

# Euro wrap-up

## Overview

- Bunds followed US10s lower today, while German IP data suggested an underwhelming performance in June. French IP surprised on the upside, but Italian industrial output slumped.
- Gilts also made large losses, after a UK survey pointed to softer job demand in July while suggesting that supply shortages kept starting salaries high.
- The coming week brings the UK's Q2 GDP estimate, along with June output figures. Euro area IP numbers and final July CPI estimates from member states are also due.

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### Daily bond market movements

Bond	Yield	Change
BKO 0.2 06/24	0.441	+0.135
OBL 1.3 10/27	0.702	+0.175
DBR 1.7 08/32	0.954	+0.158
UKT 1 04/24	1.979	+0.150
UKT 1½ 07/27	1.886	+0.170
UKT 4¼ 06/32	2.060	+0.172

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

Source: Bloomberg

## Euro area

### Despite a modest rise in June, German IP remained a drag on GDP in Q2

After yesterday's [German turnover](#) numbers pointed to solid growth (3.0%/M/M) in June, today's industrial production data were slightly underwhelming. Total production did at least rise in June, by 0.4%/M/M, but having been revised lower in May (-0.1%/M/M), this left output down 1.3%/Q/Q in Q2, and still almost 6% below the pre-pandemic level. Admittedly, growth in June was held back by construction, with activity in this sector declining for the fourth consecutive month (-0.8%/M/M) to be down more than 3%/Q/Q last quarter, while energy production was flat in June having contracted sharply in May (-6.2%/M/M). In contrast, the manufacturing performance was somewhat more encouraging, with output up for the third consecutive month, by 0.7%/M/M in June. Within the detail, capital goods production rose a further 1.0%/M/M, driven by an ongoing rebound in autos production, which increased for the third consecutive month and by 5.5%/M/M, albeit still leaving it almost one-fifth below the pre-pandemic level. Consumer goods output rose (1.1%/M/M) for the first month in four, while intermediate goods (0.3%/M/M) broadly offset the drop in May. Overall, however, manufacturing remained a drag on GDP growth in Q2, falling 0.9%/Q/Q, to be some 6.2% lower than the pre-pandemic level.

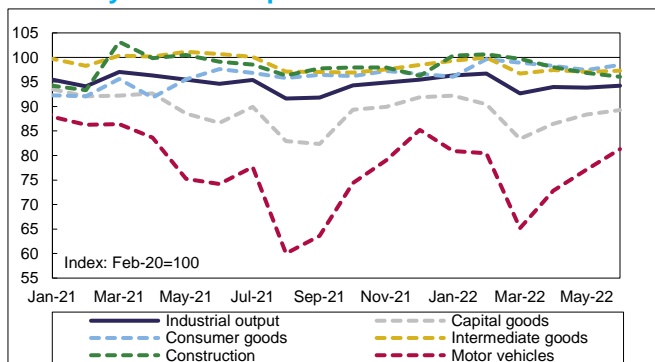
### Risks to German manufacturing remain firmly to the downside

The weakness in German output partly reflects persisting supply bottlenecks, with an ifo survey reporting that almost three-quarters of manufacturers in June had seen production capacity limited by a shortage of materials, with that share rising to around 90% in the electrical, machinery, computer and auto subsectors. And the latest truck-toll mileage data suggest that manufacturing output remained lacklustre at the start of Q3 too, while the manufacturing PMI was consistent with contraction for the first time in more than two years in July. But there has also been a marked slowdown in demand since the start of the year – new factory orders were down around 5½%/Q/Q in Q2 – with the PMIs implying an even steeper drop in July amid increased economic uncertainty, reduced investment spending, elevated costs and already high stock levels. Moreover, manufacturers remain extremely concerned about energy supply too, with gas inflows through the Nord Stream 1 pipeline currently just 6% of what they were this time last year. So, consistent with the considerable deterioration in business expectations across a range of surveys, overall, we expect manufacturing output to be weak over coming months and remain a sizeable drag on Germany's GDP growth in the third quarter and likely beyond.

