

Euro wrap-up

Overview

- Bunds made gains, particularly at the short end, as EU leaders predictably failed to reach agreement on the Commission's Recovery Plan.
- Gilts made losses at the long end of the curve as UK retail sales data beat expectations but public borrowing hit a new record.
- The coming week will bring June survey results including the flash PMIs and German ifo indices, as well as the account of the ECB's recent policy meeting.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.687	-0.020
OBL 0 04/25	-0.659	-0.013
DBR 0 08/30	-0.419	-0.006
UKT 0½ 07/22	-0.055	-0.002
UKT 0% 06/25	0.004	+0.006
UKT 4% 12/30	0.187	+0.010

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

Euro area

No agreement on EU Recovery Plan just yet

The main event in the euro area today was the EU leaders' videoconference on the European Commission's "Next Generation EU" [Recovery Plan](#), which proposed €750bn of bond issuance to provide grants and loans to the regions and sectors most affected by the coronavirus. With the so-called Frugal Four – the Netherlands, Austria, Sweden and Denmark – having long been vocal in expressing their objections to much of the detail, not least the share accounted by grants rather than loans, it was not a surprise that there was no agreement today. There was also disagreement on plenty of other key detail, such as the allocation criteria, the maturities of the bonds to be issued, and the linkage to the EU budget negotiations, which are being conducted in tandem. However, there was no objection to the key principle of the Recovery Plan, i.e. that the European Commission should issue bonds to fund the scheme. And so, while further negotiations will be required, the proposals – which could see Italy and Spain benefit from grants worth more than €80bn over the coming four years as well as additional loan guarantees – remain on track for possible agreement at an in-person summit next month.

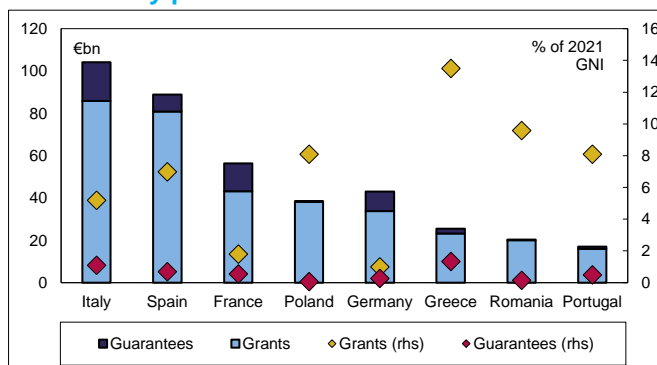
German producer prices fall further

While Germany's economy has navigated the current crisis well compared with other member states, activity has still contracted at a record pace and consumer price inflation has dropped to its lowest levels since 2016. And today's producer price data suggested further downwards pipeline pressures on inflation related to the weakness of demand during the pandemic. Producer prices fell for the fourth consecutive month in May and by 0.4%M/M, to leave headline PPI inflation at -2.2%Y/Y, the steepest annual decline for four years. Admittedly, part of the weakness was again driven by energy prices, down a further 3%M/M to leave them down 8%Y/Y, with petroleum prices down 27½%Y/Y and prices of aviation turbine fuels down by almost 70%Y/Y. But while the decline in prices of intermediate goods eased very slightly (by 0.1ppt to -2.6%Y/Y), capital goods inflation moderated further (by 0.1ppt to 1.1%Y/Y) to the weakest for almost three years. And there was a notable drop in annual inflation of consumer durable goods (down 1.5ppt to 1.3%Y/Y), no doubt reflecting softer demand. Overall, today's release suggests that considerable downwards price pressures remain in the pipeline.

