

Euro wrap-up

Overview

- Despite some firm German retail sales data, Bunds made gains.
- Gilts also made gains while the final UK manufacturing PMIs confirmed the softer picture of the sector provided by the flash survey.
- Tuesday will bring euro area producer price data for June while Wednesday will bring the region's retail sales figures for the same month and the final services PMIs for July.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.779	-0.007
OBL 0 10/26	-0.756	-0.010
DBR 0 08/31	-0.482	-0.019
UKT 0 ¹ / ₈ 01/23	0.033	-0.015
UKT 0 ¹ / ₈ 01/26	0.232	-0.029
UKT 4 ³ / ₄ 12/30	0.532	-0.032

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

Source: Bloomberg

Euro area

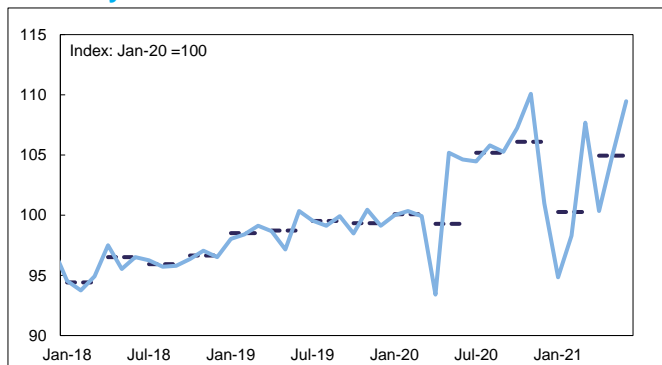
German retail sales jump in June as restrictions ease

While last week's preliminary German GDP figures fell short of expectations – with growth of 1.5%Q/Q in Q2 not fully reversing the 2.1%Q/Q contraction in Q1 – today's retail sales figures for June beat expectations, signaling a strong quarter for consumer spending. In particular, sales rose 4.2%M/M in June following a rise of 4.6%M/M in May as coronavirus restrictions continued to be eased. Indeed, sales of non-food products jumped 8.7%M/M in June, as sales of textiles, clothing and footwear – which had been particularly impacted by the activation of the Federal Government emergency brake earlier in the quarter – surged 70.5%M/M to above the pre-pandemic level for the first time. Department store sales were also notably stronger (34.3%M/M), while sales of furniture and household appliances posted double-digit growth. But with the reopening of stores, online sales fell 7.5%M/M, albeit remaining more than one third higher than the pre-pandemic level. This left overall retail sales some 9.0% above the pre-pandemic level in February 2020 and just 0.6% below the series high recorded in November last year. It also meant that retail sales rose a vigorous 4.6%Q/Q in Q2, illustrating the sizeable contribution of consumption to the rise in GDP last quarter. With the number of coronavirus cases still relatively low compared with other European countries, high frequency data suggest German sales remained well supported last month. It remains to be seen to what extent spending on goods might be substituted for services through the summer months. Given the recent monthly profile, however, even if retail sales were flat in July through September, they would still be up more than 4%Q/Q in Q3.

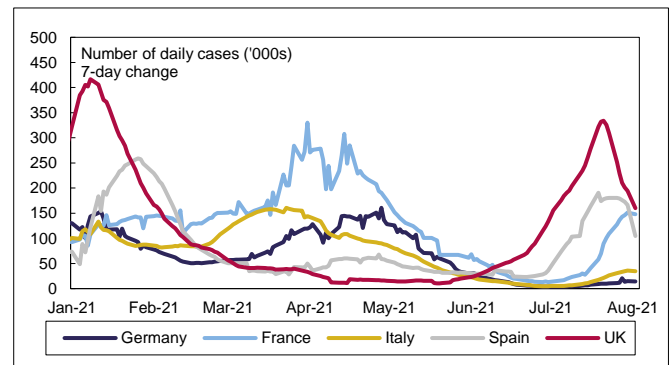
Car registrations remain subdued in July

