

# Euro wrap-up

## Overview

- Bunds were little changed as German factory orders data surprised on the upside but the euro area construction PMIs signalled a fall in activity.
- Gilts made gains as new BoE MPC member Mann noted structural changes that suggest she is not overly concerned about upside risks to inflation while the UK construction PMIs indicated an easing of growth in the sector.
- Tuesday will bring German industrial production data for July along with the first expenditure breakdown of euro area GDP in Q2.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.725	-
OBL 0 10/26	-0.675	+0.001
DBR 0 08/31	-0.369	-0.005
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.178	-0.013
UKT 0 <sup>3</sup> / <sub>8</sub> 10/26	0.357	-0.013
UKT 0 <sup>1</sup> / <sub>2</sub> 07/31	0.696	-0.018

\*Change from close as at 4:00pm BST.  
Source: Bloomberg

## Euro area

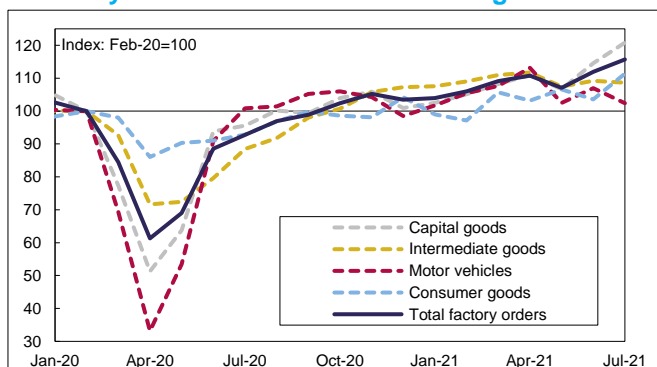
### German new factory orders jump to series high, increased turnover signals growth in IP

German factory orders surprised significantly on the upside in July suggesting that demand remains firm despite ongoing supply-side challenges. Indeed, factory orders increased 3.4%M/M following upwardly revised growth of 4.6%M/M in June – which was the biggest rise in eleven months – to be 15.7% above the pre-Covid level of February 2020 and also above the previous series high reached in December 2017. Admittedly, growth in July was explained by major orders, particularly from the shipbuilding sector, without which total orders would have been little changed. And domestic orders fell 2.5%M/M while orders from elsewhere in the euro area dropped 4.1%M/M. In contrast, buoyed by those aforementioned major orders, orders from beyond the euro area rose a whopping 15.7%M/M. While autos orders fell back, orders of capital goods rose 5.4%M/M while new orders of consumer goods jumped 7.5%M/M, with both categories reaching series highs. Orders for intermediate goods, however, fell 0.5%M/M, weighed by lower demand for metals and electronic parts and devices. Separately, German manufacturing turnover rose 1.9%M/M in July to suggest strongly that tomorrow's IP data will report a return to growth following the drop of 1.3%M/M in June. Reflecting the significant mismatch between supply and demand, however, turnover was still down 4.6%M/M from the pre-pandemic level of February 2020.

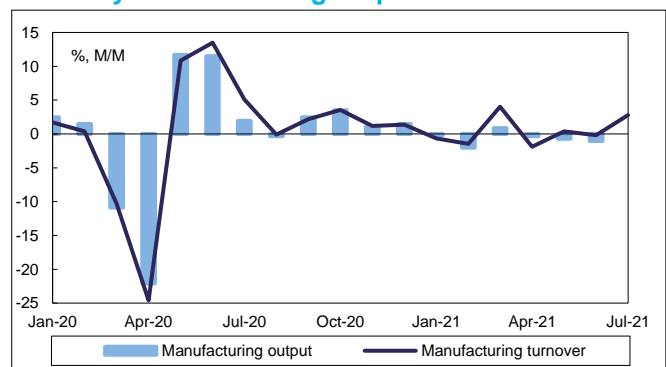
### Despite vigour in Italy, euro area construction activity weakens on supply constraints

