

# Euro wrap-up

## Overview

- Bunds followed US10s higher while underlying euro area goods price pressures remained subdued and the final euro area composite PMI was revised a touch lower.
- Gilts also followed the global trend despite an upwards revision to the UK activity PMIs.
- Thursday will bring July data for euro area retail sales and German factory orders, as well as updated Irish national accounts for Q2.

Emily Nicol

+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.317	-0.055
OBL 2½ 10/29	2.107	-0.059
DBR 2.6 08/34	2.221	-0.053
UKT 4½ 01/27	4.022	-0.053
UKT 4½ 07/29	3.827	-0.052
UKT 4½ 07/34	3.933	-0.055

\*Change from close as at 5.00pm BST.

Source: Bloomberg

## Euro area

### Producer price inflation rose to a 14-month high amid higher energy prices

While the flash estimate of euro area consumer core goods inflation in August maintained its recent disinflationary trend to fall to its lowest rate (0.4%Y/Y) for more than three years, for the time being the trough has likely been reached. While still subdued, three-month momentum rose to a five-month high that month (0.9%3M/3M annualised). And today's producer inflation figures suggested that pipeline pressures in the factory sector ticked higher at the start of the summer. Industrial producer prices rose for a second successive month in July, by 0.8%M/M – the most in 19 months – so that the annual pace of decline moderated by more than 2ppts to a 14-month high of -2.1%Y/Y. This principally reflected another rise in energy prices, by 2.8%M/M – the second-biggest since September 2022 – as the price of electricity and gas increased 3.4%M/M. This notwithstanding, the level of producer energy prices was still some 35% below the peak in September 2022.

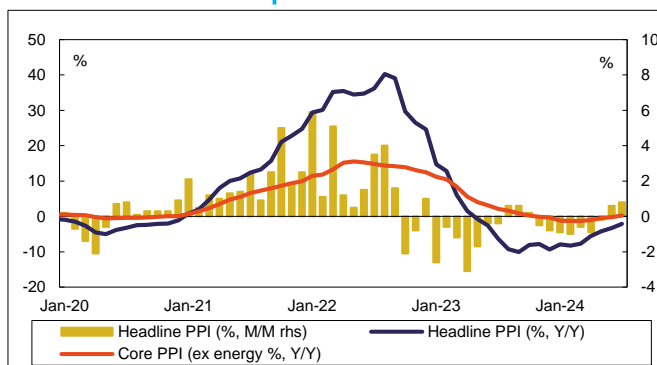
### But underlying goods price pressures remain very muted

Encouragingly, underlying price pressures in the factory sector remain very muted. Non-energy producer prices fell for the first time this year (albeit by just 0.1%M/M). That left the core PPI inflation rate up 0.4ppt to a mere 0.2%Y/Y, albeit the highest for nine months and more than 1ppt above the low this spring. While inflation of intermediate goods rose to a 15-month high, it remained in negative territory at -1.5%Y/Y. Meanwhile, with prices of capital goods steady on the month and prices of durable consumer goods slightly lower, the respective annual rates continued to moderate to 1.4%Y/Y and 0.3%Y/Y, with the latter the lowest for more than 14 years.

### Cost and price PMIs reinforce the message that upside risks to inflation have diminished

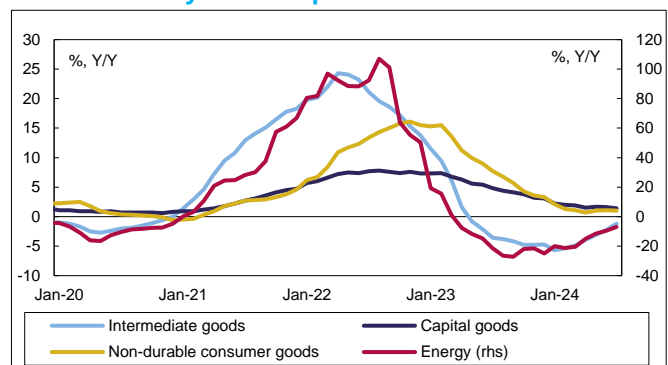
Survey signals on producer prices have also recently been well-behaved. The final euro area manufacturing PMI for selling prices rose to a 16-month high in August. However, at 51.1 it remained below the long-run average, also suggesting that near-term goods price pressures will remain relatively subdued. The PMIs also implied that factory input cost pressures moderated somewhat last month, having ticked higher over recent months reflecting elevated shipping costs. And today's services survey saw the respective input price index drop more than 1pt to 57.8, the lowest since April 2021 and just a whisker above the long-run average. So, while the services prices charged PMI ticked higher in August – partly reflecting opportunistic pricing behaviour during the Paris Olympics – we suspect this will also ease back over coming months.