While base effects have flattered new car registrations growth rates since March, today's figures from France, Italy and Spain for the start of Q3 disappointed, suggesting that the semiconductor shortage continued to hamper the autos sector. Indeed, French new car registrations fell 35.3%Y/Y in July. While total new registrations over the first seven months of the year was up 16%Y/Y, they were also down more than 22% from the first seven months of 2019. Indeed, the July level was down 33% from the same month in 2019, one quarter below the average for the month throughout the decade ahead of the pandemic and the lowest July outturn since 1972. In Italy, meanwhile, new car registrations fell a hefty 19.4%Y/Y, the first annual drop in five months. This was the lowest outturn for any July since 2013, 28% lower compared with that month in 2019 and 18% lower than the average for the month in decade to 2019. And in Spain, car registrations were down 28.9%Y/Y in July, roughly 12% lower than average for the month in the decade before the Covid outbreak.

Germany: Retail sales



Coronavirus cases in selected countries



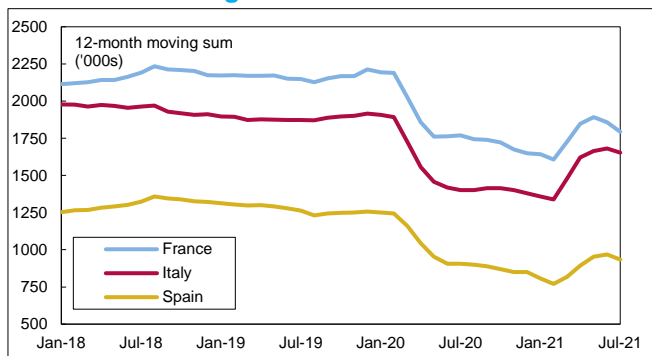
Final euro area manufacturing PMI revised up, but still down in July

Not least given the continued struggles in the auto sub-sector – which likely reflect a mix of supply- and demand-side issues – the final euro area manufacturing PMIs for July confirmed a slight slowing of momentum at the start of Q3. Admittedly, there was a modest upwards revision from the preliminary survey, but the output PMI was still down 1.6pts from June at 61.1, a five-month low. Markit again reported strongest growth in the capital goods sector, although this had moderated from June, while the consumer goods sub-sector expanded at a faster pace. New orders were also stronger than previously thought, although were a touch softer than in June. And with backlogs still historically high, the survey measure of employment in the sector was revised up to its highest level in the survey's 24-year history. Of course, ongoing supply bottlenecks – delivery times in the sector were among the longest on record – helped pushed the input price PMI up to a series high (89.2) too. But while the upwards revision to the output price PMI was steeper and also a record high (71.9) it continues to suggest that manufacturers were unable to pass on fully these higher costs. At the country level, the output index for Germany was also revised up, but still 1.5pts lower on the month (63.8), while the output index for France was revised down, but broadly unchanged from June (55.4). But while the indices were still elevated by historical standards, the Italian and Spanish output PMIs fell a little more sharply in July, down 2.5pts and 3.8pts to a five-month low of 60.2 and 58.6 respectively.

