

Euro wrap-up

Overview

- Bunds made modest gains as the latest German labour market figures showed a surprising, but likely temporary, jump in unemployment.
- Gilts also followed the global trend higher on a relatively quiet day for UK economic news.
- The coming two days will bring flash inflation estimates from Germany, Italy and Spain, as well as a UK consumer and business sentiment survey.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/21	-0.642	-0.007
OBL 0 04/24	-0.558	-0.007
DBR 0¼ 02/29	-0.174	-0.012
UKT 1½ 01/21	0.601	-0.006
UKT 1 04/24	0.655	-0.017
UKT 1½ 10/28	0.900	-0.020

*Change from close as at 4.30pm BST.

Source: Bloomberg

Euro area

German unemployment jumped

Recent data from the euro area's largest member state have been on the soft side. For example, the Commission's survey yesterday showed that the rise in Germany's economic sentiment index (0.4pt) in May was well below the euro area aggregate (1.2pts), while the GfK's latest consumer confidence indicator unexpectedly fell to its lowest level in two years. And, at face value, today's national labour market figures were particularly disappointing this month too. In particular, the headline figure showed a surge in unemployment, by 60k in May, the first monthly increase for almost two years and the most for more than a decade. So, the unemployment rate edged up to 5.0% from a record low 4.9%. But according to Germany's Federal Labor Agency much of the weakness last month (circa two-thirds) reflected a statistical reclassification. So, while this still implies that jobless claims rose in May by up to 20k, this follows a cumulative decline of 43k in the first four months of the year, and by almost ½mn over the past three years. And while there was a second successive drop in the number of vacancies in May, these still remain near record high levels, supporting our view that the increase in unemployment in May is unlikely to be the start of a more pronounced adjustment in Germany's labour market.

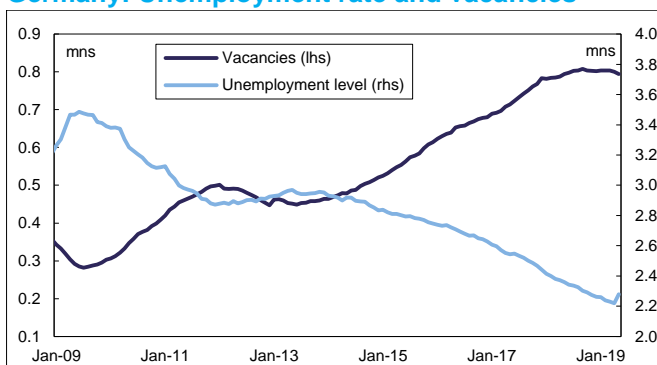
French inflation moderated more than expected

While yesterday's Commission survey reported an improvement in euro area consumer price expectations in May to their highest for eight months, the first estimates of national inflation for that month suggested a slight weakening in the underlying price-setting behaviour. In particular, the flash harmonised CPI estimate from France fell more than expected in May, by 0.4ppt to 1.1%Y/Y, more than reversing the Easter-related increase in April to its lowest reading since September 2017. A drop of 0.3ppt was recorded in the national measure, to 1.0%Y/Y, similarly the lowest rate since 2017. Admittedly, the detail on the national measure suggested that much of the weakness reflected the impact of the Easter-related boost to transport costs wearing off – indeed, services inflation fell 0.3ppt to 0.7%Y/Y. There was also an easing in energy inflation, down 1.4ppt to 3.4%Y/Y, its softest increase since mid-2017. But the decline in non-energy industrial goods prices steepened in May (by 0.1ppt to -0.6%Y/Y), suggesting that core inflation in France seems bound to have eased this month too.

French consumer spending picked up

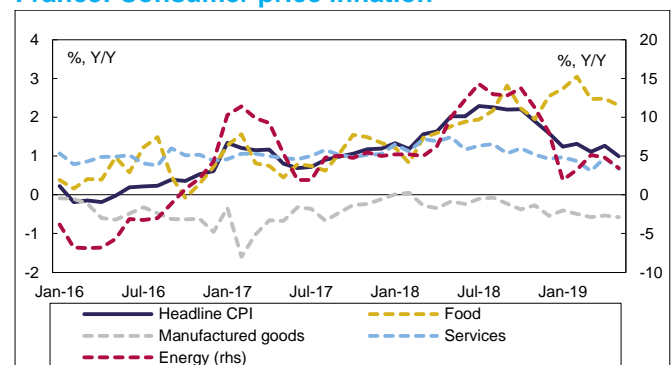
There was some slightly better news with respect to the latest French national accounts figures, which showed that growth in Q418 was revised higher by 0.1ppt to 0.4%Q/Q. And while growth in Q1 was confirmed at a still solid 0.3%Q/Q, to two decimal places it too was within a whisker of being upwardly revised. So, this left GDP 1.2% higher compared with a year earlier, 0.1ppt higher than previously estimated albeit still the joint-softest annual pace for 2½ years. The latest monthly

