

# Euro wrap-up

## Overview

- Bunds made losses despite some weaker data for euro area retail sales, and German car production and sales, and downward revisions to the euro area services PMIs.
- Gilts also made losses despite a notable weakening in the UK services PMIs.
- The coming week could see the ECB open the door to a slowing in its asset purchases in Q4, while new data include German factory orders and output and UK GDP for July.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.722	+0.013
OBL 0 10/26	-0.674	+0.022
DBR 0 08/31	-0.364	+0.023
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.190	+0.003
UKT 0 <sup>3</sup> / <sub>8</sub> 10/26	0.369	+0.017
UKT 0 <sup>1</sup> / <sub>2</sub> 07/31	0.713	+0.035

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

## Euro area

### Retail sales fall back at start of Q3 as services reopen

Following the steeper-than-expected drop (-5.1%M/M) in [Germany](#), it was no surprise that retail sales in the euro area fell in July. Significant declines were registered in certain other member states, including Ireland (-5.9%M/M), Austria (-3.9%M/M) and Belgium (-2.5%M/M). But the fall in France (-0.7%M/M) was modest while sales were unchanged in Spain. Overall, euro area retail sales fell 2.3%M/M, more than reversing growth in June to leave the level close to the Q2 average. That, however, also meant that sales were still 3.1% above the pre-Covid level at the start of 2020. With internet and mail order sales falling sharply for a second month (down 7.3%M/M in July after a drop of 6.5%M/M in June), the gradual spread of the delta variant that month does not appear to be the cause of the fall in total retail sales. Instead, a rebalancing of spending away from goods towards services following the easing of restrictions appears the main reason for the decline. All major categories of sales were softer, with a fourth successive monthly fall in spending on food and drink (-0.7%M/M) back below the pre-Covid level likely also to be related to the greater opportunities for eating out. The drop in sales of non-food items – not least of clothing and furniture – was larger (-3.5%M/M) but left the level firmly above the pre-Covid level. While consumer confidence slipped back for a second successive month in August, stronger household balance sheets and firm jobs growth should maintain retail sales above the pre-Covid level over coming months even if spending on services continues to recover.

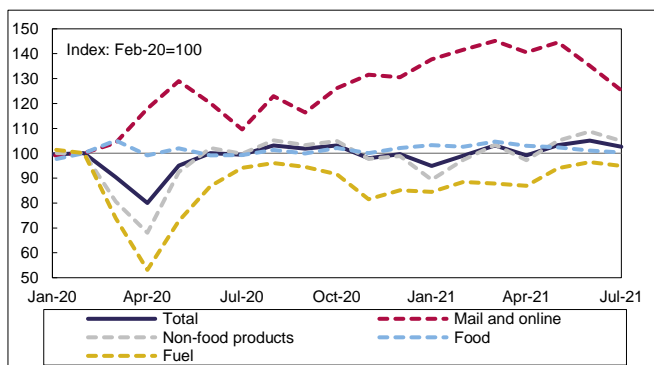
### German car production and sales weak in August

As in the other [large member states](#), German car sales remained weak in August, with new registrations down 23%Y/Y and 38% below the level for the same month in 2019. While that left total car registrations up some 2%YTD/Y in the first eight months of the year, sales were still down by about one quarter from the same period of 2019. The shift in demand for electric vehicles continued, however, with new registrations of such cars up 61%Y/Y to take the share to a new high of 27.6%. Overall, domestic new car orders were up 8%Y/Y and 7%YTD/Y in August, but foreign orders fell 21%Y/Y albeit rising over the first eight months by 21%YTD/Y. Of course, impediments to German car production due not least to semiconductor shortage contributed to the soft sales figures. Indeed, the number of cars produced in August fell to 133.6k, the lowest level for the month in decades, to be down 32%Y/Y and 57% below the level in August 2019. While that left production still up 7%YTD/Y over the first eight months of the year, it was down by one third from the same period of 2019.

