

# Euro wrap-up

## Overview

- Bunds followed Treasuries higher even as the European Commission's flash consumer confidence index improved in June, albeit remaining at an extremely weak level.
- Gilts also made gains as a UK manufacturing survey implied a further significant decline in output and orders.
- Tomorrow will bring the flash PMIs for June, while UK PM Johnson is due to announce a further relaxation on restrictions for certain businesses.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.707	-0.020
OBL 0 04/25	-0.689	-0.030
DBR 0 08/30	-0.444	-0.022
UKT 0½ 07/22	-0.067	-0.020
UKT 0% 06/25	-0.020	-0.028
UKT 4% 12/30	0.193	-0.042

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

## Euro area

### Euro area consumer confidence improves

As restrictions on activity continued to ease over the past month, today's flash Commission consumer confidence indicator confirmed a further improvement in June. In particular, the euro area's headline index rose for the second successive month and by 4.1pts to -14.7. While we will have to wait for the publication of the final survey on 29 June for more details, we would expect the recovery to have been underpinned by an improved climate for purchasing as non-essential shops reopened. But other components – i.e. general economic situation and unemployment expectations over the coming twelve months – seem bound to have remained extremely weak and/or deteriorated further. And overall, consumer sentiment remains more than 8pts below its pre-pandemic peak, still near levels seen towards the end of the euro crisis and therefore consistent with significantly subdued consumption.

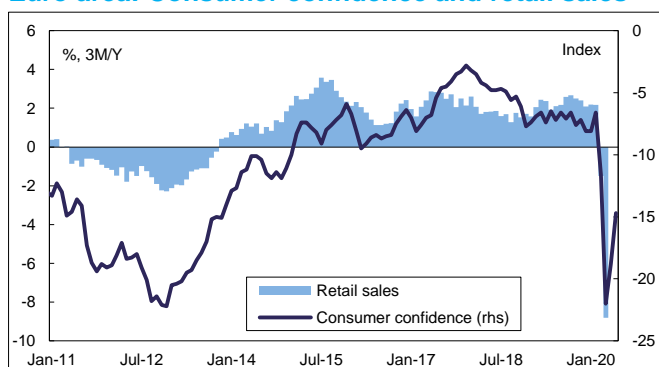
### French retail sales rebound in May

Admittedly, the Bank of France last week reported that retail sales had rebounded sharply in May, as retailers resumed trading on the 11<sup>th</sup> of that month. Indeed, total retail sales jumped more than 50%M/M, following declines of almost 24%M/M apiece in March and April to leave them down 'just' 9%Y/Y compared with a 40%Y/Y drop in April. And the full-month figure likely distorted the improvement seen by the end of the month. Within the detail, there was a notable improvement in the sales of DIY products, as well as a significant increase in bicycles and motor bikes, possibly reflecting higher demand for social-distancing modes of transport. Nevertheless, sales of manufactured goods were still down 16%Y/Y in May and total sales of goods were still more than 10% below the pre-Covid level. And, overall, following the initial bounce back in household spending last month, we would expect total consumption to be tempered still by subdued confidence as the recent surge in unemployment and continued uncertainty over the economic outlook keep the purse strings relatively tight. We would expect a similar pattern – a notable rebound on the month, but still down on a year earlier – in upcoming retail sales releases from Spain on Friday and Germany a week today.

### The day ahead in the euro area and US

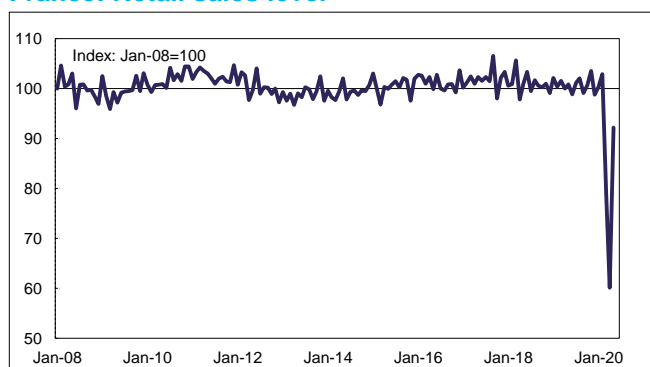
Focus tomorrow will turn to the release of the flash PMIs for June from the euro area, Germany and France. As restrictions continued to ease over the past month and business operations resumed, we expect a further improvement in the output indices. But new orders will likely remain subdued and employment conditions challenging. As such, while the aggregate euro area composite PMI is forecast to edge higher in June, from 31.9 in May, it will remain firmly below the key 50 expansion/contraction level. In the markets, Germany will sell 2022 Bunds.

### Euro area: Consumer confidence and retail sales



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### France: Retail sales level



Source: Bank of France, Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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In the US, Tuesday will also bring the preliminary PMI surveys for June, alongside new home sales figures for May. In the markets, the Treasury will sell 2Y notes.

## UK

### Manufacturing output and orders remain extremely weak

While UK manufacturers were encouraged to return to work under strict social distancing rules from the middle of May, today's CBI industrial trends survey illustrated that, perhaps unsurprisingly, significant challenges still persist in the sector. In particular, the survey suggested that output fell in the three months to June – the headline index was down 3pts to -57% – at the steepest pace since the series began 45 years ago. Indeed, output fell in 15 of the 17 sub-sectors surveys, with autos, mechanical engineering and metal products driving the weakness. And while domestic orders improved very slightly, demand from overseas fell further over the past month – the export orders index declined to the lowest in the series history. Furthermore, with stock levels still well above average, manufacturers inevitably remained particularly pessimist about the near-term production outlook, albeit anticipating a smaller decline over the coming three months than in recent months.

