

# Euro wrap-up

## Overview

- Bunds made gains as the decline in German retail sales exceeded expectations in June, while the final euro area manufacturing PMIs pointed to a steep contraction at the start of Q3.
- Gilts also rose as the final UK manufacturing PMI pointed to a steeper drop in IP in July than implied by the flash release.
- After a day bereft of top-tier releases tomorrow, Wednesday will bring euro area retail sales figures for June, German trade and car production numbers and the final July services PMIs.

Emily Nicol

+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 0.2 06/24	0.210	-0.037
OBL 1.3 10/27	0.467	-0.053
DBR 1.7 08/32	0.757	-0.055
UKT 1 04/24	1.659	-0.050
UKT 1¼ 07/27	1.535	-0.055
UKT 4¼ 06/32	1.796	-0.068

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

Source: Bloomberg

## Euro area

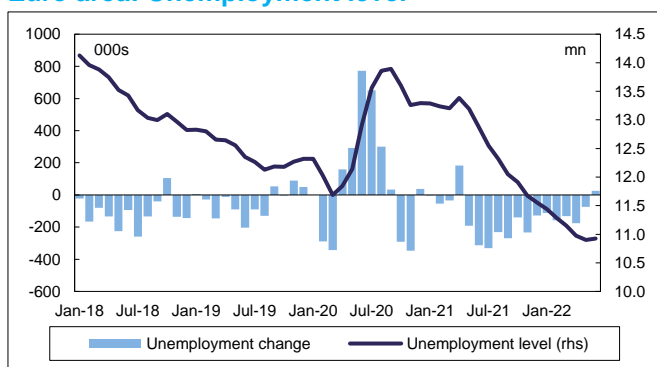
### Euro area unemployment rate unchanged, but number of jobless rises slightly

Despite Friday's upside surprise to [GDP growth](#) in Q2, recent surveys have signalled a loss of economic momentum as the quarter progressed, with the European Commission and PMI measures of employment having eased back. And today's jobless figures from the euro area reported the first increase in June in fourteen months. Admittedly, the monthly increase in the number of jobless workers of 25k to 10.93mn is small beer compared with the decline of 650k so far this year and almost 2mn over the past year. As such, the unemployment rate was unchanged at 6.6%, a series low. Moreover, the increase largely reflected a pickup in the number of Spanish unemployed workers (28k), to leave the respective unemployment rate unchanged at 12.6%. While France's unemployment rate similarly held steady (7.2%), the Italian rate was down 0.1pt to 8.1%. And Germany's rate (on the ILO measure) also fell 0.1pt in June to a new record low 2.8%. Of course, this contrasts with the national claimant measure that month (up 0.3pt to 5.3%). And the latest national German labour market numbers suggested a further sizeable increase in the number of unemployed people in July, by 48k to 2.46mn, a ten-month high. As a result, the claimant count rate rose 0.1pt to 5.4%, the highest since October, albeit still 1ppt below the pandemic peak, with the number of claimants some 120k lower than a year earlier and more than 460k lower than the high in June 2020. Moreover, the Federal Employment Agency again attributed the increase principally to the registration of Ukrainian refugees at job centres, rather than a sudden deterioration in labour demand.

### German retail sales slump in Q2 as price pressures erode purchasing power

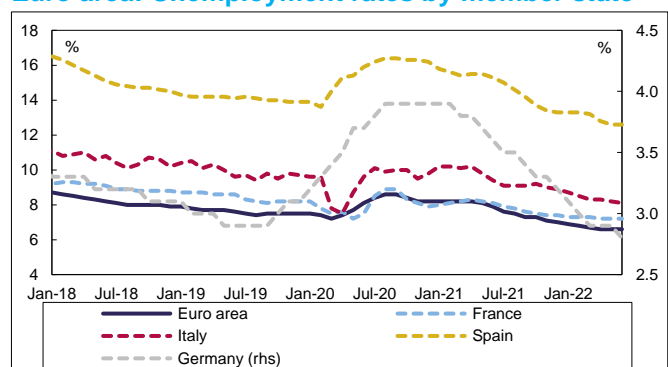
Today's German retail sales volumes, however, fell short of expectations in June as high inflation continued to erode purchasing power. Indeed, sales declined 1.6%M/M in real terms (-0.8%M/M in nominal terms), to leave them down 8.8%Y/Y, the steepest year-on-year fall since the series began in 1994. So while growth in May was upwardly revised (by 0.6ppt to 1.2%M/M), sales were down a whopping 4%Q/Q in Q2, the largest quarterly drop since the start of 2021, with sales back to the pre-pandemic level in February 2020. Weakness in June was notable in non-food sales, which fell 3.3%M/M, with a marked decline in sales of clothing and shoes following the rebound seen in recent months. Online sales were also softer (-3.8%M/M) and well below the level a year earlier (-15.1%Y/Y), albeit still some 22% higher than the pre-pandemic level. But food sales continued to be hit by particularly acute price pressures (inflation in the sector was up almost 12%Y/Y in June), to be down 1.6%M/M and by more than 7% compared with a year earlier. In contrast, sales at petrol stations were boosted (6.4%M/M) by the temporary fuel discount. Admittedly, the slump in retail sales last quarter reflects in part increased opportunities to spend on services. Indeed, Destatis noted in Friday's GDP release that household consumption had provided support to the economy in Q2 (albeit not enough to avoid stagnation). Looking ahead, however, with consumer confidence having sunk further at the start of Q3 to a new record low, households increasingly concerned about the future

