

# Euro wrap-up

## Overview

- While euro area producer price inflation rose to a record high and Spanish unemployment fell the most on record, Bunds made gains as ECB President Lagarde noted downside risks posed by Covid-19's delta variant.
- Gilts also made gains on a quiet end to the week for UK economic news.
- The coming week will bring the account of the ECB's June policy meeting as well as new data on UK GDP, euro area retail sales and German industrial orders and production.

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### Daily bond market movements

| Bond                                    | Yield  | Change |
|---|--------|--------|
| BKO 0 06/23                             | -0.679 | -0.003 |
| OBL 0 04/26                             | -0.608 | -0.017 |
| DBR 0 08/31                             | -0.238 | -0.035 |
| UKT 0 <sup>7</sup> / <sub>8</sub> 01/23 | 0.061  | -0.008 |
| UKT 0 <sup>1</sup> / <sub>8</sub> 01/26 | 0.314  | -0.019 |
| UKT 4 <sup>3</sup> / <sub>4</sub> 12/30 | 0.703  | -0.025 |

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

Source: Bloomberg

## Euro area

### Producer price inflation up to record high

On a relatively quiet end to the week for European economic news, May's producer price data were notable in flagging ongoing substantive cost pressures. In particular, euro area producer prices rose 1.3%MM, a touch more than expected, the second highest monthly increase in more than a decade and indeed one beaten only twice before on the series. And that left producer prices up 9.6%YY, the most since the introduction of the single currency. Prices of energy remained a key driver, up 2.1%MM and 25.1%YY. However, even excluding that component, producer prices were up a chunky 0.9%MM for a third successive month to be up 4.9%YY, similarly a series high. With significant pressures in chemicals, metals, coke and refined petroleum products, intermediate goods prices were up a steep 1.8%MM and 9.2%YY. But increases of prices further along the supply chain were more measured. Prices of capital goods were up a moderate 0.4%MM and 1.8%YY. Consumer durables prices rose 0.3%MM and 2.0%YY, while those of non-durables were up 0.3%MM and 1.9%YY.

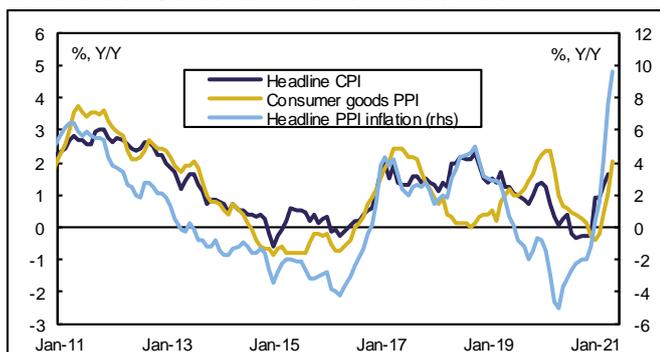
### Surveys flag price pressures in countless sub-sectors

Producer price pressures have, of course, been evident for some time. And the top-tier surveys suggest they will persist for several months to come. For example, yesterday's final euro area [manufacturing PMIs](#) reported record readings on the input cost and output price indices. And respondents to the German ifo business climate survey flagged increasingly acute supply bottlenecks across a range of sub-sectors including various metal products (steel, aluminium and copper); wood items including pallets; plastics and other synthetic products; as well as the well-known challenges related to semiconductors and other electronic components. All participating firms in the furniture and textiles subsectors reported rising prices for materials over the past three months, and the situation was similar in several others, including rubber and plastics. So, unsurprisingly, the ifo survey reported expectations of further price increases in selling prices over the coming three months, with the respective survey index for manufactured goods up to a series high in June. Nevertheless, so far, the pass-through of increased costs to consumers has been relatively measured, with inflation of non-energy industrial goods up in June to 1.2%YY – still well below the ECB's target – according to the flash data. Moreover, not least given base effects associated with oil prices and German policies, we suspect that producer price inflation will broadly level off over coming months before declining in early 2022. For the same reason, Christine Lagarde reminded in an interview with La Provence, published today, that the ECB still expects consumer price inflation to fall back from the start of next year. And she also noted the downside risks to the outlook for growth and inflation from Covid-19's delta variant, which is increasingly prevalent in the euro area.

