

# Euro wrap-up

## Overview

- While most euro area financial markets were shut for May Day, the ECB published some downside scenarios for GDP, while its Chief Economist signalled a readiness to augment the PEPP asset purchase programme.
- Gilts made losses as UK data showed a jump in bank lending to firms in March and downwards revisions to the April manufacturing PMIs.
- The coming week will bring the BoE's latest policy announcement and Monetary Policy Report, as well as new data for German IP and euro area retail sales.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-	-
OBL 0 04/25	-	-
DBR 0 02/30	-	-
UKT 0½ 07/22	0.048	+0.026
UKT 0% 06/25	0.112	+0.020
UKT 4% 12/30	0.256	+0.026

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

## Euro area

### ECB publishes alternative scenarios for GDP

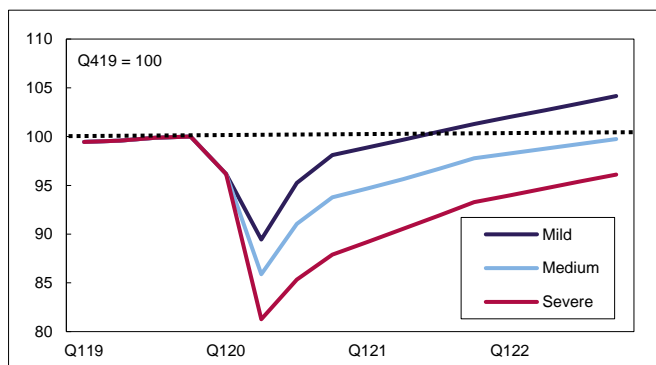
At her post-policy meeting press conference [yesterday](#), Christine Lagarde was understandably downbeat about the economic outlook. While the ECB will not publish updated full economic projections until next month, she alluded to alternative illustrative scenarios for euro area GDP, which were subsequently published today.

- In the first "mild" scenario, strict lockdown ends in the course of this month with a gradual return to normal activity thereafter and only temporary economic losses. GDP is expected to fall 5% in 2020. And the level of economic output would return above the pre-coronavirus peak in the first half of next year, and grow by 6% over 2021 as a whole.
- In the second "medium" scenario, a short-lived strict lockdown period, also ending in May, is followed by relatively stringent and protracted containment measures. So, there would be a delayed return to normal activity and persistent output losses. Indeed, GDP would fall 8% in 2020, and rise 5% in 2021 and a similar pace in 2022. But the level of economic output would not return to the pre-coronavirus peak until early 2023.
- In the third "severe" scenario, strict lockdown does not end until June, and so GDP falls 15%Q/Q in Q2. And there is only limited success in containing the spread of the virus, requiring ongoing tough containment measures over subsequent months. So, GDP rises only 6%Q/Q and 3%Q/Q in Q3 and Q4 respectively, resulting in a full-year contraction of 12% in 2020. Growth of just 4% in 2021 and ongoing moderate expansion in 2022 would leave the level of GDP still well below the pre-coronavirus peak even heading into 2023. This scenario is closer to our own baseline projection – indeed, we envisage a slightly sharper contraction in 2020, albeit a somewhat stronger rebound in 2021.

### Lane emphasises ECB readiness to enhance PEPP

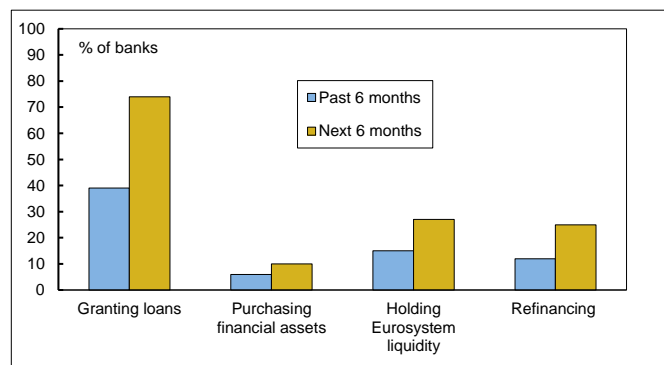
Against such a gloomy outlook for economic activity, as well as the steep drop in oil prices, the ECB acknowledges that downward pressures on inflation will increase over coming months. And so, while it is less sure about the relative impacts of supply-side and demand-side price pressures that might emerge over the medium term (we, however, think the downside pressures from the demand side will win out for several years), there would seem to be no reason for the ECB to soft peddle on providing monetary policy support. In a new blog published today, ECB Chief Economist Philip Lane justified yesterday's new policy measures to provide extra support to the banking sector via more generous conditions, including a -1.00% interest rate, on the quarterly TLTRO-III, and a new series of monthly PELTROs with an interest rate of -0.25%. Given the