Germany: Unemployment rate and vacancies



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

France: Consumer price inflation*



*National measure. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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consumer spending figures were more encouraging at the start of Q2 too, with expenditure on goods rising a stronger-than-expected 0.8%M/M in April, leaving spending 1.2% higher compared with a year earlier, the strongest pace for thirteen months. However, the detail of the report suggested that underlying demand was somewhat softer. For example, the pickup was driven principally by a rebound in energy consumption (4%M/M), while spending on food products rose for the first month in four. In contrast, spending on manufactured goods fell slightly for the first time this year, on the back of a notable drop in clothing purchases. Nevertheless, this still left expenditure on manufactured goods up 1.2%3M/3M. And while total spending on goods was up just 0.1%3M/3M, this was the first positive reading on this basis since Q318. So, taken together with a further strengthening in consumer confidence in May, today's figures suggest that households should continue to support GDP growth in Q2.

Commission challenges Italy about its fiscal position again

While the latest ISTAT sentiment surveys today suggested that Italian businesses and consumers alike were more upbeat about conditions in May – the headline business index increased to a six-month high, while the equivalent consumer index was at a four-month high – this improvement in morale particularly among firms might well prove short-lived. Indeed, the European Commission today appeared to be paving the way for the possible launching of an official disciplinary process with respect to Italy's fiscal position, asking the Italian government to explain by Friday why it had not made sufficient progress on the debt criterion in 2018 and to indicate any relevant factors to explain the deviation from the budget path agreed with the Commission last December. But since his party's success at the European Parliament elections Deputy Prime Minister Salvini has stepped up his promises to amend EU budget rules and slash domestic taxes. So, any response from the government this week seems highly unlikely to be constructive.

The coming two days in the euro area and US

The coming two days will bring flash inflation releases from the other larger member states, with Spanish figures due tomorrow, followed on Friday by the equivalent German and Italian numbers. Like in France, these are expected to report declines as the Easter effect that boosted services prices in April wears off. April retail sales figures from Germany (Friday) and Spain (tomorrow) are also due, along with the final release of Italian GDP for Q1 (Friday). In the markets, Italy will sell 5Y and 10Y fixed-rate bonds and 5Y floating-rate bonds tomorrow.

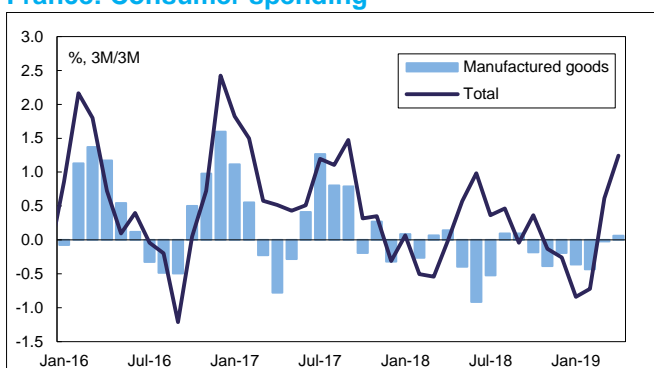
In the US, tomorrow will bring revised figures for Q1 GDP – expected to leave growth little changed from the initial estimate of 3.1%Q/Q annualised – as well as advance goods trade and inventories data for April. Friday will bring the latest monthly personal income and spending figures for April, including the deflators closely watched by the Fed.

UK

Retail price inflation jumped in May

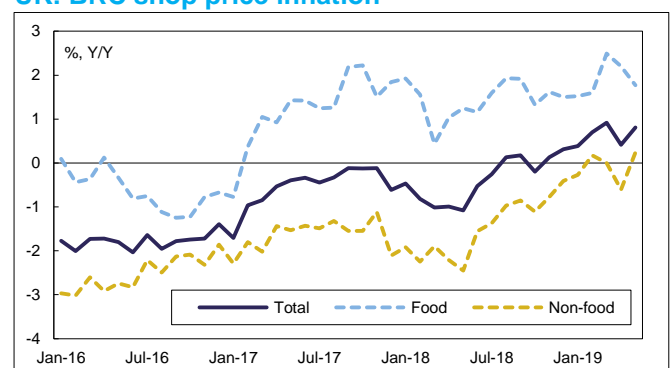
While focus in the UK remains firmly on politics, with an ever-growing list of candidates throwing their hat in the Tory leadership challenge, today's BRC's shop price index attracted some attention. In particular, this suggested that retail price inflation jumped in May, with the headline rate up by 0.4ppt to 0.8%Y/Y, the second-highest pace in six years. With food price inflation having eased (down 0.4ppt to 1.8%Y/Y), the increase was more than fully accounted for by higher non-food inflation, which rose by 0.8ppt to 0.2%Y/Y, only the second positive reading since 2011. The BRC attributed this jump in costs to currency depreciation, stockpiling and rising minimum wages, with the heightened uncertainty surrounding the previous end-March Brexit deadline no doubt having played its role over recent months. While the BRC data have recently contrasted with the official ONS retail price deflators, which suggest that price pressures on the High Street have weakened, price pressures will no doubt continue to be impacted significantly by politics, with shifts in sterling and – in the (still unlikely) event of a disorderly no-deal Brexit at end-October – supply shocks capable of having a marked impact.

