

Euro wrap-up

Overview

- Bunds and other euro area government bonds made gains as data pointed to a gradual rise in joblessness in the region as Q2 went on.
- Gilts also made gains as a survey suggested that UK firms expect to keep cutting jobs through to the end of the year.
- Friday will bring the final services and composite PMIs for June.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.691	-0.020
OBL 0 04/25	-0.680	-0.035
DBR 0 08/30	-0.433	-0.035
UKT 0½ 07/22	-0.105	-0.026
UKT 0% 06/25	-0.49	-0.027
UKT 4% 12/30	0.186	-0.025

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

Euro area

A modest rise in Spanish employment in June

Today's most notable euro area data focused on the labour market. Most timely were the Spanish data for June. On the positive side, these reported a first increase in employment since February. However, the rise of just 28.4k (0.2% on a seasonally adjusted basis) was minimal, leaving the total number of people in work at 18.40mn, still almost 1.5mn below the pre-pandemic peak and 893k (4.6%) lower than a year earlier. Nevertheless, while yesterday's equivalent figures from [Germany](#) reported a substantive further increase in joblessness last month, the rise in Spanish unemployment was thus very small, at just 5.1k (0.1%M/M), taking the total to 3.86mn. And unemployment fell for workers in every sector bar agriculture, with the largest declines recorded in services (-27.3k) and construction (-15.9k). That still left the number of jobless workers in industry and construction up by more than 22%Y/Y, and those in services up more than 30%Y/Y. Meanwhile, more than 1mn workers left the government's furlough Temporary Employment Adjustment Schemes (ERTEs), which have been extended to end-September in amended form and continue to provide support for almost 2mn workers.

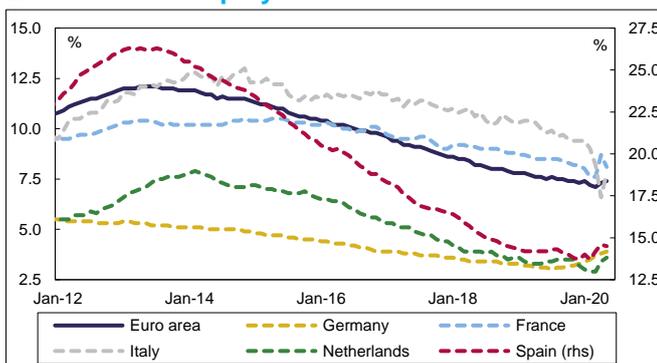
Euro area unemployment rate inched higher in May

Thanks not least to the government subsidies supporting the employment of several millions of workers, the overall increase in euro area unemployment in May was relatively modest, at 159k, following a rise of 268k the prior month. That left the total jobless number at 12.15mn, merely a seven-month high. And the euro area unemployment rate rose just 0.1ppt to 7.4%, only a four-month high. However, the headline unemployment figures fail to adequately reflect the decline in employment seen since the pandemic as a significant number of workers left the labour force altogether rather than registered as jobless. Indeed, fluctuations in labour force participation explain much of the recent volatility in unemployment rates in some member states. For example, the total number of Italians in employment fell just 84k in May compared to the drop of 291k the prior month. But having fallen 1.6ppts the prior month due a sharp drop in participation, Italy's unemployment rate rebounded 1.2ppts in May to 7.8% as many of those workers started to look for work again. Elsewhere, while Germany's unemployment rate on the EU measure edged higher by 0.1ppt, France's dropped 0.6ppt to 8.1%, just 0.5ppt from February's rate, with the number of registered jobless down 191k. As government furlough schemes are phased out, we expect the euro area unemployment rate to continue to rise, albeit gradually.