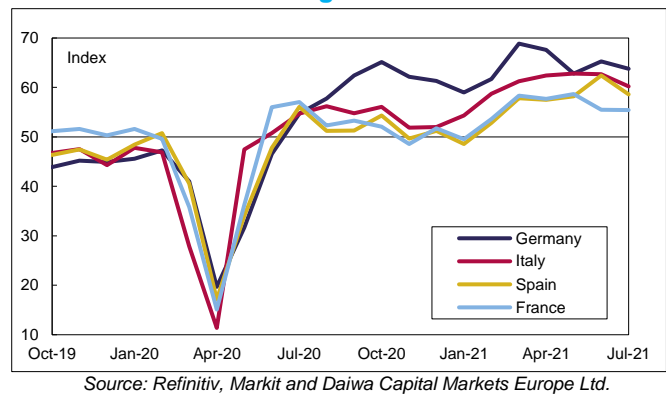
The coming two days in the euro area

Looking ahead, a quiet day in the euro area tomorrow brings the release of producer price data for June. The annual growth rate is expected to rise to a record high of 10.3%Y/Y in June, from 9.6%Y/Y in May, in part pushed higher by energy and supply-side pressures, as evident again in today's euro area manufacturing PMIs which reported near-record readings on the input cost and output price indices. Wednesday will see the release of the final services and composite PMIs for July. According to the preliminary release, and in contrast with today's manufacturing survey, the services sector activity index rose more than 2pts to 60.4, the best on the survey in 15 years. As such, the euro area composite output PMI rose 1.1pts to 60.6, the best since 2000, implying a strengthening of recovery momentum. Likely of more interest on Wednesday will be euro area retail sales data for June. While the Bank of France's measure of retail sales saw softer growth in June than in May, today's strength in the German figures should imply a robust outturn for aggregate retail sales in June, consistent with solid private consumption growth over the second quarter as a whole. German new car registration figures for July are also scheduled.

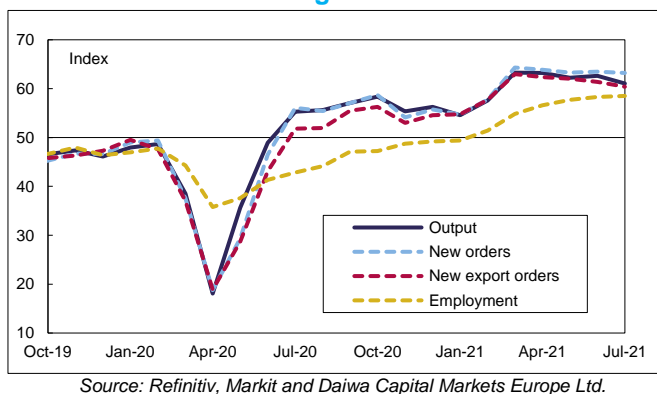
Euro area: Car registrations in member states



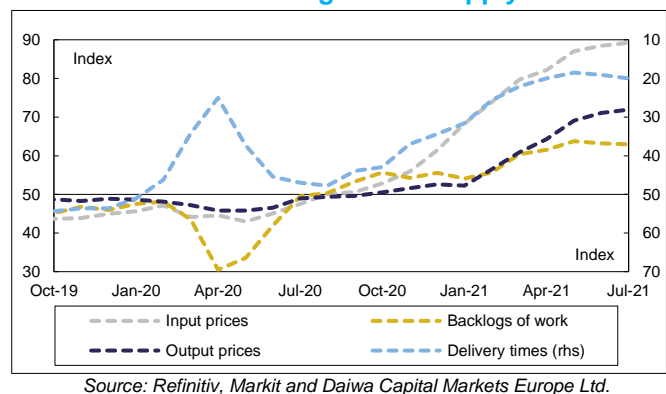
Euro area: Manufacturing PMIs in member states



Euro area: Manufacturing PMIs – demand side



Euro area: Manufacturing PMIs – supply side



UK

UK manufacturing PMI imply softer pace of recovery as supply bottlenecks weigh

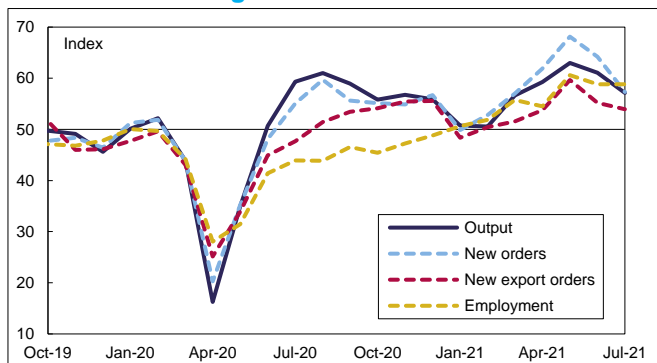
The headline figures from the UK's final manufacturing PMI survey aligned with the flash release, confirming a moderation in the recovery at the start of Q3 as manufacturers continue to contend with supply, staff and skill shortages. In particular, the output PMI fell for the second successive month in July and by 3.9pts to 57.1, a four-month low, underpinned by sizeable declines in the consumer and capital spending goods output PMIs. The drop in the new orders PMI was steeper than initially estimated, downwardly revised by 1pt to 57.3, marking a decline of almost 7pts from June, and reflected softer domestic and external demand alike. And while manufacturers reported solid employment growth in July, this was insufficient to reduce delivery times and backlogs, with the respective PMIs at levels beaten only twice on the series. So, given the ongoing difficulties sourcing certain materials, the input price PMI, while down from June, recorded its second-highest reading, 87.5, with the output PMI also only just off June's record-high too.

