

Euro wrap-up

Overview

- Longer-dated Bunds ended the day little changed as the euro area's manufacturing PMIs pointed to recovery, while the Bundesbank confirmed that it would continue to conduct purchases under the ECB's PSPP framework.
- Gilts were also broadly unchanged, as the UK's final manufacturing PMI signalled meaningful expansion despite a slight downwards revision.
- Wednesday will bring final European services PMIs, as well as euro area retail sales and UK new car registration figures.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.713	+0.013
OBL 0 10/25	-0.719	+0.004
DBR 0 08/30	-0.527	-0.001
UKT 0½ 07/22	-0.073	-0.003
UKT 0% 06/25	-0.127	-0.006
UKT 4% 12/30	0.098	-0.006

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

Euro area

Final manufacturing PMIs nudged higher

There were no major surprises from the final July manufacturing PMIs, which inevitably suggested that there was a return to meaningful expansion for the first time since the outbreak of the virus earlier in the year as Covid-related restrictions continued to relax. In particular, the headline euro area manufacturing index was revised up from the flash estimate by 0.7pt to 51.8, representing an increase of 4.4pts from June and more than 18pts above April's trough. And the improvement was more striking in the output component, which at 55.3 was up by 6.4pts from June, 37pts from April and first above-50 reading since the start of 2019. And Markit noted that while producers of consumer goods continued to report the strongest expansion, producers of intermediate and capital goods also saw a return to growth last month. The survey detail also suggested that new orders, domestically and from abroad, had improved markedly, with new export orders reportedly rising for the first time since September 2018. This notwithstanding, output seems bound to remain restricted as firms continue to work below capacity. And so, despite an improved outlook, manufacturers continued to scale back their workforces, albeit not as aggressively as over the past few months but still at a historically fast pace.

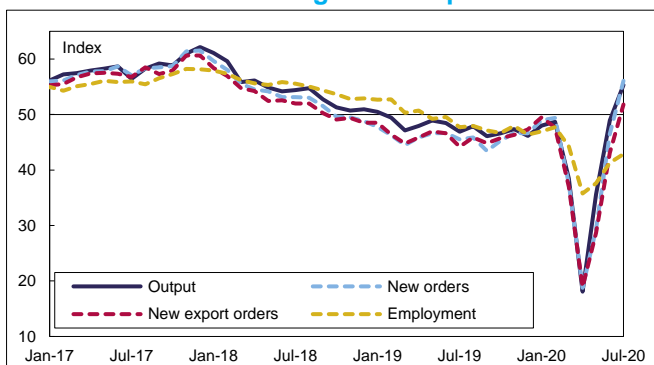
Sharp rebounds across member states

At the country level, today's survey suggested that having been disrupted significantly during the height of the coronavirus outbreak, manufacturing activity saw positive growth last month across each of the largest four member states. The headline PMIs suggested that Spain led the way in July (up 4.5pts to 53.5, a 27-month high), followed by France (up 0.1pt to 52.4), Italy (up 4.4pts to 51.9) and Germany (up 5.8pts to 51.0). Admittedly, the output components for each member state were more convincingly in expansionary territory (see chart below), although Germany (54.7) continued to lag slightly behind, arguably illustrating the limitations of the PMI surveys. Certainly, the strength in output in France (57.1) was somewhat at odds with ongoing subdued orders in that country, which contrasted sharply with a reported rebound in new business elsewhere in July. This notwithstanding, manufacturers continued to report that operating capacity remained well below pre-Covid levels. And so, firms in all member states continued to report further declines in employment, with German manufacturers reporting a steeper drop than in June.

