

Euro wrap-up

Overview

- Bunds made modest gains as European gas and power prices fell back while the value of euro area exports resumed an uptrend in July.
- Gilts followed USTs lower as a survey suggested that UK firms found it increasingly difficult to fill job vacancies heading into September.
- Friday will bring August data for UK retail sales along with final euro area inflation figures for the same month.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

| Bond | Yield | Change |
|---|--------|--------|
| BKO 0 09/23 | -0.710 | -0.003 |
| OBL 0 10/26 | -0.628 | -0.001 |
| DBR 0 08/31 | -0.308 | - |
| UKT 0 ¹ / ₈ 01/23 | 0.272 | +0.016 |
| UKT 0 ³ / ₈ 10/26 | 0.480 | +0.033 |
| UKT 0 ¹ / ₄ 07/31 | 0.808 | +0.033 |

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

Euro area

Euro area export values resumed an upwards trend in July

Despite ongoing pandemic-related disruptions to activity in the manufacturing and services sectors, euro area export volumes appeared to continue to benefit from a recovery in global demand in the second quarter of the year, rising by more than 2%Q/Q following more modest growth (0.6%Q/Q) in Q1. But this principally reflected a rebound in services exports as tourism resumed thanks to a loosening of restrictions, with goods export volumes up just 0.4%Q/Q for the second successive quarter. Moreover, the monthly profile showed that goods export volumes fell in each month during the second quarter, to leave them still more than 2% below the pre-pandemic level. This weakness partly reflected persistent supply-side constraints associated with the pandemic-related shortage of inputs, shipping freight restrictions, and Brexit. More happily, tallying with the pickup in industrial production reported yesterday, today's nominal goods trade figures pointed to a resumption in the upwards trend at the start of Q3. In particular, euro area goods export values rose 1.2%M/M in July to leave them back at the pre-pandemic level. Admittedly, however, this growth rate is likely to have been flattered by inflation, with growth in volume terms more modest.

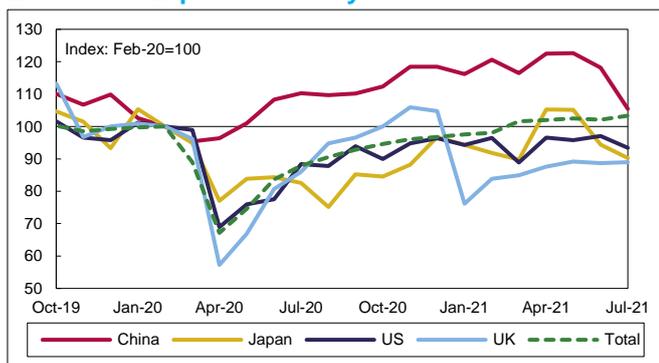
Pandemic continues to limit exports recovery

Within the detail, the improvement in July largely reflected a pickup demand from Switzerland and Russia. But while there was also another modest increase in the value of exports to the UK in July (0.3%M/M) to mark the fifth monthly increase in six, this was still some 16% below the pre-Brexit peak. Additional restrictions across Asia in response to the spread of the delta variant have also seen a notable slump in exports to the region since May – e.g. shipments in June and July were down a cumulative 14% to China and Japan and by more than 6% to Korea. And shipments to the US broadly leveled off over the past quarter too. From a sectoral perspective, with supply bottlenecks having been particularly acute, the weakness towards the end of the second quarter was unsurprisingly driven by transport goods – i.e. while exports of consumer goods were up just 1.1%Q/Q in Q2, when excluding transport items, they were up almost 4½%Q/Q. There was also a slowdown in capital goods exports too, while intermediate goods maintained the strongest recovery, to end the quarter around 5% above the pre-pandemic level.

Net trade unlikely to provide significant support to growth in Q3

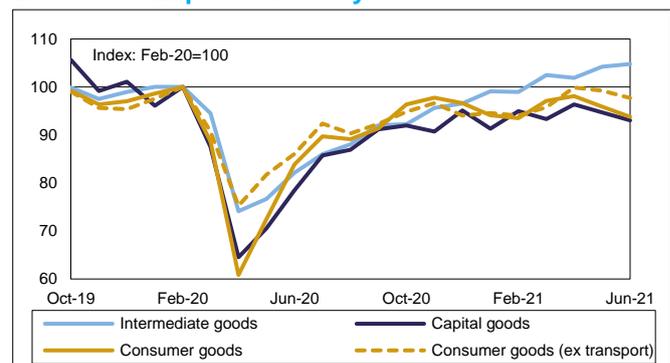
While forward-looking indicators still suggest strong external demand, they also point to some softening of momentum heading into the third quarter. For example, having reached a series high in March, the manufacturing new export orders PMI has eased back over recent months. With delivery times for manufactured goods remaining extremely lengthy too,

Euro area: Export values by destination



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Export values by subsector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

production in certain subsectors – notably autos – remains impeded, weighing on near-term export potential. Nevertheless, as and when supply bottlenecks ease, we would expect relatively vigorous growth in manufacturing output to meet significant backlogs of orders and support a further rebound in exports. Meanwhile, although the value of goods imports jumped by more than 4.4%Q/Q in Q2, they slowed over the course of that quarter. And today's release suggested that import growth remained modest at the start of Q3, rising just 0.3%M/M in July following growth of 0.1%M/M in June. Given significant price pressures – goods import prices rose an unadjusted 1.2%M/M and 7.8%Y/Y that month – import volumes likely fell back.

