

Euro wrap-up

Overview

- While French industrial production fell the most in more than a year, Bunds made modest gains but periphery sovereign bonds made losses as reports suggested that the ECB would next month start internal discussions on a possible strategy for quantitative tightening.
- Gilts made gains as the BoE postponed the forthcoming monetary policy meeting by one week in light of the death of Queen Elizabeth II.
- The coming week will bring new data for UK monthly GDP, inflation, retail sales and the labour market, and euro area IP, trade and labour costs.

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Daily bond market movements

Bond	Yield	Change
BKO 0.4 09/24	1.288	-0.003
OBL 1.3 10/27	1.527	-0.014
DBR 1.7 08/32	1.696	-0.012
UKT 1 04/24	3.005	-0.026
UKT 1½ 07/27	2.972	-0.018
UKT 4¼ 06/32	3.094	-0.048

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

Euro area

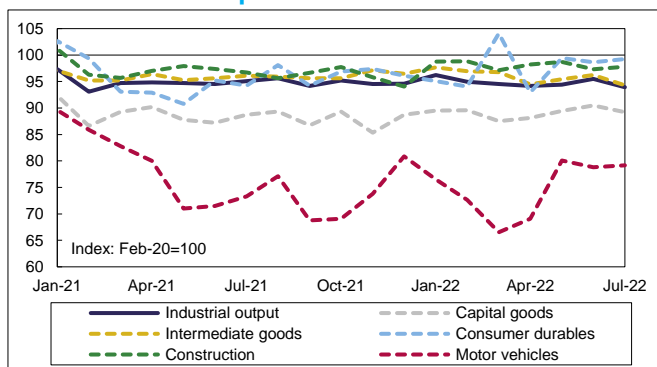
French IP falls in July by the most since February 2021

Consistent with the recent deterioration in business sentiment suggested by surveys, and broadly similar to the weakness seen in other member states (including [Germany](#) and Spain), French industrial output fell at the start of Q3 by a steeper-than-expected 1.6%/M/M, the most since February 2021. And with growth revised slightly lower in June (by 0.2ppt to 1.2%/M/M), this left output 0.6% below the Q2 average, down more than 1%Y/Y, and more than 6% below the pre-pandemic level in February 2020. Manufacturing output also declined 1.6%/M/M, with broad-based weakness. Indeed, production declined in twelve out of the fourteen subsectors, most notably with near-4%/M/M falls in output of machinery, electrical equipment and textiles. There was, however, a modest increase in production of autos (0.5%/M/M) likely reflecting an easing in supply bottlenecks, although this still left output in that sub-sector roughly one-fifth below the pre-pandemic level. Output of capital goods overall fell 1.4%/M/M in July, while intermediate goods declined 2.0%/M/M to the lowest level since September 2020. And although construction output rose in July (0.5%/M/M) this followed a steeper drop in June (-1.4%/M/M) and left it 0.3% below the Q2 average.

