

Euro wrap-up

Overview

- Bunds made modest losses but BTPs made gains as the ECB policy meeting account strongly suggested that the Governing Council will agree to increase the PEPP asset purchase programme next month.
- Gilts were little changed as the latest UK retail sales and government borrowing figures were the worst on record.
- The coming week brings further May sentiment surveys, as well as flash May inflation data and April spending figures from Germany and France.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.697	+0.006
OBL 0 04/25	-0.680	+0.011
DBR 0 02/30	-0.491	+0.009
UKT 0½ 07/22	-0.051	-0.004
UKT 0% 06/25	-0.018	-0.007
UKT 4% 12/30	0.173	+0.003

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

Euro area

ECB ready to augment PEPP in June

The publication today of the account of the ECB's end-April monetary policy meeting should have removed any lingering doubts that the Governing Council will augment and extend its PEPP asset purchase programme on 4 June. Among other things, it noted that the policymakers saw massive uncertainty surrounding the economic outlook. But, alluding to the [scenarios](#) published the following day by the ECB, they judged that a "swift V-shaped recovery", such as that in the "mild" scenario whereby GDP would contract by 5% this year, "could probably already be ruled out". There was also wariness that "undue risks of fragmentation could re-emerge with a worsening of the economic outlook" and that "pre-emptive policy action" would be preferable to avoid such an occurrence. Making clear the identity of its preferred policy tool, the account reported that the Governing Council will thus be "fully prepared to increase the size of the PEPP and adjust its composition, and potentially its other instruments" if it sees the need for more stimulus next month. With the policymakers also acknowledging that the sharp downturn in economic activity is likely to place further downwards pressure on underlying inflation, the case for such additional stimulus will be irresistible.

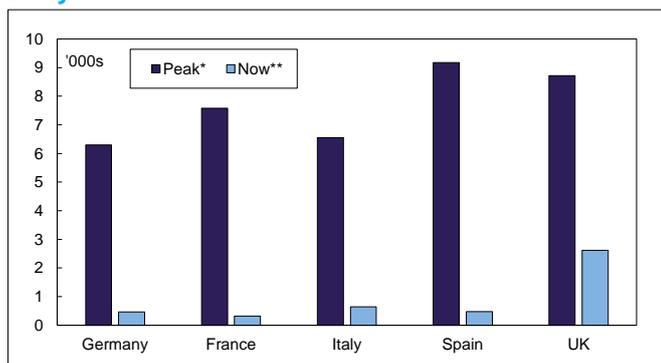
The coming week in the euro area and US

The coming week brings a steady flow of economic data releases from the euro area including further sentiment surveys and preliminary national inflation data for May, spending figures for April, and updates on GDP in Q1.

Among the sentiment indicators, the European Commission's confidence survey results for May are due on Thursday. The headline euro area economic sentiment index registered another sharp fall in April, of more than 27pts to 67.0. However, given the gradual relaxation of restrictions on activity over the past couple of weeks, and increases registered already in the flash consumer confidence index and PMIs, we expect to see a modest improvement in May. Ahead of that release, Germany will publish its ifo business sentiment survey for May on Monday and GfK consumer confidence survey on Tuesday. French business and consumer confidence numbers for the same month are due on Wednesday. Meanwhile, Italian consumer and manufacturing sentiment figures for May are due on Thursday. Looked at together, these surveys will highlight more than anything that the economic recovery across the euro area will be very subdued indeed.

