

# Euro wrap-up

## Overview

- Bunds made modest losses as a German consumer confidence survey reported a notable improvement in July, even as the recovery in the consumer climate across the euro area as a whole stalled.
- Gilts were little changed as a UK manufacturing survey reported greater optimism about the outlook despite still subdued new orders.
- Tomorrow will bring the flash PMIs for July, while UK retail sales figures for June are also due.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.685	+0.018
OBL 0 10/25	-0.681	+0.014
DBR 0 08/30	-0.485	+0.009
UKT 0½ 07/22	-0.099	+0.007
UKT 0% 06/25	-0.114	-0.001
UKT 4¾ 12/30	0.121	+0.001

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

## Euro area

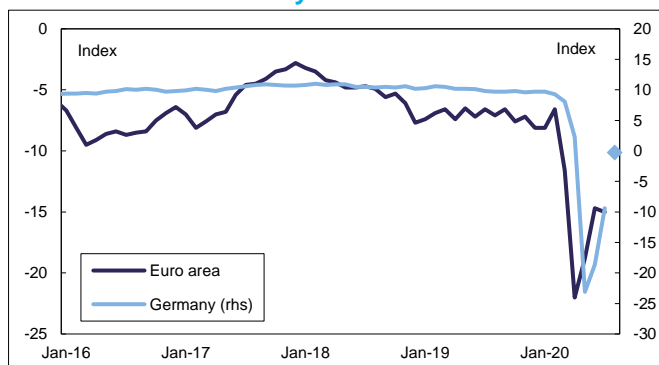
### Consumer confidence releases provide mixed messages

Contrasting with expectations, the recovery in consumer confidence in the euro area stalled at the start of the third quarter, possibly reflecting renewed concerns about localised lockdowns in Spain, as well as the uncertain labour market outlook across the region. In particular, the headline indicator fell 0.3pt to -15.0, admittedly 7pts above the recent trough but still almost 8½pts below the pre-Covid level. This was in stark contrast to the notable improvement in the consumer climate in Germany this month as the reduction in the VAT rate came into effect. In particular, the GfK's headline index jumped 9.2pts in July to -9.4, with a further near-9pt increase forecast over the month ahead too. Within the detail, there was a significant improvement in households' willingness to make major purchases – the relevant index jumped 23pts in July to 42.5, just 4pts lower than its level a year earlier – while the economic expectations balance rose to its highest since 2018, supported by the government's fiscal package. But while there was also a further pickup in the measure of income expectations, boosted by the pledged child bonus payment and fall in price expectations, it remained extremely weak by historical standards. And overall, like the Commission's index, the headline GfK sentiment indicator still remains considerably lower than the levels seen ahead of the pandemic.

### French business confidence improves, but outlook still uncertain

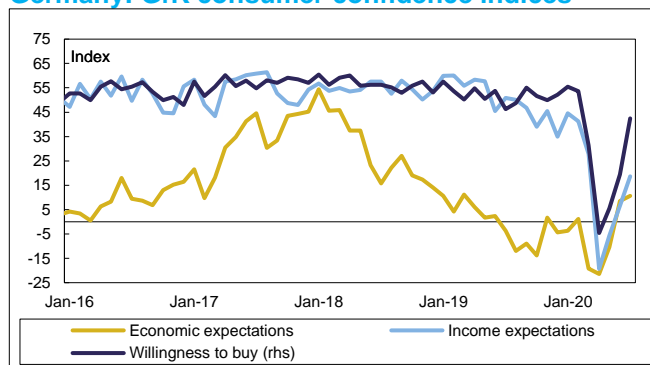
Ahead of tomorrow's flash July PMIs, today's French INSEE business confidence survey for the same month predictably reported a further strong rebound in the headline composite sentiment indices at the start of Q3. In particular, the overall business composite indicator rose 7pts on the month to 85, leaving it 31pts above April's trough, with firms across all sectors unsurprisingly more upbeat about activity over the previous three months. But this improvement compares with the marked weakness seen at the height of the pandemic (March-May) – indeed, the headline business indicator still remained well below the pre-pandemic level of 105. And while firms were reportedly more upbeat about the near-term outlook, there was an increasing share of firms – roughly 55% of manufacturers and 45% of businesses in the service sector – that assessed weakness in demand limiting output. And unsurprisingly, there was an even greater number of firms in those subsectors more heavily disrupted by the pandemic – i.e. almost 80% in transport equipment, 60% in capital goods and 55% in accommodation and catering. Looking ahead, despite a modest pickup, manufacturers' order books remained very weak compared with the historical average, and only just above the 2009 lows. And so, today's survey broadly tallies with comments by French finance minister Le Maire that despite some more satisfying economic data of late, they currently remained too fragile to amend the government's forecasted contraction of 11% in 2020.

### Euro area and Germany: Consumer confidence



\*Diamond represents GfK survey forecast for August 2020. Source: Refinitiv, European Commission, GfK and Daiwa Capital Markets Europe Ltd.

### Germany: GfK consumer confidence indices



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



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### The day ahead in the euro area

Tomorrow's flash PMI surveys are expected to suggest a further recovery in business conditions across member states at the start of Q3 as activity in the manufacturing and services sectors continued to move closer to some form of normality. Indeed, the euro area's composite PMI is expected to rise back above the key-50 level for the first time since February. Friday also brings the release of Italian business and consumer confidence data for July.

