

Euro wrap-up

Overview

- Bunds made gains and BTPs outperformed as data confirmed a record drop in euro area industrial output in March, and as ECB Chief Economist Lane made clear the Governing Council is ready to adjust policy if needed.
- Gilts also made gains as UK GDP in Q1 fell at the fastest rate since Q408.
- Thursday will bring final German and Spanish inflation data for April while Friday will bring the first estimates of German GDP and euro area employment in Q1.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.756	-0.008
OBL 0 04/25	-0.738	-0.012
DBR 0 02/30	-0.529	-0.018
UKT 0½ 07/22	-0.022	-0.009
UKT 0% 06/25	0.056	-0.019
UKT 4% 12/30	0.217	-0.032

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

Euro area

A record drop in IP in March

Industrial production in the euro area dropped a record 11.3%M/M and 12.9%Y/Y in March to the lowest level since November 2009 as restrictions on economic activity and weak demand took their toll. Given a strong start to the year, production was down a lesser 3.3%Q/Q over Q1 as a whole. Among the various categories, production of capital goods was down 15.9%M/M, while intermediate goods fell 11.0%M/M, and consumer durables 26.3%M/M. Of all main sub-sectors, autos were hardest hit, with output down 40.8%M/M to the lowest level in more than 26 years. At the other extreme, pharmaceuticals output leapt 15.1%M/M to (by far) a series high. Given solid demand, output of food products held up relatively well, falling just 1.5%M/M while production of computers and related items rose 4.0%M/M. Among the member states, only Greece, Finland and Lithuania recorded higher production on the month. In contrast, output in each of the four largest member states fell by more than 10%M/M, with Italy's drop of 28.4%M/M most severe.

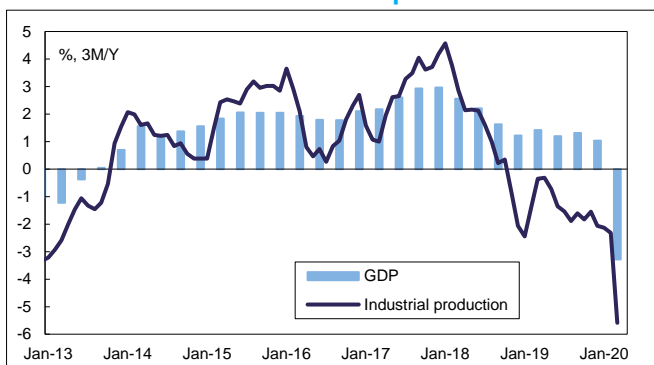
April to be much worse, May's rebound subdued

Looking ahead, production will drop even more dramatically, once again led by autos. We already know that German car output fell an extraordinary 97%Y/Y last month, with factory shutdowns hitting production in other member states too. And the manufacturing output PMI fell more than 20pts to a record low of just 18.1. While manufacturing workers have returned to work in most member states, production will remain well below pre-crisis levels due to ongoing social distancing and weak demand. Indeed, the euro area manufacturing new orders PMI fell more than 18pts in April to a record low of 18.8. And following its recent six-week closure, VW yesterday announced that it will shut down production at its main Wolfsburg plant for a further four days over the remainder of this month in light of ongoing subdued demand.

The coming two days in the euro area and US

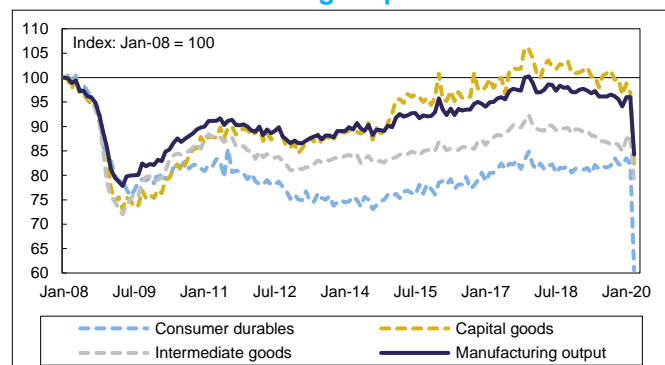
Looking ahead, it should be a relatively quiet day for top-tier euro area releases tomorrow, with just the publication of the ECB's Economic Bulletin and the release of final inflation data for April from Germany and Spain. Both set of figures are expected to confirm a marked weakening in price pressures with the headline EU-harmonised CPI rates down to 0.8%Y/Y and -0.6%Y/Y respectively. Of more interest will be Friday's release of updated Q1 GDP figures, which will include the first estimate from Germany. We expect German GDP to have contracted by as much as 2%Q/Q, the steepest pace of decline since the global financial crisis, albeit the softest in Q1 of the major member states. Indeed, on aggregate, euro area figures are expected to confirm the record contraction of 3.8%Q/Q in Q1, leaving output down more than 3% compared with a year earlier. Friday will also bring euro area employment figures for Q1, although the impact of job losses seen since the

Euro area: GDP and industrial production



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



escalation of the coronavirus crisis will not be evident until Q2 data are published. Euro area trade numbers and Italian industrial orders data for March are also due for publication on Friday.