### Euro area: ECB GDP scenarios



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

### Euro area banks: Intended use of TLTRO-III funds



Source: ECB Bank Lending Survey and Daiwa Capital Markets Europe Ltd.



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dominance of bank lending in euro area corporate finance, the record increase in demand from businesses for bank loans to cover emergency liquidity needs, and the clear signal from the ECB's recent Bank Lending Survey that banks would use the TLTRO-III loans to expand lending (see chart), the new measures were indeed welcome. Nevertheless, investors responded with disappointment to yesterday's decision not to enhance the ECB's asset purchase programmes. In today's blog, however, Lane made clear his displeasure at recent pressure on BTPs and other periphery bonds, noting that "non-fundamental volatility in spreads impairs the smooth transmission of monetary policy across countries and it is a basic task for the central bank to counter such destabilising force". Moreover, he wrote that the Governing Council "will further adjust our instruments if warranted" and that this commitment "includes increasing the size of the PEPP and adjusting its composition as much as necessary and for as long as needed". Certainly, we expect a decision to increase the size of the PEPP, and extend it into 2021, to be made in due course, and probably as soon as June.

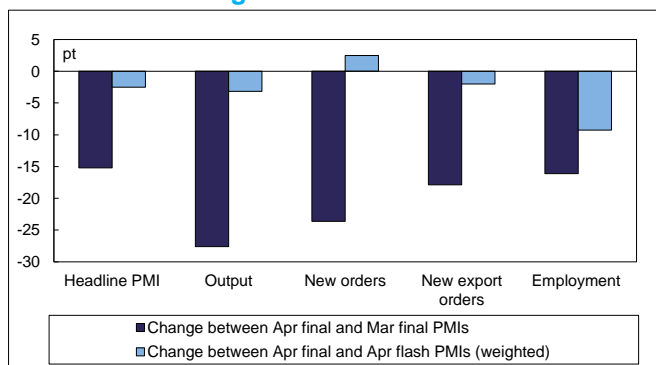
## The coming week in the euro area and US

In the first half of the coming week, the euro area's economic data calendar brings the release of the final manufacturing and service sector PMIs for April on Monday and Wednesday respectively. These are expected to confirm the dire outturns in the preliminary estimates, which inevitably pointed towards a marked contraction in both sectors throughout the region. Indeed, the composite PMI dropped 16.2pts to a record low of just 13.5. National car registration figures for April, due throughout the week, will also report record drops as car showrooms remained closed during the lockdowns. Meanwhile, following this week's first estimate of Q1 GDP growth (-3.8%Q/Q), Wednesday's release of euro area retail sales figures for March will shed more light on consumption at the end of the first quarter. With most countries entering into lockdown over the course of that month, sales are expected to have fallen at a record pace (down more than 10%M/M). Over the latter part of the week, industry releases are also expected to reveal record falls in demand and output. In Germany, Wednesday's factory orders data are forecast to show a double-digit percentage monthly drop in March while industrial production numbers due the following day are expected to show output fell by 7%M/M in March. A similarly weak trend will be evident in the French and Spanish IP releases on Thursday and Friday respectively. March trade figures from France (Thursday) and Germany (Friday) are also due.

In other news, the ECB will publish its annual report on Thursday, with Vice President de Guindos due to present an updated economic assessment, no doubt based on the scenarios published today, by videoconference before the European Parliament's Committee on Economic and Monetary Affairs. That day will also bring the publication of the European Commission's spring economic forecasts which will give an insight into how deep the EU executive currently expects the euro area's recession to be this year and the subsequent pace of recovery thereafter.