The coming two days in the UK

After a quiet day in the UK tomorrow, with no economic data scheduled for release, Wednesday will bring the final services and composite PMIs for July. The flash services PMI revealed that the activity index fell 4.6pts to 57.8 in July, suggesting that growth momentum in the sector might have passed its peak. The flash composite PMI also fell a sizeable 4.5pts to 57.7, a four-month low, with a slowing in growth of new orders.

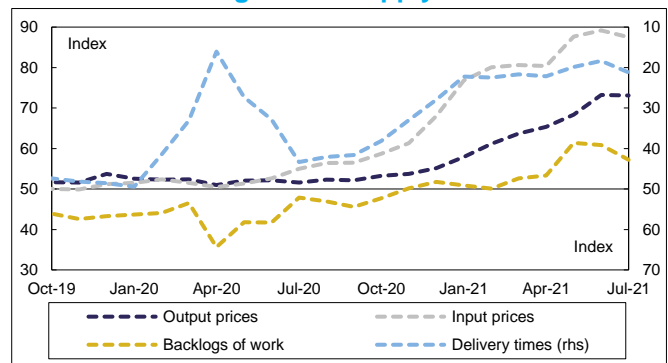
The next edition of the Euro wrap-up will be published on 4th August 2021

UK: Manufacturing PMIs – demand side



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

UK: Manufacturing PMIs – supply side














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
Euro area	 Final manufacturing PMI	Jul	62.8	62.6	63.4	-
Germany	 Retail sales M/M% (Y/Y%)	Jun	4.2 (6.2)	2.0 (3.0)	4.2 (-2.4)	4.6 (-1.8)
	 Final manufacturing PMI	Jul	65.9	65.6	65.1	-
France	 Final manufacturing PMI	Jul	58.0	58.1	59.0	-
	 New car registrations Y/Y%	Jul	-35.3	-	-14.7	-
Italy	 Manufacturing PMI	Jul	60.3	61.5	62.2	-
	 New car registrations Y/Y%	Jul	-19.4	-	12.6	-
Spain	 Manufacturing PMI	Jul	59.0	59.5	60.4	-
	 New car registrations Y/Y%	Jul	28.9	-	17.1	-
UK	 Lloyds business barometer	Jul	30	-	33	-
	 Final manufacturing PMI	Jul	60.4	60.4	63.9	-



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/ <i>Daiwa forecast</i>	Previous
Euro area	 10.00	PPI Y/Y%	Jun	10.3	9.6
Spain	 08.00	Unemployment change '000s	Jul	-	166.9









Auctions and events

UK	 10.00	Auction: £2bn of 1.25% 2051 bonds
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	 09.00	Final services (composite) PMI	Jul	60.4 (60.6)	58.3 (59.5)
	 10.00	Retail sales M/M% (Y/Y%)	Jun	1.7 (4.4)	4.6 (9.0)
Germany	 08.55	Final services (composite) PMI	Jul	62.2 (62.5)	57.5 (60.1)
	-	New car registrations* Y/Y%	Jul	-	24.5
France	 08.50	Final services (composite) PMI	Jul	57.0 (56.8)	57.8 (57.4)
Italy	 08.45	Services PMI (composite)	Jul	58.7 (59.5)	56.7 (58.3)
	 09.00	Retail sales M/M% (Y/Y%)	Jun	1.9 (-)	0.2 (13.3)
Spain	 08.15	Services (composite) PMI	Jul	63.2 (62.3)	62.5 (62.4)
UK	 09.30	Final services (composite) PMI	Jul	57.8 (57.7)	62.4 (62.2)

Auctions and events

Germany	 10.30	Auction: €4bn of 0% 2026 bonds
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*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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