

Euro wrap-up

Overview

- While German factory orders disappointed, Bunds made losses as manufacturing turnover rose for the first month in six and by the most since November 2021.
- Gilts followed the global trend lower as the Halifax house price index reported a third monthly increase in September to the highest level since mid-2022.
- Tuesday will bring German industrial production figures for August, as well as UK retail sales survey for September.

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Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.228	+0.031
OBL 2½ 10/29	2.108	+0.041
DBR 2.6 08/34	2.246	+0.038
UKT 4½ 01/27	4.209	+0.081
UKT 4½ 07/29	4.090	+0.079
UKT 4½ 07/34	4.198	+0.070

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

Source: Bloomberg

Euro area

Euro area retail sales return to modest growth in August, but outlook remains uncertain

Today's euro area retail sales figures suggested that demand for goods remained relatively subdued, despite the gradual improvement in consumer confidence over the summer, rising disposable incomes and signals of greater willingness to spend. Admittedly, sales volumes rose for the first time in three months in August, by 0.2%M/M, to leave them up 0.8%Y/Y, a four-month high. The detail also suggested that the pickup was broad based. Boosted by the recent decline in petrol prices, spending on auto fuel rose for the first month in three (1.1%M/M) and the most in nine months. Spending on food also rose for a third month out of four (0.2%M/M). And there was a rise in core sales (non-food & fuel items) for the first month in four (0.3%M/M). But this still left spending on core items in July and August a touch below the Q2 average, with total sales also trending 0.1% lower. And while a further decline in petrol prices last month should give a boost to auto fuel sales in September, the Commission's survey implied that retail sales in the three months to September fell the most in almost 2½ years, suggesting that underlying spending on goods looks to have remained subdued at the end of Q3.

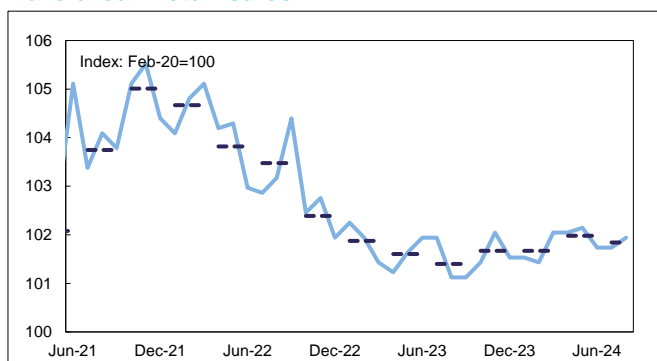
Retail sales remain strongest in Spain, while the trend in French and Italian sales is still weak

Among the member states to have published data, retail sales rose in 11, with France returning to growth for the first month in four (0.5%M/M). Despite this, French retail sales were trending lower so far in Q3 (-0.6%), with a broadly sideways trend in Italy too. In contrast, sales in Spain rose for a third successive month (0.4%M/M) to be almost 1% higher than in Q2, supporting our view that household consumption remained a significant support to Spain's expansion last quarter. Of course, there remains a large amount of uncertainty surrounding recent developments in Germany – which accounts for some 28% of the euro area's retail – where data has remained absent from the Eurostat figures since April. Germany's statistical office (Destatis) is scheduled to publish data on Thursday, which could lead to non-negligible revisions to the aggregate euro area figures.

Broad based increase in services production in July

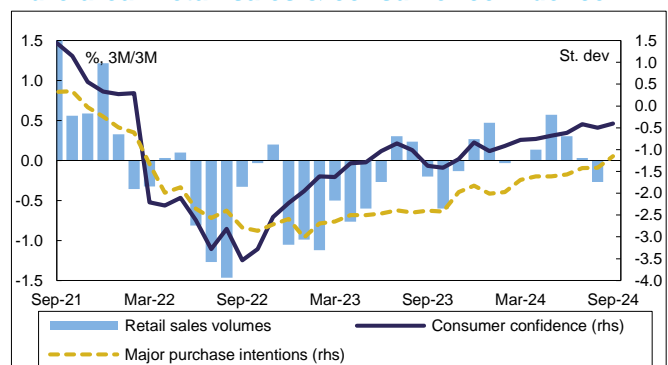
While the lack of official figures from Germany raises consistency issues in the euro area's services production numbers too, today's figures for July were more encouraging about the recent growth story, suggesting a welcome offset to the [manufacturing decline](#) at the start of Q3. Indeed, these showed that aggregate services activity increased for the first month in three in July and by 1.0%M/M, to be 0.4% higher than the Q2 average. Growth was positive in most member states, including in France (0.6%M/M), Italy (1.8%M/M) and Spain (1.7%M/M). And while most sub-sectors contributed positively in July – including transport and storage, professional, administration and support services – the recent recovery remains

