

Euro wrap-up

Overview

- Bunds were little changed as French confidence and Spanish retail data suggested that euro area consumption growth remains firm.
- Gilts made losses as a survey revealed a slight improvement in UK consumer confidence.
- Thursday's ECB policy announcement will see the monetary stance left unchanged while upwards revisions will be made to the staff forecasts. Data-wise, Tuesday brings the flash estimate of euro area inflation in May.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/18	-0.523	-0.001
OBL 0 04/21	-0.378	-
DBR 0½ 02/26	0.143	-0.003
UKT 1¼ 07/18	0.463	+0.014
UKT 1½ 01/21	1.100	+0.022
UKT 2 09/25	1.440	+0.024

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

Euro area

Consumers still driving the recovery

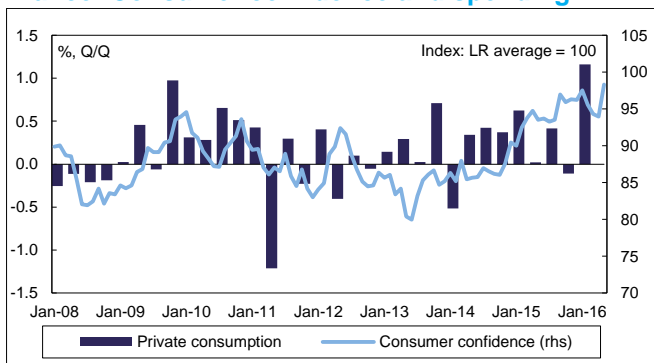
Over the past three years, consumer spending has consistently been the principal driver of the euro area's economic recovery. And this week's data strongly suggest that consumption will once again make the largest contribution to GDP growth in the second quarter. After the upside surprise earlier this week from the latest German GfK consumer confidence survey, which saw the headline measure rise to the highest since January, the French sentiment index also beat expectations with a sizeable jump in May, matching the eight-year high reached at the start of the year. Among the various survey findings, French households appear to have become less downbeat about the outlook for their personal finances and far more willing to make major purchases. And while government attempts to press ahead with labour market reforms, which are politically contentious in France but run-of-the-mill by international standards, have been met predictably with widespread strikes and unrest among the usual protagonists, the recent drop in joblessness to a one-year low has seen household fears of unemployment fall sharply below the long-run average.

Contrasting with Germany and France, the latest Italian consumer confidence reading was, admittedly, a disappointment, with the headline index falling for the third consecutive month to a ten-month low. But this remains well above the long-run average, and is also still at the upper end of the range seen throughout last year, so we expect to see continued consumer spending growth in Italy too albeit at a typically modest rate. However, Spanish retail sales had a strong start to the second quarter, rising 0.6%M/M in April and leaving the annual rate on a working day-adjusted basis at a vigorous 4.2%Y/Y. And with the 3M/3M rate rising to 1.1%, the firmest in five months, consumer spending looks set to maintain Spain's position at the top of the euro area growth league once again in the second quarter. Looking ahead, we expect consumer spending growth to be relatively well maintained in the euro area in the third quarter. However, the gradual rise in inflation that we expect to see towards the end of the year and into 2017 seems likely to erode real disposable income growth acting subsequently to restrain consumption growth.