Like last week's final [manufacturing](#) and [services](#) surveys, today's construction PMIs further highlighted the persistence of supply bottlenecks and their impact on production. While Italy reported record growth in the sector, weakness in Germany and France caused the headline euro area construction activity PMI to edge down 0.3pt in August to 49.5, suggesting that output fell slightly for a second successive month. According to Markit, firms cited shortages of labour and raw materials as the key reasons for the declines in activity. Supplier delivery times continued to rise rapidly, albeit not quite as much as in recent months, while growth in input prices reportedly eased only slightly from July's series high. Subcontractor availability and quality remained relatively low, while their prices continued to rise. At the aggregate euro area level, weakness in output was concentrated principally in commercial work and civil engineering, while house-building activity rose at the quickest rate in three months. That, however, was similarly due to record growth in Italy. Likewise, a rise in construction new orders was also limited to Italy with Germany in particular reporting significant weakness. Fundamentals, including record low interest rates, falling unemployment and rising home prices, point to a positive outlook for growth in house-building activity. But while firmer business investment and infrastructure projects associated with the EU recovery funds should also support commercial work and civil engineering activity ahead, activity in the sector seems likely to be restrained by supply-side challenges for several months to come.

### Germany: New orders in manufacturing



### Germany: Manufacturing output and turnover



## The day ahead in the euro area

Tomorrow brings updated euro area GDP figures for Q2, which will provide the first expenditure breakdown. This is expected to confirm growth of 2.0%Q/Q and report that the rebound was 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. Tomorrow 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. Meanwhile, German industrial production is expected to rise a modest 0.8%M/M in July, following three successive monthly declines – amounting to a drop of 2.4% – due at least in part to supply shortages of raw materials and components such as semiconductors. Also due out tomorrow is the September German ZEW survey, which is expected to reveal an improvement in investor perceptions of current economic conditions but a further deterioration in the expectations balance for a fourth successive month.

## UK

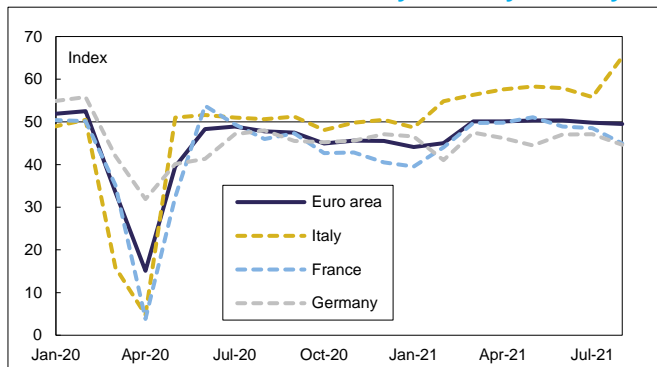
### Construction PMIs point to growth moderation due to bottlenecks

Unlike in the euro area, the UK's construction PMIs suggested that output in the sector continued to rise in August. However, supply bottlenecks were similarly judged to represent an impediment to growth. So, the headline construction activity PMI fell 3.5pts to a six-month low of 55.2, with the survey detail pointing to a loss of momentum in house-building, commercial work and civil engineering. And growth in new orders in the sector slowed to the softest pace in five months. Within the detail, delivery times for supplies continued to lengthen at a similar rapid pace to July, while prices of inputs (including fuel, concrete, steel and timber) accelerated at the second fastest pace on the survey. Increased labour costs and skill shortages saw the survey's employment index fall to a four-month low. Optimism in the sector regarding the coming twelve months, however, remained elevated, with firms expecting demand to remain firm and supply-side constraints to ease.

### Weakest August for new car registrations since 2013

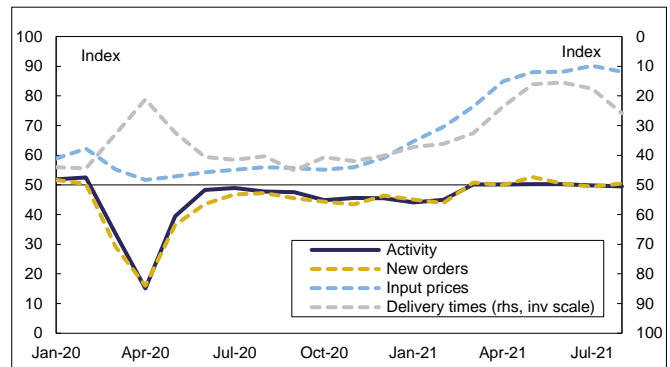
As elsewhere in Europe, UK new car registrations were extremely weak in August, weighed by ongoing supply impediments, not least the semi-conductor shortage. In particular, new registrations fell 22.0%Y/Y to the lowest level for the month – which typically sees light sales ahead of September's number-plate change – since 2013. Over the first eight months of the year, new car registrations were up 20.3%YTD/Y but were also down 27.5% from the same period of 2019. Demand for petrol and