Euro area: Retail sales*



*Dashed dark blue lines represent quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales & consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

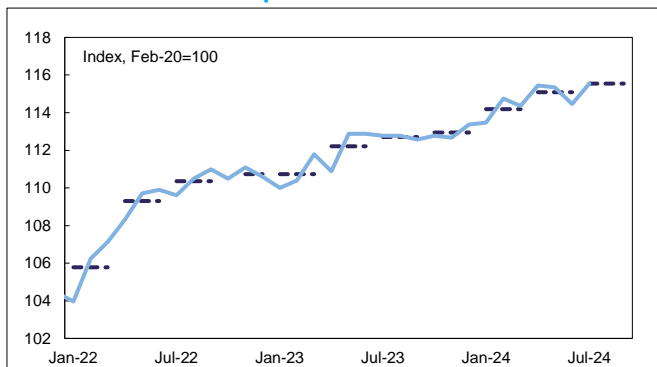
firmest in accommodation and food, where activity in July was some 3½% above the Q2 average, a trend that should have continued over the remainder of Q3, supported not least by the Paris Olympics.

German core factory orders fall to multi-year low, but manufacturing turnover jumps

While the weakness in [manufacturing](#) at the start of Q3 was broad based across member states, challenges in the sector have been particularly striking in Germany, where structural adjustments have underpinned the lacklustre economic performance in the largest member state over recent years. And while a pickup in factory orders at the start of the summer had raised some tentative hopes about the near-term outlook, August factory orders data disappointed, suggesting that a persisting lack of underlying demand will remain a constraint for the time being. In particular, new orders dropped a larger-than-expected 5.8%M/M in August – the most since January – to leave them down 3.9%Y/Y and more than 20% below the peak in mid-2021. The decline was led by a drop in domestic orders following strong growth in the previous two months, while a fall in orders from elsewhere in the euro area offset a further modest increase from elsewhere.

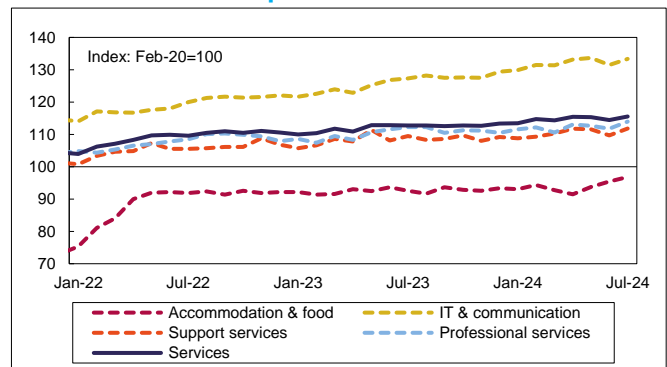
Admittedly, the drop in overall orders in August was exacerbated by the jump in several large-scale orders in July, from the rail, aerospace and electrical machinery subsectors. Indeed, taken together, total orders in July and August were trending

Euro area: Services production*



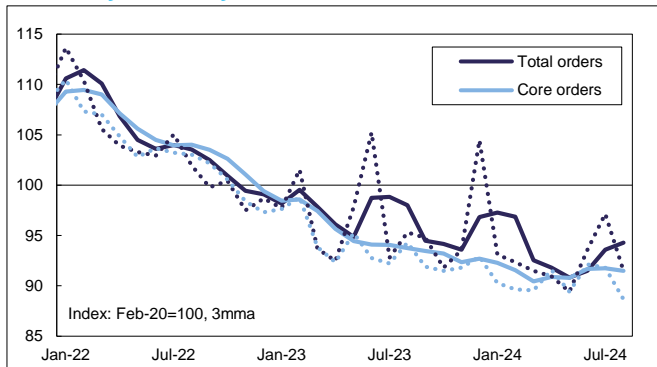
*Dashed dark blue lines represent quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Services production



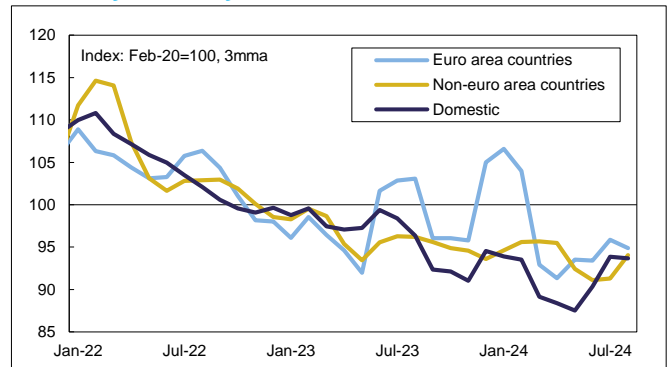
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Factory orders*