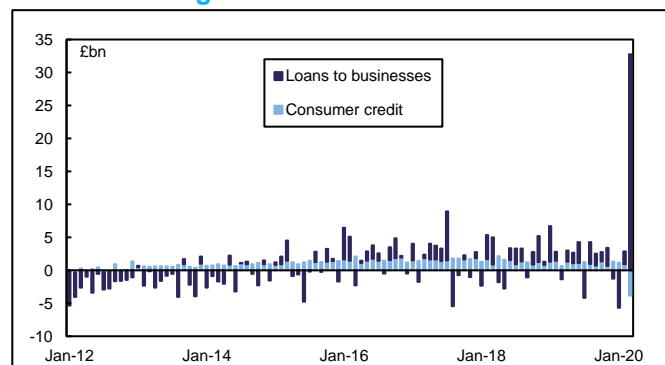
In the US, the coming week's data are expected to suggest that the economy continues to deteriorate. At the start the week, the main focus will be on Tuesday's release of the non-manufacturing ISM and final services and composite PMIs, which are forecast to fall to levels consistent with a deep contraction in activity – indeed, the flash headline services index fell in April to 27.0, the lowest level on record. That day will also bring final trade figures for March, which are likely to confirm a sharp fall in imports and weaker exports, while Monday will bring final factory orders data for the same month. Focus over the second half of the week shifts to the labour market where the situation is unsurprisingly dire. The ADP measure of non-farm employment (due Wednesday) is expected to drop sharply in April, an outturn likely to be confirmed by Friday's more comprehensive labour market report. In particular, non-farm payrolls are forecast to decline an unprecedented 22mn. Consequently, Friday's unemployment rate is expected to rise significantly in April, to 16.3%, which would be the highest rate since the 1930s. And Thursday's weekly jobless claims figures are likely to confirm that firms continued to lay off staff despite support from the Paycheck Protection Program.

### UK: Manufacturing PMI



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

### UK: Net lending to businesses and households



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

## UK

### Manufacturing PMI revised even lower

As expected, the final manufacturing PMI survey reinforced the unsurprising message of the preliminary figures that industrial output fell sharply over the past month. And with a further 12% of respondent firms having subsequently submitted, today's results saw an even weaker output PMI than initially estimated, with the 0.4pt revision (a more than 3pt drop on a weighted basis) leaving the index down a record 27.6pts on the month to a series low 16.3. The consumer goods sector was seemingly hardest hit, with the output index down 28½pts to 14.4, although the equivalent PMIs for the intermediate and investment goods sub-sectors (17.9 and 18.6) were also record lows. Despite a very modest upwards revision to the new orders component it was still at a series low and pointed to a bleak near-term outlook. And so, perhaps as more firms took advantage of the government furlough scheme, today's survey indicated an even sharper contraction in employment, with the relevant index revised down by more than 9pts on a weighted basis to just 28.1.

### Surge in lending to businesses

Today's BoE lending figures also suggested that non-financial corporations responded to increased liquidity strains with a record jump in net financing. In particular, loans to businesses increased by £32.8bn – compared with an average of £1.8bn in the previous six months – while bond and commercial paper issuance fell. The increase was almost entirely driven by loans to large firms, to leave the stock of such loans up a whopping 12%Y/Y, while lending to SMEs was up by just 1.2%Y/Y. In marked contrast, the monthly net flow of new credit to households went into reverse in March, with the net repayment of £3.8bn by far the largest since the monthly series began in the early 1990s – indeed, it compares with a net monthly increase of £1bn over the previous six months. This left the annual rate of household credit growth slowing markedly in March to 3.7%Y/Y, the softest since mid-2013, with the first annual decline in credit card lending (-0.3%Y/Y) since the series began. But while mortgage lending seemingly remained firm in March, with a net increase of £4.8bn the firmest since mid-2019, this seems bound to fall sharply over coming months.