### Euro area: Producer price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Key PPI components



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## Final services activity PMI still flattered by Paris Olympics

The impact of the Paris Olympics on the activity PMIs was also seemingly significant. While the final euro area services PMI in August was a touch softer than the flash estimate, it was still up 1pt at a three-month high of 52.9, consistent with steady expansion in the sector. Today's release suggested that the improvement in part reflected a pickup in services activity in Spain (+0.7pt to 53.9). But, as signalled by the preliminary release, it was largely due to a 5pts jump – the second-sharpest increase on the series outside of the pandemic – in the French activity PMI to 55.0, the highest in more than two years. But we note that the INSEE business survey – with a sample size more than 10 times larger than the PMIs – indicated a more modest boost to French services sentiment last month, with the index remaining some 3% below the long-run average. In contrast to France and Spain, the German (51.3) and Italian (51.4) services PMIs slipped to five-month and seven-month lows respectively.

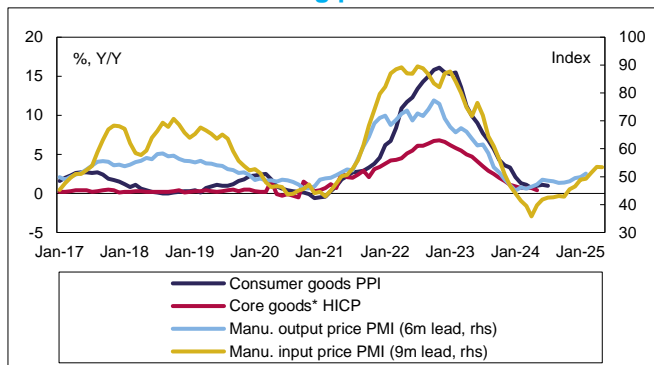
## PMIs consistent with lower GDP growth in Q3, bolstering case for a rate cut

In the factory sector, the final euro area manufacturing output index was nudged higher from the preliminary estimate. But it remained firmly in contractionary territory (45.8), with ongoing significant weakness in Germany (42.8) – not least due to a further worsening of business conditions in the autos sector – and France (43.8) offsetting a pickup in Italy (to a five-month high of 49.1). As a result, overall, the euro area composite output PMI rose 0.8pt in August to 51.0, a three-month high but 0.2pt softer than initially estimated. This left the index trending so far in Q3 almost 1pt below the Q2 average, seemingly consistent with a slowing of euro area GDP growth this quarter to 0.1%Q/Q, some 0.3ppt below the ECB's June projection. Moreover, signals of an ongoing decline in new orders, a slight fall in headcount and a worsening of business expectations would all flag risks of a softening in activity over coming months. And the details of the PMIs reinforce the case for the ECB to revise down its near-term GDP growth projections next week, and further bolster the case for a rate cut.