The week ahead in the euro area and the US

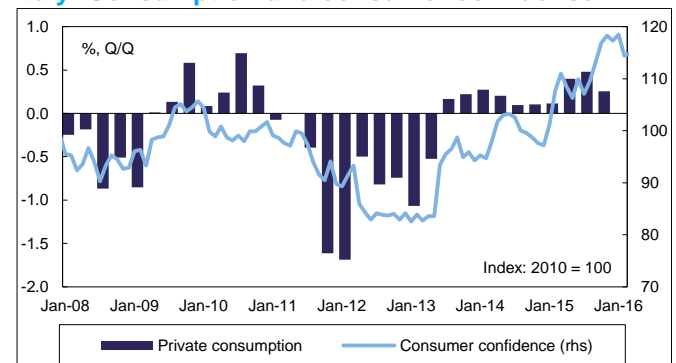
The coming week brings a policy meeting of the ECB's Governing Council, which concludes on Thursday. The meeting will coincide with publication of updated staff economic forecasts, which look set to signal a slightly more upbeat view of the outlook. Given the stronger-than-expected Q1 growth figure (0.5%Q/Q), the GDP forecast might well be nudged up slightly. And with the oil price now well above the previous assumption (\$34.9pb and \$41.2pb for 2016 and 2017 respectively), the inflation forecast also seems likely to see an upwards revision. So, Draghi will have cause to be cautiously optimistic and there will certainly be no pressure for further easing. Indeed, with the ECB's corporate bond purchases about to get underway and the first TLTRO II operation to be conducted towards the end of June, the ECB will want to evaluate those measures

France: Consumer confidence and spending



Source: Datastream and Daiwa Capital Markets Europe Ltd.

Italy: Consumption and consumer confidence



Source: Datastream and Daiwa Capital Markets Europe Ltd.



first before deciding any future policy steps. Draghi should, however, have one decision to announce. Following the Eurogroup's decision earlier this week to disburse new funds to Greece in June, the Governing Council should give the green light for the reintroduction of the waiver on Greek bonds allowing their acceptance as collateral in ECB refinancing operations, a measure that would limit the Greek banks' reliance on more costly ELA and could also allow some easing of the Greek capital controls. The Governing Council would also then need to discuss what the Eurogroup's deal might mean for possible eventual eligibility of Greek government bonds for purchase under the ECB's QE programme too. However, as the most substantive Greek debt relief measures will not come in to play until 2018 at the earliest, the ECB's own debt sustainability analysis might be expected to preclude purchase of Greek debt before then.

Data-wise, the coming week brings further May economic survey results, kicking off on Monday with the Commission economic sentiment indices. Also due at the start of the week will be German retail sales and French consumer spending numbers for April as well the flash estimate of German inflation in May. The equivalent flash euro area, French and Italian figures are due the following day: we forecast euro area CPI to remain unchanged in May at -0.2%Y/Y with the core measure possibly inching 0.1ppt higher to 0.8%Y/Y. April euro area unemployment figures are due the same day. Meanwhile, the final May manufacturing PMIs are due on Wednesday with the equivalent services and composite indicators – for which the flash estimates suggested a weakening of GDP growth in Q2 – due on Friday. In the markets, meanwhile, Italy will sell 5Y and 10Y bonds on Monday while Germany will sell 5Y zero-coupon bonds on Wednesday and France will sell a range of bonds on Thursday.

Following Monday's Memorial Day holiday the coming week will be an eventful one for US economic data. Tuesday will be busy with April personal income and spending numbers and the associated PCE deflators, March Case-Shiller home price indices, and May Conference Board consumer confidence, Chicago PMI and Dallas Fed survey indices. Wednesday brings the May manufacturing ISM index and Fed Beige Book, while Thursday brings the latest ADP employment index and usual weekly claims figures. But Friday sees the main event, with the May labour market report expected to show nonfarm payrolls rising only slightly above the April reading of 160k, the unemployment rate unchanged at 5.0% and average hourly earnings a touch softer than the previous month. Friday also brings the May non-manufacturing ISM and final April trade and factory orders figures. No UST auctions are scheduled in the coming week.

