

Euro wrap-up

Overview

- Shorter-dated Bunds made gains as the flash euro area PMIs unexpectedly fell to suggest stagnation at the start of Q3.
- While the flash UK activity PMIs surprised to the upside in July, Gilts also rose at the short end as the survey's services selling-price index fell to a near 3½-year low.
- Thursday will bring the release of the German ifo, French INSEE and UK CBI business surveys, as well as ECB monetary data.

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.648	-0.052
OBL 2½ 10/29	2.367	-0.024
DBR 2.6 08/34	2.441	+0.007
UKT 0½ 01/26	3.931	-0.054
UKT 0½ 01/29	3.924	-0.008
UKT 4½ 01/34	4.145	+0.022

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

Source: Bloomberg

Euro area

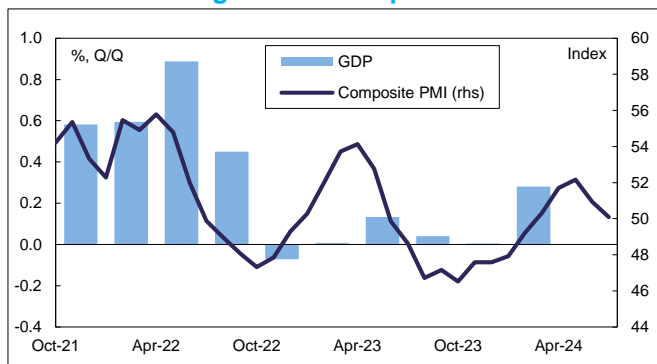
Flash July PMIs consistent with stagnation in the euro area at the start of Q3

The euro area flash PMIs for July once again disappointed expectations, signalling a further loss of growth momentum at the start of Q3. Indeed, the headline composite PMI fell for a second successive month, by 0.9pt to 50.1, a five-month low. So, having signalled the strongest quarter of GDP growth in Q2 (51.6) for three quarters, today's release implied stagnation in the region at the start of Q3. According to the survey, the deterioration reflected the softest growth in services activity for four months (51.9), while manufacturing output reportedly contracted at the fastest pace in seven months (45.3). And reflecting a steeper drop in new factory orders, the composite new business index fell for a second month to a five-month low (49.3). With backlogs of work declining, firms revised down their expectations for future output to the lowest since January and also failed to add to headcount for the first time this year. At the country level, the flash composite PMIs suggested a notable weakening in growth momentum in Germany (down 1.7pts to 48.7, a four-month low) as manufacturing continued to contract sharply (42.2). And although growth in services remained positive (52.0), it was the softest in four months perhaps reflecting a waning impact of the boost to the hospitality and recreation sectors during the European football championship. Despite a steeper contraction in French manufacturing (44.1), the composite PMI (up 0.8pt to 49.6) showed some signs of stabilisation in July as services activity increased (up 1.1pts to 50.7) with preparations for the Olympic games reportedly giving a boost. While the PMIs have underestimated French economic activity over the past year or so, they suggest that the two largest member states continue to underperform the rest of the region. Indeed, while the respective index fell more than 1pts to a five-month low of 51.5, it remained consistent with ongoing expansion, no doubt still led by Spain.

Recovery in consumer confidence continues in July, with purchase intentions improving too

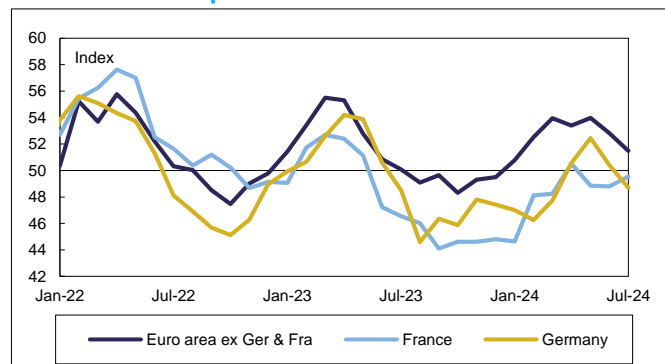
Contrasting the deterioration in business sentiment, yesterday's flash Commission estimate of consumer confidence beat expectations, suggesting that households were more upbeat at the start of Q3. In particular, the headline euro area sentiment indicator rose 1pt to -13.0, the highest since Russia's invasion of Ukraine in February 2022, some 15½pts above the trough in September 2022 and only a touch below the long-run average. And while the German GfK confidence index remains well below the long-run average, the latest survey similarly implied the most optimism since early 2022, reflecting not least improved income expectations – to the highest since October 2021 – amid a moderation in inflation expectations and solid pay growth. Against this backdrop, German households signalled a greater willingness to spend on big-ticket items at the start of Q3 – by the most in more than two years – perhaps hinting at an increase in spending on goods this quarter. In this respect, the June euro area new car registrations were more encouraging. According to the ECB's seasonally adjusted figures, car registrations jumped 12.4%M/M that month, the most since July 2022. So, while this still left them down a little more than 1½%3M/3M in Q2, it also suggests significant positive carry over into Q3. And with spending on services likely to

