

Euro wrap-up

Overview

- Bunds followed Treasuries lower, despite record declines in euro area retail sales and German factory orders, car production and registrations.
- Gilts also made modest losses even as the UK construction PMI signalled a collapse in activity in the sector.
- The main event tomorrow will be the BoE's MPC decision and publication of its updated economic assessment. Data-wise, German and French IP releases will present record declines in output in March.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.770	+0.049
OBL 0 04/25	-0.727	+0.056
DBR 0 02/30	-0.509	+0.075
UKT 0½ 07/22	0.012	+0.009
UKT 0% 06/25	0.084	+0.019
UKT 4% 12/30	0.235	+0.029

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

Euro area

Euro area retail sales slump

After last week's flash estimate of [Q1 GDP](#) saw output in the euro area contract by a record 3.8%Q/Q, retail sales figures for March today shed more light on consumption at the end of the first quarter. With most countries having entered into lockdown over the course of that month, sales were predictably weak with a record decline of 11.2%M/M. This left sales down a sizeable 21.7%Y/Y and 2.9%Q/Q. And with the exception of Ireland, the weakness was pronounced across member states, with, for example, sales down by record monthly rates in France (-17.4%M/M), Spain (-14.4%M/M) and Germany (-5.6%M/M). Moreover, the decline in overall sales occurred despite a further jump in spending at food stores in March (5.0%M/M). Indeed, core spending was down a whopping 23.1%M/M as sales of textiles, electrical goods and furniture and computer equipment slumped. And fuel sales also declined by more than 20%M/M as lockdowns limited travel. Over the first quarter as a whole, core spending fell at an unprecedented 7½%Q/Q, a rate that seems bound to be exceeded in Q2.

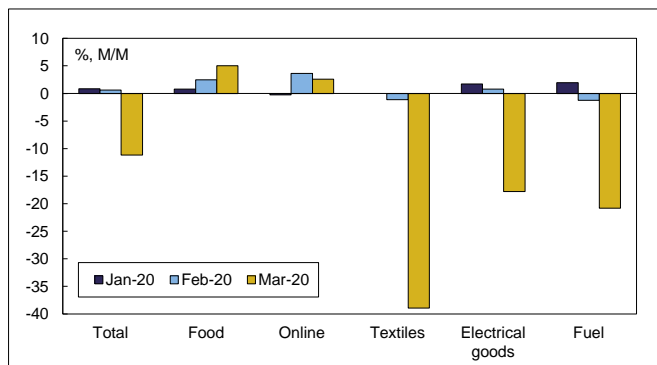
A record plunge in German factory orders...

German new factory orders plunged a record 15.6%M/M (and 16.0%Y/Y) in March to the lowest level in more than a decade. And it made little difference where the orders came from. Domestic orders dropped 14.8%M/M while foreign orders fell by 16.1%M/M. New orders from other countries in the euro area were particularly weak, falling 17.9%M/M. But new orders from elsewhere still fell a record 15.0%M/M. By type of good, new orders of consumer items fell a decidedly modest 1.3%M/M. In contrast, orders of intermediate goods dropped 7.5%M/M. So, capital goods bore the brunt of the shock, plunging 22.6%M/M, with orders of motor vehicles down almost 30%M/M. Separately, real turnover in manufacturing fell 11.5%M/M in March, a signal to expect a double-digit percentage drop in production when the figures are released tomorrow.

...and in German car production too

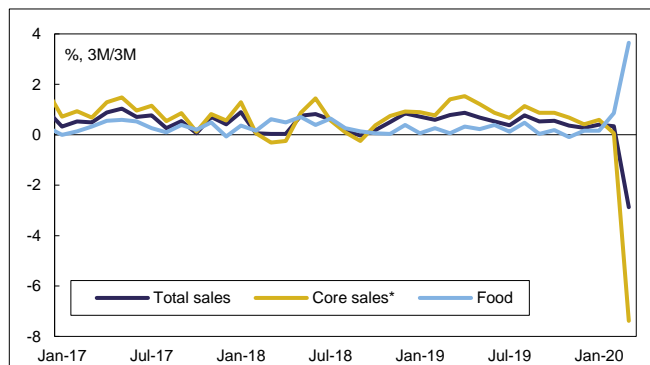
Meanwhile, Germany's Automotive Association (VDA) revealed that new car registrations plunged 61%Y/Y to 12.1k units in April, and car production fell a record 97%Y/Y in April to just 10.9k units. After Germany's manufacturing new orders PMI dropped a record 19pts to a series low of just 21.0 last month, April's orders data for all sectors seem highly likely to be even weaker than in March. And that will point to a very subdued outlook for production – particularly of capital goods and cars – throughout the second quarter, even as Germany's lockdown continues to be relaxed.

Euro area: Retail sales



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

Euro area: Retail sales



*Excluding food and fuel. Source: Eurostat, Thomson Reuters and Daiwa Capital Markets Europe Ltd.



