

Euro wrap-up

Overview

- Bunds were little changed as the ECB reported another month of strong growth of lending to non-financial corporations in the euro area.
- Gilts made modest losses on another quiet day for UK economic news.
- The coming week brings the flash estimate of euro area inflation in June as well as data for euro area unemployment, German retail sales and UK bank lending, and the Commission's latest economic sentiment survey.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.716	-0.009
OBL 0 04/25	-0.718	-0.008
DBR 0 08/30	-0.481	-0.008
UKT 0½ 07/22	-0.079	+0.008
UKT 0% 06/25	-0.039	+0.014
UKT 4% 12/30	0.175	+0.021

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

Euro area

Credit surges on large-scale monetary and fiscal support

The ECB's large-scale easing of monetary policy, together with the impact of government loan guarantees and direct fiscal support, continues to feed a sharp acceleration in credit to the public and private sectors. Indeed, total credit to euro area residents rose 6.2%Y/Y in May, up 1.3ppts from April and the strongest rate in more than 11 years. That was partly driven by stronger credit to the public sector, which accelerated 3.6ppts to 9.8%Y/Y as massive new issuance of government debt was absorbed. Meanwhile, the annual growth rate of credit to the private sector jumped 0.5ppt to 4.9%Y/Y, with the loan component up a firm 5.3%Y/Y on an adjusted basis.

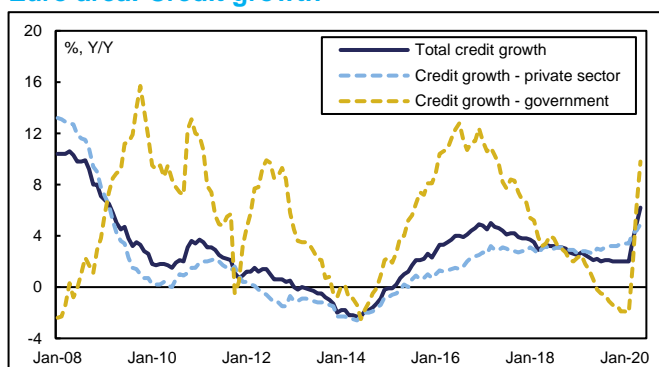
A record flow of loans to businesses

Most encouragingly, loans to non-financial corporations continued to see vigorous growth, accelerating 0.7ppt to 7.3%Y/Y, the strongest since early 2009. Indeed, as businesses sought liquidity for both emergency and precautionary purposes, and governments offered large-scale guarantees, the flow of such lending in the three months to May rose to a record €245bn. Moreover, for the second successive month, new lending to NFCs was predominantly medium- to long-term. Indeed, the flow of 1-5Y loans surged 17.3%Y/Y, while the equivalent rate for loans of more than 5Y rose 6.3%Y/Y. In contrast, the flow of loans of up to 1Y maturity was down 1.5%Y/Y. Certainly, there should be no doubt that the vast majority (if not all) of participating banks will therefore benefit from the lowest interest rate on the TLTROiii operations (50bps below the deposit rate). Meanwhile, lending to euro area households rose 3.0%Y/Y in May, unchanged from April. A further pickup in loans for house purchase (up a solid 4.2%Y/Y) contrasted starkly with continued weakness in consumer credit (up just 0.4%Y/Y, the weakest rate in five years) as household spending remained well down on pre-pandemic levels.

