

# Euro wrap-up

## Overview

- Bunds made gains as data reported a record decline in German industrial production and Christine Lagarde warned of severe risks to price stability.
- Gilts made more limited gains on a quiet day for UK economic news.
- Tuesday will bring updates on UK retail sales and French business confidence in May, German and French goods trade in April, and euro area GDP and employment in Q1.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.631	-0.017
OBL 0 04/25	-0.581	-0.031
DBR 0 02/30	-0.321	-0.042
UKT 0½ 07/22	-0.003	-0.005
UKT 0% 06/25	0.076	-0.004
UKT 4% 12/30	0.188	-0.020

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

## Euro area

### A record drop in German industrial production

German industrial production plunged a record 17.9%M/M in April. This followed a slightly revised drop of 8.9%M/M in March, and left it down a whopping 25.3%Y/Y at the lowest level since 1997. Within the detail, output of manufacturing and mining fell more than one fifth (-22.1%M/M), with production of capital goods down more than one third (-35.3%M/M) to be little better than half the level a year earlier and the lowest since reunification. With factories in the sector all but closed for most of the month, production of motor vehicles dropped by about three quarters from March and 83%Y/Y, similarly to a post-reunification low. Output of intermediate goods was down a hefty 13.8%M/M and 19.1%Y/Y. But production of consumer goods was down a somewhat moderate 8.7%M/M and 15.5%Y/Y to hit merely the lowest level since 2009. And production of basic pharmaceuticals rose 7.0%M/M and 6.1%Y/Y. Meanwhile, in marked contrast to the other large euro area member states, construction output remained relatively resilient to the pandemic, dropping just 4.1%M/M to be still up 0.8%Y/Y and merely at its lowest level since December.

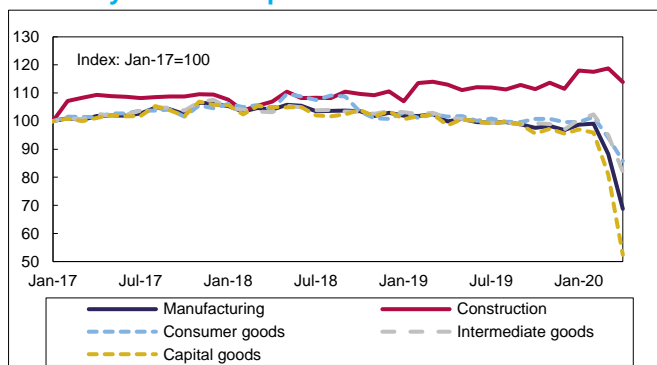
### Surveys point to a weak outlook for the sector

With factories better able to resume 'normal' activity, production will have rebounded last month. However, orders were still down by more than one third in April. And sectoral data and survey indicators suggest that production and new orders remained very weak in May. For example, according to the VDA, car production was still down 66%Y/Y last month at its second-lowest level since reunification. The PMIs for both output and new orders in May were still close to the lows reached during the global financial crisis. And the sectoral detail on the May ifo business climate survey, also released today, suggested that German manufacturers expect business conditions to remain very weak over the coming six months in almost every sector. So, while the government's stimulus measures, including a temporary cut in VAT to last throughout the second half of the year, cash handouts for parents, and purchase incentives for electric and hybrid cars, will support domestic demand over coming months, the level of output in German manufacturing seems highly likely to remain well down on the pre-Covid level for a long time to come. And as services activity, and overall GDP, will remain highly subdued too, momentum in the construction sector will probably soon fizzle out too. Indeed, with the exception of April, construction firms have never been quite so downbeat about the six-month outlook for business conditions in the sector.

### Investors doubtful about vigour of recovery

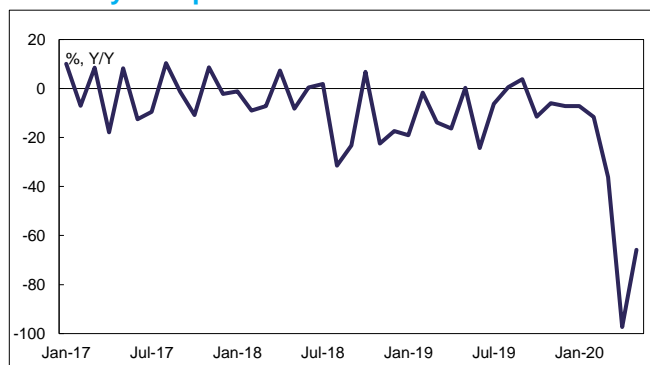
With the easing of restrictions on economic activity, and tallying with recent market developments, the June Sentix survey of investor sentiment saw the headline index rise to a three-month high, albeit still at a deeply recessionary level (-24.8). Survey respondents remained highly depressed in their assessment of current conditions, even as the respective index

### Germany: Industrial production



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Germany: Car production



Source: VDA, Bloomberg and Daiwa Capital Markets Europe Ltd.



