Euro wrap-up

Overview

- Bunds followed Treasuries higher after some disappointing US data, while the euro area composite PMI was a touch stronger.
- Gilts also made gains as the latest UK PMIs suggested that GDP growth had weakened in Q2.
- The coming week brings final Q1 GDP data from the euro area. Industrial production and trade figures from the euro area member states and the UK are also due.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/18	-0.535	-0.015
OBL 0 04/21	-0.411	-0.027
DBR 0½ 02/26	0.071	-0.043
UKT 1¼ 07/18	0.338	-0.041
UKT 1½ 01/21	0.755	-0.062
UKT 2 09/25	1.277	-0.067

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

Euro area

Euro area composite PMI revised up, but retail sales were weak

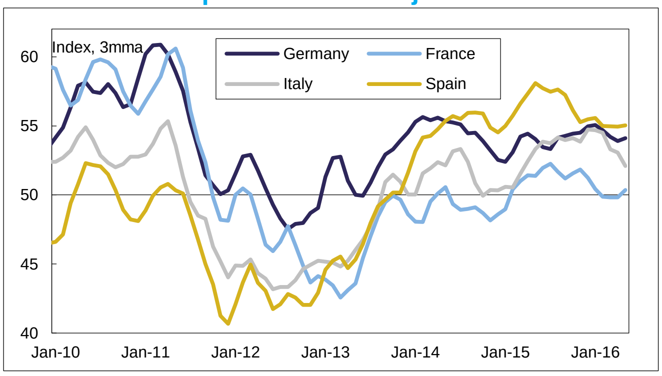
Today's final release of the euro area services and composite PMI numbers saw a modest upward revision to the flash estimate, with both the services and composite indices revised 0.2pt higher to 53.3 and 53.1 respectively. Within the country detail, while the German services PMI was unchanged at a three-month high of 55.2, there was a modest downward revision to the French numbers, albeit this still left the index 1pt higher on the month at 51.6, and the Spanish services PMI came in much stronger than expected, rising 0.3pt to 55.4, its strongest level this year. The Italian numbers, however, were a disappointment, with the headline services indicator dropping 2.3pts on the month to 49.8, the lowest reading since the end of 2014 and leaving Italy as the only major euro area economy with a reading in the services sector below 50.

The euro area composite PMI has therefore averaged 53.0 for the first two months of Q2, down just 0.2pt from the average in Q1, a quarter which saw GDP growth of 0.5%Q/Q, suggesting that something similar might be on the cards for Q2. However, today's retail sales numbers for April were hardly suggestive of strong household consumption, coming in well below expectations, unchanged on March and up just 1.4%Y/Y, the lowest growth on this measure since the end of 2014. And this was despite a ½%M/M increase in spending on food products. The weakness was in part due to a near-1%M/M decline in sales in Germany, to leave them down 0.6%Y/Y. But with retail sales numbers notoriously volatile (and revision prone) and household consumption in any case encompassing a much wider range of goods, reading too much into these data would be wrong.

The week ahead in the euro area and US

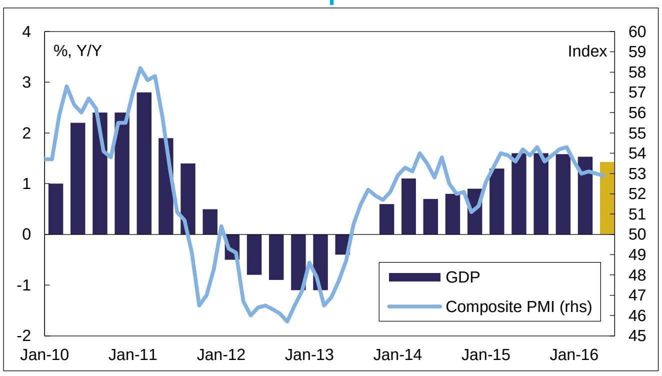
The data focus in the first half of the week will be on the final estimate of the euro area Q1 GDP, due on Tuesday. With the initial growth estimates confirmed in Germany, Spain and Italy, and French figures having been revised only slightly, the euro area GDP number looks set to be unchanged at 0.5%Q/Q. Industrial production and trade figures for April from the major member states are also worth watching. Most notably, German and Spanish IP are due on Tuesday, while the equivalent French and Italian data will be released on Friday. French trade figures will be released on Tuesday, while the German data, out on Thursday, look set to record another high trade surplus, having reached a record high level of €26bn in March. Also notable in the coming week will be releases of the Bank of France's business confidence survey on Wednesday, and the May final inflation figures in Germany on Friday. In the bond markets, Germany will sell 10Y index-linked bonds on Tuesday and 2Y zero-coupon bonds on Wednesday.

Euro area: Composite PMI in major economies



Source: Datastream, Markit and Daiwa Capital Markets Europe Ltd.

