

# Euro wrap-up

## Overview

- While German factory orders fell sharply, Bunds followed USTs lower after the stronger-than-expected US labour market report.
- Given the stronger global risks appetite, Gilts also made losses despite weak surveys on UK consumer confidence and labour market conditions.
- The coming week will bring April data for UK GDP and euro area industrial production.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.612	+0.013
OBL 0 04/25	-0.545	+0.032
DBR 0 02/30	-0.274	+0.053
UKT 0½ 07/22	0.014	+0.010
UKT 0% 06/25	0.089	+0.025
UKT 4% 12/30	0.362	+0.057

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

## Euro area

### German factory orders fall by more than a quarter

The hit to euro area economic activity from Covid-19 was biggest in April, when restrictions were tightest. But while production was able to rebound somewhat last month as controls were eased, the shock to demand will have lasting effects. Indeed, new orders in Germany's manufacturing sector fell a record 25.8%M/M in April following a drop of 15.0%M/M in March. That left them down more than one third from a year earlier (-36.6%Y/Y) to their lowest level since 1998. Wherever the orders came from, the picture was little different. Domestic orders fell 22.3%M/M while foreign orders fell 28.1%M/M, with new orders from the euro area down 30.6%M/M, and new orders from beyond the euro area down 26.7%M/M. By type of good, capital goods orders fell most, dropping 30.6%M/M. Orders of intermediate goods fell 22.7%M/M while those of consumer goods were least affected, falling "just" 11.4%M/M. Orders of cars were down 43.6%M/M and almost 62%Y/Y to the lowest level since January 1994. Given that hit to demand, while factories reopened last month, production of cars was still down 66%Y/Y in May to be down 44%YTD/Y.

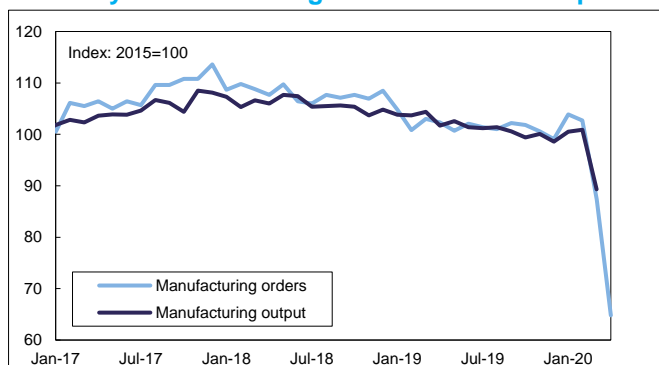
### Surveys point to ongoing weakness in orders

Surveys suggest that new orders remained very weak last month across all major sectors. For example, while it picked up from April, the PMI for German manufacturing orders of 25.9 in May was still close to the lows during the global financial crisis. And the ifo survey index of manufacturing orders fell further to -47, its lowest since 2009, with a further decline in the indicator for orders of motor vehicles too. Admittedly, the German government's forthcoming [fiscal support package](#), not least the temporary cut in VAT from July to year-end, will provide extra support to demand over coming months. However, that will not fully offset the impact on domestic demand from the steady rise in unemployment that we expect to ensue. And with external demand, particularly for capital goods, set to remain very subdued over coming months too, we fully expect the level of German production to remain well down from its pre-coronavirus level well into 2021 and likely beyond.