France: Consumer spending*



*Expenditure on goods. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: BRC shop price inflation



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.








The coming two days in the UK


After a quiet day for UK economic data tomorrow, Friday will bring a flurry of releases including the latest GfK consumer and Lloyd's business indicators for May. Yesterday's Commission survey – which the GfK indicator feeds into – suggested that consumers were less downbeat about conditions this month – with the relevant index rising to an eight-month high – perhaps reflecting some near-term relief after the Brexit deadline was extended. But while the Lloyd's barometer might also suggest that businesses were a touch more upbeat this month, the headline index is likely to remain well below levels seen over recent years. Friday also brings the Bank of England's latest lending figures for April, as well as the Nationwide house price figures for May. Elsewhere, MPC member Dave Ramsden will speak publicly in Scotland.

In the absence of significant news, the next edition of the Euro wrap-up will be published on 31 May 2019.

European calendar



Today's results






Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Unemployment rate % (change 000s)	May	5.0 (60)	4.9 (-6)	4.9 (-12)	-
France	 Flash CPI estimate (EU-harmonised measure) Y/Y%	May	1.0 (1.1)	1.1 (1.3)	1.3 (1.5)	-
	 GDP – third estimate Q/Q% (Y/Y%)	Q1	0.3 (1.2)	0.3 (1.1)	0.3 (1.0)	0.4 (1.2)
Italy	 Consumer spending M/M% (Y/Y%)	Apr	0.8 (1.2)	-	-0.1 (-1.9)	-0.3 (-2.2)
	 Business (manufacturing) confidence	May	100.2 (102.0)	-	98.7 (100.6)	98.8 (100.8)
	 Consumer confidence	May	111.8	110.1	110.5	110.6
UK	 BRC shop price index Y/Y%	May	0.8	-	0.4	-

Auctions	
Country	Auction
Germany sold 	€2.5bn of 2024 bonds at an average yield of -0.56%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.










Tomorrow's data releases

Economic data						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Spain		08.00 Flash CPI estimate (EU-harmonised measure) Y/Y%	May	1.1 (1.1)	1.5 (1.6)	
		08.00 Retail sales Y/Y%	Apr	2.0	1.7	

Auctions and events			
Country	BST	Auction / Event	
Italy		10.00 Auction: to sell €2.5bn of 1.75% 2024 bonds	
		10.00 Auction: to sell €2.5bn of 2.0% 2025 bonds	
		10.00 Auction: to sell €2.75bn of 3.0% 2029 bonds	
		10.00 Auction: to sell €750mn of floating-rate 2025 bonds	
UK		08.30 MPC member Ramsden due to speak in Scotland	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's data releases

Economic data						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Germany		07.00 Retail sales M/M% (Y/Y%)	Apr	0.1 (1.3)	0.0 (-2.1)	
		13.00 Flash CPI estimate (EU-harmonised measure) Y/Y%	May	1.6 (1.4)	2.0 (2.1)	
Italy		09.00 GDP – second estimate Q/Q% (Y/Y%)	Q1	0.2 (0.1)	-0.1 (0.0)	
		10.00 Flash CPI estimate (EU-harmonised measure) Y/Y%	May	1.0 (0.9)	1.1 (1.1)	
UK		00.01 Gfk consumer confidence	May	-12	-13	
		00.01 Lloyds business barometer	May	-	14	
		07.00 Nationwide house price index M/M% (Y/Y%)	May	0.0 (1.2)	0.4 (0.9)	
		09.30 Net mortgage lending (consumer credit) £bn	Apr	3.7 (1.0)	4.1 (0.5)	
		09.30 Mortgage approvals 000s	Apr	63.5	62.3	

Auctions and events		
Country	BST	Auction / Event
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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