

Euro wrap-up

Overview

- Bunds made modest losses at the longer end of the curve as the euro area flash PMIs suggested strengthening recovery momentum led by Germany.
- Despite some softer flash UK PMIs, Gilts made losses as the latest retail data reported firm sales in June.
- The coming week will bring the first estimates of euro area Q2 GDP and July inflation along with the account of the ECB's Governing Council meeting which finalised the strategic policy review conclusions.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.733	-0.004
OBL 0 04/26	-0.704	+0.002
DBR 0 08/31	-0.416	+0.013
UKT 0 ¹ / ₈ 01/23	0.072	+0.015
UKT 0 ¹ / ₈ 01/26	0.279	+0.017
UKT 4 ³ / ₄ 12/30	0.587	+0.023

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

Euro area

Flash PMIs suggest strengthening recovery momentum

While it tweaked its forward guidance to send a dovish signal on rates (but, pertinently, not asset purchases), yesterday the [ECB](#) was largely upbeat about the economic outlook, judging that the recovery remained on track and suggesting that the risks remained broadly balanced. Today's euro area flash PMIs for July were consistent with that assessment, pointing to ongoing GDP growth despite the accelerated spread of the delta variant, and persistent price pressures as supply struggled to keep up with demand. Indeed, the composite output PMI rose 1.1pts to 60.6, the best since 2000, implying a strengthening of recovery momentum. In addition, overall growth in new orders was the best since 2000, and job growth was the second strongest since the start of 2018. The improvement reflected developments in the services sector, where the activity index rose more than 2pts to 60.4, the best on the survey in 15 years. But the manufacturing output PMI fell 1.7pts to a 5-month low (but still respectable level) of 60.9, weighed by persistent supply bottlenecks. Indeed, looking jointly at manufacturing and services, growth in work backlogs rose to a record high. Overall sentiment for the year ahead fell back to a 5-month low, perhaps due to the spread of the delta variant but also likely reflecting expectations of a normalization of growth rates ahead. Finally, the composite index for input prices reached a new high. And, while it slipped back, the output prices PMI was still the second highest on the series.

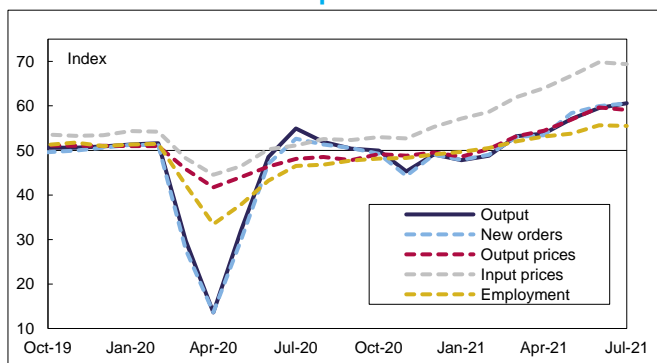
Germany accelerating, France moderating slightly

At the country level, Germany's flash PMIs were most encouraging, with the composite output PMI up 2.4pts to 62.5, the best on the series dating back to January 1998, and the services PMI up a hefty 4.7pts, also to a series high of 62.2. As for the euro area, however, the German manufacturing PMI fell back, dropping more than 2pts to (a still high) 63.0, while growth in work backlogs rose near the record high due to supply bottlenecks. More happily, new orders in German manufacturing picked up. And with services new business also rising, the German composite new orders index rose to a record high boding well for growth in the second half of the year if and when supply bottlenecks are alleviated. In contrast to the improvements registered in the equivalent indices for the euro area and Germany, the French flash composite output PMI dropped back 0.6pt to a three-month low of 56.8, as the services activity PMI fell 0.8pt to 57.0 while the manufacturing output index conversely picked up 0.6pt to 55.1. But the detail was similar to the rest of the euro area, with solid growth in demand meeting significant supply bottlenecks and stronger price pressures with respect to both inputs and outputs.

