significant gains as the ifo business survey made clear that German firms have an extremely downbeat view of the outlook. Supported by ECB policy, periphery bonds outperformed despite the failure of EU leaders to agree detail on the proposed recovery fund.
- While UK retail sales dropped at a record pace, Gilts made modest losses as consumer confidence remained steady and the government announced increased support for SMEs.
- The coming week will bring first estimates of Q1 GDP and April inflation in the euro area while the ECB will hold its latest policy meeting.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.729	-0.029
OBL 0 04/25	-0.671	-0.046
DBR 0 02/30	-0.474	-0.045
UKT 0½ 07/22	0.067	+0.010
UKT 0% 06/25	0.174	+0.012
UKT 4% 12/30	0.293	+0.003

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

Euro area

A “catastrophic” German ifo survey

Following yesterday’s extreme record lows on the [flash PMIs](#), today’s German ifo business survey unsurprisingly also reported a marked deterioration in conditions over the past month. However, so marked was the weakening in the main indices that the ifo Institute concluded that “the mood among German companies is catastrophic”. The headline business climate index fell 11.6pts to a new series low of 74.3, more than 5pts below the previous trough reached during the global financial crisis. This partly reflected a plunge in the assessments of current conditions, with the respective survey index down more than 13pts to a new low of 79.5. But perhaps of greater concern, and contrasting the vigorous rebound seen in the [ZEW expectations](#) index earlier this week, the ifo expectations index also fell more than 10pts, to a new low of 69.4, almost 10pts below the trough during the global financial crisis. And the outlook indices for every major sector – services, manufacturing, trade and construction – fell sharply to record lows too, suggesting that businesses across the economy expect a difficult six months ahead.

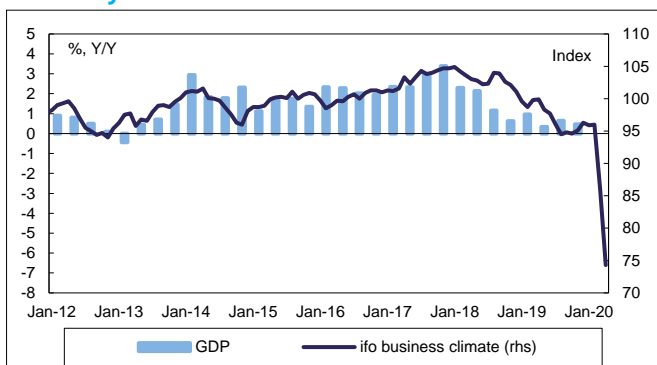
Italy plans extra fiscal support

At their videoconference yesterday afternoon, euro area leaders rubber-stamped finance ministers’ agreement to make available support worth up to €540bn from the ESM, European Commission and EIB for governments, workers and businesses respectively. They also confirmed a deadline of 1 June for the new programmes to be operational. But that decision was already a fait accompli. And no member state intends to borrow from the ESM anyway. So, of far greater interest was the wider EU discussion on plans to establish a recovery fund, for which the economic case is strong. Once the pandemic has subsided, governments will still need to maintain highly expansionary fiscal policies if they are to sustain economic recovery. But they will also face massive refinancing needs over coming years due to the sharp increase in borrowing this year. Indeed, while Italy’s government considers whether to relax its strict lockdown measures from 4 May, reports today suggested that it is also planning to increase its fiscal support by a further €55bn on top of the recent €25bn package. As such, according to Bloomberg, Italy’s deficit is now forecast by the Government to rise above 10% of GDP this year, and gross government debt is expected to rise above 155% of GDP. With those projections based on a relatively conservative assumption that GDP will fall 8% this year (we would not be surprised to see a decline in GDP more than twice that rate), we expect the deficit and debt ratios to rise much further than that.

EU leaders to continue work on new Recovery Fund

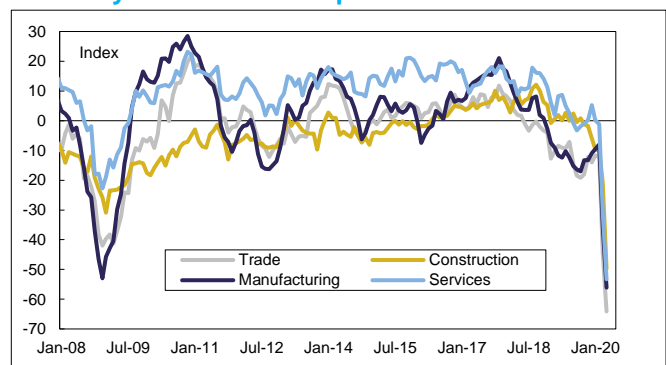
Unfortunately, while the leaders agreed that a recovery fund was necessary and urgent, they reached no conclusions on how

