

Euro wrap-up

Overview

- Bunds made losses today even as a survey signalled still very downbeat sentiment among German households despite the recent relaxation of lockdown rules.
- Gilts also made losses even as a UK retail sector survey signalled ongoing challenges in the sector, but BoE Chief Economist Haldane stated that the MPC was not close to implementing negative rates.
- Wednesday will bring the latest French INSEE business and consumer confidence surveys for May.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.663	+0.034
OBL 0 04/25	-0.626	+0.056
DBR 0 02/30	-0.430	+0.068
UKT 0½ 07/22	-0.015	+0.034
UKT 0% 06/25	0.021	+0.039
UKT 4% 12/30	0.216	+0.043

*Change from close as at 4:30pm BST.
Source: Bloomberg

Euro area

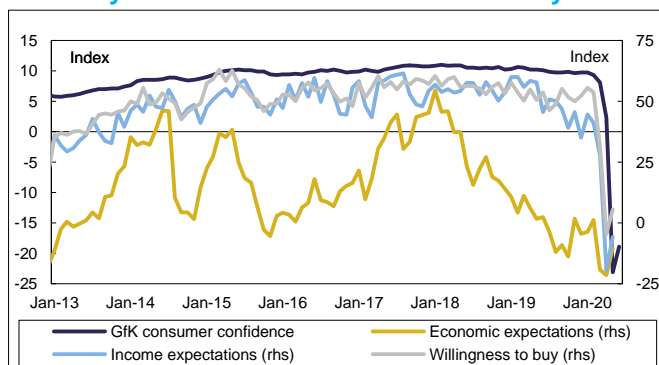
German consumers slightly less downbeat

With Germany among the first member states to have relaxed lockdown measures with the reopening of non-essential stores more than a month ago, and the number of new Covid-19 cases low continuing to decline, sentiment surveys from that country have inevitably pointed to a modest improvement this month. Indeed, today's GfK consumer confidence survey showed the headline index rising 4.2pts on the month to -18.8pts. But this still marked the second-lowest reading on record, suggesting that households still remain very uneasy. While the survey detail reported a modest increase in economic and income expectations, as well as propensity to buy, all measures remain close to record lows. Indeed, the respective indices for income expectations and willingness to buy remained 66pts and 52pts below last year's peak. Unsurprisingly, with half of all firms having applied to place some or all of their workers on the government's reduced working hours (kurzarbeit) scheme, concerns about job prospects remain high. Many consumers also consider the economy to be far from the peak of the current crisis. And so, while retailers attempt to return to some form of normality, albeit under continuing social distancing rules, the outlook for near-term spending remains extremely weak. Certainly, the more than 3%Q/Q drop in private consumption in Q1 – which account for three-quarters of the 2.2%Q/Q drop in GDP – will be much steeper in Q2. Moreover, we expect spending to remain well below the pre-Covid trend into 2021 and beyond.

German ifo signals increased optimism about outlook

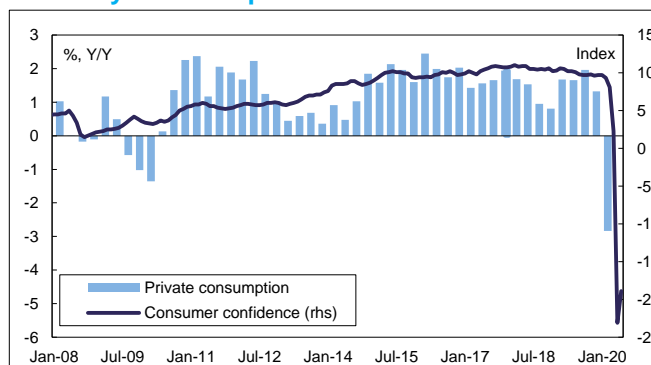
While the [flash PMIs](#) last week showed the headline indices reversing much of April's decline (admittedly to a still-very weak level), the improvement reported in the German ifo business survey yesterday was somewhat more modest. In particular, the headline business climate index rose 5.3pts in May to 79.5, reversing less than half the drop seen in April and remaining 16½pts below the pre-Covid-19 level. And firms again assessed the current situation to be slightly worse this month, with the index falling 0.5pt to 78.9, the lowest since the height of the global financial crisis. But while businesses remained largely downbeat about the economic outlook, they were less so than in April as the relaxation of lockdown measures offered some cautious optimism for the coming six months. This was particularly evident among manufacturers (excluding the food sector), where the expectations balance rose 13½pts to a three-month high. Construction firms were also more downbeat about the current situation but expressed greater optimism for near-term output. Meanwhile, firms in the services and trade sectors saw modest recoveries in both the current and future environment as the easing of lockdown improved sentiment among retailers in particular. But overall, while today's survey aligned with the PMIs in so far that it suggested the worst might now be passed, it was still suggesting that sentiment across all sectors remained extremely weak.

Germany: GfK consumer confidence survey



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: Consumption and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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The day ahead in the euro area and US

Sentiment surveys will continue to dominate the dataflow tomorrow, with the French INSEE business and consumer confidence surveys for May. Like in Germany, and similar to the flash PMIs, these are expected to post a modest improvement in sentiment this month, albeit still remaining at extremely weak levels.

