

Euro wrap-up

Overview

- Bunds made losses while euro area industrial production beat expectations as new factory orders accelerated.
- Gilts also made losses while UK PM Johnson was set to delay the further relaxation of pandemic restrictions in England.
- Tuesday will bring new data for euro area goods trade, UK employment and inflation in the large member states.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.687	+0.005
OBL 0 04/26	-0.621	+0.014
DBR 0 02/31	-0.256	+0.018
UKT 0 ¹ / ₈ 01/23	0.057	+0.014
UKT 0 ¹ / ₈ 01/26	0.305	+0.018
UKT 4 ³ / ₄ 12/30	0.732	+0.026

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

Source: Bloomberg

Euro area

Manufacturing production edges higher despite ongoing weakness in auto sector

On a quiet start to the week for euro area economic data from, the April industrial production report came in a touch firmer than expected. In particular, industrial production (excluding construction) rose 0.8%M/M in April, following upwardly revised growth of 0.4%M/M in March. That left it 0.7% above the Q1 average and just 0.3% below the pre-pandemic level in February 2020. Production growth in April was boosted by energy, output of which jumped 3.2%M/M, the most in almost a year, to the highest level since June 2019. But manufacturing output rose a softer 0.4%M/M to be still slightly below January's high for the year and almost 1.0% below the pre-pandemic level. Production growth in April was widespread across southern Europe, including Italy (1.8%M/M) and Spain (1.1%M/M), and was extremely strong in Belgium (7.4%M/M). But it was absent in Germany (-0.3%), France (0.0%), the Netherlands (-0.3%M/M) and Ireland (-0.2%M/M). Output of capital goods (1.4%M/M) rose for the first time since January to move just above the pre-pandemic level. But strikingly, production of motor vehicles fell for the fifth successive month (-0.5%M/M) to be down 26% from the February 2020 level and down more than 18% from the post-pandemic peak in November 2020. Among other major sub-sectors, production of intermediate goods (0.8%M/M) and durable consumer goods (3.4%M/M) rose further above the respective pre-pandemic levels. But output of non-durables slipped back slightly (-0.3%M/M) to be more than 2% below the level in February 2020.

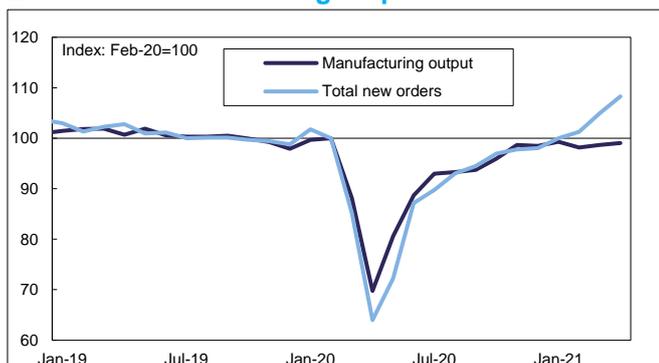
New factory orders power ahead, supply bottlenecks the key constraint on output

With survey indicators – including series high manufacturing output PMIs in March and April – having suggested very strong growth in the sector over recent months, production data have undeniably been underwhelming. But demand for manufactured goods appears to remain strong. Indeed, new manufacturing orders in the euro area rose a vigorous 3.2%M/M in April to a level surpassed only once before on the series (in December 2017) and more than 8% above that in February 2020. New orders were firm both within the euro area and from abroad, advancing further above the respective pre-pandemic levels. Indeed, new orders of capital goods rose some 6.7% above the February 2020 level, with orders of intermediate items up 13.2% and consumer durables up 16.3% on the same basis. So, as suggested last week by the German data, supply bottlenecks appear the principal restraint on production, not least in the auto sector. And, as and when those constraints ease – most likely throughout the second half of the year – production should accelerate rapidly.

The day ahead in the euro area

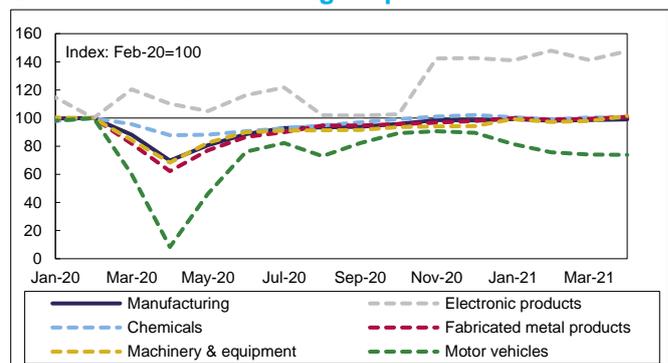
Euro area goods trade figures for April are due tomorrow, with supply bottlenecks likely to restrain both exports and imports. Final May inflation data from Germany, France and Italy are also set for release. The preliminary May data suggested that

Euro area: Manufacturing output & new orders



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

German inflation on the EU harmonised measure (HICP) rose 0.3ppt to 2.4%Y/Y, the highest since October 2018. In France, the HICP rate rose 0.2ppt to 1.8%Y/Y, the highest since December 2018, while in Italy the equivalent rate rose 0.3ppt to 1.3%Y/Y, the highest since November 2018.