Euro area: GDP* and composite PMI



**Daiwa forecast for Q216.*
Source: Datastream, Markit and Daiwa Capital Markets Europe Ltd.

In a quieter week for data in the US, the final Q1 productivity figures are out on Tuesday. These will be followed by April's JOLTS report on Wednesday, while Thursday brings weekly jobless claims. Arguably the most notable economic data release will be the University of Michigan consumer confidence survey, out on Friday, which will be accompanied by the Federal Budget statement for May. While last week's disappointing payrolls report and non-manufacturing ISM significantly diminished the chances of a June rate hike, Janet Yellen's speech on Monday will of course be closely watched. In the markets, 10Y and 30Y bond auctions will be conducted on Wednesday and Thursday respectively.

UK

PMIs point to a slowdown in GDP growth in Q2

Following the releases of the equivalent indicators from the manufacturing and construction sectors earlier in the week, the May services PMI was out today. After a sharp fall to 52.3 in April, the headline index brought an upward surprise, showing a larger-than-expected increase of 1.2pts to 53.5, only 0.2pt below the March level. However, the details of the survey contrasted with a positive message from the headline figure, with all major components falling significantly on the month. For example, the new business and employment indicators declined by 2.2pts and 1.8pts to 51.4 and 51.2 respectively, while the outstanding business index dropped by 0.6pt and remained below 50 for the second consecutive month. And although the higher services PMI boosted the composite index, which posted a 1.1pt increase in May to 53.0, looking at the bigger picture, the PMIs continued to suggest a notable deterioration in the economic backdrop in the UK. Indeed, putting together the latest PMIs from three major sectors implies GDP growth of 0.2%Q/Q in Q2, which matches our own expectation and is just half the rate achieved in Q1.

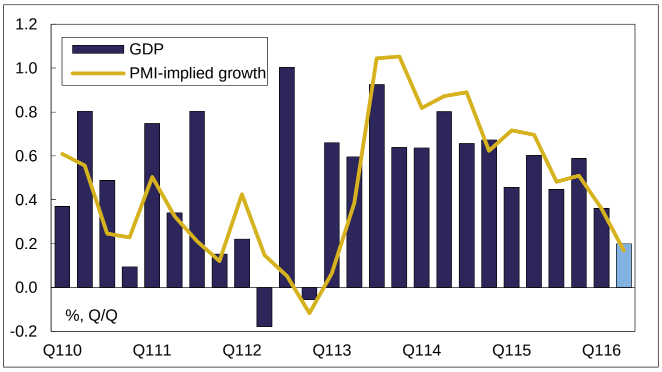
Bad week for Remain campaign

With just under three weeks to go until the EU referendum, the May PMIs also included a question on the extent to which the uncertainty surrounding it is affecting their businesses. 37% of service companies and 35% of manufacturing and construction companies responded that it was having a negative impact. Most companies in all sectors felt it was having no impact, while only a tiny minority thought the impact was positive. And the uncertainty looks set to remain high in these final three weeks. Indeed, the past week was not a particularly good one for the Remain campaign, who were on the back foot for much of the week, culminating in an unconvincing performance by the Prime Minister in front of a live TV audience on Thursday evening. And, having seen a clear move towards a Remain vote over recent weeks, the past week's opinion polls saw that largely reversed. While Remain continues to have a sizeable lead in the telephone polls that lead largely disappears when online polls are included. Certainly sterling didn't like what the polls were saying, having lost – up until the release of the US payrolls at least – almost 1½% against the dollar over the week, its worst performance since March. With the polls still close, expect plenty more volatility between now and 24 June when the result will be known.

The week ahead in the UK

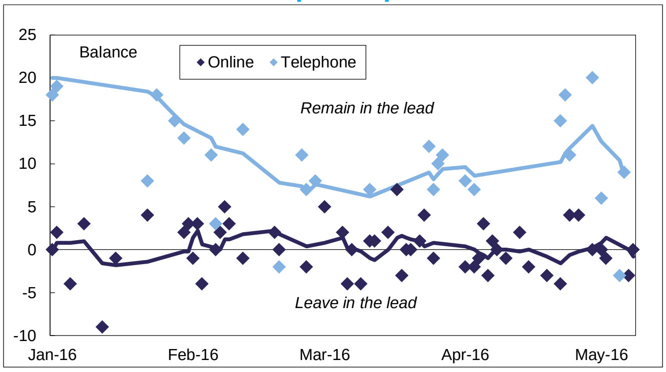
The most notable release in the coming week will be the industrial and construction output figures on Wednesday and Friday. In line with the weaker survey data of late, industrial production is expected to have fallen further in April following the 0.2%Y/Y drop in March. Construction output also looks to have remained disappointing having fallen at a three-year record pace of 4.5%Y/Y in March. Meanwhile, trade figures, due on Thursday, will probably show that the UK trade deficit remained high in April, albeit likely reporting a small improvement from the previous month. Other notable data releases include the BRC retail and the RICS residential market surveys, out on Tuesday and Thursday. The latter one looks to suggest that upward pressure on house prices eased in May.

UK: GDP* and PMI's



*Daiwa forecast for Q216.
Source: Datastream, Markit and Daiwa Capital Markets Europe Ltd.

