

Euro wrap-up

Overview

- Bunds followed USTs higher even as French and Italian industrial production data beat expectations.
- Gilts also made gains on a quiet end to the week for UK economic news.
- The coming week brings the latest ECB policy meeting, an EU summit to discuss the post-pandemic recovery plan, and UK monthly GDP, inflation and labour market data.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.705	-0.011
OBL 0 04/25	-0.686	-0.013
DBR 0 08/30	-0.475	-0.010
UKT 0½ 07/22	-0.121	-0.019
UKT 0% 06/25	-0.082	-0.018
UKT 4% 12/30	0.147	-0.009

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

Euro area

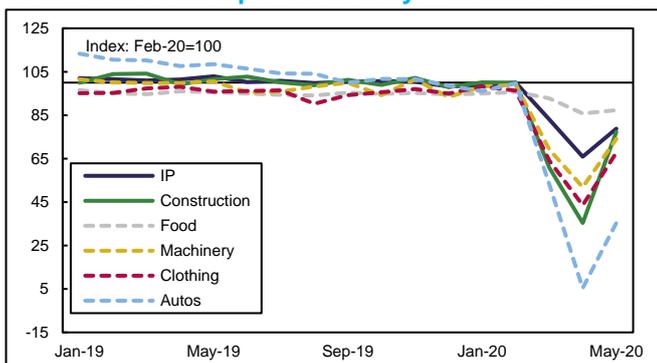
French IP bounces back in May...

In contrast to the equivalent [German](#) data released earlier in the week, May industrial production figures from the euro area's second and third largest member states today came in well ahead of expectations. But while French output rose by a record 19.6%M/M, it was still more than a fifth below the pre-pandemic level and down by more than 23%Y/Y. Manufacturing output increased a faster 22.0%M/M as production lines came back on stream. This was particularly evident for autos, where there was a more than fivefold increase in output. But production in that sector was still almost two-thirds lower than in February. Growth in other sub-sectors was also impressive, albeit somewhat less marked. For example, production of textiles rose by more than 50%M/M, while machinery and electrical equipment output rose around 45%M/M, but all were still down between 20-30% from when the pandemic hit. Beyond manufacturing, there was also a seemingly impressive bounce back in construction activity, which more than doubled in May, although this still left output in that sector down by more than 20% from February. Meanwhile, energy production rose 7.7%M/M to be down by a similar magnitude from the pre-pandemic level.

...Italian output surges too

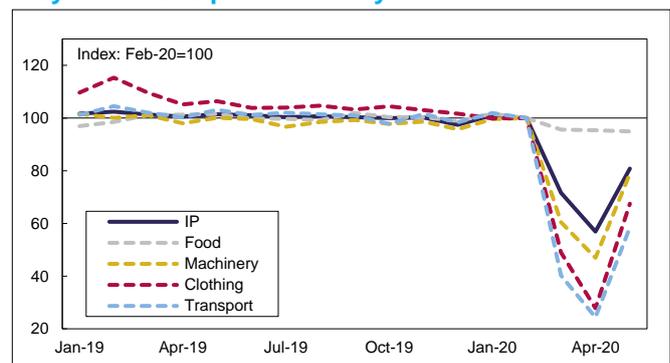
The monthly rebound in Italy's production was even more impressive, up 42.1%M/M, by far the strongest on the series. But this was the first positive reading since January and followed extreme declines in the previous two months. And so, while this left a slightly smaller shortfall in output relative to the pre-pandemic level compared to the other large member states, it was still down by about one fifth compared with the start of the year. While the bounce back was even stronger in the manufacturing sector (47.3%M/M), production there was also still down by more than 20% from January's peak. Among the detail, production of textiles and transport more than doubled in May, although this left the respective levels down more than 30% and 40% from before the pandemic hit. The rebound in metals (73%M/M), machinery and equipment (68%M/M), and rubber (76%M/M) was also encouraging, albeit similarly leaving the level of output down by more than 20% from the start of the year. However, processed food output fell for the fourth consecutive month (-0.5%M/M). While the manufacturing sectors in other euro area countries continued to struggle in May – for example, output fell in the Netherlands (-1.9%M/M), Finland (-1.2%M/M) and Ireland (-9.8%M/M) – overall, we expect to see a marked improvement in aggregate euro area figures when they are published in the coming week, with production likely to have risen by as much as 15%M/M. And surveys suggest a further improvement in June too, although the level of output seems likely to remain well below pre-pandemic levels for the remainder of the year.

