

Euro wrap-up

Overview

- Bunds made very modest gains as data showed that euro area construction output posted a fourth consecutive quarterly gain in Q2.
- Gilts were little changed on a quiet day for UK economic news.
- The coming week brings first euro area economic survey results for August, updated Q2 GDP data from Germany, Spain and the UK, and, most notably, speeches from Draghi.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/19	-0.707	-0.005
OBL 0 10/22	-0.273	-0.013
DBR 0½ 08/27	0.406	-0.019
UKT 1¾ 07/19	0.219	-0.004
UKT 0½ 07/22	0.494	-0.006
UKT 4¾ 12/27	1.077	-0.011

*Change from close as at 4.15pm BST.
Source: Bloomberg

Euro area

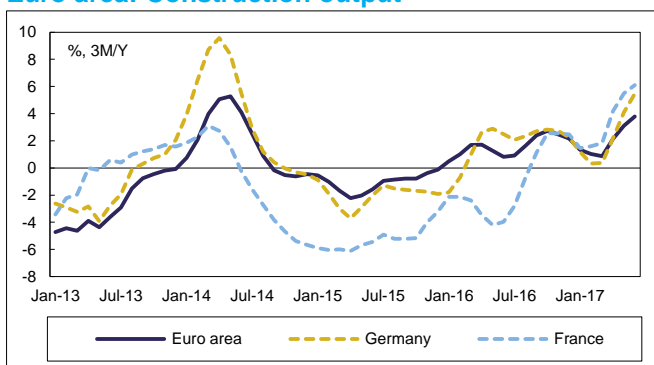
Construction output rose for fourth quarter in Q2

Most eye-catching among the few euro area economic data releases at the end of the week were June's construction output figures. At first glance these appeared disappointing, with production falling for the second successive month, down 0.5%M/M after a drop of 0.2%M/M in May. The decline was led by a second successive fall of 1%M/M or more in Germany, with French output down too and, by sub-sector, building and civil engineering work both retreating. However, we are not overly concerned, and continue to judge the sector to be in a recovery phase. Indeed, compared to a year earlier, euro area construction output was still up a robust 3.4%Y/Y. And over the second quarter as a whole, output was up 1.1%Q/Q, representing the fourth consecutive quarter of expansion – the longest unbroken run of growth in the sector since 2005 – and suggesting that construction firms contributed more than their fair share to the euro area's broad-based economic recovery. With the Commission business survey suggesting that sentiment in the sector in July was the highest since 2007, conditions on loans for home purchases continuing to ease, house prices rising, and construction orders well above the long-run average and close to a decade high, we fully expect to see continued expansion in the sector over coming quarters too. And, of course, that growth is highly likely to be led by Germany, where firms are the most upbeat since reunification and the economic fundamentals strongest.

The week ahead in the euro area and US

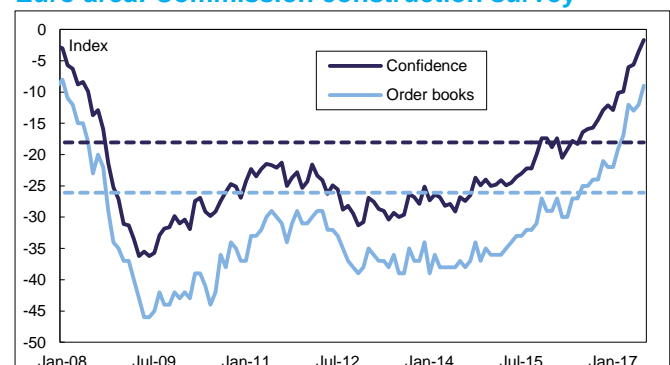
All eyes in the euro area in the coming week will be on ECB President Draghi, who is scheduled to speak at an economics conference in Germany on Wednesday and at the Fed's Jackson Hole symposium on Friday. Other ECB policymakers scheduled to speak publicly include Vice President Constâncio (Tuesday), while Executive Board member Cœuré will also participate at Jackson Hole. Data-wise, the coming week brings the first notable economic survey results for August, including the German ZEW investor survey (Tuesday), the flash euro area PMIs (Wednesday), the French INSEE business climate indices (Thursday) and German Ifo business climate and French consumer confidence indices (both Friday). Most notably, the flash euro area composite PMI is expected to fall for the second consecutive month to a seven-month low to suggest a moderation in economic growth momentum in Q3. Other data due in the coming week include updated Q2 GDP data from Spain (Thursday) and Germany (Friday), which will provide expenditure breakdowns for both countries for the first time. In the bond markets, Germany will sell 10Y Bunds on Wednesday.