Bank of France survey suggests activity held up relatively well over the summer

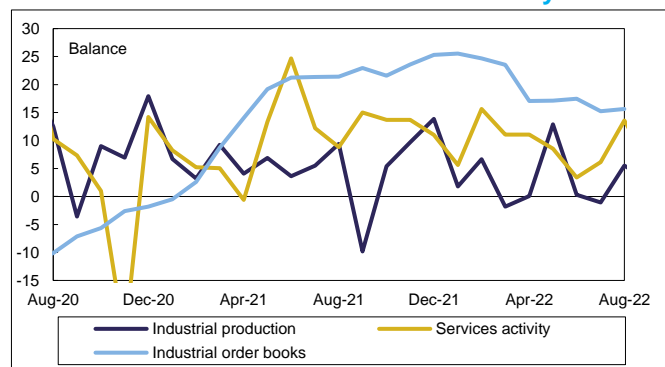
While the French August PMIs were consistent with another sharp decline in manufacturing output – the relevant index fell to 44.4, the weakest since May 2020 – and softest growth in services activity since the lockdown in early 2021, the Bank of France's latest monthly update gave a contrasting signal. Indeed, respondents to the BoF survey suggested a marked pickup in services activity last month due to a boost to consumer-facing businesses, with a more modest improvement in manufacturing and almost stable conditions in construction. But the near-term outlook remains clouded by uncertainties, which in industry were judged to be as high as those at the onset of the Ukraine war. Indeed, while the Bank of France reported a further easing in supply constraints in August to their lowest in more than a year, they still remained significant with roughly 50% of manufacturers and 43% of construction firms reporting them to be a limiting factor on activity. Furthermore, the survey reported a marked deterioration in construction order books, with no improvement in factory new orders either. Admittedly, firms in all three sectors anticipated a slight increase in activity in September. And overall, the Bank of France assessed its latest surveys to be consistent with GDP growth of 0.3%/Q/Q in Q3, following growth of 0.5%/Q/Q in Q2.

France: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: BoF industrial and services survey indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

The week ahead in the euro area

It should be a relatively quiet week ahead for top-tier euro area economic data, with highlights being Wednesday's release of aggregate euro area industrial production figures for July and Thursday's labour cost numbers for Q2. Based on the member states that have already published data, including today's weaker than expected French figures and yesterday sharp drop in the typically volatile Irish IP figures (-18.9%M/M), we expect the aggregate measure to have fallen by around 1.0%M/M in July. A result in line with our expectations would leave euro area IP up a little more than ½%Y/Y and almost 2% higher than the pre-pandemic level. The Italian IP figures (due Monday) will provide some further guidance. Meanwhile, following a sharp pickup to 3.8%Y/Y in Q1 on special pandemic-related payments, euro area labour cost growth should fall back in Q2 to a level that should suggest that second-round effects of inflation remain relatively limited.

The coming week also brings euro area goods trade figures for July (Thursday), which are expected to report a widening in the deficit to a new record high of around €32.5bn due not least to higher prices of imported energy. In addition, the latest German ZEW investor survey for September (Tuesday) is likely to mirror the deterioration in sentiment reported in the past week's [Sentix](#) survey. Updated August inflation figures are also due from the four largest member states – Germany and Spain (Tuesday), France (Thursday) and Italy (Friday) – and will conclude with the aggregate euro area numbers on Friday. These are likely to confirm the flash estimates that came in stronger than expected. In particular, consumer prices rose 0.5%M/M to push the headline HICP rate up 0.2ppt to a new series high of 9.1%Y/Y. This was in spite of a drag from petrol prices, which resulted in a further modest easing in energy inflation, although that still accounted for more than 40% of total inflation. Core inflation rose a stronger-than-expected 0.3ppt to 4.3%Y/Y, suggesting a further increase in domestically-generated pressures. In terms of ECB-speak, influential hawkish Executive Board member Schnabel is due to give welcoming remarks at an annual research conference (Monday), while Chief Economist Lane will provide opening remarks at a money-market group meeting (Wednesday).

UK

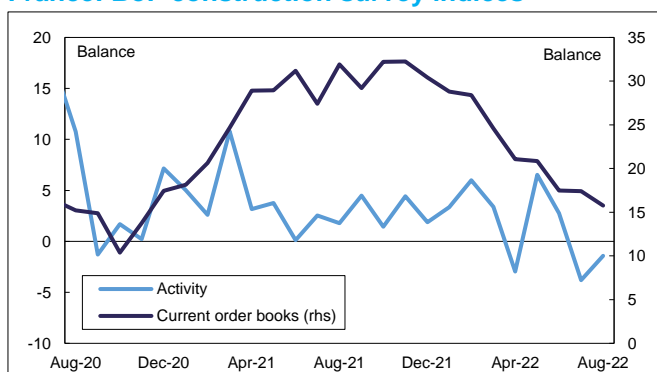
MPC meeting postponed following death of Queen Elizabeth II