## UK

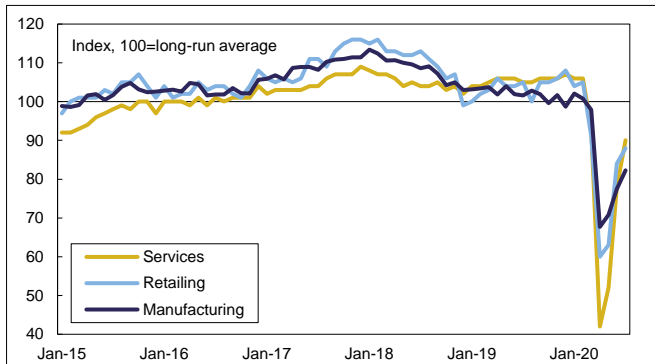
### Manufacturers slightly more upbeat about outlook

Today's CBI quarterly industrial trends survey showed an unsurprising leap in UK manufacturers business optimism in Q3, with the headline index rising 86pts to -1, albeit not fully reversing the slump seen in April's survey and suggesting merely a stabilisation in conditions rather than rapid recovery. This principally reflected a notable improvement in expected production over the coming three months, supported by a pickup in new domestic orders. This notwithstanding, the monthly survey suggested that new orders continued to decline sharply in July – the relevant index rose just 12pts to -46 – with orders from overseas having fallen at their second-steepest pace on record. And roughly 80% of manufacturers were still operating below capacity. As such, firms in the sector still expected to cut employment further, albeit by a smaller margin than over the previous three months. And capex plans for the year ahead were cut back sharply, although to a lesser degree than in April.

### The day ahead in the UK

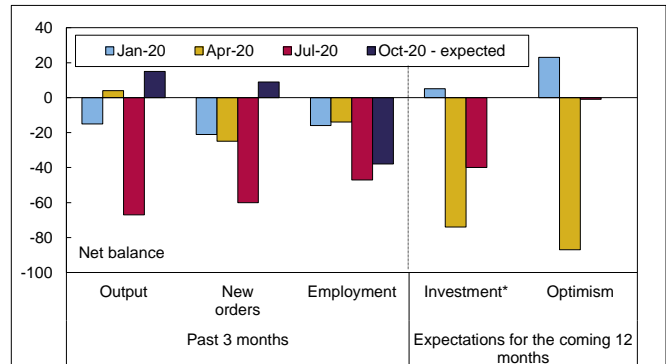
The focus in the UK tomorrow will be on June retail sales figures – the first official ONS hard data for last month. With outdoor market stalls having resumed business on 1st of the month, and other non-essential stores allowed to reopen from the 15th, we would expect to see a further notable increase in sales on the month following growth of 10%M/M in May. Tomorrow also brings the GfK's latest consumer confidence survey, as well as the flash PMIs for July. All are expected to show a further improvement in conditions at the start of Q3 as lockdown measures continued to gradually ease. Indeed, we expect the headline composite PMI to rise from 47.7 in June to back above 50 for the first time since February.

#### France: INSEE business climate indices



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

#### UK: CBI quarterly industrial trends survey








\*Intentions for the coming 12 months relative to actual spending in the previous 12 months. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
EMU	 Preliminary consumer confidence	Jul	<b>-15.0</b>	-12.0	-14.7	-
Germany	 GfK consumer confidence	Aug	<b>-0.3</b>	-4.5	-9.6	-9.4
France	 Business confidence	Jul	<b>85</b>	86	77	78
	 Manufacturing confidence (production outlook)	Jul	<b>82 (-3)</b>	84 (-5)	77 (-15)	78 (-)
UK	 CBI industrial trends survey, total orders	Jul	<b>-46</b>	-38	-58	-

#### 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/ Daiwa forecast	Previous	Revised
- Nothing to report -						














#### Auctions

Country	Auction
Germany	 sold €1.26bn of 1.25% 2048 bonds at an average yield of -0.06%
UK	 sold £3bn of 0.125% 2028 bonds at an average yield of 0.045%
	 sold £500mn of 1.25% 2032 index-linked bonds at an average yield of -2.853%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's data releases

#### Economic data

Country	BST	Release	Period	Market consensus/ Daiwa forecast	Previous
EMU		09.00 Preliminary manufacturing (services) PMI	Jul	49.6 (51.0)	47.4 (48.3)
		09.00 Preliminary composite PMI	Jul	51.0	48.5
Germany		08.30 Preliminary manufacturing (services) PMI	Jul	48.0 (50.2)	45.2 (47.3)
		08.30 Preliminary composite PMI	Jul	50.0	47.0
France		08.15 Preliminary manufacturing (services) PMI	Jul	53.2 (52.3)	52.3 (50.7)
		08./15 Preliminary composite PMI	Jul	53.8	51.7
Italy		09.00 Business (manufacturing) sentiment	Jul	- (85.5)	65.4 (79.8)
		09.00 Consumer confidence	Jul	104.0	100.6
UK		00.01 Preliminary GfK consumer confidence	Jul	-25	-27
		07.00 Retail sales including fuel M/M% (Y/Y%)	Jun	8.0 (-6.0)	12.0 (-13.1)
		07.00 Retail sales excluding fuel M/M% (Y/Y%)	Jun	7.5 (-3.7)	10.2 (-9.8)
		09.30 Preliminary manufacturing (services) PMI	Jul	52.0 (51.0)	50.1 (47.1)
		09.30 Preliminary composite PMI	Jul	51.0	47.7

#### Auctions and events

Country	BST	Auction / Event
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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