

Euro wrap-up

Overview

- Bunds were little changed despite a slight moderation in the flash euro area PMIs.
- Gilts made modest losses after Theresa May revealed proposals to protect EU citizens' rights after Brexit.
- The coming week brings flash euro area inflation data and several top-tier economic surveys.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/19	-0.623	+0.006
OBL 0 04/22	-0.380	+0.003
DBR 0¼ 02/27	0.256	+0.004
UKT 1¼ 07/19	0.238	+0.027
UKT 0½ 07/22	0.513	+0.024
UKT 4¼ 12/27	1.032	+0.016

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

Euro area

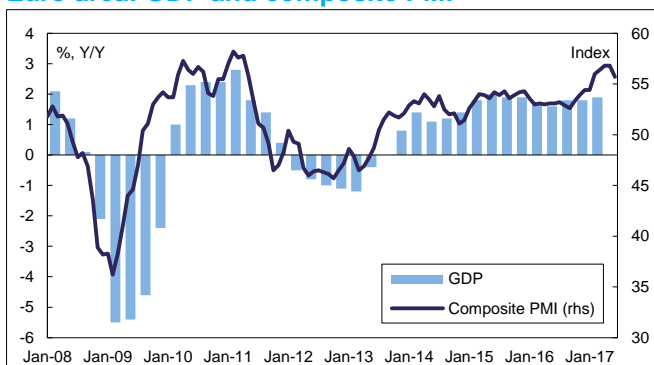
Flash PMIs signal GDP acceleration in Q2

Since the start of the year, all top-tier surveys have signalled a significant improvement in euro area economic sentiment, and the results from yesterday's European Commission consumer confidence survey suggested that the upwards trend remained intact at the end of the second quarter. However, today's flash PMIs suggested that business confidence moderated slightly in June, with the euro area composite PMI falling for the first time in nine months, from a six-year high of 56.8 to 55.7, the lowest level since January. With the manufacturing PMI edging higher to 57.3, its highest since 2011, the drop in the composite PMI was due to a weakening in the services sector, whose headline PMI declined more than 1½pts to 54.7, also the lowest since the start of the year. But despite the softer June, the average composite PMI for the second quarter as a whole still represented a 0.7pt increase from Q1, when GDP increased by 0.6%Q/Q. We forecast the euro area economy to have maintained that growth rate this quarter, although given the strength of the surveys, the risks to that estimate certainly appear to be skewed to the upside. With respect to inflation, meanwhile, following developments in energy markets, the input price PMI fell notably for a second consecutive month suggesting that the output price index, which dropped for the third consecutive month, will most likely continue to decline over the near term to reinforce ECB concerns about the persistent inability of the euro area to generate a meaningful uptrend in underlying inflation.

Momentum remains strong in Germany and France

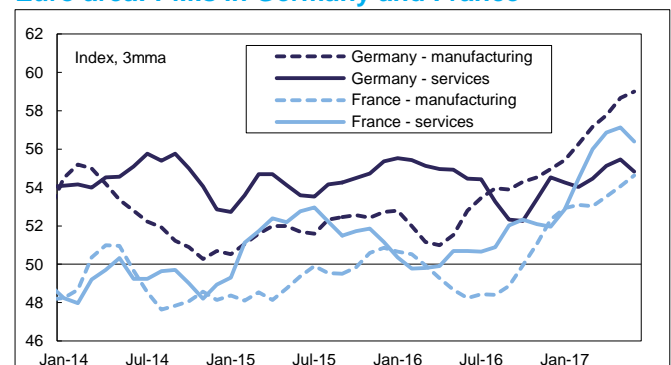
The flash PMIs from Germany and France broadly mimicked the patterns seen in the indicators for the euro area as a whole, with both countries reporting notable declines in their services PMIs to their lowest levels since January and thus also seeing their headline composite PMIs fall to their lowest levels since early 2017. But the details were still broadly upbeat, particularly in France, where growth in new orders rebounded and, perhaps representing enthusiasm in anticipation of Macron's reform programme, the composite employment PMI jumped 2pts to 54.8, a level unseen since 2007. Indeed, in contrast, the equivalent German index fell by 1.7pts, the steepest drop since April 2011, mainly due to weaker employment growth in the services sector, perhaps suggesting that the tight labour market in that member state is starting to bite. Over the second quarter as a whole, like in the euro area, the composite PMIs rose by 0.7pts in both Germany and France pointing to a possible acceleration of GDP. But while we forecast a further pick up in German economic growth of 0.1ppt to 0.7%Q/Q in Q2, we think France will merely match the (upwardly revised) 0.5%Q/Q pace of the first quarter.

