

Euro wrap-up

Overview

- Euro area government bonds made further gains as data confirmed that French and Italian factory output contracted again in Q2.
- Gilts followed the global trend higher on a quiet end to the week for UK economic data.
- The coming week will bring new data for German factory orders and industrial production, and euro area retail sales and producer prices.

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Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.332	-0.109
OBL 2½ 10/29	2.063	-0.094
DBR 2.6 08/34	2.162	-0.078
UKT 0% 01/26	3.581	-0.104
UKT 0½ 01/29	3.587	-0.077
UKT 4% 01/34	3.833	-0.047

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

Source: Bloomberg

Euro area

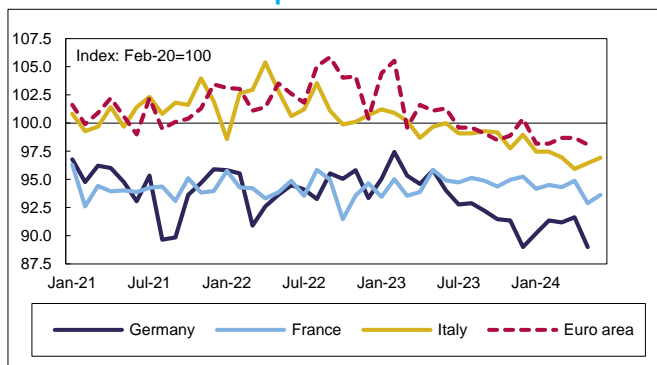
Manufacturing weakness in Q2 not limited to Germany with declines in output in France & Italy

For good reason, discussions on the euro area industrial sector frequently centre on the existential challenges in Germany. Indeed, German industrial production fell in May to the lowest level since the first Covid-19 lockdown, more than 11% below the pre-pandemic benchmark and about 18% below the 2017 peak. And while we expect the German IP data for June, due next week, to report a modest pickup due to a pickup in car output, manufacturing production probably contracted about ½Q/Q in Q2 to contribute to the drop in GDP last quarter. Today's data, however, demonstrated that the renewed industrial sector weakness in the euro area has certainly not been limited to Germany, confirming that production fell in Q2 in both France and Italy despite an uptick at the end of the quarter. Indeed, while French manufacturing output rose 0.8%M/M in June it was still more than 6% below the pre-pandemic level and also fell 2.0%Y/Y. And it left French manufacturing output down 0.9%Q/Q for a second successive quarter in Q2. Meanwhile, although Italian industrial production (excluding construction) rose for a second successive month by 0.5%M/M in June, it was 2.9% below the pre-pandemic level and down 2.7%Y/Y. As a result, Italian IP (excluding construction) declined for a fifth successive quarter in Q2, albeit by just 0.3%Q/Q following the drop of 1.6%Q/Q in Q1.

French IP was down in most categories in Q2 but construction provided some offset

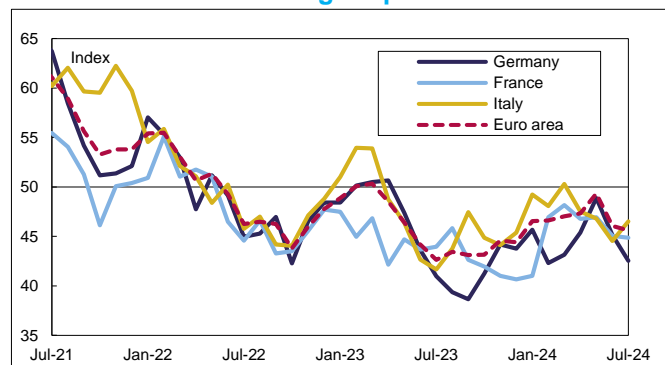
The detail of the French data showed moderate growth in output of most categories of goods in June. However, that still left production of consumer non-durables, intermediate goods and capital goods all down about 1%Q/Q in Q2, with consumer durables down a larger 1.7%Q/Q. In certain key sub-categories, stronger growth in June merely reflected payback for more significant weakness earlier in the quarter. So, for example, output of transport equipment jumped more than 3%M/M at the end of the quarter but still fell 1.3%Q/Q in Q2. And while output of chemicals was up 2.5%M/M in June it fell 1.7%Q/Q in Q2. An exception was production of coke and refined petroleum, which gave a boost to the aggregate IP figure by leaping 12.3%M/M in June to be up 6.7%Q/Q and roughly one third above the pre-Covid level. However, compared to the pre-pandemic benchmark, most major categories of French factory output remain well down, including the important machinery and equipment (-12.5%) and motor vehicle subsectors (-13.2%). And, as in Germany, production of energy-intensive subsectors in France remains well down on the pre-pandemic level. For example, in June, output of basic chemicals was still some 16.8% below the February 2020 level while basic iron and steel was down -27% on the same basis. Fortunately perhaps, French construction output provided some welcome support, rising for a fourth successive month and by 2.0%M/M in June to be up 1.5%Q/Q in Q2 having contracted in each of the prior two quarters.