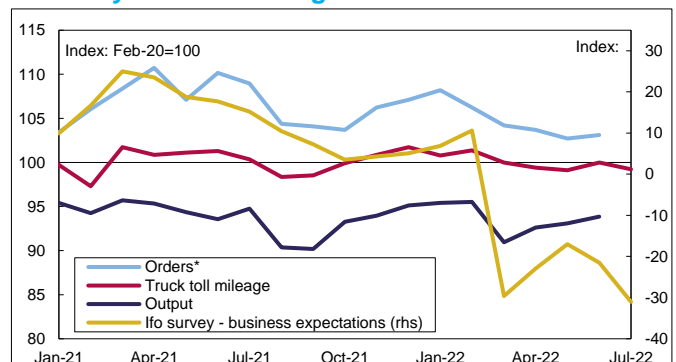
### French manufacturing jumps in June, but still down over second quarter as a whole

Today's French industrial production figures surprised to the upside in June, rising for the second successive month and by 1.4%/M/M, the strongest monthly increase since January. Nevertheless, this left output down in Q2 (-0.4%/Q/Q), little changed

#### Germany: Industrial production



#### Germany: Manufacturing indicators



from a year ago and still more than 4% lower than the pre-pandemic level. Within the detail, manufacturing production similarly increased for the second month (1.2%M/M), supported by strong growth in machinery and equipment (3.5%M/M), food (2.2%M/M) and transport equipment (2.8%M/M). In contrast, a fall in the output of autos (-1.9%M/M) followed a double-digit increase in May to be up 5½%Q/Q in Q2, albeit still down by more than 21% compared with the pre-pandemic level in February 2020. Overall, manufacturing output was flat over the second quarter as a whole. Despite a rebound in energy production (2.3%M/M), it subtracted from growth in Q2 (-2.3%Q/Q), while construction activity in France fell (-1.9%M/M) by the most since November, to be down almost ½%Q/Q in Q2. And the latest PMIs suggest that manufacturing and construction output continued to fall at the start of Q3.

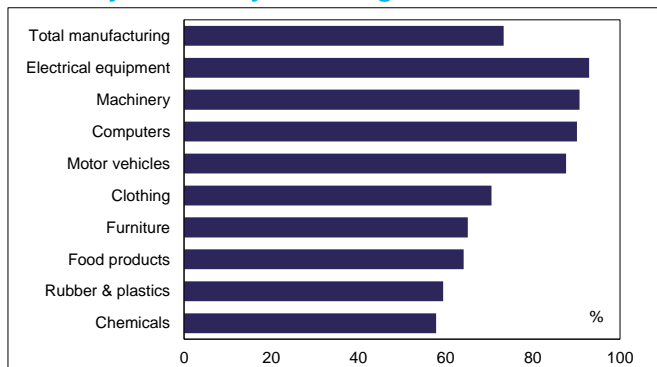
### Italian IP slumps in June but was still supportive to growth in Q2

Contrasting with Germany and France, industrial production in Italy fell well short of expectations. In particular, output slumped 2.1%M/M in June, the second successive drop, led by sizeable drops in production of autos (-6.5%M/M), machinery (-2.7%M/M) and textiles (-3.0%M/M). Nevertheless, reflecting the profile of output earlier in the year, IP was still up in Q2 by more than 1%Q/Q, with manufacturing production up almost 1½%Q/Q, the only member state of the biggest four to offer support to GDP growth last quarter. But like in other member states, the near-term outlook remains clouded by heightened economic uncertainties and higher cost burdens. Indeed, the ISTAT's measure of manufacturing sentiment fell in July to its lowest since March 2021, with the manufacturing output PMI recording its largest monthly fall since April 2020 and pointing to marked contraction.