Germany: GDP and ifo business climate index



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

Germany: ifo business expectations indices*



*Expectations for the coming six months. Source: ifo Institute, Thomson Reuters and Daiwa Capital Markets Europe Ltd.



it might work in practice. Instead, they asked the European Commission to come up with a proposal “commensurate to the challenge we are facing” and to clarify the link with the EU’s seven-year budget. That would seem to leave scope for common EU borrowing to finance large-scale loans and grants for needy member states. But the detail on the full extent and nature of the funds to be made available, the criteria for how they will be distributed and conditionality to be attached, and the arrangements for the new EU borrowing to be undertaken, will likely take several months to be agreed. The Commission’s initial proposals, however, are due in mid-May.

The week ahead in the euro area and US

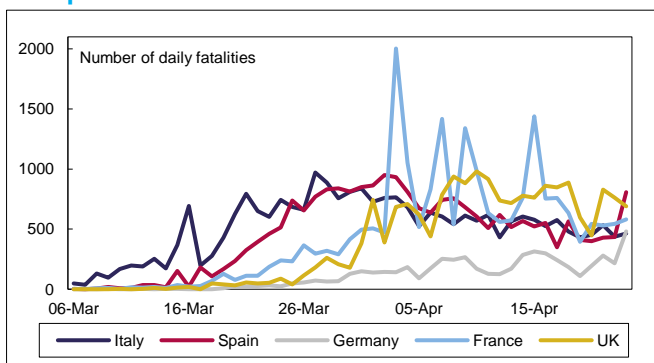
The coming week will be a busy one for euro area events, with the conclusion of the ECB’s latest Governing Council on Thursday to coincide with the flash estimates of Q1 GDP, April inflation and March unemployment. With the ECB having recently unveiled a wide range of large-scale actions, including its €750bn PEPP asset purchase programme to last through to year-end and a relaxation of collateral rules through to September next year, we think it highly unlikely that further policy initiatives will be announced in the coming week. Instead, we would expect the Governing Council to reiterate that, with risks skewed heavily to the downside, it is ‘ready to adjust all of its instruments, as appropriate’. Of course, with President Lagarde having in March stressed that the floor to interest rates had not yet been reached, there is a possibility that the ECB will ease policy again. If, however, it did cut the deposit rate below its current level of -0.50%, we would expect the impact of this on the banks to be fully offset by an increase in the tiering multiple.

Thursday will also bring the week’s most noteworthy data release, with the first estimate of Q1 GDP from the euro area and various member states. With output having been significantly disrupted throughout March as lockdown measures came into effect, GDP is expected to have contracted sharply in Q1 – our forecast for a drop of more than 4%Q/Q is slightly steeper than the Bloomberg consensus and would mark the steepest contraction on record. Among country releases also due that day, we anticipate French GDP to have declined by more than 5½%Q/Q, while Italian and Spanish GDP will also contract at an unprecedented pace, close to 5%Q/Q. Thursday will bring GDP data from Austria, Lithuania and Latvia, while figures from Belgium will be published on Wednesday.

Thursday will also bring the flash estimate of April inflation. Against the backdrop of weaker demand and the plunge in the oil price, headline inflation is expected to have fallen sharply again from the 0.7%Y/Y reading in March, possibly to as low as zero for the first time for almost four years. Core inflation will also decline, possibly to around ½%Y/Y from 1%Y/Y previously. Meanwhile, March unemployment figures are also due Thursday and, despite the various employment protection programmes across member states, are expected to show an initial jump in the overall unemployment rate last month by 0.4ppt to 7.7%. Official German labour market figures for April will be published on Thursday too, after the weekly updates from the German and French employment agencies earlier in the week. Ahead of this, April’s European Commission sentiment survey – the most comprehensive guide to euro area economic activity – is due on Wednesday, and is expected to show a drop in the headline economic sentiment indicator to its lowest level since the global financial crisis. The INSEE French consumer confidence survey for April will be published on Tuesday, while retail sales figures for March from Spain and Germany are due on Wednesday and Thursday respectively. In addition, the ECB’s latest quarterly bank lending survey for Q1 and bank lending figures for March will be published on Tuesday and Wednesday respectively.