In the US, tomorrow's weekly jobless claims figures will no doubt be a depressing read. But the main event in the US also comes on Friday, with retail sales and industrial production data for April set to show an even sharper pace of decline in activity as the country remained in lockdown. Indeed, both are forecast to have declined at double-digit monthly rates. Friday will also bring the University of Michigan's consumer sentiment and Empire Manufacturing surveys for May, which will undoubtedly suggest that conditions remain extremely unfavourable, but perhaps no more so than in April.

UK

Worst quarter for GDP since the global financial crisis

The UK economy contracted in Q1 at the fastest rate since the global financial crisis in Q408, as the spread of the coronavirus, voluntary social distancing and – eventually – restrictions on freedom of movement hit economic activity hard in March. In particular, GDP fell 2.0%Q/Q, leaving it down 1.6%Y/Y, the steepest annual rate of decline since Q109 albeit somewhat less marked than anticipated. Household consumption fell 1.7%Q/Q, also the sharpest drop since Q408. Fixed investment fell 1.0%Q/Q, as investment in dwellings and government capex declined while business investment was flat. And government consumption dropped 2.6%Q/Q due to declines in spending on education and (perhaps surprisingly) healthcare. Export volumes fell a whopping 10.8%Q/Q, while imports fell a little less than half that pace. So, following a rare trade surplus in Q4, the balance in Q1 swung back firmly into a deficit of 0.9% of GDP. Finally, inventories declined, partly due to supply-chain constraints but also as supermarkets and other retailers struggled to keep up with consumer demand for essentials.

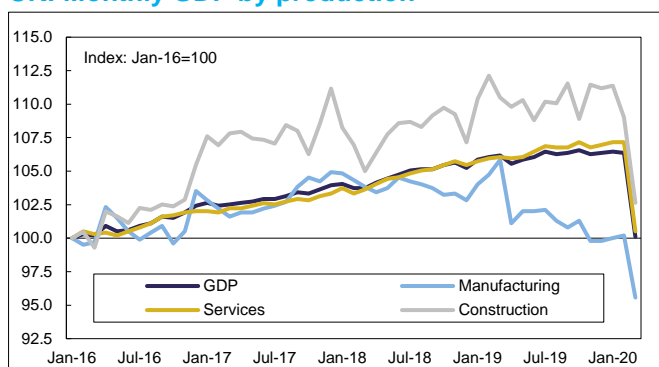
Cars lead drop in production

In terms of the sectoral breakdown, the contraction was similarly broad-based. Services output fell 1.9%Q/Q, the biggest quarterly fall on the series, with notable declines in education, wholesale and retail, and, inevitably, hospitality and travel. Production fell by 2.1%Q/Q, with manufacturing output down 1.7%Q/Q led by auto production (down 16.3%Q/Q as production lines shut down). Pharmaceuticals were one of the sole sources of growth, up 9.2%Q/Q, with output of chemicals also firmer. And construction output fell 2.6%Q/Q. Of course, the steep contraction over Q1 as a whole reflected the marked drop in activity in March, as the UK went into lockdown on the 23rd of the month. Indeed, GDP is estimated to have dropped in March by a record 5.8%M/M to the lowest level since January 2016. Services activity shrank a record 6.2%M/M, with manufacturing down 4.6%M/M and construction down 5.9%M/M. Given difficulties collecting data during the health crisis, however, the ONS noted that its estimates should be treated with greater caution than usual.

Q2 bound to be much weaker

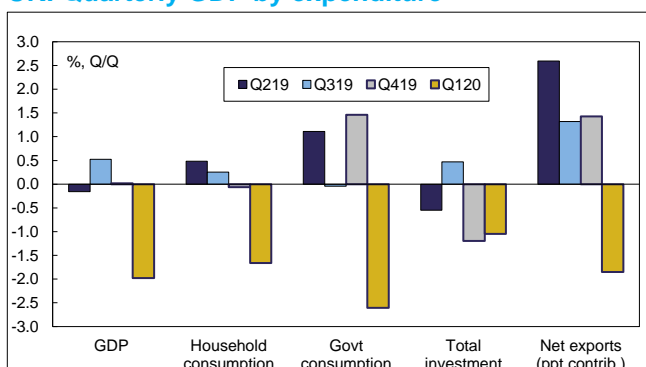
We are bound to see far sharper declines (of marked double-digit percentages) in April as the lockdown continued across the whole month. Indeed, the BRC's retail sales monitor suggested that total sales fell a record 19.1%Y/Y last month. And the Barclaycard measure of consumer spending across the full range of goods and services dropped 36.5%Y/Y despite a rise of more than 14%Y/Y in expenditure in supermarkets. With a very gradual easing of restrictions starting only today, most shops to remain shut at least for the remainder of the month, face-to-face services unable to open before July, about 7.5mn workers (about one quarter of the total) furloughed, and social distancing practices to be maintained, the rebound in May and June will be shallow too. So, GDP in Q2 will also post a very steep double-digit percentage decline, likely marking the sharpest and deepest drop in UK economic activity for more than a century.