## The day ahead in the euro area

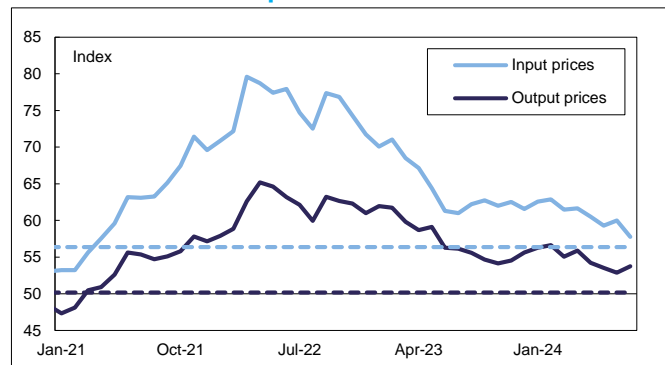
Tomorrow's release of euro area retail sales figures for July will provide an update on consumer spending at the start of Q3. Following a decline in June, sales are expected to rise a modest 0.1%M/M, tallying with a slight improvement in consumer purchase intentions that month. Thursday will also bring German factory orders data for July. Following the first monthly rise in six in June, surveys suggest renewed weakness in orders at the start of Q3. And ahead of Friday's industrial production release, German manufacturing turnover figures will also be of interest. Meanwhile, having slipped to the second-lowest reading since the first pandemic lockdown, the euro area construction activity PMI (41.4) is likely to signal ongoing

### Euro area: Manufacturing price indices



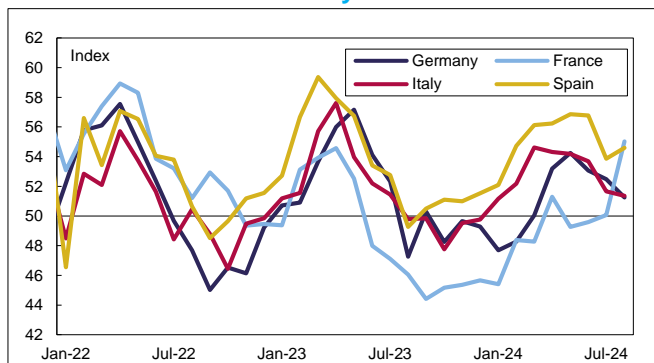
\*Non-energy industrial goods. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

### Euro area: Services price PMIs\*



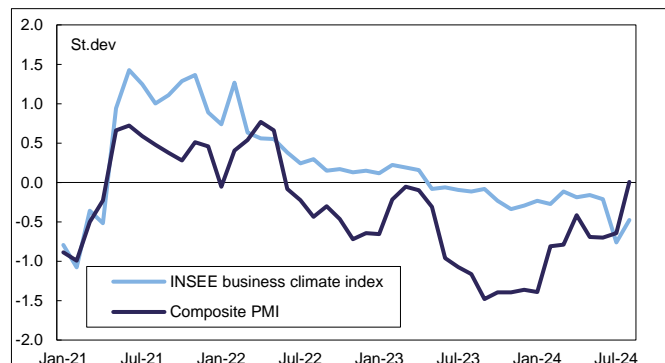
\*Dashed lines represent pre-pandemic averages. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

### Euro area: Services activity PMIs



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

### France: Business sentiment indices



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

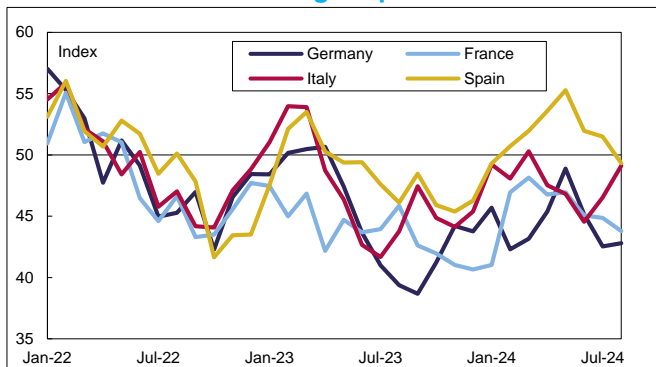
contraction in the sector in August as elevated borrowing rates continue to weigh on demand. And ahead of Friday's revised national accounts figures from the euro area, tomorrow will bring updated GDP figures from Ireland.

