

Euro wrap-up

Overview

- Bunds made modest losses even as record declines in German and French exports and euro area GDP and household spending were confirmed.
- Gilts were little changed while UK spending data pointed to a gradual recovery in May.
- Wednesday will bring data for French IP while Thursday will bring the equivalent figures from Italy and business and housing survey results from the UK.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.629	+0.008
OBL 0 04/25	-0.571	+0.012
DBR 0 02/30	-0.313	+0.008
UKT 0½ 07/22	0.003	+0.002
UKT 0% 06/25	0.079	-
UKT 4% 12/30	0.331	-0.002

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

Euro area

German and French trade in record declines

The record drop in [German IP](#) in April reported yesterday was followed today by a similar fall in German goods exports, which likewise was the sharpest since reunification. In particular, the value of goods exports fell 24.0%M/M in April to be down 31.1%Y/Y and at the lowest level since 2010. While the drop in the value of goods imports wasn't quite so marked, it was also the steepest since reunification, down 16.5%M/M and 21.6%Y/Y to the lowest level since 2014. Adjusting for price changes, the volume of exports was down 23.6%M/M with the volume of imports down 14.9%M/M. The value of shipments to other countries in the euro area was down 36.7%Y/Y, with those to France and Italy down by more than 40%Y/Y. Exports to the US also fell sharply, down more than one third, but shipments to China were down a more moderate 12.6%Y/Y. Imports from other euro area countries plunged too (-28.9%Y/Y), but those from China (+10.0%Y/Y) and the US (+2.4%Y/Y) were still higher than a year earlier. Overall, Germany's goods trade surplus shrank markedly, falling by almost €10bn to just €3.2bn, the smallest in almost 20 years. In France, meanwhile, the hit to trade in April was a touch harder still, with the value of goods exports down 32.4%M/M and imports down 25.0%M/M, widening the trade deficit by €1.8bn to €5.0bn, merely a three-month high.

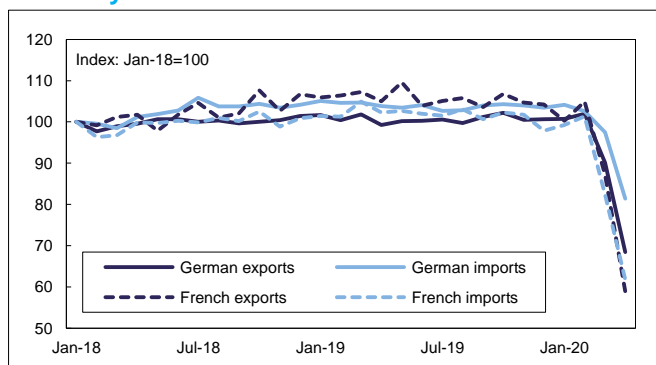
French GDP on track for 15% drop in Q2

With the gradual easing of many restrictions, the Bank of France's latest business sentiment survey for May inevitably pointed to a rebound in economic activity in the euro area's second-largest economy last month, with the improvement most notable in industry and construction but still lagging in services. While the average level of French GDP in April was estimated to be down 27% from the pre-crisis level, the Bank of France now judges that the level at end-May was down about 17%. And so, given the expectation of further improvement in June, it now estimates that GDP will drop about 15%Q/Q over Q2 as a whole. The Bank also now forecasts that GDP will drop 10.3%Y/Y overall in 2020, and rebound 6.9%Y/Y next year, with the pre-crisis level achieved around the back end in 2022.

