

Euro wrap-up

Overview

- Bunds were little changed while data showed a modest easing in the pace of decline of German producer prices.
- Gilts were also little changed despite a further increase in UK retail sales.
- The coming week brings several September sentiment survey results, including the flash PMIs, as well as updated euro area bank lending and UK public finance data and the ECB's latest TLTRO-iii loan operation.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.712	-0.002
OBL 0 10/25	-0.698	-0.002
DBR 0 08/30	-0.489	+0.004
UKT 1% 09/22	-0.126	-0.008
UKT 0% 06/25	-0.133	-0.008
UKT 4% 12/30	0.178	-0.004

*Change from close as at 4:00pm BST.
Source: Bloomberg

Euro area

Euro area current account narrows

Despite an improvement in the [euro area's trade](#) position at the start of Q3, today's balance of payments figures published by the ECB unexpectedly reported a smaller current account surplus. In particular, the current account balance narrowed to €16.6bn in July from €20.7bn previously, to leave the twelve-month sum at €259bn (2.2% of GDP), the lowest since 2014 and down from €305bn (2.6% of GDP) in July 2019. The deterioration principally reflected a decline in the primary income balance, which due to a drop in income from abroad recorded a rare deficit (€6.1bn) in July and the largest since the height of the global financial crisis. In contrast, the goods trade surplus on the ECB measure widened to €29.6bn, broadly in line with the average in the six months before the pandemic. And the services trade surplus also edged higher (€4.6bn) although this left the annual sum considerably weaker than a year earlier as pandemic containment measures took their toll on sectors such as travel and tourism. With exports now reviving more rapidly than imports, the goods trade surplus should also increase steadily over coming months. However, the continued strengthening of the euro might also weigh on various components of the current account over the near term, and so we expect the surplus to remain below the levels (above 3% of GDP) registered from 2016 to 2018.

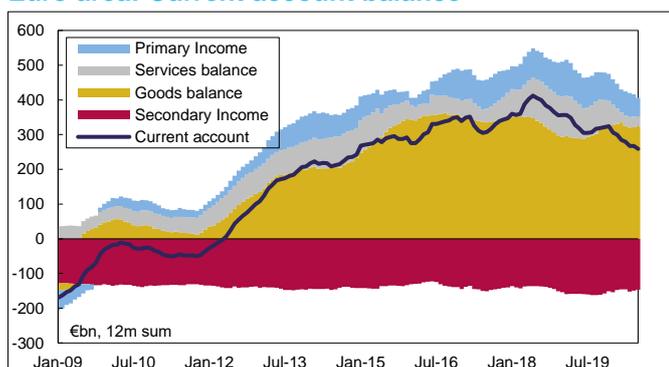
German producer price deflation eases on smaller energy drag

After yesterday's [euro area inflation](#) release confirmed that the headline CPI rate fell back into negative territory and core inflation dropped to a record low in August, German producer price inflation numbers for the same month, released today, showed a moderation in the year-on-year pace of decline last month, by 0.5ppt to -1.2%Y/Y. But this still marked the seventh consecutive monthly drop, with the improvement merely reflecting a smaller drag from energy prices. Indeed, when excluding energy, producer prices were still down 0.4%Y/Y, unchanged for the fourth consecutive month, with inflation of capital and consumer goods falling further. Therefore, today's release suggests (unsurprisingly) that underlying price pressures down the pipeline remain subdued in the euro area's largest member state, and thus almost certainly in the euro area as a whole.

The coming week in the euro area

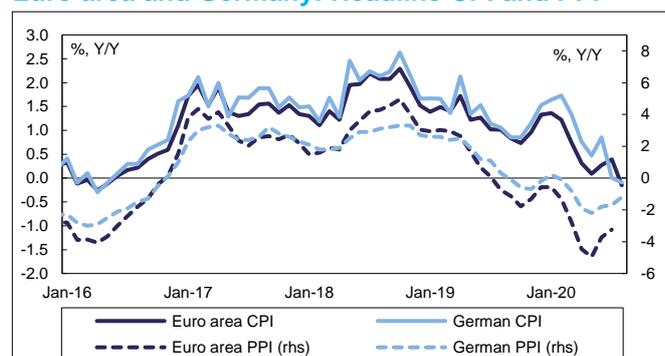
Sentiment surveys will dominate the euro area data flow in the coming week, with most notably the flash September PMIs due for release on Wednesday. Having fallen back in August as concerns about a resurgence in coronavirus cases weighed on confidence, the headline composite PMI is expected to have moved broadly sideways (from 51.9 in August) this month implying a moderation in the pace of recovery at the end of Q3. These figures will be preceded by the Commission's preliminary consumer confidence indicator on Tuesday, which is expected to report little improvement in conditions as

