

Euro wrap-up

Overview

- Bunds made gains while Italian consumer confidence maintained a steady downtrend.
- Gilts also made gains as the latest UK surveys remained consistent with continued subdued consumer spending growth.
- The coming week brings the first estimate of euro area inflation in May, and further top-tier economic surveys from the euro area and UK for the same month.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 03/19	-0.709	-0.015
OBL 0 04/22	-0.395	-0.020
DBR 0¼ 02/27	0.330	-0.032
UKT 1¼ 07/19	0.092	+0.004
UKT 0½ 07/22	0.456	-0.022
UKT 4¼ 12/27	1.010	-0.028

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

Euro area

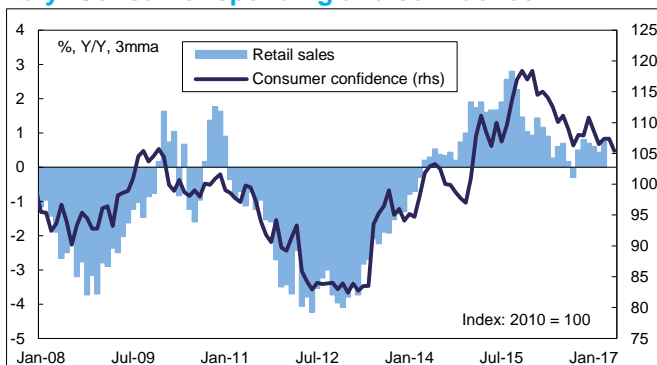
Italian economic sentiment softens a touch

Economic sentiment surveys from the euro area have for some time been upbeat, suggesting strengthening and broadening GDP growth. While that has provided no shortage of cause for optimism, to some extent the economic reality hasn't quite yet matched the hype, with actual growth somewhat softer than the surveys have suggested. Indeed, contrary to the signals from the main surveys, euro area GDP failed to accelerate in the first quarter of the year, with growth remaining unchanged from Q4 at 0.5%Q/Q. It was a similar story in Italy. While survey indicators such as the ISTAT economic sentiment index suggested a faster pace of expansion in Q1, Italian GDP growth remained steady from Q4 at a relatively tepid 0.2%Q/Q. And the latest ISTAT confidence indices were a touch disappointing suggesting a slight easing in the pace of economic recovery in the middle of Q2 following notable vigour in April. In particular, having reached the highest level since 2007 in April, the headline economic sentiment index retreated in May, albeit to a level still some way above the levels registered in Q1.

Businesses still upbeat, consumers less so

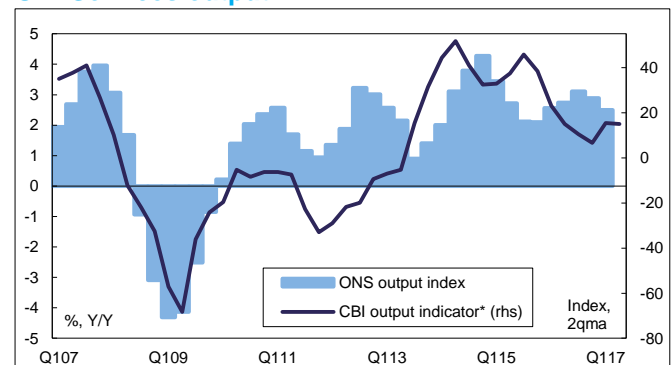
Overall, judging from the ISTAT survey, Italian businesses remain broadly upbeat. With emerging signs of growth following a marked adjustment following the global financial crisis and a subsequent couple of years of stagnation, construction sector confidence inched up in May to the highest level since late 2007. The index for retail and wholesale trade also rose, reaching a level rarely beaten on the series. While the survey measure for manufacturing sentiment retreated to a three-month low, it remained within shouting distance of the nine-year highs reached in recent months. And although the services sector index fell back to its lowest level this year, it remained well above the range for 2016. But while businesses therefore appear to be signalling ongoing economic expansion, the mood among consumers appears to have soured, with the survey measure of consumer confidence extending the downtrend that has been in place since early 2016, falling in May to the lowest level since January 2015. Since consumption has accounted for the lion's share of GDP growth over the past two years, that is a reason to feel uneasy. Indeed, recent data suggest the improvement in the labour market might be slowing, e.g. while the number of workers in employment in March was still more than 200k above the level one year earlier, the rate of increase in Q1 slowed to just 35k, while wage growth remained very weak in April at just 0.5%Y/Y. So, with consumer confidence easing, there is a significant risk that higher inflation this year will weigh heavily on consumption. Nevertheless, with businesses more upbeat, we expect investment to be stronger. And, for the time being, we also maintain our forecast of a slight pickup in GDP growth in the second quarter to 0.3%Q/Q.

Italy: Consumer spending and confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Services output



*Weighted average of business and professional services and consumer services output indicators. Source: CBI, Thomson Reuters and DaiwaCapital Markets Europe Ltd.



