

Euro wrap-up

Overview

- Bunds made gains at the shorter end of the curve as the euro area flash PMIs suggested that the euro area economy is contracting.
- Gilts made further losses as the UK composite PMI fell to an 18-month low but remained above the key 50 mark.
- After a quieter day tomorrow, Thursday will bring the account of the ECB's July policy meeting and the German ifo business survey.

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Daily bond market movements

Bond	Yield	Change
BKO 0.4 09/24	0.821	-0.041
OBL 1.3 10/27	1.089	-0.025
DBR 1.7 08/32	1.310	+0.010
UKT 1 04/24	2.628	+0.049
UKT 1½ 07/27	2.473	+0.112
UKT 4¼ 06/32	2.562	+0.052

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

Source: Bloomberg

Euro area

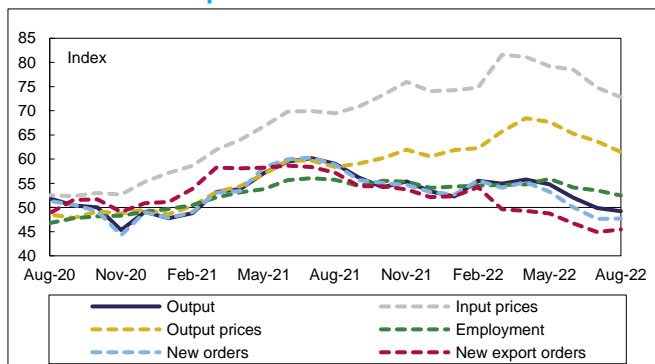
Flash PMIs indicate contraction as services bounce fades and manufacturing remains weak

Today's flash euro area PMI surveys broadly aligned with expectations and the downbeat message from other recent surveys, signalling that the economy slipped into contractionary territory over the summer. Amid strengthening headwinds related to cost pressures, rising interest rates, softening demand and uncertainties related to energy supply, the headline composite output PMI fell for the fourth consecutive month in August, by 0.7pt to 49.2, the lowest since the lockdowns in early 2021. And that left it trending so far in Q3 some 4.7pts lower than the Q2 average. The weakness was broad-based. But the deterioration this month was principally due to slowing services activity, with the relevant index down 1.0pt to an eighteen-month low of 50.2, consistent with stagnation in the sector as demand for recreation, tourism and real estate services faded. But while the manufacturing output index edged very slightly higher in August, at 46.5 it still implied ongoing marked contraction, with S&P Global citing particularly sharp declines across the basic materials and autos subsectors. Despite a drop in production, manufacturers reported the steepest build-up in unsold goods seen during the survey's 25-year history while new factory orders continued to fall sharply and work backlogs declined the most since the first wave of pandemic. So, with firms' confidence about prospects for output over the coming year remaining subdued, they also moderated their hiring intentions, with the composite employment PMI implying the softest jobs growth since March 2021. There were hints, however, that supply-chain strains eased further, with manufacturing delivery times up by the least in almost two years, and the composite input cost and output price indices falling for the fourth successive month, to the lowest since last autumn.

German and French PMIs deteriorate, with orders suggesting further weakness to come

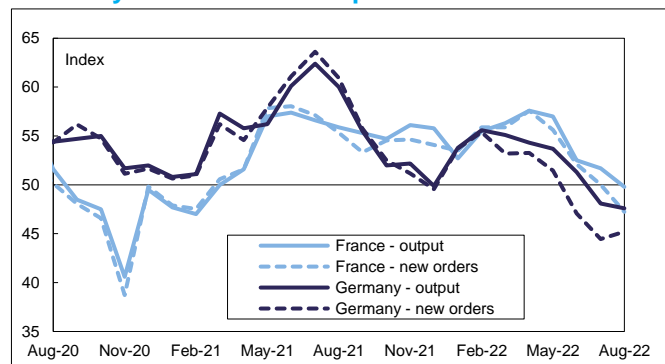
The weakness was evident in both of the largest member states in August, with Germany leading the deterioration. Indeed, the German composite PMI fell for the sixth consecutive month, by 0.5pt to 47.6, the lowest since June 2020. And that left it trending in Q3 more than 5pts lower than the Q2 average and 7pts below the Q1 average. The decline in August reflected a steepening pace of decline in services activity (the respective PMI fell 1.5pts to an eighteen-month low of 48.2), while manufacturing output again contracted at a marked pace (46.5). The French composite PMI also slipped below the key-50 level (down 1.9pts to 49.8) for the first time since February 2021, as manufacturing output (44.4) fell at the fastest pace since May 2020 and services activity (51.0) was the softest since March last year. S&P Global suggested that output elsewhere in the euro area continued to increase, albeit only marginally and at the softest pace in seventeen months. The composite new orders indices suggested that demand weakened further in both Germany and France (45.2 and 47.2 respectively) pointing to a likely further deterioration in economic activity at the end of the quarter and into Q4 too.

