

Euro wrap-up

Overview

- Despite some disappointing data from Germany's manufacturing sector, Bunds made losses while a survey suggested that investors are upbeat about current economic conditions in the euro area.
- Gilts also made losses on a quiet day for UK economic news.
- Tuesday will bring data on German industrial production, French goods trade, and the expenditure breakdown of euro area Q1 GDP, as well as a survey on UK retail sales.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.674	+0.006
OBL 0 04/26	-0.586	+0.014
DBR 0 02/31	-0.200	+0.014
UKT 0 ¹ / ₈ 01/23	0.077	+0.018
UKT 0 ¹ / ₈ 01/26	0.353	+0.021
UKT 4 ³ / ₄ 12/30	0.805	+0.017

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

Source: Bloomberg

Euro area

German factory orders and turnover data disappoint

At the start of a week which will bring plenty of new economic data from the euro area's industrial sector, Germany's latest data for manufacturing turnover and new orders were disappointing. Pointing to a sizeable fall in production in April, for which the data are due for release tomorrow, manufacturing turnover contracted a marked 2.6%M/M that month, leaving it almost 5% below the pre-pandemic level in February 2020. And contrary to the expected further rise, factory orders dropped 0.2%M/M in April. Admittedly, the drop in factory orders followed a larger-than-expected rise of 3.9%M/M in March, and left them still almost 10% above the pre-pandemic level, suggesting scope for significant further growth in production ahead. And excluding major items, new orders were up 1.5%M/M in April. The weakness was due to domestic orders, which fell 4.3%M/M. In contrast, foreign orders rose 2.7%M/M, of which those from the euro area rose 0.7%M/M and those from beyond the euro area jumped 3.8%M/M. By type of good, orders of intermediate goods fell 1.0%M/M, with orders of chemicals down 3.4%M/M, but were still more than 10% above the pre-pandemic level. Order of capital goods edged up 0.2%M/M, with those of motor vehicles up 3.4%M/M, to be almost 10% above the February 2020 level. And orders of consumer goods rose 1.4%M/M to be about 7% above the pre-pandemic level.

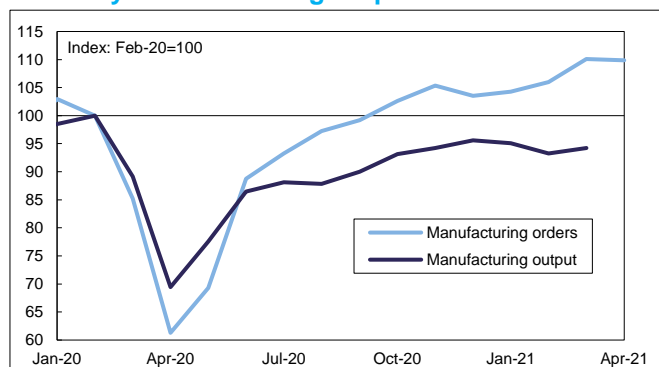
Truck mileage hints at loss of momentum in May as supply constraints bind

Recent German industrial sentiment indicators have remained upbeat by historical standards. Indeed, the ifo current manufacturing conditions index rose in May to the highest since December 2018. Led by the machinery and equipment sector, the ifo production expectations index remained above the range recorded in the three years before the pandemic, despite moderating to a three-month low due to the softer outlook for autos. And while the May PMIs reported the biggest backlogs of work in the sector on the survey, and the manufacturing output PMI slipped to a three-month low, at 62.7 it was close to the average of the past six months and consistent with firm growth in production ahead. However, certain other indicators, such as the truck toll mileage index, which trended lower over the past four weeks, have been underwhelming. On balance, the recovery in German's industrial sector appears to remain constrained by supply bottlenecks. And those constraints seem likely to weigh on output over the second quarter as a whole and possibly well into the second half of 2021.