## UK

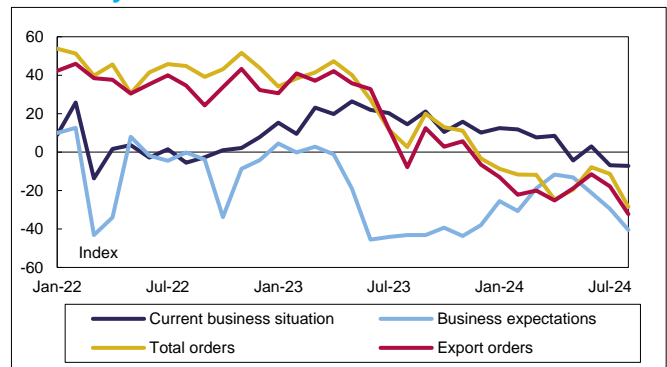
### Final PMIs signal robust GDP growth in Q3, but an easing in price pressures

The flash UK PMIs in August surprised to the upside as lower borrowing costs and prospects of further interest rate cuts gave a boost to demand. And today's final indices brought a further modest upwards revision, taking the headline composite PMI to 53.8, a four-month high, the second-strongest reading since May 2023 and back above the long-run average. The improvement was led by the services sector, for which the business activity index rose 1.3pt to a four-month high of 53.7. Although the manufacturing output component slipped back slightly this month, the decline was smaller than initially estimated. And at 54.4, the index was still the second-highest since April 2022 and consistent with ongoing solid expansion in the sector over the summer. Admittedly, the PMIs seemingly underestimated economic momentum in H124. But while the composite PMI in the first two months of Q3 (53.3) was a touch above the Q2 average – when GDP rose 0.6%Q/Q – the level was broadly consistent with GDP growth of 0.3%Q/Q, matching our expectation for this quarter and 0.1ppt below the

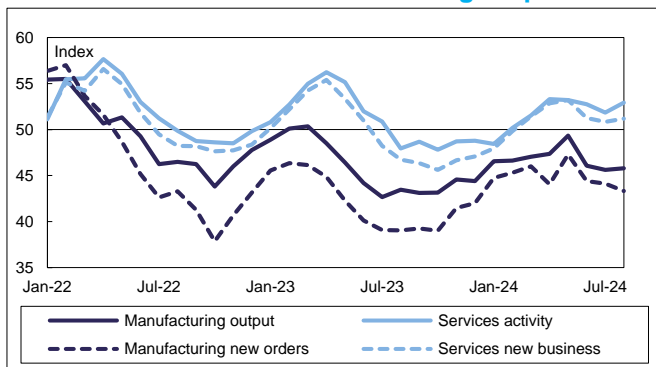
#### Euro area: Manufacturing output PMIs



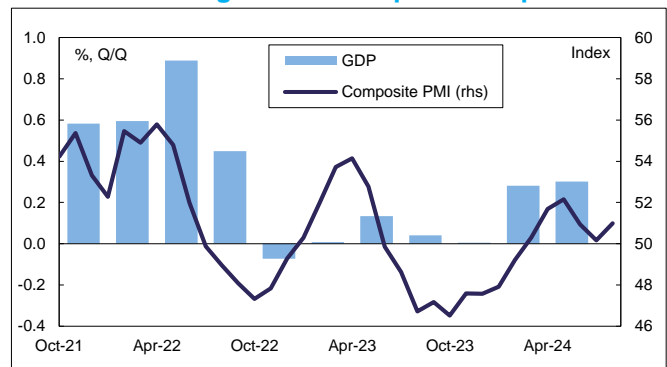
#### Germany: ifo auto sector sentiment indices



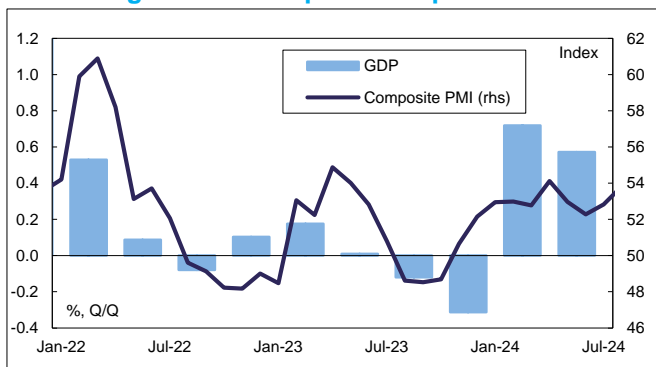
#### Euro area: Services & manufacturing output PMIs