Euro area: Composite PMIs



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

Germany and France: Composite PMIs



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

Euro area consumer confidence edges marginally higher but still close to record low

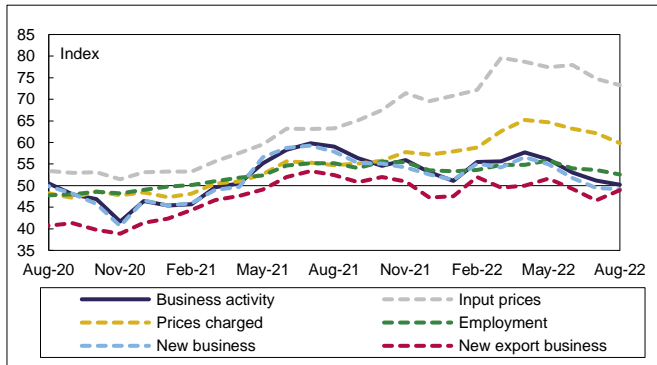
Contrasting with the PMIs, the Commission’s flash consumer confidence indicator pointed to a modest improvement in August, rising 2.1pts to -24.9. But this marked just the second monthly increase out of the past fourteen, to leave the index at its second-lowest reading on the series and thus consistent with weak consumer spending. While certain policy initiatives in the member states – including discounted travel and energy support measures – may have provided support to confidence, any bump seems likely to prove temporary, and where possible households seem more likely to choose to save than spend. Undoubtedly, higher prices over coming quarters will further squeeze household budgets. Taken together with rising interest rates and increasing uncertainty about the outlook for the winter months, household consumption seems highly likely to be very subdued this quarter and a drag on GDP growth around the turn of the year.

The coming two days in the euro area

Following a day bereft of top-tier releases in the euro area tomorrow, Thursday will bring further sentiment indicators, with the release of the German ifo survey expected to add to fears that the German economy is heading for recession. Indeed, the headline business climate index is expected to fall for the third successive month in August to the lowest level for more than two years and well below the long-run average (96.9). That day will also bring revised German GDP figures for Q2, including the first official expenditure breakdown. According to the first estimate, GDP was unchanged from Q1, with Destatis noting that activity was supported by household and government consumption but that net trade subtracted from growth. Meanwhile, INSEE is expected to report a deterioration in French business confidence in August, albeit the headline sentiment index is forecast to have remained above the long-run average (100).

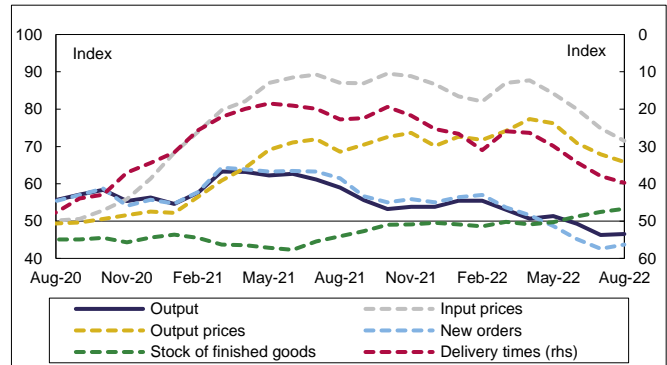
Focus will also be on the ECB account of the [20-21 July monetary policy meeting](#), where the ECB’s Governing Council ignored its previous forward guidance and raised the key interest rates by 50bps to bring an end to the era of negative interest rates. While President Lagarde insisted that future policy decisions would from now on be made on a meeting-by-meeting basis, the account will be watched for any further insights into the likely magnitude of tightening to be agreed at the ECB’s 7-8 September policy meeting. The debate surrounding the criteria for activation of the new Transmission Protection Instrument (TPI) will also be of interest.