The coming week in the euro area and US

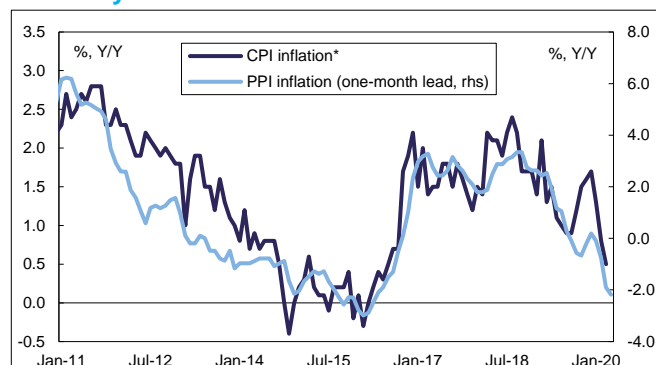
Economic sentiment surveys dominate the euro area's data calendar in the coming week, while Thursday's release of the ECB account from its early June meeting policy meeting will also be watched. First up, the Commission's flash consumer confidence indicator for June will be published on Monday, followed by the preliminary manufacturing and services sector PMIs for the euro area, Germany and France on Tuesday. As restrictions on activity continued to ease over the past month,

EU recovery plan: Estimated allocation



Source: Bruegel

Germany: CPI and PPI inflation



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



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we expect the surveys to suggest a further improvement in confidence in June. But while households might be more able to spend as non-essential shops reopened, the surge in unemployment over recent months will likely moderate any recovery in sentiment. While the continued return of business operations will see a further improvement in output reported in the PMIs, new orders will likely remain subdued. As such, the aggregate euro area composite PMI is forecast to edge higher in June, from 31.9 in May, but remain firmly below the key 50 expansion/contraction level. Friday, meanwhile, brings the latest ECB bank lending figures for May, which are expected to show another strong increase in new loans to non-financial corporations, but a further moderation in demand for new lending from consumers.

At the country level, on Wednesday, the German ifo and French INSEE business confidence indicators for June will be released, followed by German and French consumer confidence data on Thursday and Friday respectively. ISTAT will also publish its Italian economic sentiment survey on Friday. In terms of hard data, Friday sees the release of Spanish retail sales figures for May, which are expected to confirm some rebound albeit leaving them still well below the pre-Covid level. Elsewhere, ECB Chief Economist Lane will speak at webinar events on Monday and Wednesday, while ECB members Schnabel and Mersch will take part in separate virtual conferences on Thursday. In the markets, Germany will sell 2022 bonds on Tuesday and 2035 bonds on Wednesday, while Italy will auction fixed rate and index-linked bonds on Thursday.

In the US, the coming week's data calendar begins relatively quietly, focusing on the housing market, with existing and new home sales data for May out on Monday and Tuesday respectively, followed by the April FHFA home price index on Wednesday. The week's data highlights come at the end of the week. Thursday will bring the release of the advance goods trade and durable goods figures for May due alongside the usual weekly claims data. And Friday will bring personal income and consumption data for May, together with the final University of Michigan's consumer sentiment survey for June. Meanwhile, the US Treasury will auction 2Y notes on Tuesday, followed by 2Y FRNs and 5Y notes on Wednesday and 7Y notes on Thursday.

UK

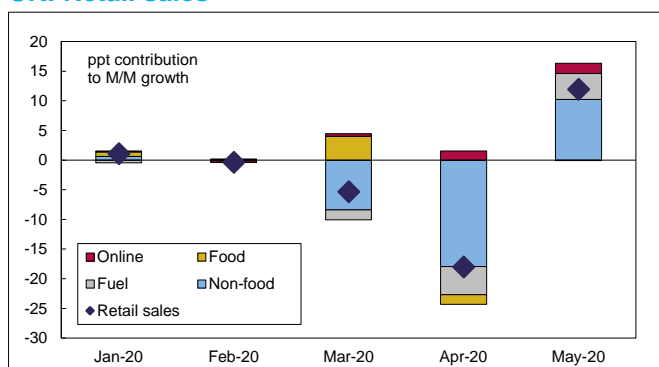
Retail sales rebound but big gap from pre-Covid level persists

Retail sales beat expectations in May with a rise of 12.0%M/M (10.2%M/M excluding auto fuel) following a drop of 18.0%M/M (15.0%M/M ex auto fuel) in April. That left sales down 13.1%Y/Y and also down 13.1% from February, before Covid-19 took its toll. Within the detail, non-food stores provided the largest positive contribution to the monthly growth in May, up 23.7%M/M, with the rise of 42.0%M/M in household goods stores reflecting the reopening of certain types of outlets. Nevertheless, non-food store sales were still down more than 40% from February with sales at household goods stores still roughly one third below the pre-Covid level. Clothes sales were up 17.4%M/M but were still down more than 60% from February. Unsurprisingly, non-store sales saw vigorous growth too, rising by more than one fifth from April, as online activity reached one third of the total. Fuel sales rose almost 50%M/M, but were still down a whopping 42.5% from the pre-pandemic level. The exception was sales at food stores, which were little changed in May (-0.2%M/M) having fallen back in April, but were still up a little more than 5% from February.