Euro area: GDP growth & composite PMI



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

Euro area: Composite PMIs



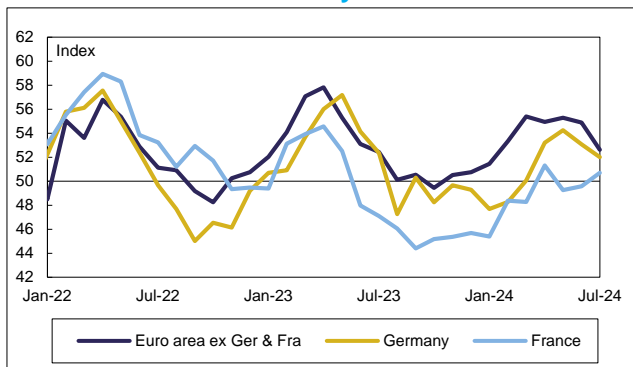
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

remain supported by rising real disposable incomes, we continue to expect household consumption to underpin GDP growth in the second half of 2024.

Factory costs picking up, but all-important services selling pricing maintain modest downtrend

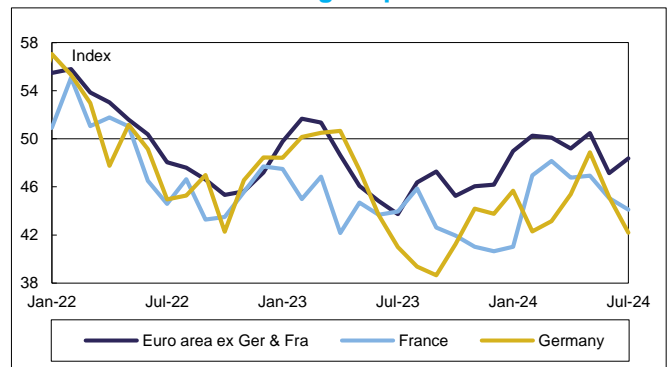
Like with economic growth momentum, the message on inflationary pressures from the latest surveys was somewhat ambiguous at the start of Q3. According to the flash PMIs, costs in the manufacturing sector once again ticked up, no doubt in part reflecting higher shipping costs – indeed, the respective input price index jumped to an 18-month high in July. And while the PMIs suggested that factory output prices continued to decline, the respective index nevertheless rose to a 15-month high, suggesting that the steady disinflation path in consumer core goods has come to an end. Of course, what matters more for ECB policy setting are price developments in the services sector. And while input costs were reportedly a touch firmer in July and still rising at a pace above historical norms, selling prices in the euro area’s services sector reportedly rose the least in more than three years. This was also the case in Germany, where the output price PMI fell to the lowest since April 2021. And although the respective French flash PMI bucked that softening trend, we suspect that this might in part relate to pricing opportunities in the hospitality sector provided by the imminent start of the Olympics.

Euro area: Services activity PMIs



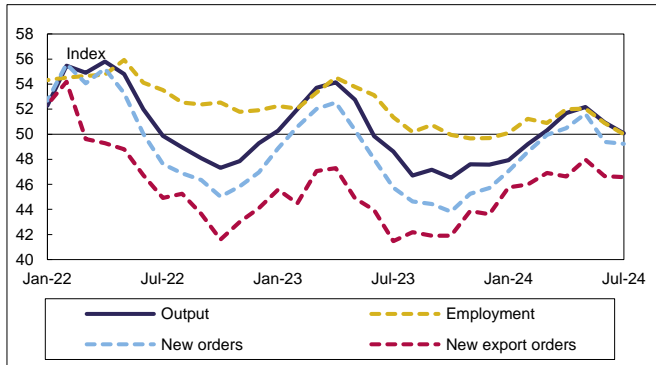
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output PMIs



