Euro wrap-up

Overview

- Bunds made losses as reports suggested that Germany was preparing a second-phase fiscal support package as final manufacturing PMIs and car sales figures for May emphasised the weak economic backdrop.
- Gilts also made losses as an FT report suggested that the UK government was preparing to unveil an economic stimulus package in July.
- Tuesday will bring Spanish unemployment figures for May, as well as UK lending figures for April, both of which will be impacted considerably by the current crisis.

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Daily bond market movements

Bond	Yield	Change
BKO 0 03/22	-0.067	+0.008
OBL 0 04/25	-0.624	+0.024
DBR 0 02/30	-0.399	+0.052
UKT 0½ 07/22	0.001	+0.047
UKT 0⅝ 06/25	0.044	+0.052
UKT 4¾ 12/30	0.238	+0.055

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

Euro area

Final manufacturing PMI still extremely low

There were no amendments to the headline message from the final euro area manufacturing PMIs in May. While the headline index was revised very slightly lower from the flash estimate to 39.4, this still marked an improvement from the trough in April as some lockdown measures were eased. But with some form of Covid-19 restrictions still in place across most of the region, the survey indicators were nevertheless still extremely weak and consistent with ongoing significant contraction in the sector. For example, despite being nudged slightly higher from the preliminary release, the output component still recorded the second-lowest reading (35.6) since the global financial crisis, with investment goods production leading the decline. This was also true for the new orders PMI, with export sales recording the second-lowest reading in the survey's 23-year history. And while manufacturers were less pessimistic about the outlook over the coming twelve months than they were in April, they still remained downbeat. As such, manufacturers continued to scale back significantly their workforces in May, led by France, Spain and Germany.

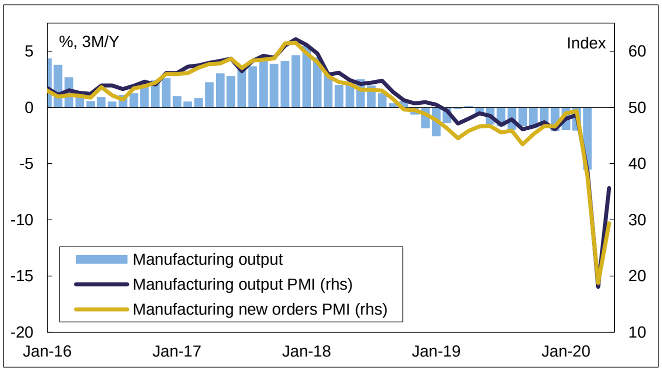
Italian PMI jumps in May

There were only modest tweaks to the final German and French manufacturing PMIs too. The headline German index was revised 0.2pt lower from the flash to 36.6 in May, to leave it up 2.1pts from April but nevertheless the lowest reading of the four largest member states. The French PMI was nudged slightly higher from the preliminary release to 40.6. Admittedly, the output components for both countries remained weaker than the headline indicators and consistent with sizeable contraction in the sector. But the main news from today's release was the first publication of the Italian manufacturing indices, which saw a significant improvement in conditions as factories reopened last month. In particular, the Italian output PMI surged 36.1pts to 47.5, a four-month high and by far the highest of the member states. The rebound in other Italian components was less pronounced – i.e. the new orders PMI stood at 35.9, the third-lowest reading on record. And, of course, it is impossible to interpret with any accuracy what the PMIs really imply for the current profile of GDP. But while they suggest that April likely marked the trough (assuming a second wave of pandemic is avoided), overall they continue to point to an extreme drop in economic output in the second quarter.

New car registrations remain very weak

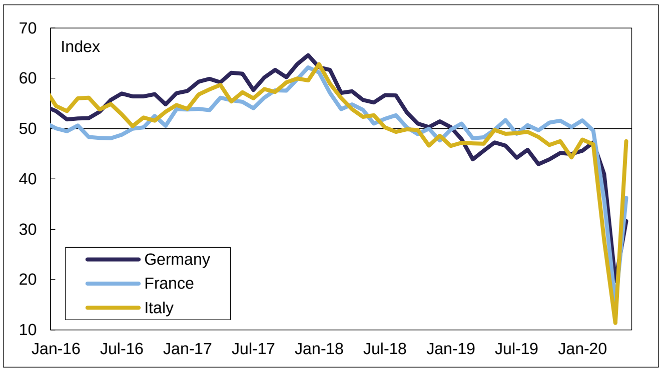
While national lockdowns gradually started to relax last month, with consumer confidence still dented and income and employment prospects much weaker, national car registrations figures for May unsurprisingly suggested that demand remained extremely subdued. Indeed, with only a relatively modest reversal in the record slump record in April, French car

Euro area: Manufacturing output and PMIs



Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing PMIs by member state



Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

registrations fell a further 50.3%Y/Y in May to 96k units, admittedly an improvement on the 21k units purchased in April. But several manufacturers suggested that these largely reflected customers that had already placed orders but were unable to take delivery during lockdown. In Italy, sales were also down around 50%Y/Y, having declined by 93.6%Y/Y in April. So, Spanish registrations once again recorded the steepest decline, down 72.7%Y/Y at just over 34k cars, still the second-lowest level in more than three decades. In the first five months of the year, this left car sales in all three countries down almost 50% compared with the equivalent period in 2019. Furthermore, despite the French car subsidy package that kicked in today, and an anticipated second-phase German stimulus package (to include a car purchase incentive scheme), we expect demand for big-ticket items in particular to remain extremely subdued for a considerable time.