French consumer confidence rebounds

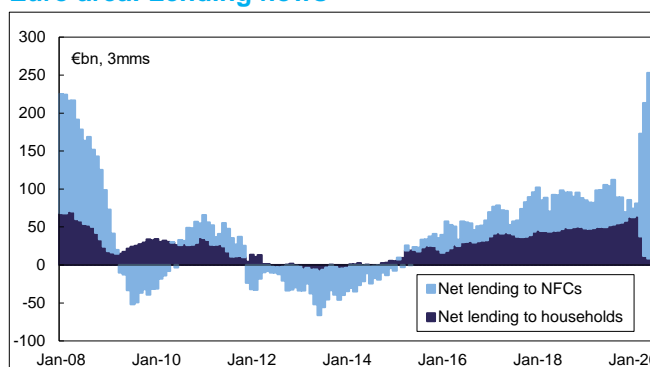
Like yesterday's [German GfK indices](#), today's French INSEE survey suggested that households are more upbeat about the outlook, with the easing of containment measures causing a notable improvement in the purchasing climate. In particular, the headline sentiment index rose a stronger-than-expected 4pts in June to 97. But that was still 7pts below the pre-pandemic level and also below the long-run average. Within the detail, the most notable improvement related to the share of households that considered it a suitable time to make major purchases, with the relevant index up 31pts to leave it bang in line with the long-run average, albeit still below the level seen in the eleven months before the pandemic. Consumers were also more optimistic about their financial situation, as well as the general economic outlook over the coming twelve months. But with almost 4.2mn workers defined as full-time unemployed last month (down just 150k from April, and still up more than

Euro area: Credit growth



Source: ECB and Daiwa Capital Markets Europe Ltd.

Euro area: Lending flows



Source: ECB and Daiwa Capital Markets Europe Ltd.



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900k from the pre-pandemic peak) and about 7.8mn receiving support (and more than 13mn registered) on the government's "partial" unemployment scheme, today's survey also showed a further modest increase in households' fear about the outlook for employment to the highest since the mid-2013 peak. It remains to be seen whether the extension of the government's furlough scheme in amended form from the start of next month, which will open the possibility for workers to be partially unemployed for up to two years, will alleviate or accentuate those concerns about joblessness.

Italian confidence improves too

Today's ISTAT release suggested that Italian consumers are likewise somewhat more optimistic. Indeed, the headline indicator rose 6.3pts in June to 100.6, broadly in line with the long-run average. But this still remained more than 10pts below the pre-pandemic level and not a long way above the weakest readings for 5½ years. The most notable improvement reflected expectations about the general economic situation, with the relevant balance rising 34pts to its highest level since October. And the indicator reflecting household intentions to purchase durable goods rose 24pts, albeit remaining below the range of recent years. In contrast, consumers remained downbeat about their current situation. And while not as severe as in May, concerns about unemployment remained exceptionally high, close to levels last seen during the euro crisis.

At face value, the improvement in Italian business sentiment was more pronounced, with the composite business index up 12.7pts on the month to 65.4. But this still marked the second-lowest reading on record and remained 34pts below the pre-pandemic peak in February. And while recovery was seen across the sectors, with reported improvement in orders and expectations for future production, all indices remained well below the pre-Covid levels, particularly so in the services sector. Overall, today's surveys suggest that, in spite of the reopening of the economy as lockdown restrictions were relaxed, Italian economic activity remains relatively lackluster and well below that seen ahead of the current crisis.

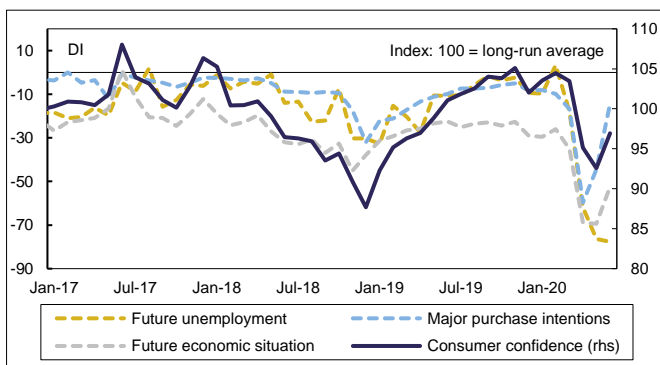
The coming week in the euro area and US

Sentiment surveys will continue to dominate the euro area's data flow in the coming week, while flash June CPI and May unemployment figures are also due. The Commission's sentiment indicator is first up on Monday and expected to show the headline index post a double-digit monthly rise as business and consumer sentiment improved, albeit still remaining notably lower than the pre-Covid level. A similar outturn is expected in the final manufacturing and services PMIs (due Wednesday and Friday respectively). Indeed, the flash composite index (up 15.6pts to 47.5) merely suggested a stabilisation of economic conditions following the initial deep contraction after the Covid outbreak, rather than any meaningful expansion in June.