The week ahead in the euro area

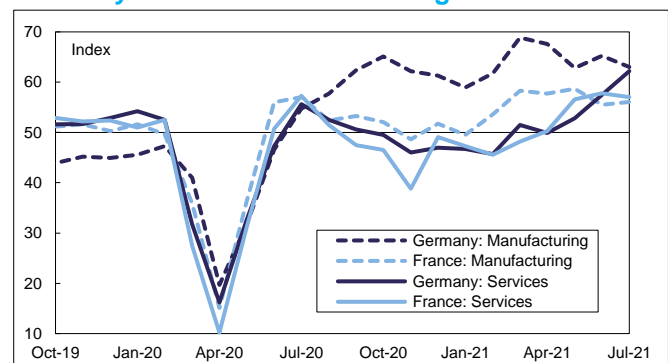
The coming week brings several top-tier data releases from the euro area and member states, with most noteworthy being Friday's flash Q2 GDP and July inflation figures. After an initial tightening of restrictions in April, the subsequent downtrend in

Euro area: Selected composite PMIs



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

Germany & France: Manufacturing & services PMIs*



*Manufacturing output PMIs and services activity PMIs.
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

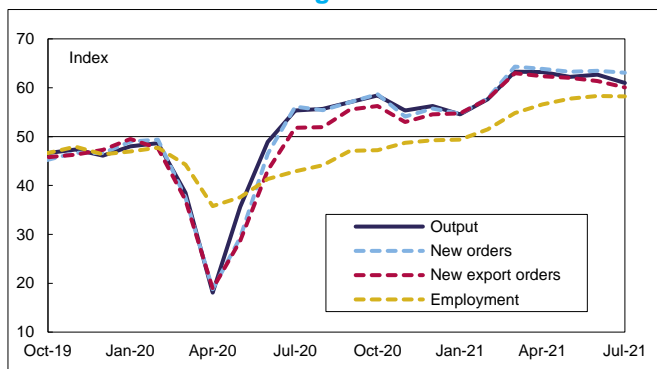
new covid-19 cases allowed a gradual reopening of economies as the second quarter wore on. And so, consistent also with the improved monthly activity data and surveys, we anticipate a moderate rebound in euro area GDP in Q2 following the modest contraction (-0.3%Q/Q) in Q1, with growth of 1.2%Q/Q to leave output up almost 13%Y/Y but still 3.9% below the pre-pandemic level. Friday will also bring initial GDP estimates from the largest four member states, with Germany expected to have more than fully reversed the 1.8%Q/Q contraction in Q1 and Spain also likely to have grown by close to 2.0%Q/Q or more. We expect growth of close to 1.0%Q/Q in France and Italy, where GDP moved broadly sideways in Q1. Other member states will also publish their Q2 growth estimates, including Belgium and Latvia (Thursday), as well as Austria, Portugal and Lithuania (Friday).

Friday's preliminary inflation figures will also be closely watched. Like the [ECB](#), we anticipate headline inflation to shift higher through the second half of the year due partly to higher energy inflation. However, we forecast headline inflation to rise just 0.1ppt to the ECB's 2.0% target in July, due principally to higher energy prices. But with services inflation still subdued and non-energy goods inflation having likely eased back after a jump in June, core inflation is likely to slip back further from 0.9%Y/Y in June. Flash inflation estimates are also due to be released by Germany and Spain (Thursday) and France and Italy (Friday).

July sentiment surveys will continue to flow in the coming week too, concluding on Thursday with the Commission's business and consumer confidence indicators. Having risen for five consecutive months and to a 21-year high in June, the headline euro area economic sentiment index is likely to have fallen back somewhat, albeit remaining at an elevated level. At the country level, the German ifo business survey is due on Monday, while German, French and Italian consumer and Italian business sentiment indices due on Wednesday. Among other releases, euro area bank lending figures are due on Tuesday, while French, German and euro area labour market data are due on Tuesday, Thursday and Friday respectively.

