

Euro wrap-up

Overview

- Bunds were little changed, as surveys suggested that German consumers and French businesses were a touch less upbeat, while euro area lending figures saw continued growth in lending to NFCs.
- Gilts were fractionally stronger as UK car production in July was the weakest for that month since 1956.
- The coming week will bring plenty of top-tier releases, with euro area flash August inflation, July unemployment and the Commission's latest economic sentiment survey. Final European PMIs will also be published.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.746	-
OBL 0 10/26	-0.704	+0.005
DBR 0 08/31	-0.418	+0.007
UKT 0 ¹ / ₈ 01/23	0.127	-0.009
UKT 0 ¹ / ₈ 01/26	0.299	-0.001
UKT 4 ³ / ₄ 12/30	0.593	-0.003

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

Source: Bloomberg

Euro area

German consumers somewhat less upbeat about the outlook

The recent rise in Covid infections, slowdown in vaccination momentum and increase in prices has led to a pickup in uncertainty among German consumers. Indeed, today's GfK survey findings suggest that having risen to their highest in a decade in June, expectations for the economic outlook slipped back for the second successive month in August as households expect a moderation in the recovery ahead. But while consumers were slightly more upbeat about their income expectations, against the backdrop of rising prices and mandatory mask wearing and social distancing, there was a further decline in their propensity to spend, with the relevant index some 33pts lower than a year ago. As such, GfK forecast a drop in the headline consumer confidence indicator for September, of 0.8pt to -1.2pts, admittedly still well above the pandemic troughs (-23.1 in May 2020 and -15.5 in February 2021) but also still considerably lower than the pre-pandemic reading of close to +10.

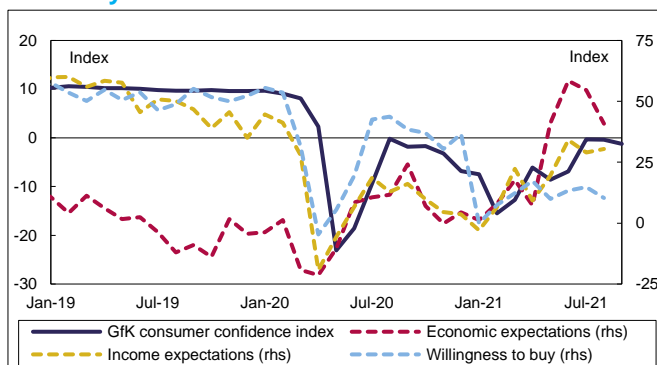
French business sentiment points to a moderation in recovery momentum

The French INSEE business survey reported slightly diminished optimism among businesses in August too, with the headline business confidence index declining for the second successive month and by 3pts to 110. This was led by the services and retailing sectors – with the respective indices down 2.7pts to 108.4 and 4.6pts to 109.1 – as a softening in expected future activity and demand was particularly evident in hospitality, while the balance of expected sales among retailers fell below the long-run average. Nonetheless, the headline indices for both services and retail remain well above their long-run average. Moreover, manufacturers were reportedly their most upbeat since May 2018, with the headline index considerably stronger than the long-run average, reflecting improvements in both past and expected future production, driven by a rebound in the transport equipment sub-sector. And while construction firms assessed past activity as not quite as strong, they were more optimistic about the coming three months. A similarly less optimistic assessment of the outlook is expected from tomorrow's French (consumer) and Italian (consumer and business) sentiment indicators, albeit consistent with merely a moderation in the pace of recovery over the near term.

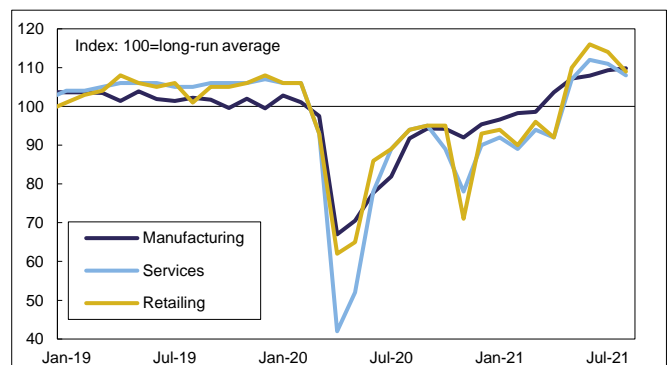
Loans to business remain strong, but consumer credit growth stays subdued