Meanwhile, the euro area's flash inflation release (Tuesday) is expected to show that the headline CPI rate edged very slightly higher in June on the back of modest rebound in energy prices, albeit remaining very subdued at 0.2%Y/Y. And against the backdrop of weakening underlying price pressures, core inflation is forecast to have declined 0.1ppt to 0.8%Y/Y. At the country level, flash German and Spanish inflation data are due Monday, with French and Italian figures also due Tuesday. Later in the week, the euro area's unemployment data (Thursday) are expected to report another increase in the headline rate to 7.6%, its highest for ten months, but still relatively low thanks to the various employment support schemes across member states. National releases from Germany (Wednesday) and Spain (Thursday) will provide an update on developments in June.

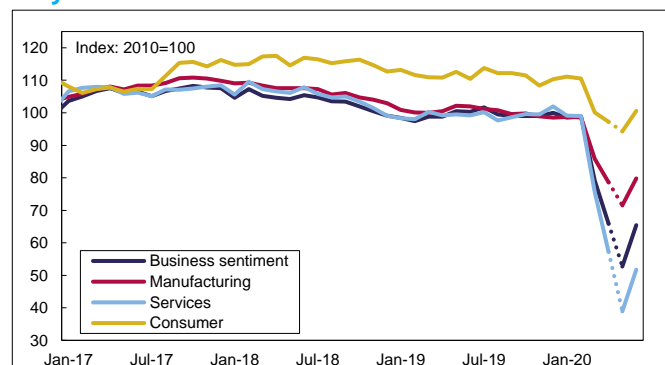
Other member state releases include French consumer spending and German retail sales figures (due on Tuesday and Wednesday respectively) for May. Like today's Spanish retail sales numbers (up 19.3%M/M, but still down 19.0%Y/Y), these are likely to confirm a notable jump in spending compared with April, albeit leaving the level still well down from the pre-pandemic level. Wednesday will also bring the first of the member state releases for new car registrations for June. In terms of ECB speakers, Vice President de Guindos and Executive Board member Schnabel are due to speak at separate virtual events on Tuesday, while ECB Board member Panetta will speak on Wednesday. In the markets, Germany will sell 7Y bonds on Tuesday, alongside Italian auctions of fixed- and floating-rate bonds. Thursday will see France and Spain issue bonds with various maturities.

France: Consumer confidence indices*



*Scale for future unemployment index reversed. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Italy: Consumer and business confidence indices*



*April 2020 survey not conducted. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

In the US, a shortened work-week, thanks to the Independence Day celebration on Friday, starts quietly with the release of pending home sales figures for May on Monday, followed by the S&P CoreLogic home price index for April on Tuesday. Also out that day is the Conference Board's consumer confidence survey for June. On Wednesday, the latest FOMC minutes will be published, together with a number of top-tier economic data, including the ISM manufacturing index, vehicle sales numbers and the ADP employment report, all for June, as well as construction spending figures for May. Of course, the most notable labour market release will come on Thursday, with the BLS employment report expected to show a further marked increase in nonfarm payrolls in June. However, the drop in the unemployment rate, from 13.3% in May, is expected to be relatively modest. That day will also bring the usual weekly jobless claims data, and final trade and factory orders figures for May. In terms of Fed-speak, New York Fed President Williams will appear at two online events on Monday and Tuesday, while Chair Powell and Treasury Secretary Mnuchin will also testify before the House Financial Services Committee on Tuesday.






UK

The coming week in the UK

After a quiet end to the week for UK economic news, the coming week's data calendar kicks off on Monday with the release of the Bank of England's bank lending data for May. We expect these to reveal ongoing strong growth in lending to large firms, but also that households continued to reduce their credit card debt as non-essential shops remained closed and travel restrictions remained in place. Tuesday's final GfK consumer confidence survey for June is expected to confirm a further uptick in sentiment, albeit leaving the index well below pre-pandemic levels. In terms of business sentiment, the final PMIs for June will be published over the latter half of the week, with the manufacturing survey due on Wednesday, followed by the services sector and composite PMIs on Friday. These data are expected to align with the preliminary release, with the composite measure jumping to 47 in June, from 29 in May. Of course, like with the euro areas indices, it is impossible to conclude with any confidence what the PMIs really imply for the current profile of GDP, although they clearly remain consistent with a distinct lack of vigour following the period of severe contraction. Finally, the balance of payments for Q1 will be released on Tuesday along with final Q1 GDP figures, which are expected to confirm that the UK economy contracted at the fastest rate since the global financial crisis, by 2.0%Q/Q, to leave output down 1.6%Y/Y.
