UK

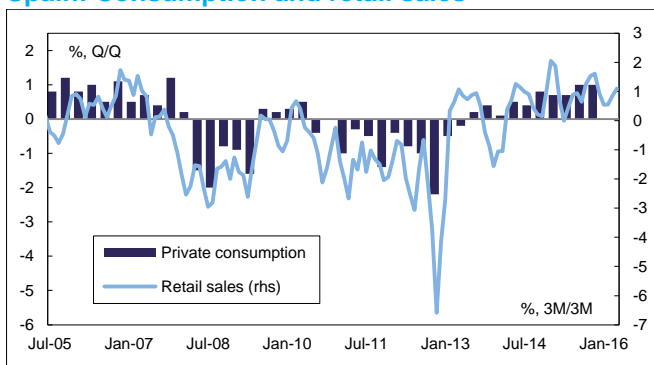
Consumer confidence was stronger than expected in May

Today saw the release of the GfK consumer confidence survey. In contrast to market expectations of a decline, the headline indicator increased by 2pts to -1 in May. Most of the survey's major components were a touch stronger compared with April, with a notable increase in consumers' willingness to make major purchases. However, consumers on the whole remained concerned about the general economic situation. And, overall, all indicators remained firmly below the averages in Q1 signaling softer consumer spending growth in Q2.

The week ahead in the UK

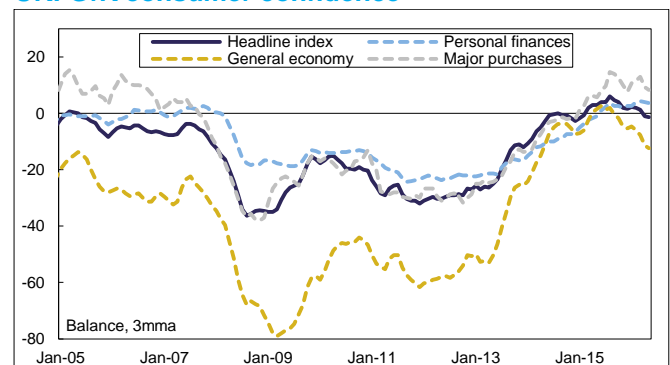
The focus in the coming week turns to the latest PMIs, out on Wednesday, Thursday and Friday. After weak results in April, when all three headline indices decreased notably, a small recovery is expected in May. However, the surveys will most likely remain consistent with a significant loss of economic momentum in Q2. Among other new economic data in the coming week are the latest lending figures from the BoE, which are expected to show a significant drop in mortgage lending in April after a change in the Stamp Duty tax on second properties, the BRC Shop Price index for May and the Nationwide house prices for the same month, all due on Wednesday.

Spain: Consumption and retail sales








Source: Datastream and Daiwa Capital Markets Europe Ltd.