The day ahead in the euro area and US

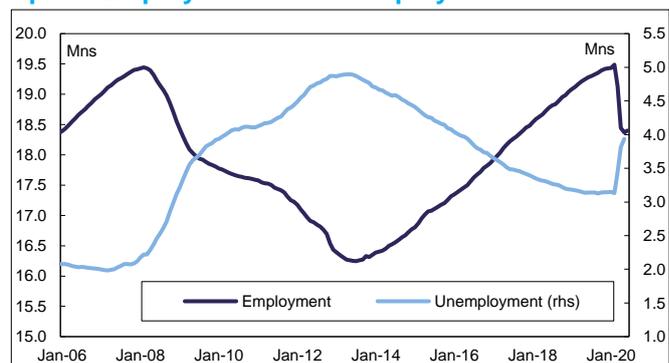
Tomorrow sees the release of the final June service sector and composite PMIs for the euro area, Germany and France as well as the first release of the equivalent PMIs from Italy and Spain. The preliminary releases suggested a stabilisation of

Euro area: Unemployment rates



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Spain: Employment and unemployment



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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economic conditions after the recent sharp contraction as containment measures eased. The euro area flash services PMI rose more than 16pts to 47.3 in June. And after there was a modest upward revision recorded in the final manufacturing output index yesterday, the composite measure might be nudged higher from the 47.5 reading recorded in the flash survey. In other news, ECB board member Knot will be speaking publicly. US financial markets will be closed tomorrow for the Independence Day holiday.

UK

BoE survey flags expectations of rising joblessness

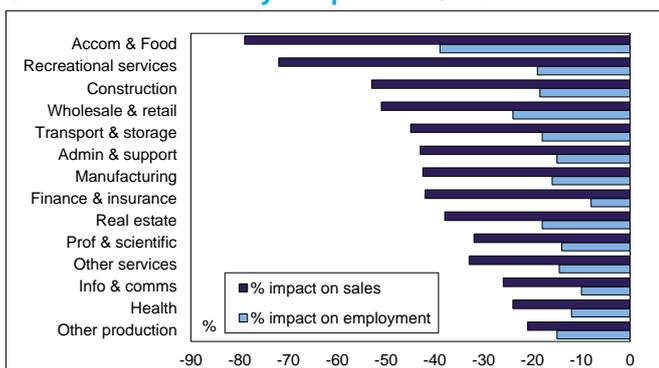
The June results of the Bank of England's Decision Maker Panel survey of business CFOs provided further insight to the hit on economic activity from the pandemic in Q2 and expectations for coming quarters. In particular, sales in Q220 were expected to be 38% lower than they would otherwise have been before Covid-19 hit. And sales were expected to be still down some 26% in the current quarter, with that lost ground recovered only gradually over coming quarters, e.g. sales in Q121 were anticipated to be still some 10% lower than they otherwise would be. Investment was also estimated to be 38% lower in Q2 than it might have been, with the recovery expected to be even slower than for sales.

Meanwhile, employment was expected to be 8% lower than it had been in the absence of the pandemic. And while the share of workers furloughed was anticipated to decline from 30% in June to 18% in Q3, the hit to employment was expected to be larger in Q3 and Q4, when employment was projected to be 11% lower than it would have been without the pandemic. Moreover, while the impact on sales and investment in the latest survey was expected to be slightly less than feared in May, the impact on jobs was likely to be worse than previously thought. That tallies with news over recent days of several thousands of job cuts at major retailers and in aviation. And it is a key reason why all but one member of the BoE's MPC voted to increase its asset purchases last month, even though the contraction in GDP in Q2 is likely to be smaller than envisaged in the May Monetary Policy Report baseline scenario. Nevertheless, with the DMP survey suggesting that firms expect unit costs to be on average 7% higher than they otherwise would have been in the current quarter due to the need to maintain social distancing and other measures to contain the spread of the virus, there are undeniably upside as well as downside risks to the inflation outlook.