Euro area: Services PMIs



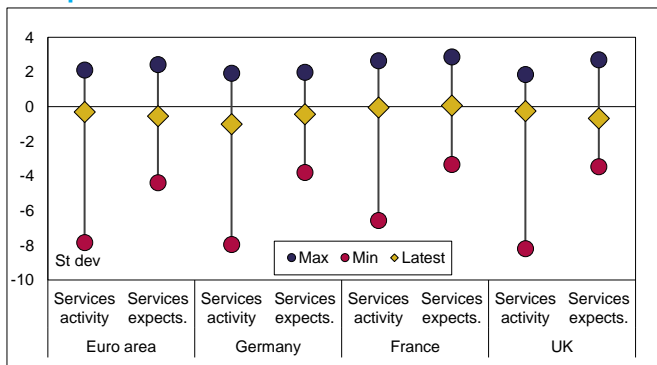
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing PMIs



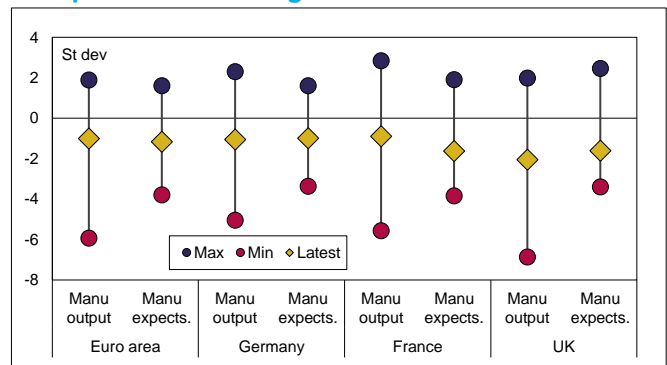
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

Europe: Services PMIs



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

Europe: Manufacturing PMIs



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

UK

Flash UK PMIs indicate slowing economic momentum as manufacturing output slumps

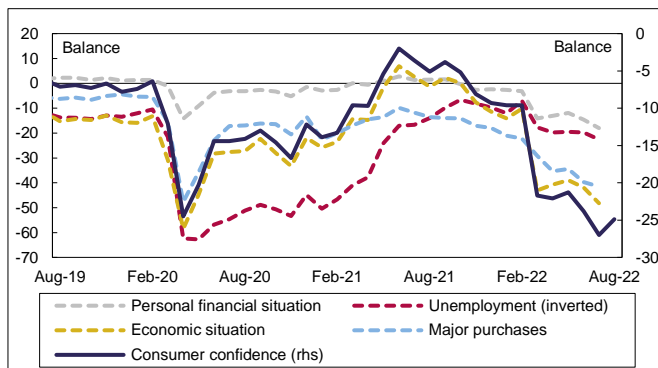
The flash UK composite PMI slowed in line with expectations, falling 1.2pts to an eighteen-month low of 50.9, a full 10pts lower than March's peak and trending so far in the third quarter 3½pts below the Q2 average. Admittedly, the services activity PMI held up relatively well in August, down just 0.1pt to a still-expansionary 52.5, albeit still the softest reading since February 2021. But there was a marked slump in the manufacturing output index, down a whopping 6.5pts – the most since the initial pandemic slump in April 2020 – to 42.4, the lowest in more than two years, as firms cited weak demand as well as shortages of both labour and materials. Indeed, excluding the onset of the pandemic, the output PMI implied the weakest production since the start of 2009. This broadly tallied with the CBI's industrial trends survey, which reported that output in the three months to August fell compared with a year earlier for the first time since February 2021. And while the services PMIs reported ongoing growth in new business, manufacturing orders – both domestic and overseas – were the lowest for more than two years and firmly in contractionary territory. Encouragingly, there was a sizeable easing in manufacturers' cost burdens in August, with the respective input price PMI down 13pts to 64.6, the lowest since November 2020. But services input prices remained extremely elevated. And despite falling for the fourth consecutive month, the composite output price PMI (64.4) was still well above the pre-pandemic average (52.2). Moreover, with energy bills set to rise sharply further due to wholesale market pressures, firms will continue to need to pass on increasing cost burdens to consumers over coming quarters.

The coming two days in the UK

The only UK economic data release of note over the coming few days will be the CBI's distributive trades survey for August on Thursday, which is likely to indicate that conditions remain challenging for retailers as high inflation squeezes household budgets and profit margins.

