

# Euro wrap-up

## Overview

- Bunds made gains as dovish commentary by ECB Chief Economist Lane countered yesterday's optimism from ECB President Lagarde.
- Gilts also made gains despite confirmation of firm economic growth in July.
- The coming week brings the latest BoE monetary policy announcement and data on UK inflation, jobs and retail sales, as well as euro area inflation, IP and construction.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.707	-0.027
OBL 0 10/25	-0.696	-0.045
DBR 0 08/30	-0.483	-0.048
UKT 1½ 09/22	-0.136	-0.018
UKT 0% 06/25	-0.128	-0.038
UKT 4% 12/30	0.179	-0.047

\*Change from close as at 4:15pm BST.  
Source: Bloomberg

## Euro area

### Spanish production closing in on the pre-lockdown level

At yesterday's [post-Governing Council press conference](#), Christine Lagarde was in an upbeat mood. Presenting upwards revisions to the ECB's GDP projections, she asserted that the recent rebound in economic activity had been strong, with output in the manufacturing sector perhaps most encouraging. The positive news flow from the manufacturing sector continued today with Spain's industrial production figures for July, which reported much stronger-than-expected growth of 9.3%M/M following growth of 14.0%M/M in June. That left the level of production at just 3.5% below February's pre-lockdown level, albeit still a larger 6.4% below the level a year earlier. Spanish manufacturing growth in July was propelled by increased production of consumer durables (up 14.2%M/M) and intermediate goods (11.6%M/M), with capital goods growth somewhat more moderate at 6.2%M/M. With relatively vigorous growth reported in France and Italy yesterday, but a slightly more subdued showing in Germany earlier in the week, the euro area production data due on Monday should report growth of almost 5%M/M in the sector at the start of Q3.

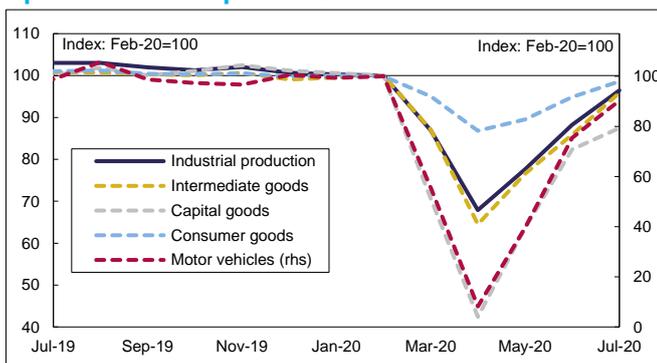
### Cautious Lane contrasts with upbeat Lagarde

Unfortunately, with the revival in the pandemic in Spain, surveys point to a softening in the pace of expansion in August. And while the industrial sector data have beaten expectations, Lagarde also acknowledged yesterday that momentum in the services sector has slowed somewhat recently. But that did not temper her optimism about the outlook for GDP or inflation. Indeed, as the projection for the latter was revised up despite recent strengthening of the euro and the weakening in core inflation to a record low in August, Lagarde appeared unperturbed about both of those developments. In contrast, in a blog article published this morning, ECB chief economist Philip Lane insisted that "there is no room for complacency". He explicitly acknowledged that recent euro appreciation "dampens the inflation outlook", and that "underlying price pressures have weakened due to subdued demand and the scale of labour market slack". He was particularly concerned that "inflation remains far below the aim and there has been only partial progress in combating the negative impact of the pandemic on projected inflation dynamics ... and the balance of risks continues to be tilted to the downside." Concluding that "Over the coming months, a richer inflation set will become available that will help to inform the calibration of monetary policy", he made clear that the next set of ECB projections, to be published in December, could well yet act as the trigger for further easing.

### The week ahead in the euro area

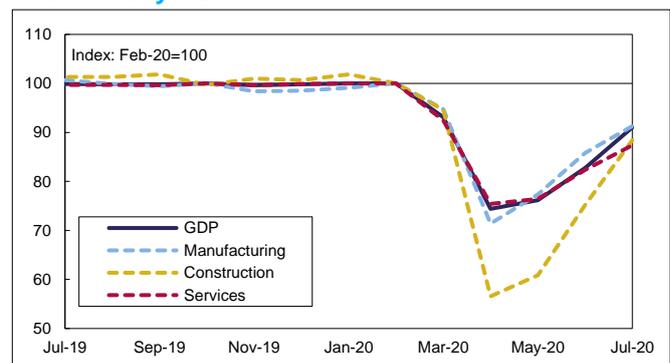
In the coming week, new data for economic activity in the euro area include July industrial production (Monday) and trade (Wednesday) as well as August new car registrations and July construction output (Thursday). National IP releases for the

#### Spain: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Monthly GDP



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.