### The week ahead in the euro area

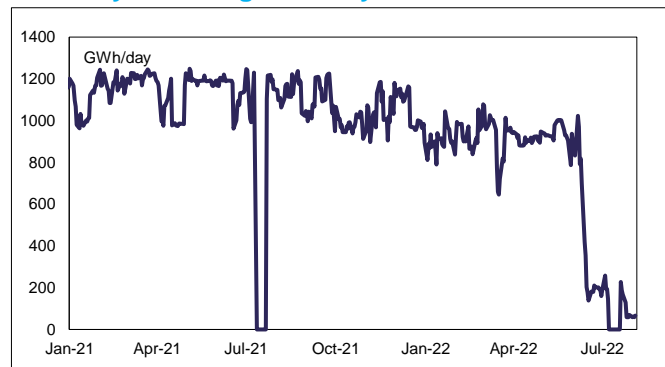
It should be a relatively quiet week ahead for top-tier euro area data, with the highlight being Friday's release of aggregate euro area industrial production figures for June. Based on the member states that have already published data we expect to see only very modest growth that month, likely less than ½%M/M. A result in line with these expectations would leave euro area IP down a little more than 1.0% on the quarter, indicating that the manufacturing sector subtracted from GDP growth in Q2. The often volatile Irish IP figures (due Tuesday) will provide further guidance. Ahead of this, we will get the euro area Sentix investor confidence survey for August (Monday), which is likely to signal a further deterioration in expectations. Meanwhile, the second half of the week will also bring updated and more detailed July inflation figures from the four largest member states – German and Italian figures on Wednesday followed by French and Spanish data on Friday. These are likely to confirm the flash estimates that came in stronger than had been expected in July. In particular, the German and French HICP rates increased by 0.3ppt to 8.5%Y/Y and 6.8%Y/Y respectively. The equivalent Spanish figures rose 0.8ppt to 10.8%Y/Y, while the Italian HICP edged only slightly lower by 0.1ppt to 8.4%Y/Y, due in part to base effects from the summer sales.

#### Germany: ifo survey – shortage indicator\*



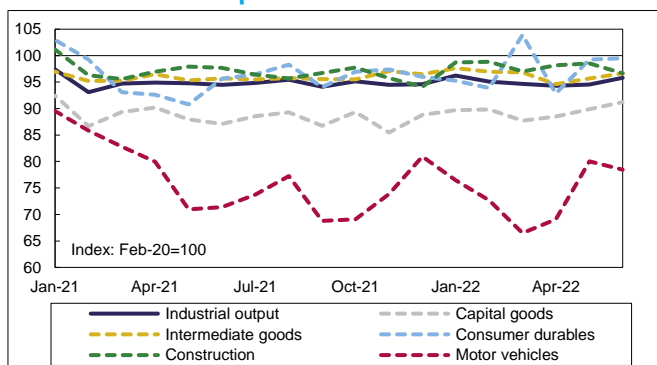
\*Share of manufacturers reporting production limitations due to material shortages. Source: ifo and Daiwa Capital Markets Europe Ltd.

#### Germany: Russia gas – daily Nord Stream 1 inflows



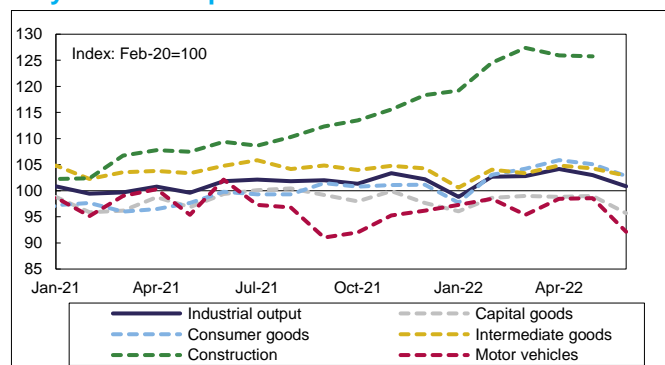
Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

#### France: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Italy: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

