

Euro wrap-up

Overview

- Bunds were little changed, as a survey suggested euro area investors were less upbeat about the outlook, while German export volumes moved sideways in Q2.
- Gilts reversed some of Friday's losses on a quiet day for UK economic news.
- After a quiet few days for top-tier releases, Thursday will bring the first estimate of UK Q2 GDP and euro area industrial production figures for June.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.758	+0.008
OBL 0 10/26	-0.727	+0.006
DBR 0 08/31	-0.461	-0.003
UKT 0 ⁷ / ₈ 01/23	0.120	-0.005
UKT 0 ¹ / ₈ 01/26	0.269	-0.021
UKT 4 ³ / ₄ 12/30	0.578	-0.056

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

Source: Bloomberg

Euro area

Euro area Sentix falls as investors less upbeat about outlook

Consistent with the increase in the [euro area's composite PMI](#) and [Commission's economic index](#) in July, today's euro area Sentix survey reported a further improvement in investors' assessment of current conditions to a level that was last exceeded in October 2018. But perhaps reflecting concerns about the delta variant and ongoing disruption to activity from supply bottlenecks, investors were notably less upbeat about the outlook over the coming six months – indeed, the relevant index fell for the third consecutive month, by 15.8pts to 14.0, the lowest reading since May 2020. As such, the overall economic index fell for the first month in six, by 7.6pts to 22.2. Admittedly, this still marked a historically elevated level well above the long-run average and was 65pts higher than the recent Covid-related trough in April 2020.

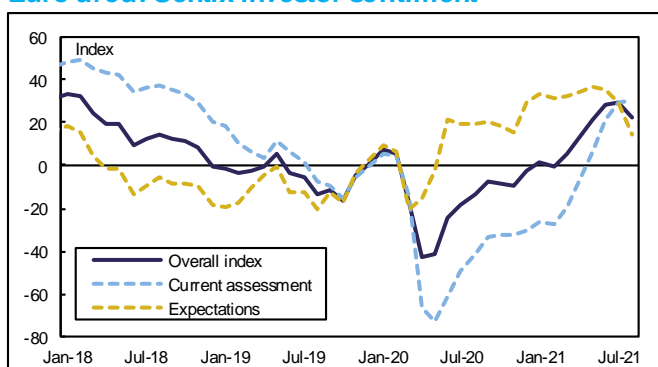
BoF suggests GDP is just 1-1½% below pre-Covid levels in July

As evidenced in recent manufacturing output data – for example, persistent weakness in [German production](#) despite sky-high orders – and surveys – the [manufacturing output PMIs](#) slipped back at the start of Q3 – supply constraints continue to hamper output, particularly in the largest two member states. And today's monthly economic update from the Bank of France (BoF) reported a higher share of firms indicating supply struggles in July. Indeed, almost half of all manufacturers were now experiencing difficulties, including more than 80% of auto firms and 70% of machinery and equipment producers, while roughly 60% of construction firms were also being impacted. The number of firms also indicating recruitment difficulties rose to almost 50% too. This notwithstanding, the BoF expects overall output to remain broadly stable in August. This follows a notable boost to services activity in July on the back of the rebound in restaurant and accommodation services – activity in these sub-sectors was assessed to have returned to a little more than 70% of their respective pre-Covid levels. Overall, therefore, the BoF estimated that the level of GDP at the end of July was now just 1-1½% below the pre-Covid level, an improvement from the 2% shortfall projected at the end of June.

German export recovery continues, but net trade likely remained a drag in Q2

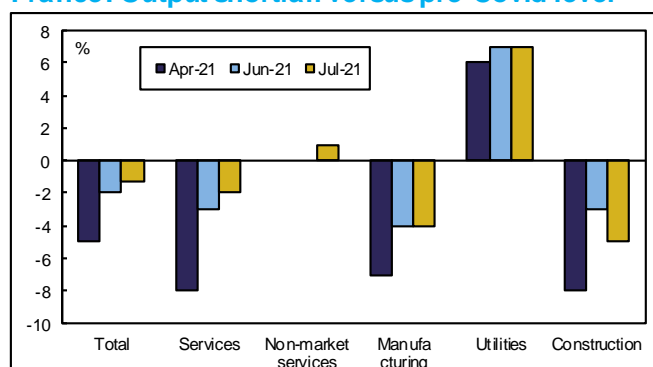
Contrasting with the ongoing weakness in manufacturing output, Germany's headline trade figures today reported, at face value at least, ongoing recovery at the end of Q2. In particular, the value of exports rose for the thirteenth month out of the past fourteen in June, by 1.3%MM, taking them back above the pre-pandemic level for the first time (1.1% higher than February 2020). This left exports up 23.6%Y/Y. While this in part reflected a low base a year ago, they were also more than 2% higher than the level in June 2019. Within the detail, exports to EU member states were up 26.1%Y/Y, while they rose to other countries by 20.7%Y/Y, considerably outpacing growth to the UK of 11%Y/Y. While the value of imports rose a more