France: Industrial production by selected subsector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Italy: Industrial production by selected subsector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.



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The coming week in the euro area and US

The main events of the coming week for the euro area will come in the second half, with the conclusion of the ECB's latest monetary policy meeting on Thursday, followed by the EU summit to discuss the European Commission proposals for a €750bn Recovery Plan on Friday and Saturday.

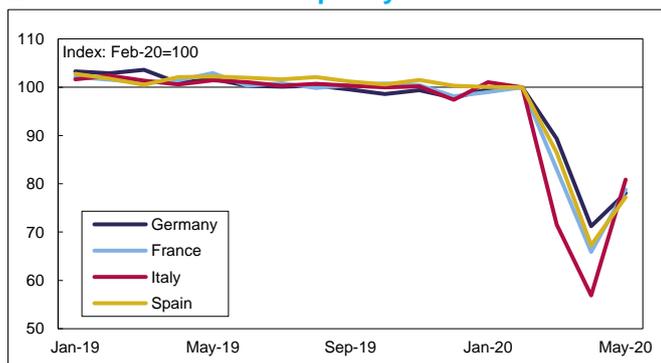
As far as the ECB is concerned, we should expect no major new policy initiatives at the coming meeting. After all, at [the last meeting](#) in early June the Governing Council agreed to increase the envelope on the PEPP purchase programme by €600bn to up to €1.35trn, extend the horizon for the net purchases at least until the end of June 2021, and reinvest payments under the programme at least until the end of 2022. So, it bought itself several months to sit back and watch how the economic recovery evolves before deciding whether or not to increase the envelope further. Moreover, the easing of pressure on periphery bond spreads, particularly those of BTPs, as well as diminished bond market volatility, allowed the ECB last week to reduce its net purchases to just over €20bn, the lowest since the programme was launched more than three months ago. And recent economic data suggest that GDP might not contract quite so much as the 8.7%Y/Y central forecast published by the ECB last month. Nevertheless, the coming week's meeting is unlikely to be completely uneventful. In particular, with excess liquidity having leapt to a new record high close to €2.8trn following the latest [TLTRO-iii operation](#), we expect the Governing Council to agree to increase the tiering multiplier to exempt a larger share of bank reserves (currently six times each credit institution's minimum reserve requirement) from the -0.50% deposit rate.

Meanwhile, having failed at their videoconference on 19 June to reach agreement on the detail of the €750bn Recovery Programme, the leaders' first face-to-face summit since the outbreak of the pandemic might again fall short of sealing a deal, despite new compromise proposals issued today by EU President Michel. Clearly, the negotiation is highly complicated, with many extremely sensitive political issues needing to be resolved. Non-negligible differences among the member states persist, not least in terms of: (1) the share of funds to be distributed in the form of grants rather than loans; (2) the allocation criteria, which under the Commission's original proposal would have given a particularly large share of funds to Poland even though its economy has been the least affected by coronavirus; (3) the maturities of the bonds to be issued; (4) the timeframe for allocating the funds, which the proposal currently envisages would see the largest share of resources disbursed after the end of next year once the most acute part of the crisis is likely to have passed; and (5) the precise linkages to the next EU seven-year Budget. We have doubts that agreement can be found on all of these items as soon as next week's summit. So, a further meeting of EU leaders might well be required at the end of the month. And a final agreement might still not be forthcoming until the autumn.

On the euro area economic data front, none of the releases due in the coming week are likely to revise assessments of the outlook significantly. After a quiet start to the week with no key releases due on Monday, the following day will bring the German ZEW investment sentiment survey for July. This is expected to show that investors are again less downbeat about the current situation and expect to see further significant improvement in conditions over the coming six months. Tuesday also brings the release of the ECB's latest quarterly bank lending survey for Q2, which is expected to report that banks expect demand for loans from NFCs to remain strong over the near term, while funding conditions have remained broadly favourable against the backdrop of the ECB's TLTRO-iii operations. That day will also see euro area industrial production numbers for May published. Given the large but partial gains recorded in output across all of the larger member states, the aggregate measure is expected to rebound about 15%M/M. However, this would still leave euro area industrial production down more than 20% below February's pre-pandemic level.