Euro area new car sales predictably weak

In light of the figures from the member states already published, today's euro area new car registrations data were predictably downbeat. According to the ACEA's figures, new car registrations in the region were down 21.8%Y/Y in August following a decline of 25.0%Y/Y in July, and were also down 35% compared with August 2019. And at just 507k units, the outturn last month was the lowest for any August since the series began in 1989. On the ECB's seasonally adjusted measure, car sales in the euro area fell a further 3.3%M/M in August after dropping 11%M/M in July to be trending a sizeable 8.8% below the Q2 average in the first two months of Q3. This was driven by particular weakness in Germany (-6.3%M/M), Italy (-3.3%M/M) and Spain (-14.5%M/M), which contrasted with a rebound in France (9.2%M/M). So, while new car registrations in the first eight months of the year (5.8mn) were up by 10.5%YTD/Y – reflecting not least the exceptionally low base at the onset of the pandemic – they were still down by 25.5% compared with the equivalent period in 2019. Of course, while some of this weakness might in part reflect more moderate domestic demand as the delta variant spread across Europe, it likely primarily reflects ongoing supply constraints in the sector. So, as and when these ease, we should see a more pronounced recovery in autos sales and production.

The day ahead in the euro area

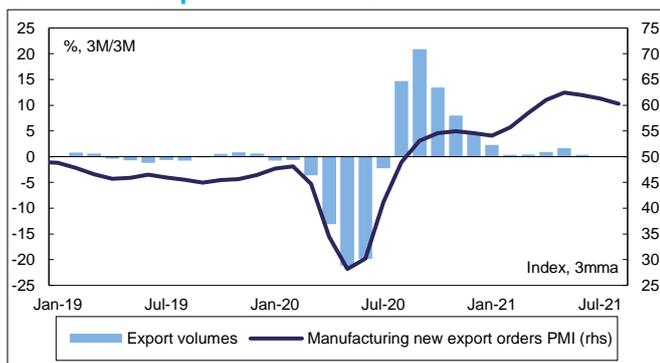
Tomorrow will bring the release of final euro area inflation figures for August. With the equivalent releases from Germany, France and Spain unchanged from their respective flash estimates and only a modest (0.1ppt) downwards revision to the Italian number, we expect tomorrow's aggregate release to align with the preliminary figures. In particular, this showed the headline CPI rate rising 0.8ppt to 3.0%Y/Y, the highest since November 2011, with core inflation (excluding energy, food, alcohol and tobacco) up 0.9ppt to 1.6%Y/Y, the highest since July 2012. The upwards pressure will be associated with higher prices of clothing and certain other goods related to the timing of summer discounts, increased prices of package tours, and, of course, energy. Friday will also bring euro area construction activity figures for July, which – not least given growth in Germany and France – are likely to report a modest recovery in output having declined in four out of the past five months.

UK

ONS survey highlights Brexit impact on job vacancies

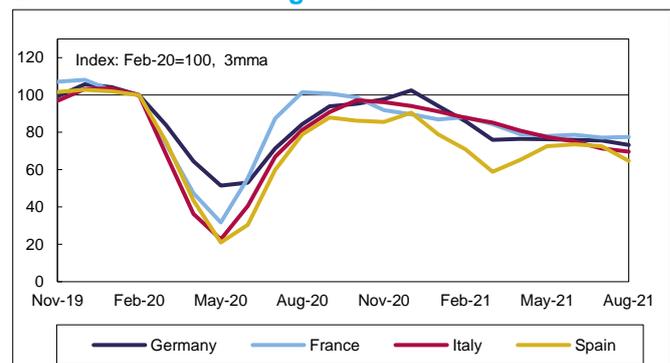
Data released earlier this week highlighted the strong momentum in the UK's [labour market](#) over the summer months, with record job vacancies of more than 1mn for a second successive month in August particularly striking. Today the ONS provided further colour on that rise in vacancies, based on the results of its Business Insights and Conditions Survey. And those findings implied that firms' struggle to fill vacancies worsened heading into September, with the impact of Brexit a key factor suggesting that vacancies will remain unfilled for some time to come. In particular, the survey reported 13% of all firms, up from 9% in early August, now judged that vacancies were more difficult to fill than normal. But for large businesses, the challenge was far more pervasive, with 41% of firms struggling to fill vacancies, up 9ppts from a month earlier. Overall, the struggles were largest in hospitality (30%), with the water (27%) and health (23%) sub-sectors also reporting big staff shortages. And a significant share of firms (15%) in the transport and storage sector, whose shortage of more than 100k HGV drivers has been reflected in empty supermarket shelves, also unsurprisingly reported large-scale difficulties. Notably, within that sector, some 46% of firms experiencing recruitment difficulties cited the shortage of EU applicants – at least in part due to Brexit – as a key factor. And 25% of all firms struggling to recruit also noted the role of a shortage of candidates

