

# Euro wrap-up

## Overview

- Despite a softer German ifo survey, Bunds made notable losses as polls suggested that the German SPD party went ahead of the CDU for the first time in fifteen years.
- Gilts also made losses as a UK retail survey pointed to strong sales growth in August.
- Tomorrow will bring the release of the ECB's account from July's Governing Council meeting, as well as French and German confidence surveys and UK car production data.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.745	+0.011
OBL 0 10/26	-0.708	+0.033
DBR 0 08/31	-0.422	+0.058
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.146	+0.023
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.303	+0.034
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.595	+0.058

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

Source: Bloomberg

## Euro area

### German ifo signals moderating recovery

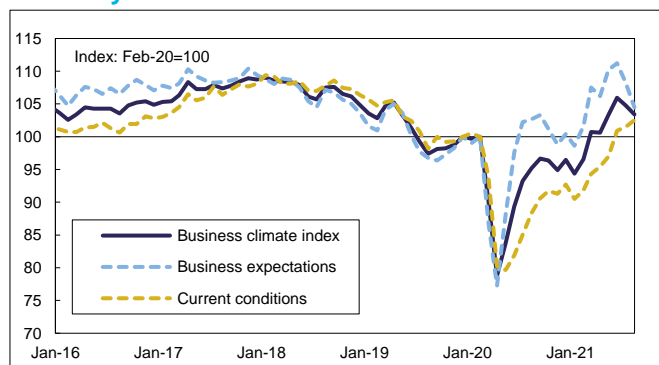
Consistent with the flash PMIs earlier in the week, today's German ifo survey suggested that business sentiment had further clouded over, as the rise in coronavirus infections and persistent supply bottlenecks continue to put a strain on the economy. Admittedly, firms on the whole assessed that the current situation was marginally improved in August, with the relevant index rising for the seventh consecutive month and by 1pt to 101.4, the strongest reading since May 2019. This principally reflected notably improved conditions in the services sector, with the relevant index rising to its highest level since February 2020 (although still remaining comfortably below the pre-pandemic norm). In contrast, retailers were slightly less upbeat about the current situation – perhaps reflecting increased spending on services – while manufacturers and construction firms assessed conditions to be little changed on the month, although all were still broadly positive. But while construction firms expressed greater optimism about the outlook over the coming six months, other sectors were seemingly more downbeat. Certainly the outlook among manufacturers took a clear dip in August, with the relevant index falling to its lowest level since November 2020 with supply constraints weighing and companies also reporting weaker demand. But with concerns in the hospitality and tourism sectors also growing as the number of Covid infections trends higher, the expectations index in the services sector fell back sharply, albeit from a record-high in June. And retailers reported increased apprehension about the months ahead too. Overall, the aggregate expectations balance fell a larger-than-expected 3.5pts to 97.5, a six-month low. As such, the headline business climate index fell for the second successive month (-1.3pts) to 99.4, a three-month low. But this still remains comfortably above its level in February 2020. So, like the PMIs, today's survey signals a likely moderation in the pace of recovery over the near term, rather than a marked slowdown in activity.

### The day ahead in the euro area

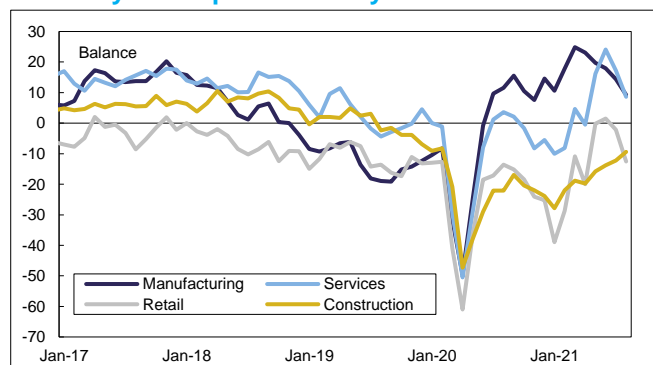
Datewise, tomorrow brings the release of French business confidence data for August. The INSEE survey is expected to reveal a 1pt drop in overall business confidence, to 112 in August. That would still leave it close to June's near-two-decade high of 114.4 and still well above its pre-pandemic level of 105.6. Consumer confidence also features in the calendar tomorrow, with Germany's forward-looking GfK survey expected to reveal a modest dip in sentiment, to -0.5 in September, from -0.3 in August. A result in line with expectations would still leave it above 2021's average of -7.2, albeit compared to its pre-pandemic level of 9.1. Also published tomorrow are euro area bank lending numbers for July,

