

Euro wrap-up

Overview

- Bunds were marginally stronger on a quiet end to the week for euro area economic releases.
- Gilts made gains as UK retail sales figures declined more than expected and consumer confidence eased.
- The coming week brings a flurry of August sentiment surveys, including the flash PMIs, as well as updated German Q2 GDP data and the account from the ECB's July Governing Council meeting.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.762	-0.006
OBL 0 10/26	-0.753	-0.005
DBR 0 08/31	-0.498	-0.006
UKT 0 ¹ / ₈ 01/23	0.100	-0.017
UKT 0 ¹ / ₈ 01/26	0.237	-0.022
UKT 4 ³ / ₄ 12/30	0.520	-0.017

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

Source: Bloomberg

UK

UK retail sales decline at a steeper-than-expected pace

Today's UK retail sales figures for July reported a larger than expected decline of 2.5%M/M, with growth in June also revised down a touch to just 0.2%M/M. As such, year-on-year growth moderated to just 2.4%Y/Y from 9.2%Y/Y previously. And while sales were still 5.8% above the pre-pandemic level, the July reading was almost 3% lower than the average level in Q2. Within the detail, the weakness in July was widespread. The largest monthly drop was seen in non-food store sales, down 4.4%M/M, with other non-food store sales falling a steep 10.1%M/M, the first monthly fall since February, driven by declines in second-hand goods and computer and telecoms equipment stores, with the latter perhaps impacted by ongoing supply difficulties. Clothing and household goods stores also saw sales decline 2%M/M and 3%M/M respectively, with the former still more than 10% lower than the pre-pandemic level. Sales at food stores were also weaker (-1.5%M/M) following a strong showing in June boosted by the start of the European football championship. And auto fuel sales were reportedly dampened by the heavy rainfall at the start of the month that impacted road traffic volume, leaving them 6.7% below their February 2020 level. Meanwhile, non-store sales rose (0.5%M/M) for the first month in three to leave them some 40% above their pre-Covid peak.

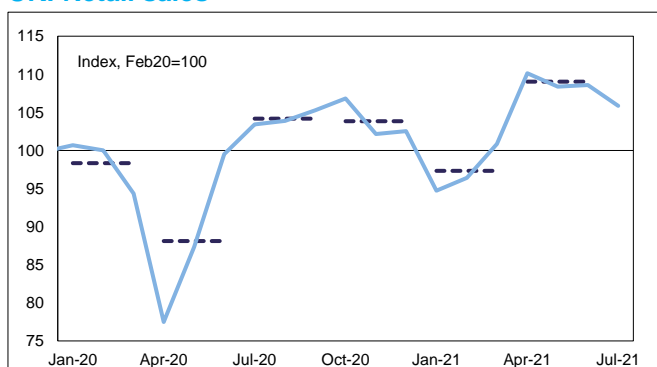
Spending on goods seemingly substituted for services

Of course, some of the weakness in today's sales figures will reflect a spike in the number of reported coronavirus cases that month and the so-called 'pingdemic' which caused the number of people self-isolating to rise considerably and therefore restrain retail footfall. But the final easing of restrictions in mid-July has predictably brought about a resurgence in spending on certain services. For example, Barclaycard spending numbers for July reported the first growth in credit card spending in the entertainment industry since the outbreak of Covid, up 8.1% compared with July 2019. They also suggested that expenditure at pubs, bars and clubs similarly saw strong growth (up 30.5% compared with July 2019), while increased demand for staycations supported spending on accommodation (up 7.8% compared with July 2019). With the surge in new daily coronavirus cases having stabilised somewhat during August, and still pent-up demand following extended restrictions in the services industry, we might expect to see households continue to substitute consumption of goods for services over the near term.

Consumer confidence eases slightly

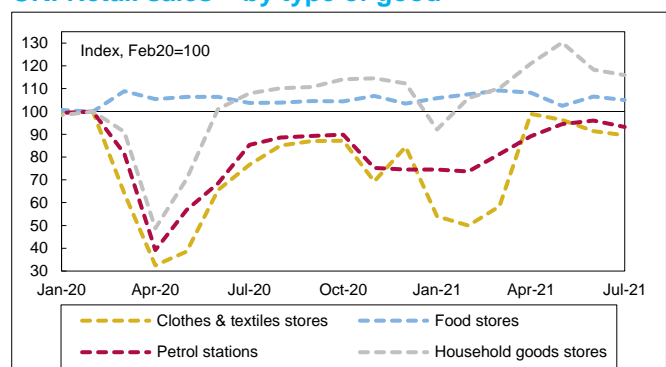
The latest GfK consumer confidence survey also suggested that consumers remain somewhat cautious about the near-term outlook. Having implied in July a more positive climate for making major purchases, today's survey saw the relevant index reverse much of that improvement to remain just below its long-run average and 9pts below the pre-pandemic level. But this