## UK

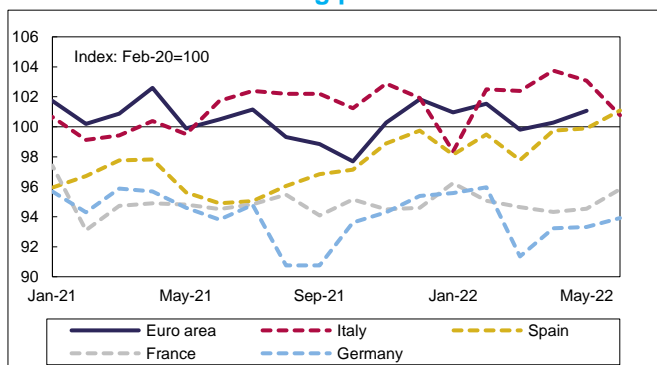
### Labour market survey points to softer demand, but lack of supply keeps starting pay elevated

The **BoE** yesterday 'acted forcefully' with a 50bps hike in Bank Rate, as the MPC remained concerned that the tightness in the UK's labour market and higher than previously expected externally generated price pressures would lead to more lasting domestically generated price pressures. But against the backdrop of a slowing economy and heightened uncertainties ahead, today's REC/KPMG report on jobs suggested that demand for staff eased again in July, with the relevant survey measure signaling the softest growth since March 2021, as the number of job vacancies eased for the third consecutive month to a sixteen-month low. While not as acute as in June, the survey still suggested a continued lack of available candidates, amid skill shortages, hesitancy to move job and fewer foreign workers. As such, the survey remained consistent with a tight labour market. Indeed, rates of starting pay continued to rise sharply for both permanent and short-term workers in July, although the survey suggested the increase was the least marked for eleven months.

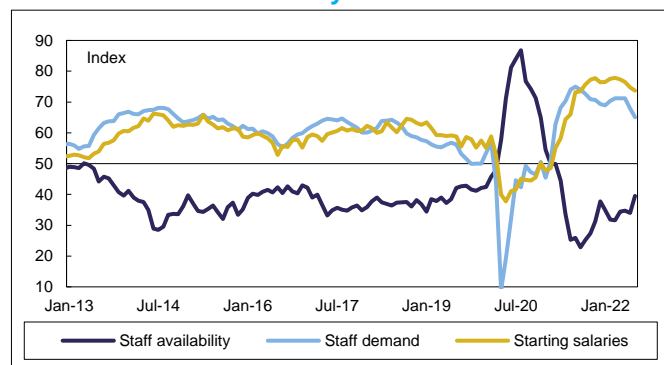
### The week ahead in the UK

The main event in the UK in the coming week will be Friday's release of the preliminary estimate of GDP in Q2, as well as the monthly GDP, production and trade figures for June. We currently forecast a sizeable decline in growth in GDP in June (circa -1%M/M) to leave total economic output down 0.1%Q/Q in Q2 following an increase of 0.8%Q/Q in Q1, with household consumption and business investment likely to have contracted. This compares with the BoE staff estimate of GDP growth of -0.2%Q/Q. Not least given sizable revisions to the monthly data over recent months and the additional bank holiday in June, there is greater uncertainty surrounding the growth forecast last quarter. Within the detail in June, we expect supply bottlenecks and subdued demand to have weighed on manufacturing production, with services activity also expected to contract despite the warmer weather. Beyond the GDP data, the latest BRC retail sales survey, which will provide a guide to spending on the high street in July, is due on Tuesday, followed by the RICS house price balance for the same month on Thursday.