Given the period of national mourning now underway following yesterday's death of HM Queen Elizabeth II, the BoE today postponed its next monetary policy announcement by one week to 22 September. While the meeting seems bound to bring further tightening, the postponement means that the MPC will not need to worry about accusations of insensitivity to the broader public mood should it consider a jumbo hike to be necessary. The postponement will also allow for analysis of the top-tier economic data to be published in the coming week, including July GDP, August inflation and the latest labour market figures, which could affect its judgement of current economic conditions. Additionally, it will provide greater scope for analysis by the Bank staff of yesterday's announcement by PM Truss of her plans to fix household energy bills for two years and business bills for six months. Those measures will reduce significantly the near-term peak in inflation but will also push up the level of GDP over coming quarters. So, they could well maintain persistent excess demand in the economy, increasing the risks that inflation will remain above-target over the medium term.

The week ahead in the UK

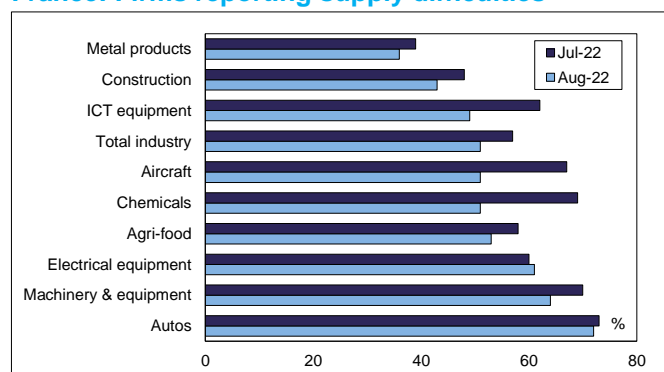
While the BoE postponed next week's MPC meeting, and also postponed from today the publication of its latest quarterly inflation attitudes survey, the ONS confirmed that its potentially market-moving data due in the coming week will be published as scheduled. The BoE will watch closely the July GDP figures (Monday), the latest labour market data (Tuesday), the August inflation report (Wednesday), and retail sales figures for the same month (Friday). With respect to GDP, having fallen in June when there were two fewer working days than normal due to the Platinum Jubilee, high-frequency data suggest that private sector services activity rebounded at the start of the third quarter. Indeed, retail sales rose unexpectedly, albeit by a moderate 0.3%M/M in July, while the service sector PMIs for the same month continued to point to expansion despite some loss of momentum. But although construction output should have rebounded somewhat due to the extra

France: BoF construction survey indices



Source: BoF and Daiwa Capital Markets Europe Ltd.

France: Firms reporting supply difficulties












Source: BoF and Daiwa Capital Markets Europe Ltd.

working days, with car production having fallen back from June, the improvement in manufacturing output is likely to be softer. Overall, the expected increase in GDP at the start of Q3 is somewhat modest (0.3%M/M) and insufficient to reverse the drop of 0.6%M/M in June. And it would leave the quarterly trend in marginally negative territory at -0.1%3M/3M.



Further insight into spending in Q3 will come on Friday when retail sales data for August are expected to report adverse payback from the increase in July, reinstating the downwards trend of past quarters. In addition, Tuesday's data will likely point to ongoing tightness in the labour market, albeit perhaps with further hints of gradual softening. For a fourth successive month, the unemployment rate is expected to remain at 3.8% in the three months to August, in line with the level at the end of 2019 ahead of the pandemic. In addition, although the number of job vacancies could well decline for the second successive month, it might remain little different to the number of unemployed workers. And having slowed in the three months to June, growth in nominal average weekly labour earnings is expected to pick-up again – from 4.7%3M/Y (excluding bonuses) and 5.1%3M/Y (including bonuses) – to remain above the BoE's comfort zone, albeit at historically negative rates in real terms. Last but certainly not least, due to lower petrol prices, we expect the headline CPI inflation rate (Wednesday) to slow 0.2ppt to 9.9%Y/Y. But we expect the core inflation rate to rise a further 0.1ppt to 6.3%Y/Y, underscoring the case for further tightening despite the government's plans to cap household energy bills.

