

Euro wrap-up

Overview

- Bunds made gains as the Eurogroup's plans for a new euro area budget facility looked inadequate.
- Gilts made very modest losses on a day free of significant economic news from the UK.
- The coming week will bring the euro area's flash June PMIs, UK inflation and retail sales data for May, the latest BoE policy announcement and the ECB's Sintra Forum on Central Banking.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/21	-0.693	-0.017
OBL 0 04/24	-0.602	-0.011
DBR 0¼ 02/29	-0.256	-0.016
UKT 1½ 01/21	0.605	+0.009
UKT 1 04/24	0.632	+0.007
UKT 1½ 10/28	0.845	+0.009

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

Euro area

Euro area budget looks set to disappoint

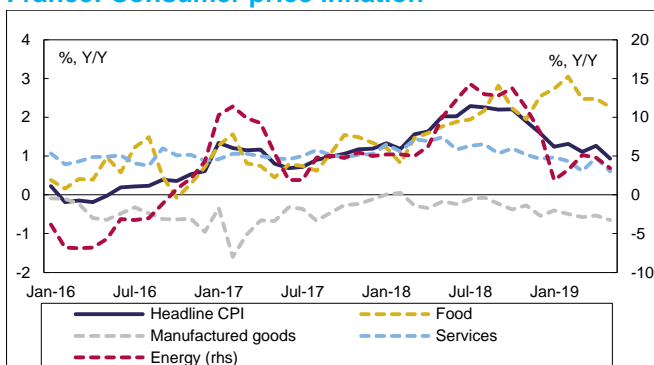
After a meeting that lasted throughout the night, the Eurogroup failed to reach agreement on the key detail of the planned euro area Budgetary Instrument for Convergence and Competitiveness (BICC), which will represent the first common fiscal policy tool for the single currency. Most notably perhaps, the financing of the instrument was undecided, with EU leaders next week now having to give a steer on the way forward and the full decision-making process likely to stretch well into next year. The euro area Finance Ministers' conclusions intimate that funds will have to come from within the forthcoming EU budget for 2021-27 rather than supplementary sources. That suggests the initial size of the budget will be tiny – indeed, the earlier Commission proposal in this respect was a mere €17bn over that seven-year period – and perhaps with little prospect of it being scaled significantly if the need arises. Moreover, the funds look set to be pre-allocated to specific projects that support structural reforms and public investment, with some co-funding to be provided by the Member States in which the projects will occur. And crucially, there is currently no suggestion that any of the funds will be reserved to provide a stabilisation tool to support demand in the event of an economic downturn. It is unclear how much flexibility might eventually be provided when the budget is up and running. However, judging from the outcome of the Finance Ministers' meeting, the BICC currently looks set to be of little use to support economic growth as and when the next recession and/or financial crisis occurs.

No surprises from French and Italian inflation figures

A low-key week for euro area data concluded with final May inflation reports from a few member states. Like in [Germany](#), the French figures showed the EU-harmonised measure match its flash estimate, falling 0.4ppt to 1.1%Y/Y, a 20-month low. On the national measure, the headline rate was nudged slightly lower from the preliminary release to 0.9%Y/Y. This in part reflected a steeper decline in manufacturing goods prices (the 0.7%Y/Y drop was the steepest since August 2017), while services inflation eased more than initially estimated (by 0.4ppt to 0.6%Y/Y, fully reversing the Easter-related boost in April). So, core inflation (on the national measure) fell 0.2ppt in May to 0.5%Y/Y, matching March's 15-month low.