The latest ECB monetary data were also supportive of ongoing economic recovery, reporting a seventh successive increase in the flow of longer-dated loans to non-financial corporations (NFCs), which should tally with rising business investment. Indeed, the net flow of loans with a maturity of more than five years increased €17bn in July, admittedly notably lower than the record surge of €40bn in June, to leave growth in the stock of such loans down 0.2ppt at 7.1%Y/Y. This was partially offset by a further modest decline fall in short-dated loans, with growth in the stock of such loans to NFCs down a marked 11.4%Y/Y. Overall, the flow of total lending to NFCs (adjusted for loan sales and securitisation) increased for the second successive month (€8bn), to leave the annual rate in the stock of loans down 0.1ppt at 1.7%Y/Y, the softest pace for five years having been boosted at the height of the pandemic. Meanwhile, bank lending to households remained solid in July, with the net flow up €3bn to €29bn, the most since June

Germany: Consumer confidence



France: Business confidence



2007, pushing the annual growth rate up 0.2ppt to 4.2%Y/Y, a 12½-year high. This was underpinned by a further notable increase in net new lending for house purchase (€23bn). But despite greater opportunities for consumer spending, household consumer credit rose just €1bn in July, to leave the annual growth rate easing 0.4ppt to 0.2%Y/Y. Instead, households continued to accumulate bank deposits in July (€23bn), albeit at a softer pace than seen during the pandemic.

ECB account highlights detailed discussion on rates

Perhaps inevitably, the ECB's account from the July Governing Council meeting unveiled a detailed and long-winded discussion on its decision to amend its forward guidance with respect to interest rates. That new guidance had pledged that the Governing Council would keep its main policy rates "at their present or lower levels until it sees inflation reaching two per cent well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at two per cent over the medium term." But despite the clarification by ECB President Lagarde during her post-meeting press conference that the new guidance did not necessarily imply 'lower for longer' interest rates – a point that today's account reiterated – a few members (no doubt including the Bundesbank's President Weidmann and Belgian Central Bank Governor Wunsch) had opposed the guidance. In particular, they upheld their reservations to the implied likelihood and persistence of overshooting the inflation target while committing to an extended period to very low interest rates without an explicit escape clause. On the other hand, some other Governing Council members thought the guidance should have gone further, suggesting that the conditions determining the lift off in rates should be set with realised rather than expected inflation, with it more credible to have to scale back guidance at a later date rather than have to scale it up. Overall, however, a large majority supported the revised guidance. But with the updated wording thus implying a delay to the lift off date for rates, some members were also concerned that there was a risk that asset purchases would be expected to continue for longer and so deferred discussions on this topic to a future meeting.

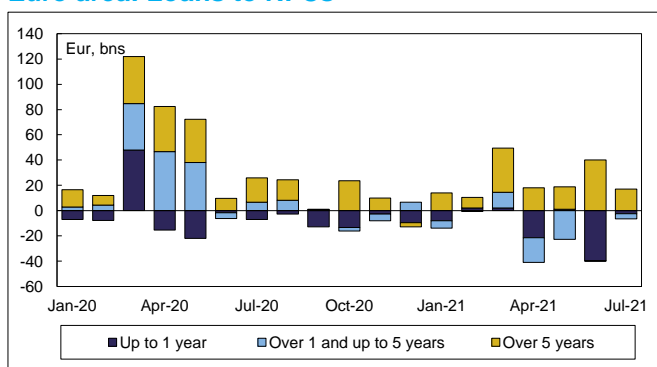
Focus to turn to asset purchases over coming months

The account confirmed that in July the Governing Council considered it appropriate to maintain its PEPP purchases at a significantly higher pace than earlier in the year for the rest of the third quarter. And September's meeting will see policy makers announce the expected pace for the fourth quarter. While the account (unusually for the Governing Council) flagged that risks to the ECB's June inflation projections were widely regarded as increasingly tilted to the upside, this largely reflected the near-term outlook with the medium-term outlook still clearly inconsistent with the new target. And with the growth outlook having been clouded by the spread of the delta variant, the Governing Council seems likely to want to wait until later in the year before announcing a slowdown in the pace of buying. But while discussions will also likely touch upon the future of its asset purchase programmes (not least reflecting the aspiration for the PEPP net purchases to end in March 2022), we wouldn't expect a concrete decision on the nature and quantum of the post-PEPP purchases in September. Indeed, ECB Chief Economist Lane yesterday stated that there was no overriding rush on this decision and the Governing Council would have the autumn to work out what comes next. He also noted that any decision will also need to consider net bond supply, which will undoubtedly be lower than seen over the past couple of years. Either way, whenever PEPP ends and the APP returns as the principal QE instrument, Lane confirmed that the driver of policy will be the medium-term inflation outlook. And with the ECB's medium-term inflation forecast still likely to remain below its 2% target, the Council will need to announce in due course more net asset purchases in some form or another to extend throughout 2022 and most probably beyond.

