

# Euro wrap-up

## Overview

- Bunds were little changed despite an improved German investor confidence survey.
- Gilts made losses as opinion polls largely remained consistent with a Remain victory.
- Wednesday brings the flash estimate of euro area consumer confidence in June.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 06/18	-0.586	+0.002
OBL 0 04/21	-0.468	+0.002
DBR 0½ 02/26	0.047	-0.004
UKT 1¼ 07/18	0.494	+0.030
UKT 1½ 01/21	0.824	+0.037
UKT 2 09/25	1.279	+0.041

\*Change from close as at 4.30pm BST.  
Source: Bloomberg

## Euro area

### German investor sentiment improved

Notwithstanding yesterday's much improved risk appetite on the back of the latest UK opinion polls, expectations today were for a subdued ZEW survey of German investor sentiment to reflect, in particular, the heightened risk aversion of early June. In the event, however, the survey surprised on the upside, with the current conditions index up to the highest level since January and the expectations index up to a ten-month high. While that investor confidence gives cause for cautious optimism that the economic recovery is set to be well maintained heading into the second half of the year, other sentiment surveys – such as the flash PMIs due on Thursday and the German Ifo business survey due on Friday – are likely to provide a more reliable guide to the near-term outlook for GDP growth.

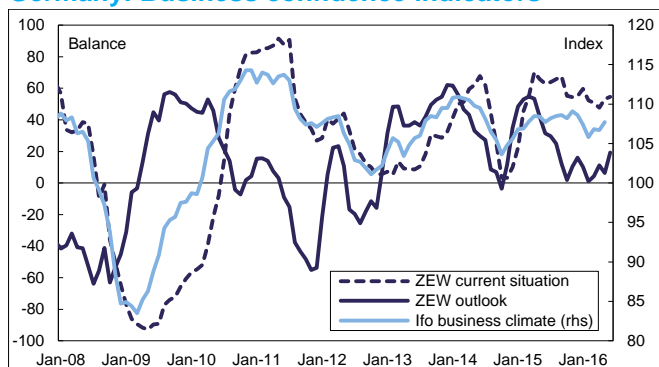
### German constitutional tail risk avoided

One potential tail risk to the euro area economic and financial outlook was dodged today as, after almost four years of legal machinations, the German Constitutional Court ruled in favour of the ECB's Outright Monetary Transactions (OMT) crisis-management programme, under which the ECB is prepared to buy bonds of countries at risk of losing market access. In particular, addressing concerns raised in a challenge submitted by a group of more than 35,000 German academics, politicians, etc., the final ruling of the German Court made clear that – assuming that certain basic conditions formulated by the ECJ in its previous judgment of June 2015 aimed at limiting the scope of the programme are met – the OMT does not 'impair the Bundestag's overall budgetary responsibility' or 'manifestly' exceed the competences of the ECB. Given parallels with the OMT, the ruling might be assumed to give scope to the ECB to develop the QE asset purchase programme further in future, and – contrary to what some commentators had feared – appears to give the Bundesbank a green light to its continued participation too.

### The day ahead in the euro area and US

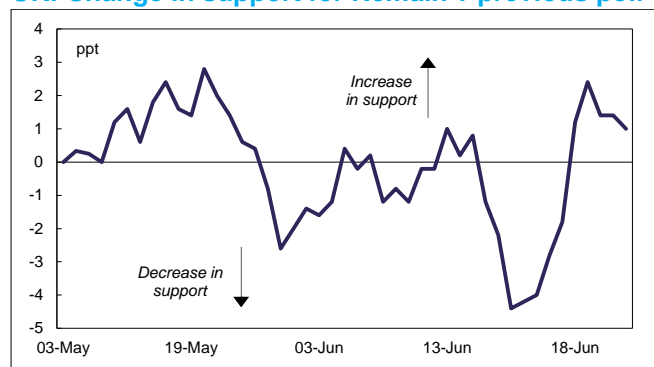
Wednesday brings the Commission's flash estimate of euro area consumer confidence in June. Having risen in May to the highest level since January and close to the average of the past year, consumer confidence is expected to move broadly sideways in June. Policy-wise, the ECB will launch its first TLTRO II operation, with Thursday morning representing the deadline for bids and the publication of allotment results due on Friday morning. In the bond markets, Germany will sell 30Y Bunds.

### Germany: Business confidence indicators



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### UK: Change in support for Remain v previous poll\*



\*Change from previous poll by the polling company concerned, 5 poll moving average. Source: www.whatukthinks.org and Daiwa Capital Markets Europe Ltd.



In the US, meanwhile, Fed Chair Yellen will repeat her Congressional testimony, this time to the House Committee on Financial Services. Data-wise, the focus will be on the housing market, with May existing home sales figures and the April FHFA house price index. In the bond markets, the Treasury will sell 7Y Notes, 2Y FRNs and 30Y TIPS.

