

# Euro wrap-up

## Overview

- Bunds broadly reversed yesterday losses as euro area IP data confirmed a weak start to Q3 for manufacturers.
- Gilts also made modest gains as the single-month labour market figures signalled a drop in UK employment at the start of Q3.
- The BoE's policy announcement tomorrow seems bound to see Bank Rate and its asset purchase programme left unchanged. Tomorrow also brings final euro area inflation and UK retail sales figures.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.646	-0.026
OBL 0 10/21	-0.492	-0.032
DBR 0 08/26	0.026	-0.045
UKT 1¼ 07/18	0.167	-0.036
UKT 3¼ 09/21	0.321	-0.024
UKT 1½ 07/26	0.884	-0.030

\*Change from close as at 4.30pm BST.  
Source: Bloomberg

## Euro area

### A weak start to Q3 for manufacturers

Today's most notable euro area economic data confirmed that the industrial sector had a very weak start to the third quarter. Industrial production fell 1.1%M/M in July to drop to the lowest level since December and 0.5% below the level one year earlier. Within the detail, manufacturing output declined 0.8%M/M, with weakness in production of capital goods (down more than 1½%M/M) most striking. In addition, energy output contributed disproportionately to the decline in overall production, falling for the third consecutive month and by almost 1½%M/M. The decline in industrial production in July was not a surprise given that national data had already shown falls in three of the four largest member states, with the retrenchment in Germany (down 1.9%M/M on the EU definition) the steepest in almost two years. Not least since we suspect that calendar adjustment complexities partly explain that weakness, we fully expect to see a rebound in Germany in August. And with the near-6%M/M decline in industrial production in the Netherlands in July also likely to be followed by an increase, we expect overall euro area industrial production to post a gain in August too. However, significant growth in September will also be required to prevent the sector from subtracting from GDP growth in Q3 for the second successive quarter.

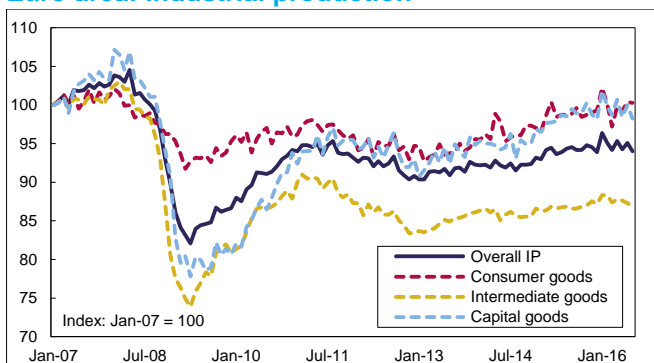
### French and Italian inflation data disappoint

Ahead of tomorrow's euro area inflation release, today's final estimate of French inflation in August confirmed the flash figure of 0.4%Y/Y on the harmonised EU measure, unchanged from July. The detail released on the national measure was disappointing, with core inflation falling 0.1ppt to 0.4%Y/Y, a sixteen-month low, and services price inflation down to 0.7%Y/Y, the weakest in six years. The equivalent Italian numbers were also discouraging, with headline CPI on the EU measure revised down by 0.1ppt from the preliminary estimate to -0.1%Y/Y. While that was 0.1ppt higher than in July, core inflation declined to 0.4%Y/Y to suggest an easing of underlying price pressures. With figures released yesterday confirming German CPI (down 0.1ppt to 0.3%Y/Y) and Spanish CPI (up 0.4ppt to -0.3%Y/Y) in line with their preliminary estimates, euro area inflation, due tomorrow, similarly looks set to align with its flash figure of 0.2%Y/Y, the same rate as in July.