Euro area: Industrial production*



*Excluding construction. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output PMIs



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

Italian consumer goods output flat in Q2 but capital and intermediate goods softened

In Italy, growth in the factory sector in June was centred on capital goods, which rose 2.0%/M/M to rise back above the pre-pandemic level. In contrast, output of both intermediate goods and consumer non-durables was flat on the month with consumer durables down 1.5%/M/M. And Italian output of consumer and intermediate goods alike was still about 5% below the respective pre-pandemic benchmarks. Over Q2 as a whole, however, consumer durables and non-durables were unchanged from Q1, but capital and intermediate goods both fell about ½%Q/Q. While June data for construction output in Italy have yet to be published, the level was trending little changed from Q1 over the first two months of Q2.

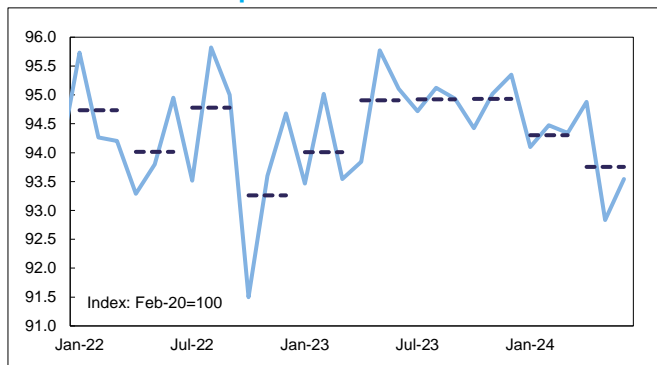
Final PMIs pointed to further deterioration in manufacturing conditions in Q3

After manufacturing output contracted in each of the three largest member states in Q2, surveys and other leading indicators suggest that conditions will be no better in Q3. For example, German new factory orders fell in May to the lowest level since the first wave of Covid-19 with backlogs at multi-year lows in most sub-sectors bar computers, electronics and electrical equipment. The final manufacturing PMIs for July suggested that output and new orders continued to contract in each of the three largest member states and the euro area as a whole. And they suggested that German production was the weakest in five months while the pace of decline in new orders accelerated in the two largest member states.

National surveys offered discouragement too

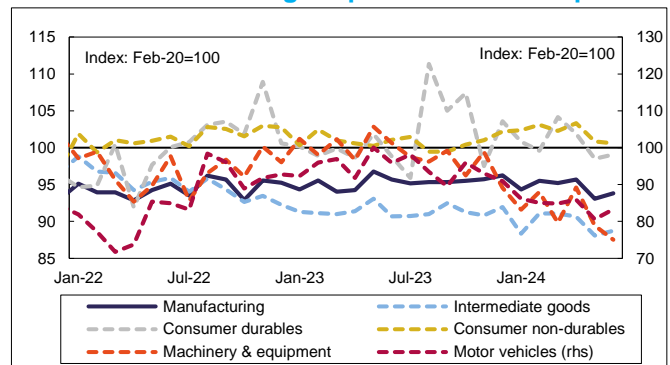
The national surveys for July, which sometimes provide a conflicting message to the PMIs, were sadly no more encouraging about prospects for the industrial sector in Q3. According to the ifo institute, German manufacturers considered conditions in July to be the worst since the first wave of Covid-19 and the aftermath of the global financial crisis. New orders were reportedly still trending lower at the start of Q3 with inventories back close to multi-year highs. And German sentiment in all major sub-sectors bar food and pharmaceuticals was negative. Likewise, the French INSEE survey reported a marked deterioration in manufacturing sentiment in July to the worst since 2020, with firms revising down sharply their production expectations on falling new orders, particularly from abroad. INSEE also reported a notable softening in sentiment among transport goods manufacturers. Machinery and equipment producers were also more downbeat, pointing to diminished confidence in the outlook for business investment. Of the three largest member states, only in Italy did the national survey report a modest improvement in July. But ISTAT's headline confidence index for the sector remained below the long-run average and the detail signalled broadly flat production over the coming three months amid falling orders. Overall, we brace for a further quarter of negative IP growth in Q3 in the euro area with possible collateral damage for the labour market too.