Euro area: Sentix investor sentiment



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

France: Output shortfall versus pre-Covid level



Source: BoF and Daiwa Capital Markets Europe Ltd.

moderate 0.6%MM in June – resulting in the modest widening of the seasonally adjusted trade surplus by €1bn to €14.0bn – they were still more than 10% higher than the pre-pandemic level. But the improvement appears to have principally driven by prices. Indeed, when stripping out such effects, export volumes rose just 0.5%MM in June. And having declined in the previous two months, export volumes moved sideways in Q2 and still remained more than 2% lower than the pre-pandemic peak. So while import volumes fell in June (-1.2%MM), the 2%Q/Q increase in Q2 implies that net trade remained a drag on growth in Q2.

The coming few days in the euro area

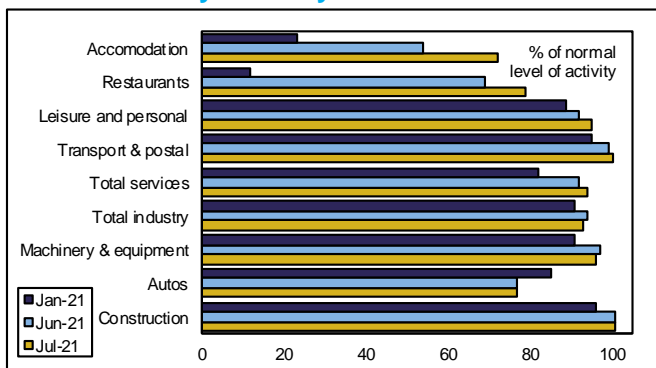
The flow of sentiment indicators continues tomorrow with the German ZEW survey of financial professionals expected to report a further improvement in the current economic situation in August to its highest level since 2018. But expectations for the outlook over the coming six months are likely to have moderated again, albeit still remaining at an elevated level. This will be followed on Wednesday by final July inflation estimates from Germany and Italy, with the former expected to confirm a further notable jump in the German HICP rate, by about 1.0ppt to above 3.0%YY, underpinned by base effects associated with last year's temporary VAT cut and energy inflation. Arguably of most interest will be Thursday's release of euro area industrial production figures for June. Given the mixed findings from the largest four member states, we might well see aggregate output move sideways at the end of Q2, following a fall of 1%MM in May. It will be particularly interesting to see how production in the autos sector evolved having declined a cumulative 28% since last November.

UK

The coming few days in the UK

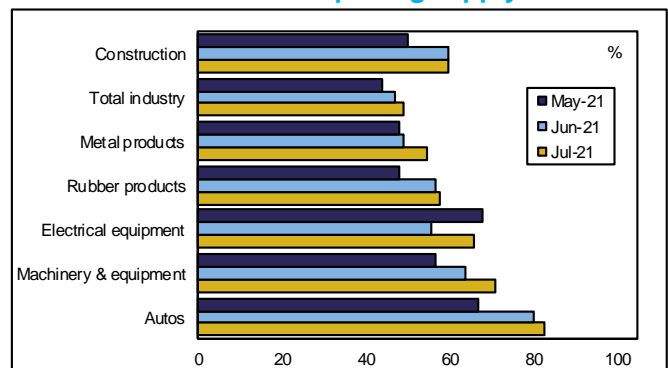
After a quiet start to the week for UK economic news, tomorrow will bring the BRC's latest retail sales monitor which will provide an update on spending on goods on the High Street at the start of Q3. But the main event of the week will come on Thursday with the first estimate of Q2 GDP. We currently forecast a second successive month of growth in GDP in June (circa 0.7%MM) to leave total economic output up 4.7%Q/Q in Q2 as a whole following a drop of 1.6%Q/Q in Q1. The risks to that forecast, however, are perhaps skewed to the upside. With pandemic restrictions having been eased steadily over the second quarter as a whole, growth in Q2 is likely to have been accounted for primarily by private consumption, which dropped 4.6%Q/Q in Q1. In addition, business investment seems bound to have rebounded after the steep drop of 10.7%Q/Q previously. Within the detail in June, however, we expect supply bottlenecks to weigh on manufacturing production with services activity also at risk of a temporary retreat following firm growth over the prior three months. Construction output, however, is due a rebound following two months of declines.