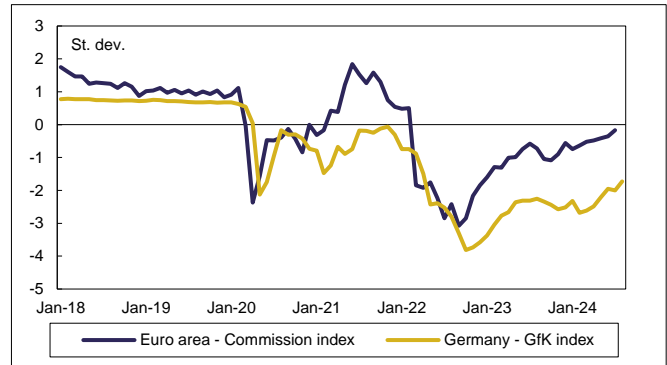
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Composite PMIs



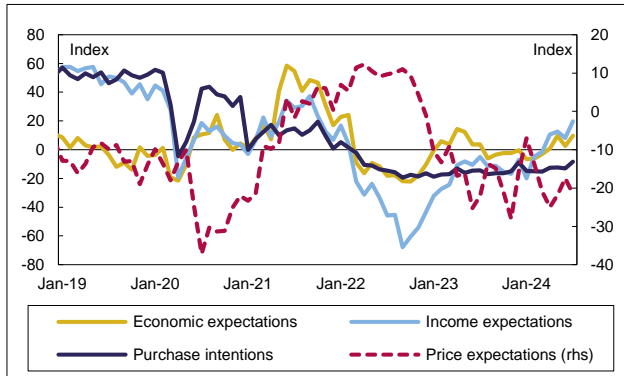
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area & Germany: Consumer confidence indices



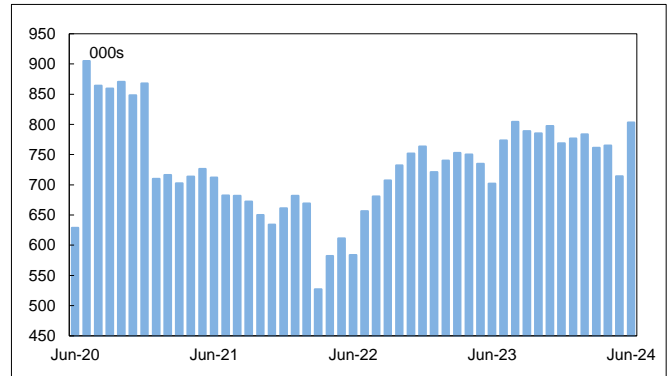
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Germany: Consumer confidence indices



Source: GfK, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: New car registrations



Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

The flow of sentiment indices continues on Thursday, with the release of the German ifo and French INSEE surveys to provide further insight into business conditions at the start of Q3, including assessments of the construction and retail sectors. Meanwhile, the ECB's monetary data for June are also due and likely to report a modest improvement in bank lending growth at the end of Q2, in line with the findings of the ECB's quarterly [Bank Lending Survey](#).

UK

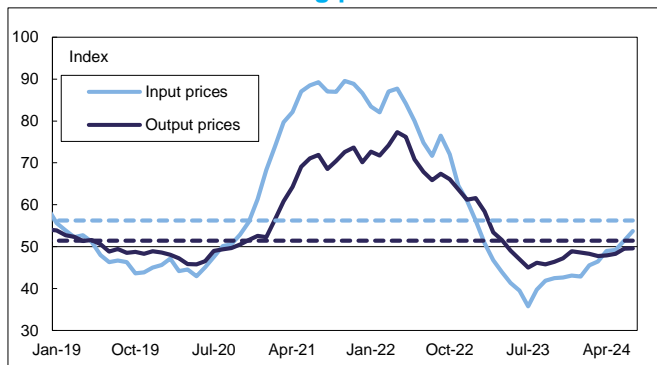
Flash UK PMIs beat expectations in July as new orders jump