Car registrations improving in France and Spain, but remained very weak in Italy

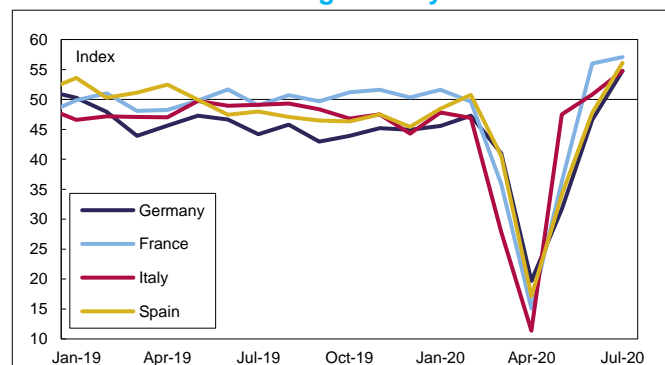
While auto manufacturers across the euro area have fared particularly poorly since the Covid-19 outbreak, there was some further encouraging improvement in new car registrations at the start of Q3. Having returned to growth in June, French auto sales rose 3.9%Y/Y in July, driven by a near-8½%Y/Y increase in domestic registrations. Spanish sales also registered the

Euro area: Manufacturing PMI components



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

Euro area: Manufacturing PMIs by member state*



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



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first month of growth since 2019, rising 1.1%Y/Y, having been down by 37%Y/Y in June, 73%Y/Y in May and 97%Y/Y in April. In contrast, however, Italian sales remained disappointingly weak, down a further 11.0%Y/Y, to leave them down more than 40%YTD/Y. Given the weakness earlier in the year, car registrations were still down considerably in the year to date in France (-33%YTD/Y) and Spain (-43½%YTD/Y) too. And while auto incentive schemes in those countries will continue to provide support, consumer demand will likely be dampened by concerns of a second wave of infections and deteriorating labour market prospects.

The coming two days in the euro area

Following a relatively quiet day for euro area economic data tomorrow – with just Spanish labour market figures for July due for release – Wednesday brings the release of the final services and composite PMIs for July. These are expected to align with the preliminary release, suggesting that at the start of Q3, activity in the services sector recovered at a somewhat faster pace than in the manufacturing sector as lockdown restrictions continued to relax. The flash euro area composite PMI rose 6.3pts to 54.8, with the equivalent German and French indices up to 55.5 and 57.6 respectively. Meanwhile, euro area retail sales figures for June are expected to report another relatively strong month of growth at the end of Q2 – indeed, consistent with national releases from the largest four member states, we expect the level of sales to have returned close to February's pre-pandemic peak.

UK

Final manufacturing PMI consistent with a jump in output

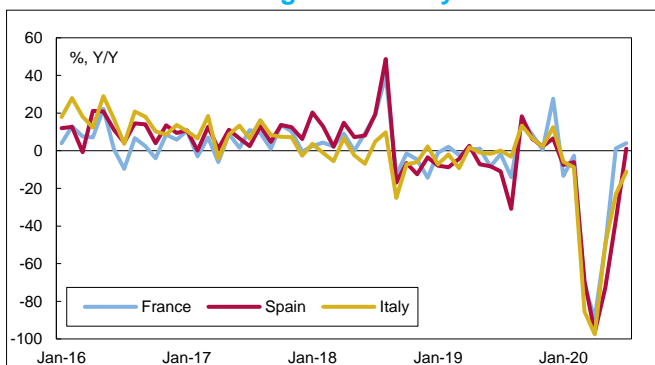
Like in the euro area, the UK manufacturing PMI signalled a marked improvement in the sector in July as lockdown restrictions continued to relax. Admittedly, the headline index was revised a touch lower from the flash estimate, by 0.3pt to 53.3, although this still marked an increase of more than 3pts on the month and was almost 21pts higher than the April trough. Indeed, with production capacity and supply chains having improved, the recovery in the output component was more marked, up 8.6pts on the month to 59.3, the strongest reading since late-2017. While production of consumer and intermediate goods continued to outpace, the survey reported an encouraging pickup in investment goods output for the first time in fifteen months. And despite weak demand from overseas, new orders reportedly rose for the first time in five months. As such, almost two thirds of responding manufacturers forecast a rise in production during the year ahead, with just 12% anticipating a contraction. This notwithstanding, firms continued to scale back their workforces in July, albeit at a slightly softer pace than over recent months as manufacturers saw the return of some staff that had previously been furloughed.