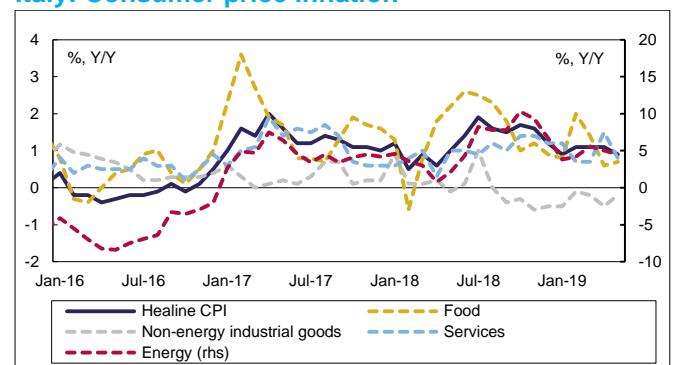
Today's Italian figures presented a similar picture – i.e. the national headline CPI rate in May was a touch weaker than initially estimated, at 0.8%Y/Y down 0.3ppt from April, but the EU-harmonised CPI measure was confirmed at the flash figure, 0.9%Y/Y, a drop of 0.2ppt on the month. There were a few tweaks to the detail too. In particular, the decline in Italian services inflation was slightly steeper than initially estimated at 0.7ppt to 0.8%Y/Y. But the decline in non-energy industrial goods prices was a touch less marked, so the drop in core inflation (on the EU measure) was confirmed at 0.2ppt to 0.5%Y/Y. Overall, given these national figures, when the aggregate euro area inflation figures are published on Tuesday, we expect them to align with the preliminary release showing marked declines in May, with the headline CPI rate down 0.5ppt to 1.2%YY, a thirteen-month low, and core inflation down 0.5ppt to 0.8%Y/Y.

France: Consumer price inflation*



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

Italy: Consumer price inflation*



*EU harmonised measure. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



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The week ahead in the euro area and US

Aside from the aforementioned euro area final inflation release for May (due Tuesday), the coming week will bring a few noteworthy euro area releases, with flash sentiment surveys for June at the back end of the week of particular interest. In particular, the Commission's preliminary consumer confidence indicator (Thursday) is expected to show that household sentiment improved slightly in June, rising to its highest level in seven months, albeit still not far from the bottom of the recent range. Business confidence, meanwhile, is likely to show little improvement at the end of the second quarter, with manufacturing conditions likely impacted by the intensification of the US trade wars. As such, the headline manufacturing PMI is expected to remain firmly in contractionary territory. And the services PMI is expected to move broadly sideways, leaving the composite PMI little changed from the 51.8 reading in May and therefore consistent with a moderation in GDP growth in Q2. Ahead of this, the latest labour costs figures for Q1 (Monday), new car registration numbers for May and trade figures for April (Tuesday) and construction output and balance of payments data for April (Wednesday) are due. More importantly perhaps, the ECB's central banking forum in Sintra in the first half of the week will be watched closely for any insights into near-term monetary policy thinking, with ECB President Draghi kicking off the event with opening remarks on Monday evening. In the markets, Germany will sell longer-dated bonds on Wednesday, while Spain and France will sell bonds of various maturities on Thursday.

All eyes in the coming week will obviously be on the US, with the main event being the conclusion of the FOMC meeting on Wednesday. While the Fed Funds Rate target range looks set to be left unchanged at 2.25-2.50%, the updated forecasts, dot-plots, statement and press conference will be watched for clues as to the likelihood of a near-term rate cut. Previous language stating that the FOMC intends to be "patient as it determines what future adjustments...may be appropriate" might well be replaced with new wording suggesting it is now ready to adjust policy if necessary. Indeed, recently, Chair Powell insisted that the FOMC would "act as appropriate to sustain the expansion". And Vice Chair Clarida stated that the Fed would not necessarily wait for the economic data to deteriorate and could instead be willing to act "pre-emptively". At a minimum we would expect to see some downward adjustment to the Fed's dot plots of expectations for the Fed Funds Rate. In particular, while the median participant in March forecast no change to policy in 2019, six members were still forecasting a rate hike this year and no members were forecasting a rate cut. Meanwhile, the median forecast called for one hike in 2020. With respect to the US data, the coming week will be dominated by the housing market, including the NAHB index for June (Monday), housing starts for May (Tuesday) and existing home sales for May (Friday). Sentiment surveys for June due will include the Empire Manufacturing indicator (Monday), Philly Fed index (Thursday) and the flash PMIs (Friday). Thursday will also bring the usual weekly jobless claims figures and balance of payments data for Q1. In the markets, the US Treasury will sell 5Y TIPS on Thursday.