### Expansion in services moderates slightly, with output price inflation easing in sector too

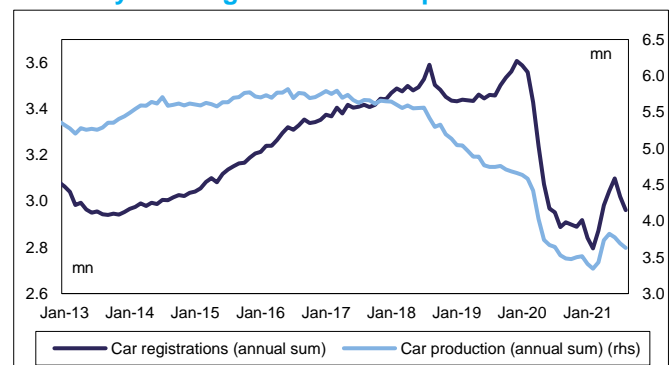
According to the final services PMIs, the pace of expansion in the sector moderated a little more than previously thought last month. The headline euro area services activity PMI for August was revised down 0.7pt from the flash estimate to 59.0. That,

#### Euro area: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Germany: Car registrations and production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

however, marked a drop of just 0.8pt from July's 15-year high, and still represented the second-best reading this upswing. The equivalent indices for each of the large member states similarly suggested a slight moderation in growth in the sector, with the exception of Italy where the services PMI was unchanged on the month at 58.0, the highest since 2007. Within the detail of the survey, jobs growth in the services sector was estimated to be unchanged at the strongest for almost three years. With growth in new orders reportedly having slowed, growth in backlogs also moderated. And while input prices in services accelerated further to a new 13-year high, the PMIs suggested that output price inflation in the sector eased to a three-month low.

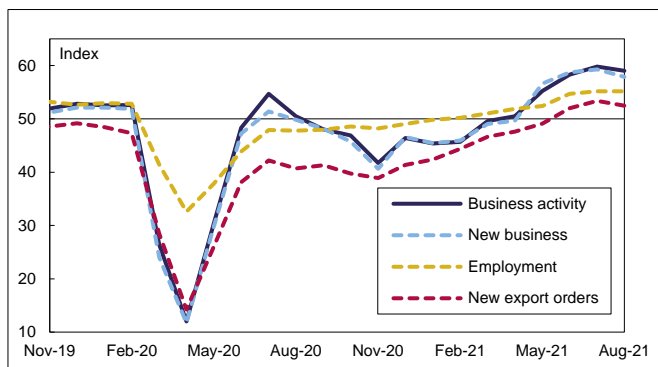
Following the slight downwards revision to the euro area [manufacturing output PMI](#) earlier this week, the euro area composite output PMI was nudged down 0.5pt from the flash estimate to 59.0, a three-month low but still close to the top of the range of the past fifteen years on the survey. As for the services PMIs, of all member states to report, only Italy did not see a drop in its composite PMI in August, which instead reached a more than 15-year high (59.1). However, the composite PMIs for Ireland (62.6), Germany (60.0) and Spain (60.6) were still elevated by historical standards. So, while slightly softer than in July, overall economic growth appears to have remained strong in the middle of Q3.

## The week ahead in the euro area

The main event in the coming week will undoubtedly be Thursday's announcements from the ECB following its latest monetary policy meeting. The Governing Council will be presented with updated economic projections. Based on these, coupled with an assessment of financial conditions, it will give an indication of the expected pace of PEPP purchases over the coming quarter. Last month's Reuters interview with ECB Chief Economist Lane suggests, however, that we will not learn anything conclusive about the pace and nature of asset purchases beyond the end of this year.