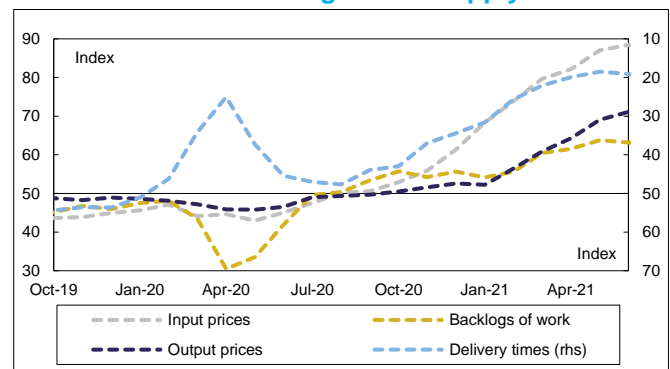
Beyond the economic data, Thursday will bring publication of the account of the ECB's special policy meeting of 7-8 July when the Governing Council agreed its strategic policy review conclusions. All decisions, including the setting of a symmetric 2% inflation target, were unanimous. But the account might shine light on the debate on issues that are still unresolved, including the purpose and effectiveness of the asset purchases and likely PEPP pace into the autumn and beyond.

Euro area: Manufacturing PMIs – demand side



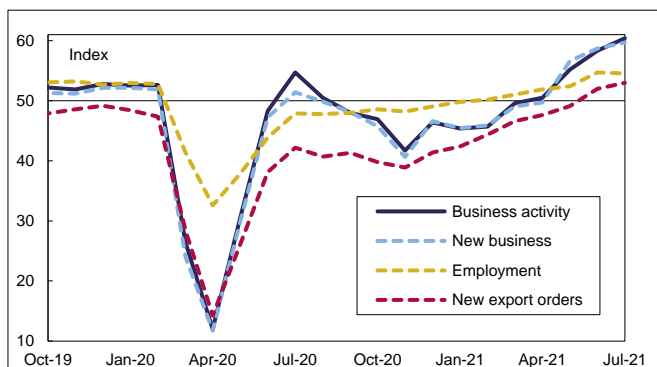
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing PMIs – supply side



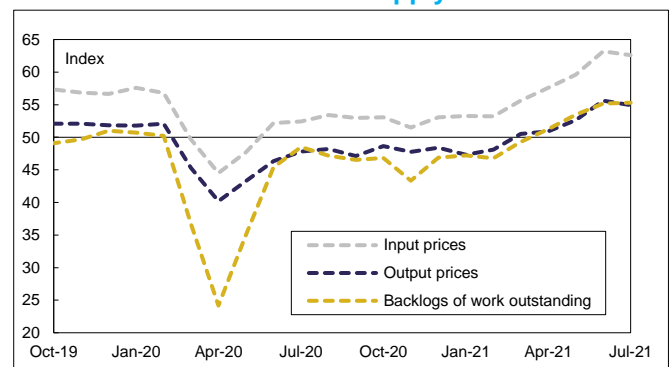
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

Euro area: Services PMIs – demand side



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

Euro area: Services PMIs – supply side



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

UK

Retail sales perhaps supported by European football championships

While retail footfall figures had signaled some levelling off in June, surveys had pointed to another month of solid sales on the High Street. And today's official ONS figures showed that total retail sales rose 0.5%M/M. That failed to reverse even half of the drop in May. But having jumped by more than 9%M/M in April as non-essential stores reopened, this left sales 9.5% higher than the pre-pandemic level and up a whopping 12.2%Q/Q in Q2, having contracted by more than 6%Q/Q in Q1. Within the detail, growth in June was driven by a rebound in spending at food stores (4.2%M/M, following a decline of 5.5%M/M in May), with anecdotal evidence suggesting the jump was partially linked to the Euro 2020 football championship. Auto fuel sales continued to rise (2.3%M/M) as domestic travel increased as lockdown rules eased while ongoing international travel restrictions encouraged staycations. In contrast, non-food store sales fell in June (-1.7%M/M) for the first time since January, with a hefty drop in sales at household goods stores (-10.9%M/M), reportedly partly associated with shortages of certain items – including furniture and electrical goods – due to supply-side issues. This notwithstanding, sales of such items were still significantly higher than their pre-pandemic peak. And overall, sales at non-food stores were up a whopping 37%Q/Q. Finally, while the amount spent online fell for the second successive month in June, the proportion of online retail spending (26.7%) still remained high by historical standards.