France: Activity levels by sector vs normal



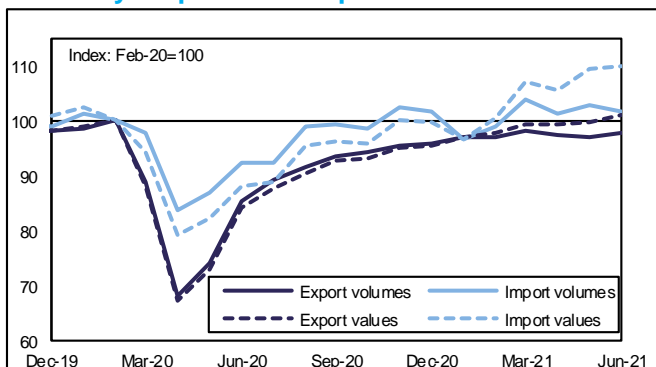
Source: BoF and Daiwa Capital Markets Europe Ltd.

France: Share of firms reporting supply difficulties



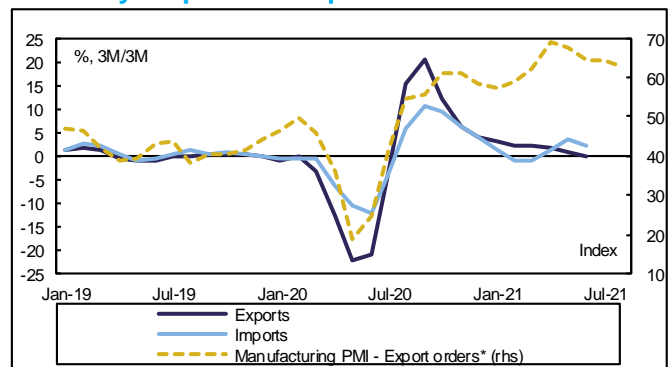
Source: BoF and Daiwa Capital Markets Europe Ltd.

Germany: Exports and imports






Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Export and import volumes and PMI






*PMI has one-month lead. Source: Refinitiv, Markit 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	 Sentix investor confidence	Aug	22.2	29.0	29.8	-
Germany	 Trade balance €bn	Jun	16.3	13.5	12.3	12.5
France	 Bank of France industrial sentiment	Jul	105	107	107	-
Auctions						
Country	Auction					
- Noting 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	
Germany		10.00 ZEW current situation balance (expectations)	Aug	30.0 (55.0)	21.9 (63.3)	
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	Jul	5.0	6.7	
Auctions and events						
UK		10.00 Auction: £2.75bn of 0.25% 2031 bonds				











Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases						
Economic data						
Country	BST	Release	Period	Market consensus/ <u>Daiwa forecast</u>	Previous	
Germany		07.00 Final CPI (EU-harmonised CPI) Y/Y%	Jul	3.8 (3.1)	2.0 (2.1)	
Italy		09.00 Final CPI (EU-harmonised CPI) Y/Y%	Jul	1.8 (0.9)	1.3 (1.3)	
Auctions and events						
Germany		10.30 Auction: €4bn of 2031 bonds				
UK		10.00 Auction: £700mn of 0.125% 2039 index-linked bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU		10.00 Industrial production M/M% (Y/Y%)	Jun	-0.2 (10.5)	-1.0 (20.5)
Italy		09.00 Trade balance €bn	Jun	-	5.6
UK		00.01 RICS house price balance %	Jul	76	83
		07.00 Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>4.7 (22.0)</u>	-1.6 (-6.1)
		07.00 GDP M/M%	Jun	<u>0.7</u>	0.8
		07.00 Industrial production M/M% (Y/Y%)	Jun	0.3 (9.4)	0.8 (20.6)
		07.00 Manufacturing production M/M% (Y/Y%)	Jun	0.3 (13.4)	-0.1 (27.7)
		07.00 Index of services M/M% (3M/3M%)	Jun	0.9 (5.7)	0.9 (3.9)
		07.00 Construction output M/M% (Y/Y%)	Jun	1.0 (32.2)	-0.8 (56.5)
		07.00 Goods trade balance £bn	Jun	-9.2	-8.5

Auctions and events

Italy		10.00 Auction: to sell bonds
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 12 August 2021

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