

# Euro wrap-up

## Overview

- Despite an upside surprise to today's euro area retail sales figures, heightened geopolitical tensions saw euro area equities post sizeable losses while govies made notable gains.
- Gilts also made gains, as the UK construction PMI signalled ongoing contraction.
- The coming week brings July's final services PMIs for the euro area and UK on Monday. Other highlights include German and French IP figures and the first estimate of UK Q2 GDP.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 06/21	-0.783	-0.010
OBL 0 04/24	-0.769	-0.017
DBR 0¼ 02/29	-0.533	-0.043
UKT 1½ 01/21	0.433	-0.001
UKT 1 04/24	0.341	-0.023
UKT 1 % 10/28	0.551	-0.042

\*Change from close as at 4:00pm BST.  
Source: Bloomberg

## Euro area

### Euro area retail sales surprise on the upside

There was a notable upward surprise to today's euro area retail sales figures, reporting a rise of more than 1.0%/M/M in June, the largest monthly increase since November 2017. This left retail sales up more than 2½% compared with a year earlier, the firmest annual rate since February. This principally reflected the strongest monthly growth for 12½ years in Germany (up 3 ½%/M/M), while sales in Italy rose at the fastest pace since the start of 2017 (up 1.9%/M/M). In contrast, French sales fell for the second successive month (-0.4%/M/M), while they were flat in Spain. Within the euro area detail, spending on food increased 1.2%/M/M in June, the most for thirteen months, while fuel sales were up 1.6%/M/M, broadly reversing the drop in May. Core sales were also firmer, with the 1.1%/M/M increase underpinned by a rebound in clothes and textiles (3.5%/M/M). But the improvement in June followed a larger-than-previously-estimated decline in sales in May, while the increase in April was also revised lower. So, over the second quarter as a whole, retail sales were up just 0.4%/Q/Q, roughly half the pace seen in Q1. And this further supports our view that the moderation in GDP growth in Q2, by 0.2ppt to 0.2%/Q/Q, in part reflected a slowdown in household consumption growth.

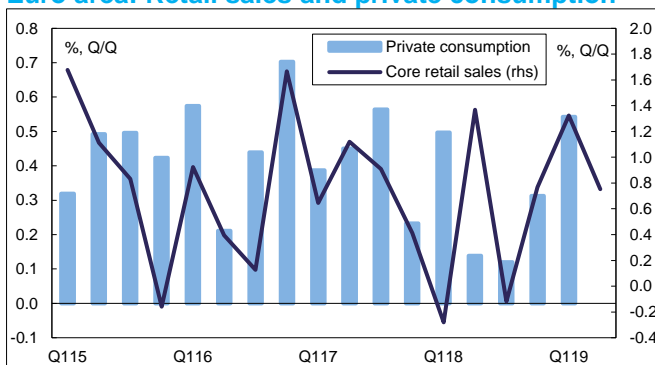
### Euro area PPI highlights disinflationary pressures

After the flash estimate of euro area inflation earlier this week showed the headline CPI rate declining in July to its lowest in seventeen months, today's producer price inflation figures illustrated the significant disinflationary pressures in the pipeline. In particular, the headline PPI rate fell for the fourth consecutive month in June, by 0.9ppt to 0.7%/Y/Y, the lowest rate since November 2016. This principally reflected a drop in energy price inflation, down 3ppts to -0.1%/Y/Y, further supporting our view that energy prices will start to subtract from consumer price inflation over coming months. But core PPI (excluding energy) also fell 0.2ppt to 0.8%/Y/Y, similarly its lowest rate since 2016, suggesting that underlying pipeline pressures are also waning too.

### Italian IP contracted in Q2

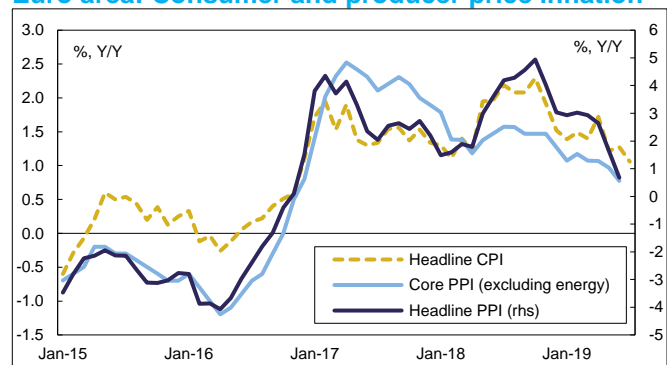
The first estimate of Italian GDP earlier this week suggested that the economy stagnated in the second quarter. And consistent with the downbeat sentiment surveys, today's industrial production figures for June – the first of the larger member states to be published – confirmed that industry was a drag on growth in Q2. In particular, total output fell 0.2%/M/M in June, to leave it more than 1% lower than a year earlier. And in the absence of a near-2½%/M/M increase in energy production, the drop would have been steeper. Indeed, manufacturing output fell 0.4%/M/M, with production of consumer, intermediate and investment goods lower. So, despite a solid increase in May, this left manufacturing output down 0.7%/Q/Q