### Record rise in Spanish employment in June

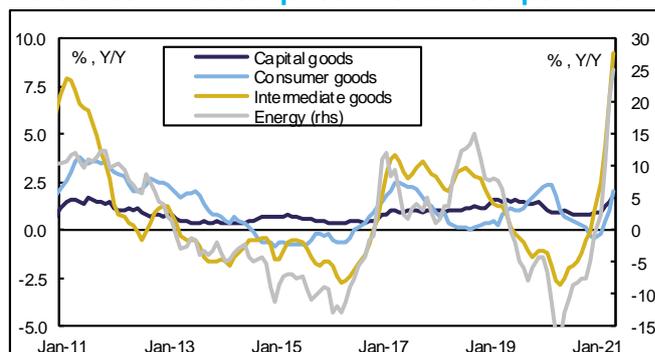
Following yesterday's upbeat labour market data from the euro area (for May) and Germany (for June), today's Spanish figures provided more good news. Indeed, the number of Spanish workers registered unemployed dropped by a record

#### Euro area: Selected inflation measures



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Euro area: Producer price inflation components



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

amount in June, down more than 102k (on a seasonally adjusted basis) to 3.755mn, the lowest since March 2020. On an unadjusted basis, the number of registered unemployed fell by almost 167k, largely accounted for by a drop of more than 131k (almost 5%/MM) in the number of jobless service sector workers as the tourist season got underway (Spain is now open to visitors fully vaccinated against Covid 19). The number of unemployed manufacturing and construction workers also fell. And the rise in employment of more than 200k on a seasonally adjusted basis was also a record, taking the total up to 19.267mn, the highest since February 2020 and just 212k below the pre-pandemic peak. At the end of May, Spain's ERTE government job retention scheme (supporting more than 500k workers), and the related programme for more than 400k self-employed workers, was extended to 30 September. It remains to be seen quite how strong the economic recovery will be at that point and thus quite how far Spanish unemployment will rise again as and when that support is finally brought to an end.

## The week ahead in the euro area

Looking ahead, the coming week will kick off on Monday with further survey results in the shape of the final services PMIs for June and Sentix investor sentiment indices for July. Both surveys will be highly upbeat. Indeed, according to the flash estimates, the euro area services activity PMI rose 2.8pts to a 41-month high of 58.0, which took the composite PMI up 2.1pts to a fifteen-year high of 59.2. And if the national surveys are anything to go by, the [Italian](#) and Spanish PMIs, to be published for the first time, should be exceptionally strong too. German car registration and production figures for June should also be released on Monday. The following day, meanwhile, will bring euro area retail sales figures for May – which, thanks to strong growth in Germany and [France](#), are likely to more than reverse the drop of 3.1%/MM in April – along with German factory orders data for the same month. And survey data due that day include the German ZEW indices for July and construction PMIs for June. German industrial production figures for May follow on Wednesday with overall growth at risk of being dragged down by ongoing weakness in the auto sector. The equivalent German goods trade data are due Thursday, with French and Italian IP numbers for the same month will come on Friday.

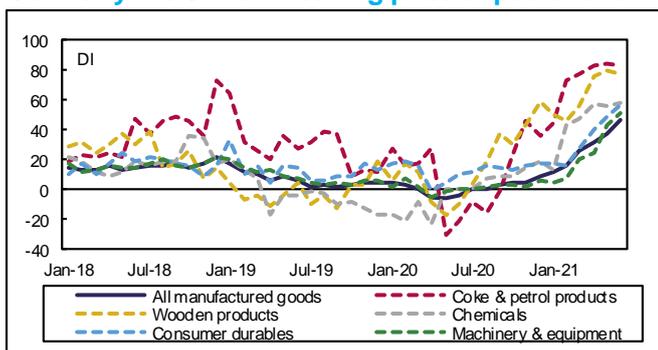
Beyond the economic data, the account of the ECB's [June monetary policy meeting](#) will be published on Thursday. At that meeting, the ECB published updated macroeconomic projections, which suggested among other things that current price pressures would be transitory, and thus committed to maintain net PEPP purchases over the coming three months at a significantly higher pace than at the start of the year. That policy decision was not, however, unanimous, and the account will therefore reflect the range of views among Governing Council members. Meanwhile, reports suggest that the Governing Council members will meet in the coming week for further discussions on the strategic policy review. But while news might emerge regarding some of the views of members on key issues under consideration – such as possible reforms to the ECB's inflation target – we do not expect any conclusions of the review to be announced just yet. In terms of ECB-speak, Executive Board member Isabel Schnabel will speak publicly tomorrow on the global economy, trade and business cycle and monetary policy, while ECB President Lagarde will speak on Friday on a G20-related panel discussion on digitalization. Other speakers due include Bank of France Governor Villeroy de Galhau (Sunday), ECB Vice President de Guindos (Monday) and Spanish National Bank Governor Hernandez de Cos (Tuesday).