Final services PMI at record low despite upward tweak

The extreme weakness in April won't just be evident in the manufacturing sector. Indeed, with most countries across Europe remaining in some form of lockdown for the majority of the month, the hit to services activity will arguably be far worse. While today's final euro area services PMI for April was revised up, the headline business activity index still fell almost 14½pts from March to 12.0, the lowest in the survey's history and by a considerable margin. And with the manufacturing output PMI down an even steeper 20.4pts in April, the composite PMI stood little changed from the flash at 13.6, a drop of 16.1pts from March. While there were modest tweaks made to the German and French indices, both similarly continued to point to a significant further deterioration in the services sector last month – the respective headline PMIs were down 15.5pts to 16.2, and 17.2pts to 10.2, both record lows.

Spain reports extraordinary weakness

But the main news from today's release was the Italian and Spanish indices, which were published for the first time. Unsurprisingly both reported further substantial declines, although the 6.6pt drop in the Italian services PMI left it marginally higher than in France at 10.8. Reflecting the stringency of its lockdown measures, the Spanish index was extraordinarily weak, declining 15.9pts to just 7.1, by far the lowest PMI recorded in a participating country. Services firms across all countries remained more pessimistic about the near-term business outlook too, with the relevant Italian and Spanish indices down to single digits. All countries reported significant job losses in the sector although in line with yesterday's dire [labour market](#) figures, they were particularly acute in Spain. And while lockdowns are starting to ease very gradually across countries, firms in the services sector were still downbeat about the near term outlook, unsurprisingly so given that they will have to continue operating at levels well below capacity for a considerable time to come.

ECB ignores German Court's call to justify PSPP

After yesterday's ruling by the [German Constitutional Court](#) demanded that the ECB justify its public sector bond purchases, the subsequent statement issued by the Governing Council yesterday evening made clear that it has no intention of responding to every whim of national judges, whichever member state they might represent. Indeed, the statement ignored altogether the Court's call for the ECB to explain the reasoning behind QE in a new "proportionality analysis". Instead, the Governing Council simply restated that it remains fully committed to doing everything necessary within its mandate to meet its inflation aim and support the transmission of its monetary policy to all jurisdictions of the euro area. And making it clear that it considers EU law to have supremacy over German law, it also recalled the EU's Court of Justice ruling of December 2018 that the ECB's PSPP is a legitimate policy to use to achieve its price stability mandate – a ruling that the German Court had yesterday dismissed as "not comprehensible". So, while Bundesbank President Weidmann will need to respond to the indulgences of the German Court in due course, ECB President Lagarde appears to have no intention of doing so. Indeed, if she did, the ECB's independence would arguably be compromised.

The day ahead in the euro area and US

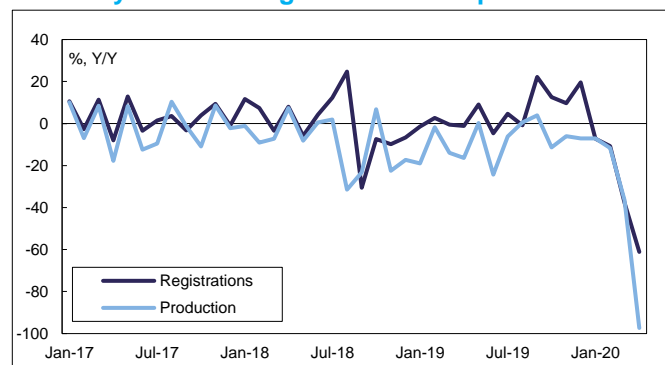
The data focus in the euro area tomorrow will be firmly on the manufacturing sector, with the release of German and French industrial production data for March expected to reveal record falls in output. Following on from today's hefty fall in German factory orders, industrial production in that country is forecast to have fallen around 7½%M/M in March, albeit leaving output down a little less than ½% over the first quarter as a whole. In France, meanwhile, the much larger anticipated drop of around 13½%M/M would leave industrial output down 4½%Q/Q in Q1. Other releases include the German construction PMI for April, as well as French trade and Italian retail sales figures for March. Elsewhere, Governing Council President Lagarde will participate in a Bloomberg webinar, while the ECB will publish its annual report, with Vice President de Guindos due to present an updated economic assessment based on the [scenarios](#) published last Friday by videoconference before the European Parliament's Committee on Economic and Monetary Affairs.

Germany: Manufacturing orders and production



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

Germany: New car registrations and production



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

In the US, ahead of Friday's non-farm payrolls report, tomorrow will bring the usual weekly jobless claims figures which seem likely to bring another large figure for initial claims, while the Challenger job cuts data will again report a notable increase in April. Thursday will also bring non-farm productivity and unit labour costs data for Q1, as well as consumer credit figures for March.

UK

Construction PMI collapses

While the UK's services and manufacturing PMIs were predictably weak in April, today's equivalent construction PMI came in well below expectations, signalling a collapse in activity in the sector at the start of Q2. Indeed, the headline index fell 31.1pts to just 8.2, by far the lowest reading on record, with 86% of respondents reporting a reduction in activity as sites were forced to close and only 3% signalling an increase. Inactivity was thus widespread, with the respective PMIs for house building (7.3), commercial activity (7.7) and civil engineering (14.4) all at record lows. And the disruption to the economy as a whole had a significant impact on construction firms' supply chains, with roughly three-quarters of respondents indicating a lengthening of supplier delivery times – indeed, the respective PMI fell 26.4pts. Moreover, with new orders having also slumped, business expectations for the year ahead fell further in March to match the lowest reading previously seen during the global financial crisis. As such, the all-sector composite PMI fell 22.9pts in April to just 13.4.