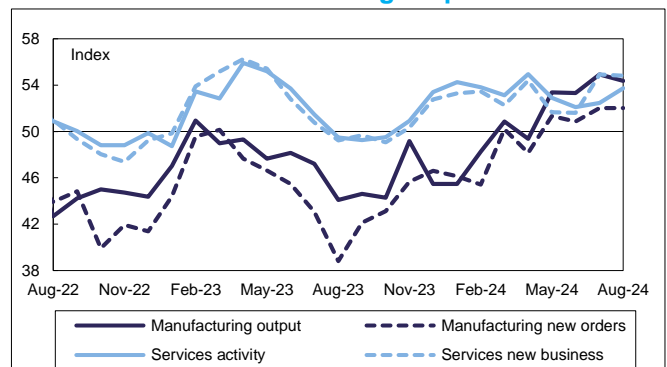
#### Euro area: GDP growth & composite output PMI



#### UK: GDP growth & composite output PMI

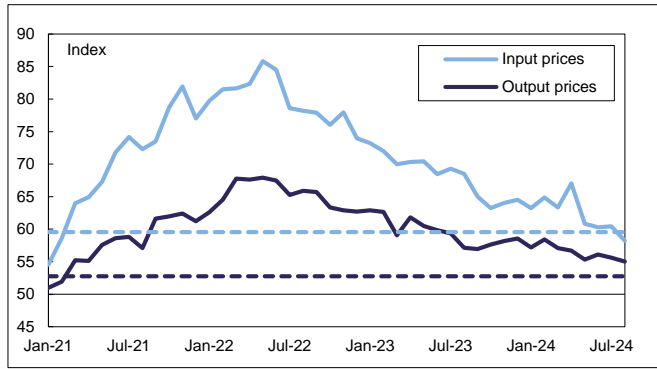


#### UK: Services & manufacturing output PMIs



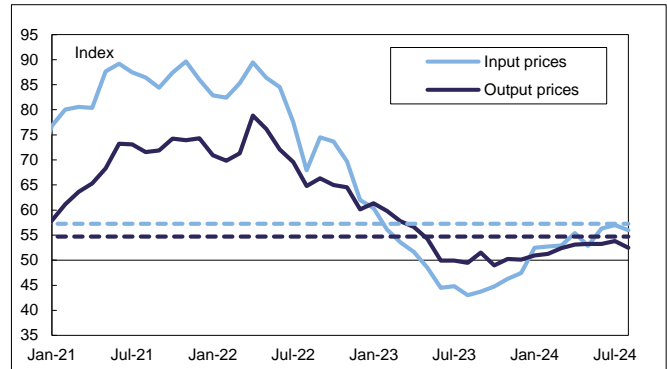
BoE's recent projection. The survey price indices were also consistent with further monetary easing over coming months. Indeed, despite reports of still elevated wage pressures, there was a notable easing in input costs in the services sector in August, with the respective index falling back below the long-run average for the first time in 3½ years. And the prices charged component eased to a 3½-year low (55.0), albeit remaining above the long-run average. Overall, we maintain our view that the BoE will next cut interest rates in November when it will publish updated economic projections.

### UK: Services price PMIs\*



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

### UK: Manufacturing price PMIs\*












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

## The day ahead in the UK

Likely of most interest in the UK dataflow on Thursday will be the results of the BoE's Decision Maker Panel survey for August, which will provide an update on firms' inflation and wage growth expectations. In July, the median forecast for the headline CPI rate one year and three years ahead eased to 2.5%Y/Y, suggesting that inflation expectations remain well anchored. And while expectations for wage growth ticked slightly higher (4.1%Y/Y), this still marked the second-lowest reading for more than two years and was more than 2ppts below the peak. The construction PMIs for August are also due. While the headline activity index is expected to moderate from July's 26-month high (55.4), it will continue to imply ongoing solid expansion over the summer