Contrasting the further decline in the euro area indices, the flash UK PMIs beat expectations in July, signalling some renewed growth momentum at the start of Q3. Indeed, having fallen to a six-month low in June, the headline composite PMI rose 0.4pt to 52.7, supported by a modest pickup in growth in services activity (52.4) and the strongest pace of expansion in manufacturing output (54.4) since February 2022. Admittedly, this still left the composite index still some 1½pts below the recent peak in April and tracking 0.4pt below the Q2 average, supporting our view that GDP growth will likely soften slightly this quarter following surprisingly vigorous growth in the first half of the year. This notwithstanding, today's survey suggested a significant jump in new business in the services sector in July and a further modest increase in new factory orders, both implying the strongest growth since spring 2022, with firms citing an improvement in market confidence after projects were put on hold in the run up to the general election. And so, firms' expectations for future output matched February's two-year peak and staffing levels rose by the most in a year.

Factory prices increase on higher shipping costs, but services price pressures ease further

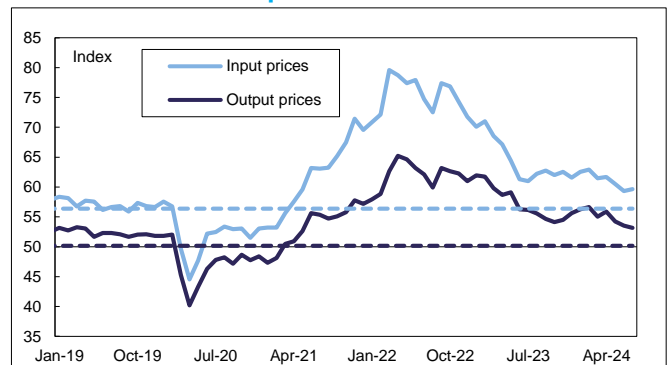
While factory orders rose at the start of Q3, manufacturers reportedly continued to curb purchases of input materials, with S&P Global citing anecdotal evidence to the recent rise in transport costs associated with the re-routing of cargo amid the persisting crisis in the Red Sea. Indeed, the manufacturing input price PMI rose to an 18-month high and was back above the long-run average. But the upwards trend in factory output prices was more modest, suggesting that core consumer goods inflation remains below the long-run average. More positively for near-term monetary policy, today's survey suggested a further easing in price pressures in the services sector. Certainly, while costs also remained just above historical norms, the respective survey index eased to its lowest since February 2021. And policymakers might be encouraged to see a further more notable drop in the services selling price PMI in July, down 1.1pts to a near-3½-year low of 55.0, suggesting the disinflationary trend resumed at the start of Q3 following a pause in June.

Euro area: Manufacturing price PMIs*



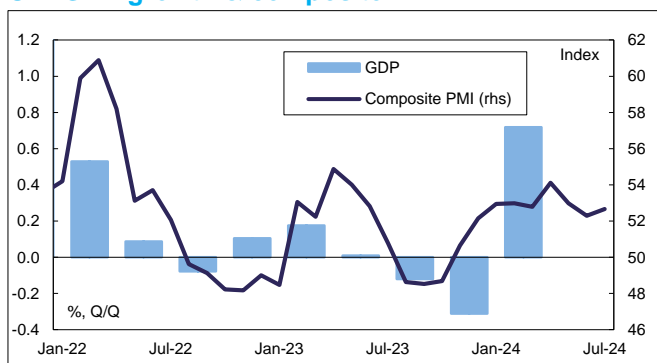
*Dashed lines represent pre-pandemic average. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Services price PMIs*



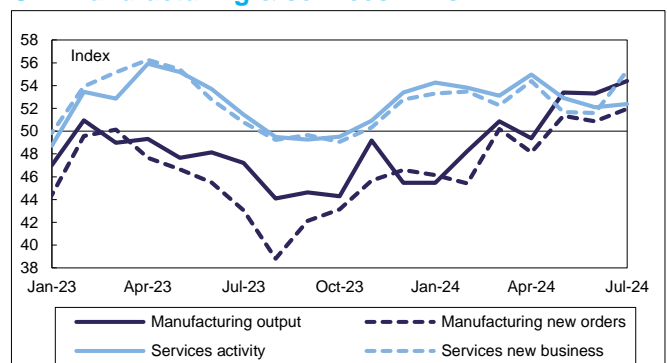
*Dashed lines represent pre-pandemic average. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: GDP growth & composite PMI



