

Euro wrap-up

Overview

- Bunds made modest losses as the final euro area services PMIs were revised higher, but German auto production and French IP were hit by supply bottlenecks.
- Longer-dated Gilts also made modest losses as the UK Government was set to ease its pandemic restrictions further, the UK services PMI was upwardly revised, but car registrations figures suggested a slow recovery.
- Tomorrow brings euro area retail sales and Germany factory orders figures for May, as well as the June construction PMIs.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.670	+0.006
OBL 0 04/26	-0.586	+0.022
DBR 0 08/31	-0.212	+0.026
UKT 0 ⁷ / ₈ 01/23	0.047	-0.001
UKT 0 ¹ / ₈ 01/26	0.311	-0.002
UKT 4 ¹ / ₂ 12/30	0.714	+0.013

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

Source: Bloomberg

Euro area

French IP hit by supply bottlenecks in May

While surveys have pointed to strong momentum in the industrial sector, last week's [final manufacturing PMIs](#) continued to highlight the impact of supply bottlenecks across the region. And their effect was evident in today's French IP figures, which reported a sharp decline in manufacturing of transport equipment in May, down almost 5½% M/M in May, with a near -8% M/M drop in autos production leaving it down 26% since the end of last year and almost 30% below the pre-pandemic level. Production of general machinery and equipment also slipped back in May, largely reversing growth of 0.9% M/M in April to leave it still almost 4½% lower than February 2020. In contrast, food production maintained an upwards trend, with the 1.4% M/M increase in May taking it back above the pre-pandemic high for the first time. So the overall drop in manufacturing production was more limited (-0.5% M/M), albeit still falling short of expectations of positive growth. There was a further notable increase in construction output in May (5.4% M/M), to leave it just 1% lower than in February 2020. Overall, however, total industrial output fell 0.3% on the month, following only modest growth in April (upwardly revised from an estimated decline previously), to leave it trending in April and May 1% below its Q1 average.

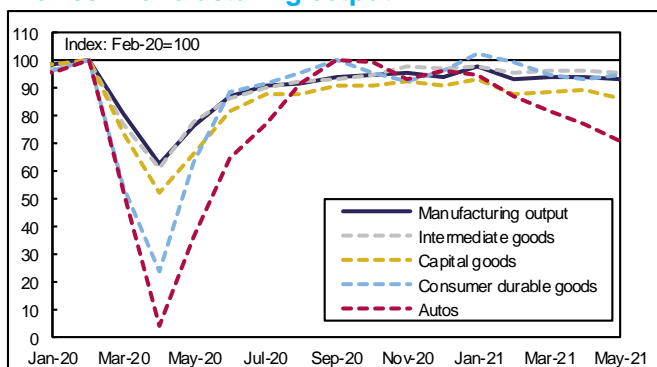
German autos sector still in the slow lane in June

Today's German auto production and registrations figures further highlighted the struggles facing the sector. For example, car production in June was down 19% compared with June 2020, a month that was historically low due to lockdown restrictions. Indeed, the level of production was down by more than a third from June 2019 and by 50% from June 2018. So, while production in the first half of the year was up by 17% YTD/Y, it remains almost 40% below the average level for the same period in the decade ahead of the pandemic. Admittedly, the level of German new car registrations was up compared with a year earlier for the fourth consecutive month in June and by a decent 24.5% Y/Y. But this remains flattered by base effects from the initial strict Covid lockdowns. Certainly, sales were still down more than 15½% compared with June 2019 and 11% below the average June level in the decade before that. And with supply-side constraints, associated not least with the shortage of semiconductors, likely to persist for the time being, we expect registrations to level off for a while too.

