

Euro wrap-up

Overview

- Bunds made modest losses as some disappointing German factory orders data contrasted with a firmer-than-expected rebound in euro area retail sales.
- Gilts also made losses as weak UK car registration data contrasted a stronger construction sector survey.
- Tuesday will bring German industrial production, Italian retail sales, and French goods trade.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.695	+0.007
OBL 0 04/25	-0.682	+0.006
DBR 0 08/30	-0.436	+0.001
UKT 0½ 07/22	-0.084	+0.011
UKT 0% 06/25	-0.029	+0.013
UKT 4% 12/30	0.196	+0.012

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

Euro area

German orders still well down on pre-pandemic level

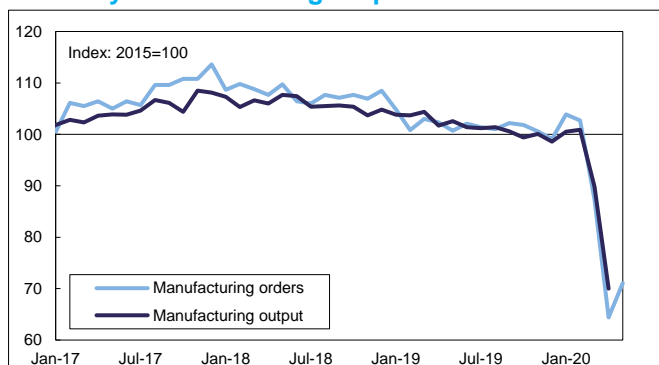
While the recovery in Germany's retail sector from the pandemic shock has been swift, the recovery in its manufacturing sector looks set to be far less dynamic. Indeed, German factory orders remained very subdued in May with weaker-than-expected growth of 10.4%M/M from April's more-than-20-year low. That left orders down 29.3%Y/Y and 30.8% below February's pre-pandemic level. Growth in domestic orders (12.3%M/M) was stronger than in foreign orders (8.8%M/M). But new orders from other euro area countries were fastest, up 20.9%M/M from a deeper trough, while those from elsewhere were up just 2.0%M/M. At the sectoral level, the strongest growth in orders was registered in the autos sector, up 44.4%M/M, led by domestic orders. But that left them still down 47.1% from February's level. Growth in other sectors – which had been hit to a somewhat lesser extent by the initial shock – was more modest (e.g. orders of engineering goods was up 12.4%M/M, and those of metals was up just 2.8%M/M) or absent altogether (orders of chemicals and electronic items both fell once again).

Despite the partial rebound in [car production](#) that month, manufacturing turnover rose 'just' 10.6%M/M to be still down 23.5% from February's pre-pandemic level. A similar growth rate – a little more than 10%M/M to be still down close to 30%Y/Y – is expected from the manufacturing production figures due tomorrow morning. With the respective PMI up more than 19pts in June to 45.1, German factory orders likely saw further significant growth last month, particularly as firms gear up for stronger domestic demand prompted by the VAT cut from July to end-year. But demand from abroad seems to be lagging significantly domestic orders (the foreign new orders PMI rose to 41.4). And, overall, surveys suggest that orders and production will remain well below the pre-pandemic level well into next year.

Retail sales narrow the gap with a stronger rebound

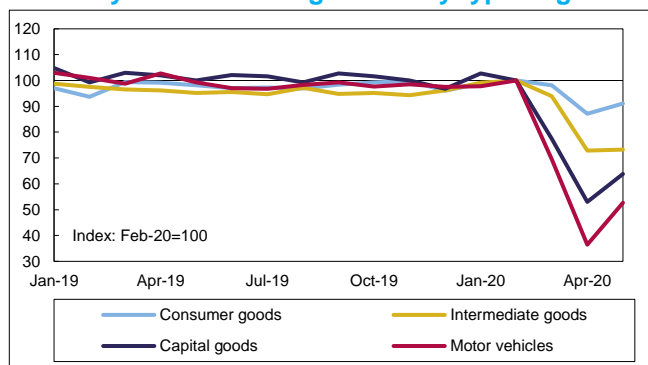
Propelled not merely by [German sales](#), which rose 13.9%M/M to a new series high, euro area retail sales beat expectations, rising 17.8%M/M in May, inevitably a record rate thanks to the easing of lockdown measures. Given the steepness of the declines over the previous two months, however, that still left euro area retail sales 7.4% below February's pre-pandemic peak and down 5.1%Y/Y. Having dipped the previous month, sales of food and drink rose 2.2%M/M to be 1.5% above February's level and up 4.9%Y/Y. And with widespread reopening of non-essential stores, non-food items rebounded 34.5%M/M. That, however, still left them 11.1% below February's level and down 9.0%Y/Y. Within the detail, sales of apparel and textiles more than doubled from April but were still just under half February's level. And while sales of furniture and electrical goods rose by more than one third, and those of computer equipment and books rose by more than one quarter, those categories were also still well down on their respective pre-pandemic levels. Meanwhile, the structural shift continued