## UK

### The week ahead in the UK

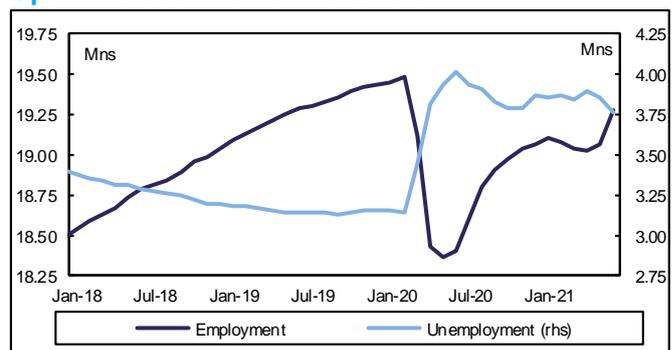
While it was a quiet end to the week in the UK with no new economic data published, the coming week will bring a handful of notable releases including the estimates of May's GDP, production and trade data, which are all due on Friday. After non-essential stores were able to reopen in April, further easing of restrictions – particularly those affecting hospitality and entertainments – occurred in May. So, although retail sales fell back 1.4%/MM, services output is again set to lead overall economic growth in May, having risen a strong 3.4%/MM in May. Manufacturing production (-0.3%/MM) and mining and quarrying (-15.0%/MM due to planned maintenance at oil fields) should rebound too. And so, having grown in excess of 2.0%/MM in March and April, we expect GDP growth of 1.3%/MM in May to leave the level of output about 2.5% below the February 2020 level.

### Germany: ifo 3-month selling price expectations



Source: ifo institute, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Spain: Labour market indicators



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Ahead of the GDP figures, Monday will bring the final services PMIs for June while the equivalent construction sector survey results are due the following day. According to the flash estimates, the services activity PMI fell 1.2pt in June to a still-elevated 61.7 to leave the composite PMI similarly down 1.2pts at 61.7. Among other data to come, June's new car registrations are also due Monday, while Q1 unit labour cost figures are due Wednesday. And Thursday will bring the RICS housing survey for June – which is likely to point to ongoing house price growth ahead – along with the BoE's latest quarterly credit conditions survey. In terms of BoE-speak, Governor Andrew Bailey will speak on Friday's G20-related panel discussion on digitisation.

## Daiwa economic forecasts

|                           |   | 2020  | 2021  |       |       |       | 2022  | 2020  | 2021  | 2022  |
|---------------------------|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                           |   | Q4    | Q1    | Q2    | Q3    | Q4    | Q1    |       |       |       |
| <b>GDP growth, %, Q/Q</b> |   |       |       |       |       |       |       |       |       |       |
| Euro area                 |    | -0.6  | -0.3  | 1.2   | 2.4   | 1.2   | 1.0   | -6.7  | 4.5   | 4.6   |
| UK                        |    | 1.3   | -1.5  | 3.5   | 3.2   | 2.5   | 1.0   | -9.8  | 6.6   | 6.2   |
| <b>Inflation</b>          |   |       |       |       |       |       |       |       |       |       |
| Euro area                 |   |       |       |       |       |       |       |       |       |       |
| Headline CPI              |    | -0.3  | 1.1   | 1.8   | 2.3   | 2.5   | 1.4   | 0.3   | 1.9   | 1.5   |
| Core CPI                  |    | 0.2   | 1.2   | 0.9   | 1.2   | 1.5   | 0.8   | 0.7   | 1.2   | 1.3   |
| UK                        |   |       |       |       |       |       |       |       |       |       |
| Headline CPI              |   | 0.5   | 0.6   | 1.9   | 2.2   | 2.8   | 2.8   | 0.9   | 1.9   | 2.1   |
| Core CPI                  |  | 1.3   | 1.2   | 1.7   | 2.0   | 2.3   | 2.2   | 1.4   | 1.8   | 1.9   |
| <b>Monetary policy</b>    |   |       |       |       |       |       |       |       |       |       |
| 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 |
| PEPP envelope* (€bn)      |  | 1850  | 1850  | 1850  | 1850  | 1850  | 1850  | 1850  | 1850  | 1850  |
| BoE                       |   |       |       |       |       |       |       |       |       |       |
| Bank Rate %               |  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  |
| Bond purchases** (€bn)    |  | 895   | 895   | 895   | 895   | 895   | 895   | 895   | 895   | 895   |