The day ahead in the UK

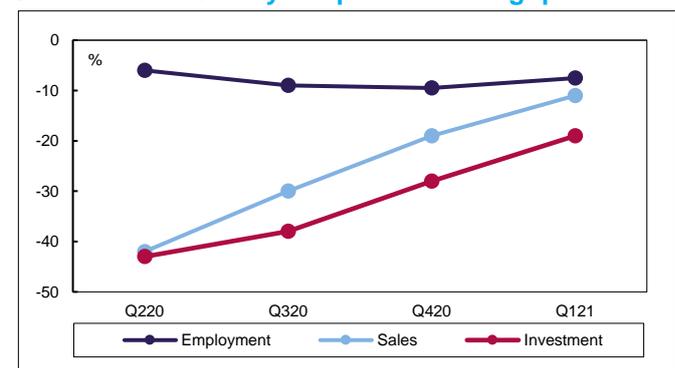
Looking ahead, tomorrow brings the release of the final service sector and composite PMIs for June. Like in the euro area, the preliminary PMIs inevitably reported significant progress towards stabilisation over the past month. Indeed, the jump in the services PMI was very similar to that in the euro area, up 18pts to 47.0, implying that the pace of deterioration had eased significantly in the sector. Overall, the headline composite PMI was up 17.6pts on the month to 47.6, an increase of almost 34pts from April's trough. Friday will also bring the final GfK consumer confidence survey, which might well show a further modest improvement in the headline index in response to the government's further relaxation of lockdown measure announced on 23 June. This notwithstanding, sentiment will remain considerably weaker than pre-pandemic levels.

UK: BoE DMP survey - Impact in Q220*



*Change compared to expectations pre-pandemic. Source: BoE Decision Maker Panel Survey and Daiwa Capital Markets Europe Ltd.

UK: BoE DMP survey - Impact in coming quarters*



*Change compared to expectations pre-pandemic. Source: BoE Decision Maker Panel Survey 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	 Unemployment rate %	May	7.4	7.9	7.3	-
	 PPI Y/Y%	May	-5.0	-4.5	-4.5	-
Italy	 Unemployment rate %	May	7.8	7.9	6.3	6.6
Spain	 Unemployment change '000s	Jun	5.1	-113.0	26.6	-
Auctions						
Country	Auction					
France	 sold €5.55bn of 0% 2030 bonds at an average yield of -0.09%					
	 sold €2.20bn of 1.25% 2034 bonds at an average yield of 0.11%					
	 sold €1.62bn of 1.75% 2039 bonds at an average yield of 0.31%					
	 sold €2.37bn of 0.75% 2052 bonds at an average yield of 0.64%					
Spain	 sold €1.96bn of 0% 2025 bonds at an average yield of -0.153%					
	 sold €1.78bn of 0.8% 2027 bonds at an average yield of 0.146%					
	 sold €2.11bn of 1.25% 2030 bonds at an average yield of 0.451%					
	 sold €893mn of 1% 2030 index-linked bonds at an average yield of -0.361%					
UK	 sold £3.5bn of 0.625% 2025 bonds at an average yield of -0.033%					
	 sold £2.0bn of 4.5% 2034 bonds at an average yield of 0.408%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases						
Economic data						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
EMU	09.00	Final services (composite) PMI	Jun	47.3 (47.5)	30.5 (31.9)	
Germany	08.55	Final services (composite) PMI	Jun	45.8 (45.8)	32.6 (32.3)	
France	08.50	Final services (composite) PMI	Jun	50.3 (51.3)	31.1 (32.1)	
Italy	08.45	Services (composite) PMI	Jun	47.0 (46.9)	28.9 (33.9)	
Spain	08.15	Services (composite) PMI	Jun	45.9 (45.4)	27.9 (29.2)	
UK	00.01	Final consumer confidence survey	Jun	-29	-30	
	09.30	Final services (composite) PMI	Jun	47.0 (47.6)	29.0 (30.0)	
Auctions and events						
Country	BST	Auction / Event				
EMU	13.00	ECB's Knot scheduled to speak				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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