#### Euro area: Construction activity PMIs by country



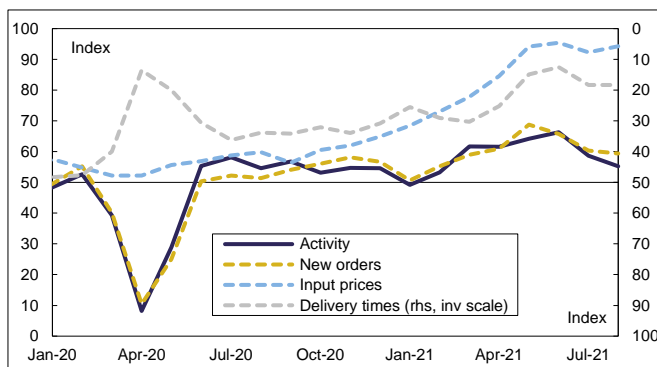
Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Euro area: Construction PMIs



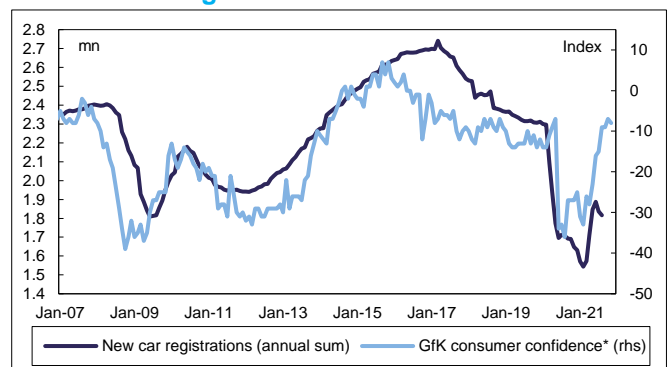
Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Construction PMIs



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

#### UK: New car registrations and consumer confidence











\*3-month lead. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

diesel cars was particularly subdued, while growth in electric vehicles continued to surge, with new registrations of battery electric vehicles and plug-in hybrids more than doubling over the first eight months of the year compared to the same period of last year. With consumer confidence back to pre-Covid levels, unemployment falling, and wage growth having accelerated, demand for new cars should pick up and registrations accelerate as and when supply impediments ease.












## The day ahead in the UK

Tomorrow brings the release of the BRC retail sales monitor for August, which is expected to reveal a further slowdown in sales growth, as the reopening of the hospitality and leisure sectors diverts consumer spending away from goods. Like-for-like sales growth is expected to slow to 3.2%Y/Y in August, from 4.7%Y/Y previously. That would be the softest rate of growth recorded on the survey since March last year, when lockdowns across the country hit sales.

## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Construction PMI	Aug	<b>49.5</b>	-	49.8	-
	 Sentix investor confidence	Sep	<b>19.6</b>	18.9	22.2	<b>0.0</b>
Germany	 Factory orders M/M% (Y/Y%)	Jul	<b>3.4 (24.4)</b>	-0.7 (18.9)	4.1 (26.2)	<b>4.6 (26.5)</b>
	 Construction PMI	Aug	<b>44.6</b>	-	47.1	-
France	 Construction PMI	Aug	<b>44.0</b>	-	48.5	-
Italy	 Construction PMI	Aug	<b>65.2</b>	-	55.8	-
UK	 New car registrations Y/Y%	Aug	<b>-22.0</b>	-	-29.5	-
	 Construction PMI	Aug	<b>55.2</b>	56.0	58.7	-
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	 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	0.8 (5.1)	-1.3 (5.1)	
	 10.00	ZEW current situation (expectations)	Sep	34.0 (30.8)	29.3 (40.4)	
UK	 00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Aug	3.2	4.7	
Auctions and events						
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				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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