\*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/<br><i>Daiwa forecast</i> | Previous  | Revised |  |
| EMU                   |  PPI M/M% (Y/Y%)           | May    | 1.3 (9.6) | 1.2 (9.5)                                  | 1.0 (7.6) | 0.9 (-) |  |
| Spain                 |  Unemployment change '000s | Jun    | -166.9    | -110                                       | -129.4    | -       |  |
| Auctions              |   |        |           |  |           |         |  |
| Country               | Auction   |        |           |  |           |         |  |
| - Nothing to report - |   |        |           |  |           |         |  |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

# The coming week's data calendar

## The coming week's key data releases

| Country                       | BST   | Release | Period  | Market consensus/<br><i>Daiwa</i><br><i>forecast/actual</i> | Previous         |             |
|-------------------------------|---|---------|---|---|------------------|-------------|
| <b>Monday 05 July 2021</b>    |   |         |   |   |                  |             |
| EMU                           |    | 09.00   | Final services (composite) PMI                | Jun   | 58.0 (59.2)      | 55.2 (57.1) |
|                               |    | 09.30   | Sentix investor confidence                    | Jul   | 30.0             | 28.1        |
| Germany                       |    | 08.55   | Final services (composite) PMI                | Jun   | 58.1 (60.4)      | 52.8 (56.2) |
|                               |    | -       | New car registrations* Y/Y%                   | Jun   | -                | 37.2        |
| France                        |    | 08.50   | Final services (composite) PMI                | Jun   | 57.4 (57.1)      | 56.6 (57.0) |
| Italy                         |    | 08.45   | Services (composite) PMI                      | Jun   | -                | 53.1 (55.7) |
| Spain                         |    | 08.15   | Services (composite) PMI                      | Jun   | -                | 59.4 (59.2) |
| UK                            |    | 09.00   | New car registrations Y/Y%                    | Jun   | -                | 674.1       |
|                               |    | 09.30   | Final services (composite) PMI                | Jun   | 61.7 (61.7)      | 62.9 (62.9) |
| <b>Tuesday 06 July 2021</b>   |   |         |   |   |                  |             |
| Euro area                     |    | 08.30   | Construction PMI                              | Jun   | -                | 51.7        |
|                               |    | 10.00   | Retail sales M/M% (Y/Y%)                      | May   | 4.2 (8.2)        | -3.1 (23.9) |
| Germany                       |    | 07.00   | Factory orders M/M% (Y/Y%)                    | May   | 1.2 (59.4)       | -0.2 (78.9) |
|                               |    | 08.30   | Construction PMI                              | Jun   | -                | 44.5        |
|                               |   | 10.00   | ZEW current assessment balance (expectations) | Jul   | 5.0 (75.0)       | -9.1 (79.8) |
| France                        |  | 08.30   | Construction PMI                              | Jun   | -                | 51.1        |
| Italy                         |  | 08.30   | Construction PMI                              | Jun   | -                | 58.3        |
| Spain                         |  | 08.00   | Industrial production M/M% (Y/Y%)             | May   | 0.4 (21.7)       | 1.2 (48.2)  |
| UK                            |  | 09.30   | Construction PMI                              | Jun   | 64.0             | 64.2        |
| <b>Wednesday 07 July 2021</b> |   |         |   |   |                  |             |
| Germany                       |  | 07.00   | Industrial production M/M% (Y/Y%)             | May   | 0.7 (17.7)       | -1.0 (26.4) |
| Italy                         |  | 09.00   | Retail sales M/M% (Y/Y%)                      | May   | 3.0 (10.8)       | -0.4 (30.4) |
| UK                            |  | 09.30   | Final output per hour Y/Y%                    | Q1  | 1.0              | -0.7        |
|                               |  | 09.30   | Unit labour costs Y/Y%                        | Q1  | -                | 7.2         |
| <b>Thursday 08 July 2021</b>  |   |         |   |   |                  |             |
| Germany                       |  | 07.00   | Trade balance €bn                             | May   | 15.1             | 15.2        |
| France                        |  | -       | Bank of France industrial sentiment           | Jun   | 108              | 107         |
| UK                            |  | 00.01   | RICS house price balance %                    | Jun   | 79               | 83          |
| <b>Friday 09 July 2021</b>    |   |         |   |   |                  |             |
| France                        |  | 07.45   | Industrial production M/M% (Y/Y%)             | May   | 0.9 (21.7)       | -0.1 (43.9) |
|                               |  | 07.45   | Manufacturing production M/M% (Y/Y%)          | May   | - (26.0)         | -0.3 (49.3) |
| Italy                         |  | 07.45   | Industrial production M/M% (Y/Y%)             | May   | 0.3 (1.8)        | 1.8 (79.5)  |
| UK                            |  | 07.00   | Monthly GDP M/M% (3M/3M)                      | May   | <u>1.3 (3.7)</u> | 2.3 (1.5)   |
|                               |  | 07.00   | Industrial production M/M% (Y/Y%)             | May   | 1.5 (21.6)       | -1.3 (27.5) |
|                               |  | 07.00   | Manufacturing production M/M% (Y/Y%)          | May   | 1.0 (29.5)       | -0.3 (39.7) |
|                               |  | 07.00   | Index of services M/M% (3M/3M%)               | May   | 1.6 (4.1)        | 3.4 (1.4)   |
|                               |  | 07.00   | Construction output M/M% (Y/Y%)               | May   | 1.0 (58.2)       | -2.0 (77.9) |
|                               |  | 07.00   | Goods trade balance £bn                       | May   | -11.1            | -11.0       |