Euro area: Export volumes and orders PMI



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

Euro area: New car registrations



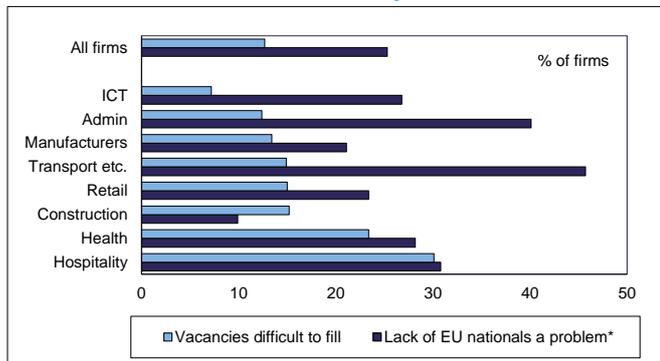
Source: ECB and Daiwa Capital Markets Europe Ltd.

from the EU. The ONS estimates that the number of EU nationals employed in the UK fell by 8.7% (more than 200k) between January to March 2020 and April to June 2021, with post-Brexit immigration rules among several factors suggesting that a large share of those workers will not be returning. Of course, while more than 2 million workers are now on furlough, unemployed or inactive compared to before the pandemic, the uptrend in unfilled vacancies and likely skills mismatches still pose upside risks to wage growth even as the furlough scheme is brought to an end.

The day ahead in the UK

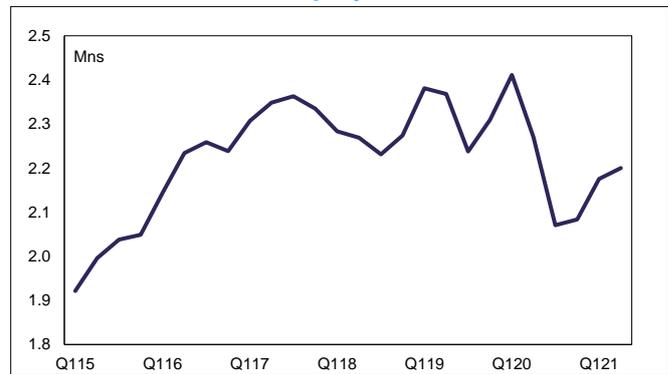
After last week’s softer-than-expected UK [GDP figures](#) for July, focus at the end of the week will be firmly on August’s retail sales report. While sales are expected to have increased by 0.5%M/M, this would fail to reverse the drop of 2.5%M/M in July as consumers continue to substitute spending on goods for services. And in light of yesterday’s stronger [inflation figures](#), the BoE’s latest inflation attitudes survey might also attract attention, providing insight into households’ price expectations.

UK: Vacancies difficult to fill by sector



*Share of those firms reporting difficulties filling vacancies. Source: ONS BICS survey and Daiwa Capital Markets Europe Ltd.

UK: EU nationals in employment



Source: ONS 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 |  EU27 new car registrations Y/Y% | Aug | -19.1 | - | -23.2 | - |
| |  Trade balance €bn | Jul | 13.4 | 16.7 | 12.4 | 11.9 |
| Italy |  Trade balance €bn | Jul | 8.8 | - | 5.7 | - |

Auctions

| Country | Auction |
|---------|---|
| France |  sold €3.14bn of 2.25% 2024 bonds at an average yield of -0.66% |
| |  sold €2.65bn of 0.25% 2026 bonds at an average yield of -0.48% |
| |  sold €3.21bn of 0% 2027 bonds at an average yield of -0.42% |
| |  sold €988mn of 0.1% 2026 index-linked bonds at an average yield of -2.18% |
| |  sold €541mn of 0.1% 2031 index-linked bonds at an average yield of -1.68% |
| |  sold €333mn of 1.8% 2040 index-linked bonds at an average yield of -1.29% |
| Spain |  sold €1.39bn of 0% 2024 bonds at an average yield of -0.513% |
| |  sold €1.75bn of 0% 2026 bonds at an average yield of -0.371% |
| |  sold €2.05bn of 0.5% 2031 bonds at an average yield of 0.326% |

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 CPI (core CPI) Y/Y% | Aug | 3.0 (1.6) | 2.2 (0.7) |
| | 10.00 | Construction output M/M% (Y/Y%) | Jul | - | -1.7 (2.8) |
| France | 07.45 | Final wages Q/Q% | Q2 | 0.3 | 0.6 |
| UK | 07.00 | Retail sales including auto fuel M/M% (Y/Y%) | Aug | 0.5 (2.7) | -2.5 (2.4) |
| | 07.00 | Retail sales excluding auto fuel M/M% (Y/Y%) | Aug | 0.8 (2.5) | -2.4 (1.8) |
| | 09.00 | BoE inflation expectations survey, next 12 months % | Aug | - | 2.4 |

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are MiFID 2 Professional (or equivalent) Clients and should not therefore be distributed to such Retail Clients. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at:

<https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>