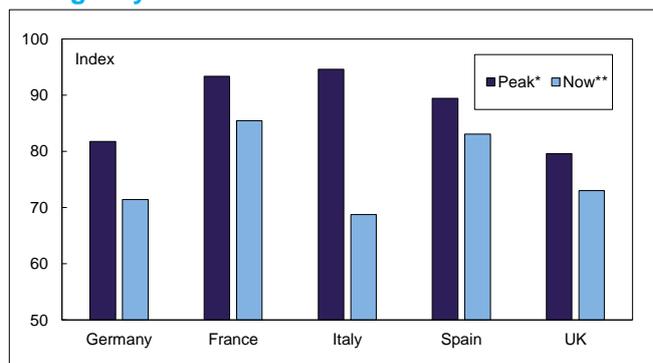
With strict social distancing having persisted into the current month, we still expect steep, double-digit percentage declines in GDP in many member states in Q2. Indeed, Spanish retail sales numbers on Thursday and German retail sales and French consumer spending figures on Friday are bound to show record falls in spending in April. And with demand so weak across the euro area, and oil prices extremely low, May CPI data from some of the large member states to be published in the

Daily new Covid-19 cases



*Peak date differs between countries – Germany 28-Mar, France 01-Apr, Italy 22-Mar, Spain 27-Mar and UK 12-Apr. **22-May. Source: Our World in Data and Daiwa Capital Markets Europe Ltd.

Stringency of Covid-19 measures



*Peak date differs between countries – Germany 06-Apr, France 26-Apr, Italy 12-Apr, Spain 30-Mar and UK 26-Mar. **19-May. Source: Blavatnik School of Government and Daiwa Capital Markets Europe Ltd.



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coming week are expected to reveal further declines in inflation. Thursday brings the release of the German and Spanish numbers, followed by French and Italian CPI data on Friday.

In terms of Q1 GDP, Germany's data on Monday will provide a detailed breakdown of the 2.2%Q/Q drop reported in the preliminary release. As restrictions on activity were introduced in mid-March, household consumption and investment on machinery and equipment are expected to have fallen, more than offsetting positive contributions from government consumption and construction. Updated GDP figures from France and Italy on Friday are expected to confirm that output contracted at a much steeper pace than in Germany – the preliminary data revealed record drops of 5.8%Q/Q and 4.7%Q/Q respectively.

Beyond the data, ECB Chief Economist Lane is scheduled to speak at a virtual conference on Tuesday, when the Central Bank will also publish its latest Financial Stability Report. Meanwhile, in the markets, the same day will see Germany auction 2Y bonds and Italy sell both fixed rate and index-linked bonds. On Friday, Italy will sell 5Y and 10Y bonds.

In the US, the coming week should begin quietly, with markets closed on Monday for the Memorial Day holiday. On Tuesday, the Chicago Fed National Activity index for April will be published as well as consumer confidence numbers for May and various housing market data, including new home sales. The Fed's Beige book will be published on Wednesday. Thursday's usual weekly claims figures will be accompanied by the release of final Q1 GDP numbers, durable goods orders and pending home sales data for April. Advanced goods trade data for April are due on Friday, together with personal income and spending numbers, the Chicago PMI and the final University of Michigan consumer sentiment survey for May. In terms of financing, the Treasury will auction 2Y Notes on Tuesday, 2Y Floating-Rate Notes and 5Y Notes on Wednesday and 7Y Notes on Thursday.