UK

The week ahead in the UK
















After a quiet end to the week for UK economic news, the coming week brings several noteworthy events. While much focus will be on the BoE's MPC announcement on Thursday, there will be no surprises in terms of the main policy parameters, with Bank Rate expected to remain unchanged at 0.75% by unanimous vote. The post-meeting statement and minutes will be closely watched for any amendments to the Committee's guidance on future policy that previously stated "were the economy to develop broadly in line with [the] Inflation Report projections, an ongoing tightening of monetary policy over the forecast period, at a gradual pace and to a limited extent, would be appropriate". Certainly, since the MPC's last policy-setting meeting at the start of May, there has been a significant transformation in the mood in global financial markets, not least associated with rising expectations of a near-term shift in Fed policy. Geopolitical tensions have intensified the downside risks to the global outlook, domestic economic data strongly suggest much weaker UK GDP growth in Q2 – with our expectation for a contraction in output – and the political backdrop has further heightened the uncertainties surrounding Brexit. As such, markets are now pricing in a greater probability of a rate cut than a rate hike this year. But while that might suggest that some adjustment to its language would seem appropriate, data released in the past week suggested that the [labour market](#) remains tight.

The coming week's UK data calendar will also bring several releases of note, with Wednesday's CPI report likely to show that inflationary pressures remain contained. In particular, the headline CPI rate is expected to fall back to 2.0%Y/Y in May as the impact of Easter-related boost to services inflation wears off and energy inflation eases somewhat. And so core CPI inflation is also expected to take a further step down in May, by 0.1ppt to 1.7%Y/Y, which would be the lowest rate since the start of 2017. Retail sales figures for May (due Thursday) will also provide further insight into GDP growth in the current quarter, with expectations for household spending to have declined last month. Other releases due in the coming week include the latest ONS house price index and CBI industrial trends survey (Tuesday) and public finance figures (Friday). In addition, the DMO will sell 10Y Gilts on Tuesday.

Turning to politics, the coming week's Conservative Party ballots will determine the final two candidates to be subjected to the decisive poll among the party's rank and file members. Yesterday's first-round [vote](#) suggests that the populist Brexiteer Boris Johnson already has sufficient support to qualify as one of this pair. Following today's withdrawal of Health Secretary Matt Hancock, the remaining six candidates will each require a minimum of 33 votes in Tuesday's ballot. Should that threshold be achieved by all candidates, the one with the least votes will be eliminated. Further ballots will be held on Wednesday and Thursday if required. Televised debates among the candidates will be broadcast on Sunday and Tuesday (although, evidently fearful of scrutiny and wary of his tendency for gaffes, Johnson will participate only in Tuesday's event).



In the absence of significant news, the next edition of the Euro wrap-up will be published on 18 June 2019