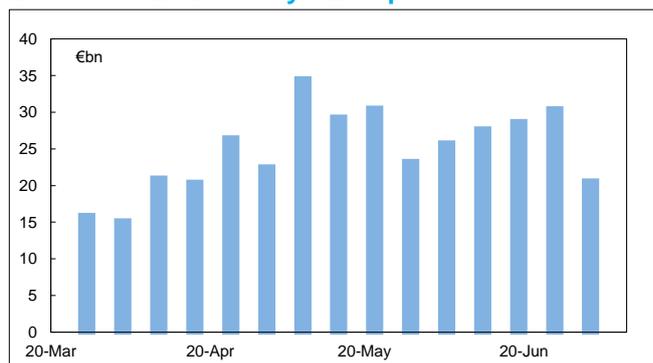
The first of the week's inflation data – the final German, Italian and French figures – are also due on Tuesday, with the euro area numbers due on Friday. In line with the preliminary release, euro area headline inflation is expected to rise 0.2ppt to 0.3%Y/Y due to a slower pace of decline in energy inflation, with the core rate down 0.1ppt to 0.8%Y/Y. Meanwhile, the latter part of the week sees the release of euro area new car registrations for June and goods trade figures for May on Thursday, and construction data, also for May, on Friday. In the markets, Italy will auction fixed-rate bonds on Tuesday, Germany will sell 10Y bonds on Wednesday and France and Spain will auction fixed-rate and index-linked bonds on Thursday.

Euro area: Industrial output by member state



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: ECB weekly PEPP purchases



Source: ECB, Refinitiv and Daiwa Capital Markets Europe Ltd.

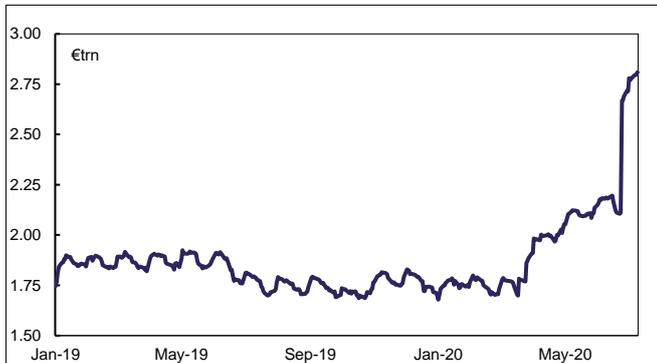
In the US, the Federal monthly budget statement will be published on Monday, followed on Tuesday by June consumer price inflation data. Driven by higher gasoline prices, CPI is expected to rise as much as 0.6%M/M, which would be the strongest monthly increase for several years. But the core CPI rate is expected to remain subdued at 0.1%M/M, although that would nevertheless mark the first positive reading since February. Wednesday's industrial production data for June are expected to post a significant rebound as are the retail sales data for the same month due the following day. Among several other releases due over the course of the week, the Fed's Beige Book is out on Wednesday. And the preliminary University of Michigan sentiment survey for July will be published along with housing starts data for June on Friday.