UK

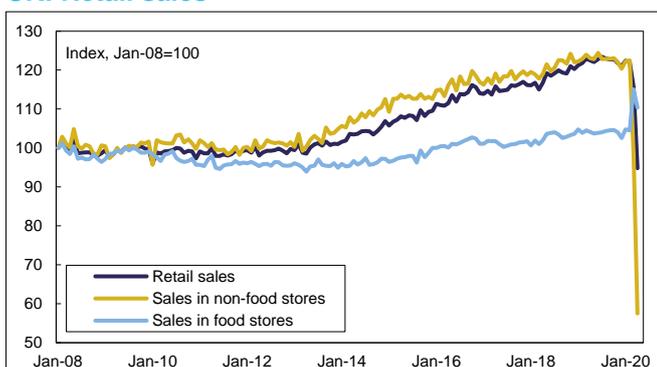
Retail sales report record slump

A busy end to the week for UK economic data brought further alarming indicators in the form of April's retail sales and public finances figures, as well as an update on consumer confidence. Retail sales fell 18.1%M/M in April, unsurprisingly the sharpest drop on the series following the decline of 5.2%M/M in March. That left them down 22.6%Y/Y, also inevitably a record fall due to the lockdown that forced closures of 'non-essential' stores throughout the month. Sales in almost all sectors dropped, with the principal exception being non-store (largely online) sales, which jumped 18.0%M/M to account for almost one third of the total. Sales at alcohol stores also rose (+2.3%M/M having risen by more than one fifth in March) as some consumers sought solace by hitting the bottle. But having jumped more than 10%M/M the prior month, supermarket food store sales dropped 2.8%M/M in April. And among the dreadful results elsewhere, clothes store sales halved last month having already dropped by more than one third in March. Household goods sales were down more than 45%M/M following a near-9%M/M fall the previous month.

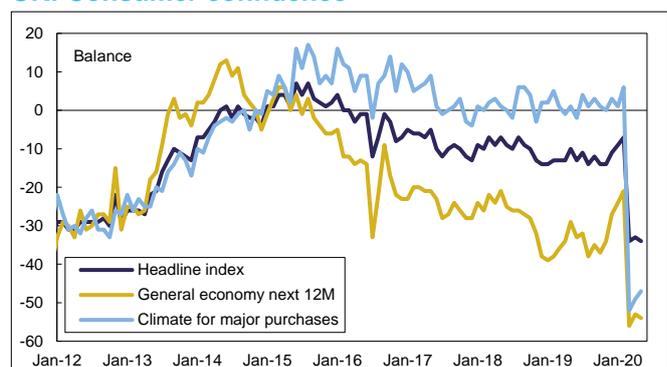
Consumers remain extremely downbeat

While the principal cause of the terrible retail figures was the need for social distancing, the jump in unemployment and uncertainty over the outlook will also have played a role in restraining spending for many households. Indeed, the GfK's flash estimate of consumer confidence in May edged back down 1pt from April to -34, matching the low of the financial crisis in 2008 and just 1pt above the series low 30 years ago. Little was changed within the detail of the survey, with consumers only a touch less willing to make major purchases than they were in the previous two months (when the respective indicator reached a record low) but also slightly more downbeat about economic conditions.

UK: Retail sales



UK: Consumer confidence



Government borrowing surged in April

Given the exceptional fiscal policy response to the pandemic, the latest public finances figures reported record levels of borrowing. In light of the difficulty faced collecting data during the lockdown, the ONS emphasised the central government net cash requirement figure as the most reliable. And this reached an extraordinary £63.5bn last month, up £73.3bn from a year earlier and the highest cash requirement in any month ever, despite the fact that April would in normal times be expected to bring a surplus. With the BoE buying Gilts at a pace of £13.5bn per week, however, the extra supply was more than adequately absorbed and failed to prevent the steady downwards drift in yields.

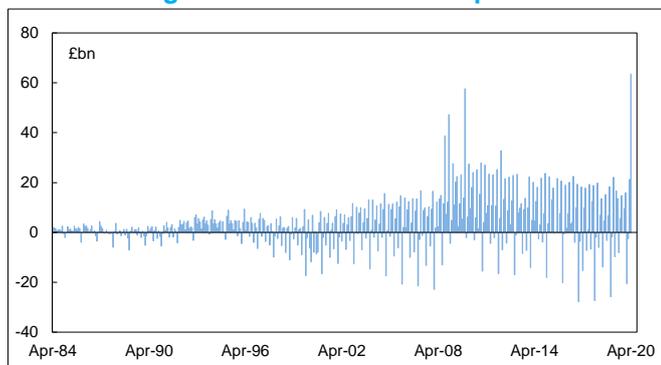
Steepest increase in government debt on record