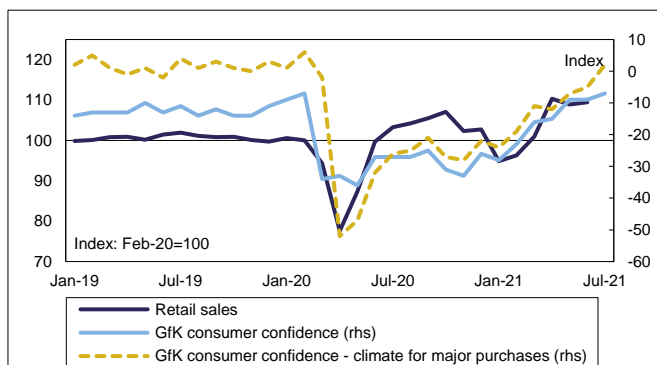
Consumer confidence edges back to pre-pandemic level

Despite the recent spike in coronavirus cases, today's GfK consumer confidence survey suggested that households remained broadly upbeat at the start of Q3. In particular, the headline sentiment index rose 2pts to -7 in July – the sixth consecutive month the index has improved or held steady – returning to its pre-pandemic level for the first time. While households were a little less optimistic about the general economic situation over the coming twelve months than in June, this was still significantly higher than a year ago. And a higher share of consumers assessed it a good time to buy durable goods, with the major purchase index up 7pts to +2 in July, the first positive reading since February 2020. So, while at the margin sales of goods might well give way to increased spending on services after the final restrictions on large gatherings were removed this month, today's survey suggests that overall household consumption will likely maintain a steady uptrend over coming months, supported not least by a drop in the household savings ratio to more normal levels as well as the release of some of the large stock of savings accumulated throughout the pandemic.

Flash PMIs flag near-term downside risks

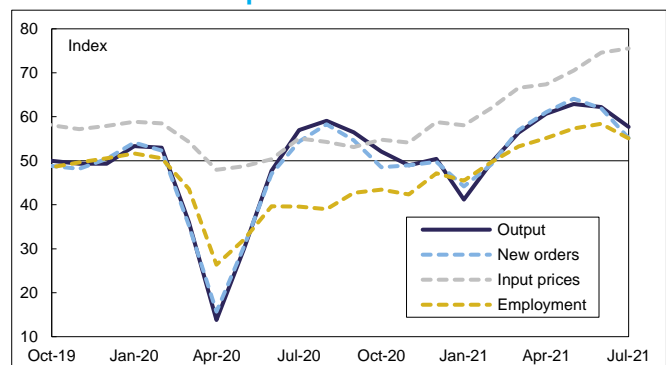
Despite positive signals on household consumption, the flash UK PMIs for July were somewhat disappointing, suggesting that growth momentum has passed its peak. Indeed, the composite output PMI fell for the second successive month and by a sizeable 4.5pts to 57.7, a four-month low. The weakness was reflected in services and manufacturing alike. Indeed, the services activity index fell 4.6pts to 57.8, while the manufacturing output PMI fell a similar 3.9pts to 57.1. According to Markit, a third of responding firms indicated an increase in activity in July, with 16% reporting a decline. The survey also reported a notable slowing in growth of new orders – the relevant composite PMI declined 6.8pts to 55.2. That reportedly allowed some firms to clear backlogs, although overall the stock of unfinished orders continued to grow. While some firms benefited from the looser restrictions and associated heightened demand, others cited difficulties arising from intensified supply bottlenecks and staffing absences due to the need for self-isolation associated with the so-called 'pingdemic'. Indeed, firms also cited a lack of candidates to fill vacancies. As such, higher wage pressures reported particularly in the services sector helped to push input costs to their highest since the survey began in the 1990s. Overall, as in the euro area, firms were less upbeat about future activity, with business expectations for the year ahead among services dropping to its lowest since October, with the recent rise in coronavirus cases and associated disruption outweighing the final lifting of restrictions. So, while we continue to expect another quarter of solid GDP growth, today's survey reinforces our view that downside risks to the near term outlook remain to the fore.