France: Industrial production*



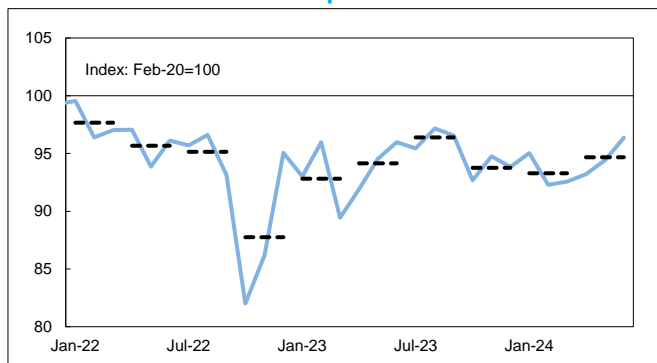
*Excluding construction. Dashed lines represent quarterly averages. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Manufacturing output: selected components



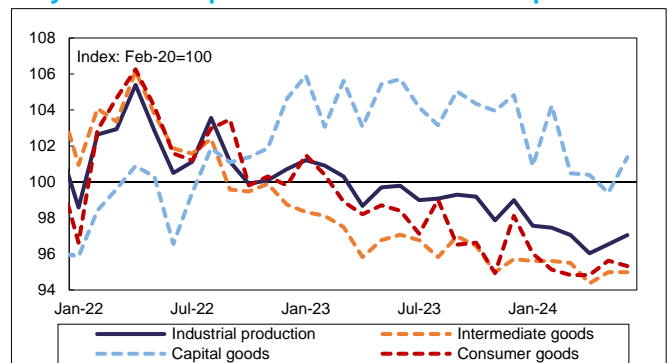
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Construction output



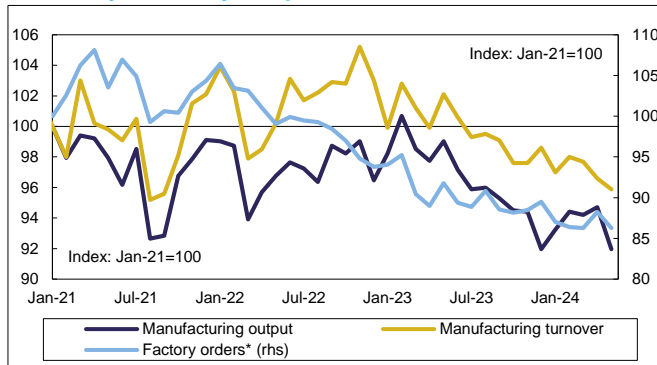
*Dashed lines represent quarterly averages. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: Industrial production: selected components*



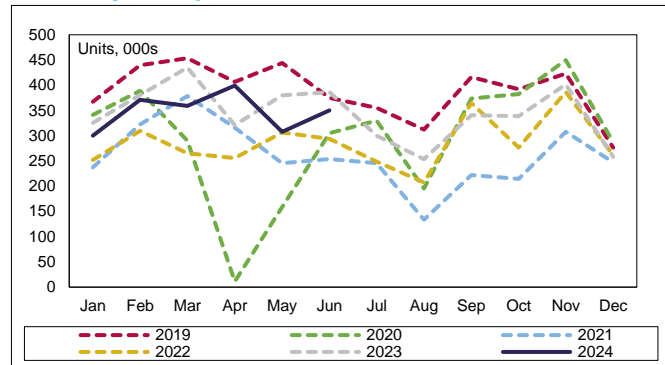
*Excluding construction. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Factory output, orders & turnover