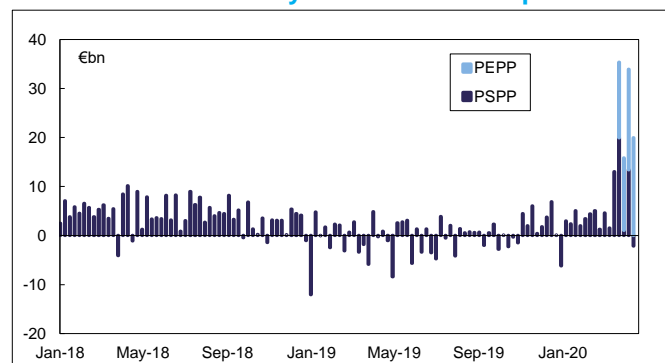
The coming week will be busy for US economic news, with the conclusion of the Fed’s latest policy-setting meeting on Wednesday to coincide with the first estimate of Q1 GDP. Given the Fed’s comprehensive package of easing measures – including a commitment to make unlimited purchases of USTs and agency MBS if required, a cut the Fed Funds Rate target range to its effective floor and the launch of an extensive range of special lending facilities – we expect no amendment to policy at its forthcoming meeting. But the policy statement and Powell’s press conference will no doubt be watched closely for any insight into Committee’s updated thoughts on the economy and expectations for possible future adjustments to its various policy initiatives. In terms of the economic outlook, the GDP release will provide some insight into the initial hit to activity associated with Covid-19. While a contraction is certainly on the cards, there is a wide range of forecasts – with the

Europe: Confirmed Covid-19 fatalities



Source: WHO and Daiwa Capital Markets Europe Ltd.

Euro area: ECB weekly PSPP and PEPP purchases



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

Bloomberg median currently for a decline of around 4%Q/Q annualised, roughly half the steepest quarter of contraction during the global financial crisis. The hit to activity increased significantly towards the end of the first quarter, as will likely be illustrated in the various March data releases in the coming week including advance goods trade and inventories figures (Tuesday), pending home sales (Wednesday), personal income and consumption (Thursday) and construction spending (Friday). And survey results for April, including the Conference Board's consumer confidence (Tuesday), Chicago PMI (Thursday) and manufacturing ISM (Friday) indices, along with the latest vehicle sales figures (Friday), will likely signal a further deterioration in conditions over the past month. The latest weekly jobless claims figures (Thursday) will likely remain alarming too.

UK

A record drop in retail sales

The UK economic data focus at the end of the week was the consumer, with updates on retail sales and household confidence. The March retail sales data came in broadly in line with expectations, recording a steep drop in spending on non-essentials and fuel. Total sales fell 5.1%M/M, the most since the series began in 1988, to be down a marked 5.9%Y/Y. The sharp fall partly reflected lower spending at petrol stations, down 18.8%M/M as the movement of people slowed and eventually the lockdown kicked in towards the end of the month. However, even excluding auto fuel, retail sales dropped a record 3.6%M/M and 4.1%Y/Y. Within the detail, clothes stores were most severely hit, with sales down almost 35%M/M. Spending at household goods stores fell a steep 8.0%M/M. At the other end of the spectrum, however, food sales saw the strongest growth, up 10.4%M/M as households prepared for working from home and lockdown. And non-store retailing jumped 5.9%M/M so that online sales accounted for a record share of more than 22% of total spending. Given the weakness at the end of the quarter, total sales fell 1.6%3M/3M, illustrating the strong likelihood of a significant negative print to Q1 GDP when the respective data are published next month.

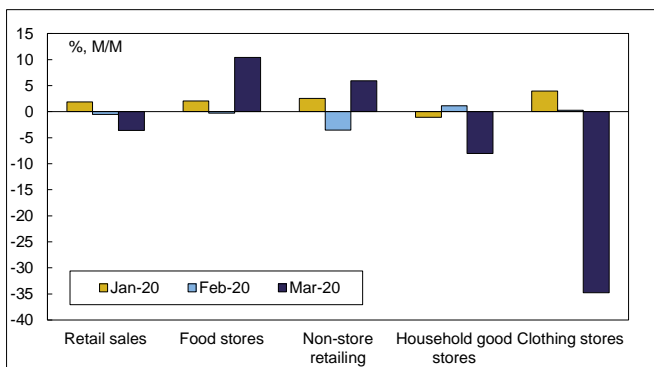
Consumer confidence surprisingly stable

The GfK consumer confidence survey unsurprisingly showed that sentiment remains extremely weak. However, having plunged in March to the lowest level since February 2009, the survey's headline index failed to deteriorate further this month, remaining unchanged at -34, 5pts above the series low. Perhaps reflecting the significant government support to household incomes announced at the back end of last month, not least the Job Retention Programme that offers furloughed workers up to 80% of their previous incomes, the survey detail suggested that consumers felt a touch more upbeat about the prospects for their personal finances, with the respective index up 3pts. However, remaining extremely downbeat about the overall economic outlook, households were also a touch more inclined to save, with no improvement in the respective indicator of willingness to make major new purchases.