Consumer confidence improves

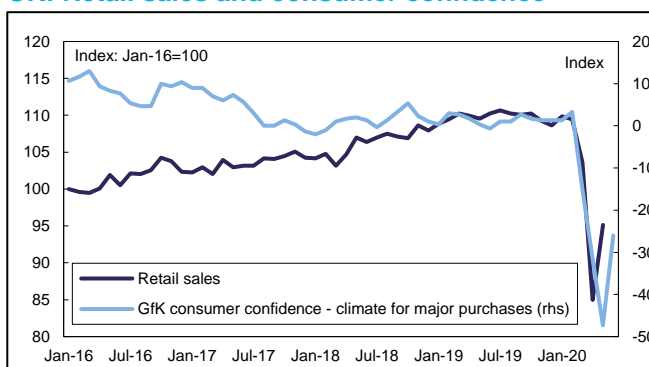
With all non-essential stores in England and Northern Ireland having been allowed to reopen over recent days, while those in Wales will be able to reopen from Monday and those in Scotland from 29 June, sales seem bound to have further narrowed (but certainly not closed) the gap on February's level this month. And the improvement in the GfK's preliminary consumer confidence survey for June might provide some further encouragement to retailers. The headline index rose 6pts from May's 11-year low. However, at -30, that was still well below the range seen in the eight years ahead of the pandemic. While still significantly negative, the survey indices for expectations regarding personal finances and general economic conditions rose from May. And having been at record lows over the past few months, the survey measure for the climate for making major

UK: Retail sales



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Retail sales and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

purchases jumped back into positive territory and to its highest in more than three years. Nevertheless, with unemployment set to rise further, we continue to doubt that the pre-pandemic level of spending will be reached for several quarters to come.

Record public borrowing in May

In contrast to the retail sales and consumer confidence data, the latest public finances figures were worse than expected. Indeed, public sector net borrowing (excluding banks) rose in May to a new record high of £55.2bn, up from £48.5bn in April, which admittedly was more than £13bn less than previously estimated. The May level was up almost £50bn from a year earlier and more than £30bn higher than the peak during the global financial crisis. The central government net cash requirement, which is a more reliable indicator, declined less than £1bn from April's record high to a still-huge £62.7bn, almost £10bn more than the BoE's gross Gilt purchases last month. A key cause of the deterioration was the drying up of tax receipts, which cumulatively fell by 43% in April and May from last year's level as consumer spending and incomes fell sharply. But central government spending was up 48% on the same basis.