### Spanish production down by more than one fifth in April

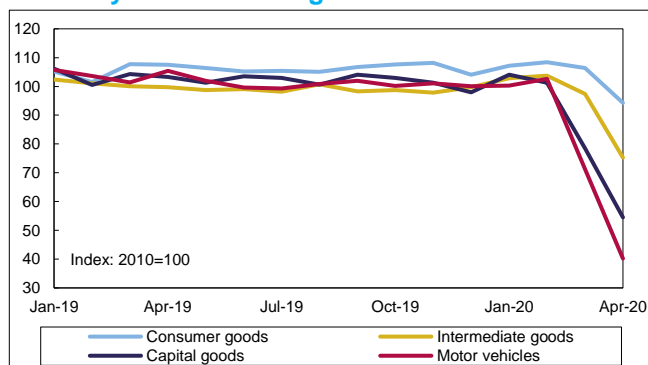
Meanwhile, giving an indication of what to expect from Germany's industrial production data due on Monday, manufacturing turnover fell 22.8%M/M in April. And Spanish industrial production in April fell at a similar pace – -21.8%M/M and more than twice as fast as expected – to be down 33.6%Y/Y and at the lowest level on the series dating back to 1992. Capital goods production was hardest hit, dropping 57.4%Y/Y, while output of intermediate items was down 36.0%Y/Y and consumer goods down 22.9%Y/Y. Perhaps inevitably, surveys point to ongoing weakness in Spanish production over the remainder of Q2 too.

### Germany: Manufacturing new orders and output



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Germany: Manufacturing new orders



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



## The coming week in the euro area and US

Turning to the week ahead, the data flow will remain focussed on the manufacturing sector, with the aforementioned German industrial production figures for April due to be published on Monday, followed by French and Italian IP data on Tuesday and Wednesday respectively, and aggregate euro area numbers on Friday. Following record falls in March, manufacturing output is expected to have declined significantly further in April as containment measures continued to hit activity, especially in the autos sector. In particular, broadly in line with today's Spanish figures, euro area IP is forecast to have declined 20%M/M, following an 11%M/M drop in March. Supply constraints as well as the weakness in demand will be evident in the latest German and French trade data, due to be published on Tuesday. The same day, the Bank of France's business sentiment survey for May is expected to report only a moderate improvement in the overall confidence indicator as firms progressively returned to work.

Final euro area Q1 GDP data, also due to be published on Tuesday, are expected to confirm that output contracted at a record rate close to the preliminary estimate of 3.8%Q/Q (-3.3%Y/Y) in Q1 as lockdowns introduced in March took their toll. This release will provide the first official expenditure breakdown, with private consumption and investment set to have declined sharply, while net trade likely provided some support as a fall in imports offset weaker exports. It will also report employment data for Q1 for the first time, although these will fail to adequately reflect the labour market impact of the drop in economic output. Meanwhile, on Friday, final May CPI data for France and Spain are expected to confirm that inflation fell further on the back of lower energy prices. As far as monetary policy commentary is concerned, ECB President Lagarde is due to speak at a European Parliamentary hearing on economic and monetary affairs on Monday, while the ECB's Vice President de Guindos will speak at an online event on Wednesday. In the markets, Germany will auction €3bn of 2027 bonds on Tuesday and Italy will auction 3Y and 7Y bonds on Thursday.

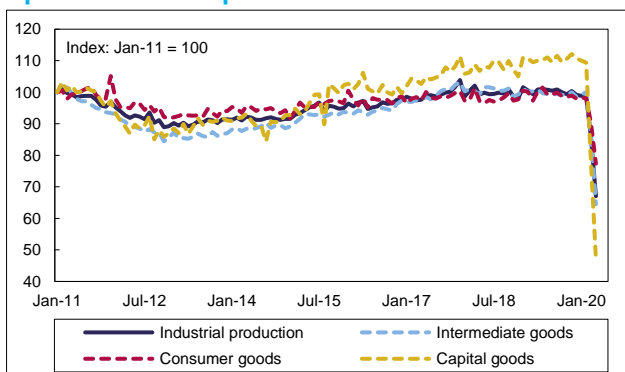
In the US, the focus will be on Wednesday's FOMC rate decision, the publication of the Committee's updated economic projections, and Fed Chair Powell's accompanying press conference. No amendments to policy are expected, but insights into the Fed's assessment of economic conditions and possible next steps should be informative. Meanwhile, the US data calendar kicks off on Tuesday with the release of the NFIB small business survey for May as well as JOLTS job openings and final wholesale inventories data for April. Not least given the record monthly drop in the core measure in April, more interesting for the markets will be CPI inflation figures for May, due to be published on Wednesday. The Federal budget statement for May will also be published that day. Producer price data are due Thursday along with the latest weekly jobless claims numbers. And on Friday, import and export price data will be released as well as the University of Michigan's preliminary consumer confidence survey for June. In the markets, the US Treasury will sell 3Y notes on Monday, 10Y notes on Tuesday and 30Y bonds on Thursday.

