

Euro wrap-up

Overview

- Bunds followed US10s lower while surveys from the large euro area member states continued to report improved business and consumer confidence.
- Gilts also made losses on another quiet day for economic news from the UK.
- Friday will bring flash French inflation data for May along with the European Commission's economic sentiment indices for the current month, and French and Spanish spending figures for April.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.666	+0.009
OBL 0 04/26	-0.557	+0.024
DBR 0 02/31	-0.173	+0.035
UKT 0 ¹ / ₈ 01/23	0.044	+0.031
UKT 0 ¹ / ₈ 01/26	0.346	+0.049
UKT 4 ³ / ₄ 12/30	0.810	+0.060

*Change from close as at 4:15pm BST.

Source: Bloomberg

Euro area

German consumer confidence firmer but still lagging business optimism

With a much-improved trend of coronavirus cases and accelerated vaccine roll-out, German business confidence has markedly improved, e.g. Monday's [ifo survey](#) saw the headline index leap to a two-year high with firms in every sector seemingly more upbeat. Consumer confidence has strengthened too, albeit only moderately, and German households certainly appear to remain less bullish than firms. Indeed, the increase reported today in the GfK German consumer confidence index – presented as a forecast for June – was a smaller than expected 1.6pts to -7. That left it below April's level albeit significantly above this year's trough in February and March. Admittedly, within the survey detail, German consumer optimism about the economic outlook increased dramatically, with the respective index leaping by a record amount (almost 34 pts) to the highest level since March 2018. Having weakened last month, expectations of future incomes rebounded too. However, the survey measure of willingness to buy fell back (down 7pts to 10) close to the average level so far this year, likely constrained by continued pandemic containment measures restricting options for purchasing services. As those restrictions continue to ease, however, consumer spending should rebound. Indeed, as the weakness in spending in Q1 coincided with a jump in the savings ratio back to 20.1%, close to the peak three quarters earlier and roughly double the pre-Covid level, a steady decline in the savings ratio back to more normal levels should give a major sustained boost to spending over coming quarters as the pandemic fades and economy fully reopens.

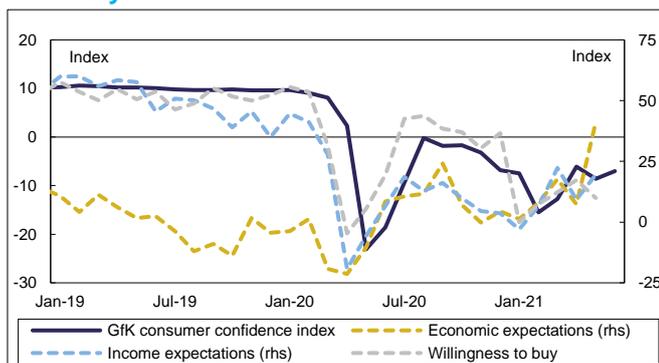
Consumer confidence improving more rapidly in Italy than in Germany

Today's ISTAT survey suggests that the improvement in Italian consumer confidence has been more substantive than in Germany. With six regions categorized as no-risk and thus allowed to remove all pandemic restrictions over the coming two weeks, and all of the fourteen other regions now categorized as lower-risk enabling some easing of restrictions on the services sector and raising expectations of further liberalisation over the coming month, the headline consumer confidence index rose the most since the end of the euro crisis in 2013 to 110.6, the highest since the start of the pandemic in February 2020. Improvement was registered throughout the survey detail, with the future expectations balance up to a five-year high, fears of unemployment down to a fifteen-month low and willingness to make major purchases up to the highest level since January 2016.

Italian business confidence jumps to three-year high with broad-based improvement

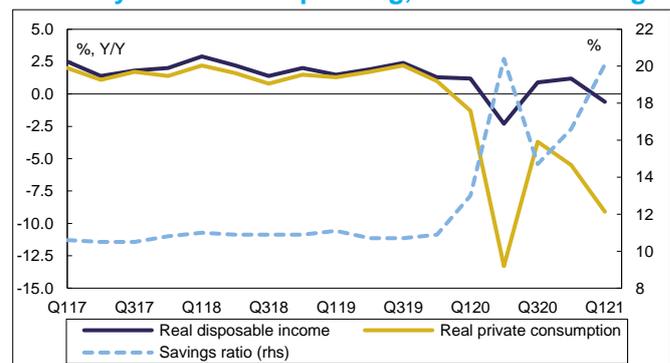
The flash May PMIs suggested that the improvement in activity in the euro area was greatest beyond the two largest member states. And tallying with that, the ISTAT survey suggested that Italian business confidence improved markedly this

Germany: Consumer confidence



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

Germany: Consumer spending, incomes & savings



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

month, with the respective index rising the most since last July to the highest level since February 2018, with optimism relatively broad-based. With easing restrictions, the services sentiment index saw the largest gain, of more than 10pts, albeit merely to the highest since the onset of the pandemic in February 2020. While the improvement in retail was more modest, it similarly rose to a fifteen-month high. Despite concerns about supply bottlenecks, however, Italian manufacturing confidence rose well above the long-run average to the highest since November 2017. And tallying with recent firm growth in activity and the respective PMIs, construction sector confidence jumped to the highest in more than two decades to point to ongoing solid expansion this quarter and beyond.