The week ahead in the euro area

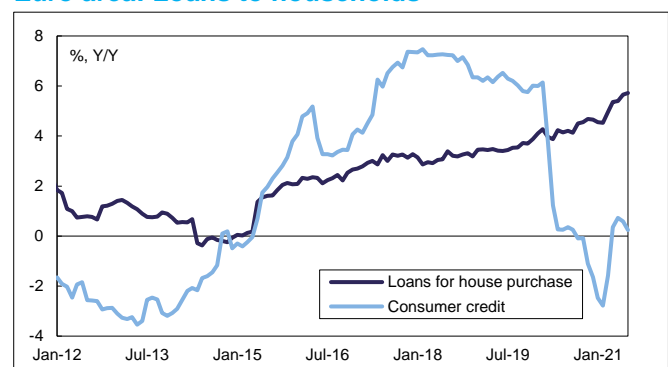
The coming week's economic data calendar will be a busy one. A key release will be the flash euro area inflation figures for August on Tuesday. These are expected to show that the headline CPI rate took a further step up this month, by ½ppt to 2.7%Y/Y, which would be the highest since March 2012, albeit principally reflecting pandemic-related base effects on non-energy goods inflation. So, having fallen to just 0.7%Y/Y in July, core inflation will also have jumped in August, to around 1.4%Y/Y, which would be the strongest for six years. Preliminary inflation figures will also be published from Germany and Spain (Monday) and France and Italy (Tuesday). Euro area unemployment figures for July are scheduled on Wednesday and expected to report a further modest decline, while German labour market data for August will be published on Tuesday. Meanwhile, Friday will bring euro area retail sales for July, which might well slip back after two consecutive months of strong growth, as households spend more on services. Among the

Euro area: Loans to NFCs



Source: ECB and Daiwa Capital Markets Europe Ltd.

Euro area: Loans to households



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

national releases, the coming week will also see revised Q2 GDP figures from France and Italy (Tuesday) as well as August new car registrations figures from France, Italy and Spain (Wednesday) and Germany (Friday).

August sentiment indicators will also continue to dominate the news flow, kicking off on Monday with the European Commission's comprehensive business and consumer surveys. Consistent with the findings of the flash PMIs and other national confidence releases, the headline Economic Sentiment Indicator is expected to have fallen back in August, from a record-high 119 in July, signalling some moderation in the pace of recovery. Softer readings are expected from the manufacturing and services sectors alike as supply challenges and the spread of the delta variant lower expectations about the near-term outlook. And the consumer index is likely to confirm the drop seen in the flash release, by 1.1pts to -5.3, a four-month low. The final manufacturing and services PMI – due Wednesday and Friday respectively – are similarly expected to align with the flash releases, which showed a more pronounced drop in the euro area's manufacturing output index (down 1.9pts to 59.2) to leave it below the services index (59.7) for the first time since the pandemic. Overall, the final composite PMI (also due Friday) should confirm the 0.7pt drop to 59.5, still the joint-second-strongest reading since 2006. Friday will also bring the euro area's Sentix Investor confidence survey for September.

Turning to politics, after a German poll this week suggested that the Social Democrats (SPD) had gone ahead of the CDU/CSU for the first time in fifteen years, Sunday's televised election debate between the leaders of the CDU/CSU, SPD and the Greens seems bound to attract attention.