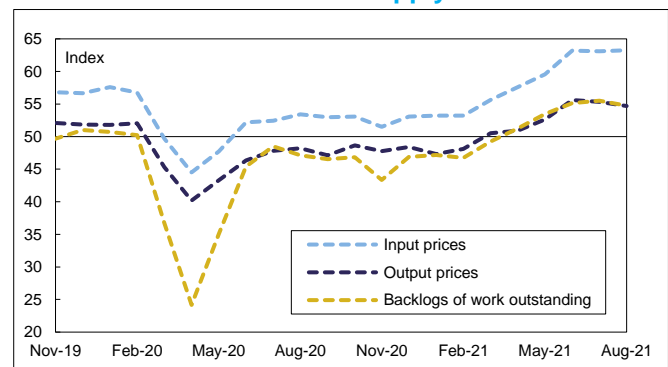
With respect to the ECB's economic projections, the outlook for GDP might be little changed from June, when growth of 4.6%, 4.7% and 2.1% was forecast in 2021, '22 and '23 respectively. While the growth outturn for Q2 of 2.0%Q/Q was 0.6ppt stronger than the ECB had expected in June, more intense supply bottlenecks, softer growth in demand from abroad and the spread of the Delta variant might all suggest that growth in the second half of the year will be a little softer than it previously thought. The forecast will still, however, suggest that the pre-Covid peak in GDP will be reached around the turn of the year. And confidence in the growth outlook further ahead should be bolstered by further good progress with vaccinations, with more than 70% of adults in the EU now having received two jabs. Of course, given [recent outturns](#), the projection for inflation this year (1.9%) will be revised up above the ECB's 2.0% target. However, as there remain no signs of significant second-round effects on wages or expectations, the inflation projections for both 2022 and '23 (1.5% and 1.4% respectively) should

### Euro area: Services PMIs – demand side



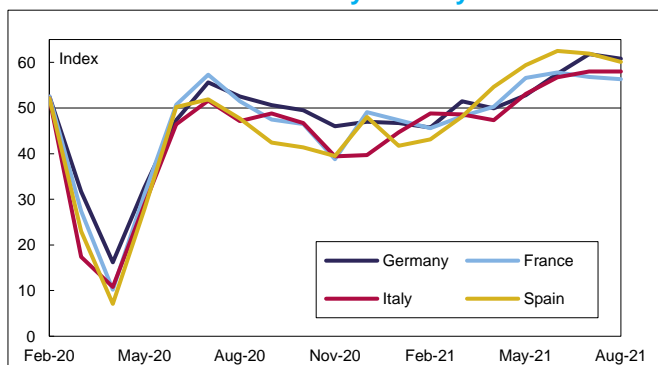
Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Services PMIs – supply side



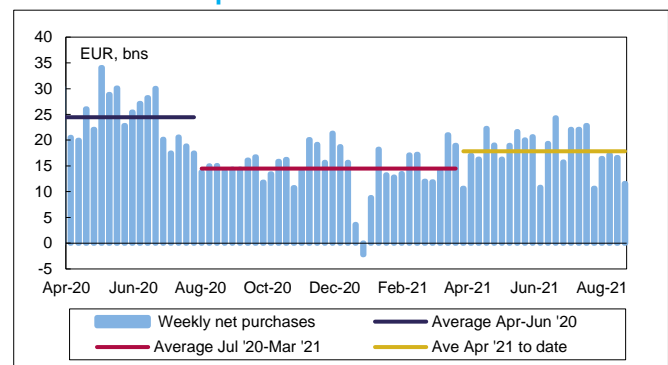
Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Services PMIs by country



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

### ECB: Net PEPP purchases



Source: ECB and Daiwa Capital Markets Europe Ltd.

be little changed. And so, in light of the ECB's rate guidance, the inflation outlook will still be incompatible with rate hikes over the horizon.