### The day ahead in the euro area and US

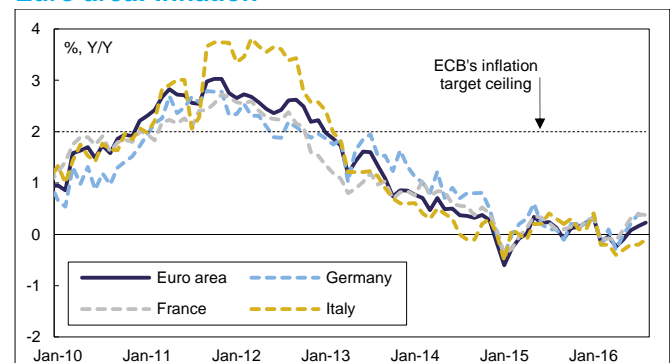
Thursday brings the aforementioned final estimate of euro area inflation in August, which is highly likely to align with the flash figure of 0.2%Y/Y, the same rate as July. In addition, the main core measure of inflation seems set to be unrevised at 0.8%Y/Y, 0.1ppt lower than the previous month highlighting the persistent weakness of underlying price pressures. The euro area trade report for July will also be released along with the European new car registration numbers for August. In the bond markets, France and Spain will sell a range of bonds.

### Euro area: Industrial production



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: Inflation\*



\*Flash estimate for August 2016 for the euro area.  
Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



In the US, Thursday brings the first top-tier data of the week with August retail sales figures perhaps most notable. Total sales are expected to have dipped slightly, restrained by lower gasoline prices and softer sales of autos. But excluding those items, sales look set to show a rebound following the slight drop in July. Industrial production and producer price numbers for August are among the other releases due.

## UK

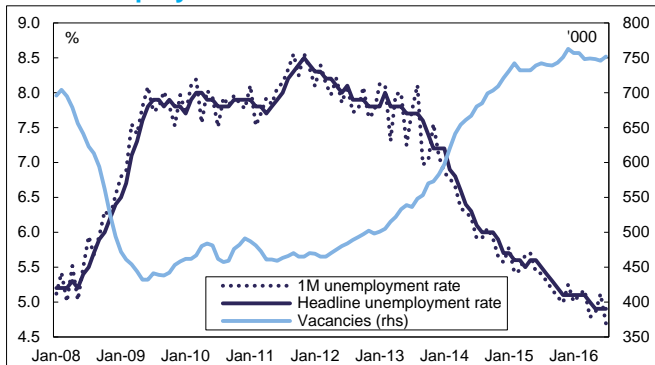
### Brexit impact on labour market starting to show?

At face value today's labour market figures suggested no discernible Brexit impact on the jobs market. The headline three-month unemployment rate remained unchanged at 4.9% in July for a third consecutive month, while headline three-month employment growth of 174k was also very similar to the previous month's reading. But these headline numbers told us little about any post-referendum impact as the July numbers were lost in the average. And looking at the one-month numbers, the figures were a little less encouraging. Indeed, employment actually fell 105k between June and July and while the unemployment rate also fell 0.4ppt on the month, that merely reflected lower labour market participation. Meanwhile, news on wages was not particularly positive either, with headline average weekly earnings growth weakening by 0.2ppt to 2.3%3M/Y. Regular earnings growth also moderated by 0.2ppt to 2.1%3M/Y in July, having briefly risen to close to 3%3M/Y a year ago. And with inflation now higher, regular real earnings growth of 1.7%3M/Y was at the lowest level since February 2015. So, while today's headline labour market numbers will be seized upon by Brexit supporters as evidence that the UK economy continued to grow post-referendum, in line with most other indicators, the one-month numbers (which are, admittedly, volatile) painted a picture of an economy that slowed appreciably.

