

Euro wrap-up

Overview

- While German and French business surveys reported increased optimism about the outlook, Bunds made gains on coronavirus concerns.
- Gilts followed USTs and Bunds higher on a quiet day for UK economic news.
- Thursday will bring the publication of the account from the ECB's June policy meeting and further German and UK economic survey results.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.692	-0.014
OBL 0 04/25	-0.680	-0.017
DBR 0 08/30	-0.437	-0.026
UKT 0½ 07/22	-0.080	-0.009
UKT 0% 06/25	-0.021	-0.011
UKT 4% 12/30	0.197	-0.014

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

Euro area

German business optimism continues to improve

Like yesterday's [flash June PMIs](#), today's national business survey results from Germany and France suggested significant progress towards economic stabilisation and improved optimism about the outlook, even if the level of activity remains sub-par. In Germany, where the easing of restrictions on activity came ahead of the other large EU member states, the ifo headline business climate index rose a record 6.5pts to a four-month high of 86.2. That, however, was merely a fraction above the reading in March, and still almost 10pts below the average level in the six months before the pandemic hit. Moreover, having declined in May to the lowest since 2009, the improvement in the current conditions index was modest, at just 2.3pts to 81.3. This was still more than 10pts below the level in March and almost 20pts below last year's average, and thus consistent with various high-frequency data – from restaurant reservations to power consumption and truck tolls – suggesting that activity remains well down on the pre-pandemic level. So, the improvement related principally to expectations for the coming six months, for which the respective survey index rose more than 10pts for the second successive month to a four-month high of 91.4, less than 1pt below the average through the second half of 2019.

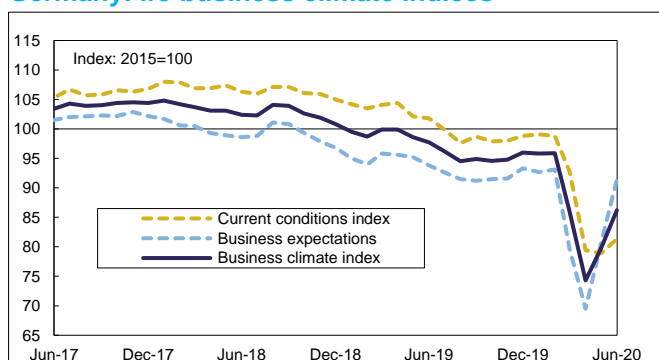
German manufacturers most upbeat

The improvement in German business expectations reported in the ifo survey was seen across all sectors. But for the second successive month, manufacturing sector optimism picked up the most, with the respective index up to the highest level since autumn 2018 and close to the long-run average. In services, however, expectations for the coming six months were simply the strongest since February and remained well below levels over the decade before the pandemic hit. Similarly, traders were still relatively downbeat by historical standards, with wholesalers more pessimistic than retailers. And construction firms, which had been particularly optimistic ahead of the pandemic, were still essentially no more upbeat about the outlook than during the worst point of the global financial crisis in 2009. Businesses in all sectors will be hoping that the local lockdowns re-imposed in the state of North Rhine-Westphalia will not be required elsewhere, and that the steady recovery in economic activity can thus be sustained over coming months.

French survey results mirror the ifo indices

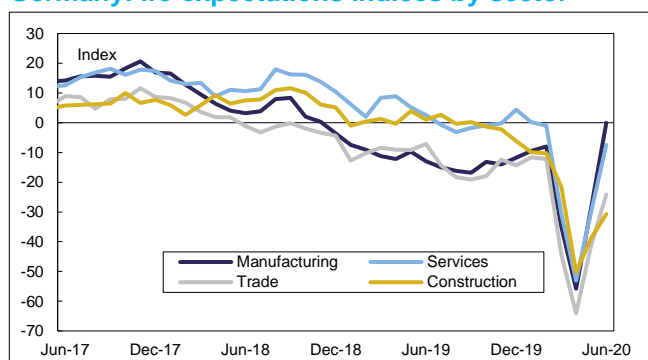
Similar to the ifo indices, the INSEE French business climate survey results suggested an improvement in sentiment in line with the easing of restrictions on activity, which last week saw the nationwide reopening of cafes and restaurants and earlier this week saw cinemas and casinos follow suit. Indeed, the 18pt rise in the headline sentiment index was the biggest on the series dating back to 1980. However, at 78, it remained some 16pts below the March level and 27pts below the pre-

Germany: ifo business climate indices



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

Germany: ifo expectations indices by sector



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



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pandemic level, and, indeed, still within the range in the aftermath of the global financial crisis in 2009. Like in Germany, increased business optimism about the future drove the rise in confidence. The improvement in expectations was widespread, with the respective indices for services and retailers reporting record monthly increases, albeit remaining at historically low levels. That tallies with recent hard data, including the pickup in retail sales in May, which were nevertheless still down a hefty 9%Y/Y having been down an extreme 40%Y/Y the prior month. And while the INSEE survey's employment climate index also posted a record monthly rise, it remained well below the pre-Covid low in 2009. And so, with 13.6mn workers registered on the government's partial unemployment scheme at the start of the week, there remains a strong likelihood of a sharp rise in formal unemployment ahead.

The day ahead in the euro area and US

Tomorrow sees the release of the forward-looking German GfK consumer sentiment survey for July. Like other recently published sentiment surveys, this is forecast to show a further improvement in overall confidence. However, the expected rise in the headline index, to about -12 in the latest month, would leave it still well down on the pre-pandemic level, and indeed well below levels during the global financial crisis. Separately, the ECB will publish its account of 3-4 June monetary policy meeting, when the PEPP envelope was increased by €600bn to €1.35trn, the horizon for the net purchases was extended at least until the end of June 2021, and the Governing Council also decided to reinvest payments under the PEPP until at least the end of 2022. Meanwhile, ECB Executive Board members Schnabel and Mersch will take part in separate virtual conferences. In the markets, Italy will auction zero coupon bonds as well as index-linked bonds.