The week ahead in the euro area and US

The most notable new euro area economic data to be released in the coming week will be the flash estimate of inflation in May, due on Wednesday. Having risen to 1.9%Y/Y in April partly due to higher services prices related to the timing of Easter, we expect euro area CPI to fall back to 1.5%Y/Y in May with the core measure falling 0.2ppt to 1.0%Y/Y. The flash French and Italian inflation data are also due on Wednesday, with the equivalent data from Germany and Spain due the previous day. Other noteworthy figures due in the coming week include euro area bank lending data for April (Monday), the Commission's May economic sentiment survey – which seems bound to signal solid expansion – and French consumer spending and confidence for the same month (Tuesday), euro area unemployment figures for April (Wednesday) and the final May manufacturing PMIs and German retail sales figures for April (Thursday). Elsewhere, ECB President Draghi is due to appear before the European Parliament Economic Committee on Monday. Supply-wise, Italy will sell bonds on Wednesday, while France and Spain will issue bonds with various maturities on Thursday.

In the US, when markets re-open after Monday's Memorial Day holiday, it will be a busy week for top-tier releases, kicking off on Tuesday with the monthly personal income and spending figures for April and the Conference Board's latest consumer sentiment survey for May. Thursday, meanwhile, will bring the manufacturing ISM for May, along with the latest vehicle sales and construction spending figures, revised productivity and costs data and the ADP employment report. Of course, likely of most interest will be Friday's May labour market report, with non-farm payrolls expected to have increased by 180k, broadly in line with the average of the past year or so, to leave the unemployment rate at 4.4%, a rate last lower in 2001. This notwithstanding, average hourly wage growth seems unlikely to be any stronger than the recent range. Friday will also bring April's trade report. There are no UST bond auctions scheduled in the coming week.

UK
















Latest surveys consistent with weak consumption continuing into Q2

After revised Q1 GDP figures yesterday reported a marked slowdown in consumption and consumer-focused services activity, the latest YouGov/CEBR consumer confidence indicator and the CBI quarterly service sector survey suggested that the weakness has continued into the second quarter. The consumer confidence index fell to a ten-month low, as the survey measure of households' own financial situations fell to the weakest level since 2014. Meanwhile, the CBI survey's volume of business indicator for consumer-focused firms declined notably in the three months to May, while its forward-looking measure for the coming three months fell below zero for the first time since 2012. The survey also suggested that consumer services prices rose particularly sharply – the relevant indicator reached a ten-quarter high – and, that trend was expected to be maintained. The survey suggested that business and professional services firms were more upbeat, however. While the respective indicators were broadly consistent with a flat level of business over the past three months, firms in these sectors anticipate an increase in output in the near future, and so overall optimism among business and professional-related services firms reportedly increased to the highest level since the end of 2015.

The week ahead in the UK







In the coming week the latest BoE lending figures, due on Wednesday, are expected to echo the BBA data, released yesterday, which suggested that in April mortgage approvals inched lower for a third consecutive month, while consumer credit growth was broadly unchanged. Away from that, focus will be on the latest economic surveys. Most notably, the GfK consumer confidence indicator (Wednesday), which has remained relatively stable in recent months despite the fall in household consumption growth, is expected to have retreated this month. Meanwhile, the PMI surveys for manufacturing and construction, due on Thursday and Friday respectively, are expected to have decreased as well, having risen notably in the previous month.

Daiwa economic forecasts

		2016	2017				2018		2016	2017	2018
		Q4	Q1	Q2	Q3	Q4	Q1	Q2			
GDP forecasts %, Q/Q											
Euro area		0.5	0.5	0.5	0.5	0.4	0.4	0.4	1.7	1.9	1.8
Germany		0.4	0.6	0.6	0.6	0.5	0.5	0.4	1.8	2.0	2.1
France		0.5	0.3	0.5	0.4	0.4	0.4	0.4	1.1	1.3	1.6
Italy		0.2	0.2	0.3	0.3	0.2	0.1	0.1	1.0	0.9	0.8
Spain		0.7	0.8	0.8	0.7	0.6	0.6	0.5	3.2	3.0	2.6
UK		0.7	0.2	0.3	0.2	0.2	0.3	0.3	1.8	1.5	1.1
Inflation forecasts %, Y/Y											
Euro area											
Headline CPI		0.7	1.8	1.6	1.6	1.6	1.2	1.4	0.2	1.6	1.5
Core CPI		0.8	0.8	1.1	1.1	1.2	1.2	1.1	0.9	1.1	1.3
UK											
Headline CPI		1.2	2.2	2.7	2.9	3.0	2.8	2.6	0.7	2.7	2.6
Core CPI		1.4	1.8	2.4	2.6	2.8	2.8	2.7	1.3	2.4	2.7
Monetary policy											
ECB											
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25
Deposit Rate %		-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	0.00
Net asset purchases*		80	80	60	60	60	40	20	80	60	0
BoE											
Bank Rate %		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Net asset purchases**		0	0	0	0	0	0	0	0	0	0






