UK

Car manufacturing records the weakest outturn in any July since 1956

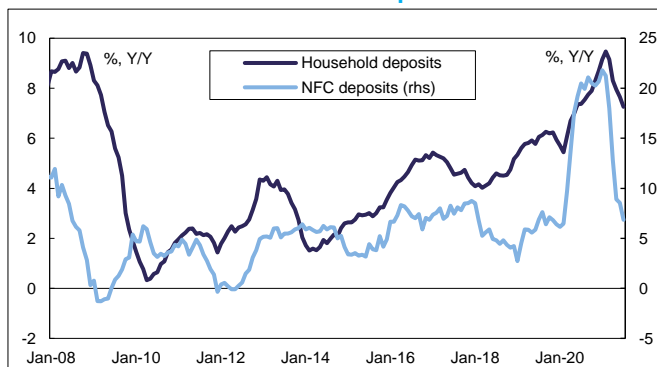
After the flash PMIs earlier in the week saw the manufacturing output index fall a further 3pts in August to a six-month low, today's SMMT car production figures emphasised the significant challenges facing UK car manufacturers in the face of both key material and labour shortages. Indeed, these showed that the number of units produced in July was down 37.6%Y/Y to just 53.4k, the lowest outturn in the month of July since 1956 and more than 50% below the average level produced that month in the decade up to the pandemic. The weakness last month was likely exacerbated by the decision by some plants to alter their summer shutdown timings to manage the staff absences caused by the so-called 'pingdemic'. But while this setback should have eased this month as the self-isolation rules changed, there are no signs that the global supply bottlenecks concerning semi-conductors were abating. As such, full-year production seems bound to remain well below pre-pandemic levels this year at least – indeed, while the number of cars rolling off the production lines so far this year were up by 18% compared with the same period in 2020, they were still almost 30% lower than in 2019.

The coming week in the UK

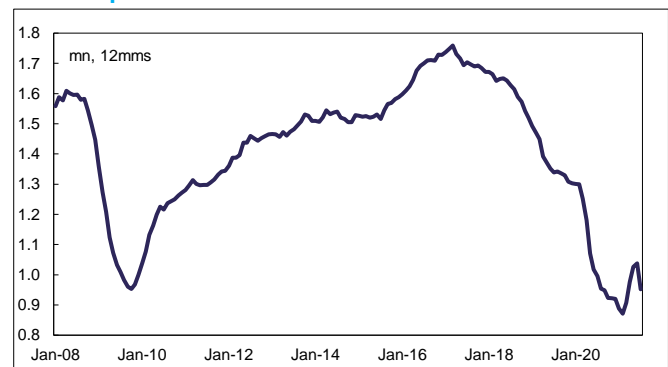
The week comes to a close on a quiet note with no UK economic data scheduled for release tomorrow. And the quiet tone continues into next week with UK financial markets closed on Monday for a public holiday. The calendar kicks off on Tuesday with the release of the BoE's lending data for July. In June, the amount of secured loans rose a whopping £17.9bn, compared with an average £5.3bn in the twelve months leading up to the Covid outbreak, as home buyers rushed to complete to take full advantage of the government's stamp duty tax holiday. With this having started to taper last month, we expect to see a notable slowdown in mortgage lending. Meanwhile, with restrictions having continued to ease, we might well see a pickup in consumer credit, which in June remained relatively subdued to leave it still more than 2% lower than a year earlier. The final August PMIs are also due for release, with the manufacturing survey published on Wednesday, followed by the services and composite indices on Friday. In contrast to the euro area, the UK's flash PMIs signalled a more pronounced slowdown in the pace of recovery in August, as supply shortages continued to impact the manufacturing and services sectors alike. Indeed, the headline composite output PMI fell for the third consecutive month and by a sizeable 3.9pts to 55.3, the lowest reading since February but nevertheless a level that is still historically elevated. Also due are the Lloyds' business barometer and BRC shop price index on Tuesday and Wednesday respectively.

The next edition of the Euro wrap-up will be published on 31st August 2021












Euro area: Household and NFC deposits



UK: Car production










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	
Euro area	 M3 money supply Y/Y%	Jul	7.6	7.6	8.3	-	
Germany	 GfK consumer confidence	Sep	-1.2	-0.5	-0.3	-0.4	
France	 INSEE business confidence	Aug	110	112	113	-	
	 INSEE manufacturing confidence (production outlook)	Aug	110 (16)	109 (-)	110 (20)	109 (-)	
UK	 SMMT car production Y/Y%	Jul	-37.6	-	22.1	-	
Auctions							
Country	Auction						
Italy	 sold €2.75bn of 0% 2024 bonds at an average yield of -0.29%						
	 sold €1bn of 0.65% 2026 index-linked bonds at an average yield of -1.2%						









































Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases							
Economic data							
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous		
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)		
Auctions and events							
- Nothing scheduled -							

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 30 August 2021					
Euro area		10.00 European Commission economic sentiment indicator	Aug	-	119.0
		10.00 European Commission final consumer confidence	Aug	-5.3	-4.4
		10.00 European Commission industrial (services) confidence	Aug	-	14.6 (19.3)
Germany		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Aug	-	3.8 (3.1)
		- Retail sales* M/M% (Y/Y%)	Jul	-1.1 (3.4)	4.5 (6.5)
Spain		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Aug	-	2.9 (2.9)
		08.00 Retail sales Y/Y%	Jul	-	1.4
Tuesday 31 August 2021					
Euro area		10.00 Preliminary CPI (core CPI) Y/Y%	Aug	<u>2.7 (1.4)</u>	2.2 (0.7)
Germany		08.55 Unemployment rate % (change '000s)	Aug	-	5.7 (-91.0)
France		07.45 GDP – 2 nd estimate Q/Q% (Y/Y%)	Q2	0.9 (18.7)	0.0 (1.7)
		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Aug	-	1.2 (1.5)
		07.45 Consumer spending M/M% (Y/Y%)	Jul	-	0.3 (-2.4)
Italy		09.00 GDP – 2 ^{ns} estimate Q/Q% (Y/Y%)	Q2	2.6 (17.3)	0.2 (-0.7)
		10.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Aug	-	1.9 (1.0)
UK		00.01 Lloyds business barometer	Aug	-	30
		09.30 Net consumer credit £bn (change '000s)	Jul	-	0.3 (-2.2)
		09.30 Net mortgage lending £bn (mortgage approvals '000s)	Jul	-	17.9 (81.3)
		09.30 M4 money supply Y/Y%	Jul	-	6.9
Wednesday 01 September 2021					
Euro area		09.00 Final manufacturing PMI	Aug	61.5	62.8
		10.00 Unemployment rate %	Jul	-	7.7
Germany		08.55 Final manufacturing PMI	Aug	62.7	65.9
France		08.50 Final manufacturing PMI	Aug	57.3	58.0
		- New car registrations* Y/Y%	Aug	-	-35
Italy		08.45 Manufacturing PMI	Aug	-	60.3
		09.00 Unemployment rate %	Jul	-	9.7
		17.00 New car registrations Y/Y%	Aug	-	-19.36
Spain		08.15 Manufacturing PMI	Aug	-	59.0
		- New car registrations* Y/Y%	Aug	-	-28.9
UK		00.01 BRC shop price index Y/Y%	Aug	-	-1.2
		09.30 Final manufacturing PMI	Aug	60.1	60.4
Thursday 02 September 2021					
Euro area		10.00 PPI Y/Y%	Jul	-	10.2
Spain		08.00 Unemployment change '000s	Aug	-	-197.8
Friday 03 September 2021					
Euro area		09.00 Final services (composite) PMI	Aug	59.7 (59.5)	59.8 (60.2)
		10.00 Retail sales M/M% (Y/Y%)	Jul	0.0 (-)	1.5 (5.0)
Germany		08.55 Final services (composite) PMI	Aug	61.5 (60.6)	61.8 (62.4)
		- New car registrations* Y/Y%	Aug	-	-24.9
France		08.50 Final services (composite) PMI	Aug	56.4 (55.9)	56.8 (56.6)
Italy		08.45 Services (composite) PMI	Aug	-	58.0 (58.6)
Spain		08.15 Services (composite) PMI	Aug	-	61.9 (61.2)
UK		09.30 Final services (composite) PMI	Aug	55.5 (55.3)	59.6 (59.2)

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

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 30 August 2021		
UK	-	Public holiday
Tuesday 31 August 2021		
Italy	10.00	Auction: 5Y and 10Y bonds
Wednesday 01 September 2021		
Euro area	13.00	ECB's Wiedmann scheduled to speak
Germany	10.30	Auction: €4bn of 0% 2026 bonds
UK	10.00	Auction: £2.5bn of 0.5% 2029 bonds
Thursday 02 September 2021		
France	09.50	Auction: fixed-rate bonds
Spain	09.30	Auction: fixed-rate bonds
UK	09.30	BoE publishes Monthly Decision Maker Panel data – August 2021
Friday 03 September 2021		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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