

Euro wrap-up

Overview

- Bunds were little changed as a euro area consumer confidence index rose to its highest level since 2001.
- Gilts made modest gains at the long end of the curve despite an upbeat UK manufacturing survey.
- Friday will bring the euro area flash PMIs for June.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/19	-0.627	+0.007
OBL 0 04/22	-0.380	-0.003
DBR 0% 02/27	0.255	-0.010
UKT 1% 07/19	0.204	+0.001
UKT 0% 07/22	0.488	-0.002
UKT 4% 12/27	1.015	-0.017

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

Euro area

Consumer confidence highest since 2001!

Since the start of the year, all top-tier surveys have signalled a significant improvement in euro area economic sentiment. And the results from a couple of the first top-tier surveys for June released today suggested that the upwards trend remained intact at the end of the second quarter. With employment recently rising at its strongest rate so far during the economic recovery, the latest drop in oil prices to a seven-month low set to give a further boost to households' purchasing power, and political risks diminished since Emmanuel Macron's election victories in France, the European Commission's flash euro area consumer confidence index was always expected to post a further rise today. However, the increase was much larger than expected, and the biggest in more than a year, taking the confidence index to its highest level in more than sixteen years, strongly suggesting that consumer spending will accelerate over the near term.

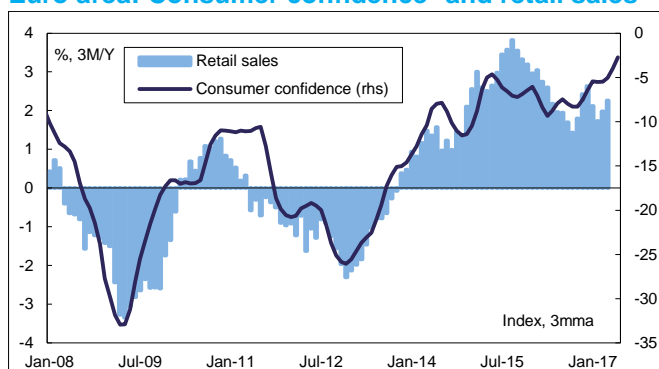
French business sentiment maintains upwards trend

Today's INSEE French business climate indices for June also suggested that conditions continue to improve in the euro area's second-largest member state. In particular, the survey's composite indicator rose 1pt to 106, well above its long-term average (100). Among the various sectors, the survey was particularly upbeat about retail trade, for which the respective index rose 4pts to the highest level since early 2008. And it also reported a further improvement in construction to a six-year high. Among other sectors, conditions in services were judged to stable above the long-run average, and they were only slightly less favourable in manufacturing, where the business climate was judged still to be much better than normal. Overall, therefore, this represented another survey consistent with acceleration in French GDP in Q2 – we currently forecast growth of 0.5%Q/Q.

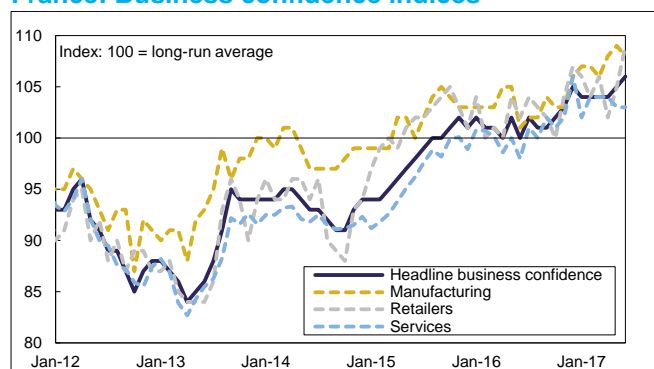
The day ahead in the euro area and US

Friday brings the flash euro area PMIs for June. The headline flash euro area composite PMI is expected to remain close to the six-year high of 56.8 recorded in April and May, consistent with an acceleration in GDP in Q2, and the German and French indices are likely to remain elevated close to six-year highs too. Also due are final Q1 GDP figures from France and the Netherlands, and Italian industrial sales and orders figures for April. In the US, the flash Markit PMIs are also due along with May new home sales data.

Euro area: Consumer confidence* and retail sales



France: Business confidence indices



UK

UK manufacturing orders reportedly the strongest in decades

The uncertainty generated by recent political events and the Brexit negotiations, which got underway earlier this week, has seen sterling lose more than 3½% of its value in the last six weeks. And while the weaker exchange rate is eroding the purchasing power of UK consumers, one group that is seemingly benefiting is UK exporters. Indeed, today's CBI industrial trends survey showed that UK manufacturers saw overall demand rising sharply in June, with the indicator for order books hitting 16%, the highest level since August 1988, while the export order book index increased to a twenty-two-year high of 13%. And although the output indicator declined this month, its average for Q2 was stronger compared to Q1, signaling an acceleration in growth from the 0.3%Q/Q seen in Q1. Looking at the hard data, however, the latest manufacturing output growth figure for April of 0.2%M/M was hardly impressive and, assuming no significant revisions to the latest months' reading, we would need to see steep increases of 0.6%M/M in May and June, up from an average pace of 0.0%M/M over the last twelve months, to leave the quarterly pace unchanged.