The coming week in the UK

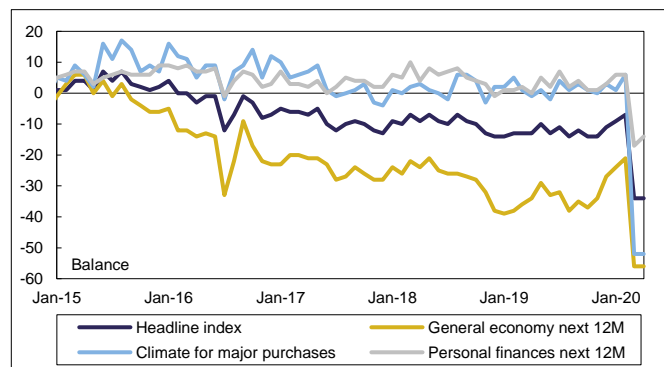
The coming week's data calendar will bring more April sentiment survey results, including perhaps most notably the CBI's distributive trades survey on Tuesday. Following the record decline in today's official March retail sales figures, the survey is expected to show that spending plummeted further at the start of Q2, as the lockdown continued to disrupt activity and weigh on demand for the entire month. Indeed, we would expect to see the headline sales index fall to a record low, below the -55 trough seen during the global financial crisis. Tuesday will also bring the Lloyds business barometer, which will similarly likely point to a marked deterioration in conditions in April. Friday's final manufacturing PMI will also confirm the significant decline in output over the past month – indeed, the flash estimate showed the output PMI declining a record 27.2pts to a series low 16.6, with the new orders and business expectations indices similarly pointing to bleak near-term outlook. Admittedly, the headline PMI will fall to a lesser degree, not least as it is counter-intuitively boosted by a lengthening of supplier delivery times. The end of the week will also bring the BoE lending figures for March. While consumer credit growth will have remained positive, the number of mortgage approvals and associated loans are likely to have fallen significantly as the housing market has effectively come to a standstill.

UK: Retail sales


















Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence



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

Daiwa economic forecasts



	2019		2020				2019	2020	2021
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP growth, %, Q/Q									
Euro area 	0.3	0.1	-4.5	-20.0	11.5	5.5	1.2	-13.0	6.1
Germany 	0.2	0.0	-3.5	-17.0	9.0	5.0	0.6	-11.0	4.8
France 	0.3	-0.1	-5.5	-25.0	15.0	7.0	1.3	-16.0	8.2
Italy 	0.1	-0.3	-5.0	-25.5	8.5	3.0	0.3	-20.0	1.0
Spain 	0.4	0.5	-4.7	-23.0	13.0	6.0	2.0	-14.5	6.5
UK 	0.5	0.0	-4.5	-25.0	13.0	4.0	1.4	-16.0	4.5
Inflation, %, Y/Y									
Euro area									
Headline CPI 	1.0	1.0	1.1	-0.1	-0.3	-0.4	1.2	0.1	0.6
Core CPI 	0.9	1.2	1.1	0.3	-0.4	-0.6	1.0	0.1	0.3
UK									
Headline CPI 	1.8	1.4	1.7	0.7	0.5	0.6	1.8	0.9	0.9
Core CPI 	1.7	1.6	1.6	1.3	1.1	0.9	1.7	1.2	0.7
Monetary policy									
ECB									
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate % 	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Net asset purchases* 	0	20	107	107	107	107	20	107	20
BoE									
Bank Rate % 	0.75	0.75	0.10	0.10	0.10	0.10	0.75	0.10	0.10
Net asset purchases** 	0	0	36	36	36	36	0	36	0

*Monthly target €bn, end of period. **Monthly target £bn, end of period.
Source: Bloomberg, ECB, BoE 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
Germany 	Ifo business climate	Apr	74.3	79.7	86.1	85.9
	Ifo current assessment balance (expectations)	Apr	79.5 (69.4)	80.5 (75.0)	93.0 (79.7)	92.9 (79.5)
UK 	Preliminary GfK consumer confidence	Apr	-34	-40	-34	-
	Retail sales including fuel M/M% (Y/Y%)	Mar	-5.1 (-5.8)	-5.0 (-5.0)	-0.3 (0.0)	-
	Retail sales excluding fuel M/M% (Y/Y%)	Mar	-3.7 (-4.1)	-4.0 (-4.8)	-0.5 (0.5)	-(0.4)