Sentix survey suggests investors are increasingly upbeat

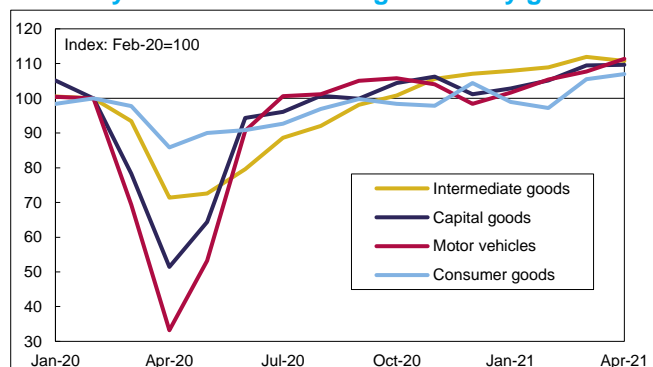
Despite ongoing concerns about supply-side pressures, the Sentix investor sentiment survey – the first major survey for the current month – reported a fourth substantive improvement in confidence in the euro area economy in June. In particular, the headline sentiment diffusion index rose to 28.1, the highest since February 2018. Having turned positive last month for the first time since the start of the pandemic, current conditions were judged on balance to be the best since November 2018,

Germany: Manufacturing output & new orders



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: New manufacturing orders by good



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

buoyed by the continued positive momentum in vaccine programmes, downtrend in new coronavirus cases and gradual relaxation of pandemic containment measures. And having reached a series high the prior month, the survey measure of expectations for the coming six months slipped back only 1.5pts to 35.25, a level surpassed only in May. Despite today's disappointing data from Germany's industrial sector, tomorrow's ZEW survey seems likely similarly to report ongoing optimism about economic conditions and the outlook.

The day ahead in the euro area

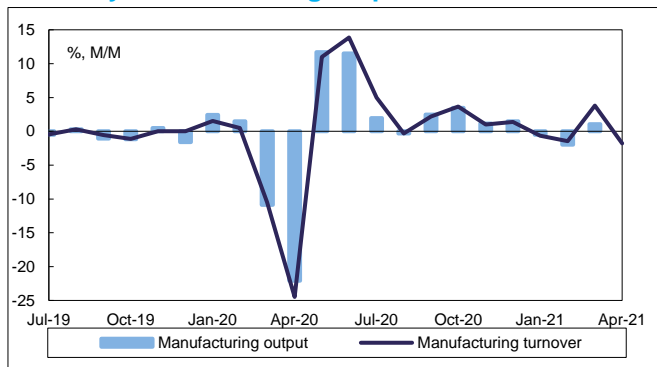
Looking ahead, tomorrow brings the release of German industrial production numbers for April, which will provide additional evidence on the extent to which supply-chain challenges, related to semiconductors among other items, are weighing on output. At the time of writing, the median forecast on the Bloomberg survey was for a modest 0.4%M/M increase in total production (+29.5%Y/Y), following an increase of 2.5%M/M in March (+5.1%Y/Y). That would still leave it 4% lower than the pre-pandemic level in February 2020. However, the drop of 2.6%M/M in manufacturing turnover reported today suggests that factory production declined, probably by more than 1.5%M/M. Elsewhere, French goods trade figures will provide an insight into the strength of external demand at the start of this quarter. In addition, tomorrow will bring final euro area Q1 GDP figures, which are expected to confirm the preliminary estimates (-0.6%Q/Q and -1.8%Y/Y). The expenditure breakdown will be published for the first time and is likely to show that household consumption again subtracted significantly from growth in the first quarter due to ongoing containment restrictions. And as the end of the Brexit transition period significantly hit the recovery in exports, net trade is also likely to have had a negative impact on GDP. Meanwhile, inventories and to a lesser extent fixed investment will likely provide some positive offset. In terms of survey data, the German ZEW investor sentiment survey is expected to reveal a further increase in optimism about current economic conditions in Germany's economy as the country's vaccine programme maintains momentum and new coronavirus cases continue to decline.