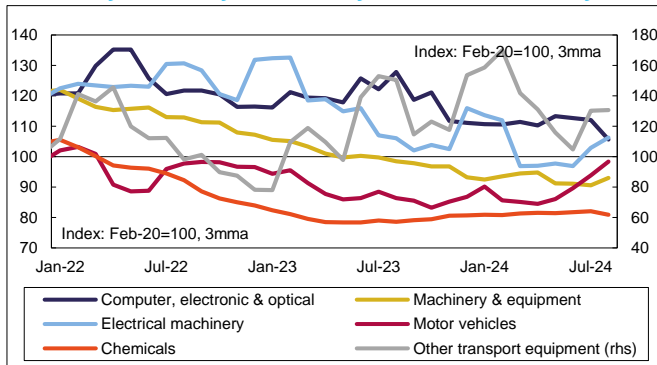
*Core orders exclude large-scale orders. Dotted lines represent single-month data. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Factory orders



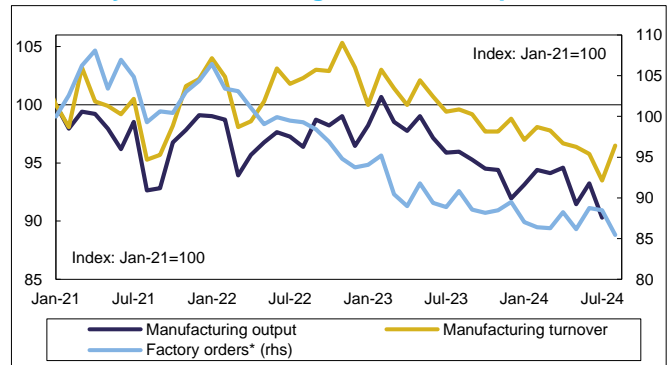
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Factory orders, by selected industry



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing turnover, output & orders



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

some 3.3% above the Q2 average. And there was a further steady uptrend in auto orders in August to their highest for almost two years. So, when excluding large items, core orders recorded a somewhat more modest drop of 3.4%M/M in August. But this still marked the third monthly decline out of four to be at the lowest level since the global financial crisis outside of the initial pandemic slump and trending some 1% below the Q2 average. This notwithstanding, today's figures for manufacturing turnover beat expectations, rising for the first month in six in August and by 3.2%M/M, the most since November 2021. The pickup was led by a 6.3%M/M increase in capital goods that month, contrasting a further decline in consumer durable goods. So, while turnover data were a less accurate guide in Q2, today's release suggests significant upside risks to the IP data when they are published tomorrow, particularly given the large decline in July.

The day ahead in the euro area

The main focus on Tuesday will be the aforementioned German industrial production numbers. Following July's significant and broad-based decline (-2.4%M/M), output is expected to have risen in August. Certainly, in view of the stronger than expected turnover, there is a decent chance that it will be in excess of the current Bloomberg survey consensus of 0.8%M/M. Nonetheless, it is unlikely that tomorrow's results will foster much comfort that German manufacturing will have turned the corner in Q3. Meanwhile, French trade data for August are also due tomorrow.




The day ahead in the UK

After a quiet start to the week for UK releases, tomorrow's British Retail Consortium (BRC) sales monitor will provide insights into retail spending ahead of next Friday's official ONS release. The BRC's measure of like-for-like sales rose for a second consecutive month in August (0.8%Y/Y). And the improvement in September's CBI distributive trades survey suggests a continuation of that trend, supported not least by heavy discounting in clothing and furniture stores flagged in last week's BRC shop price survey.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Sentix investor confidence index	Oct	-13.8	-15.4	-15.4	-
	 Retail sales M/M% (Y/Y%)	Aug	0.2 (0.8)	0.2 (1.0)	0.1 (-0.1)	0.0 (-)
Germany	 Factory orders M/M% (Y/Y%)	Aug	-5.8 (-3.9)	-2.0 (-1.6)	2.9 (3.7)	3.9 (4.6)




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
Germany	 07.00	Industrial production M/M% (Y/Y%)	Aug	0.8 (-3.9)	-2.4 (-5.3)
France	 07.45	Trade balance €bn	Aug	-	-5.9
UK	 00.01	BRC retail monitor – like-for-like sales Y/Y%	Sep	0.8	0.8

Auctions and events

Germany	 10.30	Auction: to sell €1bn of 2.3% 2033 green bonds
UK	 10.00	Auction: to sell £1bn of 0.125% 2039 index-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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