*Core orders. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Car production



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

The week ahead in the euro area

The coming week brings a few top-tier economic data releases, not least from Germany's ailing manufacturing sector, to provide further colour on economic activity at the end of Q2, as well as insights into confidence in early Q3.

Monday will bring the first sentiment survey results for August, with the Sentix investor indices likely to point to a further deterioration in confidence after the July survey already reported a significant weakening related not least to French politics and German economic challenges. The final [services and composite PMIs for July](#) are due the same day. The flash euro area services activity PMI (51.9) signalled the weakest growth in the sector for four months while the composite output PMI (50.1) implied that economic growth had ground to a halt amid contraction in Germany and stagnation in France. Monday will also bring euro area producer price inflation data for June, which are likely to suggest that disinflation in the factory sector has largely come to an end but that upwards pressure on prices remains minimal.

Meanwhile, Tuesday will bring euro area retail sales figures for June which are likely to remain sluggish, after moving broadly sideways in April and May, to underscore that growth in consumption of goods was subdued in Q2. The current absence of reliable retail sales data from Germany makes these data difficult to forecast with confidence, however. Meanwhile, the construction PMIs for the euro area and large member states will suggest that the trend in activity in the sector remained negative at the start of Q3. The same day also brings German factory orders figures for June ahead of the data for German goods trade (Wednesday) and industrial production (Thursday) for the same month. [Factory orders](#) extended their downtrend in May, falling for a fifth successive month to the lowest level since June 2020. Survey indicators suggest that the trend in orders and [industrial output](#) weakened again at the end of Q2 and further into Q3. So, while thanks to increased car output and a bounce in construction, industrial production should rebound somewhat in June following the drop of 2.5%M/M to a five-year low in May, the data seem bound to confirm a fall over the Q2 as a whole.

The week will end on Friday with the final German and Italian inflation figures for July ahead of the release of the final euro area figures on 20 August, which will provide the granular detail to allow for a better assessment of underlying trends. This week's [flash euro area data](#) suggested that the slight uptick in headline inflation in July was principally due to a stronger energy component, while core inflation moved sideways. Also looking ahead, the preliminary labour cost data for Q2 (21 August), August flash PMIs and Q2 negotiated wage figures (22 August) will likely have a significant bearing on the ECB's monetary policy discussions at the September Governing Council meeting.










UK

The week ahead in the UK

The coming week will bring largely second-tier data from the UK, including the final services and composite PMIs (Monday), construction PMIs and BRC retail monitor (Tuesday) and RICS residential market survey (Thursday), all for July. According to the flash release, the services activity PMI (52.4) suggested a modest pickup in momentum at the start of Q3 as due the composite output index (52.7). If the [CBI distributive trades survey](#) provides a reliable guide, the BRC retail survey will suggest that retail sales remained subdued in July.




Looking further ahead, the following week will bring more important data releases including the labour market report (13 August), July inflation (14 August) and Q2 GDP (15 August). In particular, we expect CPI inflation to tick up 0.2ppt in July to 2.2%Y/Y. The rise will be due principally to a sizeable base effect associated with the sharper cut in Ofgem's regulated household energy price cap. And we expect the core CPI rate to drop 0.3ppt to 3.2%Y/Y with an easing in both the services and core goods components. Meanwhile, despite a possible drop in June due not least to retail sector weakness, we expect GDP to rise 0.6%Q/Q in Q2, just 0.1ppt softer than in Q1.