UK

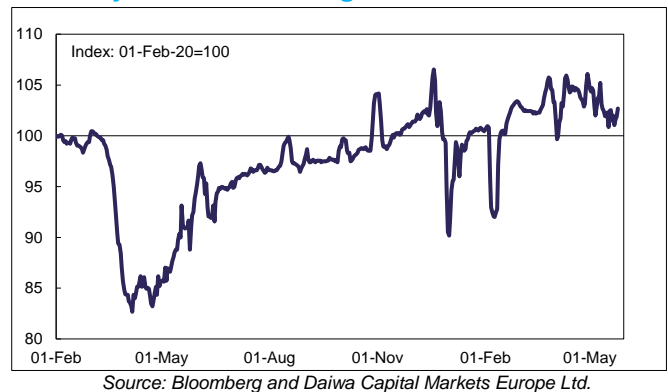
The day ahead in the UK

Following a quiet start to the week data-wise in the UK, with no market-moving economic figures to report, tomorrow brings the BRC retail sales survey for May. Following the surge in spending in April after the reopening of non-essential stores, sales might well have eased back last month not least due to inclement weather.

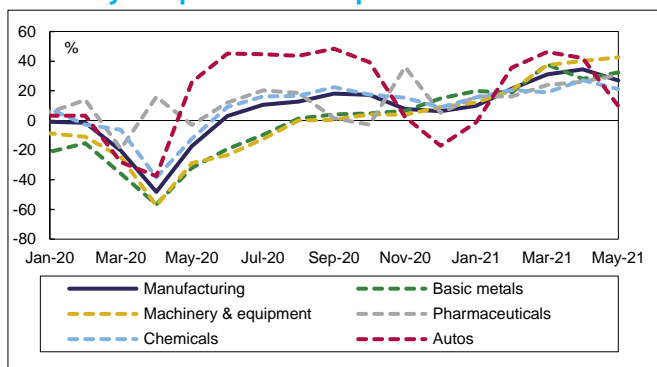
Germany: Manufacturing output & turnover



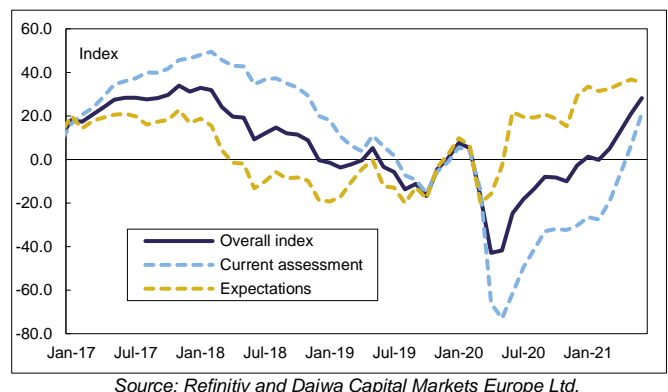
Germany: Truck toll mileage index



Germany: ifo production expectations indices






Euro area: Sentix investor sentiment indices



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Sentix investor confidence	Jun	28.1	25.5	21.0	-
Germany	 Factory orders M/M% (Y/Y%)	Apr	-0.2 (78.9)	0.5 (77.9)	3.0 (27.8)	3.9 (29.2)
Spain	 Industrial production M/M% (Y/Y%)	Apr	1.2 (48.2)	0.5 (44.4)	0.4 (12.4)	0.6 (12.9)







Auctions

Country	Auction
- Nothing to report -	



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	 10.00	Final GDP Q/Q% (Y/Y%)	Q1	-0.6 (-1.8)	-0.7 (-4.9)
Germany	 07.00	Industrial production M/M% (Y/Y%)	Apr	0.3 (29.5)	2.5 (5.1)
	 10.00	ZEW current assessment balance (expectations)	Jun	-27.0 (85.5)	-40.1 (84.4)
France	 07.45	Trade balance €bn	Apr	-5.4	-6.1
Italy	 09.00	Retail sales M/M% (Y/Y%)	Apr	0.2 (-)	-0.1 (22.9)
UK	 00.01	BRC retail sales monitor, like-for-like sales Y/Y%	May	-	39.6

Auctions and events

Germany	 10.30	Auction: €4bn of 0% 2028 bonds
UK	 10.00	Auction: €3bn of 0.375% 2026 bonds
	 11.30	Auction: €1.25bn of 1.625% 2071 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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