

Euro wrap-up

Overview

- While euro area equities fell sharply and most economic data from the region remained exceptionally weak, Bunds made losses ahead of tomorrow's ruling by Germany's Constitutional Court on the ECB's asset purchase programme.
- Gilts made gains as the UK government announced that 6.3mn jobs had been furloughed via its Job Retention Scheme.
- As well as the German judgement, Tuesday will bring new data for Spanish unemployment, UK car registrations and the final UK services PMIs, all for April.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.772	+0.022
OBL 0 04/25	-0.755	+0.022
DBR 0 02/30	-0.565	+0.026
UKT 0½ 07/22	0.016	-0.004
UKT 0% 06/25	0.086	-0.009
UKT 4% 12/30	0.230	-0.014

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

Euro area

Sentix survey signals improvement ahead

With economic activity having contracted at a record pace over the past couple of months and the majority of Europe still operating under severe restrictions, surveys unsurprisingly suggest that economic sentiment is similarly at or close to record low levels. This was certainly true of today's sentix euro area investor survey, which saw the current situations index decline further at the start of May to -73, an all-time low and inevitably consistent with steep recession. But as countries were starting very gradually to ease lockdowns, there were some signs of anticipated improvement ahead. Indeed, the expectations balance for the region as a whole rose for the second successive month and by 12.8pts to -3.0. And the equivalent balances returned to positive territory in Germany and Austria, where the survey indices are now signalling stabilisation and improvement respectively. This notwithstanding, while the overall euro area economic index edged very slightly higher at the start of May (up 1.1pt), at -41.8 it remained only just above the series lows suggesting a long and slow recovery ahead.

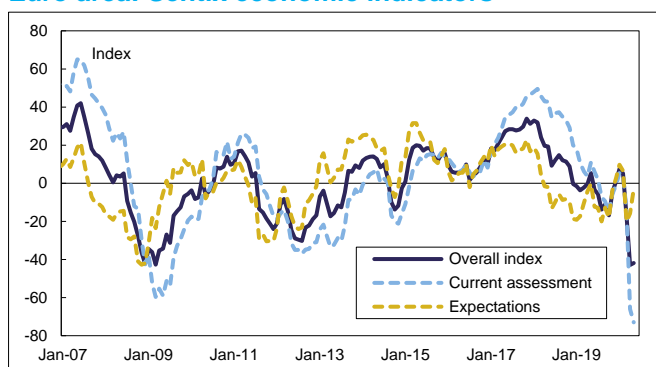
Italian manufacturing output PMI at record low

The hard hit to industrial sector activity in April, when many factories closed under the national lockdowns, was illustrated by April's final manufacturing PMIs, also published today. These saw the euro area's output index revised lower from the flash by 0.4pt, to just 18.1, a drop of more than 20pts from March and by far the lowest reading in the survey's 23 year history. This was also true of the new orders PMI (down 18.8pts). And contrasting with the sentix survey, manufacturers remained extremely pessimistic about the outlook over the coming twelve months, with Markit flagging particular doubts in Spain, Germany and Austria. While there were very modest upwards tweaks made to the final German and French output PMIs, the downbeat message remained the same, with both indices declining by record amounts and to series lows – by 21.3pts to 19.7 and 20.7pts to 15.1 respectively. So, of most interest today was the first publication of the Italian and Spanish manufacturing indices. And these were predictably woeful. In particular, the Italian output PMI fell a further 16.5pts in April to just 11.4, the lowest manufacturing reading ever recorded by any country, while the new orders component also fell to a historical low. But the largest monthly drop was recorded in Spain, with the output and new orders indices down more 23pts to record lows of 17.1 and 16.1 respectively. And with the exception of Italy, manufacturers in the large euro area member states were seemingly more pessimistic about future output prospects than at any point previously documented.

Car registrations fall to record lows

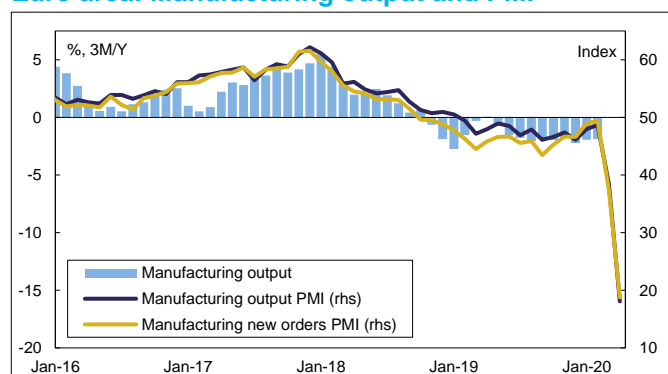
With car showrooms closed during the lockdowns, national car registrations figures for April are also presenting record declines. For example, French car registrations slumped by 88.8%Y/Y to just 21k units, just one-quarter of the previous

Euro area: Sentix economic indicators



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

Euro area: Manufacturing output and PMI



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



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series low. Likewise, those in Italy fell 97.5%Y/Y to their lowest level on the series dating back to 1979. And Spanish registrations fell 96.5%Y/Y to just over 4k cars, by far the lowest level in more than three decades. While lockdown measures are starting to ease in all three countries, with confidence still severely dented, and income and employment prospects much weaker, we expect registrations in each of the three member states to remain very subdued over coming months too.