Within the detail of the public finances figures, VAT cash receipts were strikingly negative, as repayments (which were made by the government as usual) exceeded payments by firms. In addition, corporation tax receipts more than halved, while income tax receipts fell by one fifth. At the same time, total net cash outlays by the government almost doubled. Meanwhile, public sector net debt (excluding public sector banks) reached almost £1.9trn (or 97.7% of GDP) at end-April, up more than £118bn (or 17.4ppts of GDP) from a year earlier, representing the steepest year-on-year increase in debt as a percentage of GDP on record. Looking ahead, the government's support policies (including the Job Retention Scheme) are now being extended through to the autumn. Economic output will remain a long way below last year's levels, so unemployment and its associated costs will likely rise further while tax receipts will remain low. And with losses on business loans guaranteed by the government set to rise steadily, government borrowing will remain astronomically high over coming months. Indeed, it seems likely to surpass £300bn over the current fiscal year as a whole.

The coming week in the UK

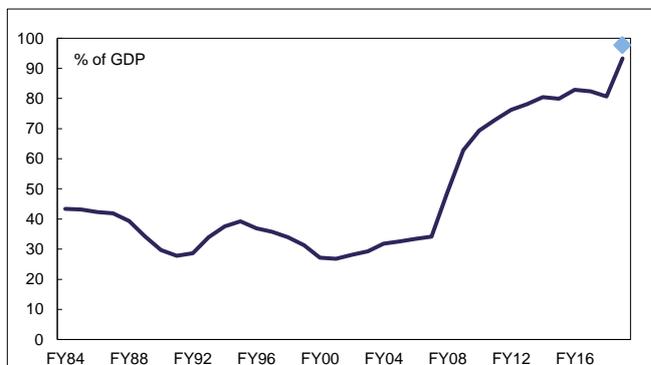
The coming week is a quiet one on the economic data front, dominated mainly by sentiment surveys. Following Monday's national holiday, the data calendar opens with the release on Tuesday of the CBI distributive trades survey for May which will provide insight into the scale of the damage being caused to the retail sector as lockdown measures remained largely in place. And Friday's final GfK consumer confidence survey is expected to confirm that consumer's remain cautious this month, while the Lloyds business barometer for May will also remained at low levels. In the markets, the DMO will auction bonds all across the curve on Wednesday and Thursday.

UK: Central government net cash requirement



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

UK: Public sector net debt*



*Light blue diamond represents monthly figure for April 2020.
 Source: OBR, ONS and Daiwa Capital Markets Europe Ltd.

Due to a public holiday, the next edition of the Euro wrap-up will be published on 26th May 2020.

Daiwa economic forecasts

	2019		2020				2019	2020	2021
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP growth, %, Q/Q									
Euro area 	0.3	0.1	-3.8	-14.0	7.0	3.0	1.2	-10.0	5.1
Germany 	0.3	-0.1	-2.2	-7.5	5.0	3.0	0.6	-4.8	5.4
France 	0.3	-0.1	-5.8	-18.0	9.0	6.0	1.3	-13.5	10.0
Italy 	0.1	-0.3	-4.7	-18.0	7.0	2.0	0.3	-14.5	4.3
Spain 	0.4	0.5	-5.2	-18.0	9.0	5.0	2.0	-13.0	8.2
UK 	0.5	0.0	-2.0	-20.0	10.0	4.0	1.4	-12.0	5.8
Inflation, %, Y/Y									
Euro area									
Headline CPI 	1.0	1.0	1.1	0.1	-0.5	-0.7	1.2	0.0	0.1
Core CPI 	0.9	1.2	1.1	0.6	-0.4	-0.7	1.0	0.1	-0.3
UK									
Headline CPI 	1.8	1.4	1.7	0.6	0.2	0.2	1.8	0.7	0.8
Core CPI 	1.7	1.6	1.6	1.3	0.9	0.5	1.7	1.1	0.5
Monetary policy									
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/ <i>Daiwa forecast</i>	Previous	Revised	
UK 	GfK consumer confidence	May	-34	-	-33	-	
	Retail sales including fuel M/M% (Y/Y%)	Apr	-18.1 (-22.6)	-16.0 (-21.7)	-5.1 (-5.8)	-5.2 (-)	
	Retail sales excluding fuel M/M% (Y/Y%)	Apr	-15.2 (-18.4)	-14.0 (-12.3)	-3.7 (-4.1)	-3.8 (-4.2)	
	Public sector net borrowing £bn	Apr	61.4	49.6	2.3	14.0	
Auctions							
Country	Auction						
- Nothing scheduled -							