The aim of the PEPP purchases, however, is to "maintain favourable financing conditions" throughout the pandemic. And with market interest rates currently lower than in June when the pace of purchases for Q3 was agreed, and less sovereign bond issuance to come than over recent quarters, there appears scope for a modest slowing in the pace of PEPP purchases in the coming quarter from the average rate between €75-80bn per month conducted throughout Q2 and so far in Q3. So not to risk a marked correction in periphery bonds, however, the Governing Council might wish also to commit to maintaining net purchases no lower than the rate close to €60bn per month conducted in Q1. So, the extent of any slowing in purchases, if at all, will likely be very modest indeed.

Turning to the data, the coming week will bring updated euro area GDP figures for Q2 (Tuesday), which will provide the first official expenditure breakdown. This is expected to confirm the bounce back recorded in initial estimates, with growth of 2.0%Q/Q, 13.6%Y/Y, to have been driven principally by household expenditure as Covid restrictions were gradually eased throughout the quarter. Fixed investment is also likely to have provided a positive contribution, while net trade remained a modest drag. Tuesday will also bring revised employment numbers for Q2, which are expected to confirm that the increase (0.5%Q/Q, 760k) was underpinned by jobs growth in the services sector. National manufacturing data for July will begin and end the data calendar – German factory orders and IP are due on Monday and Tuesday respectively, with French, Italian and Spanish IP releases on Friday – and will be watched closely for any let up in the supply constraints that have impacted production so far this year. Monday will also bring the August construction PMIs for the euro area and various member states, as well as the euro area Sentix survey for September. The German ZEW survey is due on Tuesday. German labour costs and French payrolls figures for Q2 are due on Wednesday. And French and German July trade numbers scheduled on Wednesday and Thursday respectively.

## UK

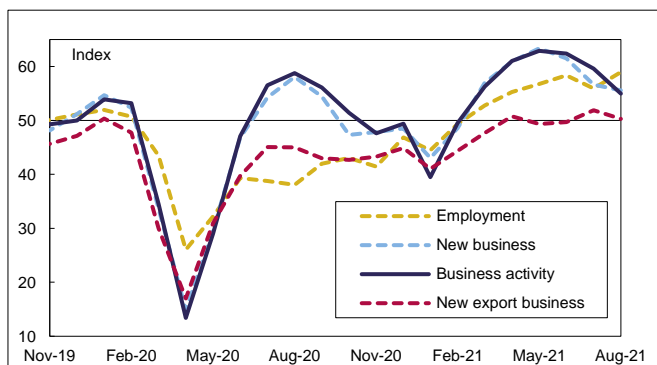
### Services PMIs suggest strongest growth rates have passed

Like the manufacturing PMIs, the UK's final services PMIs for August suggested a further slowing of growth momentum in the middle of Q3. Indeed, a third successive monthly decline and a downwards revision of 0.5pt from the flash estimate left the services activity PMI at a six-month low of 55.0, down a chunky 4.6pts from July. So, judging from this survey, the most rapid growth rates associated with the steady relaxation of Covid restrictions appear now to have been realised. Indeed, new orders growth in the sector also slowed to a six-month low. Growth was reportedly restrained by staff shortages, likely exacerbated by the so-called Covid "pingdemic" but also related to the post-Brexit exodus of EU citizens from the UK. It remains to be seen whether the end of the government's job retention scheme this month will help ease those labour shortages – we doubt it, given the likely skills mismatch and age profile of those workers still furloughed. While rising wages reportedly added to cost pressures, the input and output price PMIs for the services sector fell back, the latter to a four-month low. Looking at the services and manufacturing PMIs together, the composite PMI also fell to a six-month low (down 4.4pts to 54.8). And certainly, GDP growth in Q3 will be significantly softer than the extremely vigorous rebound of 4.8%Q/Q in Q2.