Daiwa economic forecasts

	2022				2023		2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.7	0.8	0.0	-0.1	-0.3	-0.1	3.2	-0.2	0.8
UK 	0.8	-0.1	-0.1	-0.4	-0.1	-0.2	3.3	-0.6	0.4
Inflation, %, Y/Y									
Euro area									
Headline HICP 	6.1	8.0	9.2	9.8	8.8	7.3	8.3	6.5	2.2
Core HICP 	2.7	3.7	4.4	5.0	5.2	5.0	3.9	4.5	2.4
UK									
Headline CPI 	6.2	9.2	10.1	10.4	9.2	5.6	9.0	5.5	2.9
Core CPI 	5.1	6.0	6.3	6.1	5.0	3.7	5.9	3.7	3.2
Monetary policy, %									
ECB									
Refi Rate 	0.00	0.00	1.25	2.25	2.50	2.50	2.25	2.50	2.00
Deposit Rate 	-0.50	-0.50	0.75	1.75	2.00	2.00	1.75	2.00	1.50
BoE									
Bank Rate 	0.75	1.25	2.25	3.00	3.50	3.50	3.00	3.50	3.00

Source: Bloomberg, ECB, BoE 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
France 	Industrial production M/M% (Y/Y%)	Jul	-1.6 (-1.2)	-0.5 (-0.1)	1.4 (1.4)	1.2 (1.0)
Spain 	Industrial production M/M% (Y/Y%)	Jul	-1.1 (5.3)	-	1.1 (7.0)	-
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</i> forecast/actual	Previous	
Monday 12 September 2022						
Italy		09.00	Industrial production M/M% (Y/Y%)	Jul	0.0 (-0.6)	-2.1 (-1.2)
UK		07.00	Monthly GDP M/M% (3M/3M%)	Jul	<u>0.3 (0.1)</u>	-0.6 (-0.1)
		07.00	Industrial production M/M% (Y/Y%)	Jul	0.2 (1.8)	-0.9 (2.4)
		07.00	Manufacturing production M/M% (Y/Y%)	Jul	0.1 (1.6)	-1.6 (1.3)
		07.00	Index of services M/M% (3M/3M%)	Jul	0.4 (-0.2)	-0.5 (-0.4)
		07.00	Construction output M/M% (Y/Y%)	Jul	0.5 (5.6)	-1.4 (4.1)
		07.00	Goods trade balance (excl. precious metals) £bn	Jul	-22.4 (-11.8)	-22.8 (-10.6)
		-	BoE inflation expectations, next 12 months*	Aug	-	4.5
Tuesday 13 September 2022						
Germany		07.00	Final CPI M/M% (Y/Y%)	Aug	<u>0.3 (7.9)</u>	0.9 (7.5)
		07.00	Final HICP M/M% (Y/Y%)	Aug	<u>0.4 (8.8)</u>	0.8 (8.5)
		10.00	ZEW current assessment (expectations) balance	Sep	-52.0 (-60.0)	-47.6 (-55.3)
Spain		08.00	Final CPI M/M% (Y/Y%)	Aug	<u>0.1 (10.4)</u>	-0.3 (10.8)
		08.00	Final HICP M/M% (Y/Y%)	Aug	<u>0.1 (10.3)</u>	-0.6 (10.7)
UK		07.00	Payrolled employees, change '000s	Aug	-	73
		07.00	Unemployment claimant count rate % (change '000s)	Aug	-	3.9 (-10.6)
		07.00	ILO unemployment rate 3M%	Jul	3.8	3.8
		07.00	Employment change 3M'000s	Jul	125	160
		07.00	Average earnings including (excluding) bonuses 3M/Y%	Jul	5.4 (5.1)	5.1 (4.7)
Wednesday 14 September 2022						
Euro area		10.00	Industrial production M/M% (Y/Y%)	Jul	<u>-1.0 (0.7)</u>	0.4 (2.4)
UK		07.00	CPI M/M% (Y/Y%)	Aug	<u>0.5 (9.9)</u>	0.6 (10.1)
		07.00	Core CPI Y/Y%	Aug	<u>6.3</u>	6.2
		07.00	PPI output prices M/M% (Y/Y%)	Aug	0.9 (17.6)	1.6 (17.1)
		07.00	PPI input prices M/M% (Y/Y%)	Aug	0.2 (22.9)	0.1 (22.6)
		09.30	House price index Y/Y%	Jul	-	7.8
Thursday 15 September 2022						
Euro area		10.00	Labour costs Y/Y%	Q2	-	3.8
		10.00	Trade balance €bn	Jul	-32.5	-30.8
France		07.45	Final CPI M/M% (Y/Y%)	Aug	<u>0.4 (5.8)</u>	0.3 (6.1)
		07.45	Final HICP M/M% (Y/Y%)	Aug	<u>0.4 (6.5)</u>	0.3 (6.8)
Friday 16 September 2022						
Euro area		07.00	EU27 new car registrations Y/Y%	Aug	-	-15.4
		10.00	Final CPI M/M% (Y/Y%)	Aug	<u>0.5 (9.1)</u>	0.1 (8.9)
		10.00	Final core CPI Y/Y%	Aug	<u>4.3</u>	4.0
Italy		09.00	Total trade balance €bn	Jul	-	-2.2
		10.00	Final CPI M/M% (Y/Y%)	Aug	<u>0.8 (8.4)</u>	0.4 (7.9)
		10.00	Final HICP M/M% (Y/Y%)	Aug	<u>0.8 (9.0)</u>	-1.1 (8.4)
Spain		08.00	Labour costs Y/Y%	Q2	-	4.7
UK		07.00	Retail sales including autos fuel M/M% (Y/Y%)	Aug	-0.5 (-3.6)	0.3 (-3.4)
		07.00	Retail sales excluding autos fuel M/M% (Y/Y%)	Aug	-0.7 (-3.4)	0.4 (-3.0)