The day ahead in the euro area and US

The main event in the euro area on Tuesday will be the announcement of the judgement of the German Federal Constitutional Court (Bundesverfassungsgericht) on the compatibility of the ECB's Asset Purchase Programme (APP) with Germany's constitutional law. It is unclear whether the Court will also give a ruling on the ECB's €750bn PEPP programme. A decision is expected at 10am CET. As ever, it is very uncertain what precisely the German Court will decide. So, while it has in the past ruled broadly in favour of ECB monetary policy initiatives, a ruling against the public sector securities purchases is possible. Key issues relate to the prohibition on monetary financing and whether the programme falls outside the remit of monetary policy. If the Court rules against the APP, this could prevent the Bundesbank from participating. While it would not prevent the ECB from purchasing its targeted amount of public sector securities, it would force the central bank to redesign the programme. A ruling in favour of the ECB might, however, embolden it to boost the current rate of asset purchase under the APP (€20bn per month with an additional €120bn from March to end-year) as well as the €750bn PEPP envelope.

Tomorrow's euro area economic data calendar is relatively light, with most notable being labour market numbers for Spain. Unemployment is expected to have risen further in April after a record increase of 302K in March. Indeed, Spain's government expects the unemployment rate to reach 19% of the working-age population, from 14.5% currently. Meanwhile, euro area producer price inflation figures for March are expected to show that the headline rate fell to -2.7%Y/Y in March, from -1.3%Y/Y, flagging disinflationary price pressures further down the pipeline emanating not least from lower oil prices. In terms of government bond auctions, Germany plans to sell €500mn of index-linked bonds.

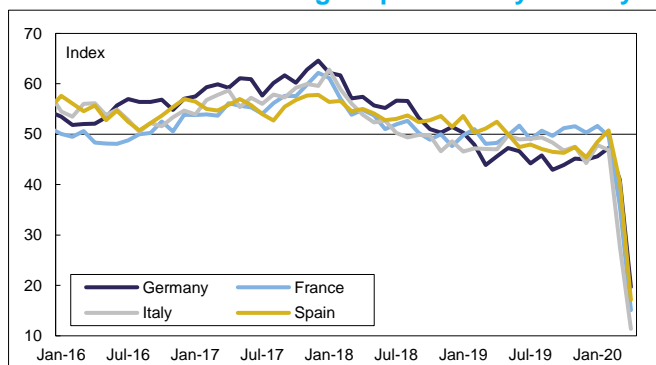
In the US, the focus tomorrow will be on the release of the non-manufacturing ISM and final services and composite PMIs, which are forecast to fall to levels consistent with an extremely deep contraction in activity – indeed, the flash headline services index fell in April to 27.0, the lowest level on record. Tomorrow will also bring final trade figures for March, which are likely to confirm a sharp fall in imports and exports, with the latter significantly disrupted by global travel restrictions.

UK

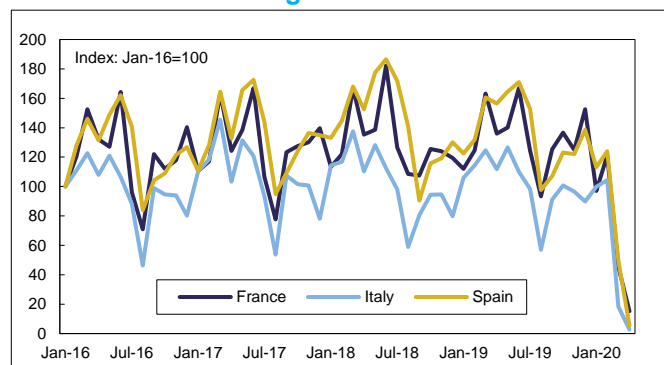
The day ahead in the UK

It was a relatively quiet start to the week for UK data. However, late in the day, HMRC announced that 6.3mn jobs – almost one quarter of total employees – had been furloughed in the first two weeks of the government's Job Retention Scheme. Meanwhile, tomorrow will bring new car registrations figures for April. With showrooms having remained shut for the entire month, we expect to see a much steeper pace of decline than the 44.4%Y/Y drop recorded in March. The final services PMIs for April will also be published tomorrow. The flash estimate showed that the headline activity index fell a record 22.2pts to just 12.3, the lowest in the survey 22-year history. And with last week's final manufacturing output PMI having been revised slightly lower, we would expect to see the composite PMI nudged lower still from the 12.9 reading in the preliminary release. In the Gilt market, the DMO plans to sell £3.25bn of 2025 bonds and £3bn of 2028 bonds.

Euro area: Manufacturing output PMIs by country









Euro area: New car registrations



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
EMU	 Final manufacturing PMI	Apr	33.4	33.6	44.5	-
Germany	 Final manufacturing PMI	Apr	34.5	34.4	45.4	-
France	 Final manufacturing PMI	Apr	31.5	31.5	43.2	-
Italy	 Manufacturing PMI	Apr	31.1	30.0	40.3	-
	 New car registrations Y/Y%	Apr	-97.6	-	-85.4	-
Spain	 Manufacturing PMI	Apr	30.8	34.0	45.7	-





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	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)

Auctions and events

Country	BST	Auction / Event
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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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