## European calendar

### Today's results

Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Final services (composite) PMI	Aug	<b>52.9 (51.0)</b>	53.3 (51.2)	51.9 (50.2)	-
	 PPI Y/Y%	Jul	<b>-2.1</b>	-2.5	-3.2	-3.3
Germany	 Final services (composite) PMI	Aug	<b>51.2 (48.4)</b>	51.4 (48.5)	52.5 (49.1)	-
France	 Final services (composite) PMI	Aug	<b>55.0 (53.1)</b>	55.0 (52.7)	50.1 (49.1)	-
Italy	 Services (composite) PMI	Aug	<b>51.4 (50.8)</b>	52.5 (51.4)	51.7 (50.3)	-
Spain	 Services (composite) PMI	Aug	<b>54.6 (53.5)</b>	54.9 (54.3)	53.9 (53.4)	-
UK	 Final services (composite) PMI	Aug	<b>53.7 (53.8)</b>	53.3 (53.4)	52.5 (52.8)	-
Auctions						
Country	Auction					
Germany	 sold €438.2mn of 1% 2038 bonds at an average yield of 2.42%					
	 sold €818.4mn of 2.6% 2041 bonds at an average yield of 2.5%					





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
Euro area	 Final manufacturing PMI	Aug	<b>45.8</b>	45.6	45.8	-
Germany	 Final manufacturing PMI	Aug	<b>42.4</b>	42.1	43.2	-
	 Retail sales Y/Y%	May	<b>-1.1</b>	0.7	1.8	3.9
France	 Final manufacturing PMI	Aug	<b>43.9</b>	42.1	44.0	-
Italy	 Manufacturing PMI	Aug	<b>49.4</b>	48.5	47.4	-
	 GDP – final estimate Q/Q% (Y/Y%)	Q2	<b>0.2 (0.9)</b>	0.2 (0.9)	0.3 (0.6)	-
	 PPI Y/Y%	Jul	<b>-1.6</b>	-	-3.5	-
Spain	 Manufacturing PMI	Aug	<b>50.5</b>	51.6	51.0	-
UK	 Final manufacturing PMI	Aug	<b>52.5</b>	52.5	52.1	-
Auctions						
Country	Auction					
- Nothing to report -						

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
France	 Budget balance YTD €bn	Jul	<b>-156.9</b>	-	-103.5	-
Spain	 Unemployment (employment) change 000s	Aug	<b>21.9 (30.2)</b>	-	-10.8 (1.3)	-
UK	 BRC retail monitor – like-for-like sales Y/Y%	Aug	<b>0.8</b>	-	0.3	-
Auctions						
Country	Auction					
Germany	 sold €3.738bn of 2.7% 2026 bonds at an average yield of 2.41%					




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 	08.30	Construction PMI	Aug	-	41.4
	10.00	Retail sales M/M% (Y/Y%)	Jul	0.1 (0.2)	-0.3 (-0.3)
Germany 	07.00	Factory orders M/M% (Y/Y%)	Jul	-1.7 (-1.9)	3.9 (-11.8)
	08.30	Construction PMI	Aug	-	40.0
France 	08.30	Construction PMI	Aug	-	39.7
Italy 	08.30	Construction PMI	Aug	-	45.0
Spain 	08.00	House price index Q/Q% (Y/Y%)	Q2	-	2.6 (6.3)
UK 	09.30	Construction PMI	Aug	54.5	55.3
	09.30	DMP 3M output price (1Y CPI) expectations Y/Y%	Aug	3.5 (2.6)	3.7 (2.5)
	09.00	New car registrations Y/Y%	Aug	-	2.5

### Auctions and events

France 	09.50	Auction: to sell up to €12bn of 3% 2034, 1.25% 2036, 0.5% 2040 and 3.25% 2055 bonds			
Spain 	09.30	Auction: to sell up to €6bn of 2.5% 2027, 3.5% 2029, and 3.45% 2034 bonds			
	09.30	Auction: to sell up to €750mn of 1% 2030 inflation-linked bonds			
UK 	10.00	Auction: to sell £4bn of 4.125% 2029 bonds			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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