UK: Brexit referendum poll of polls*



*Remain minus leave. Lines are five-poll moving averages.
Source: www.whatukthinks.org and Daiwa Capital Markets Europe Ltd.

On the referendum campaign front, next week sees two major televised events, with the Prime Minister again up in front of a live studio audience on Tuesday evening (his appearance will be immediately followed by the UKIP leader, Nigel Farage, facing the same audience) and another "debate" on Thursday evening featuring "senior figures from both sides", although who precisely they will be is yet to be revealed. The week will almost certainly see yet another avalanche of opinion polls as well.

The next edition of Euro wrap-up will be published on 07 June 2016.

European calendar

Today's results						
Economic data						
Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	**Revised**
EMU	Final services PMI (final composite PMI)	May	**53.3 (53.1)**	53.1 (52.9)	53.1 (53.0)	-
	Retail sales M/M% (Y/Y%)	Apr	**0.0 (1.4)**	0.4 (2.1)	-0.5 (2.1)	**-0.6 (1.8)**
Germany	Final services PMI (final composite PMI)	May	**55.2 (54.5)**	55.2 (54.7)	54.5 (53.6)	-
France	Final services PMI (final composite PMI)	May	**51.6 (50.9)**	51.8 (51.1)	50.6 (50.2)	-
Italy	Services PMI (composite PMI)	May	**49.8 (50.8)**	51.5 (52.5)	52.1 (53.1)	-
Spain	Services PMI (composite PMI)	May	**55.4 (54.8)**	54.0 (54.2)	55.1 (55.2)	-
UK	Services PMI (composite PMI)	May	**53.5 (53.0)**	52.5 (52.3)	52.3 (51.9)	-
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/ *Daiwa forecast*	Previous
		Monday 6 June 2016			
EMU	14.45	ECB QE net purchases €bn	Weekly	*18.2*	19.3
Germany	07.00	Factory orders M/M% (Y/Y%)	Apr	-0.5 (0.5)	1.9 (1.7)
UK	09.00	New car registrations Y/Y%	May	-	2.0
		Tuesday 7 June 2016			
EMU	10.00	GDP – second estimate Q/Q% (Y/Y%)	Q1	*0.5 (1.5)*	0.3 (1.6)
Germany	07.00	Industrial production M/M% (Y/Y%)	Apr	0.7 (1.0)	-1.3 (0.3)
France	07.45	Trade balance €bn	Apr	-	-4.4
Spain	08.00	Industrial production M/M% (Y/Y%)	Apr	0.0 (2.5)	1.2 (2.8)
UK	00.01	BRC like-for-like sales Y/Y%	May	0.3	-0.9
		Wednesday 8 June 2016			
France	07.30	Bank of France business sentiment indicator	May	100	99
UK	09.30	Industrial production M/M% (Y/Y%)	Apr	0.0 (-0.4)	0.3 (-0.2)
	09.30	Manufacturing production M/M% (Y/Y%)	Apr	0.0 (-1.6)	0.1 (-1.9)
	15.00	NIESR GDP 3M/3M%	May	-	0.3
		Thursday 9 June 2016			
Germany	07.00	Trade balance €bn	Apr	22.5	26.2
	07.00	Imports (exports) M/M%	Apr	1.3 (-0.8)	-2.3 (1.9)
	07.00	Current account balance €bn	Apr	20.5	30.4
UK	00.01	RICS house price balance %	May	35	41
	09.30	Visible trade balance £bn	Apr	-11.1	-11.2
	09.30	Total trade balance £bn	Apr	-3.7	-3.8
		Friday 10 June 2016			
Germany	07.00	Final EU-harmonised CPI Y/Y%	May	*0.0*	-0.3
France	07.45	Industrial production M/M% (Y/Y%)	Apr	0.4 (1.0)	-0.3 (-0.8)
Italy	09.00	Industrial production M/M% (Y/Y%)	Apr	0.3 (1.2)	0.0 (0.5)
UK	09.30	Construction output M/M% (Y/Y%)	Apr	1.4 (-4.8)	-3.6 (-4.5)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions

Country	BST	Event / Auction
		Monday 6 June 2016
EMU	09.00	ECB's Constâncio scheduled to speak in Germany
	14.45	ECB's Cœuré scheduled to speak in Germany
		Tuesday 7 June 2016
Germany	10.30	Auction: To sell €1bn of 0.1% 2026 index-linked bonds (15-Apr-2026)
UK	10.30	Auction: To sell £1.5bn of 4.25% 2046 bonds (07-Dec-2046)
		Wednesday 8 June 2016
Germany	10.30	Auction: To sell €5bn of 2018 zero-coupon bonds (15-Jun-2018)
		Thursday 9 June 2016
EMU	08.00	ECB's Draghi scheduled to speak in Brussels
UK	10.30	Auction: To sell £0.9bn of 0.125% 2036 index-linked bonds (22-Nov-2036)
		Friday 10 June 2016
EMU	08.00	ECB's Weidmann scheduled to speak in Germany
	13.15	ECB's Constâncio scheduled to speak in Germany

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

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