### Euro area: Retail sales and private consumption



Source Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumer and producer price inflation



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



in Q2, almost fully reversing the increase in Q1. And yesterday's PMI signalled further weakness in the sector at the start of Q3.

## The week ahead in the euro area and US

The focus in the euro area at the start of the coming week will be the final services and composite PMIs for July. While the flash estimates suggested that euro area services activity remained broadly stable at the start of the third quarter – the headline index declined just 0.3pt to 53.3 – weakness in the manufacturing sector meant that the preliminary composite PMI fell 0.7pt to 51.5. This marks one of the lowest readings of the past six years and is consistent with a further moderation in GDP growth at the start of Q3. The data calendar for the remainder of the week focuses on national manufacturing production releases for June. Tuesday brings German factory orders figures, followed by that country's IP numbers on Wednesday. Both releases are likely to signal a weakening trend in Q2, with IP expected to have declined by more than ½M/M in June. While manufacturing output in France (due Friday) and Spain (due Thursday) is likely to have declined in June, this followed solid growth in previous months and should likely remain positive over the quarter as a whole. The latest goods trade reports for June from France (Wednesday), Germany and Italy (Friday) will also be of interest. Aside from economic data, Friday will see Fitch publish a scheduled review of Italy's sovereign credit rating, which is currently on negative outlook. In the markets, meanwhile, Germany will sell 5Y Bunds on Wednesday.

In the US, the coming week's data calendar kicks off on Monday with the week's most noteworthy release in the form of July's non-manufacturing ISM. Having declined 1.8pts in June to 55.1, a near-two-year low, the headline index is expected to report only a modest improvement at the start of Q3. The remainder of the week will be much quieter for top-tier releases, with job opening figures (Tuesday), consumer credit numbers (Wednesday) and wholesale trade data (Thursday) for June, along with PPI figures (Friday) for July, with the latter likely to suggest pipeline price pressures remain subdued. Supply-wise, the US Treasury will sell 3Y notes (Tuesday), 10Y notes (Wednesday) and 30Y bonds (Thursday).

## UK

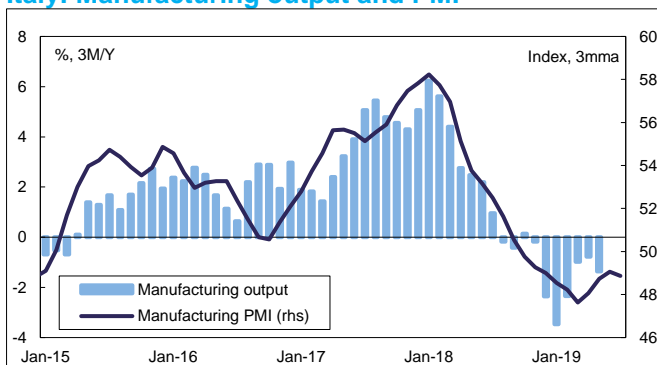
### Construction PMI still signals contraction

As the [BoE](#) yesterday provided a more downbeat assessment of the near-term outlook, the latest PMIs certainly suggest that having taken a marked turn for the worse at the end of Q2, business conditions remained very weak at the start of Q3. Admittedly, today's construction sector survey saw the headline activity index rise in July, by 2.2pts, with similar improvements in the housing, commercial and civil engineering sub-components. But at 45.3, the headline PMI was still the second lowest in more than a decade and signalled a significant decline in output. Despite a pickup in the new orders PMI (up 1.3pts to 44.6) it also pointed to a further drop in new work, with firms citing weaker domestic economic conditions and ongoing political uncertainty behind the decline in demand. And with their expectations about future business having slumped to the lowest since late-2012, construction firms continued to cut back their workforces. Like manufacturing, the outlook for construction remains particularly clouded by Brexit uncertainty. And this looks set to continue for some time to come. Indeed, while Boris Johnson maintains that the UK will leave the EU on 31 October, his ability to get legislation for an exit on that date, with or without a deal, through parliament remains highly doubtful, not least given that the government's majority was reduced to just one yesterday, with the pro-remain Liberal Democrat candidate ousting the Tory MP in the Brecon and Radnorshire by-election.

