

Euro wrap-up

Overview

- While Bunds and other European government bonds made modest losses, equities were also weaker as data confirmed that Italian IP fell at a record rate in March.
- Gilts also made modest losses while the UK government relaxed its lockdown only very gradually.
- The most notable new economic data due over the coming two days will be the first estimate of UK GDP and monthly activity figures for March on Wednesday. Euro area IP data for the same month are also due that day.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.771	+0.022
OBL 0 04/25	-0.741	+0.018
DBR 0 02/30	-0.528	+0.013
UKT 0½ 07/22	-0.003	+0.006
UKT 0% 06/25	0.081	+0.012
UKT 4% 12/30	0.259	+0.029

*Change from close as at 4:00pm BST.
Source: Bloomberg

Euro area

Italian IP collapsed in March

With Italy's lockdown measures having been introduced in March before other euro area member states, and among the most stringent to be enforced, it is not surprising that economic data for that month have so far reported the most severe weakness. And with Lombardy and other neighboring Northern regions, which account for roughly two-thirds of national manufacturing output, having been particularly severely affected, today's IP data were inevitably extremely weak. In particular, industrial output declined a whopping 29.3%M/M in March – almost twice the pace of decline seen in France – to leave it down 29%Y/Y and at its lowest level since the series began in 1990. Within the detail, production of capital goods fell almost 40%M/M as output of transport equipment was down by more than 50%M/M. Production of consumer durables fell 57%M/M with clothing similarly down more than 50%M/M. The drop in output of total consumer goods was somewhat more moderate, albeit still a hefty 27%M/M, the same as that for intermediate goods.

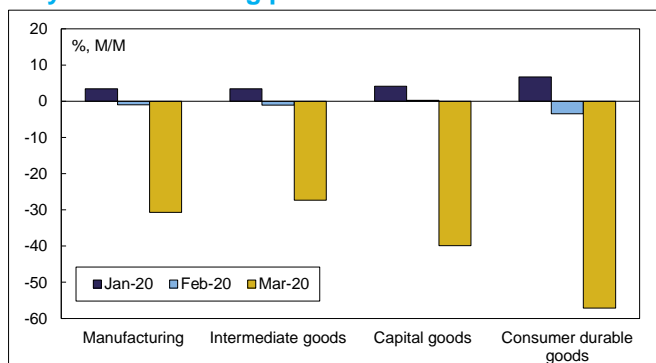
Steepest quarterly drop in production in eleven years

Overall, manufacturing output was down more than 30%M/M in March, leaving it more than 9% lower over the first quarter as a whole, the steepest quarterly pace of contraction for eleven years. Taken together with last week's Italian [retail sales](#) figures, today's release suggests that we might see a downwards revision to the first estimate of Q1 GDP (-4.7%Q/Q). Moreover, the PMIs suggest an even sharper pace of contraction at the start of Q2, with the manufacturing output PMI having plummeted to just 11.4 in April (19pts below the trough during the Global Financial Crisis) and the services PMI having dropped to just 10.8 (27pts below the GFC low).

Production to rebound from May onwards

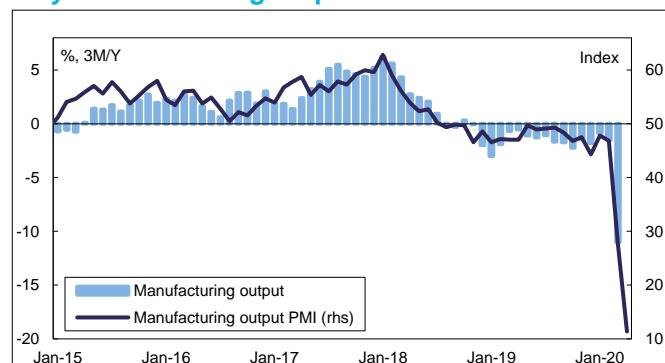
More positively, Italian production will certainly rebound somewhat in the current month, with all manufacturers and construction firms having been allowed to return to work from 4 May. Further supporting growth, shops still shuttered are due to reopen at the start of next week, with face-to-face services (e.g. restaurants, bars and hairdressers) currently scheduled to return on 1 June. In a newspaper interview today, PM Conte indicated that he might accelerate the economic reopening. Moreover, the government's €55bn fiscal package should be finalised this week, offering extra support to companies and households over the near term as well as a postponement of next year's scheduled increases in VAT and fuel taxes.

Italy: Manufacturing production



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Italy: Manufacturing output and PMI



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



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Government still non-committal on ESM borrowing

The extra Italian stimulus package, however, will increase this year's budget deficit to above 10% of GDP, the highest since 1991. While Italy will, in due course, receive extra support from the various EU recovery funds – including €20bn from the Commission's SURE programme to fund wage subsidies and €40bn from the EIB – the government is still non-committal as to whether it will access the ESM's new Pandemic Crisis Support mechanism, the details of which were agreed by the Eurogroup on Friday evening. In particular, member states will be able to borrow up to 2% of national GDP (about €36bn in the case of Italy) to help meet the extra healthcare, cure and prevention-related costs of the covid-19 crisis. Available until end-2022, the ESM loans will have a maximum maturity of ten years, with no stigma-inducing macroeconomic conditionality attached and only light-touch monitoring required. For Italy, the cost of accessing these funds would be cheap – at just 10bps on top of the yield of the associated ESM bond issuance, together with modest service fees, the Pandemic Crisis Support facility could provide a saving for the Italian government of 175bps or more on the total amount borrowed.