## UK

### Consumers remain extremely downbeat

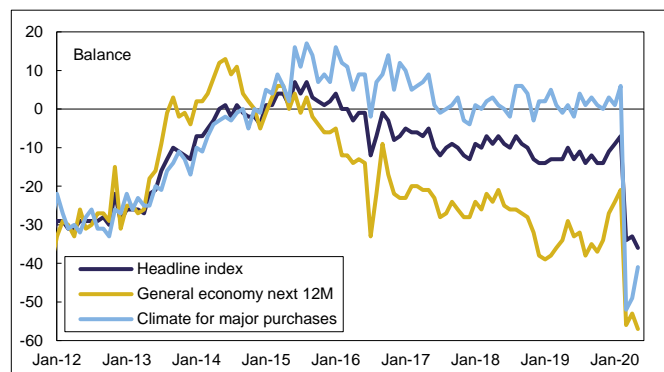
According to GfK, contrary to expectations, UK consumer confidence deteriorated further last month, with the relevant survey headline indicator down 2pts in the final two weeks of May to -36, to leave it 3pts lower than April's reading and just a few points above the trough during the global financial crisis. The detail of the survey reported a deterioration in assessments of the outlook for the economy and personal financial situation, as the surge in unemployment and concerns of a slump in house prices hit confidence. This notwithstanding, as the government announced that car dealerships and open-air market stalls could reopen from 1 June and other non-essential retailers from 15 June, the survey reported a slight improvement in perceptions of the climate for making major purchases in the final week of the month. Nevertheless, this survey component still marked the fourth-lowest level in its 24-year series and remained more than 40pts below its level this time last year. High-frequency data provide mixed messages about spending over recent weeks. But with concerns about job security set to remain high, social distancing measures still in place, and the virulence of the pandemic still greater than elsewhere in

### Spain: Industrial production



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### UK: Consumer confidence indicators



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

Europe, a sudden return to the shops and spending habits seen before the pre-Covid-crisis trend seems highly unlikely in the UK for some time to come.

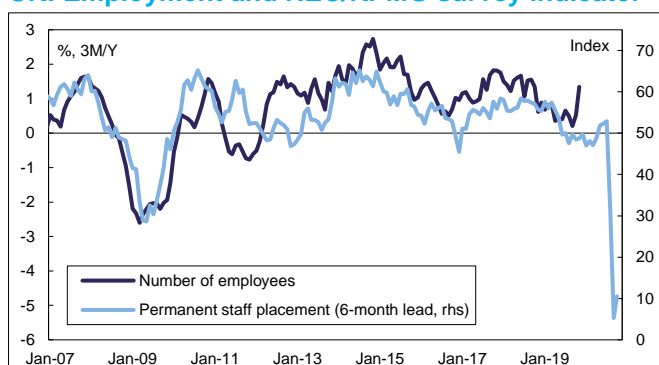
### Labour demand weakens further

Certainly, with claimant count unemployment having surged by a record 856k in April, and 8.7mn jobs furloughed at the end of May, it is no wonder that households are downbeat about labour market prospects. Today's REC/KPMG Report on Jobs further supported these concerns. For example, this survey suggested that permanent and temporary placements continued to fall sharply last month following the record declines seen in April as potential employers cancelled or postponed recruitment plans. Perhaps unsurprisingly, the medical and care sector reported the only increase in vacancies last month, with the steepest reductions in retail and hospitality. Given weak demand and significantly increased labour supply, starting salaries fell at the quickest rate since the height of the global financial crisis. The extension of the government's job retention scheme through to end-October will continue to provide much needed support to the labour market. But firms will have to make a contribution to the costs of furloughed workers from August. And the sharp hit to sales will continue to take its toll on businesses' cash-flows and their ability to maintain staffing at pre-coronavirus levels. So, unemployment seems bound to rise significantly further over coming months.

