Euro wrap-up

Overview

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- Longer-dated Bunds reversed only some of yesterday's losses, while Spanish labour market data showed jobless claims rising to a four-year high.
- Gilts also made modest gains as UK lending figures reported another sizeable decline in the net flow of consumer credit in April, while the number of mortgage approvals also declined to the lowest on record.
- Tomorrow will bring labour market figures from the euro area and Germany, as well as final European services and composite PMIs.

Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.669	+0.012
OBL 0 04/25	-0.627	+0.004
DBR 0 02/30	-0.416	-0.009
UKT 0½ 07/22	-0.024	-0.022
UKT 0⅝ 06/25	0.027	-0.013
UKT 4¾ 12/30	0.225	-0.008

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

Euro area

Spanish employment continues to fall

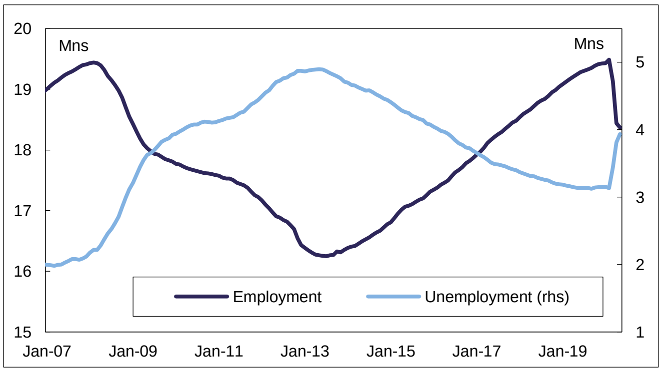
Spain has been one of the hardest hit countries by the Covid outbreak, with the government having subsequently implemented one of the strictest lockdowns of member states. And with the all-important tourism sector having effectively closed and businesses still operating under strict social distancing rules, the impact on Spain's labour market has been unsurprisingly significant. But today's headline figures showed a much-smaller-than-expected increase in the number of people registered as jobless in May, up just 26.6k (on a non-seasonally adjusted basis) after rising 282K in April. This notwithstanding, it still marked the worse outturn for the month of May since 2008. When adjusting for seasonal effects the increase was more pronounced at 122k following a cumulative increase of 681k in the previous two months, leaving those officially unemployed at 3.9mn. The jobless claims figures also exclude the near-3mn workers who remain temporarily laid off – last month did at least see almost ½mn of those workers that had been signed up to the government's job-support programme return to work. Today's figures showed the number of people in employment was therefore down a further 71k last month to 18.4mn (seasonally adjusted), down by more than 1mn from the peak in February and the lowest since August 2017. And with the economy likely to continue operating well below capacity for a considerable time, Spanish employment seems bound to remain on a downward trend for some time to come.

The day ahead in the euro area and US

Looking ahead, tomorrow brings the latest German labour market figures for May, along with the aggregate euro area and Italian numbers for April. The more timely German figures are expected to report a further increase of 190k in unemployment, albeit less than the 373k recorded in April. The smaller increase will no doubt reflect to some extent the vast amount of workers on the government's short-time work 'kurzabeit' scheme, which the ifo institute today suggested was at a whopping 7.3mn in May, compared with 1½mn at the height of the global financial crisis. While there appears to have been some improvement in labour market conditions as lockdown measures have been eased gradually, economic uncertainly is likely to continue to significantly weigh on employment prospects across the region in the months ahead, especially as government support schemes come to an end.