Auctions
































Country	Auction
Italy 	sold €1bn of 0.4% 2030 index-linked bonds at an average yield of 1.77%
	sold €2.75bn of 0% 2021 bonds at an average yield of 1.00%

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 28 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 27 April 2020					
- Nothing scheduled -					
Tuesday 28 April 2020					
France		07.45 Consumer confidence	Apr	83	103
Spain		08.00 Unemployment rate %	Q1	15.7	13.8
UK		00.01 Lloyds business barometer	Apr	-	6
		11.00 CBI total distributed sales survey, total sales 3M/Y	Apr	-	5
		- Nationwide house price index* M/M% (Y/Y%)	Apr	-0.3 (2.5)	0.8 (3.0)
Wednesday 29 April 2020					
EMU		09.00 M3 money supply Y/Y%	Mar	5.5	5.5
		10.00 Economic sentiment index	Apr	75.0	94.5
		10.00 Industrial confidence (services)	Apr	-25.0 (-26.5)	-10.8 (-2.2)
		10.00 Final consumer confidence	Apr	-22.7	-11.6
Germany		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	0.6 (0.5)	1.4 (1.3)
Spain		08.00 Retail sales Y/Y%	Mar	-4.0	1.8
UK		00.01 BRC shop price index Y/Y%	Apr	-	-0.8
Thursday 30 April 2020					
EMU		10.00 Preliminary GDP Q/Q% (Y/Y%)	Q1	-3.5 (-3.3)	0.1 (1.0)
		10.00 Preliminary CPI (core CPI) Y/Y%	Apr	0.1 (0.7)	0.7 (1.0)
		10.00 Unemployment rate %	Mar	7.7	7.3
		12.45 ECB main refinancing rate %	Apr	0.00	0.00
		12.45 ECB marginal lending rate %	Apr	0.25	0.25
		12.45 ECB deposit facility rate %	Apr	-0.50	-0.50
Germany		07.00 Retail sales M/M% (Y/Y%)	Mar	-10.5 (-5.0)	0.8 (6.5)
		08.55 Unemployment rate % (change'000s)	Apr	5.2 (50.0)	5.0 (1.0)
France		06.30 Preliminary GDP Q/Q% (Y/Y%)	Q1	-4.0 (-3.1)	-0.1 (0.9)
		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	0.2 (0.1)	0.7 (0.8)
		07.45 Consumer spending M/M% (Y/Y%)	Mar	-4.5 (-5.4)	-0.1 (-0.6)
Italy		09.00 Unemployment rate %	Mar	10.5	9.7
		10.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	-0.3 (-0.3)	0.1 (0.1)
		11.00 Preliminary GDP Q/Q% (Y/Y%)	Q1	-5.2 (-5.4)	-0.3 (0.1)
Spain		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Apr	-0.3 (-0.8)	0.0 (0.1)
		08.00 Preliminary GDP Q/Q% (Y/Y%)	Q1	-4.4 (-2.9)	0.4 (1.8)
Friday 01 May 2020					
UK		09.30 Final manufacturing PMI	Apr	32.9	47.8
		09.30 Net consumer credit £bn (Y/Y%)	Mar	0.6 (-)	0.9 (5.7)
		09.30 Net mortgage lending £bn (approvals '000s)	Mar	3.5 (60.0)	4.0 (73.5)

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 27 April 2020		
- Nothing scheduled -		
Tuesday 28 April 2020		
EMU		09.00 ECB publishes its quarterly bank lending survey
UK		10.00 Auction: £3bn of 0.875% 2029 bonds
		10.30 Auction: £1.2bn of 0.125% 2028 index-linked bonds
Wednesday 29 April 2020		
Germany		10.30 Auction: €4bn of 0% 2030 bonds
Italy		10.00 Auction 5Y and 10Y bonds
UK		10.00 Auction: £3bn of 2.75% 2024 bonds
		11.30 Auction: £2bn of 1.75% 2049 bonds
Thursday 30 April 2020		
EMU		12.45 ECB monetary policy announcement
		13.30 ECB President Lagarde speaks at Governing Council's press conference
Friday 01 May 2020		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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