Daiwa economic forecasts

	2024				2025		2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.3	0.3	0.2	0.3	0.3	0.4	0.6	0.7	1.3
UK 	0.7	0.6	0.3	0.3	0.3	0.3	0.1	1.1	1.2
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.6	2.5	2.3	2.6	2.3	1.8	5.4	2.5	1.8
Core HICP 	3.1	2.8	2.9	3.1	2.6	1.8	4.9	3.0	1.8
UK									
Headline CPI 	3.5	2.1	2.2	2.8	2.6	2.3	7.3	2.6	2.3
Core CPI 	4.6	3.6	3.4	3.5	3.3	2.3	6.2	3.7	2.3
Monetary policy, %									
ECB									
Deposit Rate 	4.00	3.75	3.50	3.25	3.00	2.75	4.00	3.25	2.25
Refi Rate 	4.50	4.25	3.65	3.40	3.15	2.90	4.50	3.40	2.40
BoE									
Bank Rate 	5.25	5.25	5.00	4.75	4.50	4.25	5.25	4.75	3.75

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%)	Jun	0.8 (-1.6)	1.0 (-1.1)	-2.1 (-3.1)	-2.2 (-)	
	Budget balance YTD €bn	Jun	-103.5	-	-113.5	-	
Italy 	Industrial production M/M% (Y/Y%)	Jun	0.5 (-5.6)	-	0.5 (-3.3)	-	
	Retail sales Y/Y%	Jun	-1.0	-	0.4	0.5	
Spain 	Unemployment (employment) change 000s	Jul	-10.8 (1.3)	-	-46.8 (31.3)	-	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 20 August 2024







The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous	
Monday 5 August 2024						
Euro area		09.00	Final services (composite) PMI	Jul	51.9 (50.1)	52.8 (50.9)
		09.30	Sentix investor confidence index	Aug	-7.5	-7.3
		10.00	PPI Y/Y%	Jun	-3.3	-4.2
Germany		08.55	Final services (composite) PMI	Jul	52.0 (48.7)	53.1 (50.4)
France		08.50	Final services (composite) PMI	Jul	50.7 (49.5)	49.6 (48.8)
Italy		08.45	Services (composite) PMI	Jul	52.9 (51.0)	53.7 (51.3)
Spain		08.15	Services (composite) PMI	Jul	55.5 (54.7)	56.8 (55.8)
UK		09.30	Final services (composite) PMI	Jul	52.4 (52.7)	52.1 (52.3)
Tuesday 6 August 2024						
Euro area		08.30	Construction PMI	Jul	-	41.8
		10.00	Retail sales M/M% (Y/Y%)	Jun	-0.1 (0.2)	0.1 (0.3)
Germany		07.00	Factory orders M/M% (Y/Y%)	Jun	0.5 (-14.0)	-1.6 (-8.6)
		08.30	Construction PMI	Jul	-	39.7
France		07.45	Preliminary private sector payrolls Q/Q%	Q2	-	0.3
		08.30	Construction PMI	Jul	-	41.0
Italy		08.30	Construction PMI	Jul	-	46.0
UK		00.01	BRC retail monitor – like-for-like sales Y/Y%	Jul	-	-0.5
		09.30	Construction PMI	Jul	-	52.2
Wednesday 7 August 2024						
Germany		07.00	Trade balance €bn	Jun	21.5	24.9
France		07.45	Trade balance €bn	Jun	-	-8.0
Thursday 8 August 2024						
Germany		07.00	Industrial production M/M% (Y/Y%)	Jun	0.8 (-3.9)	-2.5 (-6.7)
UK		00.01	RICS house price balance %	Jul	-10	-17
Friday 9 August 2024						
Germany		07.00	Final HICP (CPI) Y/Y%	Jul	<u>2.6 (2.3)</u>	2.5 (2.2)
France		07.45	Preliminary wages Q/Q%	Q2	-	1.3
Italy		09.00	Final HICP (CPI) Y/Y%	Jul	<u>1.7 (1.3)</u>	0.9 (0.8)






































Source: Bloomberg and Daiwa Capital Markets Europe Ltd.