Record decline in consumption in Q1 to be dwarfed by drop in Q2

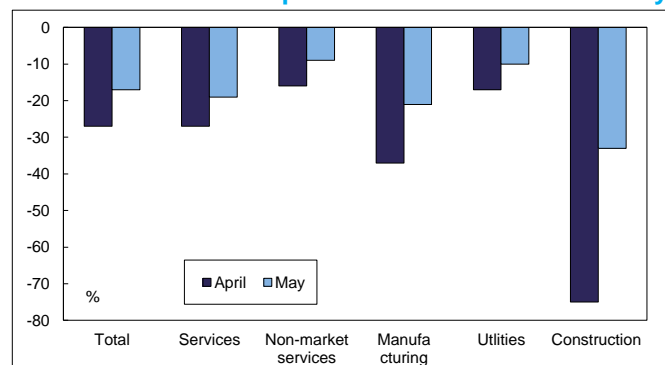
According to the revised estimate, euro area GDP declined 3.6%Q/Q in Q1, 0.2ppt less than previously thought but still 0.4ppt steeper than the previous record fall registered during the global financial crisis in Q109. The expenditure breakdown, published for the first time, confirmed a record drop of 4.7%Q/Q in household consumption, which had previously never contracted by more than 0.5%Q/Q in any one quarter. Gross fixed investment declined by 4.3%Q/Q. While this was not a record decline, we caution that this data series is distorted significantly by volatility in Irish investment in intellectual property. Excluding that item, we suspect that capex would have fallen by a record amount too. Meanwhile, exports (-4.2%Q/Q) and imports (-3.6%Q/Q) fell the most since Q109, and government consumption dropped for the first time since the austerity of the euro crisis. As illustrated by the Bank of France's

Germany and France: Goods trade



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

France: Estimated impact of coronavirus on activity



Source: Bank of France and Daiwa Capital Markets Europe Ltd.



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estimate for France, with lockdown measures binding for longer during the second quarter, euro area GDP and all major components are bound to have contracted far more sharply in Q2.

The coming two days in the euro area and US

Manufacturing sector releases will remain the focus over the coming two days, with French and Italian industrial production data for April due tomorrow and Thursday respectively. Like in Germany and Spain, these are expected to report record double-digit percentage monthly declines as lockdown measures were most stringent. Indeed, French output is expected to have declined by around a third compared with a year earlier, while Italian output is forecast to be more than 40% lower than a year ago. In other news, ECB Vice President de Guindos and Executive Board member Schnabel will speak at separate online events. In the markets, Italy will sell 3Y, 7Y and 16Y bonds.

In the US, tomorrow will bring the main events of the week, with the FOMC rate decision, the publication of the Committee's updated economic projections, and Fed Chair Powell's accompanying press conference, as well as the release of May CPI figures. No amendments to policy are expected, but insights into the Fed's assessment of economic conditions and possible next steps should be informative. Investors will also certainly watch for signals that the Fed has upped its consideration of a potential future shift to yield curve control, while there might also be news on the Fed's liquidity facilities. Meanwhile, after falling sharply in April, and by a record monthly amount in the core measure, consumer prices are expected to have moved sideways in May. But this would still leave headline inflation at just 0.3%Y/Y, with core inflation easing slightly lower to 1.3%Y/Y. Wednesday will also bring the full Federal monthly budget statement. Further ahead, the weekly jobless claims figures and PPI data are due on Thursday. In the markets, the Treasury will sell 30Y bonds on Thursday.

UK

Spending picked up gradually in May

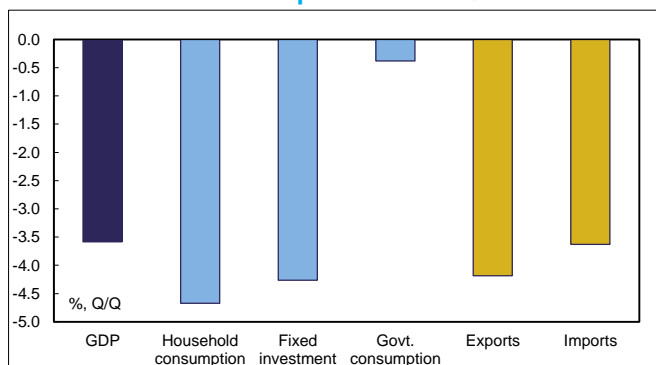
Ahead of the reopening of non-essential stores from the start of next week, and the expected partial reopening of restaurants, pubs and cafés over coming weeks, today's snapshots of UK spending in May pointed to only a modest pickup following the record decline in April. Data from Barclaycard, which sees nearly half of the nation's credit and debit card transactions, suggested that consumer spending was down 26.7%Y/Y, not quite as steep as the fall of 36.5%Y/Y the prior month but still an extremely severe drop. According to those figures, spending on essential items was up 0.9%Y/Y, boosted by expenditure at supermarkets, which rose by almost one quarter from a year earlier as consumers sought to make the most of sunny weather over the Bank Holiday weekend. In marked contrast, spending on fuel almost halved, and spending on non-essentials fell by more than one third. Sales at department stores and clothing shops fell by more than 40%Y/Y. Spending on eating and drinking fell more than 70%Y/Y, while the equivalent figures for entertainment, travel and hotels were down by more than 85%Y/Y. But online purchases at specialist retailers near-doubled from a year earlier, while the equivalent internet-spend at general retailers was up more than four fifths.