Euro area: Construction output



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Commission construction survey*



* Dotted lines represent long-run averages for each survey index.
Source: European Commission, Thomson Reuters and Daiwa Capital Markets Europe Ltd.



In the US, most attention at the end of the coming week will be on Fed Chair Yellen's speech at the Jackson Hole symposium, with the three-day event getting underway on Thursday evening. Data-wise, it should be relatively quiet for top-tier releases, kicking off on Monday with the Chicago Fed national activity index for July. Housing market indicators include June's FHFA home price index on Tuesday and July new and existing home sales figures on Wednesday and Thursday respectively. Wednesday will also bring Markit's flash PMIs for August, while Friday will see the preliminary release of durable goods orders for July. Supply-wise, the Treasury will sell 2Y FRNs on Wednesday and 5Y TIPS on Thursday.
















UK

The week ahead in the UK

The second estimate of Q2 GDP, due on Thursday, takes centre stage in the coming week's UK data calendar. However, it is unlikely to bring any significant surprises, with the preliminary estimate of 0.3%Q/Q growth most likely to be confirmed. Meanwhile, the expenditure breakdown is expected to show that private consumption grew by 0.4%Q/Q, an unchanged pace from Q1, but significantly below the rate of increase seen in 2016, when it rose 0.7%Q/Q every quarter. In addition, investment growth looks set to have eased from the relatively firm 1.0%Q/Q rate of increase in Q1. And with government spending unlikely to have maintained a 0.7%Q/Q growth rate, we are likely to see domestic demand slowing from the 0.6%Q/Q pace in Q1. However, net exports are likely to have provided a small positive contribution to GDP growth, having subtracted 0.8ppt in the previous quarter. Among other data releases in the coming week, July public finance figures, due on Tuesday, will probably show only a modest increase in public borrowing as July is traditionally a strong month for government cash receipts. In addition, the CBI will release its two major surveys – the Industrial Trends and Distributive Trades – which are due on Tuesday and Thursday.




In the absence of any significant developments, the next edition of the Euro wrap-up will be published on 22 August 2017.

Daiwa economic forecasts
























		2016		2017				2018		2016	2017	2018
		Q4	Q1	Q2	Q3	Q4	Q1	Q2				
GDP forecasts %, Q/Q												
Euro area		0.6	0.5	0.6	0.5	0.4	0.4	0.4	1.7	2.1	1.8	
Germany		0.4	0.7	0.6	0.6	0.5	0.5	0.4	1.8	2.2	2.1	
France		0.5	0.5	0.5	0.4	0.4	0.4	0.4	1.1	1.7	1.6	
Italy		0.4	0.4	0.4	0.3	0.2	0.1	0.1	1.0	1.4	0.8	
Spain		0.7	0.8	0.9	0.7	0.6	0.6	0.5	3.2	3.1	2.6	
UK		0.7	0.2	0.3	0.2	0.2	0.3	0.3	1.8	1.5	1.1	
Inflation forecasts %, Y/Y												
Euro area												
Headline CPI		0.7	1.8	1.5	1.4	1.4	1.1	1.3	0.2	1.5	1.4	
Core CPI		0.8	0.8	1.1	1.2	1.3	1.3	1.2	0.9	1.1	1.3	
UK												
Headline CPI		1.2	2.1	2.7	2.7	2.9	2.7	2.5	0.7	2.6	2.5	
Core CPI		1.4	1.8	2.5	2.4	2.5	2.5	2.4	1.3	2.3	2.5	
Monetary policy												
ECB												
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	
Deposit Rate %		-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	0.00	
Net asset purchases*		80	80	60	60	60	40	20	80	60	0	
BoE												
Bank Rate %		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	
Net asset purchases**		0	0	0	0	0	0	0	0	0	0	