Haldane hits the headlines

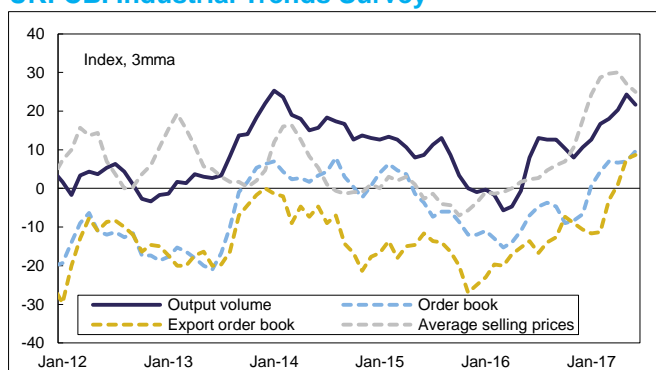
Contrasting markedly with Governor Carney's comments the previous day, when he said that "now is not the time" to raise rates, yesterday BoE Chief Economist Haldane was uncharacteristically hawkish, stating that monetary policy tightening might be appropriate in the second half of this year. His comments were particularly surprising given that in the past his views were among the most dovish on the committee, and that in his three-year term on the MPC he has always voted in line with Carney and other BoE officials. Putting to one side his conclusion on the monetary policy outlook, however, Haldane's speech actually had a dovish theme – most notably why wage growth has been unresponsive to falling unemployment in recent years. And he was clear that he would likely join the other two remaining members who voted for a rate hike in the last meeting only if the economy evolves in line with BoE expectations and if the 'dust settles' on current UK political uncertainty. Given the weakness of recent UK economic indicators, as well as the fact that – in former Chancellor Osborne's words – Theresa May is a 'dead woman walking' as Prime Minister, we see think Haldane's pre-conditions for a hike won't be met.

Moreover, even if the UK economy and politics are stronger and more stable than we anticipate and Haldane does vote for a hike, we still do not expect to see a majority on the MPC favouring a rise in Bank Rate in the coming months. This week the BoE announced that Silvana Tenreiro, a Brexit critic who seems to have a dovish monetary policy outlook, will replace the departing Kristin Forbes, who was one of the three members to vote to raise rates this month. And given that we expect the vacant seat of Deputy BoE Governor for Markets and Banking to be filled with someone whose economics and monetary policy views broadly align with Mark Carney, changes to the committee seem likely to strengthen the positions of the dovish-leaning MPC echelon.

The day ahead in the UK

A quiet end of the week brings no notable UK economic data releases.

UK: CBI Industrial Trends Survey



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

UK: Manufacturing output & CBI Survey






Source: CBI, Thomson Reuters 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 consumer confidence	Jun	-1.3	-3.0	-3.3	-
France	 Manufacturing confidence (production outlook)	Jun	108 (17)	109 (-)	109 (7)	-
UK	 CBI Industrial Trends survey, total orders	Jun	16	7	9	-










Auctions

Country	Auction
UK sold	 £2.25bn of 1.5% 2047 bonds (22-Jul-2047) at an average yield of 1.671%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	BST	Release	Period	Market consensus/ <u>Daiwa forecast</u>	Previous
EMU	 09:00	Preliminary manufacturing PMI	Jun	56.8	57.0
	 09:00	Preliminary services PMI (preliminary composite PMI)	Jun	56.1 (56.6)	56.3 (56.8)
Germany	 08:30	Preliminary manufacturing PMI	Jun	59.0	59.5
	 08:30	Preliminary services PMI (preliminary composite PMI)	Jun	55.4 (57.2)	55.4 (57.4)
France	 07:45	GDP – third and final release Q/Q% (Y/Y%)	Q1	0.4 (1.0)	0.5 (1.2)
	 08:00	Preliminary manufacturing PMI	Jun	54.0	53.8
	 08:00	Preliminary services PMI (preliminary composite PMI)	Jun	57.0 (56.7)	57.2 (56.9)
Italy	 09:00	Industrial sales M/M% (Y/Y%)	Apr	-	0.5 (7.2)
	 09:00	Industrial orders M/M% (Y/Y%)	Apr	-	-4.2 (9.2)

Auctions and events

Country	BST	Auction / Event
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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