UK: GfK consumer confidence











































Source: Datastream 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
France	 Consumer confidence survey	May	98	94	94	-
Italy	 Consumer confidence indicator	May	112.7	114.5	114.2	114.1
	 Manufacturing (economic) confidence	May	102.1 (103.4)	103.0 (-)	102.7 (102.7)	-
Spain	 Retail sales Y/Y%	Apr	4.1	-	4.4	-
UK	 GfK consumer confidence survey	May	-1	-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 30 May 2016						
EMU		10.00	Economic sentiment indicator	May	104.4	103.9
		10.00	Services (industrial) sentiment	May	11.3 (-3.5)	11.5 (-3.7)
		10.00	Final consumer confidence	May	<u>-7.0</u>	-9.3
		14.45	ECB QE net purchases €bn	Weekly	<u>18.2</u>	16.9
Germany		07.00	Preliminary EU-harmonised CPI Y/Y%	May	-0.1	-0.3
France		07.45	GDP – second release Q/Q% (Y/Y%)	Q1	<u>0.5 (1.3)</u>	0.5 (1.3)
		07.45	Consumer spending M/M% (Y/Y%)	Apr	0.1 (2.7)	0.2 (2.7)
Spain		08.00	Preliminary EU-harmonised CPI Y/Y%	May	-1.1	-1.2
Tuesday 31 May 2016						
EMU		10.00	Unemployment rate %	Apr	10.2	10.2
		10.00	Flash CPI estimate Y/Y%	May	<u>-0.2</u>	-0.2
		10.00	Flash core CPI estimate Y/Y%	May	<u>0.8</u>	0.7
Germany		07.00	Retail sales M/M% (Y/Y%)	Apr	1.0 (1.9)	-1.4 (0.7)
		08.55	Unemployment change '000s (rate %)	May	-5 (6.2)	-16 (6.2)
France		07.45	Preliminary EU-harmonised CPI Y/Y%	May	0.0	-0.1
Italy		09.00	Unemployment rate %	Apr	-	11.4
		10.00	Preliminary EU-harmonised CPI Y/Y%	May	-0.3	-0.4
Spain		11.00	GDP – final release Q/Q% (Y/Y%)	Q1	<u>0.3 (1.0)</u>	0.2 (1.1)
		08.00	Current account balance €bn	Mar	-	-1.5
Wednesday 1 June 2016						
EMU		09.00	Final manufacturing PMI	May	51.5	51.7
Germany		08.55	Final manufacturing PMI	May	52.4	51.8
France		08.50	Final manufacturing PMI	May	48.3	48.0
Italy		08.45	Manufacturing PMI	May	-	53.9
Spain		08.15	Manufacturing PMI	May	52.5	53.5
UK		00.01	BRC shop price index Y/Y%	May	-	-1.7
		07.00	Nationwide house price index M/M% (Y/Y%)	May	0.3 (4.8)	0.2 (4.9)
		09.30	Net consumer credit (net lending secured on dwellings) £bn	Apr	1.6 (3.8)	1.9 (7.4)
		09.30	Mortgage approvals '000s	Apr	68.0	71.4
		09.30	Manufacturing PMI	May	49.6	49.2
Thursday 2 June 2016						
EMU		12.45	ECB refinancing rate %	Jun	<u>0.00</u>	0.00
		12.45	ECB deposit rate %	Jun	<u>-0.40</u>	-0.40
		12.45	ECB asset purchase target €bn	Jun	<u>80</u>	80
Spain		08.00	Unemployment M/M '000s	May	-110	-83.6
UK		09.30	Construction PMI	May	52.0	52.0
Friday 3 June 2016						
EMU		09.00	Final services PMI (final composite PMI)	May	53.1 (52.9)	53.1 (53.0)
		10.00	Retail sales M/M% (Y/Y%)	Apr	0.4 (2.1)	-0.5 (2.1)
Germany		08.30	Final services PMI (final composite PMI)	May	55.2 (54.7)	54.5 (53.6)
France		08.00	Final services PMI (final composite PMI)	May	51.8 (51.1)	50.6 (50.2)
Italy		08.45	Services PMI (composite PMI)	May	-	52.1 (53.1)
Spain		08.15	Services PMI (composite PMI)	May	-	55.1 (55.2)
UK		09.30	Services PMI (composite PMI)	May	52.5 (52.3)	52.3 (51.9)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country		BST	Event / Auction
Monday 30 May 2016			
Italy		10.00	Auction: To sell up to €2.5bn of 0.45% 2021 bonds (01-Jun-2021)
		10.00	Auction: To sell up to €3bn of 1.6% 2026 bonds (01-Jun-2026)
		10.00	Auction: To sell up to €2bn of 2023 floating-rate bonds (15-Jul-2023)
Tuesday 31 May 2016			
- Nothing scheduled -			
Wednesday 1 June 2016			
Germany		10.30	Auction: To sell €4bn of 2021 zero-coupon bonds (09-Apr-2021)
UK		10.30	Auction: To sell £2.75bn of 1.5% 2021 bonds (22-Jan-2021)
Thursday 2 June 2016			
EMU		12.45	ECB monetary policy announcement
		13.30	ECB press conference
		15.00	ECB's Draghi scheduled to speak in Vienna
France		09.50	Auction: To sell 2.25% 2024 bonds (25-May-2024)
		09.50	Auction: To sell 0.5% 2026 bonds (25-May-2026)
		09.50	Auction: To sell 3.25% 2045 bonds (25-May-2045)
Friday 3 June 2016			
- Nothing scheduled -			

Source: ECB, BoE, Bloomberg and Daiwa Capital Markets Europe Ltd.

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