

# Euro wrap-up

## Overview

- While the euro area flash PMIs and consumer confidence index beat expectations to signal firm recovery momentum, Bunds made gains as ECB President Lagarde suggested it was too soon to taper and that the current rise in inflation will be temporary.
- Gilts were little changed despite significant upside surprises in the latest UK flash PMIs and retail sales data.
- The coming week will bring further top-tier economic survey results from the euro area and the flash estimate of French inflation in May.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 03/23	-0.667	-0.003
OBL 0 04/26	-0.524	-0.022
DBR 0 02/31	-0.130	-0.018
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.034	-0.006
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.354	-0.003
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.833	-0.004

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

Source: Bloomberg

## Euro area

### Flash PMIs suggest acceleration in output and surge in orders, amid rising backlogs and prices

Overall, the flash euro area May PMIs beat expectations, pointing to the firmest growth in economic activity in more than three years despite increasing supply-side challenges. They also suggested the likelihood of continued solid growth to come, albeit with price pressures continuing to rise too. In particular, the euro area composite PMI rose 3.1pts to 56.9, the highest since February 2018, while the respective new orders index increased 5.1pts to 58.5, the best since mid-2006. Against the backdrop of swifter vaccine take-up and expectations of sustained economic reopening, overall business optimism regarding the coming year rose to a series high. So, firms continued to increase headcount, albeit at a slightly slower pace than in April as Markit reported difficulties in filling vacancies among some of the firms surveyed. Indeed, with supply struggling to meet the pickup in demand, backlogs of unfilled orders rose to a series high. Those bottlenecks caused average input prices to rise at the sharpest rate in more than a decade (the respective euro area composite PMI rose 2.1pts to 66.1). And while not quite so rapid, the pace of increase in output prices was a series high (up 2.6pts to 57.0).

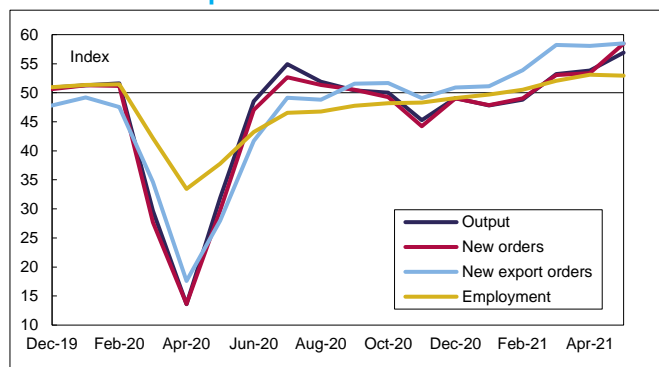
### Services improving most while manufacturing growth remains strong

According to the flash PMIs, the acceleration in overall euro area economic activity was caused by services. Having suggested minimal growth in the sector in April, the flash PMIs pointed to a rise in services activity at the firmest rate since June 2018 (the respective index rose 4.6pts to 55.1) thanks to the gradual relaxation of pandemic containment measures. Similarly, new orders in services rose the most in more than three years as did backlogs of work. Of course, the flash PMIs suggest that growth in manufacturing continues to lead the economic recovery, with output and orders still rising at a strong rate, albeit moderating somewhat from March's series highs. Indeed, supply bottlenecks worsened again with backlogs in the sector reaching a new record high, while inventories fell at the fastest rate since 2009, and factory input and output price gauges rose the most on the respective series.