UK: Retail sales and consumer confidence



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Selected composite PMIs

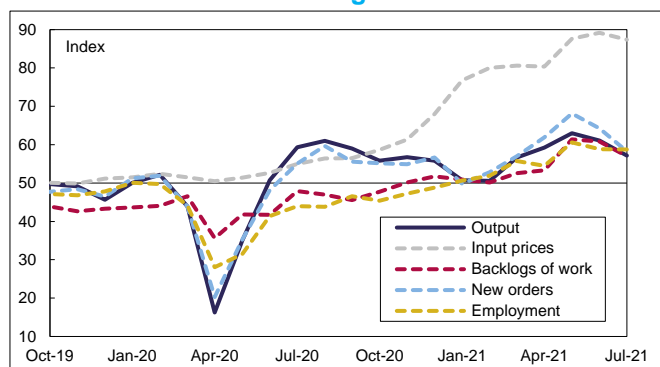


Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

The week ahead in the UK

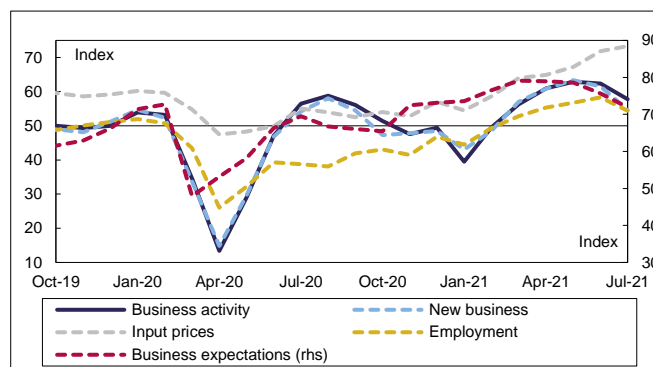
A relatively quiet week for UK economic data releases in the coming week will bring the CBI's latest distributive trades survey on Tuesday, which will provide an update on retail sector activity at the start of Q2 following the moderate growth in June reported in today's official retail sales figures. The BRC's shop price index for July – due Wednesday – will be watched for any signs of upwards price pressures on the High Street. However, of most interest will be the speech on Monday by BoE MPC member Gertjan Vlieghe. With a focus on the drivers of low interest rates, this might provide insight into how he will vote at the August monetary policy meeting, which will be his last as an external member on the Committee.

UK: Selected manufacturing PMIs



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

UK: Selected services PMIs



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

Daiwa economic forecasts












		2020	2021				2022	2020	2021	2022
		Q4	Q1	Q2	Q3	Q4	Q1			
GDP growth, %, Q/Q										
Euro area		-0.6	-0.3	1.2	2.4	1.2	1.0	-6.7	4.5	4.6
UK		1.3	-1.6	4.4	2.5	2.3	1.0	-9.8	6.7	5.9
Euro area										
Headline CPI		-0.3	1.1	1.8	2.4	2.6	1.5	0.3	2.0	1.6
Core CPI		0.2	1.2	0.9	1.2	1.5	0.8	0.7	1.2	1.2
UK										
Headline CPI		0.6	0.6	2.0	2.7	3.4	3.4	0.9	2.2	2.3
Core CPI		1.3	1.2	1.8	2.5	2.9	2.8	1.4	2.1	2.1
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
PEPP envelope* (€bn)		1850	1850	1850	1850	1850	1850	1850	1850	1850
BoE										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases** (£bn)		895	895	895	895	895	895	895	895	895

*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
Euro area	 Preliminary manufacturing (services) PMI	Jul	62.6 (60.4)	62.5 (59.5)	63.4 (58.3)	-
	 Preliminary composite PMI	Jul	60.6	60.0	59.5	-
Germany	 Preliminary manufacturing (services) PMI	Jul	65.6 (62.2)	64.1 (59.5)	65.1 (57.5)	-
	 Preliminary composite PMI	Jul	62.5	60.7	60.1	-
France	 Preliminary manufacturing (services) PMI	Jul	58.1 (57.0)	58.2 (59.0)	59.0 (57.8)	-
	 Preliminary composite PMI	Jul	56.8	58.5	57.4	-
UK	 GfK consumer confidence	Jul	-7	-8	-9	-
	 Retail sales, including auto fuel, M/M% (YY%)	Jun	0.5 (9.7)	0.3 (9.3)	-1.4 (24.6)	-1.3 (-)
	 Retail sales, excluding auto fuel, M/M% (YY%)	Jun	0.3 (7.4)	-0.2 (7.4)	-2.1 (21.7)	-2.0 (-)
	 Preliminary manufacturing (services) PMI	Jul	60.4 (57.8)	62.5 (62.0)	63.9 (62.4)	-
	 Preliminary composite PMI	Jul	57.7	62.0	62.2	-







































Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.