Euro area: GDP and composite PMI



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

Euro area: PMIs in Germany and France



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



The week ahead in the euro area and US

Perhaps most notable of the coming week's releases will be the flash estimates of inflation in June, with the German numbers due on Thursday and the euro area and French figures due on Friday. Not least due to lower energy price inflation, we expect euro area headline CPI to fall for the second successive month to 1.2%Y/Y from 1.4%Y/Y in May, but euro area core CPI to rise 0.1ppt to 1.0%Y/Y. Several economic survey results are due for release including the German Ifo business climate indices (Monday) and the European Commission economic sentiment indices (Thursday). Other data of note in the coming week include German retail sales numbers (Tuesday) and unemployment figures from the same country (Friday). Central Bankers, including Draghi, will speak at the ECB's annual Sintra Forum on Central Banking to be held throughout the first half of the week. In the markets, Germany will sell 2Y bonds and Italy will sell zero-coupon and inflation-linked bonds on Tuesday, while Italy will also sell 5Y and 10Y bonds on Friday.
















In the US, the coming week brings several top-tier economic releases including preliminary May durable goods orders and new home sales (Monday), the June Conference Board's consumer confidence indices and April Case-Shiller home price figures (Tuesday), the May advanced goods trade report (Wednesday), third estimate of Q1 GDP (Thursday), and May personal income and spending figures, including the associated deflators (Friday). In addition, the Treasury will sell 2Y bonds on Monday, 5Y bonds on Tuesday, and 2Y FRNs and 7Y bonds on Wednesday.

UK

The week ahead in the UK










The most notable day on the coming week's UK data calendar is Friday, when the final Q1 GDP figures are released. While the BoE anticipates an upwards revision, we expect these to confirm the previous estimate of 0.2%Q/Q, a 0.5ppt slowdown from the pace in Q416. Also of note on Friday will be the current account figures, expected to show an increase in the current account deficit in Q1 after a notable drop at the end of the year. But more relevant for the current economic picture will be the releases of the services activity index for April and the June economic sentiment indicators – the GfK consumer confidence survey and the Lloyds business barometer, both of which are likely to signal a decline in economic confidence at the end of the quarter – which are also out that day. Among other notable economic data, Monday brings the BBA High Street lending figures for May, followed by more comprehensive numbers on Thursday from the BoE lending data. Meanwhile, Thursday's CBI Distributive Trades survey, a timely indicator of activity in the retail sector, is likely to remain consistent with weak retail sales growth in June. Meanwhile, on Tuesday the BoE will publish its latest Financial Stability Report.

Daiwa economic forecasts

		2016	2017				2018		2016	2017	2018
		Q4	Q1	Q2	Q3	Q4	Q1	Q2			
GDP forecasts %, Q/Q											
Euro area		0.5	0.6	0.6	0.5	0.4	0.4	0.4	1.7	2.1	1.8
Germany		0.4	0.6	0.7	0.6	0.5	0.5	0.4	1.8	2.1	2.1
France		0.5	0.5	0.5	0.4	0.4	0.4	0.4	1.1	1.7	1.6
Italy		0.3	0.4	0.4	0.3	0.2	0.1	0.1	1.0	1.4	0.8
Spain		0.7	0.8	0.9	0.7	0.6	0.6	0.5	3.2	3.1	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	1.5	1.4	1.3	1.0	1.1	0.2	1.5	1.3
Core CPI		0.8	0.8	1.1	1.1	1.1	1.2	1.1	0.9	1.0	1.2
UK											
Headline CPI		1.2	2.2	2.8	2.9	3.1	2.8	2.5	0.7	2.8	2.6
Core CPI		1.4	1.8	2.6	2.7	2.8	2.8	2.5	1.3	2.5	2.6
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	
EMU	 Preliminary manufacturing PMI	Jun	57.3	56.8	57.0	-	
	 Preliminary services PMI (preliminary composite PMI)	Jun	54.7 (55.7)	56.1 (56.6)	56.3 (56.8)	-	
Germany	 Preliminary manufacturing PMI	Jun	59.3	59.0	59.5	-	
	 Preliminary services PMI (preliminary composite PMI)	Jun	53.7 (56.1)	55.4 (57.2)	55.4 (57.4)	-	
France	 GDP – third and final release Q/Q% (Y/Y%)	Q1	0.5 (1.1)	<u>0.4 (1.0)</u>	0.5 (1.2)	-	
	 Preliminary manufacturing PMI	Jun	55.0	54.0	53.8	-	
	 Preliminary services PMI (preliminary composite PMI)	Jun	55.3 (55.3)	57.0 (56.7)	57.2 (56.9)	-	
Italy	 Industrial sales M/M% (Y/Y%)	Apr	-0.5 (4.0)	-	0.5 (7.2)	0.4 (-)	
	 Industrial orders M/M% (Y/Y%)	Apr	-0.7 (-2.2)	-	-4.2 (9.2)	-4.3 (-)	
Auctions							
Country	Auction						
- Nothing to report -							