In the US, a quiet day for top-tier releases tomorrow will see the Fed publish its monthly Beige Book. In the markets, the Treasury will sell 2Y floating-rate and 5Y fixed-rate notes.

UK

Retail sales still weak ahead of shop reopening

Looking suspiciously like an attempt to distract the media's attention from the debatable conduct of his chief adviser, PM Boris Johnson yesterday announced a further relaxation of England's lockdown restrictions governing the retail sector. In particular, open air markets and car showrooms will be able to reopen from 1 June, and other shops will be able to reopen two weeks later, albeit with ongoing social distancing measures in place. That easing of restrictions will come as relief for a sector that has suffered record weakness since lockdown was imposed on 23 March. Indeed, the official ONS measure of [retail sales](#) fell 18.1%M/M and 22.6%Y/Y in April, despite the surge in sales online. And today's Distributive Trades Survey from the CBI indicated that sales have so far remained extremely subdued in May, with only a modest easing in the year-on-year pace of decline from last month. The survey also suggested that, ahead of Johnson's announcement, sales volumes were expected to fall at only a slightly slower year-on-year rate next month. Indeed, despite the forthcoming easing of restrictions, we strongly expect consumers to be reluctant to spend, due to the ongoing desire for social-distancing, the jump in unemployment, and significant uncertainty about the outlook for both the pandemic and the economy.

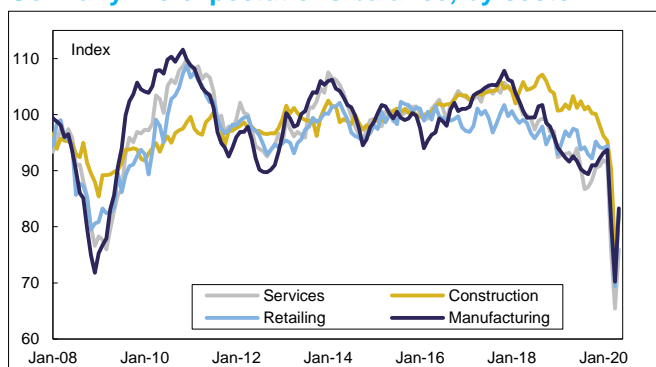
Further job layoffs

Among other survey detail, orders placed with suppliers reportedly dropped at a near-record pace in May as the ratio of inventories to expected sales rose to a seven-month high. At the same time, for some retailers, supply disruptions had worsened, with an increased share of retailers reporting shortages of some goods, increased cost pressures and shipping delays. Meanwhile, a large majority (80%) of retailers still reported cash-flow difficulties. And more than half were still laying off staff. While many of these workers were furloughed under the government's Job Retention Scheme, 8% of firms again reported laying off staff permanently. And if sales remain subdued after shops reopen, many of those furloughed will find themselves permanently laid off in the autumn once the Job Retention Scheme has been phased out.

The day ahead in the UK

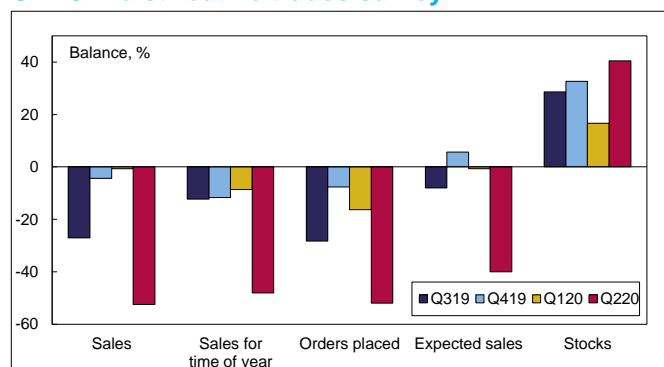
It should be a quiet day for economic news tomorrow, with no top-tier data due for release. In the markets, the DMO will sell 2023 and 2057 Gilts.

Germany: Ifo expectations balance, by sector



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: CBI distributive trades survey





*Average of April and May indicators. Source: Thomson Reuters 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
Germany	 GfK consumer confidence	Jun	-18.9	-18.0	-23.4	-23.1
UK	 CBI distributive trades survey, reported retail sales	May	-50	-65	-55	-




Auctions

Country	Auction
Germany	 sold €4.1bn of 0% 2022 bonds at an average yield of -0.66%
Italy	 sold €4.0bn of 0% 2022 bonds at an average yield of 0.441%
	 sold €1.0bn of 0.4% 2030 index-linked bonds at an average yield of 1.29%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data




Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Final GDP Q/Q% (Y/Y%)	Q1	-2.2 (-2.3)	-2.2 (-2.3)	-0.1 (0.4)	-
	 Ifo business climate index	May	79.5	78.4	74.3	74.2
	 Ifo current assessment balance (expectations)	May	78.9 (80.1)	80.8 (75.1)	79.5 (69.4)	79.4 (-)




Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
France	 07.45	Business confidence indicator	May	69	62
	 07.45	Manufacturing confidence (production outlook indicator)	May	85 (-)	82 (-78)
	 07.45	Consumer confidence	May	91	95

Country	BST	Auction/Event
EMU	 08.30	ECB President Lagarde participates in an Ask ECB event
UK	 10.00	Auction: £3.75bn of 0.125% 2023 bonds
	 11.30	Auction: £1.5bn of 1.75% 2057 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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