\*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

| Country  | BST   | Event / Auction  |
|--|-------|--|
| <b>Monday 05 July 2021</b>   |       |  |
| Euro area   | 10.00 | ECB publishes bank interest rate statistics  |
|  | 18.00 | ECB Vice President de Guindos speaks   |
| <b>Tuesday 06 July 2021</b>  |       |  |
| Euro area   | 08.00 | ECB Governing Council member Hernandez de Cos speaks   |
| Germany     | 10.30 | Auction: €400mn of 0.1% 2033 index-linked bonds  |
|  | 10.30 | Auction: €200mn of 0.1% 2046 index-linked bonds  |
| UK          | 10.00 | Auction: £2.75bn of 0.25% 2031 bonds   |
|  | 11.30 | Auction: £1.5bn of 0.5% 2061 bonds   |
| <b>Wednesday 07 July 2021</b>  |       |  |
| Euro area   | 10.00 | European Commission publishes Summer Economic Forecasts  |
| Germany     | 10.30 | Auction: €5bn of 0% 2026 bonds   |
| UK          | 10.00 | Auction: £600mn of 0.125% 2051 index-linked bonds  |
| <b>Thursday 08 July 2021</b>   |       |  |
| Euro area   | 12.30 | ECB publishes account of 9-10 June monetary policy meeting   |
| UK          | 09.30 | BoE publishes Bank Liabilities and Credit Conditions Surveys   |
| <b>Friday 09 July 2021</b>   |       |  |
| Euro area  | 11.00 | ECB President Lagarde on panel discussion on digitalisation and intangibles ahead of the G20 meeting |
| UK        | 11.00 | BoE Governor Bailey on panel discussion on digitalisation and intangibles ahead of the G20 meeting   |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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