Germany: Manufacturing output and orders



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing orders by type of good



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



towards online shopping, with such sales up a further 7.0%M/M in May to be up more than 20% above February's level. Among the member states, sales in the Netherlands, Austria and Finland followed those in Germany in returning back above the pre-pandemic level. In contrast, despite more vigorous growth on the month, sales in France (up 25.6%M/M) and Spain (18.0%M/M) remained well below their February levels (down 14.1% and 18.8% respectively). Looking ahead, we expect further growth into the third quarter, as pent-up demand is released. However, while Germany's VAT cut and further support measures elsewhere will provide a boost, rising unemployment and households' desire to maintain a high level of precautionary savings will likely weigh on the level of sales in many countries and keep the euro area total below the pre-pandemic peak for several months to come.

German construction weighed by downturn in commercial activity

The June construction PMIs provided a mixed picture of developments in the sector. With the relaxation of controls on activity, the French (53.8) and Italian (51.6) headline indices pointed to a rebound in production following the period of enforced inactivity. However, in Germany, where lockdown measures provided little restraint on activity in the sector in the midst of the pandemic in March, the survey pointed to ongoing contraction in the second quarter, with the headline construction PMI up just 1.2pt to 41.3. The detail suggested significant declines in commercial and civil engineering projects – the former consistent with weakness in business investment – while housing activity merely showed signs of stabilisation. New orders reportedly continued to decline too, with firms seemingly uneasy about the outlook for the coming year, not least with respect to construction of retail outlets, office space and manufacturing plants.

The day ahead in the euro area and US

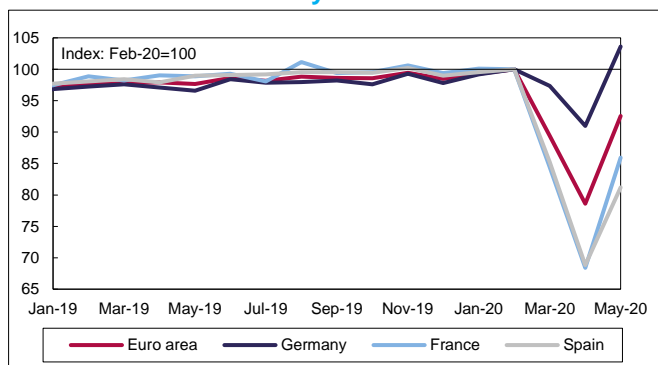
Turning to the day ahead, tomorrow brings the release of the aforementioned German industrial production data for May, which are expected to show a bounce back in output as firms were able to restart production, albeit with social distancing measures in place. While German industrial output is expected to rise by more than 10%M/M in May, the significant declines in the previous two months would still leave production well below the pre-pandemic level. Similarly, Italian retail sales are expected to have risen in May, albeit leaving the annual growth rate still significantly negative. Italy's statistical agency will also publish its monthly economic bulletin. French trade figures for May, meanwhile, are expected to reveal a widening in the trade deficit as external demand remained extremely weak. In the markets, Germany will auction index-linked bonds tomorrow. In the US, a relatively quiet day sees only the release of job openings data from JOLTS.

UK

Car registrations still very weak despite June bounce

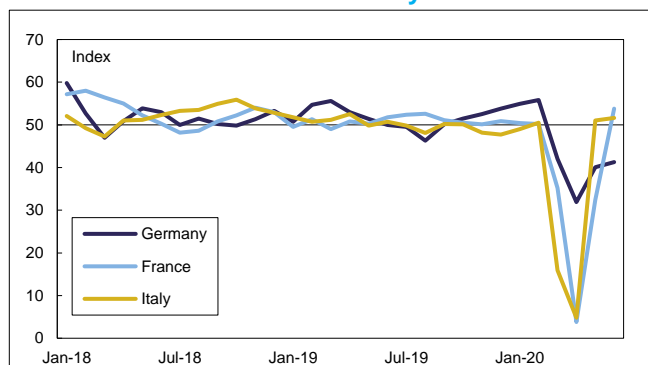
While car dealerships in England reopened on 1 June, figures published today by the Society of Motor Manufacturers and Traders (SMMT) showed that new car registrations last month were still down by a little more than one third compared with a year ago, at 145k units. Admittedly this was a significant improvement on the near-90%Y/Y and 98%Y/Y declines recorded in the previous two months. But it nevertheless left car sales in the year-to-date down by 48.5%Y/Y at 654k units, the lowest number since 1971. With about one fifth of showrooms in England having remained shut throughout June, and dealerships in Wales and Scotland only permitted to reopen towards the end of the month, it remains unclear to what extent lacklustre sales in June reflect a lack of demand. But while a notable improvement in car sales can be expected in July as lockdown measures were further relaxed and showrooms resumed operations more widely, with consumer confidence still at extremely weak levels and job prospects deteriorating as the year progresses, demand for big-ticket items seems bound to remain muted for some time to come.