Of course, focus tomorrow will also be on the 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 ECB left its forward guidance on asset purchases unchanged. While ECB Economist Lane in an interview

### Germany: ifo business sentiment indicators



### Germany: ifo expectations by sector



today suggested that the Governing Council would use the autumn to work through a lot of issues relating to what 2022 should look like, the account will be watched closely for any hints of what that might include, or an indication into the pace of buying in the final quarter of the year. Also potentially of note, ECB Executive Board member Schnabel is due to participate in an economist roundtable on the ECB's strategy review.

## UK

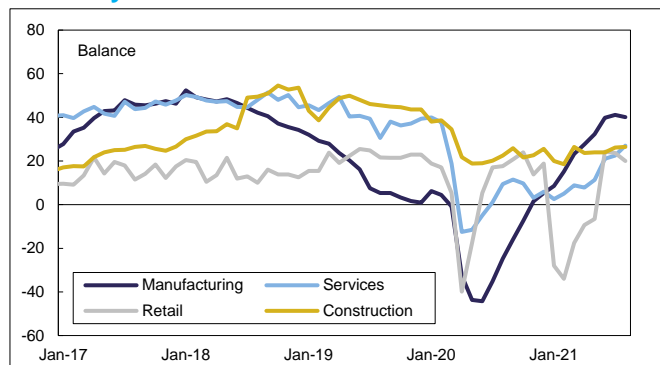
### CBI survey signals solid retail sales growth

While last week's official July retail sales figures reported the largest monthly drop since January and the softest year-on-year increase since February, the latest CBI distributive trades survey suggested that UK retail sales grew at a rapid pace in August, and well above the long-run average. Admittedly, the headline indices – based on annual growth rates – remain difficult to interpret with accuracy due to base effects associated with the pandemic. Indeed, the surge in the headline index, by 37pts on the month to 60.0 the strongest rate since 2014, was likely flattered by a weak base last year – particularly with spending on services having been given a boost by the government's Eat out to Help out scheme in August last year. This notwithstanding, retailers assessed sales to be above average for the time of year to the greatest extent for almost seven years and were expected to remain robust over the coming month, albeit at a more moderate pace. However, retailers also hinted at further operational challenges, with ongoing supply bottlenecks causing firms to assess that inventories were their least adequate relative to expected sales on the survey, which dates back almost 40 years, with the share of imported deliveries also falling sharply. Firms cited concerns about labour shortages in the sector too.

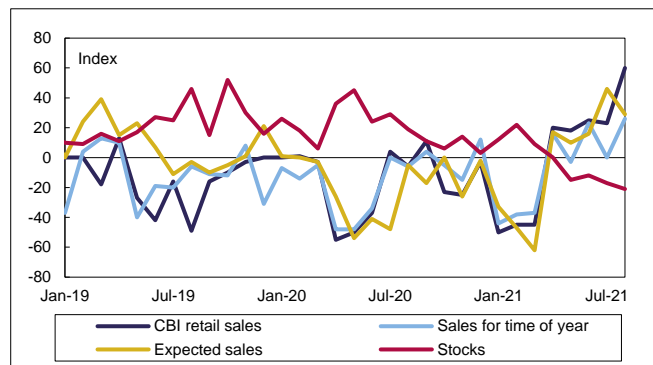
### The day ahead in the UK

Tomorrow brings the release of SMMT car production figures for July, which will reveal the extent to which staff and supply shortages have affected UK car manufacturers.

#### Germany: ifo current situation balance







#### UK: CBI distributive trades indicators



# European calendar

## Today's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Ifo business climate index	Aug	99.4	100.4	100.8	100.7
	 Ifo current situations (expectations) balance	Aug	101.4 (97.5)	100.8 (100.0)	100.4 (101.2)	- (101.0)
Spain	 PPI Y/Y%	Jul	15.3	-	15.4	-
UK	 CBI distributive trades survey, total sales	Aug	60	20	23	-






### 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	 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

### Auctions and events

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: €2.75bn of 0% 2024 bonds
	 10.00	Auction: €1bn of 0.65% 2026 index-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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