The day ahead in the euro area and US

The only scheduled data of any note to be published tomorrow are Spanish unemployment figures for May. Spain has been one of the hardest hit countries by the Covid outbreak, with an associated strict lockdown measures and significant impact on the all-important tourism sector therefore causing an unsurprisingly large negative impact on employment. The number of people registered as jobless is expected to rise a further 232K in May, after rising 282K in April. This would take the total number of people unemployed at more than 4mn, albeit still a way off the record of more than 5mn peak reached in 2013. In the markets, Germany will auction €500mn of 2030 index-linked bonds.

In the US, we will get the latest vehicle sales figures. As more states loosen quarantine restrictions, a potential partial rebound in auto sales is expected in May. However, in the long term, lost wage income will limit the recovery in domestic demand over coming months.

UK

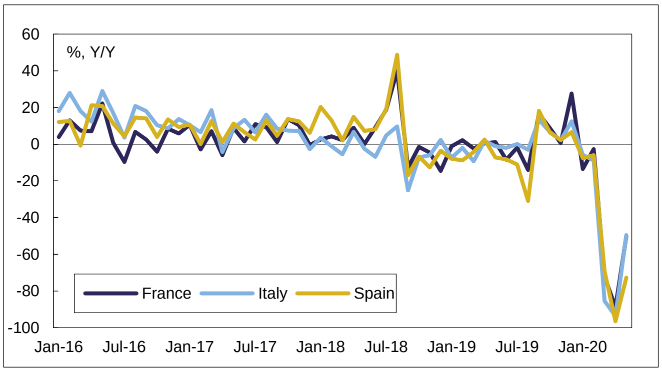
UK manufacturing PMI remains consistent with sharp contraction

With workers in the UK's manufacturing sector having been encouraged back to work in the middle of May (albeit under strict social distancing rules), the flash manufacturing PMI had pointed to an improvement in conditions in the past month. And today's final survey release largely confirmed the preliminary findings, with the headline index revised slightly higher (0.1pt) to 40.7, nevertheless merely reversing roughly half the drop recorded in April and still marking the second-lowest reading since March 2009. The rebound in the output index in May was more marked, albeit it remained at just 35.0, the fourth-lowest in the survey's near-three-decade history and therefore consistent with extreme weakness in the sector. Indeed, any signs of growth were linked to the healthcare sector. Meanwhile, new orders continued to decline too, both domestically and from overseas, while firms reported that Covid-related restrictions remained a disruption to supply chains. So with firms still downbeat about the production outlook for the year ahead, albeit to a lesser degree than in April, manufacturers continued to scale back their workforces. So, like in the euro area, today's survey signalled a very marked contraction in the sector in the second quarter, with challenges to future output set to remain for some time to come too.

The day ahead in the UK

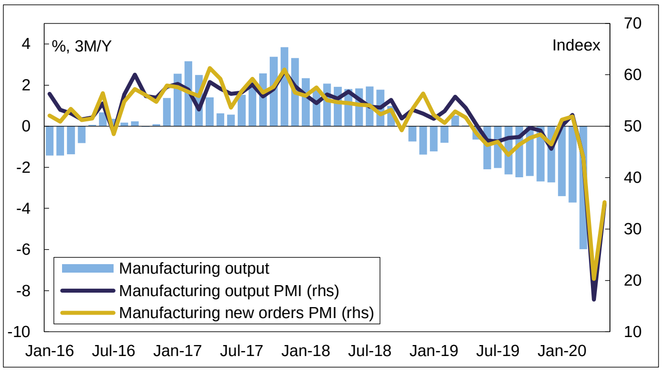
Tomorrow will bring arguably the week's most noteworthy data release, with lending figures from the Bank of England expected to show a further surge in bank loans to business in April to meet emergency liquidity needs. But against the backdrop of heightened economic and job uncertainty, they will also likely reveal a continued reduction in net borrowing by consumers in April as households refrained from spending during the lockdown. We should also get the release of the Nationwide house price index for April. However, Nationwide have announced that their ability to produce the index in the months ahead will depend on there being sufficient transactions, which are representative of the wider housing market. Meanwhile, the DMO will auction £3.25bn of 2026 bonds as well as £3bn of 2030 bonds.

Euro area: New car registrations by member state



Source: Thomson Reuters, Bloomberg and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing output and PMI



Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
EMU	Final manufacturing PMI	May	**39.4**	39.5	33.4	-
Germany	Final manufacturng PMI	May	**36.6**	36.8	34.5	-
France	Final manufacturing PMI	May	**40.6**	40.3	31.5	-
	New car registrations Y/Y%	May	**-50.3**	-	-88.8	-
Italy	Manufacturing PMI	May	**45.4**	35.3	31.1	-
	New car registrations Y/Y%	May	**-49.6**	40.9	-97.6	**-93.6**
Spain	Manufacturing PMI	May	**38.3**	37.8	30.9	-
	New car registrations Y/Y%	May	**-72.7**	-	-96.5	-
UK	Final manufacturing PMI	May	**40.7**	40.6	32.6	-

Auctions

Country	Auction
	- Nothing to report -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	BST	Release	Period	Market consensus/ Daiwa forecast	Previous
Spain	08.00	Unemployment change '000s	May	244.0	283.9
UK	07.00	Nationwide house price index M/M% (Y/Y%)	May	-1.0 (2.8)	0.7 (3.7)
	09.30	Net consumer credit £bn (Y/Y%)	Apr	-4.5 (-)	-3.8 (3.7)
	09.30	Net mortgage lending £bn (approvals '000s)	Apr	1.1 (24.0)	4.8 (56.2)

Auctions and events

Country	BST	Auction / Event
Germany	10.30	Auction: €500mn of 0.5% 2030 index-linked bonds
UK	10.00	Auction: £3.25bn of 0.125% 2026 bonds
	11.30	Auction: £3bn of 0.375% 2030 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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