The coming two days in the euro area and US

Tomorrow is another relatively quiet day for euro area economic data, with just the Bank of France industrial sentiment survey scheduled for release. Unsurprisingly, the overall industrial confidence indicator plummeted in March to an all-time low of 51. And with the country in lockdown for the whole of last month, firms are expected to have reported a further deterioration in sentiment and activity in April. The weakness in the industrial sector is likely to be confirmed by euro area industrial production figures for March on Wednesday. Following the release of the data from several member states, we currently expect output across the region as a whole to have declined 14%M/M in March, leaving it more than 9% lower over the first quarter as a whole. Elsewhere, ECB Chief Economist Lane will participate in two online conferences on Wednesday. Supply-wise, Germany will sell mid-dated bonds tomorrow, followed by long-dated bonds on Wednesday. Italy will also sell bonds on Wednesday.

Turning to the US, the NFIB business optimism survey for April will be published tomorrow, along with CPI figures for the same month. Not least given the sharp fall in the oil price, the headline annual rate of inflation is expected to have fallen a little over 1ppt to just 0.4%Y/Y. With underlying price pressures also weakening, core inflation is expected to have eased to leave the annual rate at 1.7%Y/Y, which would be the lowest since November 2017. These will be followed on Wednesday by PPI figures for the same month, which are likely to flag disinflationary price pressures down the pipeline. But likely of more interest on Wednesday will be Fed Chair Powell's appearance on a webinar organised by the Peterson Institute discussing current economic issues. Tomorrow will also see the Fed's Kashkari, Harker, Quarles and Mester speak publicly. Meanwhile, the US Treasury will auction 10Y notes tomorrow and 30Y bonds on Wednesday.

UK

A very gradual exit from lockdown

It was an uneventful start to the week for UK economic data allowing attention to remain on the announcement of the detail of the government's strategy for exiting lockdown. However, there was not much detail to appreciate. While the government will encourage workers in manufacturing and construction in England to resume activity this week with ongoing social-distancing arrangements in place, and garden-centres will also be allowed to reopen from Wednesday, most shops will remain shut until 1 June at the earliest. And most hospitality businesses will remain shut until 1 July at the earliest. Moreover, given the desire for a stricter approach by the respective devolved national authorities, tighter controls will remain in place in Scotland, Wales and Northern Ireland. The slower exit from lockdown reflects the fact that the UK's covid-19 outbreak has taken longer to come under control than other large western European countries. And it also ensures that the hit to UK GDP in Q2 will be amongst the largest of all countries too.

The coming two days in the UK


The UK's economic data calendar kicks off on Wednesday, with the first estimate of Q1 GDP due for release, as well as the monthly output and trade figures for March. These will inevitably be extremely weak. We expect GDP to have contracted by around 3%Q/Q, which would be the biggest quarterly decline in the post-war era. And the monthly figures will further illustrate the significant hit to activity in March, across the services, manufacturing and construction sectors alike, as the country entered lockdown. Trade figures will also flag the significant negative impact global travel restrictions will have had on services exports. Wednesday will also bring the release of the BRC's latest retail sales monitor for April along with Visa's credit card consumer spending data for the same month. On the supply side, the DMO will auction £600mn of long-dated index-linked bonds on Wednesday.

In the absence of significant economic news, the next edition of the Euro wrap-up will be published on 13 May 2020

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Italy	 Industrial production M/M% (Y/Y%)	Mar	-28.4 (-29.3)	-	-1.2 (-2.4)	-1.0 (-2.3)


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
France	 07.30	Bank of France industrial sentiment survey	Apr	40	51










Auctions and events






Country	BST	Auction / Event
Germany	 10.30	Auction: €4bn of 2027 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's data releases

Economic data

Country	BST	Release	Period	Market consensus/ Daiwa forecast	Previous
EMU	 10.00	Industrial production M/M% (Y/Y%)	Mar	-14.0 (-13.0)	-0.1 (-1.9)
UK	 00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Apr	-15.0	-3.5
	 07.00	Preliminary GDP Q/Q% (Y/Y%)	Q1	-2.6 (-1.9)	0.0 (1.1)
	 07.00	Monthly GDP M/M%	Mar	-7.9	-0.1
	 07.00	Industrial production M/M% (Y/Y%)	Mar	-5.6 (-9.1)	0.1 (-2.8)
	 07.00	Manufacturing production M/M% (Y/Y%)	Mar	-6.0 (-10.5)	0.5 (-3.9)
	 07.00	Construction output M/M% (Y/Y%)	Mar	-7.6 (-9.2)	-1.7 (-2.7)
	 07.00	Index of services M/M% (3M/3M)	Mar	-8.0 (-2.5)	0.0 (0.2)
	 07.00	Total trade balance (goods trade balance) £bn	Mar	-2.5 (-10.0)	-2.8 (-11.5)

Country	BST	Auction / Event
EMU	 12.00	ECB Chief Economist Lane will conduct a virtual interview organised by University of Amsterdam
	 17.00	ECB Chief Economist Lane will participate in a virtual discussion organised by the FT
Germany	 10.30	Auction: €1bn of 1.25% 2048 bonds
Italy	 10.00	Auction: 3Y and 7Y bonds
UK	 10.00	Auction: £600mn of 0.125% 2048 index-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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