UK: Retail sales*



*Dashed dark blue line represent quarterly averages. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Retail sales – by type of good



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

tallied with a pickup in the survey's savings intentions balance, which rose to its highest for two years. So, with headline confidence in August (-8) only marginally weaker than in July and still considerably higher than its level a year earlier (-27), as and when concerns about the pandemic and economic outlook recede, this might suggest a further potential source for stronger consumer spending in due course.

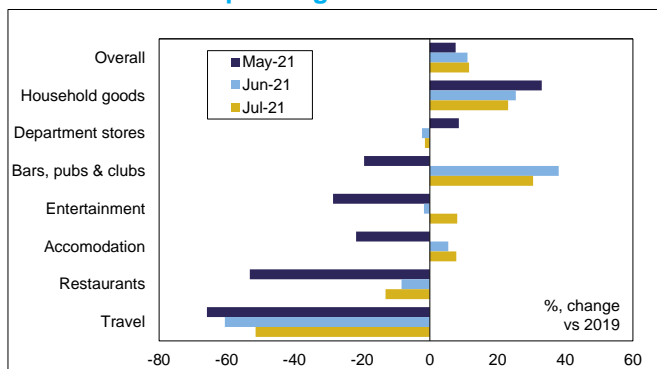
UK public borrowing continues to run below OBR forecast in July

Today's UK public sector finance figures were broadly in line with expectations, reporting net borrowing of £10.4bn in July (excluding banking groups), inevitably the second-highest July reading since monthly records began in 1993. This was notably lower than borrowing in June (which at £21.5bn was downwardly revised by £0.7bn from the initial estimate) and also £10.1bn lower than July last year. Moreover, net borrowing was roughly £5bn less than had been forecast by the OBR. The ongoing economic recovery again helped to boost central government receipts, which were estimated to have risen by £9.5bn compared with July 2020 to £70bn, with tax revenue up by £7.7bn to £51.7bn, supported not least by higher VAT contributions, PAYE and self-assessed income tax payments. Meanwhile, central government expenditure stood at £79.8bn in July, down almost £3bn from July 2020 as spending on the government's Jobs Retention Scheme (down £4.2bn) was considerably lower than a year ago. Overall, in the first four months of the financial year, central government expenditure was estimated to have fallen by £28.6bn compared with the same period in 2020. And with receipts up by £34.8bn, public sector net borrowing in the financial year to date stood at £78.0bn, a whopping £61.6bn (45%) lower than during the same period in 2020 and £26bn less than forecast by the OBR in March.

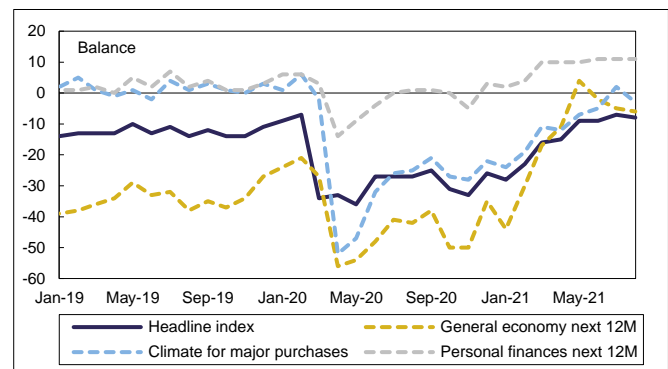
The coming week in the UK

The coming week's UK releases will be focused on sentiment surveys for August, including the preliminary PMIs on Monday. These should remain consistent with firm growth this month, albeit with some further levelling off in business optimism. In particular, the composite PMI is expected to fall 0.5pt to 58.7, which would be a five-month low, with supply bottlenecks continuing to weigh on activity in the manufacturing sector in particular. This outlook is expected to align with the CBI's industrial trends survey – also due on Monday – while orders are expected to have remained elevated. And the impact of ongoing supply shortages – particularly of global semi-conductors – will likely be evident in Thursday's release of SMMT car production figures for July. Meanwhile, the CBI's distributive trades survey on Wednesday might point to a further moderation in retail sales growth in the middle of the third quarter.