The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 26 July 2021					
Germany		09.00 Ifo business climate	Jul	102.0	101.8
		09.00 Ifo current assessment balance (expectations)	Jul	101.8 (103.6)	99.6 (104.0)
Spain		08.00 PPI Y/Y%	Jun	-	15.3
Tuesday 27 July 2021					
EMU		09.00 M3 money supply Y/Y%	Jun	8.2	8.4
Germany		- Retail sales* M/M% (Y/Y%)	Jun		4.2 (-2.4)
France		11.00 Total jobseekers '000s	Q2	-	3561
UK		11.00 CBI distributive trades survey, reported sales	Jul	20	25
Wednesday 28 July 2021					
Germany		07.00 GfK consumer confidence	Aug	1.0	-0.3
France		07.45 INSEE consumer confidence	Jul	102	102
Italy		09.00 ISTAT consumer confidence	Jul	115.5	115.1
		09.00 ISTAT manufacturing confidence	Jul	115.0	114.8
		09.00 ISTAT economic sentiment	Jul	-	112.8
UK		00.01 BRC shop price index Y/Y%	Jul		-0.7
		07.00 Nationwide house price index M/M% (Y/Y%)	Jul	-	0.7 (13.4)
Thursday 29 July 2021					
EMU		10.00 Economic sentiment indicator	Jul	118.7	117.9
		10.00 Final consumer confidence	Jul	-4.4	-3.3
		10.00 Industrial confidence (services)	Jul	13.0 (19.0)	12.7 (17.9)
Germany		08.55 Unemployment rate % (change '000s)	Jul	5.8 (-27.5)	5.9 (-38.0)
		13.00 Preliminary CPI (EU-harmonised) Y/Y%	Jul	3.2 (2.9)	2.3 (2.1)
France		07.45 PPI Y/Y%	Jun	-	7.2
Italy		10.00 PPI Y/Y%	Jun	-	10.0
Spain		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	2.9 (2.9)	2.7 (2.5)
UK		09.30 Net consumer credit £bn (Y/Y%)	Jun	0.5 (-)	0.3 (-3.2)
		09.30 Net mortgage lending £bn (approvals '000s)	Jun	6.4 (85.0)	6.6 (87.5)
		09.30 M4 money supply M/M% (Y/Y%)	Jun	-	0.4 (7.3)
Friday 30 July 2021					
EMU		10.00 Flash CPI (core CPI) Y/Y%	Jul	<u>2.0 (0.7)</u>	1.9 (0.9)
		10.00 Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>1.2 (12.9)</u>	-0.3 (-1.3)
		10.00 Unemployment rate %	Jun	7.9	7.9
Germany		09.00 Preliminary GDP Q/Q% (Y/Y%)	Q2	2.0 (9.5)	-1.8 (-3.1)
France		06.30 Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>1.0 (17.8)</u>	-0.1 (1.2)
		06.30 Consumer spending M/M% (Y/Y%)	Jun	-	10.4 (7.4)
		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	1.0 (1.4)	1.5 (1.9)
Italy		08.00 Unemployment rate %	Jun	10.4	10.5
		09.00 Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>1.2 (15.3)</u>	0.1 (-0.8)
		10.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	1.6 (1.0)	1.3 (1.3)
Spain		08.00 Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>2.2 (19.0)</u>	-0.4 (-4.2)
		08.00 Retail sales Y/Y%	Jun	-	19.6
UK		00.01 Lloyds business barometer	Jul	-	33

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 26 July 2021		
UK	 12.00	MPC member Vlieghe scheduled to speak
Tuesday 27 July 2021		
Italy	 10.00	Auction: €3.75bn of 0.375% 2026 bonds
UK	 10.00	Auction: £3bn of 0.375% 2026 bonds
Wednesday 28 July 2021		
Germany	 10.30	Auction: €2.5bn of 0% 2036 bonds
Thursday 29 July 2021		
EMU	 12.30	ECB to publish account from the 7-8 July meeting that finalised the strategic policy review conclusions
Italy	 10.00	Auction: 5Y and 10Y bonds
Friday 30 July 2021		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are MiFID 2 Professional (or equivalent) Clients and should not therefore be distributed to such Retail Clients. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Dislosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: <https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>