Daiwa economic forecasts

	2019				2020				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q											
Euro area 	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.1	1.8	1.1	1.0
Germany 	0.4	0.1	0.3	0.3	0.3	0.3	0.2	0.1	1.4	0.8	1.1
France 	0.3	0.2	0.3	0.3	0.3	0.3	0.2	0.2	1.6	1.2	1.2
Italy 	0.1	0.0	0.2	0.1	0.1	0.1	0.0	-0.1	0.7	0.1	0.4
Spain 	0.7	0.6	0.5	0.5	0.4	0.4	0.4	0.3	2.6	2.3	1.7
UK 	0.5	-0.1	0.3	0.2	0.2	0.3	0.2	0.1	1.4	1.2	0.9
Inflation forecasts %, Y/Y											
Euro area											
Headline CPI 	1.4	1.4	1.2	1.1	1.5	1.4	1.4	1.4	1.8	1.3	1.4
Core CPI 	1.0	1.1	1.1	1.1	1.2	1.2	1.3	1.3	1.0	1.1	1.2
UK											
Headline CPI 	1.9	2.0	1.8	1.5	1.9	1.7	1.6	1.8	2.5	1.8	1.7
Core CPI 	1.9	1.7	1.7	1.7	1.8	2.0	2.0	2.0	2.1	1.7	1.9
Monetary policy											
ECB											
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate % 	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
Net asset purchases* 	0	0	0	0	0	0	0	0	15	0	0
BoE											
Bank Rate % 	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Net asset purchases** 	0	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	
France 	Final CPI (EU-harmonised) Y/Y%	May	0.9 (1.1)	1.0 (1.1)	1.3 (1.5)	-	
Italy 	Industrial sales (orders) Y/Y%	Apr	-0.7 (-0.2)	-	1.3 (-3.6)	- (-3.8)	
	Final CPI (EU-harmonised) Y/Y%	May	0.8 (0.9)	0.9 (0.9)	1.1 (1.1)	-	
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 17 June 2019						
EMU		10.00	Labour costs Y/Y%	Q1	-	2.3
UK		00.01	Rightmove house prices M/M% (Y/Y%)	Jun	-	0.9 (0.1)
Tuesday 18 June 2019						
EMU		07.00	EU new car registrations Y/Y%	May	-	-0.4
		10.00	Final CPI (core CPI) Y/Y%	May	<u>1.2 (0.8)</u>	1.7 (1.3)
		10.00	Trade balance €bn	Apr	-	17.9
Germany		10.00	ZEW current conditions balance (expectations)	Jun	7 (-5.3)	8.2 (-2.1)
Spain		08.00	Labour costs Y/Y%	Q1	-	0.99
Wednesday 19 June 2019						
EMU		09.00	Current account balance €bn	Apr	-	24.7
		10.00	Construction output M/M% (Y/Y%)	Apr	-	-0.3 (6.3)
Italy		09.00	Trade balance (current account) €bn	Apr	-	4.6 (4.0)
UK		09.30	CPI (core CPI) Y/Y%	May	2.0 (1.6)	2.1 (1.8)
		09.30	PPI input prices (output prices) Y/Y%	May	0.7 (1.7)	3.8 (2.1)
		09.30	ONS house price index Y/Y%	Apr	1.1	1.4
		11.00	CBI industrial trends survey, total orders	Jun	-12	-10
Thursday 20 June 2019						
EMU		15.00	Flash consumer confidence indicator	Jun	-6.5	-6.5
UK		09.30	Retail sales including fuel M/M% (Y/Y%)	May	-0.5 (2.7)	0.0 (5.2)
		09.30	Retail sales excluding fuel M/M% (Y/Y%)	May	-0.5 (2.4)	-0.2 (4.9)
		12.00	BoE Bank Rate %	Jun	<u>0.75</u>	0.75
Friday 21 June 2019						
EMU		09.00	Preliminary manufacturing PMI	Jun	48.0	47.7
		09.00	Preliminary services PMI (composite PMI)	Jun	53.0 (52.0)	52.9 (51.8)
Germany		08.30	Preliminary manufacturing PMI	Jun	44.6	44.3
		08.30	Preliminary services PMI (composite PMI)	Jun	55.4 (52.8)	55.4 (52.6)
France		08.15	Preliminary manufacturing PMI	Jun	51.0	50.6
		08.15	Preliminary services PMI (composite PMI)	Jun	51.6 (51.4)	51.5 (51.2)
UK		09.30	Public sector net borrowing £bn	May	4.2	5.8

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country	BST	Event / Auction	
Monday 17 June 2019			
EMU	 18.00	ECB's Draghi gives opening speech at ECB Forum on Central Banking in Sintra	
Tuesday 18 June 2019			
EMU	 15.00	ECB's Draghi and BoE's Carney speak on panel at ECB Forum	
UK	 -	Conservative Party leadership ballot to be held	
	 10.30	Auction: to sell £2.75bn of 0.875% 2029 bonds	
Wednesday 19 June 2019			
EMU	 -	ECB Forum continues	
Germany	 10:30	Auction: to sell €1bn of 2.5% 2046 bonds	
UK	 -	Conservative Party leadership ballot to be held	
Thursday 20 June 2019			
EMU	 09.00	ECB publishes Economic Bulletin	
France	 09.50	Auction: to sell 0% 2022 bonds	
	 09.50	Auction: to sell 0% 2023 bonds	
	 09.50	Auction: to sell 0% 2025 bonds	
	 10.50	Auction: to sell 0.25% 2024 index-linked bonds	
	 10.50	Auction: to sell 0.7% 2030 index-linked bonds	
	 10.50	Auction: to sell 0.1% 2047 index-linked bonds	
Spain	 10.00	Auction: to sell bonds	
UK	 12.00	BoE MPC policy announcement and meeting minutes published	
	 -	Conservative Party leadership ballot to be held	
Friday 21 June 2019			
- Nothing scheduled -			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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