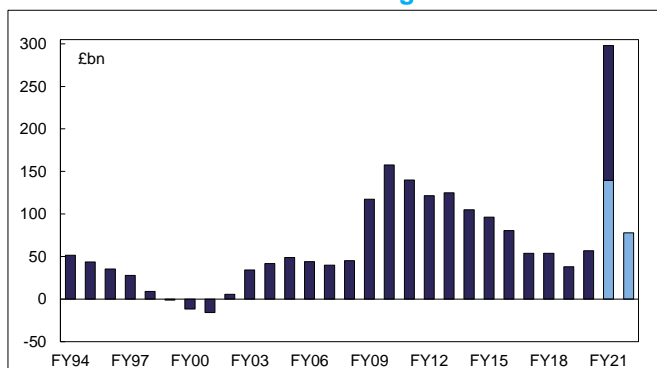
UK: Credit card spending*



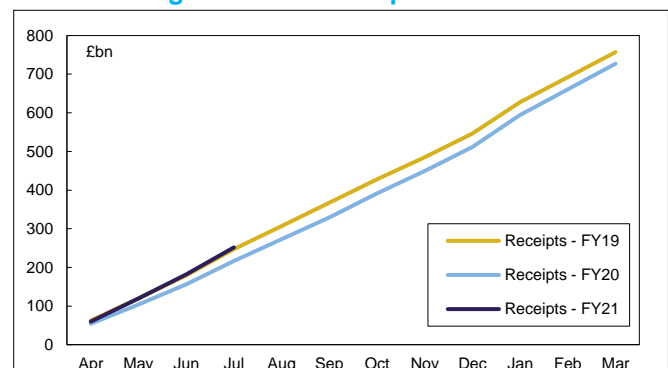
UK: Consumer confidence



UK: Public sector net borrowing*



UK: Central government receipts














Euro area

The coming week in the euro area

After a quiet end to the week for top-tier euro area releases, the coming week's economic data calendar will be dominated by August sentiment surveys, kicking off with the preliminary PMIs – from the euro area, Germany and France – on Monday. These are expected to report that confidence remained high this month, while also hinting that growth momentum has likely passed its peak. The flash euro area services activity PMI is expected to have moved broadly sideways (59.8), while the manufacturing PMI is expected to have edged down from July (62.8) as the sector continues to be impacted by supply bottlenecks. Overall, the euro area composite output PMI is expected to fall 0.6pt to 59.6, from the fifteen-year high reached in July. That day will also bring the Commission's flash consumer confidence indicator, which is expected to have moved broadly sideways. Meanwhile, Germany's ifo survey for August on Wednesday is expected to reveal that firms' assessment of current conditions remain favourable, although a modest deterioration in expectations for the coming six months will likely see the headline business climate index edge lower for the second successive month. National business confidence releases from France and Italy will be published on Thursday and Friday respectively, while the latest consumer confidence surveys are also due – Germany's GfK indicator on Thursday, followed by the French and Italian reports on Friday. In terms of hard economic data, Tuesday brings the second estimate of German Q2 GDP data, which will include the expenditure breakdown for the first time. This is expected to reveal that growth of 1.5%Q/Q mainly due to higher household and government consumption expenditure. Euro area bank lending figures for July will be published on Thursday.

Beyond the economic data, Thursday will bring publication of the account of the ECB's policy meeting of 21-22 July when the Governing Council strengthened its [forward guidance on interest rates](#) to align it with the findings of its [strategic policy review](#). But the meeting saw the ECB's forward guidance on asset purchases unchanged. And so the account will be watched closely for any hints that the Governing Council might become more aggressive on its guidance with respect to asset purchases in due course, or an indication into the pace of buying in the final quarter of the year. Thursday will also see ECB Executive Board member Schnabel participate in an economist roundtable on the ECB's strategy review.

Daiwa economic forecasts






		2021				2022		2021	2022	2023
		Q1	Q2	Q3	Q4	Q1	Q2			
Euro area		-0.3	2.0	1.8	1.1	1.0	0.8	4.7	4.4	2.1
UK		-1.6	4.8	2.7	2.3	1.0	0.6	7.2	6.1	1.3
Euro area										
Headline CPI		1.1	1.8	2.6	2.8	1.7	1.8	2.1	1.7	1.6
Core CPI		1.2	0.9	1.3	1.6	0.9	1.5	1.2	1.3	1.3
UK										
Headline CPI		0.6	2.1	2.7	3.7	3.7	3.6	2.3	2.5	1.9
Core CPI		1.1	1.9	2.6	3.2	3.1	3.1	2.2	2.4	2.0
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	0.25
Bond purchases* (£bn)		895	895	895	895	895	895	895	895	895