#### Euro area: Manufacturing production



#### UK: Labour market survey indicators









The next edition of the Euro wrap-up will be published on 10<sup>th</sup> August 2022

## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Industrial production M/M% (Y/Y%)	Jun	<b>0.4 (-0.5)</b>	-0.3 (-1.3)	0.2 (-1.5)	<b>-0.1 (-1.7)</b>
France	 Trade balance €bn	Jun	<b>-13.1</b>	-12.4	-13.0	<b>-12.9</b>
	 Industrial production M/M% (Y/Y%)	Jun	<b>1.4 (1.4)</b>	-0.3 (-0.3)	0.0 (-0.4)	<b>0.2 (-0.3)</b>
	 Manufacturing production M/M% (Y/Y%)	Jun	<b>1.2 (3.3)</b>	1.5 (-)	0.8 (2.2)	<b>1.0 (2.3)</b>
Italy	 Industrial production M/M% (Y/Y%)	Jun	<b>-2.1 (-1.2)</b>	-0.1 (2.7)	-1.1 (3.4)	-
Spain	 Industrial production M/M% (Y/Y%)	Jun	<b>1.1 (7.0)</b>	-0.1 (4.6)	-0.2 (3.8)	<b>0.1 (4.5)</b>





















#### 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 forecast/actual</i>	Previous
<b>Monday 08 August 2022</b>					
Euro area	 09.30	Sentix investor confidence	Aug	-29.4	-26.4
<b>Tuesday 09 August 2022</b>					
UK	 00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Jul	-	-1.3
<b>Wednesday 10 August 2022</b>					
Germany	 07.00	Final CPI M/M% (Y/Y%)	Jul	<u>0.9 (7.5)</u>	0.1 (7.6)
	 07.00	Final EU-harmonised CPI M/M% (Y/Y%)	Jul	<u>0.8 (8.5)</u>	-0.1 (8.2)
Italy	 09.00	Final CPI M/M% (Y/Y%)	Jul	<u>0.4 (7.9)</u>	1.2 (8.5)
	 09.00	Final EU-harmonised CPI M/M% (Y/Y%)	Jul	<u>-1.1 (8.4)</u>	1.2 (8.5)
<b>Thursday 11 August 2022</b>					
UK	 00.01	RICS house price balance %	Jul	60	65
<b>Friday 12 August 2022</b>					
Euro area	 10.00	Industrial production M/M% (Y/Y%)	Jun	<u>0.3 (1.1)</u>	0.8 (1.6)
France	 06.30	ILO unemployment rate %	Q2	7.1	7.1
	 07.45	Final CPI M/M% (Y/Y%)	Jul	<u>0.3 (6.1)</u>	0.7 (5.8)
	 07.45	Final EU-harmonised CPI M/M% (Y/Y%)	Jul	<u>0.3 (6.8)</u>	0.9 (6.5)
Italy	 09.00	Total trade balance €mn	Jun	-	-12
Spain	 08.00	Final CPI M/M% (Y/Y%)	Jul	<u>-0.2 (10.8)</u>	1.9 (10.2)
	 08.00	Final EU-harmonised CPI M/M% (Y/Y%)	Jul	<u>-0.5 (10.8)</u>	1.9 (10.0)
UK	 07.00	Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>-0.1 (2.9)</u>	0.8 (8.7)
	 07.00	GDP M/M%	Jun	<u>-1.1</u>	0.5
	 07.00	Industrial production M/M% (Y/Y%)	Jun	-1.4 (1.9)	0.9 (1.4)
	 07.00	Manufacturing production M/M% (Y/Y%)	Jun	-1.8 (0.8)	1.4 (2.3)
	 07.00	Index of services M/M% 3M/3M%	Jun	-0.9 (-0.5)	0.4 (0.1)
	 07.00	Goods trade balance £bn	Jun	-22.3	-21.4

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 08 August 2022</b>		
- Nothing scheduled -		
<b>Tuesday 09 August 2022</b>		
Germany	 10.30	Auction: €6bn of 0% 2024 bonds
UK	 10.00	Auction: £1.75bn of 1.25% 2051 bonds
<b>Wednesday 10 August 2022</b>		
Germany	 10.30	Auction: €1.5bn of 1.25% 2048 bonds
UK	 17.00	BoE's Chief Economist Pill takes part in online Q&A
<b>Thursday 11 August 2022</b>		
- Nothing scheduled -		
<b>Friday 12 August 2022</b>		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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