Euro area services PMIs signal robust rebound

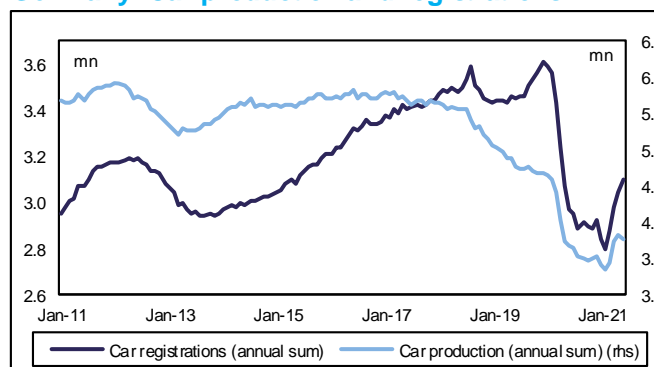
In contrast, today's final euro area services PMI pointed to robust recovery in the sector at the end of Q2, benefiting from the further relaxation of restrictions and accelerated vaccination programmes across the region. In particular, the headline business activity index was nudged higher from the initial reading to 58.3, an increase of 3.1pts from May and a level that was last higher 15 years ago. Among the member states, while Germany's activity index (57.5) was revised lower it was still

France: Manufacturing output



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Car production and registrations



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

the strongest reading for more than a decade. The respective French PMI (57.8) was upwardly revised to the highest since early 2018. But most notable today was the strength reported in the Italian and Spanish surveys, with the activity PMI in the former rising 3.6pts to 56.7, the highest since January 2018, and the latter up 3.1pts to 62.5, the firmest reading for 21 years. At the aggregate level, there was a notable 1.1pt upwards revision in the final new business index (to 58.7) leaving it at the highest since mid-2007, underpinned in part by strengthening demand in Germany. But no doubt in part benefitting from the gradual resumption of international travel, the euro area's export orders PMI also reported the first above-50 reading since August 2018, while firms signalled an acceleration in jobs growth in the sector across the member states, perhaps in part to respond to the significant increase in the backlog of outstanding work to the highest for 21 years. Against this backdrop, Markit also reported anecdotal evidence of wage pressures in the sector, which combined with higher prices of fuel and other goods saw input prices rise at the strongest rate since mid-2008. In light of this, services firms also reportedly hiked their prices by the most since late 2000.

Overall, the euro area's final composite PMI was similarly revised slightly higher from the flash, to 59.5, up 2.4pts from May and the highest since 2006. And a further improvement in the composite new orders balance (60.0) bodes well for the near-term outlook too. This broadly tallies with today's euro area Sentix survey, which showed the euro area's headline economic index rising for the fifth consecutive month in July to its highest since February 2018. Indeed, while investors were somewhat less upbeat about the outlook over the coming six months, the index was still significantly higher than the levels seen over recent years and above the long-run average.

The day ahead in the euro area

Tomorrow will bring euro area retail sales figures for May, which, in line with the strong growth seen in Germany and France and supported by the easing of restrictions across member states, are expected to more than reverse the drop of 3.1%MM in April. Focus tomorrow will also turn to German factory orders data for May, which are expected to report a pick up following the decline reported in April, while Spanish IP is expected to have remained on an upwards trend in May. Finally, June construction PMIs from various member states and Germany's ZEW financial investor survey for July are also due for release.

UK

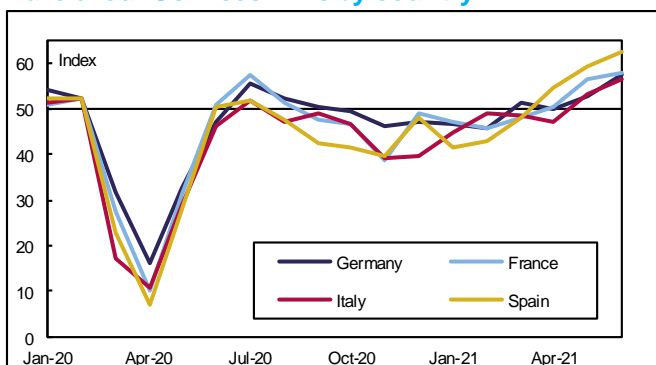
Services PMIs signal ongoing strong recovery

Despite the decision to postpone the final lifting of pandemic restrictions to 19 July – with that date expected to be confirmed by PM Johnson this evening – and the recent sharp rise in coronavirus infections in the UK, like in the euro area the UK's final services activity PMI was revised higher in June, by 0.7pt to 62.4, the second-highest reading since 2013. Firms in the sector continued to see robust demand for new business, although capacity constraints and reported staff shortages resulted in the steepest rise in backlogs of work since the survey began almost 25 years ago. As such, the survey also reported an increase in supplier delivery times to the second highest on the series, contributing to survey-record rates of input and output prices charged during June. Overall, despite last week's downwards revisions to the [final manufacturing PMIs](#), the final composite PMI was pushed higher by 0.5pt to 62.2, to leave it just 0.7pt lower than in May. As such, over the second quarter as a whole, the average composite activity PMI was almost 13pts higher than the Q1 average and the strongest for 23 years.