*Target 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
Germany 	PPI Y/Y%	Jul	10.4	9.2	8.5	-
UK 	GfK consumer confidence	Aug	-8	-7	-7	-
	Retail sales including auto fuel M/M% (Y/Y%)	Jul	-2.5 (2.4)	0.2 (5.9)	0.5 (9.7)	0.2 (9.2)
	Retail sales excluding auto fuel M/M% (Y/Y%)	Jul	-2.4 (1.8)	0.1 (5.8)	0.3 (7.4)	0.0 (6.8)
	Public sector net borrowing £bn	Jul	10.4	11.9	22.8	21.5



Auctions

Country	Auction
- Nothing to report -	







Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area 	ECB current account balance €bn	Jun	21.8	-	11.7	13.9
Spain 	Trade balance €bn	Jun	-0.98	-	0.1	-
























Auctions

Country	Auction
France 	<ul style="list-style-type: none">  sold €2.50bn of 0% 2024 bonds at an average yield of -0.71%  sold €2.51bn of 0.5% 2026 bonds at an average yield of -0.62%  sold €1.99bn of 1% 2027 bonds at an average yield of -0.54%  sold €349mn of 0.1% 2028 index-linked bonds at an average yield of -1.71%  sold €642mn of 0.1% 2029 index-linked bonds at an average yield of -1.78%

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 23 August 2021						
Euro area		09.00	Preliminary manufacturing (services) PMI	Aug	62.0 (59.5)	62.8 (59.8)
		09.00	Preliminary composite PMI	Aug	59.6	60.2
		15.00	European Commission preliminary consumer confidence	Aug	-4.8	-4.4
Germany		08.30	Preliminary manufacturing (services) PMI	Aug	65.0 (61.5)	65.9 (61.8)
		08.30	Preliminary composite PMI	Aug	62.3	62.4
France		08.15	Preliminary manufacturing (services) PMI	Aug	57.0 (56.4)	58.0 (56.8)
		08.15	Preliminary composite PMI	Aug	56.1	56.6
UK		09.30	Preliminary manufacturing (services) PMI	Aug	59.4 (59.1)	60.4 (59.6)
		09.30	Preliminary composite PMI	Aug	58.5	59.2
		11.00	CBI industrial trends survey, total orders	Aug	16	17
Tuesday 24 August 2021						
Germany		08.30	GDP – 2 nd estimate Q/Q% (Y/Y%)	Q2	1.5 (9.2)	-2.1 (-3.1)
Wednesday 25 August 2021						
Germany		08.30	Ifo business climate index	Aug	100.4	100.8
		08.30	Ifo current situations (expectations) balance	Aug	100.8 (100.2)	100.4 (101.2)
UK		11.00	CBI distributive trades survey, reported sales	Aug	20	23
Thursday 26 August 2021						
Euro area		09.30	M3 money supply Y/Y%	Jul	7.8	8.3
Germany		07.00	GfK consumer confidence	Sep	-0.5	-0.3
France		07.45	INSEE business confidence	Aug	112	113
		07.45	INSEE manufacturing confidence (production outlook)	Aug	109 (-)	110 (20)
UK		00.01	SMMT car production Y/Y%	Jul	-	22.1
Friday 27 August 2021						
Germany		07.00	Retail sales* M/M% (Y/Y%)	Jul	-1.2 (3.4)	4.5 (6.5)
France		07.45	INSEE consumer confidence	Aug	100	101
Italy		09.00	ISTAT consumer confidence	Aug	116.9	116.6
		09.00	ISTAT business (manufacturing) confidence	Aug	- (116.0)	116.3 (115.7)

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 23 August 2021		
- Nothing scheduled -		
Tuesday 24 August 2021		
Germany		10.30 Auction: €3bn of 0% 2028 bonds
UK		10.00 Auction: £3bn of 0% 2026 bonds
Wednesday 25 August 2021		
- Nothing scheduled -		
Thursday 26 August 2021		
Euro area		12.30 ECB publishes account from 21-22 July Governing Council meeting
		15.10 ECB's Villeroy scheduled to speak at MEDEF business conference
		16.00 ECB's Schnabel participates in roundtable on the ECB's strategy review
Italy		10.00 Auction: to sell fixed-rate and index-linked bonds
Friday 27 August 2021		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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