### Uncertain housing market outlook
















Certainly, we wouldn't read too much into the seemingly positive headline message from today's Nationwide house price data for April, where annual house price growth jumped 0.7ppt to 3.7%Y/Y, the strongest such pace for more than three years. Indeed, the index is based on mortgage approval data, and Nationwide cautioned that about 80% of the transactions informing the April figure were based on mortgage applications submitted before the UK's lockdown that kicked in and when momentum in the market was still positive. Today's BoE mortgage approval figures for March as a whole were notably weaker, with those for new purchases down by almost a quarter to 56.2k, the lowest for seven years. And with new activity in the UK housing market effectively having ground to a halt, Nationwide also cautioned that the mere construction of its house price index over coming months could prove problematic. And the outlook for UK house prices is, of course, highly uncertain.

### The coming week in the UK

All eyes in the coming week will be on the BoE's monetary policy announcement, to be published earlier than usual at 07.00 BST on Thursday. This will be accompanied by an updated economic assessment in its quarterly Monetary Policy Report, to be presented at the post-meeting press conference later that morning and for the first time by new Governor Bailey. Since the outbreak of the crisis, the MPC has already announced a comprehensive package of easing measures, including a cut in Bank Rate to a record low of 0.10%, a commitment to purchase an additional £200bn of Gilts and corporate bonds, and the launch of a new Term Funding scheme. And with the BoE having so far conducted only a little more than one third of these additional asset purchases, we wouldn't expect a further expansion of its QE programme just yet. This notwithstanding, the MPC will no doubt indicate its willingness to ease policy further should it be required. Indeed, while the Bank's quarterly Monetary Policy Report might well adopt a different format to normal with respect to its economic forecasts – perhaps presenting a range of potential outcomes under various scenarios for the near-term outlook – the scenarios will present the sharpest contraction in the UK economy for at least a century and the risks to both growth and inflation seem likely to be skewed to the downside. Separately, the BoE will also publish the FPC's Interim Financial Stability Report and meeting record.

Data-wise, likely of most interest at the start of the week will be new car registrations figures for April (due Tuesday), which, with showrooms having remained shut for the entire month, seem bound to report a much steeper pace of decline than the 44.4%Y/Y drop recorded in March. Certainly, the dramatic hit to activity in the services sector last month will be illustrated in the final PMI release (also on Tuesday) – the flash estimate showed the headline activity index fell a record 22.2pts to just 12.3, the lowest in the survey 22-year history. The latest construction PMI (Wednesday) will also fall to record low from the 39.3 reading March. And April's GfK consumer confidence survey is expected to confirm that households were extremely pessimistic, but perhaps no more so than in March.





## Daiwa economic forecasts

		2019		2020				2019	2020	2021
		Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP growth, %, Q/Q</b>										
Euro area		0.3	0.1	-3.8	-16.0	6.0	2.0	1.2	-12.5	2.5
Germany		0.2	0.0	-2.0	-12.0	5.0	2.0	0.6	-8.0	2.5
France		0.3	-0.1	-5.8	-20.0	10.0	4.0	1.3	-15.0	5.5
Italy		0.1	-0.3	-4.7	-20.0	5.0	2.0	0.3	-17.0	1.0
Spain		0.4	0.5	-5.2	-20.0	8.0	4.0	2.0	-15.0	3.5
UK		0.5	0.0	-4.5	-20.0	12.0	3.0	1.4	-13.5	3.5
<b>Inflation, %, Y/Y</b>										
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
<b>Monetary policy</b>										
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/ Daiwa forecast	Previous	Revised	
UK	 Nationwide house price index M/M% (Y/Y%)	Apr	<b>0.7 (3.7)</b>	-0.3 (2.5)	0.8 (3.0)	-	
	 Final manufacturing PMI	Apr	<b>32.6</b>	32.9	47.8	-	
	 Net consumer credit £bn (Y/Y%)	Mar	<b>-3.8 (3.7)</b>	0.6 (-)	0.9 (5.7)	<b>- (5.8)</b>	
	 Net mortgage lending £bn (approvals '000s)	Mar	<b>4.8 (56.2)</b>	3.5 (60.0)	4.0 (73.5)	<b>4.3 (73.7)</b>	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.