### The week ahead in the UK

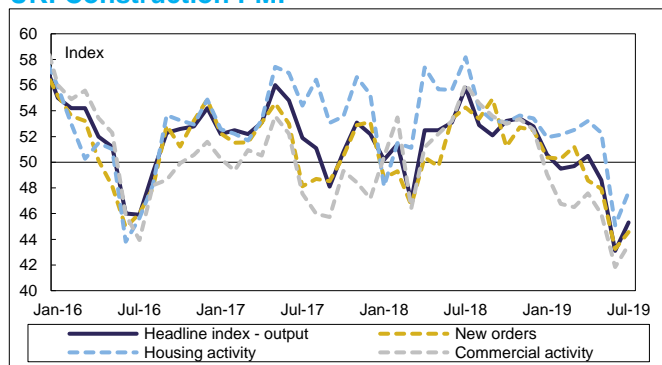
The UK's economic calendar in the coming week is bookended by the most noteworthy releases. Of principal focus will be the first estimate of Q2 GDP on Friday, which is expected to report a marked easing in growth from 0.5%Q/Q in Q1. The consensus expectation is for GDP to have moved sideways. But we see a significant chance that output contracted in Q2 for the first time since Q412, with the manufacturing sector expected to have been a significant drag on GDP growth, while

#### Italy: Manufacturing output and PMI



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
















#### UK: Construction PMI



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







services and construction output remained subdued. Friday will also bring the monthly output and trade figures for June. The start of the week, meanwhile, will provide an update on economic conditions at the start of Q3, with the services and composite PMIs for July due on Monday. In June, the headline services index fell 0.8pt to 50.2, consistent with stagnation in the sector. As such, the composite PMI fell below the key-50 level for the first time since the post-referendum plunge. And not least given the ongoing weakness in the manufacturing and construction sectors, we expect it to remain firmly in contractionary territory at the start of Q3. Other July releases include new car registrations figures (Monday), the BRC's retail sales monitor (Tuesday) and the RICS house price balance (Thursday). In the markets, the DMO is due to sell 5Y Gilts on Tuesday.

## Daiwa economic forecasts

	2019				2020				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP forecasts %, Q/Q</b>											
Euro area 	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.1	1.8	1.0	0.8
Germany 	0.4	0.1	0.2	0.2	0.2	0.3	0.2	0.1	1.4	0.7	0.9
France 	0.3	0.2	0.3	0.3	0.3	0.3	0.2	0.2	1.7	1.1	1.1
Italy 	0.1	0.0	0.0	0.0	0.0	0.1	-0.1	-0.1	0.7	0.1	0.1
Spain 	0.7	0.5	0.4	0.4	0.4	0.4	0.4	0.3	2.6	2.3	1.6
UK 	0.5	-0.1	0.2	0.2	0.2	0.2	0.2	0.1	1.4	1.2	0.7
<b>Inflation forecasts %, Y/Y</b>											
Euro area											
Headline CPI 	1.4	1.4	1.0	1.0	1.4	1.3	1.4	1.5	1.8	1.2	1.4
Core CPI 	1.0	1.0	0.9	1.0	1.1	1.2	1.3	1.4	1.0	1.0	1.2
UK											
Headline CPI 	1.9	2.0	1.8	1.6	1.9	1.6	1.5	1.7	2.5	1.8	1.8
Core CPI 	1.9	1.7	1.7	1.7	1.8	1.9	1.8	1.7	2.1	1.7	1.8
<b>Monetary policy</b>											
ECB											
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate % 	-0.40	-0.40	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.40	-0.60	-0.60
Net asset purchases* 	0	0	0	50	50	50	0	0	15	50	0
BoE											
Bank Rate % 	0.75	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.75	0.50	0.50
Net asset purchases** 	0	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 	Retail sales M/M% (Y/Y%)	Jun	<b>1.1 (2.6)</b>	0.3 (1.3)	-0.3 (1.3)	-0.6 (1.0)	
	PPI Y/Y%	Jun	<b>0.7</b>	0.9	1.6	-	
Italy 	Industrial production M/M% (Y/Y%)	Jun	<b>-0.2 (-1.2)</b>	-0.4 (-1.3)	0.9 (-0.7)	1.0 (-0.6)	
	Retail sales M/M% (Y/Y%)	Jun	<b>1.9 (1.3)</b>	-	-0.7 (-1.8)	-	
Spain 	Unemployment change '000s	Jul	<b>-4.3</b>	-	-63.8	-	
UK 	Construction PMI	Jul	<b>45.3</b>	46.0	43.1	-	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.