*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
Italy	 Consumer confidence indicator	May	105.4	107.3	107.5	107.4
	 Manufacturing (economic) confidence	May	106.9 (106.2)	108.0 (-)	107.9 (107.4)	107.7 (106.8)
UK	 CBI services survey – business (consumer) services output	Q2	-3 (12)	-	1 (33)	-
Country	Auction					
Italy sold	 €3.5bn of 0% 2019 bonds (30-May-2019) at an average yield of -0.078%					
	 €984mn of 1.3% 2028 index-linked bonds (15-May-2028) at an average yield of 1.21%					
	 €472mn of 2.55% 2041 index-linked bonds (15-Sep-2041) at an average yield of 1.78%					







Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

Key data releases						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Monday 29 May 2017						
EMU		09:00 M3 money supply Y/Y%	Apr	5.2	5.3	
		14:45 ECB public sector asset purchases €bn	Weekly	<u>11.5</u>	11.6	
Spain		08:00 Retail sales Y/Y%	Apr	1.3	0.9	
Tuesday 30 May 2017						
EMU		10:00 Economic sentiment indicator	May	110.0	109.6	
		10:00 Services (industrial) sentiment	May	14.1 (3.1)	14.2 (2.6)	
		10:00 Final consumer confidence	May	-3.3	-3.6	
Germany		13:00 Preliminary EU-harmonised CPI Y/Y%	May	1.5	2.0	
France		06:30 GDP – 2nd release Q/Q% (Y/Y%)	Q1	<u>0.3 (0.8)</u>	0.5 (1.2)	
		07:45 Consumer confidence survey	May	101	100	
		07:45 Consumer spending M/M% (Y/Y%)	May	0.8 (0.6)	-0.4 (-1.0)	
Spain		08:00 Preliminary EU-harmonised CPI Y/Y%	May	2.1	2.6	
Wednesday 31 May 2017						
EMU		10:00 Unemployment rate %	Apr	9.4	9.5	
		10:00 Flash CPI estimate Y/Y%	May	<u>1.5</u>	1.9	
		10:00 Flash core CPI estimate Y/Y%	May	<u>1.0</u>	1.2	
Germany		07:00 Retail sales M/M% (Y/Y%)	Apr	0.4 (2.2)	0.1 (2.3)	
		08:55 Unemployment change `000s (rate %)	May	-14 (5.7)	-15 (5.8)	
France		07:45 Preliminary EU-harmonised CPI Y/Y%	May	1.1	1.4	
Italy		09:00 Unemployment rate %	Apr	11.6	11.7	
		10:00 Preliminary EU-harmonised CPI Y/Y%	May	1.6	2.0	
Spain		09:00 Current account balance €bn	Mar	-	-0.2	
UK		00:01 BRC shop price index Y/Y%	May	-0.3	-0.5	
		00:01 Lloyds business barometer	May	-	47	
		00:01 GfK consumer confidence survey	May	-	-7	
		09:30 Mortgage approvals `000s	Apr	66.0	66.8	
		09:30 Net consumer credit (net lending secured on dwellings) £bn	Apr	1.5 (3.0)	1.6 (3.1)	
Thursday 01 June 2017						
EMU		09:00 Final manufacturing PMI	May	57.0	56.7	
Germany		08:55 Final manufacturing PMI	May	59.4	58.2	
France		08:50 Final manufacturing PMI	May	54.0	55.1	
Italy		08:45 Manufacturing PMI	May	56.1	56.2	
		09:00 GDP – final release Q/Q% (Y/Y%)	Q1	0.2 (0.8)	0.2 (1.0)	
Spain		08:15 Manufacturing PMI	May	54.8	54.5	
UK		07:00 Nationwide house price index M/M% (Y/Y%)	May	0.2 (2.5)	-0.4 (2.6)	
		09:30 Manufacturing PMI	May	56.5	57.3	
Friday 02 June 2017						
UK		09:30 Construction PMI	May	52.6	53.1	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country		BST	Event / Auction
Monday 29 May 2017			
EMU		14:00	ECB's Draghi scheduled to speak at European Parliament Economic Committee
Tuesday 30 May 2017			
Italy		10:00	Auction: To sell up to €3bn of 1.2% 2022 bonds (01-Apr-2022)
		10:00	Auction: To sell up to €1.75bn of 2024 floating-rate bonds (15-Oct-2024)
		10:00	Auction: To sell up to €2.75bn of 2.2% 2027 bonds (01-Jun-2027)
Wednesday 31 May 2017			
EMU		08:20	ECB's Cœuré scheduled to speak in Frankfurt
		13:30	ECB's Lautenschläger scheduled to speak in Berlin
Thursday 01 June 2017			
France		09:50	Auction: To sell 1% 2027 bonds (25-May-2027)
		09:50	Auction: To sell 1.75% 2039 bonds (25-Jun-2039)
		09:50	Auction: To sell 5.75% 2032 bonds (25-Oct-2032)
Spain		09:30	Auction: To sell 0.05% 2021 bonds (31-Jan-2021)
		09:30	Auction: To sell 1% 2030 index-linked bonds (30-Nov-2030)
		09:30	Auction: To sell 3.45% 2066 bonds (30-Jul-2066)
UK		10:30	Auction: To sell £2.5bn of 1.25% 2027 bonds (22-Jul-2027)
Friday 02 June 2017			
- Nothing scheduled -			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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