Euro area: Current account balance



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

Euro area and Germany: Headline CPI and PPI



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

concerns of a second pandemic wave and deteriorating labour market outlook remain to the fore. At the country level, Germany's GfK consumer survey will be published on Wednesday, followed by the ifo business sentiment indicators the next day. The French INSEE business survey is also due Thursday and will be followed on Friday by the equivalent Italian ISTAT survey. Friday will also bring the ECB's latest bank lending figures for August, which are likely to report ongoing solid credit growth to the region. Separately, the ECB will also announce on Thursday the take-up of its latest TLTRO-III operation. Following the extremely high level of participation at the prior operation in June, when 742 banks borrowed €1.31trn, we expect a significantly lower level of take-up from fewer banks this time around. Finally, ECB President Lagarde will speak on Monday at an online meeting of the Franco-German Parliamentary Assembly. And among other ECB Governing Council members in action, Chief Economist Lane will speak publicly at an online event on Tuesday.

UK

Retail sales rose further above pre-pandemic level in August

UK retail sales volumes rose for the fourth successive month in August and by a near-consensus 0.8%M/M, to take them 4.0% above February's pre-pandemic level and 2.8% higher than a year earlier. Compared to Q2, retail sales were on average up more than 17% in July and August, reinforcing expectations that GDP will post growth in that ball-park (and probably slightly above that rate) in Q3. Excluding auto fuel, sales were up a similar 0.6%M/M to be 5.3% above the pre-pandemic level and up 4.3%Y/Y. Once again, there was significant variation in the strength of sales of different items and store types. Sales at clothes stores rose a vigorous 13.4%M/M in August as summer discounting belatedly got underway (the clothing price deflator dropped 1.0ppt to -1.1%Y/Y). But they still languished 15.9% below February's pre-pandemic levels. In contrast, spending at household goods stores rose at a more moderate 1.9%M/M. But that pushed it almost 10% above February's level, with sales seemingly buoyed by continuing widespread home-working and an increased appetite for making home improvements. Spending on furniture, lighting and electrical goods was also up almost 10% from before the pandemic, and spending on hardware, paints and glass was up almost 13% on the same basis. In addition, while online retail sales fell 2.5%M/M they were still more than 46% above the pre-pandemic level, pointing to a lasting impact on shopping behavior from the pandemic.

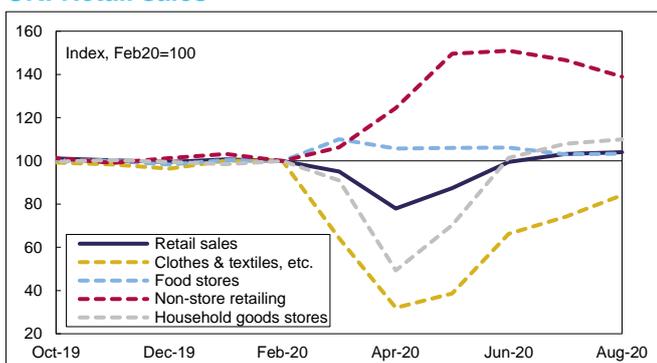
Retail sales to remain buoyed by new lifestyle and spending patterns

Looking ahead, retail sales seem likely to remain above February's level, not least as people continue to spend less on eating out and thus more on eating at home. And with large-scale home-working to persist, and spending on transport and a range of 'social' services set to remain relatively subdued due to the revival in the pandemic, more local lockdowns and possible renewed national restrictions, spending on household goods and home improvements might well remain firmer too. Nonetheless, total private consumption will likely remain some way below its pre-Covid level heading into 2021, particularly as the shakeout in the labour market intensifies. Indeed, today's ONS Business Impact of Coronavirus Survey results suggested that 10% of the workforce (close to 3mn people) were still on furlough during the period of 24 August to 6 September. While new targeted measures to support furloughed workers in the worst affected sectors should be expected, the end of the Government's Job Retention Scheme on 31 October and a still-low level of vacancies will push the unemployment rate sharply higher, weighing on consumer confidence and spending into the New Year.