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 26 June 2017					
EMU		14:45 ECB public sector asset purchases €bn	Weekly	<u>11.5</u>	12.6
Germany		09:00 Ifo business climate index	Jun	114.5	114.6
		09:00 Ifo current assessment balance (expectations)	Jun	123.3 (106.4)	123.2 (106.5)
UK		09:30 BBA loans for house purchase '000s	May	40.3	40.8
Tuesday 27 June 2017					
Italy		09:00 Consumer confidence indicator	Jun	105.5	105.4
		09:00 Manufacturing (economic) confidence	Jun	106.7 (-)	106.9 (106.2)
UK		11:00 CBI Distributive Trades survey, retail sales	Jun	2	2
Wednesday 28 June 2017					
EMU		09:00 M3 money supply Y/Y%	May	5.0	4.9
France		07:45 Consumer confidence survey	Jun	103	102
Italy		10:00 Preliminary EU-harmonised CPI Y/Y%	Jun	1.4	1.6
Spain		08:00 Retail sales Y/Y%	May	2.2	1.8
UK		07:00 Nationwide house price index* M/M% (Y/Y%)	Jun	0.0 (1.9)	-0.2 (2.1)
Thursday 29 June 2017					
EMU		10:00 Economic sentiment indicator	Jun	109.5	109.2
		10:00 Services (industrial) sentiment	Jun	12.8 (2.8)	13.0 (2.8)
		10:00 Final consumer confidence	Jun	-1.3	-3.3
Germany		07:00 GfK consumer confidence survey	Jul	10.4	10.4
		13:00 Preliminary EU-harmonised CPI Y/Y%	Jun	1.3	1.4
Spain		08:00 Preliminary EU-harmonised CPI Y/Y%	Jun	1.5	2.0
UK		09:30 Mortgage approvals `000s	May	64.0	64.6
		09:30 Net consumer credit (net lending secured on dwellings) £bn	May	1.4 (2.6)	1.5 (2.7)
Friday 30 June 2017					
EMU		10:00 Flash CPI estimate Y/Y%	Jun	<u>1.2</u>	1.4
		10:00 Flash core CPI estimate Y/Y%	Jun	<u>1.0</u>	0.9
Germany		07:00 Retail sales M/M% (Y/Y%)	May	0.3 (2.3)	-0.2 (-0.9)
		08:55 Unemployment change `000s (rate %)	Jun	-10.0 (5.7)	-9.0 (5.7)
France		07:45 Preliminary EU-harmonised CPI Y/Y%	Jun	0.8	0.9
		07:45 Consumer spending M/M% (Y/Y%)	May	0.5 (0.9)	0.5 (-0.5)
Spain		09:00 Current account balance €bn	Apr	-	1.3
UK		00:01 Lloyds business barometer	Jun	-	27
		00:01 GfK consumer confidence survey	Jun	-7	-5
		09:30 GDP - final release Q/Q% (Y/Y%)	Q1	0.2 (2.0)	0.7 (1.9)
		09:20 Index of services M/M% (3M/3M%)	Apr	0.2 (0.3)	0.2 (0.2)

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

Coming week's events/auctions calendar

Key events & auctions			
Country		BST	Event / Auction
Monday 26 June 2017			
EMU		16:00	ECB's Draghi scheduled to speak in Lisbon, Portugal
		18:30	ECB's Draghi scheduled to speak in Sintra, Portugal
Tuesday 27 June 2017			
Germany		10:30	Auction: To sell €4bn of 0% 2019 bonds (14-Jun-2019)
Italy		10:00	Auction: To sell up to €2.5bn of 0% 2019 bonds (30-May-2019)
		10:00	Auction: To sell 0.1% 2022 index-linked bonds (15-May-2022)
		10:00	Auction: To sell 3.1% 2026 index-linked bonds
UK		10:30	Auction: To sell £1bn of 0.125% 2026 index-linked bonds (22-Mar-2026)
		10:30	BoE publishes Financial Stability Report
Wednesday 28 June 2017			
- Nothing scheduled -			
Thursday 29 June 2017			
- Nothing scheduled -			
Friday 30 June 2017			
EMU		13:00	ECB's Cœuré scheduled to speak in Brussels
Italy		10:00	Auction: To sell bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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