### The coming week in the UK

The coming week's economic calendar is relatively light, with the most noteworthy data coming on Friday with the April GDP report. These figures are bound to show a massive hit to activity across the services, manufacturing and construction sectors alike, as the country remained in lockdown. Following a drop of 5.8%M/M in March, GDP might well have fallen by four times that rate in April. The gradual lifting of containment measures over recent weeks means that April will prove to be the trough. Nevertheless, we think that it will be 2023 before activity returns to the pre-coronavirus level. April's trade figures, also due on Friday, will flag the significant negative impact of the on domestic and external demand and supply chains. And the BoE will publish its inflation attitudes survey that day too. The first part of the week, however, will be quiet for data – the BRC retail sales monitor for May is out on Tuesday, followed by the RICS house price balance for the same month on Thursday. In terms of policy communication, BoE Chief Economist Haldane will speak on Monday while Deputy Governor Cunliffe will speak the following day. In the bond market, the DMO will auction 2024 and 2028 bonds on Thursday.

### UK: Employment and REC/KPMG survey indicator


















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

### Europe: Covid-19 cases and fatalities

		Total	Daily new infections*	Peak daily infections	Peak date	Daily fatalities*
UK		283,080	2,066	16,051	20-Apr	349
France		189,849	981	17,164	16-Apr	67
Spain		240,660	629	22,237	30-Mar	2
Germany		184,924	486	16,014	30-Mar	31
Italy		234,013	411	16,906	23-Mar	88





\*Weekly average to 5-Jun. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Daiwa economic forecasts

	2019		2020				2019	2020	2021
	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP growth, %, Q/Q</b>									
Euro area 	0.3	0.1	-3.8	-13.5	6.3	3.5	1.2	-10.0	5.7
Germany 	0.3	-0.1	-2.2	-7.5	3.0	2.0	0.6	-5.9	3.0
France 	0.3	-0.1	-5.3	-17.0	9.0	5.5	1.5	-12.5	9.0
Italy 	0.1	-0.2	-5.3	-16.0	7.0	2.0	0.3	-13.8	4.3
Spain 	0.4	0.5	-5.2	-17.0	9.0	5.0	2.0	-12.2	8.2
UK 	0.5	0.0	-2.0	-20.0	10.0	4.0	1.4	-11.7	5.8
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline CPI 	1.0	1.0	1.1	0.2	0.1	-0.1	1.2	0.3	0.8
Core CPI 	0.9	1.2	1.1	0.8	0.3	0.1	1.0	0.6	0.4
UK									
Headline CPI 	1.8	1.4	1.7	0.7	0.3	0.3	1.8	0.8	0.8
Core CPI 	1.7	1.6	1.6	1.3	0.9	0.5	1.7	1.1	0.5
<b>Monetary policy</b>									
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	20	140	140	140	20	140	50
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	58	58	58	0	58	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/ Daiwa forecast	Previous	Revised
Germany 	Factory orders M/M% (Y/Y%)	Apr	<b>-25.8 (-36.6)</b>	-19.9 (-29.7)	-15.6 (-16.0)	<b>-15.0 (-15.4)</b>
Italy 	Retail sales M/M% (Y/Y%)	Apr	<b>-10.5 (-26.3)</b>	-20.0 (-)	-20.5 (-18.4)	<b>-21.3 (-18.9)</b>
Spain 	Industrial production M/M% (Y/Y%)	Apr	<b>-21.8 (-33.6)</b>	-9.5 (-)	-11.9 (-12.2)	<b>-13.2 (-13.7)</b>
UK 	Final GfK consumer confidence	May	<b>-36</b>	-34	-33	-
Auctions						
Country	Auction					
- Nothing to report -						