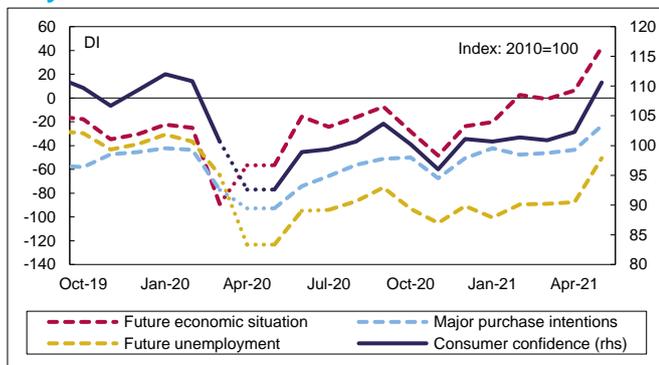
French business confidence also leaps to three-year high

Likewise, in France, yesterday's May INSEE business and consumer survey results reported a substantive and broad-based improvement in confidence. Due particularly to sizeable increases in the forward-looking components, the business survey's headline index surged 12pts – the most since last June – to 108, well above the long-run average and the best since April 2018. As in Italy, the biggest transformation of business fortunes was reported in retail and services, the former benefiting from the reopening of non-essential stores a week ago and the latter flagging much greater optimism in hospitality, similarly buoyed by plans for a gradual reopening. Indeed, the headline retail sentiment index leapt almost 17pts to 107, the highest since December 2019, while the equivalent indicator for services jumped 15pts, also to 107, the best since January 2020 and similarly well above the long-run average. Wholesalers were unsurprisingly also much more upbeat (the respective indicator leapt 11pts to 110, the best since November 2017). And confidence among manufacturers, who have been increasingly optimistic since the turn of the year, continued to rise too, with the index up 3pts to 107, the highest since August 2018. That reflected rising orders and increased production prospects, and the highest selling-price expectations since 2011. While the construction index was unchanged, at 109 it remained elevated with improved orders and increased expectations for the coming three months.

French employment expectations rise, consumers gradually more upbeat

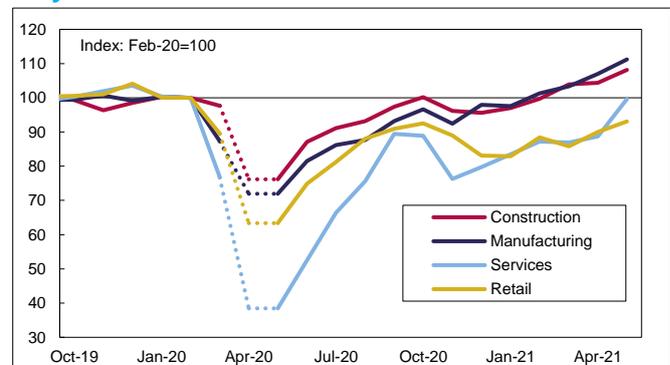
With new coronavirus cases much lower and business sentiment improving, the INSEE business survey also suggested that French firms are increasingly looking to increase headcount. The survey's employment climate index rose a marked 8pts in May back to the long-run average of 100, the highest since February 2020, due principally to improved expectations of hiring over the coming three months in services. And according to the INSEE consumer confidence survey, French households' fears of unemployment dropped significantly this month to the lowest since March 2020. Indeed, the headline household

Italy: Consumer confidence



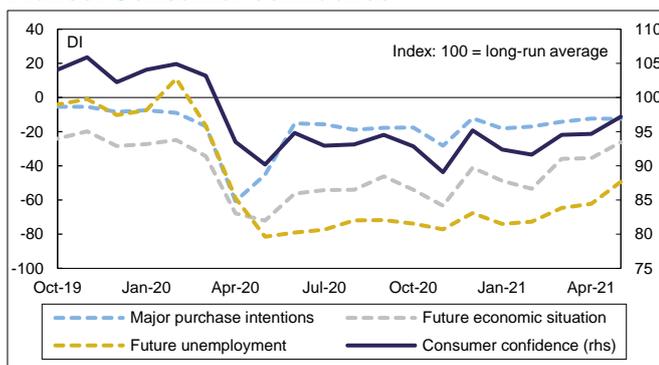
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Italy: Business confidence*



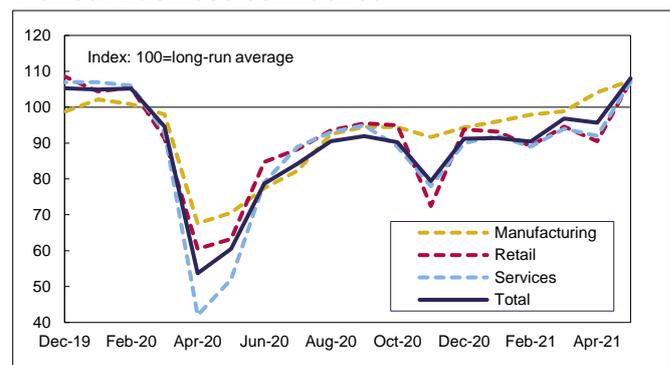
* No survey conducted in April 2020. Source: ISTAT, Refinitiv and Daiwa Capital Markets Europe Ltd.