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three largest euro area economies confirmed that production was up for the third straight month in July, although the pace of growth moderated somewhat. As such, the aggregate euro area release is likely to show growth of almost 5%M/M from 9.1%M/M in June. Meanwhile, final euro area CPI numbers for August are due on Thursday. According to the flash estimate, euro area consumer price inflation fell further than expected last month, with the annual rate of CPI plunging 0.6ppt in August to -0.2%Y/Y, the first negative reading since May 2016, and the core rate at a series low of 0.4%Y/Y. While that partly reflected the timing of the start of the summer sales and Germany's VAT cut, it also underscored the disinflationary effects of the pandemic. Today's equivalent final German and Spanish figures confirmed their initial estimates and so we expect the euro area figures to do likewise. However, the numbers from France and Italy on Tuesday will have a significant bearing on that. Among other data due from the member states, sentiment surveys include the Bank of France's business sentiment indicators for August on Monday and German ZEW investor confidence survey for September on Tuesday.

## UK

### A little more than half of the lockdown drop in GDP reversed

The ONS's estimate of monthly UK GDP in July came in remarkably close to expectations, rising by 6.6%M/M following growth of 8.7%M/M the previous month. That, however, left it still down a steep 11.7% from the pre-lockdown level in February, and implied that a little more than half of the initial peak-to-trough decline in output had been reversed. Growth in July was widespread across the sectors, as lockdown restrictions continued to ease. Services output – which accounts for about four-fifths of the UK economy – rose 6.1%M/M, with more than half of growth coming from sub-sectors (hospitality, education, personal services, etc.) which were given the green light to return to work that month. That, however, still left the level of services output down 12.6% from February's level. And while they posted growth on the month, the level of activity in many sub-sectors was still extremely low – e.g. air transport was down more than 90% from February, rail travel was down almost three-quarters, while activity in accommodation was still down more than 60%, and output of restaurants, pubs, etc., was down more than 50% on the same basis.

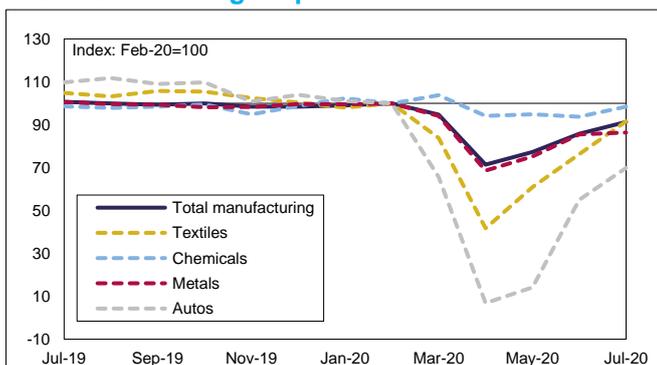
### Q3 GDP growth to be strong, but risks skewed significantly to the downside thereafter

In industry, overall production rose 5.2%M/M in July following growth of 9.3%M/M in June to be 7.0% below the February level. Manufacturing output was up 6.3%M/M, with positive growth registered in all main sub-sectors and led by autos, up 27.1%M/M. Nevertheless, output in several sub-sectors including clothing (down about one third from February), autos (down about 30% on the same basis) and aerospace (down more than 20%) were still well below pre-lockdown levels. Meanwhile, led by a sharp rebound in housebuilding, construction output rose a further 17.6%M/M following record growth of 23.5%M/M the prior month. But that still left it 11.6% below the February level. All indicators point to ongoing broad-based growth in August, supported not least by the Government's "Eat out to help out" subsidies. But the outlook is clouded by the revival in the pandemic and – most importantly – the marked labour market shake-out, which is now firmly underway. So, while GDP growth in Q3 will look extremely vigorous (we forecast growth of about 18%Q/Q), the pace of expansion in Q4 could well be subdued. And, given the very significant and increasing risks that no FTA with the EU will be agreed by the end of the year, the first quarter of 2021 could well see a substantive drop in economic activity thanks principally to the recklessness of the UK Government.