The coming week's key events & auctions

Country	BST	Event / Auction
Monday 5 August 2024		
- Nothing Scheduled -		
Tuesday 6 August 2024		
Germany		10.30 Auction: to sell €4bn of 2.50% 2029 bonds
UK		10.00 Auction: to sell £2bn of 4.75% 2043 bonds
Wednesday 7 August 2024		
Germany		10.30 Auction: to sell €500mn of 2039 bonds
		10.30 Auction: to sell €1.5bn of 2.6% 2041 bonds
UK		10.00 Auction: to sell £4bn of 4.125% 2029 bonds
Thursday 8 August 2024		
UK		00.01 KPMG, REC and S&P release UK Report on Jobs
Friday 9 August 2024		
- Nothing Scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Key data releases – 12-31 August 2024

12	13	14	15	16
	GERMANY  ZEW INVESTOR SURVEY (AUG) SPAIN  HICP INFLATION (JUL F) UK  LABOUR MARKET REPORT: UNEMPLOYMENT AND WAGES (JUN) CLAIMANT COUNT (JUL)	EURO AREA  GDP (Q2 2 ND ESTIMATE) EMPLOYMENT (Q2 P) INDUSTRIAL PRODUCTION (JUN) FRANCE  HICP INFLATION (JUL F) UK  CPI INFLATION (JUL) PPI INFLATION (JUL) HOUSE PRICE INDEX (JUN)	UK  GDP (Q2 P) MONTHLY GDP (JUN) SERVICES OUTPUT (JUN) INDUSTRIAL PRODUCTION (JUN) MANUFACTURING OUTPUT (JUN) CONSTRUCTION OUTPUT (JUN) TRADE BALANCE (JUN)	EURO AREA  TRADE BALANCE (JUN) UK  RETAIL SALES (JUL)
19	20	21	22	23
UK  RIGHTMOVE HOUSE PRICES (JUL)	EURO AREA  HICP INFLATION (JUL F) CONSTRUCTION OUTPUT (JUN) CURRENT ACCOUNT BALANCE (JUN) GERMANY  PPI INFLATION (JUL)	EURO AREA  JOB VACANCY AND LABOUR COST INDEX (Q2 P) UK  PUBLIC SECTOR FINANCES (JUL)	EURO AREA  MANUFACTURING, SERVICES & COMPOSITE PMI (AUG P) EC CONSUMER CONFIDENCE SURVEY (AUG P) ECB NEGOTIATED WAGE INDICATOR (Q2) ECB PUBLISHES MONETARY POLICY ACCOUNT OF JULY MEETING GERMANY  MANUFACTURING, SERVICES & COMPOSITE PMI (AUG P) FRANCE  MANUFACTURING, SERVICES & COMPOSITE PMI (AUG P) RETAIL SALES* (JUL) UK  MANUFACTURING, SERVICES & COMPOSITE PMI (AUG P)	EURO AREA  ECB CONSUMER EXPECTATIONS SURVEY (JUL) FRANCE  INSEE BUSINESS CONFIDENCE SURVEY (AUG) UK  GFK CONSUMER CONFIDENCE SURVEY (AUG)
26	27	28	29	30
GERMANY  IFO BUSINESS SURVEY (AUG) SPAIN  PPI (JUL)	GERMANY  GDP (Q2 F) UK  BRC SHOP PRICE INDEX (AUG)	EURO AREA  MONETARY AGGREGATES (JUL) GERMANY  GFK CONSUMER CONFIDENCE SURVEY (SEP) FRANCE  INSEE CONSUMER CONFIDENCE SURVEY (AUG)	EURO AREA  EC ECONOMIC CONFIDENCE SURVEYS (AUG) NEW CAR REGISTRATIONS (JUL) GERMANY  HICP INFLATION (AUG P) SPAIN  HICP INFLATION (AUG P)	EURO AREA  HICP INFLATION (AUG P) UNEMPLOYMENT (JUL) GERMANY  UNEMPLOYMENT (AUG) FRANCE  GDP (Q2 F) HICP INFLATION (AUG P) PPI INFLATION (JUL) CONSUMER SPENDING (JUL) PAYROLLS (Q2 F) ITALY  HICP INFLATION (AUG P) ISTAT CONSUMER & BUSINESS CONFIDENCE SURVEY (AUG) SPAIN  RETAIL SALES (JUL) UK  MONEY AGGREGATES (JUL)

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

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