

Euro wrap-up

Overview

- Bunds made modest losses as the flash euro area PMIs exceeded expectations and implied meaningful expansion at the start of Q3.
- Gilts also fell as UK retail sales rebounded sharply in June and the flash July PMIs posted notable gains.
- The coming week brings flash Q2 GDP and July inflation releases from the euro area and member states, while the Commission's sentiment survey for July will also be published.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.672	+0.013
OBL 0 10/25	-0.647	+0.033
DBR 0 08/30	-0.447	+0.035
UKT 0½ 07/22	-0.081	+0.017
UKT 0% 06/25	-0.094	+0.018
UKT 4% 12/30	0.150	+0.026

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

Euro area

Euro area PMIs back above 50

With the further easing of containment measures allowing economic activity to return to a greater form of normality than in recent months, the euro area's flash July PMIs inevitably suggested a further improvement in conditions at the start of Q3 and a return to meaningful expansion for the first time since February. Indeed, the euro area composite PMI increased 6.3pts to 54.8, the highest reading in a little more than two years. Likewise, the PMIs for services activity (up almost 7pts to 55.1) and manufacturing output (up a little more than 5pts to 54.0) were the strongest for more than two years, largely reflecting a technical rebound from the lockdown weakness seen since March. The survey detail suggested that expectations for future output continued to recover as new orders at home improved. But orders from overseas continued to contract, not least reflecting ongoing weakness in the services sector as the recovery in tourism remained limited. So, it also suggested that the pace of decline in employment eased only slightly, and that downward pressure remained on output prices as firms sought to attract demand despite rising operating costs.

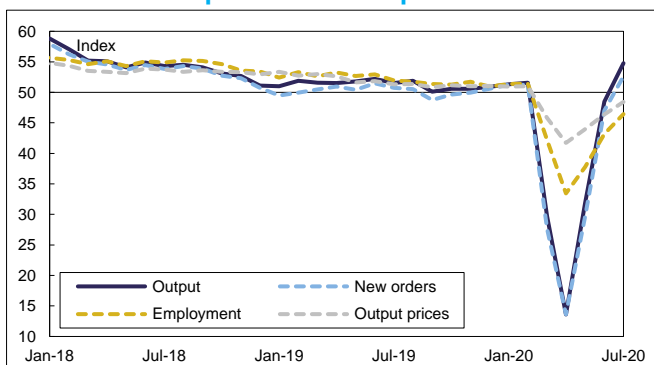
German and French PMIs highest for 2½ years

At the country level, there was a marked improvement in Germany's composite PMI (up 8½pts to 55.5), reflecting a strong rebound in service sector activity (up 9½pts to 56.7), with the respective indices the highest since the start of 2018. And while the pickup in the headline manufacturing PMI was less encouraging – with the index merely returning to 50.0 – the output component (53.2) posted the first above-50 reading since January 2019. The French composite PMI again implied a marginally stronger recovery than in Germany, rising to 57.6, the firmest reading since the start of 2018. And like in Germany, the survey suggested that services activity (57.8) continued to outpace manufacturing output (56.9). In contrast, Markit suggested that the return to growth elsewhere in the region was led by manufacturing, although the gain was more modest than in the largest two member states. Indeed, while today's Italian ISTAT business sentiment survey for July saw the largest monthly gain in the services component (up 13.7pts to 65.8), this still remained below the equivalent manufacturing index (85.2). And the overall business sentiment indicator remained 22pts below February's peak.

The coming week in the euro area

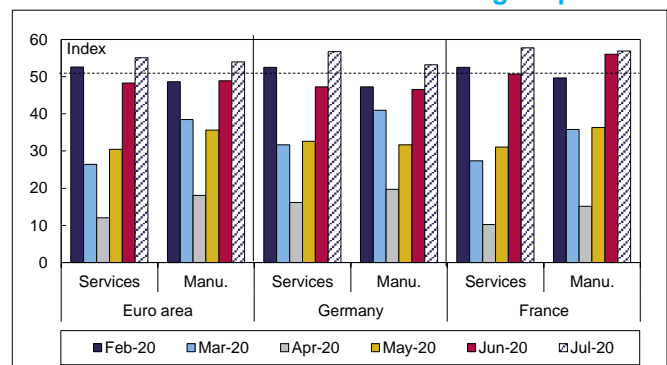
It will be a busy week ahead for top-tier euro area economic releases, with the most noteworthy being the first estimates of Q2 GDP. With activity having been significantly disrupted by lockdowns, euro area GDP – due for release on Friday – is expected to have contracted at a historical magnitude in Q2. Following a decline of 3.6%Q/Q in Q1, our forecast is for a drop of 11%Q/Q – somewhat softer than the ECB's prediction of a fall of 13%Q/Q and the Bloomberg consensus of -12.0%Q/Q.