UK

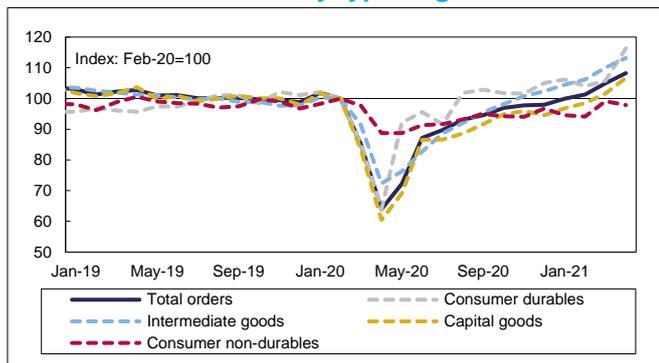
End of English pandemic restrictions to be postponed to July

With no new UK economic data published today, the focus today was on the government's planned announcement about its English lockdown rules. With the number of new coronavirus cases having accelerated, albeit from a low level, to the highest since February, at the time of writing UK PM Johnson was expected to announce a four-week postponement to 19 July of his previous plans to lift all remaining restrictions on social contact from 21 June. Among other things, the decision will mean that employees will be asked to continue to work from home wherever possible, while limits will remain on the number of people allowed to attend various entertainments and leisure activities, including matches at the current UEFA European Football Championships. The guidance on working from home means that the UK will continue to lag behind the large euro area member states in terms of mobility to the workplace. And use of public transport will remain at low levels, e.g. with activity on the London Underground remaining still more than 50% below the norms before the pandemic.

The day ahead in the UK

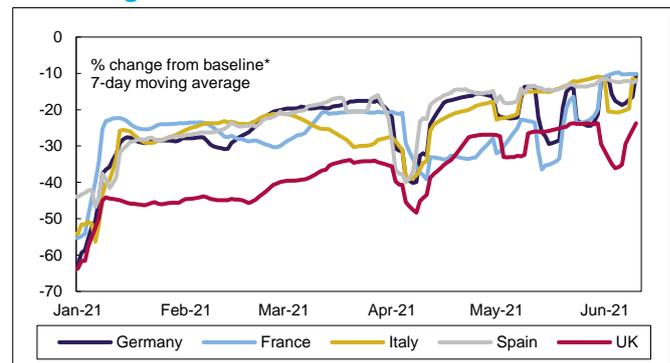
The focus in the UK tomorrow will be on the latest labour market survey. With the government's Job Retention Scheme still in operation, the easing in lockdown restrictions resulting in firm GDP growth in April, and further liberalisation occurring in May, we expect to see a further tightening in labour market conditions, including a solid increase in payrolls and vacancies last month. In addition, the unemployment rate is likely to nudge down further in the three months to April – marking the fourth successive decline – from 4.8% in the three months to March. And growth in average labour earnings (excluding bonuses) seem likely to rise above 5.0%Y/Y.

Euro area: New orders by type of good



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Travelling to work trends



*The baseline is the median value, for the corresponding day of the week, during the five-week period 3 Jan–6 Feb 2020. Source: Google Mobility Report 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	 Industrial production M/M% (Y/Y%)	Apr	0.8 (39.3)	0.4 (37.4)	0.1 (10.9)	0.4 (11.5)
France	 Bank of France manufacturing sentiment	May	8	-	8	-
	 Bank of France retail trade M/M%	May	8.3	-	-7.1	-
Auctions						
Country	Auction					
- Nothing to report -						

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 Trade balance €bn	Apr	15.0	13.0	
Germany		07.00 Final CPI (EU-harmonised CPI) Y/Y%	May	2.5 (2.4)	2.0 (2.1)	
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	May	1.4 (1.8)	1.2 (1.6)	
Italy		09.00 Final CPI (EU-harmonised CPI) Y/Y%	May	1.3 (1.3)	1.1 (1.0)	
UK		07.00 Unemployment claimant count rate % (change '000s)	May	-	7.2 (-15.1)	
		07.00 Average earnings including bonuses (excluding bonuses) 3M Y/Y%	Apr	4.9 (5.3)	4.0 (4.6)	
		07.00 ILO unemployment rate 3M %	Apr	4.7	4.8	
		07.00 Employment change 3M/3M, '000s	Apr	140	84	
Auctions and events						
EMU		11.00 ECB's Hernández de Cos scheduled to speak about financial integration				
		12.00 ECB Chief Economist Lane gives opening remarks at ECB forecasting conference				
		14.50 ECB's Panetta scheduled to speak at Bundesbank conference				
UK		11.30 Auction: £2bn of 1.25% 2051 bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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