Follow us on twitter [@DaiwaEurope](https://twitter.com/DaiwaEurope)

similarly inched up to the highest since March (-61.5). But the index of expectations climbed back into positive territory for the first time since February (+21.8). But while investors thus expect economic recovery in the euro area to be sustained, they also expect the recovery to lack vigour. Indeed, a special question on the survey suggested that investors expect little more than half of the decline in output due to the pandemic to be reversed over the coming year. And while the latest plans for fiscal stimulus provide somewhat greater cause for optimism about the German outlook, investors still expect a little less than two thirds of the drop in output in the euro area's largest member state to be reversed over the coming twelve months.

## The day ahead in the euro area and US

Tuesday will bring revised euro area GDP figures for Q1. Growth is expected to be little changed from the initially estimated contraction of 3.8%Q/Q, with an upwards revision to the French figure largely offsetting a downwards revision to Italian GDP. This release will provide the first official expenditure breakdown, with private consumption and investment set to have declined sharply, while net trade likely provided some support as a fall in imports offset weaker exports. It will also report updated employment data for Q1, although these will fail to adequately reflect the labour market impact of the drop in economic output. But tomorrow will also bring the latest German and French trade figures for April, which will show a significant decline in both exports and imports as lockdown measures hit demand and supply chains. The Bank of France's latest business sentiment survey for May is also due for release. In the markets, Germany will sell 7Y bonds.

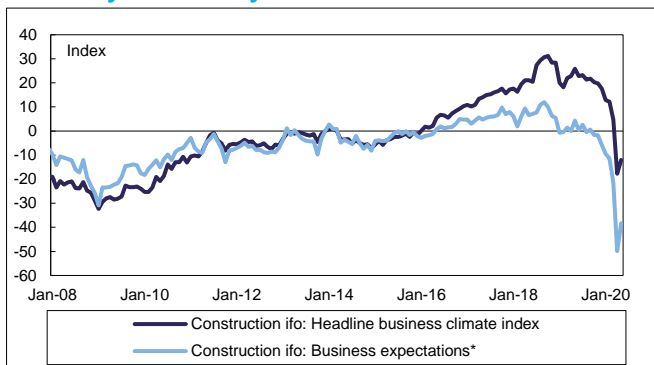
In the US, tomorrow will bring the NFIB small business optimism survey for May, along with JOLTS job openings and wholesale trade figures for April. In the markets, the Treasury will sell 10Y notes.

## UK

### The day ahead in the UK

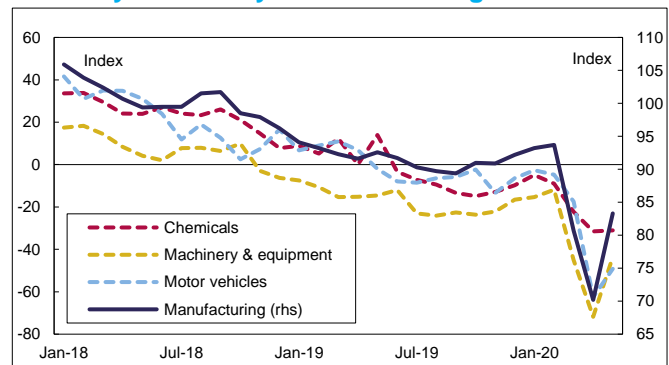
After a quiet start to the week for UK economic releases, tomorrow will bring the BRC's latest retail sales monitor, which is expected to show that despite heavy discounting, household spending remained very weak in May as restrictions on the opening of non-essential stores remained in place.

### Germany: Ifo survey – construction indices



\*Business expectations over coming six months. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Germany: Ifo survey – manufacturing indices\*





\*Business expectations over coming six months. Source: 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	 Sentix investor confidence	Jun	<b>-24.8</b>	-22.0	-41.8	-
Germany	 Industrial production M/M% (Y/Y%)	Apr	<b>-17.9 (-25.3)</b>	-16.5 (-24.8)	-9.2 (-11.6)	<b>-8.9 (-11.3)</b>








#### 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
EMU		10.00	Final GDP Q/Q% (Y/Y%)	Q1	-3.8 (-3.2) / 0.1 (1.0)
		10.00	Employment Q/Q%	Q1	-0.2 (0.3) / 0.3 (1.1)
Germany		07.00	Trade balance €bn	Apr	11.6 / 17.4
		07.00	Labour costs Q/Q% (Y/Y%)	Q1	- (-) / 0.0 (3.0)
France		07.30	Bank of France survey - industrial sentiment	May	- / 48
		07.45	Trade balance €bn	Apr	-3.0 / -3.3
UK		00.01	BRC retail sales monitor, like-for-like sales Y/Y%	May	3.0 / 5.7

#### Auctions and events

Country	BST	Auction / Event
EMU		09.00 ECB's Rehn scheduled to speak at a press conference in Finland
Germany		10.30 Auction: €3bn of 0% 2027 bonds
UK		- BoE Deputy Governor Cunliffe scheduled to speak at an online event

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.