### The week ahead in the UK

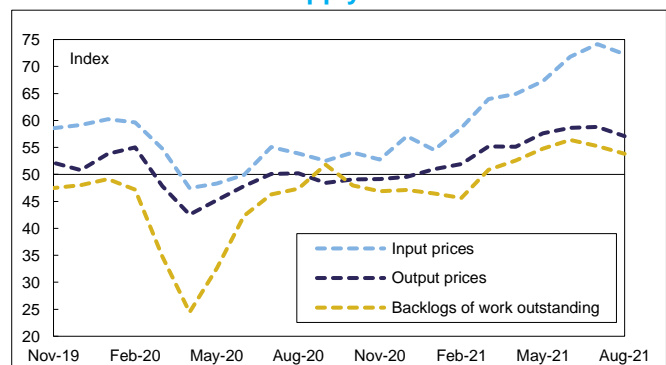
The main event in the UK in the coming week will be Friday's release of July's monthly GDP estimate, along with the production and trade figures for that month too. With final Covid restrictions having relaxed on 18 July, we expect to see another month of solid growth in the services sector. And construction output seems likely to rebound following three months of declines. But given persistent supply challenges – as well as the decision by some manufacturers (especially in the auto sub-sector) to bring forward their usual summer shutdown maintenance period to alleviate difficulties caused by staff

#### UK: Services PMIs – demand side



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












#### UK: Services PMIs – supply side



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









shortages due to the so-called 'pingdemic' – production in the manufacturing sector is likely to have remained subdued. Overall, we expect GDP growth in July to be marginally softer than the 1.0%M/M increase recorded in June, to leave output just 1½% lower than the pre-pandemic level. Beyond the GDP and associated data, the calendar will get underway on Monday with new car registrations figures for August, which – similar to the outturns in various euro area member states – will show persistent weakness amid the global semi-conductor shortage. Meanwhile, August surveys due in the coming week will include the construction PMI (Monday), BRC retail sales monitor (Tuesday), RICs house price balance and REC Report on Jobs (Thursday).

## 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	2.8	3.1	2.1	2.0	2.2	1.6	1.2
Core CPI		1.2	0.9	1.4	1.8	1.1	1.6	1.3	1.2	1.1
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	 Final services (composite) PMI	Aug	<b>59.0 (59.0)</b>	59.7 (59.5)	59.8 (60.2)	-
	 Retail sales M/M% (Y/Y%)	Jul	<b>-2.3 (3.1)</b>	0.0 (4.5)	1.5 (5.0)	<b>1.8 (5.4)</b>
Germany	 Final services (composite) PMI	Aug	<b>60.8 (60.0)</b>	61.5 (60.6)	61.8 (62.4)	-
	 New car registrations Y/Y%	Aug	<b>-23</b>	-	-25	-
France	 Final services (composite) PMI	Aug	<b>56.3 (55.9)</b>	56.4 (55.9)	56.8 (56.6)	-
Italy	 Services (composite) PMI	Aug	<b>58.0 (59.1)</b>	58.3 (-)	58.0 (58.6)	-
Spain	 Services (composite) PMI	Aug	<b>60.1 (60.6)</b>	61.6 (-)	61.9 (61.2)	-
UK	 Final services (composite) PMI	Aug	<b>55.0 (54.8)</b>	55.5 (55.3)	59.6 (59.2)	-
Auctions						
Country	Auction					
- Nothing to report -						