### Euro area: Unemployment level



Source: Bloomberg, Eurostat and Daiwa Capital Markets Europe Ltd.

### Euro area: Unemployment rates by member state



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

financial situations and inflation having risen again, we would expect household spending to remain extremely subdued this quarter.

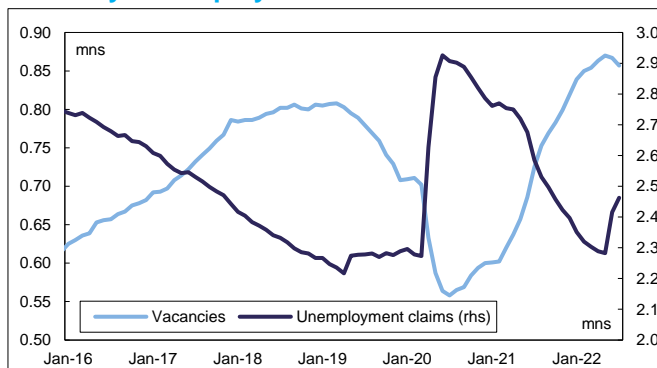
## Final euro area manufacturing PMIs point to marked contraction in July

Slowing demand and ongoing challenges in supply were a hamper on Germany's manufacturing sector in Q2. And surveys suggest a further marked deterioration in conditions at the start of the third quarter. Certainly, today's final manufacturing PMIs saw the German output component revised even lower in July, to leave it down more than 4pts on the month to 45.0, the lowest since May 2020, despite an easing in supply bottlenecks but likely reflecting significantly weaker new orders (the index fell to just 40.1). While the French output PMI was revised a touch higher from the flash, at 44.6, it too was the weakest in more than two years. And the equivalent indices from Italy (down 4.5pts to 45.8) and Spain (down 3.3pts to 48.5) similarly suggested that IP went into reverse last month. Overall, the euro area manufacturing output PMI fell 3pts to 46.3 in July, the lowest since May 2020. Nevertheless, a steep drop in new business, cancelled existing orders and still lengthy delivery lead times, led to an unintentional increase in firms' stock of finished goods, with the relevant survey measure the highest in the survey's 25-year history. And with firms concerned about persistently high inflation, energy supply and the war in Ukraine, they remained extremely pessimistic about the year ahead.

## The coming two days in the euro area

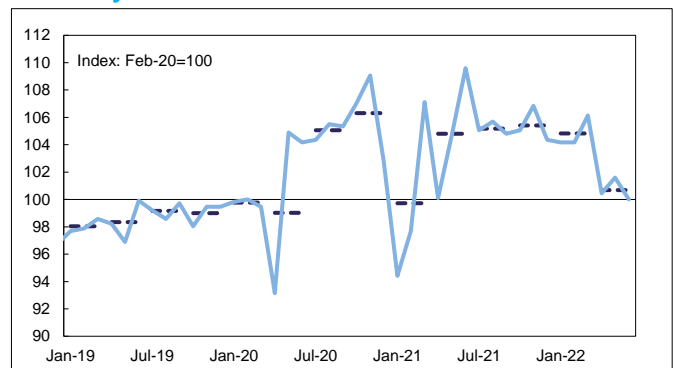
After a day bereft of top-tier euro area economic data tomorrow, the focus on Wednesday will be on euro area retail sales figures. With consumer confidence having fallen to a record low and willingness to make major purchases at its weakest since April 2020 retail sales are expected to have been weak in June. Certainly, today's German figures raise the likelihood that aggregate sales fell in June, to leave them down over the second quarter as a whole. Wednesday will also bring euro area PPI data for June, which will show that price pressures remained elevated at the factory gate with evidence that higher input costs were being passed along to consumers. Meanwhile, the final service sector PMIs for the euro area and member states are likely to confirm that activity in the sector barely grew at the start of Q3, with consumer-facing firms related to tourism, recreation and transportation feeling the pinch having rebounded over recent months. Indeed, the flash headline services activity PMI fell for the third consecutive month and by 2.6pts to a fifteen-month low of 50.6. Overall, the flash composite output PMI (49.4) was the lowest since February 2021. German goods trade numbers for June and new car registrations and production data for July will also be published.