*Monthly target €bn, end of period. **Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

European calendar





Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
EMU	 Current account balance €bn	Jun	21.2	-	30.1	30.5
	 Construction output M/M% (Y/Y%)	Jun	-0.5 (3.4)	-	-0.7 (2.6)	-0.2 (2.7)
Italy	 Current account balance €bn	Jun	5.3	-	3.3	-
Auctions						
Country	Auction					
- Nothing to report -						

Coming week's data calendar

Key data releases						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Monday 21 August 2017						
EMU		14:45 ECB public sector asset purchases €bn	Weekly	<u>11.5</u>	9.7	
Tuesday 22 August 2017						
EMU		10:00 ZEW expectations balance	Aug	-	35.6	
Germany		10:00 ZEW current assessment balance (expectations)	Aug	85.5 (15.0)	86.4 (17.5)	
Spain		08:00 Trade balance €bn	Jun	-	-1.4	
UK		09:30 Public sector net borrowing excluding interventions £bn	Jul	1.0	6.9	
		11:00 CBI Industrial Trends survey, total orders	Aug	10	10	
Wednesday 23 August 2017						
EMU		09:00 Preliminary manufacturing PMI	Aug	56.3	56.6	
		09:00 Preliminary services PMI (preliminary composite PMI)	Aug	55.4 (55.5)	55.4 (55.7)	
		15:00 Preliminary consumer confidence	Aug	-1.8	-1.7	
Germany		08:30 Preliminary manufacturing PMI	Aug	57.6	58.1	
		08:30 Preliminary services PMI (preliminary composite PMI)	Aug	53.3 (54.7)	53.1 (54.7)	
France		08:00 Preliminary manufacturing PMI	Aug	54.5	54.9	
		08:00 Preliminary services PMI (preliminary composite PMI)	Aug	55.7 (55.4)	56.0 (55.6)	
Thursday 24 August 2017						
France		07:45 Manufacturing confidence (production outlook)	Aug	108 (-)	109 (21)	
Spain		08:00 GDP – final release Q/Q% (Y/Y%)	Q2	0.9 (3.1)	0.8 (3.0)	
UK		09:30 GDP – 2nd release Q/Q% (Y/Y%)	Q2	<u>0.3 (1.7)</u>	0.2 (2.0)	
		09:30 Index of services M/M% (3M/3M%)	Jun	0.2 (0.5)	0.2 (0.4)	
		11:00 CBI Distributive Trades survey, retail sales	Aug	14	22	
Friday 25 August 2017						
Germany		07:00 GDP – final release Q/Q% (Y/Y%)	Q2	<u>0.6 (2.1)</u>	0.7 (2.0)	
		07:00 Imports (exports) Q/Q%	Q2	2.0 (1.2)	0.4 (1.3)	
		09:00 Ifo business climate index	Aug	115.5	116.0	
		09:00 Ifo current assessment balance (expectations)	Aug	125.0 (106.8)	125.4 (107.3)	
France		07:45 Consumer confidence survey	Aug	103	104	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country	BST	Event / Auction	
Monday 21 August 2017			
- Nothing scheduled -			
Tuesday 22 August 2017			
EMU		12:00	ECB's Constâncio scheduled to speak in Lisbon
Wednesday 23 August 2017			
EMU		08:00	ECB's Draghi scheduled to speak in Lindau, Germany
Germany		10:00	Auction: To sell €3bn of 0.5% 2027 bonds (15-Aug-2027)
UK		10:30	Auction: To sell £2.75bn of 0.75% 2023 bonds (22-Jul-2023)
Thursday 24 August 2017			
- Nothing scheduled -			
Friday 25 August 2017			
EMU		20:00	ECB's Draghi scheduled to speak in Jackson Hole, USA

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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