Euro area: Retail sales by member state



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Construction PMIs by member state



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

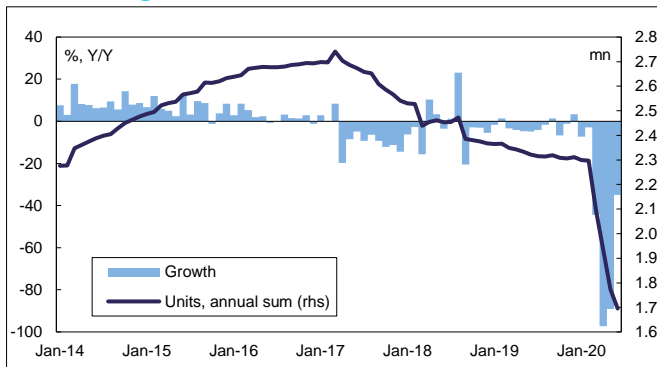
Construction PMI rebounds

In contrast, today’s construction PMI survey implied that activity in the sector rebounded sharply in June as construction sites were operational for the whole month. In particular, the headline construction PMI leapt 26.4pts on the month to 55.3, more than 47pts higher than April’s trough and the strongest reading for almost two years. While a notable improvement was reported in each sub-sector, housing activity led the recovery, with the index more than 50pts higher than April and the strongest reading since late-2015. Of course, due to the limitations of the PMI surveys, it is difficult to interpret with any accuracy what the headline figures imply for actual growth – indeed, less than half of the survey respondents reported an increase in housing activity. Moreover, despite a further improvement, new orders remained relatively subdued against the backdrop of ongoing economic uncertainty, while input costs continued to rise as supply chains remained disrupted. And so, while the survey suggested that the decline in employment in the sector was not as acute as in previous months, some firms reported redundancies alongside furlough arrangements last month.

The day ahead in the UK

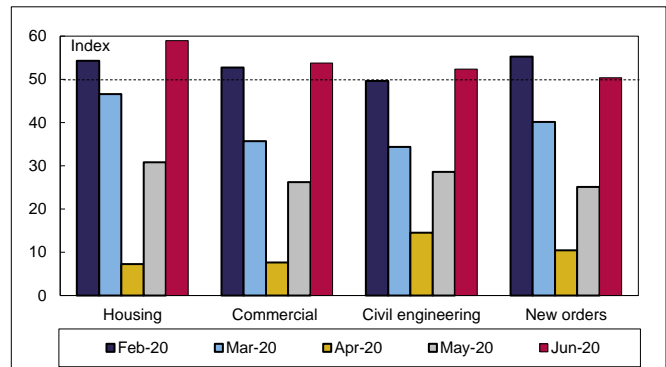
Tomorrow should be a quiet day on the UK economic data front, with just final productivity and labour cost figures for Q1 scheduled for release. Meanwhile, BoE Chief Economist Haldane will participate in a virtual fireside chat, and the DMO will auction 2023 and 2041 bonds.

UK: Car registrations










Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Construction PMIs











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

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
EMU	 Sentix investor confidence	Jul	-18.2	-10.4	-24.8	-	
	 Retail sales M/M% (Y/Y%)	May	17.8 (-5.1)	15.0 (-7.5)	-11.7 (-19.6)	-12.1 (-)	
Germany	 Factory orders M/M% (Y/Y%)	May	10.4 (-29.4)	15.0 (-26.0)	-25.8 (-36.6)	-26.2 (-36.9)	
	 Construction PMI	Jun	41.3	-	40.1	-	
Spain	 Industrial production M/M% (Y/Y%)	May	14.7 (-24.5)	16.9 (-18.3)	-21.8 (-33.6)	-22.1 (-34.1)	
UK	 New car registrations Y/Y%	Jun	-34.9	-	-89.0	-	
	 Construction PMI	Jun	55.3	46.0	28.9	-	
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	
Germany	 07.00	Industrial production M/M% (Y/Y%)	May	10.0 (-18.0)	-17.9 (-25.3)	
France	 07.45	Trade balance €bn	May	-5.5	-5.0	
Italy	 09.00	Retail sales M/M% (Y/Y%)	May	15.0 (-17.0)	-10.5 (-26.3)	
UK	 09.30	Final output per hour Y/Y%	Q1	-2.9	0.3	
Auctions and events						
Country	BST	Auction / Event				
Germany	 10.30	Auction: €750mn of 0.5% 2030 index-linked bonds				
Italy	 10.00	Istat to publish monthly economic report				
UK	 10.00	Auction: £3.75bn of 0.125% 2023 bonds				
	 11.30	Auction: £2.25bn of 1.25% 2041 bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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