### Germany: Unemployment and vacancies



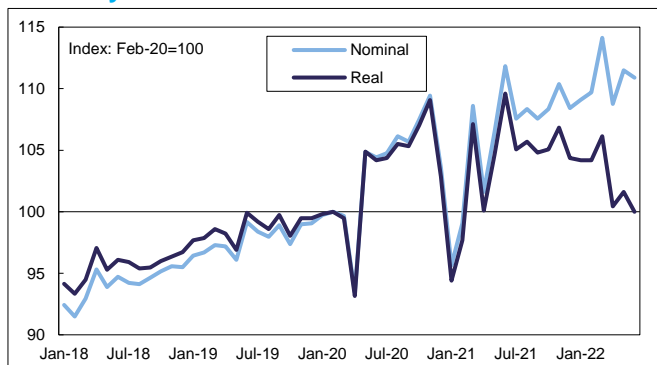
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: Retail sales\*



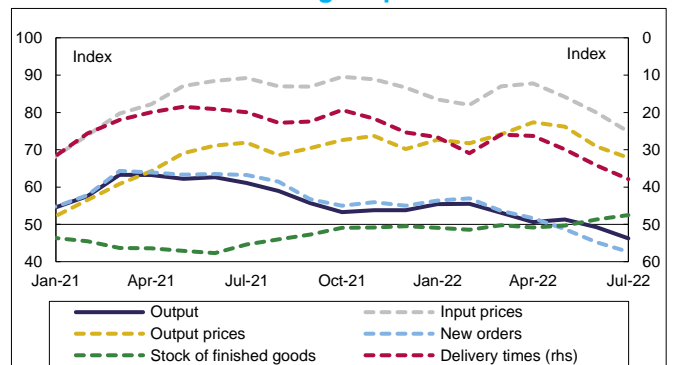
\*Dark blue dashed lines represent quarterly averages. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Manufacturing output PMIs



Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

## UK

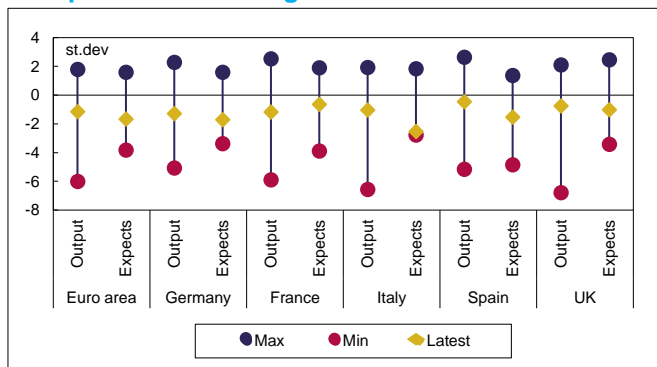
### UK manufacturing PMI signals a steeper pace of contraction at the start of Q3

Today's final July manufacturing PMIs offered a more downbeat assessment of conditions in the sector than implied by the flash release, signalling a sharper slowdown in UK production at the start of the third quarter amid a marked weakening in demand and greater pessimism about the economic outlook. In particular, the output PMI was downwardly revised from the flash by 0.8pt to 49.0, consistent with contraction and the lowest reading since May 2020. The weakness was most striking in the intermediate goods subsector, with the relevant PMI falling a further 4.3pts to a deeply contractionary level of 46.3. And the PMIs implied the second successive decline in new orders, with domestic and external demand both weak, hit by the cost of living crisis, raw material shortages, transportation delays and growing global uncertainties. While the input and output price PMIs both eased in July, at 77.5 and 69.6 respectively, they remained extremely elevated by historical standards and suggested that manufacturers continued to absorb some of these additional cost burdens. Overall, manufacturers were unsurprisingly less upbeat about the outlook for the coming year, with the relevant survey index matching June's two-year low.