Car registrations impacted by supply constraints

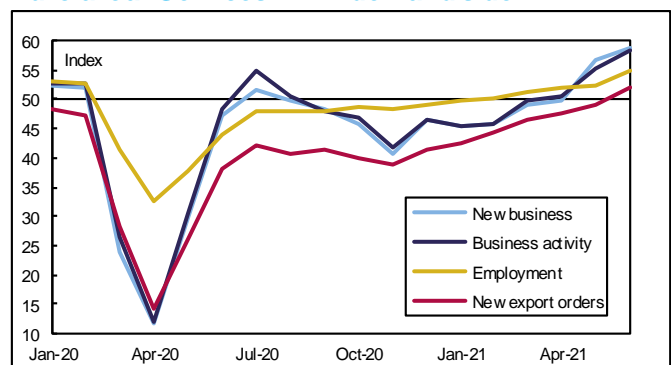
Like in Germany, UK car registrations figures today reported further recovery in June, with growth of 28%Y/Y following the surge in May (670%Y/Y). But again, annual growth in registrations remains flattered by the collapse in sales a year earlier when dealerships were just reopening. Indeed, compared with June 2019, sales were down by almost 17%, while registrations in the year-to-date were down by 27%YTD/Y. This shortfall in part also reflects production restrictions

Euro area: Services PMIs by country



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

Euro area: Services PMI – demand side



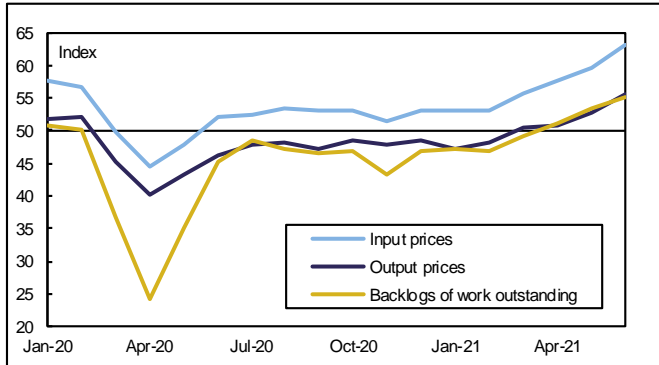
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

associated with the global shortages of semiconductors. And so, while the final lifting of covid restrictions later this month might well give a further boost to consumer confidence, supply constraints might well continue to limit registrations over the near term.

The day ahead in the UK

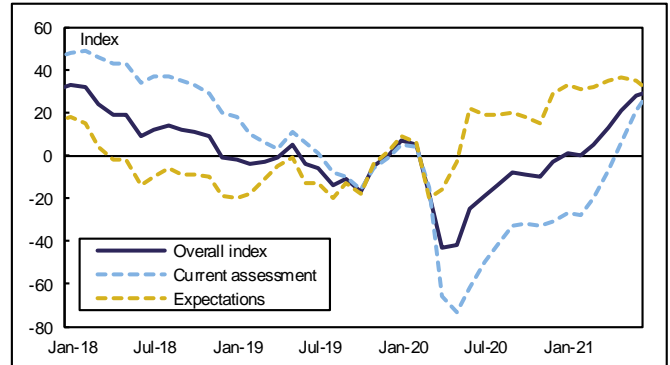
The flow of UK sentiment surveys continues tomorrow, with the June construction PMI expected to signal ongoing robust growth in the sector at the end of Q2.