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
<b>Monday 08 June 2020</b>					
EMU		09.30 Sentix investor confidence	Jun	-22.5	-41.8
Germany		07.00 Industrial production M/M% (Y/Y%)	Apr	-15.5 (-23.0)	-9.2 (-11.6)
<b>Tuesday 09 June 2020</b>					
EMU		10.00 Final GDP Q/Q% (Y/Y%)	Q1	-3.8 (-3.2)	0.1 (1.0)
		10.00 Employment Q/Q%	Q1	-0.2 (0.3)	0.3 (1.1)
Germany		07.00 Trade balance €bn	Apr	12.0	17.4
		07.00 Labour costs Q/Q% (Y/Y%)	Q1	- (-)	0.0 (3.0)
France		07.30 Bank of France survey - industrial sentiment	May	-	48
		07.45 Trade balance €bn	Apr	-	-3.3
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	May	-	5.7
<b>Wednesday 10 June 2020</b>					
France		07.45 Industrial production M/M% (Y/Y%)	Apr	-17.5 (-31.8)	-16.2 (-17.3)
		07.45 Manufacturing production M/M% (Y/Y%)	Apr	-	-18.2 (-19.3)
<b>Thursday 11 June 2020</b>					
Italy		09.00 Industrial production M/M% (Y/Y%)	Apr	-20.0 (-40.0)	-28.4 (-29.3)
UK		00.01 RICS house price balance %	May	-24	-21
<b>Friday 12 June 2020</b>					
EMU		10.00 Industrial production M/M% (Y/Y%)	Apr	-20.0 (-26.6)	-11.3 (-12.9)
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	May	0.2 (0.2)	0.3 (0.4)
Spain		07.45 Final CPI (EU-harmonised CPI) Y/Y%	May	-1.0 (-0.9)	-0.7 (-0.7)
UK		07.00 Monthly GDP M/M% (3M/3M%)	Apr	-17.5 (-10.0)	-5.8 (0.1)
		07.00 Industrial production M/M% (Y/Y%)	Apr	-14.3 (-19.3)	-4.2 (-8.2)
		07.00 Manufacturing production M/M% (Y/Y%)	Apr	-15.3 (-20.1)	-4.6 (-9.7)
		07.00 Construction output M/M% (Y/Y%)	Apr	-25.0 (-30.0)	-5.9 (-7.1)
		07.00 Index of services M/M% (3M/3M%)	Apr	-20.0 (-10.6)	-6.2 (-1.9)
		07.00 Total trade balance (goods trade balance) £bn	Apr	-5.5 (-11.0)	-6.7 (-12.5)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 08 June 2020</b>		
EMU		14:45 ECB President Lagarde at a virtual hearing before the Economic and Monetary Affairs Committee
UK		- BoE Chief Economist Haldane scheduled to speak at an online event
<b>Tuesday 09 June 2020</b>		
EMU		09.00 ECB's Rehn scheduled to speak at a press conference in Finland
Germany		10.30 Auction: €3bn of 0% 2027 bonds
UK		- BoE Deputy Governor Cunliffe scheduled to speak at an online event
<b>Wednesday 10 June 2020</b>		
EMU		14.30 ECB's Schnabel scheduled to speak at an online event
		14.30 ECB Vice President de Guindos scheduled to speak at an online event
UK		10.00 Auction: £900mn of 0.125% index-linked bonds
<b>Thursday 11 June 2020</b>		
Germany		- Public holiday – Corpus Christi Day
Italy		10.00 Auction: 3Y and 7Y government bonds
UK		10.00 Auction: £3.25bn of 1% 2024 bonds
		11.30 Auction: £3.25bn of 0.125% 2028 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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