The week ahead in the UK

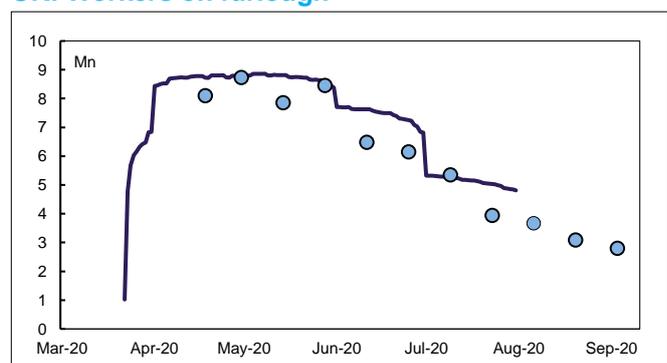
Like in the euro area, sentiment surveys will be the main UK data focus in the coming week. Wednesday's release of the flash PMIs is expected to suggest ongoing solid recovery across the sectors in September, although the conclusion of the government's "Eat out to help out" scheme at the end of August might well see the headline services activity index slip back slightly. These indicators will be preceded and followed by the CBI's industrial trends (Tuesday) and distributive trades surveys (Thursday). The only other release will be August public finance figures on Tuesday. But likely of more interest that

UK: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

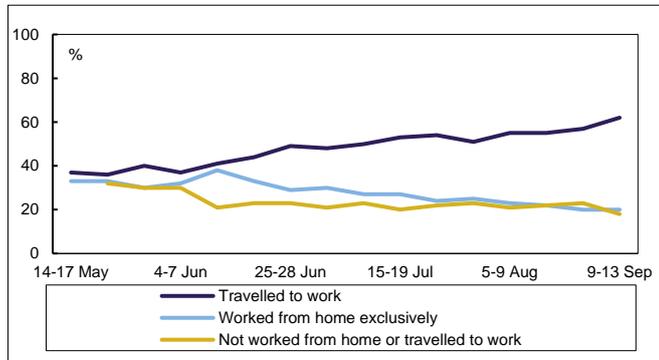
UK: Workers on furlough*



*Light blue dots represent estimated number of furloughed workers based on ONS' Business Impact of COVID-19 survey (BICs) results. Source: HMRC, ONS and Daiwa Capital Markets Europe Ltd.

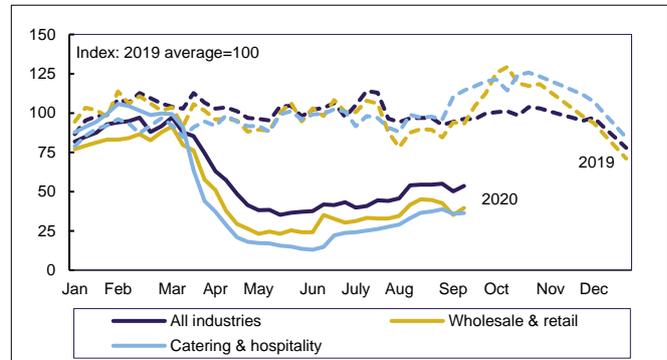
day will be BoE Governor Bailey's speech to a British Chambers of Commerce webinar, which will include discussion of recent monetary policy decisions and what further steps might be required to sustain the recovery. The BoE's continued preparations for a possible future shift to negative rates might therefore again come into focus.

UK: Proportion of adults travelling to work



Source: ONS and Daiwa Capital Markets Europe Ltd.

UK: Online job adverts



Source: Adzuna, ONS and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

	2020				2021		2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP growth, %, Q/Q									
Euro area	-3.6	-12.1	9.5	1.5	1.5	1.0	-7.6	5.5	3.4
Germany	-2.0	-9.7	7.5	1.5	1.0	1.0	-5.5	4.6	2.4
France	-5.9	-13.8	15.0	1.8	0.8	1.0	-9.1	6.5	3.0
Italy	-5.5	-12.8	9.5	3.0	1.5	1.0	-10.1	6.3	3.2
Spain	-5.2	-18.5	14.0	3.0	2.0	2.0	-11.7	8.2	4.2
UK	-2.2	-20.4	18.5	2.0	1.5	1.0	-9.3	7.1	3.6
Inflation, %, Y/Y									
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
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*	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.