UK

The coming week in the UK

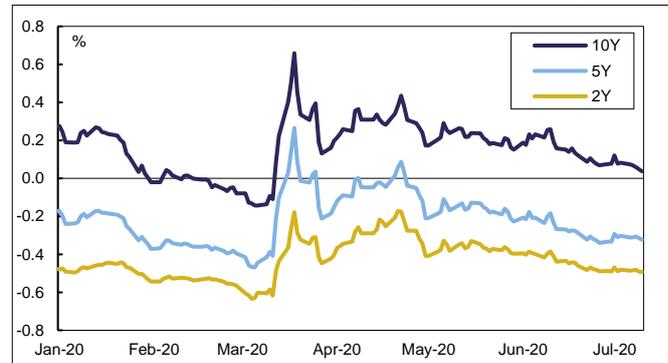
After a day bereft of UK economic data, the coming week will be a busy one for UK economic news with an update on developments in output and the labour market in May, as well as inflation in June. Most attention will probably be on Tuesday's monthly GDP release, which is expected to report a notable bounce back in May, by a record amount, having contracted at a record monthly pace in April (-20.4%M/M). But while manufacturing and construction activity seems bound to have jumped as the government encouraged workers in those sectors back from the middle of the month, the recovery in services is likely to have lagged. Moreover, output in all main subsectors and thus GDP as a whole will have remained considerably lower than the pre-pandemic level. Softer demand should have kept any upside inflationary pressures emanating from the supply side at bay too. And so while the oil price shifted slightly higher over the past month, Wednesday's release of June CPI figures are expected to show that headline inflation moved sideways at just 0.5%Y/Y, while core inflation likely edged slightly lower from 1.2%Y/Y in May. Meanwhile, Thursday's release of labour market figures is likely to show a further deterioration, albeit the pickup in those officially unemployed in the three months to May will again have been limited by the government's Job Retention Scheme. And wage growth over the same period is expected to have moderated to its weakest since 2014. The most timely data – reporting the Claimant Count in June – will include workers on very low incomes as well as those unemployed. Thursday will also bring the BoE's latest quarterly credit conditions survey for Q2. Elsewhere, on Tuesday the OBR will publish its latest Fiscal Sustainability Report and a broad assessment of this week's fiscal package. On Wednesday, Visa's consumer spending data for June will be published. In addition, BoE Governor Bailey is due to speak on Libor on Monday, while external MPC member Tenreyro will discuss the impact of Covid-19 on the economy on Wednesday and BoE Chief Economist Haldane will discuss the next steps for financial services on Thursday.

Euro area: Excess liquidity



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Euro area: GDP-weighted government bond yields



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

**The next edition of the Euro wrap-up will be published on
14 July 2020**

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	-10.5	7.0	1.5	1.2	-7.6	4.8
Germany		0.3	-0.1	-2.2	-5.5	3.5	1.5	0.6	-4.3	3.8
France		0.2	-0.1	-5.3	-14.0	9.5	2.5	1.5	-10.8	5.1
Italy		0.0	-0.2	-5.3	-12.0	8.0	1.5	0.3	-10.5	5.0
Spain		0.4	0.4	-5.2	-15.0	10.0	3.0	2.0	-10.7	7.2
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	0.0	-0.2	1.2	0.3	0.8
Core CPI		0.9	1.2	1.1	0.9	0.4	0.0	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	20
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	
France	 Industrial production M/M% (Y/Y%)	May	19.6 (-23.4)	15.4 (-24.0)	-20.1 (-34.2)	-20.6 (-35.0)	
	 Manufacturing production M/M% (Y/Y%)	May	22.0 (-25.2)	22.8 (-23.6)	-21.9 (-37.1)	-22.3 (-37.9)	
Italy	 Industrial production M/M% (Y/Y%)	May	42.1 (-20.3)	24.0 (-30.7)	-19.1 (-42.5)	-20.5 (-43.4)	
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 13 July 2020					
- Nothing to report -					
Tuesday 14 July 2020					
EMU		10.00 Industrial production M/M% (Y/Y%)	May	13.2 (-19.9)	-17.1 (-28.0)
Germany		07.00 Final CPI (EU-harmonised) Y/Y%	Jun	0.9 (0.8)	0.6 (0.5)
		10.00 ZEW current situation (expectations)	Jul	-65.0 (65.0)	-83.1 (63.4)
Spain		08.00 Final CPI (EU-harmonised) Y/Y%	Jun	-0.3 (-0.3)	-0.9 (-0.9)
UK		00.01 BRC retail sales monitor like-for-like Y/Y%	Jun	-	7.9
		07.00 Monthly GDP M/M% (3M/3M)	May	5.5 (-17.4)	-20.4 (-10.4)
		07.00 Industrial production M/M% (Y/Y%)	May	5.6 (-21.0)	-20.3 (-24.4)
		07.00 Manufacturing production M/M% (Y/Y%)	May	6.2 (-25.1)	-24.3 (-28.5)
		07.00 Construction output M/M% (Y/Y%)	May	14.0 (-37.0)	-40.1 (-44.0)
		07.00 Index of services M/M% (3M/3M%)	May	4.9 (-16.8)	-19.0 (-9.9)
		07.00 Total trade balance (goods trade balance) £bn	May	-0.7 (-8.1)	0.3 (-7.5)
Wednesday 15 July 2020					
Italy		09.00 Final CPI (EU-harmonised CPI) Y/Y%	Jun	-0.2 (-0.4)	-0.2 (-0.3)
UK		07.00 CPI (core CPI) Y/Y%	Jun	0.5 (1.2)	0.5 (1.2)
		07.00 PPI input prices (output prices) Y/Y%	Jun	-6.3 (-1.1)	-10.0 (-1.4)
		09.30 ONS house price index Y/Y%	May	-	2.1*
Thursday 16 July 2020					
EMU		07.00 EU27 new car registrations Y/Y%	Jun	-	-52.3
		10.00 Trade balance €bn	May	-	1.2
		12.45 ECB main refinancing rate %	Jul	0.00	0.00
		12.45 ECB deposit rate %	Jul	-0.50	-0.50
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	Jun	0.1 (0.1)	0.4 (0.4)
Italy		09.00 Total trade balance €bn	May	-	-1.2
UK		07.00 Unemployment claimant count rate (change '000s)	Jun	-	7.8 (528.9)
		07.00 ILO unemployment rate 3M%	May	4.0	3.9
		07.00 Employment 3M/3M '000s	May	-253	6
		07.00 Average earnings including bonuses (excluding bonuses) 3M/Y%	May	-0.4 (0.7)	1.0 (1.7)
Friday 17 July 2020					
EMU		10.00 Construction output M/M% (Y/Y%)	May	-	-14.6 (-28.4)
		10.00 Final CPI (core CPI) Y/Y%	Jun	0.1 (0.8)	0.3 (0.9)
Italy		09.00 Industrial sales M/M% (Y/Y%)	May	-	-29.4 (-46.9)
		09.00 Industrial orders M/M% (Y/Y%)	May	-	-32.2 (-49.0)
Spain		09.00 Trade balance €bn	May	-	1.5