Separately, the BRC's latest survey of its members also showed an improvement in sales from firms on the High Street. In particular, this survey's measure of total sales was down 5.9%Y/Y in May, the second-sharpest drop on the series following the fall of 19.1%Y/Y in April.

The coming two days in the UK

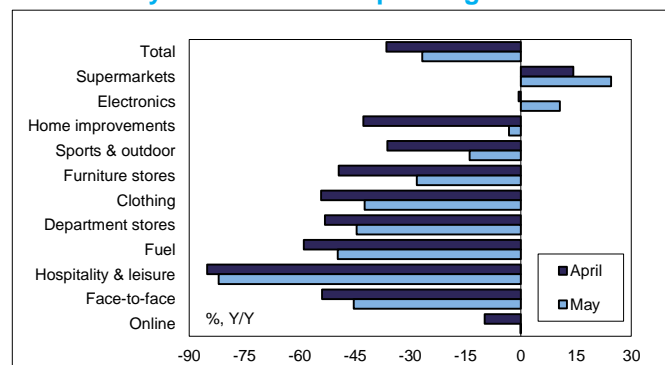
It should be relatively quiet for UK economic news over the coming two days, with just the RICS Residential survey for May due for release on Thursday along with the regular weekly update of the ONS coronavirus economic impact statistics. In terms of the housing survey, with estate agents having been allowed to reopen from the middle of last month, this might suggest some modest recovery in supply and demand compared with April. But with consumer confidence still very weak, joblessness rising and concerns about the economic uncertainty remaining firmly to the fore, any rebound in the house price balance seems bound to be relatively muted and still consistent with substantial declines in house prices compared with the pre-virus trend. In the markets, the DMO will sell index-linked bonds tomorrow and 4Y and 8Y fixed-rate bonds on Thursday.

Euro area: GDP and expenditure in Q120



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Barclaycard consumer spending data










Source: Barclaycard 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
EMU	 Final GDP Q/Q% (Y/Y%)	Q1	-3.6 (-3.1)	-3.8 (-3.2)	0.1 (1.0)	-
	 Employment Q/Q%	Q1	-0.2 (0.4)	-0.2 (0.3)	0.3 (1.1)	-
Germany	 Trade balance €bn	Apr	3.5	12.0	17.4	25.6
	 Labour costs Q/Q% (Y/Y%)	Q1	2.4 (4.3)	- (-)	0.0 (3.0)	0.1 (-)
France	 Bank of France survey - industrial sentiment	May	83	-	48	50
	 Trade balance €bn	Apr	-5.0	-	-3.3	-3.2
UK	 BRC retail sales monitor, like-for-like sales Y/Y%	May	7.9	-	5.7	-

Auctions




Country	Auction
Germany	 sold €2.5bn of 0% 2027 bonds at an average yield of -0.47%

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	Industrial production M/M% (Y/Y%)	Apr	-20.0 (-33.1)	-16.2 (-17.3)
	 07.45	Manufacturing production M/M% (Y/Y%)	Apr	-18.1 (-35.3)	-18.2 (-19.3)

Auctions






Country	BST	Auction/Event
EMU	 14.30	ECB's Schnabel scheduled to speak at an online event
	 14.30	ECB Vice President de Guindos scheduled to speak at an online event
UK	 10.00	Auction: £900mn of 0.125% index-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Italy	 09.00	Industrial production M/M% (Y/Y%)	Apr	-24.0 (-41.0)	-28.4 (-29.3)
UK	 00.01	RICS house price balance %	May	-24	-21

Auctions

Country	BST	Auction/Event
Italy	 10.00	Auction: €5.0bn of 0.3% 2023 bonds
	 10.00	Auction: €2.5bn of 0.85% 2027 bonds
	 10.00	Auction: €2.0bn of 1.45% 2036 bonds
UK	 10.00	Auction: £3.25bn of 1% 2024 bonds
	 11.30	Auction: £3.25bn of 0.125% 2028 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

In the absence of significant news, the next edition of the Euro wrap-up will be published on 11 June 2020.

Access our research blog at:

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

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