# Coming week's data calendar

## The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 5 August 2019</b>					
EMU		09.00 Final services PMI (composite PMI)	Jul	53.3 (51.5)	53.6 (52.2)
Germany		08.55 Final services PMI (composite PMI)	Jul	55.4 (51.4)	55.8 (52.6)
France		08.50 Final services PMI (composite PMI)	Jul	52.2 (51.7)	52.9 (52.7)
Italy		08.45 Services PMI (composite PMI)	Jul	50.6 (50.1)	50.5 (50.1)
Spain		08.15 Services PMI (composite PMI)	Jul	53.5 (50.0)	53.6 (52.1)
UK		09.00 New car registrations Y/Y%	Jul	-	-4.9
		09.30 Services PMI (composite PMI)	Jul	50.5 (49.7)	50.2 (49.7)
<b>Tuesday 6 August 2019</b>					
Germany		07.00 Factory orders M/M% (Y/Y%)	Jun	0.2 (-5.5)	-2.2 (-8.6)
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	Jul	0.7	-1.6
<b>Wednesday 7 August 2019</b>					
Germany		07.00 Industrial production M/M% (Y/Y%)	Jun	-0.5 (-3.1)	0.3 (-3.7)
France		07.45 Trade (current account) balance €bn	Jun	-	-3.3 (0.3)
UK		08.30 Halifax house price index M/M% (3M/Y%)	Jul	0.3 (4.4)	-0.3 (5.7)
<b>Thursday 8 August 2019</b>					
France		07.30 Bank of France business sentiment indicator	Jul	96	95
Spain		08.00 Industrial production M/M% (Y/Y%)	Jun	-	0.3 (1.4)
UK		00.01 RICS house price balance %	Jul	0	-1
<b>Friday 9 August 2019</b>					
Germany		07.00 Trade (current account) balance €bn	Jun	19.8 (21.4)	20.6 (16.5)
		07.00 Exports (imports) M/M%	Jun	-0.1 (0.5)	1.1 (-0.5)
France		07.45 Industrial production M/M% (Y/Y%)	Jun	-1.9 (1.0)	2.1 (4.0)
		07.45 Wages Y/Y%	Q2	0.5	0.8
Italy		09.00 Total trade balance (EU) €bn	Jun	-	5.3 (2.2)
		10.00 Final CPI (EU-harmonised CPI) Y/Y%	Jul	0.5 (0.4)	0.7 (0.8)
UK		09:30 Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>-0.1 (1.2)</u>	0.5 (1.8)
		09:30 Monthly GDP estimate M/M%	Jun	0.1	0.3
		09:30 Industrial production M/M% (Y/Y%)	Jun	-0.1 (-0.2)	1.4 (0.9)
		09:30 Manufacturing production M/M% (Y/Y%)	Jun	-0.1 (-1.1)	1.4 (0.0)
		09:30 Construction output M/M% (Y/Y%)	Jun	-0.3 (0.6)	0.6 (1.7)
		09:30 Services activity M/M% (3M/3M%)	Jun	0.1 (0.2)	0.0 (0.3)
		09:30 Trade balance (goods trade balance) £bn	Jun	-2.7 (-11.8)	-2.3 (-11.5)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 5 August 2019</b>		
- Nothing scheduled -		
<b>Tuesday 6 August 2019</b>		
UK		10.30 Auction: to sell £3bn of 0.625% 2025 bonds
<b>Wednesday 7 August 2019</b>		
Germany		10.30 Auction: to sell €4bn of 0% 2024 bonds
<b>Thursday 8 August 2019</b>		
- Nothing scheduled -		
<b>Friday 9 August 2019</b>		
Italy		- Fitch to publish regular review on Italy's sovereign credit rating

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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