Euro area: Services PMIs – supply side



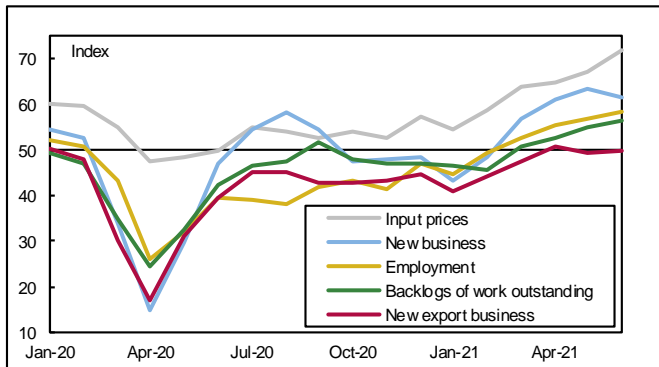
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

Euro area: Sentix investor sentiment survey



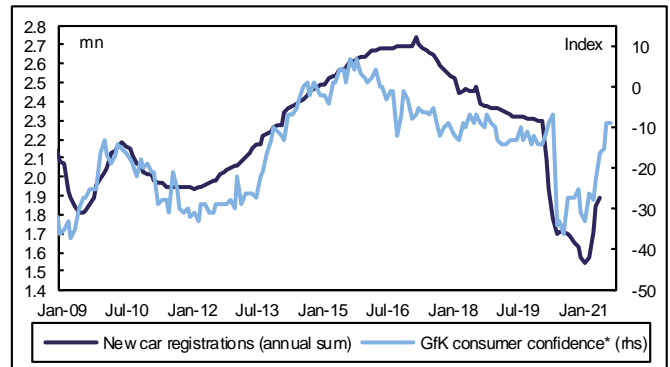
Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

UK: Services PMIs



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

UK: Car registrations and consumer confidence














*Three-month lead. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised
EMU	 Final services (composite) PMI	Jun	58.3 (59.5)	58.0 (59.2)	55.2 (57.1)	-
	 Sentix investor confidence	Jul	29.8	30.0	28.1	-
Germany	 Final services (composite) PMI	Jun	57.5 (60.1)	58.1 (60.4)	52.8 (56.2)	-
	 New car registrations Y/Y%	Jun	24.5	-	37.2	-
France	 Industrial production M/M% (Y/Y%)	May	-0.3 (20.5)	0.9 (21.7)	-0.1 (43.9)	0.1 (44.2)
	 Manufacturing production M/M% (Y/Y%)	May	-0.5 (22.3)	0.5 (26.0)	-0.3 (49.3)	-0.1 (49.5)
	 Final services (composite) PMI	Jun	57.8 (57.4)	57.4 (57.1)	56.6 (57.0)	-
Italy	 Services (composite) PMI	Jun	56.7 (58.3)	-	53.1 (55.7)	-
Spain	 Services (composite) PMI	Jun	62.5 (62.4)	-	59.4 (59.2)	-
UK	 New car registrations Y/Y%	Jun	28.0	-	674.1	-
	 Final services (composite) PMI	Jun	62.4 (62.2)	61.7 (61.7)	62.9 (62.9)	-










Auctions

Country	Auction
- Nothing to report -	






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <u>Daiwa forecast</u>	Previous
Euro area	 08.30	Construction PMI	Jun	-	51.7
	 10.00	Retail sales M/M% (Y/Y%)	May	4.2 (8.2)	-3.1 (23.9)
Germany	 07.00	Factory orders M/M% (Y/Y%)	May	1.2 (59.4)	-0.2 (78.9)
	 08.30	Construction PMI	Jun	-	44.5
	 10.00	ZEW current assessment balance (expectations)	Jul	5.0 (75.0)	-9.1 (79.8)
France	 08.30	Construction PMI	Jun	-	51.1
Italy	 08.30	Construction PMI	Jun	-	58.3
Spain	 08.00	Industrial production M/M% (Y/Y%)	May	0.4 (21.7)	1.2 (48.2)
UK	 09.30	Construction PMI	Jun	64.0	64.2

Auctions and events

Euro area	 08.00	ECB Governing Council member Hernandez de Cos speaks
Germany	 10.30	Auction: €400mn of 0.1% 2033 index-linked bonds
	 10.30	Auction: €200mn of 0.1% 2046 index-linked bonds
UK	 10.00	Auction: £2.75bn of 0.25% 2031 bonds
	 11.30	Auction: £1.5bn of 0.5% 2061 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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