*Previous figure for March 2020. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 13 July 2020		
UK	 16.30	BoE Governor Bailey scheduled to speak at a webinar – Libor: Entering the Endgame
Tuesday 14 July 2020		
EMU	 09.00	ECB bank lending survey
Italy	 10.00	Auction: €3.5bn of 0.3% 2023 bonds
	 10.00	Auction: €4.5bn of 0.95% 2027 bonds
	 10.00	Auction: €2bn of 3.1% 2040 bonds
UK	 -	OBR to publish Fiscal Sustainability Report
	 10.00	Auction: £3.25bn of 0.125% 2026 bonds
	 11.30	Auction: £3bn of 0.375% 2030 bonds
Wednesday 15 July 2020		
Germany	 10.30	Auction: €5bn of 0% 2030 bonds
UK	 09.00	BoE's Tenreyro scheduled to speak at a webinar – Covid-19 and the economy
	 10.00	Auction: £3.25bn of 2.25% 2023 bonds
	 11.30	Auction: £1.5bn of 1.75% 2057 bonds
Thursday 16 July 2020		
EMU	 14.30	ECB press conference following Governing Council meeting
	 -	ECB Executive Board member Panetta participates in video conference of G20 Finance and Central Bank Deputies
France	 09.50	Auction: fixed-rate bonds
	 09.50	Auction: 0% 2024 bonds
	 09.50	Auction: 0% 2026 bonds
	 09.50	Auction: 3.5% 2026 bonds
	 09.50	Auction: 2.75% 2027 bonds
	 10.50	Auction: 0.1% 2026 index-linked bonds
	 10.50	Auction: 0.1% 2029 index-linked bonds
	 10.50	Auction: 0.1% 2047 index-linked bonds
Spain	 09.45	Auction: 0.0% 2025 bonds
	 09.45	Auction: 0.6% 2029 bonds
	 09.45	Auction: 1.85% 2035 bonds
	 09.45	Auction: 1.0% 2050 bonds
UK	 09.30	BoE credit conditions survey
UK	 11.45	BoE's Haldane scheduled to speak at a webinar – Next steps for financial services
Friday 17 July 2020		
EMU	 10.30	ECB's Vice President de Guindos scheduled to speak
Italy	 14.00	Bank of Italy publishes its quarterly Economic Bulletin
UK	 11.00	BoE Governor Bailey scheduled to speak

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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