Euro area: Composite PMI components



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

Euro area: Services and manufacturing output PMIs



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



While the country releases are likely to show varying performances last quarter as countries enforced and relaxed containment measures of different stringency and duration, all are expected to show that GDP contracted significantly and by much more than reported in Q1. We expect German GDP (due Thursday) to have declined by around 7%Q/Q, while data from France, Italy and Spain (due Friday) will reveal more marked contractions, likely at double-digit quarterly rates. Thursday will also bring GDP data from Austria and Belgium.

Meanwhile, similar to today's flash PMIs, the European Commission's sentiment survey for July – to be published on Thursday – will point to further signs of improvement in business sentiment at the start of Q3, although the headline indices are still expected to remain well below the levels seen at the start of the year. The German ifo and French INSEE consumer confidence surveys will be published on Monday and Wednesday respectively.

Also of note in the coming week will be Friday's flash estimate of July inflation. Against the backdrop of weaker demand and still negative energy inflation, the headline CPI rate is likely to have reversed the 0.2ppt increase seen in June back close to zero. Core inflation is also expected to have fallen further to its lowest level since early 2015. Meanwhile, German inflation figures (due Thursday) are likely to have eased back reflecting not least the VAT cut implemented from the start of this month. Thursday will also bring euro area unemployment figures for June and are expected to show a further rise in the overall jobless rate last month, from 7.4% in May, albeit any increase will continue to be limited by various job support programmes across member states. That day will also bring national German labour market figures for July. June retail sales numbers from Germany, Spain and Italy will also be published throughout the week. And Monday's release of bank lending data will likely reflect continued strong demand for business loans in June.

UK

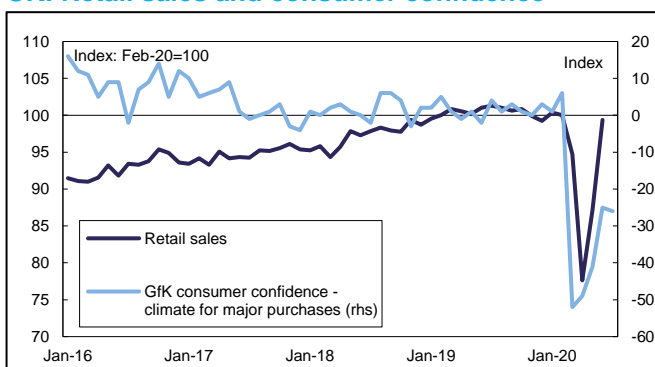
Retail sales rebound on reopening of non-essential shops

While non-essential stores in England and Northern Ireland were not permitted to reopen until the middle of last month, retail sales nevertheless beat expectations in June with a rise of 13.9%M/M (including auto fuel) following growth of 12.3%M/M in May. That left sales down 1.6%Y/Y and also down just 0.6% from February, before Covid-19 took its toll. And when excluding fuel sales, retail sales were almost 2½% above the pre-pandemic level. Unsurprisingly, non-food stores saw vigorous sales growth last month, up a record 45%M/M and almost double the pace seen in May, with clothing sales up by more than two-thirds, household goods sales up by almost 50%M/M and jewellery sales up three-fold. This notwithstanding, non-food store sales were still 15% below the pre-pandemic level, with sales on the High Street down by almost a third. Indeed, despite the reopening of non-essential shops, online activity still accounted for a large share of sales (31%) to leave them more than 50% higher than February's level. And while fuel sales also saw rapid growth last month (22%M/M), they were still down by almost a third compared with the pre-Covid level. Overall, despite the rapid recovery in total retail sales in June, they still declined at a record quarterly pace of 9½%Q/Q, with falls recorded across all store types except food and non-store retailing.