### The day ahead in the UK

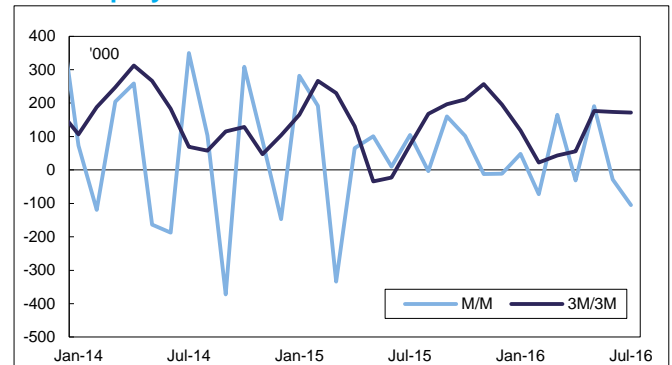
The MPC announces its latest monetary policy decision tomorrow. No changes to policy are imaginable following the significant package of measures unveiled last month. But not least given Carney's comments to the Treasury Select Committee last week and continuing flow of not-too-bad UK economic data, the MPC might well note that economic activity has been slightly firmer than it anticipated. However, with economic growth in recent months still looking to have slowed notably and significant uncertainties about the outlook persisting, the MPC will remain dovish. On the data front tomorrow, the latest figures from the retail sector are expected to show that sales growth moderated slightly in August. But those come after a particularly strong July, when headline sales growth, supported by good weather and seasonal discounting, reached a ten-month high of 5.9%Y/Y.

### UK: Unemployment rate and vacancies



Source: ONS, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### UK: Employment










Source: ONS 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
EMU	 Industrial production M/M% (Y/Y%)	Jul	<b>-1.1 (-0.5)</b>	-1.0 (-0.8)	0.6 (0.4)	<b>0.8 (0.7)</b>
France	 Final EU-harmonised CPI Y/Y%	Aug	<b>0.4</b>	<u>0.4</u>	0.4	-
Italy	 Final EU-harmonised CPI Y/Y%	Aug	<b>-0.1</b>	<u>0.0</u>	-0.2	-
UK	 Average earnings incl. bonuses (excl. bonuses) 3M/Y%	Jul	<b>2.3 (2.1)</b>	2.1 (2.2)	2.4 (2.3)	<b>2.5 (-)</b>
	 ILO unemployment rate 3M%	Jul	<b>4.9</b>	<u>4.9</u>	4.9	-
	 Employment change 3M/3M '000s	Jul	<b>174</b>	<u>180</u>	172	-
	 Claimant count rate % (change 000s)	Aug	<b>2.2 (2.4)</b>	2.2 (1.8)	2.2 (-8.6)	<b>- (3.6)</b>








#### Auctions

Country	Auction
Germany sold 	€805mn of 2.5% 2044 bonds (04-Jul-2044) at an average yield of 0.62%
UK sold 	£800mn of 0.125% 2046 index-linked bonds (22-Mar-2046) at an average yield of -1.599%
	BoE APF operation: £1.17bn of 7-15Y Gilts purchased (3.28 cover ratio)







Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's data releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU		07:00 EU27 new car registrations	Aug	-	6.9
		10:00 Trade balance €bn	Jul	22.0	23.4
		10:00 Final CPI (core CPI) Y/Y%	Aug	<u>0.2 (0.8)</u>	0.2 (0.9)
UK		09:30 Retail sales excluding petrol M/M% (Y/Y%)	Aug	-0.7 (4.8)	1.5 (5.4)
		09:30 Retail sales including petrol M/M% (Y/Y%)	Aug	-0.4 (5.4)	1.4 (5.9)
		12:00 BoE bank rate %	Sep	<u>0.25</u>	0.25
		12:00 BoE asset purchase target £bn	Sep	<u>435</u>	435

#### Auctions and events

Country	BST	Auction / Event
France		09:50 Auction: To sell 0% 2019 bonds (25-Feb-2019)
		09:50 Auction: To sell 0% 2021 bonds (25-May-2021)
		10:50 Auction: To sell 0.1% 2021 index-linked bonds (01-Mar-2021)
		10:50 Auction: To sell 0.1% 2025 index-linked bonds (01-Mar-2025)
Spain		09:30 Auction: To sell 0.75% 2021 bonds (30-Jul-2021)
		09:30 Auction: To sell 1.3% 2026 bonds (31-Oct-2026)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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