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
Monday 25 May 2020					
Germany		07.00 Final GDP Q/Q% (Y/Y%)	Q1	-2.2 (-2.3)	-0.1 (0.4)
		09.00 Ifo business climate index	May	78.4	74.3
		09.00 Ifo current assessment balance (expectations)	May	80.8 (75.1)	79.5 (69.4)
Tuesday 26 May 2020					
Germany		07.00 GfK consumer confidence	Jun	-18.0	-23.4
UK		11.00 CBI distributive trades survey, reported retail sales	May	-65	-55
Wednesday 27 May 2020					
France		07.45 Business confidence indicator	May	69	62
		07.45 Manufacturing confidence (production outlook indicator)	May	85 (-)	82 (-78)
		07.45 Consumer confidence	May	91	95
Thursday 28 May 2020					
EMU		10.00 Economic sentiment indicator	May	70.3	67.0
		10.00 Industrial confidence (services)	May	-25.5 (-27.9)	-30.4 (-35.0)
		10.00 Final consumer confidence	May	-18.8	-22.0
Germany		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	May	0.7 (0.4)	0.9 (0.8)
Italy		09.00 Economic sentiment indicator	May	-	81.7**
		09.00 Consumer confidence (manufacturing)	May	90.0 (80.0)	101.0 (89.5)**
Spain		08.00 Retail sales Y/Y%	Apr	-	-14.1
		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	May	-1.0 (-0.9)	-0.7 (-0.7)
UK		- Nationwide house price index* M/M% (Y/Y%)	May	-1.0 (2.7)	0.7 (3.7)
Friday 29 May 2020					
EMU		09.00 M3 money supply Y/Y%	Apr	7.7	7.5
		10.00 CPI estimate (core CPI) Y/Y%	May	0.1 (0.8)	0.4 (0.9)
Germany		07.00 Retail sales M/M% (Y/Y%)	Apr	-9.5 (-12.0)	-4.0 (-1.2)
France		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	May	0.3 (0.3)	0.3 (0.4)
		07.45 Final GDP Q/Q% (Y/Y%)	Q1	-5.8 (-5.4)	-0.1 (0.9)
		07.45 Consumer spending M/M% (Y/Y%)	Apr	-14.7 (-30.6)	-17.9 (-18.1)
Italy		09.00 Final GDP Q/Q% (Y/Y%)	Q1	-4.8 (-4.7)	0.1 (-0.3)
		10.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	May	-0.1 (-0.2)	0.0 (0.1)
UK		00.01 Final GfK consumer confidence	May	-34	-33
UK		00.01 Lloyds business barometer	May	-	-32

*Approximate date of release. **Previous figures are for February. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 25 May 2020		
UK		- Public holiday
Tuesday 26 May 2020		
EMU		13.45 ECB Chief Economist Lane scheduled to speak at a virtual conference
		14.00 ECB publishes Financial Stability Review
Germany		10.30 Auction: €5bn of 0% 2022 bonds
Italy		10.00 Auction: €4bn of 0% 2022 bonds
		10.00 Auction: 0.4% 2030 index-linked bonds
Wednesday 27 May 2020		
EMU		08.30 ECB President LArgarde participates in an Ask ECB event
UK		10.00 Auction: £3.75bn of 0.125% 2023 bonds
		11.30 Auction: £1.5bn of 1.75% 2057 bonds
Thursday 28 May 2020		
UK		10.00 Auction: £2.75bn of 1.25% 2027 bonds
		11.30 Auction: £2bn of 1.75% 2049 bonds
Friday 29 May 2020		
Italy		10.00 Auction: 5Y and 10Y bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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