Several MPC members are due to speak in the coming week, starting on Monday with BoE Governor Bailey at a Climate Financial Risk Forum, as well as external member Vlieghe. On Tuesday, Chief Economist Haldane will be taking part in a webinar reflecting on economic developments in the current quarter, while at a separate event Deputy Governor Cunliffe will talk about central banking in the Covid-19 age. External MPC member Haskel will also speak at an event on Thursday. In the markets, the DMO will auction 2028 and 2050 bonds on Wednesday, followed by 2025 and 2034 bonds on Thursday.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 M3 money supply Y/Y%	May	8.9	8.7	8.3	8.2
France	 Consumer confidence	Jun	97	94	93	-
Italy	 Business (manufacturing) sentiment indicator	Jun	65.4 (79.8)	-	51.1	52.7 (71.5)
	 Consumer confidence	Jun	100.6	97.5 (76.0)	94.3 (71.2)	-
Spain	 Retail sales Y/Y%	May	-19.0	-19.8	-31.6	-
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.






































Daiwa economic forecasts

		2019		2020				2019	2020	2021
		Q3	Q4	Q1	Q2	Q3	Q4			
GDP growth, %, Q/Q										
Euro area		0.3	0.1	-3.6	-12.0	8.0	1.5	1.2	-8.3	5.1
Germany		0.3	-0.1	-2.2	-7.5	3.0	2.0	0.6	-5.9	3.9
France		0.2	-0.1	-5.3	-15.0	9.0	5.5	1.5	-11.1	6.8
Italy		0.0	-0.2	-5.3	-14.0	7.0	3.0	0.3	-11.9	5.4
Spain		0.4	0.4	-5.2	-16.0	9.0	5.0	2.0	-11.4	7.9
UK		0.5	0.0	-2.0	-17.0	8.6	3.3	1.4	-10.1	4.7
Inflation, %, Y/Y										
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
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	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	40	17	17	0	17	0