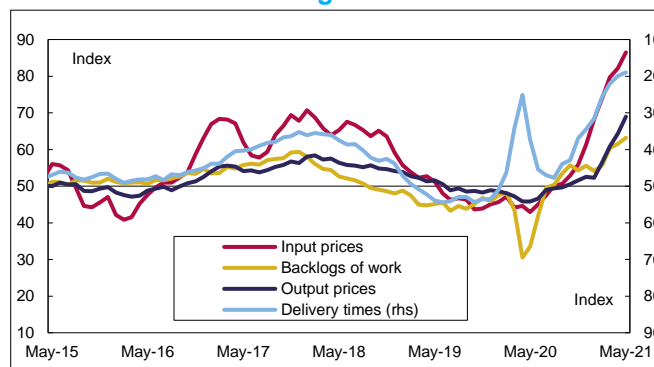
### Biggest improvement in May occurred beyond two largest member states

At the country level, the improvement in momentum in May appears to have been strongest beyond the two largest member states as pandemic restrictions were reduced more significantly. In Italy, the assessment of Covid risk in regions accounting for more than four fifths of GDP was downgraded before the start of the month, enabling the reopening of non-essential stores and some hospitality and cultural attractions. And in Spain the state of emergency was brought to an end on 9 May, allowing domestic travel to restart, welcoming foreign visitors, and lifting curfews. So, Markit reported that the PMIs were consistent with the fastest growth outside of Germany and France since the start of 2018. In addition, the French flash PMIs

### Euro area: Composite PMI selected indices



### Euro area: Manufacturing PMI selected indices



significantly beat expectations, with the composite PMI up more than 5pts to 57.0, the highest since July 2020. That was thanks to a pickup in the output PMIs for both manufacturing (up to 58.6, the best in more than three years) and services (a ten-month high of 56.6), the latter likely reflecting the reopening of non-essential retail and relaxation of certain other restrictions from the 19<sup>th</sup> of the month. Having moderated in April, Germany's composite PMI also rose in May. And while the increase of 0.4pt to 56.2 was softer than expected, this was still the second-highest level since February 2018. The first steps towards easing restrictions in certain German states saw the service activity PMI rise to 52.8, the highest since July. But supply bottlenecks caused the manufacturing output PMI to drop almost 5pts to a three-month low, albeit still elevated by historical standards at 62.7. Among other things, the German manufacturing indices reported the longest supplier delivery times, largest backlogs of work, and strongest price rises on the series. Indeed, the manufacturing input price index rose more than 8pts to an astronomically high 92.5.

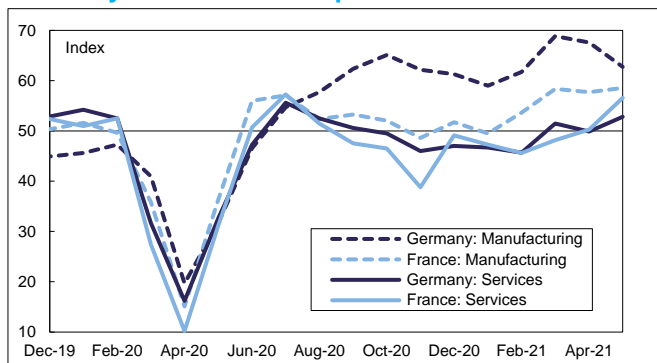
## Consumer confidence up to highest since 2018

To cap a strong day for euro area economic data, the Commission's flash estimate of consumer confidence in May comfortably exceeded expectations. In particular, the index rose 3pts to -5.1, the highest level since October 2018, adding to evidence of a likely firm rebound in spending from Q2 onwards.

