

Euro wrap-up

Overview

- Bunds made modest gains as the flash euro area PMIs for July signalled a slight loss of economic growth momentum.
- Gilts were little changed on a quiet day for economic news from the UK.
- Tuesday will bring the results of national business surveys from Germany, France and the UK.

Chris Scicluna
+44 20 7597 8326

Mantas Vanagas
+44 20 7597 8318

Daily bond market movements

Bond	Yield	Change*
BKO 0 06/19	-0.659	-0.021
OBL 0 10/22	-0.185	-0.009
DBR 0½ 08/27	0.502	-0.004
UKT 1¼ 07/19	0.271	+0.003
UKT 0½ 07/22	0.563	+0.001
UKT 4¼ 12/27	1.181	+0.006

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

Euro area

Flash PMIs suggest a moderation in momentum

From the start of the year, all major euro area economic surveys reported a notable improvement in business and consumer sentiment and signalled an acceleration in GDP, with the key indices reaching multi-year highs in the second quarter. However, having reached its strongest level in sixteen years in June, the flash Commission consumer confidence index for July, published last week, slipped back a touch. And after reaching a six-year high in May, the flash euro area composite PMI for July, released today, also declined, down 0.5pt for the second successive month to 55.8, the lowest level since January, to suggest a moderation in economic growth momentum at the start of Q3. Like for the euro area as a whole, the composite PMIs from Germany and France also fell to six-month lows. The overall weakening was due principally to a cooling in the manufacturing sector, for which the euro area output PMI dropped almost 2pts, similarly to the lowest level since January. Thanks to a better showing in the periphery, the euro area services activity PMI was unchanged albeit thus still down somewhat from recent multi-year highs reached in April and May. The survey also reported a weakening in growth of new orders to the slowest since January, with both manufacturing and services reporting a drop.

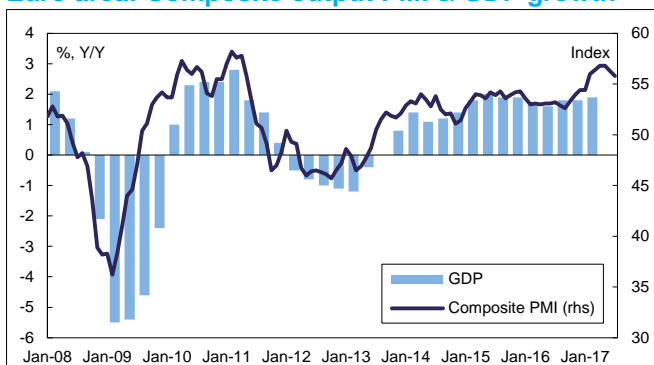
Still on track for 2%-plus growth in 2017

Today's survey results were hardly alarming. The output and new orders PMIs remain towards the upper end of the ranges of recent years, while the survey measure of employment growth was relatively firm to suggest that labour market conditions continue to be favourable. Moreover, the experience of recent months suggests that we might well see significant upwards revisions when the final estimates are published next week. And even if they are not revised higher, today's results would still be fully consistent with our economic forecast, which already anticipates a slight moderation of euro area GDP growth in Q3, from a predicted 0.6%Q/Q in Q2 to 0.5%Q/Q, and a similar slight slowing of activity in each of the large member states. As such, euro area GDP appears to remain on track to grow by 2.0%Y/Y or more this year, which would be the strongest performance since 2010. Likewise, with the euro area composite PMIs for both input and output prices barely changed in July, today's survey results also tallied with our inflation forecast, which anticipates that headline and core CPI will both move broadly sideways this quarter.

The day ahead in the euro area and US

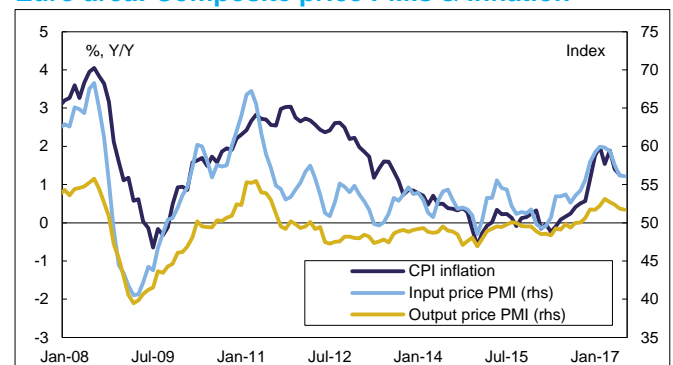
In the euro area, Tuesday will bring further July business survey results with the German Ifo and French INSEE indices, as well as Italian industrial sales and orders figures for May.

Euro area: Composite output PMI & GDP growth



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

Euro area: Composite price PMIs & inflation



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










In the US, Tuesday will bring the Conference Board's consumer confidence indices for July along with the various FHFA and CaseShiller home price data for May. The US Treasury will sell 2Y notes.

UK









The day ahead in the UK

After a quiet day today, the flow of economic data tomorrow brings only the latest quarterly CBI business sentiment survey. The previous survey published early last quarter was very upbeat, but subsequent data from the sector have been very disappointing, with industrial output in May declining by more than 1.0%3M/3M. So, we suspect that tomorrow's survey will signal that output growth eased in the three months to July, while new orders also seem likely to have been weaker.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
EMU	 Preliminary manufacturing PMI	Jul	56.8	57.2	57.4	-
	 Preliminary services PMI (preliminary composite PMI)	Jul	55.4 (55.8)	55.4 (56.2)	55.4 (56.3)	-
	 ECB public sector asset purchases €bn	Weekly	12.1	-	13.8	-
Germany	 Preliminary manufacturing PMI	Jul	58.3	59.2	59.6	-
	 Preliminary services PMI (preliminary composite PMI)	Jul	53.5 (55.1)	54.3 (56.3)	54.0 (56.4)	-
France	 Preliminary manufacturing PMI	Jul	55.4	54.6	54.8	-
	 Preliminary services PMI (preliminary composite PMI)	Jul	55.9 (55.7)	56.7 (56.4)	56.9 (56.6)	-
Auctions						
Country	Auction					
- Nothing to report -						

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	
Germany	 09:00	Ifo business climate index	Jul	114.9	115.1	
	 09:00	Ifo current assessment balance (expectations)	Jul	123.8 (106.5)	124.1 (106.8)	
France	 07:45	Manufacturing confidence (production outlook)	Jul	108 (-)	108 (17)	
Italy	 09:00	Industrial sales M/M% (Y/Y%)	May	-	-0.5 (4.0)	
	 09:00	Industrial orders M/M% (Y/Y%)	May	-	-0.7 (-2.2)	
UK	 11:00	CBI Industrial Trends survey, total orders	Jul	12	16	
Auctions and events						
Country	BST	Auction / Event				
UK	 10:30	Auction: To sell £2.5bn of 1.5% 2047 bonds (22-Jul-2047)				
	 18.00	BoE's Haldane scheduled to speak in London				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:
<http://www.uk.daiwacm.com/research-zone/research-blog>



Follow us
[@DaiwaEurope](https://twitter.com/DaiwaEurope)

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.