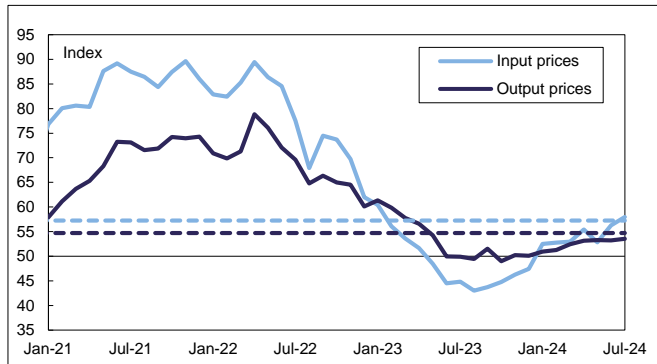
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing & services PMIs



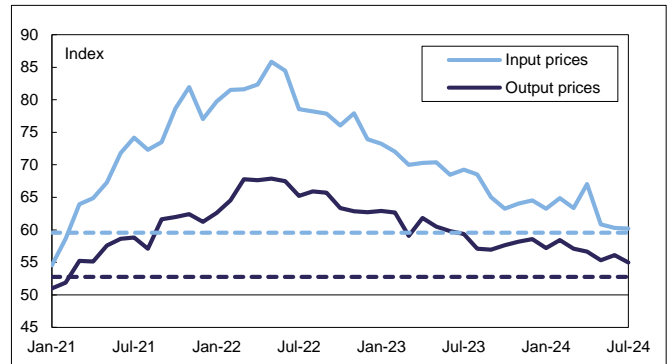
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing price PMIs*



*Dashed lines represent pre-pandemic average. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Services price PMIs*



*Dashed lines represent pre-pandemic average. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

The day ahead in the UK

Tomorrow will bring the release of the CBI's industrial trends survey for July, which will offer further insights into manufacturing conditions at the start of Q3, with the quarterly survey to provide an update on firms' investment intentions for the coming 12 months.

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	Jul	45.6 (51.9)	46.1 (52.9)	45.8 (52.8)	-
	Preliminary composite PMI	Jul	50.1	50.9	50.9	-
Germany	GfK consumer confidence indicator	Aug	-18.4	-21.0	-21.8	-21.6
	Preliminary manufacturing (services) PMI	Jul	42.6 (52.0)	44.0 (53.3)	43.5 (53.1)	-
	Preliminary composite PMI	Jul	48.7	50.6	50.4	-
France	Preliminary manufacturing (services) PMI	Jul	44.1 (50.7)	45.9 (49.7)	45.4 (49.6)	-
	Preliminary composite PMI	Jul	49.5	48.8	48.8	-
UK	Preliminary manufacturing (services) PMI	Jul	51.8 (52.4)	51.0 (52.5)	50.9 (52.1)	-
	Preliminary composite PMI	Jul	52.7	52.6	52.3	-


Auctions

Country	Auction
Germany	sold €4.14bn of 2.6% 2034 bonds at an average yield of 2.43%
UK	sold £2.25bn of 4.375% 2054 bonds at an average yield of 4.636%



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tuesday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Preliminary Commission consumer confidence indicator	Jul	-13.0	-13.5	-14.0	-


Auctions

Country	Auction
Germany	 sold €4.1bn of 2.7% 2026 bonds at an average yield of 2.73%
UK	 sold £1.0bn of 0.125% 2039 inflation-linked bonds at an average yield of 1.053%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Monday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France	 Retail sales Y/Y%	Jun	-0.7	-	-1.4	-







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
Euro area	 09.00	M3 money supply Y/Y%	Jun	1.9	1.6
Germany	 09.00	Ifo business climate indicator	Jul	89.0	88.6
	 09.00	Ifo current assessment (expectations) indicator	Jul	88.5 (89.1)	88.3 (89.0)
France	 07.45	INSEE business (manufacturing) confidence indicator	Jul	99 (99)	98.8 (98.6)
	 11.00	Total jobseekers mn	Q2	-	2.8
UK	 11.00	CBI industrial trends survey – total orders (selling price) balance %	Jul	-20 (20)	-18 (20)

Auctions and events

Italy	 10.00	Auction: to sell up to €3.5bn of 3.1% 2026 bonds
	 10.00	Auction: to sell up to €1.25bn of 1.5% 2029 inflation-linked bonds
	 10.00	Auction: to sell up to €1.0bn of 2.55% 2041 inflation-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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