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
<b>Monday 06 September 2021</b>					
Euro area		08.30 Construction PMI	Aug	-	49.8
		09.30 Sentix investor confidence	Sep	18.9	0.0
Germany		07.00 Factory orders M/M% (Y/Y%)	Jul	-0.9 (18.9)	4.1 (26.2)
		08.30 Construction PMI	Aug	-	47.1
France		08.30 Construction PMI	Aug	-	48.5
Italy		08.30 Construction PMI	Aug	-	55.8
UK		09.00 New car registrations Y/Y%	Aug	-	-29.5
		09.30 Construction PMI	Aug	-	58.7
<b>Tuesday 07 September 2021</b>					
Euro area		10.00 Final GDP Q/Q% (Y/Y%)	Q2	<u>2.0 (13.6)</u>	0.3 (-1.3)
		10.00 Final employment Q/Q% (Y/Y%)	Q2	0.5 (1.8)	-0.2 (-1.8)
Germany		07.00 Industrial production M/M% (Y/Y%)	Jul	0.9 (5.0)	-1.3 (5.1)
		10.00 ZEW current situation (expectations)	Sep	33.0 (30.0)	29.3 (40.4)
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	Aug	-	4.7
<b>Wednesday 08 September 2021</b>					
Germany		07.00 Labour costs Q/Q% (Y/Y%)	Q2	-	0.9 (1.7)
France		07.45 Trade balance €bn	Jul	-	-5.8
Italy		09.00 Retail sales M/M% (Y/Y%)	Jul	-0.2 (4.9)	0.7 (7.7)
<b>Thursday 09 September 2021</b>					
Euro area		12.45 ECB refinancing rate %	Sep	<u>0.00</u>	0.00
		12.45 Marginal lending facility rate %	Sep	<u>0.25</u>	0.25
		12.45 Deposit rate %	Sep	<u>-0.50</u>	-0.50
Germany		07.00 Trade balance €bn	Jul	13.8	16.2
UK		00.01 RICS house price balance %	Aug	75	79
<b>Friday 10 September 2021</b>					
Germany		07.00 Final CPI (EU-harmonised CPI) Y/Y%	Aug	3.9 (3.4)	3.8 (3.1)
France		07.45 Industrial production M/M% (Y/Y%)	Jul	0.4 (4.2)	0.5 (7.1)
		07.45 Manufacturing production M/M% (Y/Y%)	Jul	-	0.9 (7.5)
Italy		09.00 Industrial production M/M% (Y/Y%)	Jul	-0.2 (5.6)	1.0 (13.9)
Spain		08.00 Industrial production M/M% (Y/Y%)	Jul	0.5 (5.9)	-1.0 (11.1)
UK		07.00 GDP M/M% (3M/3M%)	Jul	<u>0.5 (3.7)</u>	1.0 (4.8)
		07.00 Industrial production M/M% (Y/Y%)	Jul	0.4 (3.0)	-0.7 (8.3)
		07.00 Manufacturing production M/M% (Y/Y%)	Jul	0.1 (6.1)	0.2 (13.9)
		07.00 Construction output M/M% (Y/Y%)	Jul	0.4 (10.8)	-1.3 (30.0)
		07.00 Index of services M/M% (3M/3M%)	Jul	0.8 (4.7)	1.5 (5.7)
		07.00 Goods trade balance €bn	Jul	-10.8	-12.0

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 06 September 2021</b>		
- Nothing scheduled -		
<b>Tuesday 07 September 2021</b>		
Germany	 10.30	Auction: €500mn of 0.5% 2030 index-linked bonds
	 10.30	Auction: €200mn of 0.1% 2046 index-linked bonds
UK	 06.10	BoE's Mann scheduled to speak at the G20 Global Financial Stability Conference 2021
	 08.30	BoE's Saunders scheduled to speak at "Ask the expert"
	 10.00	Auction: £3.25bn of 0.25% 2025 bonds
	 11.30	Auction: £1.25bn of 1.625% 2071 bonds
<b>Wednesday 08 September 2021</b>		
Germany	 10.30	Auction: €3.5bn of 0% 2031 bonds
UK	 10.00	Auction: £1bn of 0.125% 2031 index-linked bonds
<b>Thursday 09 September 2021</b>		
Euro area	 12.45	ECB monetary policy announcement
	 13.30	ECB President Lagarde speaks at post-Governing Council press conference
	 14.30	ECB publishes staff macroeconomic projections for the euro area
UK	 00.01	REC report on jobs
	 15.00	BoE'S term funding scheme usage and lending data published – Q221
<b>Friday 10 September 2021</b>		
Euro area	 -	Euro area Finance Ministers and ECB Governing Council members meet

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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