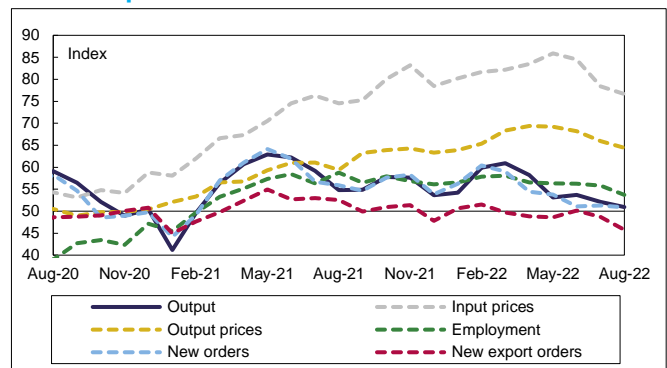
The next edition of the Euro wrap-up will be published on 25 August 2022

Euro area: Consumer confidence



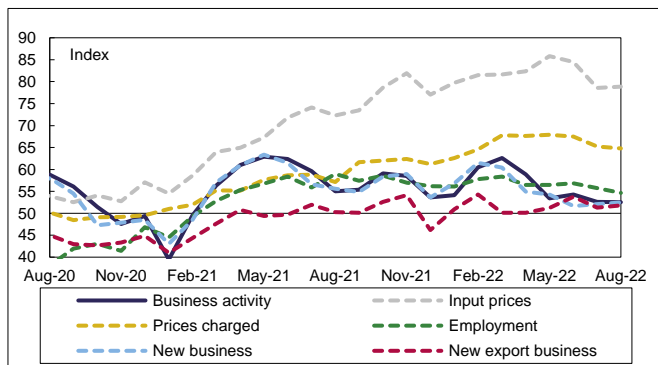
Source: Refinitiv, European Commission and Daiwa Capital Markets Europe Ltd.

UK: Composite PMIs



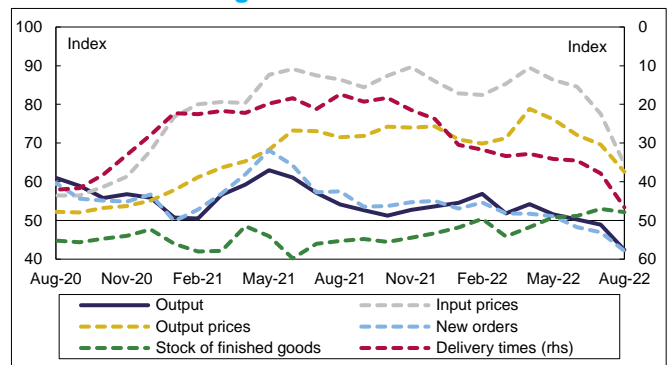
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Services PMIs



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

UK: Manufacturing PMIs













Source: Refinitiv, S&P Global 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	 Preliminary manufacturing (services) PMI	Aug	49.7 (50.2)	49.0 (50.5)	49.8 (51.2)	-
	 Preliminary composite PMI	Aug	49.2	48.9	49.9	-
	 European Commission's preliminary consumer confidence	Aug	-24.9	-28.0	-27.0	-
Germany	 Preliminary manufacturing (services) PMI	Aug	49.8 (48.2)	48.2 (49.0)	49.3 (49.7)	-
	 Preliminary composite PMI	Aug	47.6	47.3	48.1	-
France	 Preliminary manufacturing (services) PMI	Aug	49.0 (51.0)	49.0 (53.0)	49.5 (53.2)	-
	 Preliminary composite PMI	Aug	49.8	50.8	51.7	-
UK	 Preliminary manufacturing (services) PMI	Aug	46.0 (52.5)	51.0 (52.0)	52.1 (52.6)	-
	 Preliminary composite PMI	Aug	50.9	51.0	52.1	-
	 CBI industrial trends survey, total orders (selling prices)	Aug	-7 (57)-	2 (40)	8 (48)	-








Auctions-

Country	Auction
UK	 sold £750mn of 0.125% 2038 inflation-linked bonds at an average yield of -1.049%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Upcoming releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Wednesday 24 August 2022					
- Nothing scheduled -					
Thursday 25 August 2022					
Germany		07.00 Final GDP Q/Q% (Y/Y%)	Q2	<u>0.0 (1.5)</u>	0.8 (3.9)
		09.00 Ifo business climate	Aug	86.8	88.6
		09.00 Ifo current assessment (expectations) balance	Aug	96.1 (78.7)	97.7 (80.3)
France		07.45 Business confidence	Aug	101	103
		07.45 Manufacturing confidence (production outlook)	Aug	104 (-)	106 (-5)
Spain		08.00 PPI M/M% (Y/Y%)	Jul	-	1.9 (43.2)
UK		11.00 CBI distributive trades survey, reported sales	Aug	-8	-4

Events & auctions

Wednesday 24 August 2022					
Germany		10.30 Auction: €4bn of 1.7% 2032 bonds			
Thursday 25 August 2022					
Euro area		12.30 ECB publishes account of July policy meeting			
Italy		10.00 Auction: €2.5bn of 1.75% 2024 bonds			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

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