Consumer confidence remains weak

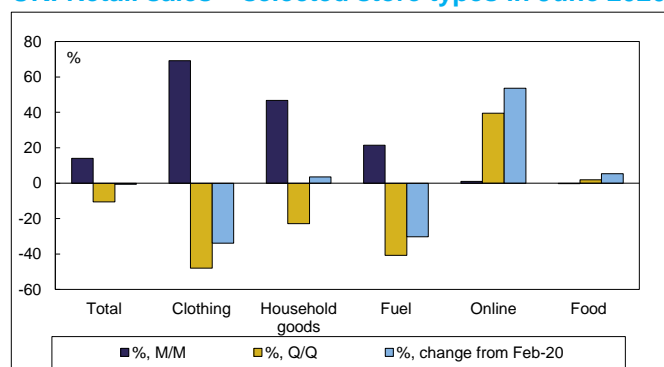
While the reopening of non-essential stores in Wales and Scotland towards the end of last month, as well as the relaxation of lockdown measures elsewhere across the economy should support a further recovery in sales over the near term, retail sales accounts for just one third of total consumer spending. And today's GfK preliminary consumer confidence survey for July illustrated that the recovery in overall household spending might remain more subdued against the backdrop of still fragile household sentiment. In particular, the headline index was unchanged from June's flash survey at -27, still 20pts below the peak seen earlier in the year. And while marginally improved, the survey indices for expectations regarding personal finances and general economic conditions remained firmly in negative territory. Moreover, the survey measure for the climate for making major purchases slipped back slightly. And with the phasing out of the government's job retention scheme set to commence next month, and the prospect of significant job losses later in the year, we expect growth in consumer spending to be more subdued going forward.

UK: Retail sales and consumer confidence



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Retail sales – selected store types in June 2020



Source: ONS and Daiwa Capital Markets Europe Ltd.

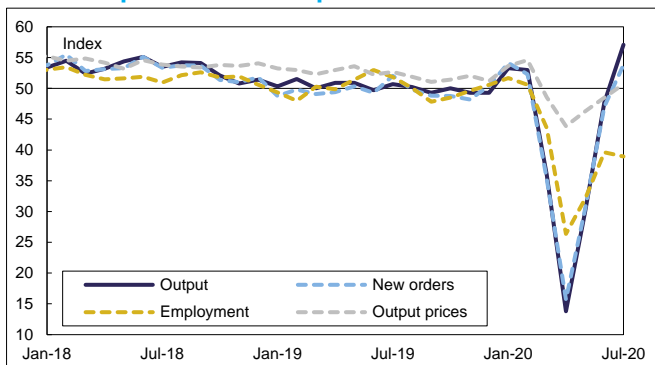
PMIs surge as lockdown measures ease

In stark contrast, the flash PMIs for July seemingly received a significant boost from the further relaxation of containment measures, not least the reopening of the hospitality sector. In particular, the headline services activity index leapt 9.5pts on the month to 56.6, the strongest reading for five years. But survey respondents suggested that limited capacity due to strict social distancing rules had generated a weaker rebound in activity than had been expected, while there was also a notable rise in non-staff-related operating costs. As such, around one third of services firms reported a fall in employment during July, with only 10% signalling an increase. Meanwhile, with production capacity in the manufacturing sector having improved and supply chains recovering, the manufacturing output PMI jumped more than 9pts to 59.8, the highest since September 2016. And with new orders having risen for the first time in five months, roughly two thirds of responding manufacturers forecast a rise in production during the year ahead. Overall, the composite PMI rose to 57.1, an increase of 43pts from April's trough and the strongest reading for more than five years. But there was only a relatively modest recovery in new business this month, with demand from overseas still extremely weak. And so, on the whole, firms reportedly scaled back their workforces at a more accelerated pace in July.