## The week ahead in the euro area

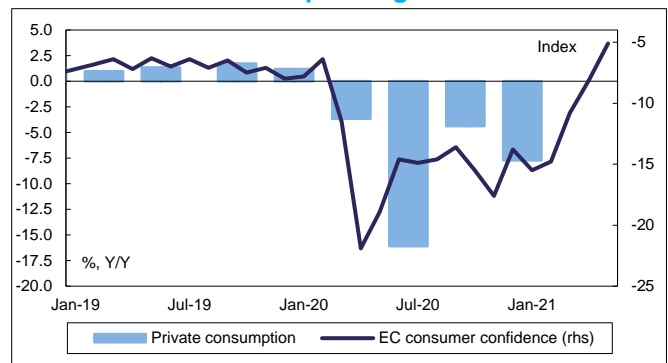
Looking ahead, the economic data calendar in the coming week seem likely to reaffirm the messages of recent releases, featuring further sentiment survey results for May and updated estimates of Q1 GDP in certain member states. But the first flash estimate of inflation in May – which will come from France on Friday – will be watched. Last month, the EU-harmonised measure of French inflation rose 0.2ppts to 1.6%Y/Y, the highest since January 2020. Energy inflation was the main source of upwards pressure, with core inflation on the same basis still at a subdued level of 1.1%Y/Y. A further big step up is likely in May. Friday also sees the release of the European Commission's sentiment survey for May, which will provide further insight into the strength of the euro area's economic recovery as pandemic restrictions in some countries were gradually eased. Ahead of that release, Germany's ifo business climate survey for May will be published on Monday, followed by the French INSEE business confidence survey on Wednesday and Italy's ISTAT economic sentiment surveys on Thursday. Among other releases, final Q1 GDP figures for Germany and France will be published on Tuesday and Friday respectively. And retail sales data from France and Spain, due at the end of the week, will provide the first look at household consumption at the start of Q2. The coming week will also bring more commentary from ECB policymakers, including Chief Economist Lane speaking about the bank's strategic review on Tuesday and Board member Schnabel speaking on Thursday. Monday, however, will be a national holiday in several member states including Germany and France.

### Germany and France: Output PMI indices



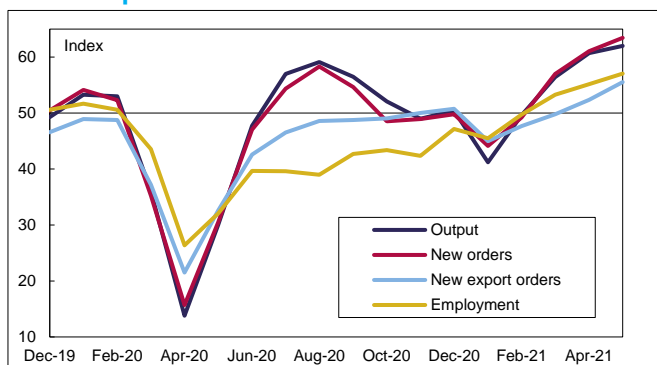
Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumer spending & confidence\*



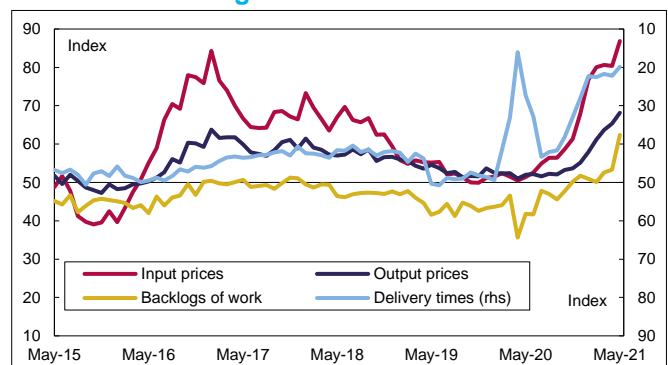
\*Flash estimate for May 2021. Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