The coming two days in the UK

There are no UK economic data scheduled for release tomorrow. On Wednesday, meanwhile, the final service sector and composite PMIs for July will be published. Like in the euro area, the flash service sector index reported a notable improvement, rising to 56.6 in July, from 47.1 previously. Moreover, the preliminary composite PMI rose 9.4pts to 57.1, its strongest reading for five years. Wednesday will also bring new car registration figures for July, which are forecast to show a further modest recovery as more dealerships re-opened across the UK, albeit demand will likely remain subdued given the gloomy outlook for the labour market.

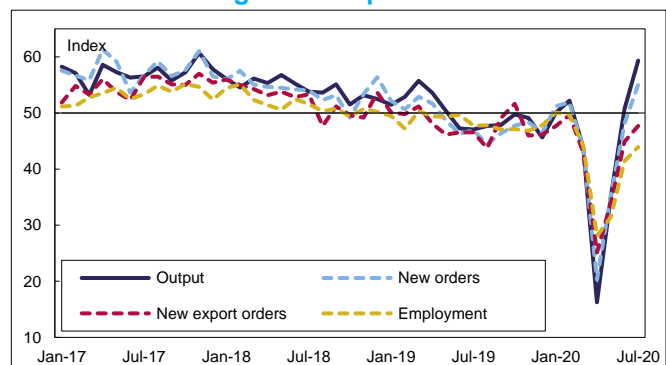
The next edition of the Euro wrap-up will be published on 05 August 2020

Euro area: New car registrations by member state



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing PMI components












Source: Refinitiv, Markit 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	 Final manufacturing PMI	Jul	51.8	51.1	47.4	-
Germany	 Final manufacturing PMI	Jul	51.0	50.0	45.2	-
France	 Final manufacturing PMI	Jul	52.4	52.0	52.3	-
	 New car registrations Y/Y%	Jul	3.9	-	1.2	-
Italy	 Manufacturing PMI	Jul	51.9	51.3	47.5	-
	 New car registrations Y/Y%	Jul	-11.1	-	-23.1	-
Spain	 Manufacturing PMI	Jul	53.5	51.6	49.0	-
	 New car registrations Y/Y%	Jul	1.1	-	-37.0	-
UK	 Manufacturing PMI	Jul	53.3	53.6	50.1	-



Auctions

Country	Auction
- Nothing to report -	



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	10.00	 PPI Y/Y%	Jun	-3.9	-5.0
Spain	08.00	 Unemployment change '000s	Jul	20.0	5.1










Auctions and events

Country	BST	Auction / Event
UK	10.00	 Auction: £3.25bn of 0.125% 2026 bonds
	11.30	 Auction: £2.25bn of 1.25% 2041 bonds




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's data releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	09.00	 Final services (composite) PMI	Jul	55.1 (54.8)	48.3 (48.5)
	10.00	 Retail sales M/M% (Y/Y%)	Jun	6.0 (-0.2)	17.8 (-5.1)
Germany	08.55	 Final services (composite) PMI	Jul	56.7 (55.5)	47.3 (47.0)
	-	 New car registrations* Y/Y%	Jul	-	-32.3
France	08.50	 Final services (composite) PMI	Jul	57.8 (57.6)	50.7 (51.7)
Italy	08.45	 Services (composite) PMI	Jul	51.4 (51.8)	46.4 (47.6)
Spain	08.15	 Services (composite) PMI	Jul	52.0 (52.3)	50.2 (49.7)
UK	9.00	 New car registrations Y/Y%	July	-	-34.9
	09.30	 Final services (composite) PMI	Jul	56.6 (57.1)	47.1 (47.7)

Auctions and events

Country	BST	Auction / Event
Germany	10.30	 Auction: €5bn of 0% 2025 bonds
UK	10.00	 Auction: £2.75bn of 0.375% 2030 bonds
	10.30	 Auction: £500mn of 0.125% 2048 index-linked bonds

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

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