*Monthly target €bn, end of period. **Monthly target £bn, end of period.
 Source: Bloomberg, ECB, BoE 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 29 June 2020					
EMU		10.00 Economic sentiment indicator	Jun	80.3	67.5
		10.00 Services (industrial) confidence	Jun	-24.0 (-18.5)	-43.6 (-27.5)
		10.00 Final consumer confidence	Jun	-14.7	-18.8
Germany		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jun	0.6 (0.6)	0.6 (0.5)
Spain		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jun	-0.5 (-0.5)	-0.9 (-0.9)
UK		09.30 Net consumer credit £bn (Y/Y%)	May	-3.0 (-)	-7.4 (-0.4)
		09.30 Net mortgage lending £bn (approvals '000s)	May	-1.0 (25.5)	0.3 (15.8)
Tuesday 30 June 2020					
EMU		10.00 Flash CPI (core CPI) Y/Y%	Jun	0.2 (0.8)	0.1 (0.9)
France		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jun	0.5 (0.5)	0.4 (0.4)
		07.45 Consumer spending M/M% (Y/Y%)	May	30.0 (-13.5)	-20.2 (-34.1)
Italy		10.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jun	-0.1 (-0.3)	-0.2 (-0.3)
Spain		08.00 Final GDP Q/Q% (Y/Y%)	Q1	-5.2 (-4.1)	0.4 (1.8)
UK		00.01 Final GfK consumer confidence	Jun	-29	-30
		00.01 Lloyds business barometer	Jun	-	-33
		07.00 Final GDP Q/Q% (Y/Y%)	Q1	-2.0 (-1.6)	0.0 (1.1)
		07.00 Current account balance £bn	Q1	-15.0	-5.6
Wednesday 01 July 2020					
EMU		09.00 Final manufacturing PMI	Jun	46.9	39.4
Germany		07.00 Retail sales M/M (Y/Y%)	May	3.5 (-3.4)	-6.5 (-6.4)
		08.55 Final manufacturing PMI	Jun	44.6	36.6
		08.55 Unemployment change '000s (rate %)	Jun	110 (6.5)	238 (6.3)
France		08.50 Final manufacturing PMI	Jun	52.1	40.6
Italy		08.45 Manufacturing PMI	Jun	47.6	45.4
		17.00 New car registrations Y/Y%	Jun	-	-49.6
Spain		08.15 Manufacturing PMI	Jun	45.4	38.3
UK		00.01 BRC shop price index Y/Y	Jun	-	-2.4
		07.00 Nationwide house price index M/M% (Y/Y%)	Jun	-0.8 (1.1)	-1.7 (1.8)
		09.30 Final manufacturing PMI	Jun	50.1	40.7
Thursday 02 July 2020					
EMU		10.00 Unemployment rate %	May	7.7	7.3
		10.00 PPI Y/Y%	May	-4.6	-4.5
Italy		09.00 Unemployment rate %	May	8.1	6.3
Spain		08.00 Unemployment change '000s	Jun	-	26.6
Friday 03 July 2020					
EMU		09.00 Final services (composite) PMI	Jun	47.3 (47.5)	30.5 (31.9)
Germany		08.55 Final services (composite) PMI	Jun	45.8 (45.8)	32.6 (32.3)
France		08.50 Final services (composite) PMI	Jun	50.3 (51.3)	31.1 (32.1)
Italy		08.45 Services (composite) PMI	Jun	46.6 (47.0)	28.9 (33.9)
Spain		08.15 Services (composite) PMI	Jun	46.0 (45.4)	27.9 (29.2)
UK		09.30 Final services (composite) PMI	Jun	47.0 (47.6)	29.0 (30.0)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 29 June 2020		
UK		10.30 BoE Governor Bailey to speak at webinar - Climate Financial Risk Forum
		13.30 BoE's Vlieghe speaks on Macroeconomic tail risk and asset prices
Tuesday 30 June 2020		
EMU		12.00 ECB's Schnabel scheduled to speak
		14.00 ILO publishes report on virus impact on the labour market
		16.00 ECB's De Guindos scheduled to speak
Germany		10.30 Auction: €3bn of 0% 2027 bonds
Italy		10.00 Auction: €3bn of 1.85% 2025 bonds
		10.00 Auction: €1.25bn of 2023 floating rate notes
		10.00 Auction: 1.65% 2030 bonds
UK		10.00 Auction: 0.95% 2030 bonds
		11.00 BoE Chief Economist Haldane speaks at a webinar – 'The Second Quarter'
		15.00 BoE Deputy Governor Cunliffe scheduled to speak – 'Central Banking in the Covid-19 Age'
Wednesday 01 July 2020		
EMU		08.45 ECB's Panetta scheduled to speak
UK		10.00 Auction: £3bn of 0.125% 2028 bonds
		10.00 Auction: £2.25bn of 0.625% 2050 bonds
		12.00 BoE's Haskel scheduled to speak at a webinar
Thursday 02 July 2020		
EMU		14.00 ECB's Mersch scheduled to speak
		18:00 ECB's Schnabel scheduled to speak
France		09.50 Auction: 0% 2030 bonds
		09.50 Auction: 1.25% 2034 bonds
		09.50 Auction: 1.75% 2039 bonds
		09.50 Auction: 0.75% 2052 bonds
Spain		09.45 Auction: 0% 2025 bonds
		09.45 Auction: 0.8% 2027 bonds
		09.45 Auction: 1.25% 2030 bonds
		09.45 Auction: 1% 2030 index-linked bonds
UK		10.00 Auction: £3.5bn of 0.625% 2025 bonds
		10.00 Auction: £2bn of 4.5% 2034 bonds
Friday 03 July 2020		
EMU		13.00 ECB's Knot scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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