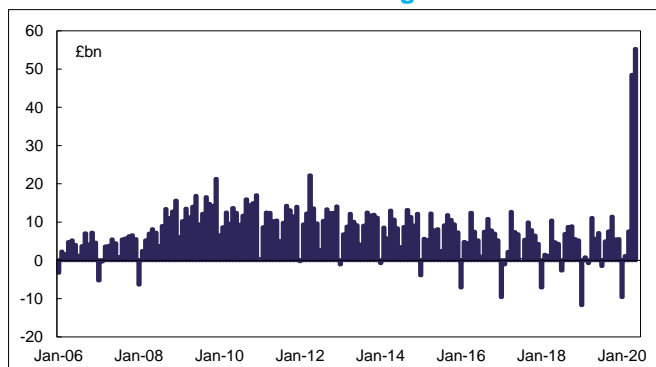
Net public debt surpasses 100% of GDP

The massive level of borrowing pushed public sector net debt up more than 20ppts from a year earlier to 100.9% of GDP, the first time that the stock of public net debt has exceeded the size of the economy since the financial year ending March 1963. Some 10ppts of this is accounted for by the BoE, however, while the estimate of GDP used in the calculation (which is the OBR's forecast) is probably too low. Nevertheless, while one significant source of pressure on public spending – the Job Retention Scheme – will be phased out by October, public borrowing is bound to remain exceptionally high over the remainder of the fiscal year. The OBR today estimated that government policies would likely add more than £132bn directly to the net cash requirement this fiscal year, with the lion's share coming from extra public spending. On top of that, as illustrated by the recent revenue shortfall, the cyclical weakness and jump in unemployment will result in tens of billions of pounds of additional borrowing.

The coming week in the UK

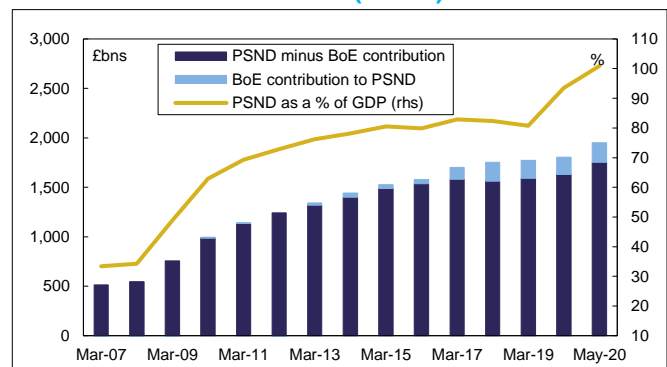
Like in the euro area, the focus in the UK in the coming week will be on June sentiment surveys. The CBI industrial trends survey will be published on Monday, followed by the more closely watched flash PMI surveys on Tuesday. While a further increase in the manufacturing and services sector indices is expected, taking the composite PMI above 40 from 30.0 in May, this would still be consistent with an extremely weak level of output in June. And the CBI distributive trades survey for June, due on Thursday, is expected to show that despite a likely improvement on the month, retail sales remained well below their level compared with a year earlier. Meanwhile, following this week's dissent from the MPC's decision to increase its asset purchase target by £100bn, BoE's Chief Economist Haldane appearance at a virtual event on Thursday will be closely watched. The BoE's Financial Policy summary and record of June's FPC meeting will be published the same day. In the markets, the DMO will auction 2026 bonds and 2030 bonds on Tuesday, 2024 bonds and 2054 bonds on Wednesday, and index-linked bonds on Thursday.

UK: Public sector net borrowing*


















*Excluding public sector banks. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

UK: Public sector net debt (PSND)*









*Excluding public sector banks. Source: ONS and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

		2019		2020				2019	2020	2021
		Q3	Q4	Q1	Q2	Q3	Q4			
GDP growth, %, Q/Q										
Euro area		0.3	0.1	-3.6	-12.0	8.0	1.5	1.2	-8.3	5.1
Germany		0.3	-0.1	-2.2	-7.5	3.0	2.0	0.6	-5.9	3.9
France		0.2	-0.1	-5.3	-15.0	9.0	5.5	1.5	-11.1	6.8
Italy		0.0	-0.2	-5.3	-14.0	7.0	3.0	0.3	-11.9	5.4
Spain		0.4	0.4	-5.2	-16.0	9.0	5.0	2.0	-11.4	7.9
UK		0.5	0.0	-2.0	-17.0	8.6	3.3	1.4	-10.1	4.7
Inflation, %, Y/Y										
Euro area										
Headline CPI		1.0	1.0	1.1	0.2	0.1	-0.1	1.2	0.3	0.8
Core CPI		0.9	1.2	1.1	0.8	0.3	0.1	1.0	0.6	0.4
UK										
Headline CPI		1.8	1.4	1.7	0.7	0.3	0.3	1.8	0.8	0.8
Core CPI		1.7	1.6	1.6	1.3	0.9	0.5	1.7	1.1	0.5
Monetary policy										
ECB										
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Net asset purchases*		0	20	20	140	140	140	20	140	50
BoE										
Bank Rate %		0.75	0.75	0.10	0.10	0.10	0.10	0.75	0.10	0.10
Net asset purchases**		0	0	36	40	17	17	0	17	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/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Current account balance €bn	Apr	14.4	-	27.4	-
Germany	 PPI Y/Y%	May	-2.2	-2.1	-1.9	-
UK	 Preliminary GfK consumer confidence	Jun	-30	-	-36	-
	 Retail sales including fuel M/M% (Y/Y%)	May	12.0 (-13.1)	6.3 (-16.4)	-18.1 (-22.6)	-18.0 (-22.7)
	 Retail sales excluding fuel M/M% (Y/Y%)	May	10.2 (-9.8)	4.1 (-14.9)	-15.2 (-18.4)	-15.0 (-18.5)
	 Public sector net borrowing £bn	May	54.5	49.3	61.4	47.8
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

















Coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 22 June 2020					
EMU		15.00 Preliminary consumer confidence	Jun	-15.0	-18.8
UK		11.00 CBI industrial trends survey , total orders	Jun	-50	-62
Tuesday 23 June 2020					
EMU		09.00 Preliminary manufacturing (services) PMI	Jun	43.5 (40.5)	39.4 (30.5)
		09.00 Preliminary composite PMI	Jun	41.0	31.9
Germany		08.30 Preliminary manufacturing (services) PMI	Jun	41.0 (41.2)	36.6 (32.6)
		08.30 Preliminary composite PMI	Jun	44.0	32.3
France		08.15 Preliminary manufacturing (services) PMI	Jun	46.0 (44.3)	40.6 (31.1)
		08.15 Preliminary composite PMI	Jun	46.8	32.1
UK		09.30 Preliminary manufacturing (services) PMI	Jun	45.0 (38.0)	40.7 (29.0)
		09.30 Preliminary composite PMI	Jun	40.5	30.0
Wednesday 24 June 2020					
Germany		09.00 Ifo business climate index	Jun	85.0	79.5
		09.00 Ifo current assessment balance (expectations)	Jun	84.3 (86.0)	78.9 (80.1)
France		07.45 Business confidence	Jun	73	59
		07.45 Manufacturing confidence (production outlook)	Jun	76 (-)	70 (-49)
Thursday 25 June 2020					
Germany		07.00 GfK consumer confidence	Jul	-11.0	-18.9
UK		11.00 CBI distributive trades survey, total reported retail sales	Jun	-	-50
Friday 26 June 2020					
EMU		09.00 M3 money supply Y/Y%	May	8.6	8.3
France		07.45 Consumer confidence	Jun	94	93
Italy		10.00 Economic sentiment indicator	Jun	-	51.1
		10.00 Consumer (manufacturing) confidence	Jun	97.5 (76.0)	94.3 (71.2)
Spain		08.00 Retail sales Y/Y%	May	-19.8	-31.6

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 22 June 2020		
EMU		17.30 ECB's Lane to speak at a Covid-19 Webinar
Tuesday 23 June 2020		
Germany		10.30 Auction: €5bn of 0% 2022 bonds
UK		10.00 Auction: £3.25bn of 0.125% 2026 bonds
		11.30 Auction: £3bn of 0.375% 2030 bonds
Wednesday 24 June 2020		
EMU		08.00 ECB's Lane speaks at a webinar event
Germany		10.30 Auction: €2.5bn of 0% 2035 bonds
UK		10.00 Auction: £3.25bn of 2.75% 2024 bonds
		11.30 Auction: £1.5bn of 1.625% 2054 bonds
Thursday 25 June 2020		
EMU		12.30 ECB publishes its account of the 3-4 June monetary policy meeting
		13:30 ECB's Schnabel speaks at a virtual bond market conference
		14.30 ECB's Mersch takes part in a webinar on 'The world economy transformed'
Italy		10.00 Auction: Fixed rate and index-linked bonds
UK		10.00 Auction: £1.1bn of 0.125% 2029 index-linked bonds
		10.30 BoE publishes Financial Policy Summary and Record for June
		18.00 BoE's Chief Economist Haldane speaks at a virtual event
Friday 26 June 2020		
UK		12.00 BoE publishes its Q2 Quarterly Bulletin

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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

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