France: Consumer confidence



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

France: Business confidence



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

sentiment index rose 2pts in May to 97, also the best in fifteen months albeit still below the long-run average (100). The increase also reflected improved expectations for consumers' personal financial situation over the coming twelve months back to the long-run average. And while the share of households judging that it is a suitable time to make major purchases was unchanged, it therefore remained above its long-term average.

The day ahead in the euro area

Tomorrow brings the first flash estimate of inflation in May, with the French figures due to be published. Last month, the EU-harmonised measure of French inflation rose 0.2ppt to 1.6%Y/Y, the highest since January 2020. Energy inflation was the main source of upwards pressure, with core inflation on the same basis still at a subdued level of 1.1%Y/Y. A further increase of 0.2ppt in May to 1.8%Y/Y, the highest since December 2018, is expected. Also due out tomorrow is the European Commission economic sentiment indices for May, which will provide further insight into the strength of the euro area's economic recovery as pandemic restrictions in some countries were gradually eased. In line with the better-than-expected national business sentiment indicators, the industrial confidence measure is expected to rise to a series high, while the services sector indicator is expected to increase to the highest level since February 2020 closer to the long-run average. The survey will also provide further information about firms' price expectations, which seem bound to remain elevated as firms continue to experience supply bottlenecks. Other data to be published tomorrow include French consumer spending numbers for April, which will report a drop in expenditure in response to the tightening of pandemic restrictions, and Spanish retail sales data for the same month, as well as final French Q1 GDP numbers (the preliminary estimate revealed growth of 0.4%Q/Q and 1.5%Y/Y). In other news, ECB President Lagarde will attend the G7 meeting of finance ministers.

UK

The day ahead in the UK

After a quiet few days data-wise in the UK, tomorrow brings the Lloyds business barometer for May, which is expected to mirror the flash PMIs and show that confidence continues to strengthen. The overall business confidence index jumped 14ppts in April to a 2½-year high of 29% – just above the long-run average of 28% – with sentiment strongest in manufacturing and retail, but also relatively elevated in construction and services. A further increase in the May survey seems highly likely.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
Germany	 GfK consumer confidence	Jun	-7.0	-5.0	-8.8	-8.6	
Italy	 ISTAT economic sentiment	May	106.7	-	97.3	97.9	
	 ISTAT consumer confidence (manufacturing)	May	110.6 (110.2)	104.0 (106.0)	102.3 (105.4)	-(106.0)	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
France	 INSEE business confidence	May	108	98	95	96	
	 INSEE manufacturing confidence (production outlook)	May	107 (18)	105 (5)	104 (2)	-(3)	
	 INSEE consumer confidence	May	97	97	94	95	
Auctions							
Country	Auction						
Germany	 sold €1.7bn of 0% 2036 bonds at an average yield of 0.11%						
Italy	 sold €1.25bn of 0.4% 2030 index-linked bonds at an average yield of -0.45%						
Italy	 sold €3.5bn of 0% 2022 bonds at an average yield of -0.33%						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU		10.00 European Commission economic confidence	May	112.1	110.3
		10.00 European Commission final consumer confidence	May	-5.1	-8.1
		10.00 European Commission industrial confidence (services)	May	11.4 (6.3)	10.7 (2.1)
France		07.45 PPI Y/Y%	Apr	-	4.5
		07.45 Consumer spending M/M% (Y/Y%)	Apr	-4.0 (37.6)	-1.1 (18.7)
		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	May	1.4 (1.8)	1.2 (1.6)
		07.45 Final GDP Q/Q% (Y/Y%)	Q1	0.4 (1.5)	-1.4 (-4.8)
Italy		09.00 PPI Y/Y%	Apr	-	3.0
Spain		08.00 Retail sales Y/Y%	Apr	29.1	14.9
UK		00.01 Lloyds business barometer	May	-	29

Auctions and events

EMU		-	ECB President Lagarde and Board Member Panetta attend virtual G7 finance ministers' meeting		
Italy		10.00	Auction: €3bn of 0% 2026 bonds		
		10.00	Auction: €3.5bn of 0.6% 2031 bonds		
		10.00	Auction: €2bn of 2026 floating-rate bonds		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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