# Coming week's data calendar

## The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 04 May 2020</b>					
EMU		09.00 Final manufacturing PMI	Apr	33.6	44.5
Germany		08.55 Final manufacturing PMI	Apr	34.4	45.4
France		08.50 Final manufacturing PMI	Apr	31.5	43.2
Italy		08.45 Manufacturing PMI	Apr	30.0	40.3
		17.00 New car registrations Y/Y%	Apr	-	-85.4
Spain		08.15 Manufacturing PMI	Apr	35.0	45.7
<b>Tuesday 05 May 2020</b>					
EMU		10.00 PPI Y/Y%	Mar	-2.7	-1.3
Spain		08.00 Unemployment change '000s	Apr	-	302
UK		09.00 New car registrations Y/Y%	Apr	-	-44.4
		09.30 Final Services PMI (composite PMI)	Apr	12.3 (12.9)	34.5 (36.0)
<b>Wednesday 06 May 2020</b>					
EMU		09.00 Final services PMI (composite PMI)	Apr	11.7 (13.5)	26.4 (29.7)
		10.00 Retail sales M/M% (Y/Y%)	Mar	-12.0 (-5.0)	0.9 (3.0)
Germany		07.00 Factory orders M/M% (Y/Y%)	Mar	-10.0 (-10.5)	-1.4 (1.5)
		08.55 Final services PMI (composite PMI)	Apr	15.9 (17.1)	31.7 (35.0)
France		08.50 Final services PMI (composite PMI)	Apr	10.4 (11.2)	27.4 (28.9)
Italy		08.45 Services PMI (composite PMI)	Apr	10.0 (10.1)	17.4 (20.2)
Spain		08.15 Services PMI (composite PMI)	Apr	10.0 (10.0)	23.0 (26.7)
UK		09.30 Construction PMI	Apr	20.0	39.3
<b>Thursday 07 May 2020</b>					
Germany		07.00 Industrial production M/M% (Y/Y%)	Mar	-7.5 (-8.9)	0.3 (-1.2)
		08.30 Construction PMI	Apr	-	42.0
France		07.45 Industrial production M/M% (Y/Y%)	Mar	-11.0 (-10.2)	0.9 (-1.4)
		07.45 Manufacturing production M/M% (Y/Y%)	Mar	-	0.9 (-1.5)
		07.45 Trade balance €bn	Mar	-	-5.2
Italy		09.00 Retail sales M/M% (Y/Y%)	Mar	-15.0 (-)	0.8 (5.7)
UK		00.01 Final GfK consumer confidence	Apr	-35	-34
		07.00 BoE Bank Rate %	May	0.10	0.10
		07.00 BoE gilt and corporate purchase bond target £bn	May	645	645
<b>Friday 08 May 2020</b>					
Germany		07.00 Trade balance €bn	Mar	18.5	20.6
Spain		08.00 Industrial production M/M% (Y/Y%)	Mar	-10.4 (-)	0.0 (-1.3)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 04 May 2020</b>		
EMU		09.00 ECB publishes its Survey of Professional Forecasters
<b>Tuesday 05 May 2020</b>		
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 2% 2025 bonds
		11.30 Auction: £3bn of 1.625% 2028 bonds
<b>Wednesday 06 May 2020</b>		
Germany		10.30 Auction: €4bn of 0% 2025 bonds
UK		10.00 Auction: £3.75bn of 0.125% 2023 bonds
		11.30 Auction: £1.75bn of 1.625% 2054 bonds
<b>Thursday 07 May 2020</b>		
EMU		10.00 EU Commission publishes its economic forecasts
		- ECB Vice-President de Guindos to present the ECB annual report before European Parliament
France		09.50 Auction: 0.75% 2028 bonds
		09.50 Auction: 0% 2029 bonds
		09.50 Auction: 0.75% 2052 bonds
		09.50 Auction: 4% 2060 bonds
Spain		09.45 Auction: 0% 2023 bonds
		09.45 Auction: 0% 2025 bonds
		09.45 Auction: 0.8% 2027 bonds
		09.45 Auction: 0.7% 2033 index-linked bonds
		09.45 Auction: 1% 2050 bonds
UK		07.00 BoE publishes Monetary Policy Report and Interim Financial Stability Report
		10.00 BoE Governor Bailey's monetary policy press conference
<b>Friday 08 May 2020</b>		
Italy		- Italian sovereign debt rating update by Moody's

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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