The next edition of the Euro wrap-up will be published on 22nd September 2020

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Current account balance €bn	Jul	16.6	-	20.7	-
Germany	 PPI Y/Y%	Aug	-1.2	-1.4	-1.7	-
France	 Final wages Q/Q%	Q1	1.0	0.9	0.2	-
Italy	 Industrial orders M/M% (Y/Y%)	Jul	3.7 (-7.2)	-	23.4 (-11.8)	23.7 (-11.6)
	 Industrial sales M/M% (Y/Y%)	Jul	8.1 (-8.1)	-	13.4 (-16.4)	13.6 (-)
UK	 Retail sales including fuel M/M% (Y/Y%)	Aug	0.8 (2.8)	0.8 (2.7)	3.6 (1.4)	3.7 (-)
	 Retail sales excluding fuel M/M% (Y/Y%)	Aug	0.6 (4.3)	0.4 (4.2)	2.0 (3.1)	2.1 (-)

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 21 September 2020					
Spain		09.00 Trade balance €bn	Jul	-	1.5
UK		00.01 Rightmove house price index M/M% (Y/Y%)	Sep	-	-0.2 (4.6)
Tuesday 22 September 2020					
EMU		15.00 Preliminary consumer confidence	Sep	-14.6	-14.7
UK		07.00 Public sector net borrowing £bn	Aug	38.5	26.7
		11.00 CBI industrial trends survey, total orders	Sep	-40	-44
Wednesday 23 September 2020					
EMU		09.00 Preliminary manufacturing (services) PMI	Sep	51.9 (50.5)	51.7 (50.5)
		09.00 Preliminary composite PMI	Sep	51.9	51.9
Germany		07.00 GfK consumer confidence	Oct	-0.8	-1.8
		08.30 Preliminary manufacturing (services) PMI	Sep	52.5 (53.0)	52.2 (52.5)
		08.30 Preliminary composite PMI	Sep	54.1	54.4
France		08.15 Preliminary manufacturing (services) PMI	Sep	50.7 (51.9)	49.8 (51.5)
		08.15 Preliminary composite PMI	Sep	51.9	51.6
Spain		08.00 Final GDP Q/Q% (Y/Y%)	Q2	-18.5 (-22.1)	-5.2 (-4.1)
UK		09.30 Preliminary manufacturing (services) PMI	Sep	54.0 (55.9)	55.2 (58.8)
		09.30 Preliminary composite PMI	Sep	56.3	59.1
Thursday 24 September 2020					
Germany		09.00 Ifo business climate	Sep	93.8	92.6
		09.00 Ifo current assessment (expectations)	Sep	89.7 (98.0)	87.9 (97.5)
France		07.45 INSEE business confidence	Sep	93	91
		07.45 INSEE manufacturing confidence (production outlook)	Sep	96 (-)	93 (-3)
UK		11.00 CBI distributive trades survey, reported sales	Sep	-	-6
Friday 25 September 2020					
EMU		09.00 M3 money supply Y/Y%	Aug	10.1	10.2
Italy		09.00 ISTAT business (manufacturing) confidence	Sep	- (87.5)	80.8 (86.1)
		09.00 ISTAT consumer confidence	Sep	100.8	100.8

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 21 September 2020		
EMU	 13:45	ECB President Lagarde scheduled to speak
Tuesday 22 September 2020		
EMU	 13:00	ECB's Panetta scheduled to speak
	 15:00	ECB's Lane scheduled to speak
Germany	 10:30	Auction: €5bn of 0% 2022 bonds
UK	 08:30	BoE Governor Bailey scheduled to speak
Wednesday 23 September 2020		
Germany	 10:30	Auction: €3.5bn of 0% 2035 bonds
Thursday 24 September 2020		
EMU	 09:00	ECB publishes its latest Economic Bulletin
Italy	 10:00	Auction: fixed rate and index-linked bonds
UK	 10:00	Auction: £3bn of 0.125% 2026 bonds
	 11:30	Auction: £1.2bn of 0.125% 2028 index-linked bonds
	 15:00	BoE Governor Bailey scheduled to speak
Friday 25 September 2020		
UK	 12:00	BoE publishes its Q3 Quarterly Bulletin
	 -	UK sovereign debt rating update by Fitch

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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