### UK: Composite PMI selected indices



Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

### UK: Manufacturing PMI selected indices



Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

## UK

### Composite PMI up to series high with manufacturing outperforming services

Broadly as expected, the UK's May flash PMIs suggested that economic activity accelerated in May at the strongest rate on the series, with the composite index up 1.3pts to a record high of 62.0, job creation the strongest since 2014, and growth seemingly broad-based. Unlike the euro area, however, the improvement in the UK this month appears to have been led by manufacturing, with the respective output PMI up 4pts to 63.2, the highest in almost eight years. And while the sector benefited directly from the further relaxation of pandemic restrictions this month, the improvement in the services activity PMI was more modest, up just 0.8pt to 61.8, still nevertheless the best since October 2013. Among other things, the survey reported the strongest growth in new factory orders on the series (the respective PMI rose more than 7pts to 69.1), and contrasted with yesterday's [CBI survey](#) to report a significant pickup in new manufacturing export orders (up 6.7pts to 60.4, with demand from China and the US reportedly particularly firm). However, as in the euro area, UK manufacturers reported significant supply-side challenges – related to the availability of both materials and staff – with backlogs of unfilled orders and input and output prices rising at the fastest rate on the series. Supply-side challenges also appear pertinent to services, with supplier delivery times up close to the series high, backlogs in the sector up the most in about 7½ years, and input and output price gauges both up to the highest since 2008. However, foreign demand for services remains muted, with the respective PMI dropping 1pt to 49.8, suggesting that continued travel restrictions

### Surge in retail sales in April to new high as consumer confidence continues to rise

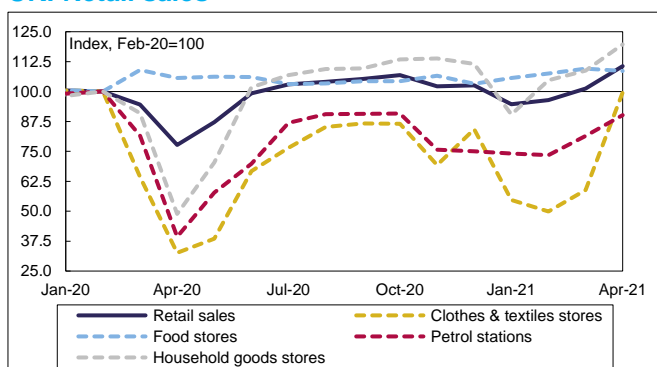
As non-essential stores reopened in England and Wales from the 12th of the month and in Scotland from the 26th, British retail sales in April surged 9.2%M/M, the most since last June. Following solid growth of 5.1%M/M in March, that left the level of sales up 10.6% from the pre-pandemic level in February 2020, 3.6% above the previous series high reached last October, and a whopping 13.5% above the Q1 average. Sales were led by clothing and textiles, up 69.4%M/M to just below the pre-pandemic level, as households looked forward to the reopening of hospitality this month and a gradual return to the workplace. Sales of household goods were strong too, up 10.2%M/M to a new series high almost 20% above the pre-pandemic level. And department stores fared well, with sales up 4.7%M/M to a level 7.6% above that in February 2020. Sales of food dropped 1.0%M/M but were still some 8.6% above the pre-pandemic level. And the share of sales online fell back almost 5ppts from March to 30.0%. Separately, according to the latest GfK survey, consumer confidence further improved this month, with the headline index up 6pts to -9, back to the pre-pandemic range, thanks to an improvement in perceptions of the climate for making major purchases to a thirteen-month high. So, sales of goods should remain elevated over the remainder of the quarter even as consumers increase their spending on services as restaurants, pubs, leisure and travel activities reopen.

### The week ahead in the UK

Data-wise, the coming week will be relatively quiet in the UK with no show-stopping releases scheduled. The calendar kicks off on Tuesday with the release of public finances data for April. Public sector net borrowing (excluding banks) is expected to come in at about £32bn in April, down from the record high of £47.2bn recorded in the same month last year. Tuesday also sees the release of the CBI's distributive trades survey for May, which will provide the first indication of the strength of retail sales this month. And after the (somewhat lagging) ONS data this week reported house price growth in March of more than 10%Y/Y, the highest since 2007, Friday will bring the latest Nationwide house price index, which will provide the first indication of residential property prices in May. The coming week will also see several BoE policymakers speak publicly, including Governor Bailey on Monday at the Treasury Select Committee, and external MPC members Tenreyro and Vlieghe at different events on Tuesday and Thursday respectively.