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

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 12 September 2022		
Euro area	 08.30	ECB Vice President de Guindos scheduled to speak
	 13.00	ECB's Schnabel to give welcome remarks at ECB annual research conference
Tuesday 13 September 2022		
Germany	 10.30	Auction: €5.5bn of 0.40% 2024 bonds
Italy	 10.00	Auction: €2.75bn of 1.20% 2025 bonds
	 10.00	Auction: €3.25bn of 2.80% 2029 bonds
	 10.00	Auction: €1.50bn of 3.25% 2046 bonds
Wednesday 14 September 2022		
Euro area	 12.00	ECB Chief Economist Lane to give opening remarks at ECB money market group
Germany	 10.30	Auction: €1.0bn of 2.5% 2044 bonds
Thursday 15 September 2022		
Euro area	 10.15	ECB Vice President de Guindos scheduled to speak
France	 09.50	Auction: 0.00% 2027 bonds
	 09.50	Auction: 0.75% 2028 bonds
	 09.50	Auction: 0.00% 2029 bonds
	 10.50	Auction: 0.10% 2025 index-linked bonds
	 10.50	Auction: 0.10% 2038 index-linked bonds
	 10.50	Auction: 0.10% 2053 index-linked bonds
Spain	 09.30	Auction: 2.15% 2025 bonds
	 09.30	Auction: 0.00% 2027 bonds
	 09.30	Auction: 0.50% 2030 bonds
Friday 16 September 2022		
Euro area	 -	ECB's Rehn scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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