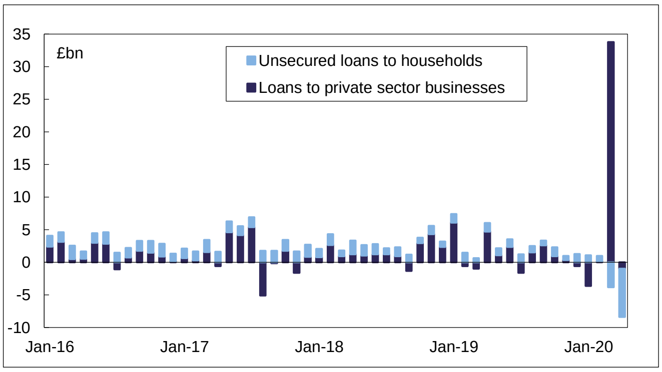
Certainly, the final release of the service sector and composite PMIs for May – also due tomorrow – is likely to highlight that economic conditions remain extremely weak. Indeed, like yesterday's manufacturing PMI, these are expected to confirm the main findings of the flash surveys showing that economic activity improved slightly in May, albeit remaining well below the pre-crisis level. The headline euro area composite index is expected to match the flash estimate of 30.5, up from a record low of 13.6 in April but still the second-lowest reading on record by a considerable margin and firmly below the key 50 level.

Spain: Unemployment and employment



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

UK: Net lending to NFCs and households



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

In the US, the non-manufacturing ISM and final services PMI for May will be published tomorrow alongside final factory orders data for April. And ahead of Friday's payroll figures, Wednesday's release of the ADP employment report will also be closely watched.

UK

Lending to households slumps

With consumer confidence and spending having slumped, job and income prospects having deteriorated significantly and the outlook for the economy highly uncertain, today's BoE lending figures showed that UK households once again upped repayments on their debt in April. In particular, the monthly net flow of new credit to households fell by £7.2bn, almost twice the amount repaid in March and by far the largest since the monthly series began in the early 1990s – indeed, it compares with a net monthly increase of £1bn in the six months to February. This left the annual rate of household credit growth down markedly in April to -0.4%Y/Y, the first sub-zero reading since August 2012. Once again, the majority of repayments related to credit card lending, with the annual rate recording the steepest decline (-7.8%Y/Y) on record. In contrast, today's release showed that demand for business loans had returned to some normality following the record surge in March, with private sector business borrowing no extra in April. Nevertheless, businesses did raise a significant amount of funds through financial market operations, with the £16.1bn raised, the most since mid-2009 and considerably higher than the average over of the previous six months of just £23mn,

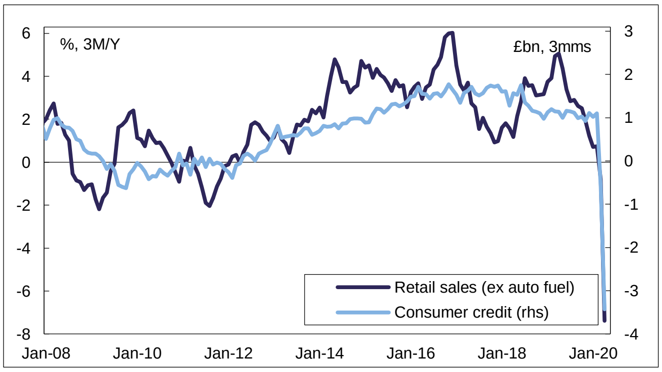
Mortgage approvals at a series low

With the housing market having come to a standstill in April, today's figures inevitably showed a marked turnaround in mortgage lending that month, with a net increase of just £0.3bn the down from £4.8bn in March and the lowest net increase since 2011. And with the number of housing approvals having fallen sharply to a record-low 15.8k, around 80% below the February level and just half the number of the trough during the global financial crisis, mortgage lending will no doubt remain very weak over coming months too. This tallied with the downbeat message from today's Nationwide house price survey. Indeed, after HMRC data indicated that residential property transactions were down 53%Y/Y in April, Nationwide suggested that house prices fell sharply in May, with the 1.7%M/M drop the steepest since February 2009. As a result, the annual rate of growth slowed from 3.7%Y/Y in April to 1.8%Y/Y. The survey suggested that roughly 12% of the population had been put off moving as a result of the lockdown, with would-be buyers planning to wait six months on average before re-entering the market.