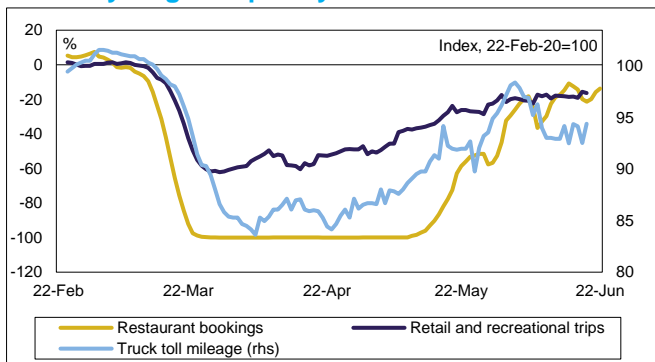
In the US, tomorrow sees the release of the advance goods trade and durable goods figures for May as well as the usual weekly claims data. Meanwhile, the US Treasury will auction 7Y notes on Thursday.

UK

The day ahead in the UK

Looking ahead, tomorrow sees the release of the CBI distributive trades survey for June, which is expected to show that, despite an improvement from May as non-essential stores reopened, retail sales remain well below their level compared with a year ago. Meanwhile, having last week voted against the MPC's decision to increase its asset purchase target by £100bn, the BoE's Chief Economist Haldane appearance at a virtual event tomorrow evening will be closely watched. The BoE's Financial Policy summary and record of June's FPC meeting will also be published while the DMO will auction index-linked bonds.

Germany: High frequency indicators



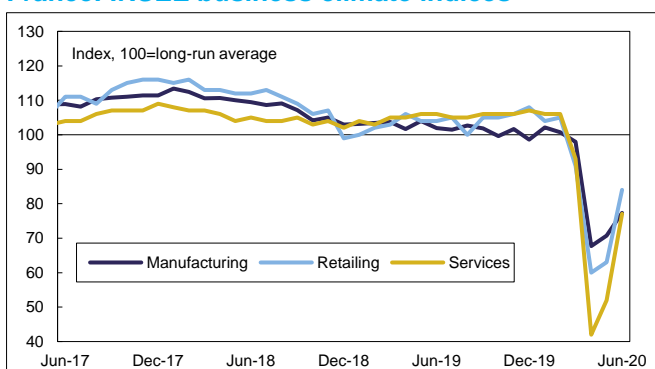
Source: Open Table, Google mobility report, Destatis and Daiwa Capital Markets Europe Ltd.

Coronavirus cases and fatalities

		Total	Daily new infections*	Peak daily infections	Peak date	Daily fatalities*
UK		307,682	1,338	16,051	20-Apr	170
Germany		192,786	729	16,014	30-Mar	17
France		199,262	613	17,164	16-Apr	41
Spain		246,752	378	22,237	30-Mar	170
Italy		238,833	220	16,906	23-Mar	43

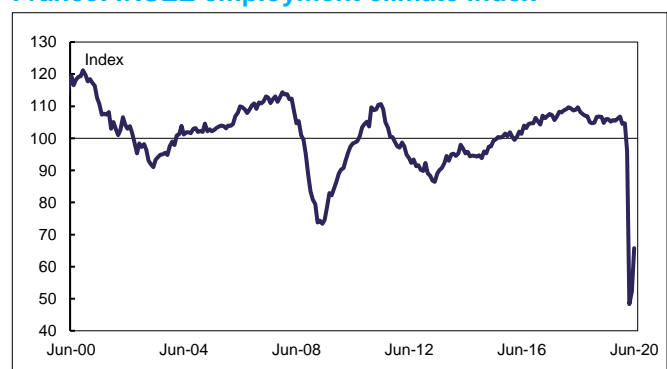
*Weekly average to 24-June. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

France: INSEE business climate indices










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

France: INSEE employment climate index













Source: INSEE 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
Germany	 Ifo business climate index	Jun	86.2	85.0	79.5	79.7
	 Ifo current assessment balance (expectations)	Jun	81.3 (91.4)	84.3 (86.0)	78.9 (80.1)	- (80.5)
France	 Business confidence	Jun	78	73	59	60
	 Manufacturing confidence (production outlook)	Jun	77 (-15)	76 (-)	70 (-49)	71 (-)
Auctions						
Country	Auction					
Germany	 sold €2.13bn of 0% 2035 bonds at an average yield of -0.22%					
UK	 sold £3.25bn of 2.75% 2024 bonds at an average yield of -0.04%					
	 sold £1.5bn of 1.625% 2054 bonds at an average yield of 0.654%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases						
Economic data						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Germany	 07.00	GfK consumer confidence	Jul	-12.0	-18.9	
UK	 11.00	CBI distributive trades survey, total reported retail sales	Jun	-38	-50	
Auctions and events						
Country	BST	Auction / Event				
EMU	 12.30	ECB publishes its account of the 3-4 June monetary policy meeting				
	 13:30	ECB's Schnabel speaks at a virtual meeting of the ECB's Bond Market Contact Group				
	 14.30	ECB's Mersch takes part in a webinar on 'The world economy transformed'				
Italy	 10.00	Auction: €3.5bn of 0% 2022				
	 10.00	Auction: 0.65% 2026 index-linked bonds				
UK	 10.00	Auction: £1.1bn of 0.125% 2029 index-linked bonds				
	 10.30	BoE publishes Financial Policy Summary and Record for June				
	 18.00	BoE's Chief Economist Haldane speaks at a virtual event				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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