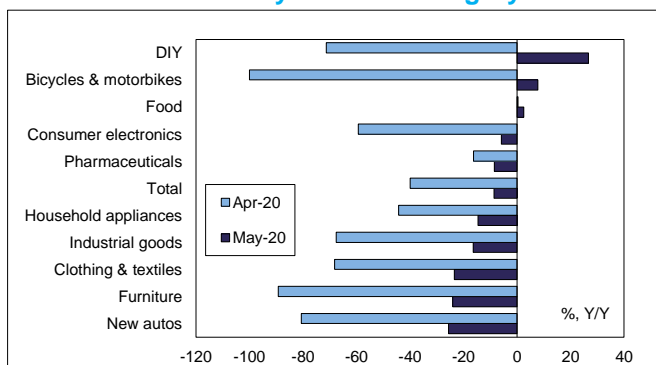
### BoE Governor suggests a change in the longer-term policy strategy

Today's survey further emphasises the fragile state of the UK's economy even as manufacturers were among the first to see an easing of restrictions. Against this backdrop, reports over the weekend suggest that further near-term fiscal support measures could well include a temporary cut in VAT rates for certain other sectors, not least tourism and hospitality, where businesses currently remain closed. But even when other industries are allowed to reopen, possibly from the 4 July, we would expect only a gradual recovery in activity. Indeed, we currently forecast GDP to remain below the pre-pandemic level at least until end-2022. And with the labour market set to further deteriorate significantly later this year when the government's Job Retention Scheme is phased out, and also with inflation likely to remain below target for the foreseeable future, we expect a further easing of monetary policy to be required later in the year, most likely with another expansion of the BoE's asset purchase target. Certainly, BoE Governor Bailey's opinion piece for Bloomberg today, indicating that he is inclined to sell off some of the assets the central bank has bought before raising interest rates, should not be viewed as a hint that the BoE is considering a tightening of policy any time soon. Indeed, the MPC just last week expanded its asset purchase target by a further £100bn. Nevertheless, his suggestion is contrary to former policy thinking that the MPC would raise interest rates before considering reducing its balance sheet, in a bid to increase potential options in the event of future crises.

### The day ahead in the UK

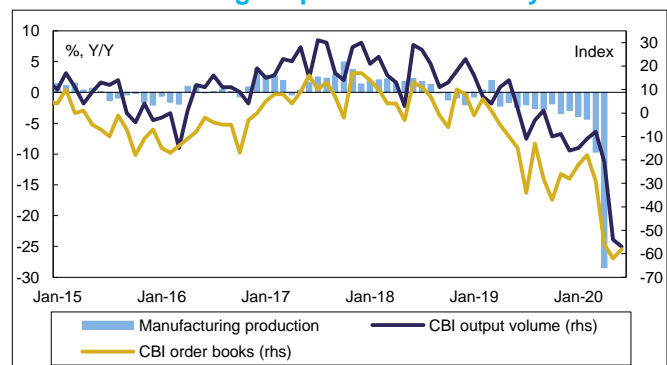
The flow of sentiment surveys will continue tomorrow, with the flash PMIs for June expected to show a further modest recovery in the production indices. But with the services sector still largely shut due to containment measures – and retailing excluded from this survey – any improvement will be limited. Moreover, with new orders likely to have remained extremely subdued in the manufacturing and services sectors alike and expectations about the outlook for the year ahead still highly uncertain, the headline indices will remain at extremely low levels. Indeed, despite an anticipated 11pt increase on the month, the composite PMI would remain well below the long-run average at just 41.0. Tuesday will also see PM Johnson announce a further easing of lockdown measures, with further detailed guidance for certain businesses that can reopen from 4 July, with some hospitality subsectors expected to be included. In the markets, the DMO will sell 4Y and 10Y Gilts.

### France: Retail sales by selected category





Source: Bank of France and Daiwa Capital Markets Europe Ltd.

### UK: Manufacturing output and CBI survey














Source: 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	
EMU	 Preliminary consumer confidence	Jun	<b>-14.7</b>	-15.0	-18.8	-	
UK	 CBI industrial trends survey , total orders	Jun	<b>-58</b>	-50	-62	-	
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		
EMU		09.00	Preliminary manufacturing (services) PMI	Jun	45.0 (41.5)	39.4 (30.5)	
		09.00	Preliminary composite PMI	Jun	43.0	31.9	
Germany		08.30	Preliminary manufacturing (services) PMI	Jun	42.5 (42.3)	36.6 (32.6)	
		08.30	Preliminary composite PMI	Jun	44.4	32.3	
France		08.15	Preliminary manufacturing (services) PMI	Jun	46.0 (45.2)	40.6 (31.1)	
		08.15	Preliminary composite PMI	Jun	46.8	32.1	
UK		09.30	Preliminary manufacturing (services) PMI	Jun	45.0 (40.0)	40.7 (29.0)	
		09.30	Preliminary composite PMI	Jun	41.2	30.0	
Auctions and events							
Country	BST	Auction / Event					
Germany		10.30	Auction: €5bn of 0% 2022 bonds				
UK		10.00	Auction: £3.25bn of 0.125% 2026 bonds				
		11.30	Auction: £3bn of 0.375% 2030 bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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