The day ahead in the UK

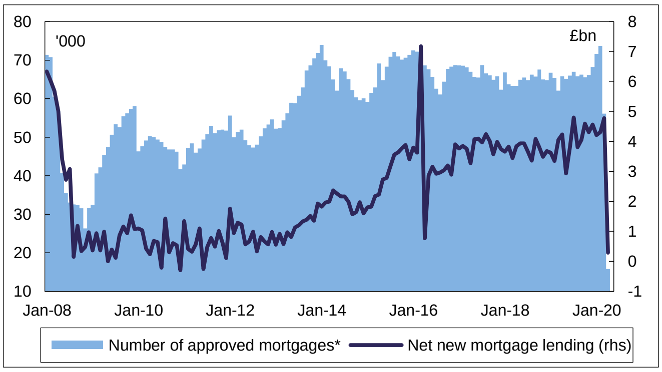
Tomorrow sees the release of the final UK services and composite PMIs for May. The preliminary services PMI increased to 27.8 in May 2020 from an all-time low of 13.4 the previous month. And together with the improvement in the manufacturing PMI, the composite output PMI is expected to have risen by at least the 15pts seen in the flash release to 28.9. But this would still mark the second-lowest reading on the series, leaving itstill almost 10pts below the trough during the global financial crisis, pointing to an extremely deep contraction at an unprecedented pace. The BRC shop price index is also due tomorrow and expected to reveal that overall prices on the high street fell again in May against a backdrop of shop closures and very weak consumer demand. In other news, the DMO will auction £3.25bn of 2023 bonds and £1.5bn of 2054 bonds.

UK: Consumer credit and retail sales



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

UK: Mortgage lending and approvals



Source: BoE, 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
Spain	Unemployment change '000s	May	**26.6**	244.0	283.9	-
UK	Nationwide house price index M/M% (Y/Y%)	May	**-1.7 (1.8)**	-1.0 (2.8)	0.7 (3.7)	0.9 (-)
	Net consumer credit £bn (Y/Y%)	Apr	**-7.4 (-0.4)**	-4.5 (-)	-3.8 (3.7)	- (3.6)
	Net mortgage lending £bn (approvals '000s)	Apr	**0.3 (15.8)**	1.1 (24.0)	4.8 (56.2)	- (56.1)

Auctions

Country	Auction
Germany	sold €355mn of 0.5% 2030 index-linked bonds at an average yield of -0.99%
UK	sold £3.25bn of 0.125% 2026 bonds at an average yield of 0.048%
	sold £3.0bn of 0.375% 2030 bonds at an average yield of 0.26%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	BST	Release	Period	Market consensus/ Daiwa forecast	Previous
EMU	09.00	Final services (composite) PMI	May	28.7 (30.5)	12.0 (13.6)
	10.00	Unemployment rate %	Apr	8.1	7.4
	10.00	PPI Y/Y%	Apr	-1.5 (-3.7)	-1.5 (-2.8)
Germany	08.55	Final services (composite) PMI	May	31.4 (31.4)	16.2 (17.4)
	08.55	Unemployment rate % (change '000s)	May	6.2 (194)	5.8 (373)
France	08.50	Final services (composite) PMI	May	29.4 (30.5)	10.2 (11.1)
Italy	08.45	Services (composite) PMI	May	26.0 (28.0)	10.8 (10.9)
	09.00	Unemployment rate %	Apr	9.2	8.4
Spain	08.15	Services (composite) PMI	May	25.0 (-)	7.1 (9.2)
UK	00.01	BRC shop price index Y/Y%	May	-	-1.7
	09.30	Final services (composite) PMI	May	27.8 (28.9)	13.4 (13.8)

Auctions and events

Country	BST	Auction / Event
Germany	10.30	Auction: €4bn of 0% 2025 bonds
UK	10.00	Auction: £3.25bn of 2.25% 2023 bonds
	11.30	Auction: £1.5bn of 1.625% 2054 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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