### The coming two days in the UK

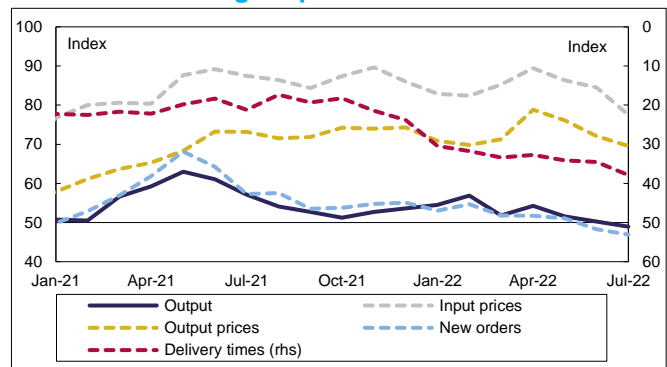
In the UK, tomorrow we will see the release of the Nationwide house price index for July, which is expected to show that annual growth picked up despite mounting pressure on household budgets from high inflation and interest rates. This will be followed on Wednesday by the final UK services sector and composite PMIs. Contrasting with the euro area, the flash UK PMIs still pointed to expansion at the start of the third quarter. Nevertheless, the composite PMI fell in July for the third month out of the past four, by 0.9pt to 52.8, roughly 3pts below the average in the first half of the year and implying the softest growth since February 2021.

#### Europe: Manufacturing PMIs



Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

#### UK: Manufacturing output PMIs



Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

**The next edition of the Euro wrap-up will be published on 3 August 2022**

## European calendar

### Today's results

Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Final manufacturing PMI	Jul	<b>49.8</b>	<u>49.6</u>	52.1	-
	Unemployment rate %	Jun	<b>6.6</b>	6.6	6.6	-
Germany	Retail sales M/M% (Y/Y%)	Jun	<b>-1.6 (-9.8)</b>	0.3 (-8.3)	0.6 (0.4)	<b>1.2 (1.1)</b>
	Final manufacturing PMI	Jul	<b>49.3</b>	<u>49.2</u>	52.0	-
France	Final manufacturing PMI	Jul	<b>49.5</b>	<u>49.6</u>	51.4	-
	New car registrations Y/Y%	Jul	<b>-7.1</b>	-	-14.2	-
Italy	Manufacturing PMI	Jul	<b>48.5</b>	49.1	50.9	-
	Unemployment rate %	Jun	<b>8.1</b>	8.1	8.1	<b>8.2</b>
	New car registrations Y/Y%	Jul	<b>-0.9</b>	-	-15.0	-
Spain	Manufacturing PMI	Jul	<b>48.7</b>	49.9	52.6	-
	New car registrations Y/Y%	Jul	<b>-12.5</b>	-	-7.8	-
UK	Final manufacturing PMI	Jul	<b>52.1</b>	<u>52.2</u>	52.8	-
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	
Spain		08.00	Unemployment change '000s	Jul	-	-42.4
UK		07.00	Nationwide house price index M/M% (Y/Y%)	Jul	0.2 (11.4)	0.3 (10.7)
Auctions and events						
UK		10.00	Auction: £2.75bn of 1% 2032 bonds			

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		09.00	Final services (composite) PMI	Jul	<u>50.6 (49.4)</u>	53.0 (52.0)
		10.00	Retail sales M/M% (Y/Y%)	Jun	0.0 (-1.7)	0.2 (0.2)
		10.00	PPI M/M% (Y/Y%)	Jun	1.0 (35.7)	0.7 (36.3)
Germany		07.00	Trade balance €bn	Jun	0.2	0.9
		08.55	Final services (composite) PMI	Jul	<u>49.2 (48.0)</u>	52.4 (51.3)
		-	New car registrations (production)* Y/Y%	Jul	-	-18.1 (19.2)
France		08.50	Final services (composite) PMI	Jul	<u>52.1 (50.6)</u>	53.9 (52.5)
Italy		08.45	Services (composite) PMI	Jul	50.1 (49.6)	51.6 (51.3)
		09.00	Retail sales M/M% (Y/Y%)	Jun	-	1.9 (7.0)
Spain		08.15	Services (composite) PMI	Jul	52.0 (51.5)	54.0 (53.6)
UK		09.30	Final services (composite) PMI	Jul	<u>53.3 (52.8)</u>	54.3 (53.7)
Auctions and events						
Germany		10.30	Auction: €1.5bn of 1% 2038 bonds			

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

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