### The week ahead in the UK

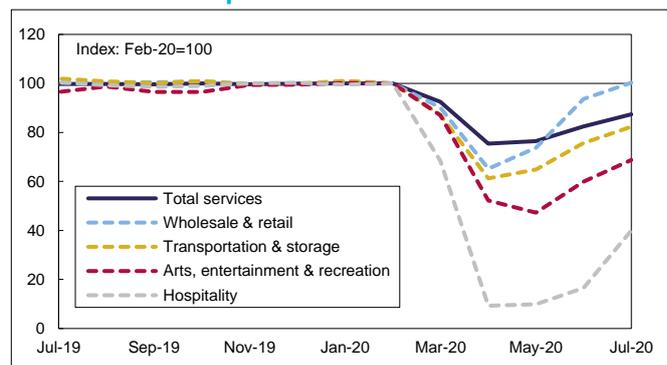
The main event in the coming week in the UK will be the BoE's monetary policy announcement on Thursday. With no new forecasts to be published, and recent economic data having been broadly in line with the BoE's expectations last month, we do not expect any changes to the main policy parameters. So, Bank Rate will remain at 0.1% and the asset purchase target will be kept at £745bn. The following meeting on 5 November – when the Committee will publish its updated projections and there could be greater clarity about the nature of the EU-UK trading relationship from the start of next year – will be the crucial one in determining the next steps for monetary policy.

#### UK: Manufacturing output



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Services output



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

On the economic data front, there are a few top-tier releases due, beginning with the latest labour market report on Tuesday. This will likely suggest a worsening of conditions in the jobs market, although the increase in the ILO unemployment rate will likely appear relatively modest, perhaps up just 0.2ppt to 4.1% in the three months to July. As numerous firms have announced plans for large-scale redundancies as the Job Retention Scheme is phased out, it is clear that a steeper rise in the unemployment rate will come in the autumn. Meanwhile, growth in labour earnings is expected to remain negative. The latest data for inflation, due on Wednesday, will likely show a significant drop after a temporary rise in July to 1.0%Y/Y. Finally, retail sales data on Friday will reveal whether the Government's "Eat out to help out scheme" gave support to spending on the high street – recent surveys from the CBI and BRC have given different impressions in that respect.