The coming week in the UK

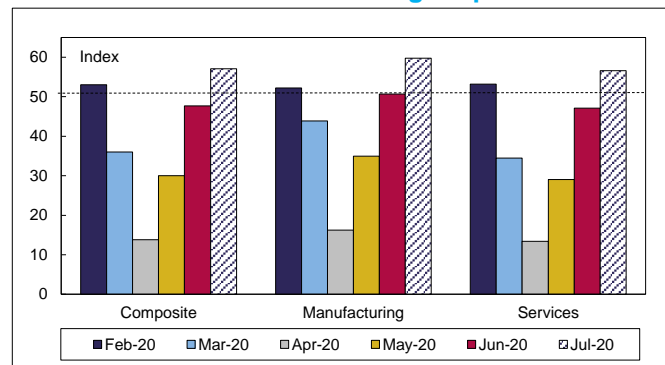
Looking ahead, the coming week will be relatively quiet on the UK economic data front. Of some note will be latest money and credit figures from the Bank of England on Wednesday. June will be the first full month of property transactions since the UK went into lockdown. However, mortgage lending is expected to remain well down on the average of £4.1bn in the six months to February. And going forward, despite the temporary stamp duty holiday on purchases of properties valued below £500k, mortgage demand and availability will be hit by rising joblessness. Consumer credit, meanwhile, is expected to remain down on a year earlier as the effects of Covid-19 continued to weigh on spending. These will be followed on Thursday by the SMMT auto production figures for June. Meanwhile, July data scheduled for release include the CBI distributive trades survey on Tuesday, BRC shop price index on Wednesday and final GfK consumer confidence indicators on Friday. With respect to monetary policy, the BoE will publish its Q2 report on the transactions carried out as part of the Asset Purchase Facility on Monday.