UK: Monthly GDP by production



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Quarterly GDP by expenditure


















Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

The coming two days ahead in the UK



The data calendar ends quietly in the UK with only the RICS house price index scheduled for release tomorrow. Unsurprisingly, this is expected to signal a massive drop in house prices in April as demand dried up and housing market activity came to a stand-still during lockdown. Meanwhile, likely of more interest will be the BoE Governor Bailey's 'fireside chat' at an online FT conference titled 'Does the BoE have any more room to stimulate demand in the economy?' In the markets, the DMO will auction a total of £5.5bn of mid- and long-dated bonds.

In the absence of significant economic news, the next edition of the Euro wrap-up will be published on 15 May 2020

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Industrial production M/M% (Y/Y%)	Mar	-11.3 (-12.9)	-14.0 (-13.0)	-0.1 (-1.9)	- (-2.2)
UK	 BRC retail sales monitor, like-for-like sales Y/Y%	Apr	5.7	-15.0	-3.5	-
	 Preliminary GDP Q/Q% (Y/Y%)	Q1	-2.0 (-1.6)	-2.6 (-1.9)	0.0 (1.1)	-
	 Monthly GDP M/M%	Mar	-5.8	-7.9	-0.1	-0.2
	 Industrial production M/M% (Y/Y%)	Mar	-4.2 (-8.2)	-5.6 (-9.1)	0.1 (-2.8)	-0.1 (-3.4)
	 Manufacturing production M/M% (Y/Y%)	Mar	-4.6 (-9.7)	-6.0 (-10.5)	0.5 (-3.9)	0.3 (-4.3)
	 Construction output M/M% (Y/Y%)	Mar	-5.9 (-7.1)	-7.6 (-9.2)	-1.7 (-2.7)	-2.1 (-2.8)
	 Index of services M/M% (3M/3M)	Mar	-6.2 (-1.9)	-8.0 (-2.5)	0.0 (0.2)	-
	 Total trade balance (goods trade balance) £bn	Mar	-6.7 (-12.5)	-2.5 (-10.0)	-2.8 (-11.5)	-1.5 (-9.8)
Auctions						
Country	Auction					
Germany	 sold €863mn of 1.25% 2048 bonds at an average yield of -0.13%					
Italy	 sold €4.5bn of 2023 bonds at average yield of 0.87%					
	 sold €2.5bn of 2027 bonds at average yield of 1.53%					
	 sold €1.0bn of 2035 bonds at average yield of 2.23%					
	 sold €1.0bn of 2040 bonds at average yield of 2.49%					
UK	 sold £600mn of 0.125% 2048 index-linked bonds at an average of -2.166%					





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France	 Bank of France industrial sentiment survey	Apr	48	40	51	52
Auctions						
Country	Auction					
Germany	 sold €3.3bn of 0% 2027 bonds at an average yield of -0.62%					





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 Final CPI (EU-harmonised CPI) Y/Y%	Apr	0.8 (0.8)	1.4 (1.3)
Italy		10.00 Trade balance €bn	Mar	-	6.1
Spain		08.00 Final CPI (EU-harmonised CPI) Y/Y%	Apr	-0.7 (-0.6)	0.0 (0.1)
UK		00.01 RICS house price balance %	Apr	-50	11









Auctions and events


Country	BST	Auction / Event
EMU		09.00 ECB publishes its Economic Bulletin
UK		10.00 Auction: £3.25bn of 0.625% 2025 bonds
		10.00 Auction: £2.25bn of 1.25% 2041 bonds
		11.30 BoE Governor Bailey speaks on Webinar event

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's data releases

Economic data

Country	BST	Release	Period	Market consensus/ Daiwa forecast	Previous
EMU		10.00 GDP – second estimate Q/Q% (Y/Y%)	Q1	-3.8 (-3.3)	0.1 (1.0)
		10.00 Preliminary employment Q/Q% (Y/Y%)	Q1	-	0.3 (1.1)
		10.00 Trade balance €bn	Mar	-	25.8
Germany		07.00 GDP – first estimate Q/Q% (Y/Y%)	Q1	-2.0 (-2.0)	0.0 (0.3)
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	Apr	0.4 (0.5)	0.7 (0.8)
Italy		09.00 Industrial orders M/M% (Y/Y%)	Mar	-	-4.4 (-2.6)
		09.00 Industrial sales M/M% (Y/Y%)	Mar	-	-2.1 (0.9)
		10.00 Final CPI (EU-harmonised CPI) Y/Y%	Apr	0.0 (0.1)	0.1 (0.1)

Country	BST	Auction / Event
France		- French sovereign debt rating update from Fitch

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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