## Daiwa economic forecasts

	2020				2021		2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2			
<b>GDP growth, %, Q/Q</b>									
Euro area 	-3.6	-12.1	9.5	0.9	0.9	1.0	-7.9	4.3	3.1
Germany 	-2.0	-9.7	7.5	1.5	1.0	1.0	-5.5	4.5	2.4
France 	-5.9	-13.8	12.0	1.5	0.9	1.0	-10.4	5.5	4.0
Italy 	-5.5	-12.8	9.0	0.5	0.5	0.8	-10.8	2.8	2.2
Spain 	-5.2	-18.5	13.0	1.0	1.0	2.0	-12.5	6.0	4.4
UK 	-2.2	-20.4	18.0	1.8	1.0	1.0	-9.5	6.0	3.0
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline CPI 	1.1	0.2	0.1	-0.2	0.1	0.7	0.3	0.7	1.1
Core CPI 	1.1	0.9	0.7	0.3	0.5	0.5	0.7	0.6	0.8
UK									
Headline CPI 	1.7	0.6	0.7	0.4	0.7	1.7	0.9	1.4	1.6
Core CPI 	1.6	1.4	1.4	0.8	1.0	1.5	1.3	1.3	1.3
<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
Net asset purchases* 	20	140	100	100	100	70	140	20	20
BoE									
Bank Rate % 	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Net asset purchases** 	36	40	17	17	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	
Germany 	Final CPI (EU harmonised CPI) Y/Y%	Aug	<b>0.0 (-0.1)</b>	0.0 (-0.1)	-0.1 (0.0)	-	
Spain 	Final CPI (EU harmonised CPI) Y/Y%	Aug	<b>-0.5 (-0.6)</b>	-0.5 (-0.6)	-0.6 (-0.7)	-	
	Industrial production M/M% (Y/Y%)	Jul	<b>9.3 (-6.4)</b>	3.5 (-10.4)	14.0 (-14.0)	<b>13.6 (-10.0)</b>	
UK 	Monthly GDP M/M% (3M/3M%)	Jul	<b>6.6 (-7.6)</b>	6.7 (-7.5)	8.7 (-19.1)	-	
	Industrial production M/M% (Y/Y%)	Jul	<b>5.2 (-7.8)</b>	4.1 (-8.7)	9.3 (-12.5)	-	
	Manufacturing production M/M% (Y/Y%)	Jul	<b>6.3 (-9.4)</b>	5.0 (-10.5)	11.0 (-14.6)	-	
	Construction output M/M% (Y/Y%)	Jul	<b>17.6 (-12.8)</b>	10.0 (-17.6)	23.5 (-24.8)	-	
	Index of services M/M% (3M/3M)	Jul	<b>6.1 (-8.1)</b>	7.0 (-7.7)	7.7 (-19.9)	-	
	Total trade balance (goods trade balance) £bn	Jul	<b>1.1 (-8.6)</b>	3.0 (-6.9)	5.3 (5.1)	<b>3.9 (-6.6)</b>	
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
<b>Monday 14 September 2020</b>					
EMU		10.00 Industrial production M/M% (Y/Y%)	Jul	4.9 (-8.2)	9.1 (-12.3)
France		07.30 Bank of France industrial sentiment	Aug	100	99
<b>Tuesday 15 September 2020</b>					
EMU		10.00 Labour costs Y/Y%	Q2	-	3.4
Germany		10.00 ZEW current situation (expectations)	Sep	-70.3 (69.0)	-81.3 (71.5)
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	Aug	0.2 (0.2)	0.8 (0.9)
Italy		09.00 Final CPI (EU-harmonised CPI) Y/Y%	Aug	(-0.5)	(0.8)
UK		07.00 Unemployment claimant count rate % (change '000s)	Aug	-	7.5 (94.4)
		07.00 Average earnings including bonuses (excluding bonuses) 3M/Y%	Jul	-1.3 (-0.3)	-1.2 (-0.2)
		07.00 ILO unemployment rate 3M%	Jul	4.1	3.9
		07.00 Employment change Q/Q, '000s	Jul	-118	-220
<b>Wednesday 16 September 2020</b>					
EMU		10.00 Trade balance €bn	Jul	-	17.1
UK		07.00 CPI (core CPI) Y/Y%	Aug	0.1 (0.7)	1.0 (1.8)
		07.00 PPI input prices (output prices) Y/Y%	Aug	-5.3 (-0.7)	-5.7 (-0.9)
		07.00 Land Registry house price index Y/Y%	Jul	-	2.9
<b>Thursday 17 September 2020</b>					
EMU		07.00 EU-27 new car registrations	Aug	-	-22.3
		10.00 Construction output M/M% (Y/Y%)	Jul	-	4.0 (-5.9)
		10.00 Final CPI Y/Y%	Aug	-0.2	0.4
Italy		09.00 Total trade balance €bn	Jul	-	6.2
UK		12.00 BoE Bank rate %	Sep	0.10	0.10
		12.00 BoE gilt and corporate bond purchase target £bn	Sep	<u>745</u>	745
<b>Friday 18 September 2020</b>					
Germany		07.00 PPI Y/Y%	Aug	-1.3	-1.7
France		07.45 Final wages Q/Q%	Q1	0.9	0.2
Italy		09.00 Industrial orders M/M% (Y/Y%)	Jul	-	23.4 (-11.8)
		09.00 Industrial sales M/M% (Y/Y%)	Jul	-	13.4 (-16.4)
UK		07.00 Retail sales including fuel M/M% (Y/Y%)	Aug	0.8 (2.7)	3.6 (1.4)
		07.00 Retail sales excluding fuel M/M% (Y/Y%)	Aug	0.5 (4.2)	2.0 (3.1)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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

Country	BST	Event / Auction
<b>Monday 14 September 2020</b>		
EMU		14.30 ECB's Lane scheduled to speak
<b>Tuesday 15 September 2020</b>		
EMU		08.15 ECB's Panetta scheduled to speak
Germany		10.30 Auction: €4bn of 0% 2027 bonds
UK		10.00 Auction: £2.75bn of 1.25% 2027 bonds
		11.30 Auction: £1.75bn of 1.75% 2037 bonds
<b>Wednesday 16 September 2020</b>		
Germany		10.30 Auction: €1.5bn of 1.25% 2048 bonds
UK		10.00 Auction: £2.5bn of 0.375% 2030 bonds
<b>Thursday 17 September 2020</b>		
EMU		09.00 ECB's de Guindos scheduled to speak
France		09.50 Auction: 0% 2023 bonds
		09.50 Auction: 0.5% 2026 bonds
		09.50 Auction: 0.75% 2028 bonds
		09.50 Auction: 0.1% 2026 index-linked bonds
		09.50 Auction: 0.7% 2030 index-linked bonds
		09.50 Auction: 0.1% 2047 index-linked bonds
UK		12.00 BoE interest rate and asset purchase programme target announcement
		12.00 BoE Agents' summary of business conditions Q3
<b>Friday 18 September 2020</b>		
EMU		10.15 ECB's de Guindos scheduled to speak
		15.00 ECB's Schnabel scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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