UK: Composite PMI components



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

UK: Services and manufacturing output PMIs



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

Daiwa economic forecasts

		2019		2020				2020	2021	2022
		Q3	Q4	Q1	Q2	Q3	Q4			
GDP growth, %, Q/Q										
Euro area		0.3	0.1	-3.6	-11.0	7.5	0.5	-8.0	4.0	3.3
Germany		0.3	-0.1	-2.2	-7.0	3.5	1.0	-5.0	3.2	2.4
France		0.2	-0.1	-5.3	-14.0	12.0	0.5	-9.8	5.3	4.0
Italy		0.0	-0.2	-5.3	-11.0	7.0	0.5	-10.2	2.4	2.2
Spain		0.4	0.4	-5.2	-16.0	12.0	0.5	-11.2	5.8	4.3
UK		0.5	0.0	-2.2	-19.0	13.0	0.5	-10.5	4.2	2.9
Inflation, %, Y/Y										
Euro area										
Headline CPI		1.0	1.0	1.1	0.2	0.0	-0.2	0.3	0.8	1.3
Core CPI		0.9	1.2	1.1	0.9	0.4	0.0	0.6	0.6	1.0
UK										
Headline CPI		1.8	1.4	1.7	0.6	0.2	0.0	0.6	1.2	1.5
Core CPI		1.7	1.6	1.6	1.3	0.8	0.4	1.0	1.2	1.3
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	140	20	20
BoE										
Bank Rate %		0.75	0.75	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Net asset purchases**		0	0	36	40	17	17	17	0	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	
EMU	Preliminary manufacturing (services) PMI	Jul	51.1 (55.1)	50.1 (51.0)	47.4 (48.3)	-	
	Preliminary composite PMI	Jul	54.8	51.1	48.5	-	
Germany	Preliminary manufacturing (services) PMI	Jul	50.0 (56.7)	48.0 (50.5)	45.2 (47.3)	-	
	Preliminary composite PMI	Jul	55.5	50.2	47.0	-	
France	Preliminary manufacturing (services) PMI	Jul	52.0 (57.8)	53.0 (52.4)	52.3 (50.7)	-	
	Preliminary composite PMI	Jul	57.6	53.5	51.7	-	
Italy	Business (manufacturing) sentiment	Jul	76.7 (85.2)	-(86.0)	65.4 (79.8)	66.2 (80.2)	
	Consumer confidence	Jul	100.0	103.3	100.6	100.7	
UK	Preliminary GfK consumer confidence	Jul	-27	-24	-27	-30	
	Retail sales including fuel M/M% (Y/Y%)	Jun	13.9 (-1.6)	8.3 (-5.9)	12.0 (-13.1)	12.3 (-12.9)	
	Retail sales excluding fuel M/M% (Y/Y%)	Jun	13.5 (1.7)	7.9 (-3.7)	10.2 (-9.8)	10.6 (-9.6)	
	Preliminary manufacturing (services) PMI	Jul	53.6 (56.6)	52.0 (51.5)	50.1 (47.1)	-	
	Preliminary composite PMI	Jul	57.1	51.7	47.7	-	
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 27 July 2020					
EMU		09.00 M3 money supply Y/Y%	Jun	9.3	8.9
Germany		09.00 Ifo business climate index	Jul	89.2	86.2
		09.00 Ifo current assessment balance (expectations)	Jul	85.3 (93.7)	81.3 (91.4)
		- Retail sales* M/M% (Y/Y%)	Jun	-2.8 (3.3)	12.7 (3.2)
France		11.00 Total jobseekers '000s	Q2	-	3334
Tuesday 28 July 2020					
UK		00.01 Lloyds business barometer	Jul	-	-30
		11.00 CBI distributive trades survey, total reported sales	Jul	-23	-37
		- Nationwide house price index* M/M% (Y/Y%)	Jul	-	-1.4 (-0.1)
Wednesday 29 July 2020					
France		07.45 Consumer confidence	Jul	98	97
Spain		08.00 Retail sales Y/Y%	Jun	-	-19.0
UK		00.01 BRC shop price index Y/Y%	Jul	-	-1.6
		09.30 Net consumer credit £bn (Y/Y%)	Jun	-1.4 (-)	-4.6 (-3.0)
		09.30 Net mortgage lending £bn (approvals '000s)	Jun	0.9 (35.0)	1.2 (9.3)
Thursday 30 July 2020					
EMU		10.00 Economic confidence (final consumer confidence)	Jul	82.0 (-15.0)	75.7 (-14.7)
		10.00 Industrial confidence (services confidence)	Jul	-17.3 (-24.0)	-21.7 (-35.6)
		10.00 Unemployment rate %	Jun	7.7	7.4
Germany		08.55 Unemployment rate % (change '000s)	Jul	6.5 (50.0)	6.4 (69.0)
		09.00 Preliminary GDP Q/Q% (Y/Y%)	Q2	-9.0 (-10.9)	-2.2 (-2.3)
		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	0.2 (0.4)	0.9 (0.8)
Italy		09.00 Unemployment rate %	Jun	-	7.8
Spain		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	-0.3 (-0.1)	-0.3 (-0.3)
Friday 31 July 2020					
EMU		10.00 Preliminary GDP Q/Q% (Y/Y%)	Q2	-12.0 (-14.0)	-3.6 (-3.1)
		10.00 Preliminary CPI (Core CPI) Y/Y%	Jul	0.3 (0.8)	0.3 (0.8)
France		06.30 Preliminary GDP Q/Q% (Y/Y%)	Q2	-15.6 (-20.0)	-5.3 (-5.0)
		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	0.2 (0.3)	0.2 (0.2)
		07.45 Consumer spending M/M% (Y/Y%)	Jun	6.0 (-2.7)	36.6 (-8.3)
Italy		09.00 Preliminary GDP Q/Q% (Y/Y%)	Q2	-13.3 (-18.0)	-5.3 (-5.4)
		10.00 Preliminary CPI (EU-harmonised) Y/Y%	Jul	-0.1 (-0.2)	-0.2 (-0.4)
		11.00 Retail sales M/M% (Y/Y%)	Jun	-	24.3 (-10.5)
Spain		08.00 Preliminary GDP Q/Q% (Y/Y%)	Q2	-16.0 (-19.8)	-5.2 (-4.1)
UK		00.01 Final GfK consumer confidence	Jul	-27	-30

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

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 27 July 2020		
UK		09.30 BoE Asset Purchase Facility quarterly report
Tuesday 28 July 2020		
Germany		10.30 Auction: €4bn of 0% 2027 bonds
Italy		10.00 Auction: €3.25bn of 0% 2022 bonds
		10.00 Auction: 0.4% 2030 index-linked bonds
UK		10.00 Auction: £2.75bn of 1.25% 2027 bonds
		10.00 Auction: £1.5bn of 1.625% 2054 bonds
Wednesday 29 July 2020		
Germany		10.30 Auction: €3.5bn of 0% 2035 bonds
UK		10.00 Auction: £3.5bn of 0.125% 2023 bonds
		11.30 Auction: £2.75bn of 1.625% 2028 bonds
Thursday 30 July 2020		
EMU		09.00 ECB publishes its Economic Bulletin
Italy		10.00 Auction: 5Y bonds
		10.00 Auction: 10Y bonds
UK		- SMMT to publish auto production figures for June
Friday 31 July 2020		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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