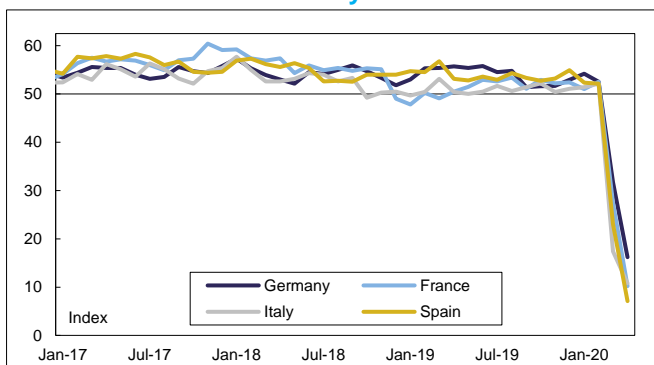
The day ahead in the UK

The main event in the UK tomorrow will be the BoE's monetary policy announcement, to be published earlier than usual at 07.00 BST. This will be accompanied by an updated economic assessment in its quarterly Monetary Policy Report, to be published at 07.00 and subsequently discussed 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 necessarily 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, with a decent probability that the BoE will signal the likelihood that it will increase its Gilt and corporate bond purchase target at its next meeting on 18 June. And we do not rule out a shift to an open-ended QE commitment like those adopted by the Fed and BoJ.

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 tomorrow morning. But while Boris Johnson's cabinet will discuss when and how to ease the UK's lockdown, his strategy will not be officially presented until Sunday.

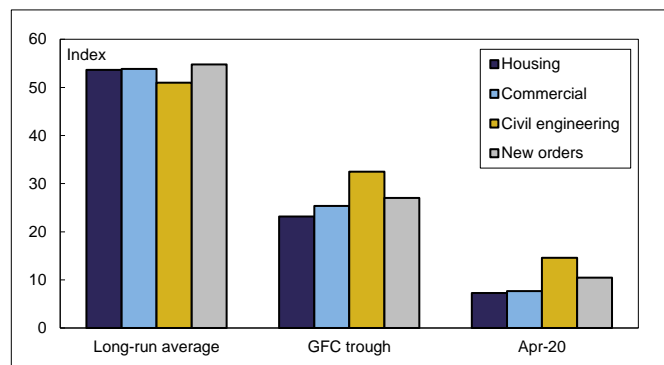
In terms of economic data, the final release of April's GfK consumer confidence survey is expected to confirm that households remain extremely pessimistic, but perhaps not considerably more so than in March.

Euro area: Services PMIs by member state



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

UK: Construction PMI











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




European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
EMU	 Final services PMI (composite PMI)	Apr	12.0 (13.6)	11.7 (13.5)	26.4 (29.7)	-
	 Retail sales M/M% (Y/Y%)	Mar	-11.2 (-9.2)	-12.0 (-5.0)	0.9 (3.0)	0.6 (2.5)
Germany	 Factory orders M/M% (Y/Y%)	Mar	-15.6 (-16.0)	-10.0 (-10.5)	-1.4 (1.5)	-1.2 (1.9)
	 Final services PMI (composite PMI)	Apr	16.2 (17.4)	15.9 (17.1)	31.7 (35.0)	-
France	 Final services PMI (composite PMI)	Apr	10.2 (11.1)	10.4 (11.2)	27.4 (28.9)	-
Italy	 Services PMI (composite PMI)	Apr	10.8 (10.9)	10.0 (10.1)	17.4 (20.2)	-
Spain	 Services PMI (composite PMI)	Apr	7.1 (9.2)	10.0 (10.0)	23.0 (26.7)	-
UK	 Construction PMI	Apr	8.2	20.0	39.3	-










Auctions













Country	Auction
Germany	 sold €3.20bn of 0% 2025 bonds at an average yield of -0.74%
UK	 sold £3.75bn of 0.125% 2023 bonds at an average yield of 0.101%
	 sold £1.75bn of 1.625% 2054 bonds at an average yield of 0.495%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	BST	Release	Period	Market consensus/ Daiwa forecast	Previous
Germany	 07.00	Industrial production M/M% (Y/Y%)	Mar	-7.4 (-8.9)	0.3 (-1.2)
	 08.30	Construction PMI	Apr	-	42.0
France	 07.45	Industrial production M/M% (Y/Y%)	Mar	-13.4 (-11.1)	0.9 (-1.4)
	 07.45	Manufacturing production M/M% (Y/Y%)	Mar	-16.0 (-)	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	-37	-34
	 07.00	BoE Bank Rate %	May	0.10	0.10
	 07.00	BoE Gilt and corporate bond purchase target £bn	May	645	645

Country	BST	Auction / Event
EMU	 08.00	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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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