## UK

### Opinion polls as inconclusive as ever

As the referendum draws ever closer, the opinion polls released on Monday evening and today continued to paint a picture of a race that is incredibly tight. A Yougov/Times online poll suggested that the Leave camp was ahead, by 44:42. It was a similar story from the latest Survation poll, which had a very narrow, 45:44, lead for Remain. In contrast, however, a smaller phone poll by ORB/Daily Telegraph, focused on voters claiming to be certain to vote, gave Remain a distinct advantage, at 53:46. And while a hybrid phone/online poll conducted over a lengthy period, published by the National Centre for Social Research, suggested that Remain was ahead by 53:47, and would not have taken into account recent swings in voting intentions.

While the polls remain far from clear, markets appear to have largely made their minds up. Sterling today rose back above the level against the dollar it was when the referendum was announced, wobbling only slightly when the Survation poll was released, while equity markets extended yesterday's gains and government bond yields continued to rise. And the betting markets appear even more confident. Whereas the chances of a Leave vote were priced as high as 43% at the start of last week, that figure fell below 25% today. But it's not traders or gamblers who decide – and the polls suggest that the vote remains on a knife edge.

### No improvement in public finances at the start of FY16/17

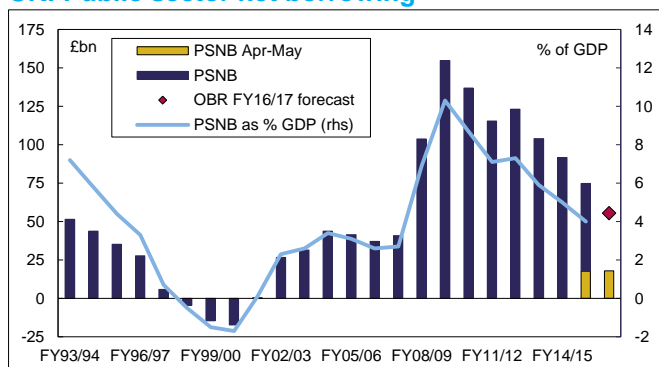
With regard to new data today, the public finance figures suggested that the start of the financial year was not particularly successful for a government that is aiming to balance its books by the end of the parliament. Although public sector net borrowing of £9.7bn in May was £0.4bn lower compared to a year earlier, overall year-to-date borrowing was £0.2bn higher. Therefore, the underlying trend in the government's deficit so far is not consistent with the OBR's forecast that borrowing in FY16/17 should fall by nearly £20bn to £55.5bn.

In other news, according to the CBI Industrial Trends survey, manufacturing output continued to grow at a relatively firm pace in June despite demand reportedly remaining sluggish. Nevertheless, manufacturers raised their expectations for future output growth slightly.

### The day ahead in the UK

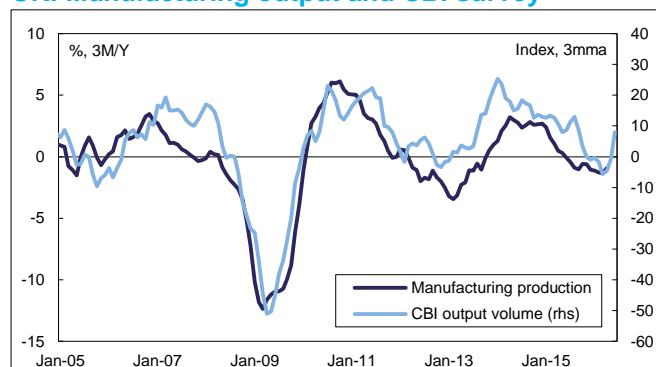
Tonight sees the largest of the referendum debates, with a panel of three led by Boris Johnson up against a panel headed by his successor as London Mayor, Sadiq Khan, in front of a live audience at Wembley Arena. Results of a further opinion poll are also likely to emerge. And while there are no exit polls on Thursday, YouGov will publish an online poll taken on the day once the polls close at 10pm BST. A similar poll proved pretty accurate in predicting the outcome of the Scottish referendum, but it needs to be remembered that with a relatively small sample size, it will not have the statistical robustness of a proper exit poll. There are no new economic data due for release tomorrow.

#### UK: Public sector net borrowing\*







\*Excluding public sector banks.  
 Source: ONS and Daiwa Capital Markets Europe Ltd.

#### UK: Manufacturing output and CBI survey





Source: Thomson Reuters 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
EMU		ZEW survey balance - expectations	Jun	20.2	-	16.8	-
Germany		ZEW current assessment balance (expectations)	Jun	54.5 (19.2)	53.0 (4.8)	53.1 (6.4)	-
UK		Public sector net borrowing excluding interventions £bn	May	9.7	<u>9.5</u>	7.2	8.2
		CBI Industrial Trends survey, total orders	Jun	-2	-10	-8	-
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/ <i>Daiwa forecast</i>	Previous	
EMU		15.00 Preliminary consumer confidence	Jun	-7.0	-7.0	
Auctions and events						
Country	BST	Auction / Event				
Germany		10.30	Auction: To sell €1bn of 2.5% 2046 bonds (15-Aug-2046)			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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