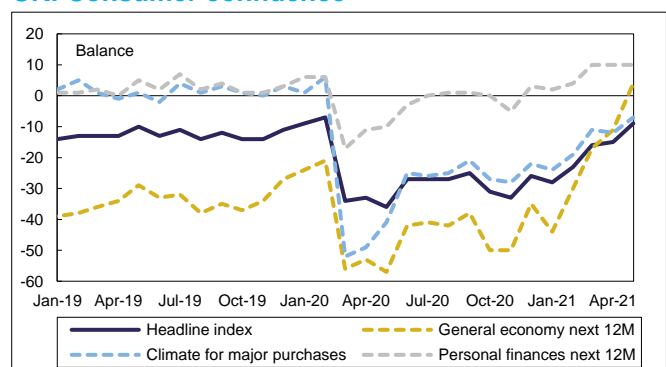
*The next edition of the Euro wrap-up will be published on 25 May 2021*

#### UK: Retail sales


















Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Consumer confidence



Source: GfK, Refinitiv and Daiwa Capital Markets Europe Ltd.

## Daiwa economic forecasts













		2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2020	2021	2022
<b>GDP growth, %, Q/Q</b>										
Euro area		-0.7	-0.6	1.4	1.8	1.2	1.0	-6.7	3.9	4.3
Germany		0.5	-1.7	1.8	1.5	1.4	1.0	-5.1	2.7	4.4
France		-1.4	0.4	1.0	1.4	1.2	1.2	-8.2	5.9	4.4
Italy		-1.8	-0.4	1.5	1.7	1.4	1.3	-8.9	4.3	5.1
Spain		0.0	-1.0	1.6	2.0	1.6	1.5	-10.8	4.9	6.2
UK		1.3	-1.5	3.5	3.2	2.5	1.0	-9.8	6.6	6.2
Euro area										
Headline CPI		-0.3	1.1	1.7	1.9	2.1	0.9	0.3	1.7	1.1
Core CPI		0.2	1.2	0.7	0.8	1.1	0.3	0.7	0.9	0.8
UK										
Headline CPI		0.5	0.6	1.7	1.8	2.5	2.4	0.9	1.6	1.9
Core CPI		1.3	1.1	1.3	1.4	1.8	1.7	1.4	1.4	1.7
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
PEPP envelope* (€bn)		1850	1850	1850	1850	1850	1850	1850	1850	1850
BoE										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases** (£bn)		895	895	895	895	895	895	895	895	895

\*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
EMU	 Preliminary manufacturing (services) PMI	May	<b>62.8 (55.1)</b>	62.5 (52.4)	62.9 (50.5)	-
	 Preliminary composite PMI	May	<b>56.9</b>	55.1	53.8	-
	 European Commission's preliminary consumer confidence	May	<b>-5.1</b>	-6.5	-8.1	-
Germany	 Preliminary manufacturing (services) PMI	May	<b>64.0 (52.8)</b>	65.9 (52.0)	66.2 (49.9)	-
	 Preliminary composite PMI	May	<b>56.2</b>	57.2	55.8	-
France	 Preliminary manufacturing (services) PMI	May	<b>59.2 (56.6)</b>	58.5 (53.0)	58.9 (50.3)	-
	 Preliminary composite PMI	May	<b>57.0</b>	53.7	51.6	-
UK	 GfK consumer confidence	May	<b>-9</b>	-12	-15	-
	 Retail sales including fuel M/M% (Y/Y%)	Apr	<b>9.2 (42.4)</b>	4.5 (36.5)	5.4 (7.2)	<b>5.1 (-)</b>
	 Retail sales excluding fuel M/M% (Y/Y%)	Apr	<b>9.0 (37.7)</b>	4.5 (32.0)	4.9 (7.9)	<b>4.6 (-)</b>
	 Preliminary manufacturing (services) PMI	May	<b>66.1 (61.8)</b>	60.7 (62.2)	60.9 (61.0)	-
	 Preliminary composite PMI	May	<b>62.0</b>	62.0	60.7	-























#### Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

# The coming week's data calendar

## The coming week's key data releases

Country		BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 24 May 2021						
- Nothing scheduled -						
Tuesday 25 May 2021						
Germany		07.00	Final GDP Q/Q% (Y/Y%)	Q1	-1.7 (-3.0)	0.5 (-3.3)
		09.00	Ifo business climate	May	98.0	96.8
		09.00	Ifo current assessment balance (expectations)	May	95.5 (101.0)	94.1 (99.5)
Spain		08.00	PPI Y/Y%	Apr	-	6.3
UK		07.00	Public sector net borrowing, excluding banks £bn	Apr	34.9	28.0
		11.00	CBI distributive trades survey, reported sales	May	-	30
Wednesday 26 May 2021						
France		07.45	INSEE business confidence	May	-	95
		07.45	INSEE manufacturing confidence (production outlook)	May	105 (-)	104 (2)
		07.45	INSEE consumer confidence	May	97	94
Thursday 27 May 2021						
Germany		07.00	GfK consumer confidence	Jun	-5.0	-8.8
Italy		09.00	ISTAT economic sentiment	May	-	97.3
		09.00	ISTAT consumer confidence (manufacturing)	May	103.7 (106.0)	102.3 (105.4)
Friday 28 May 2021						
EMU		10.00	European Commission economic confidence	May	112.0	110.3
		10.00	European Commission final consumer confidence	May	-5.1	-8.1
		10.00	European Commission industrial confidence (services)	May	11.0 (6.0)	10.7 (2.1)
France		07.45	PPI Y/Y%	Apr	-	4.5
		07.45	Consumer spending M/M% (Y/Y%)	Apr	-	-1.1 (18.7)
		07.45	Preliminary CPI (EU-harmonised CPI) Y/Y%	May	1.5 (1.7)	1.2 (1.6)
		07.45	Final GDP Q/Q% (Y/Y%)	Q1	0.4 (1.5)	-1.4 (-4.8)
Italy		09.00	PPI Y/Y%	Apr	-	3.0
Spain		08.00	Retail sales Y/Y%	Apr	-	14.9
UK		00.01	Lloyds business barometer	May	-	29
		-	Nationwide house price index* M/M% (Y/Y%)	May	-	2.1 (7.1)

\*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country		BST	Event / Auction
<b>Monday 24 May 2021</b>			
EMU		-	Public holiday (Germany, France and some other member states) – Whit Monday
UK		15.30	BoE Governor Bailey, Chief Economist Haldane and MPC member Saunders appear before Treasury Select Committee
<b>Tuesday 25 May 2021</b>			
EMU		14.00	ECB's Villeroy speaks at an online event
		15.00	ECB Chief Economist Lane participates in event organised by the Peterson Institute
UK		17.00	BoE's Tenreyro gives a speech entitled 'Economic Challenges from the Pandemic'
<b>Wednesday 26 May 2021</b>			
EMU		10.00	ECB's Villeroy speaks at French National Assembly
Germany		10.30	Auction: €2.5bn of 0% 2036 bonds
Italy		10.00	Auction: fixed rate and index-linked bonds
<b>Thursday 27 May 2021</b>			
EMU		10.45	ECB's de Guindos attends virtual conference on financial integration
		13.00	ECB's Weidmann scheduled to speak at the German Economic Institute
		14.00	ECB's Schnabel gives a speech at the New Economy Forum
UK		12.00	BoE's Vlieghe gives a speech entitled 'What government bond yields can tell us about future growth and inflation'
<b>Friday 28 May 2021</b>			
EMU		-	ECB President Lagarde and Board Member Panetta attend virtual G7 finance ministers' meeting
Italy		10.00	Auction: 5Y and 10Y bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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