

Euro wrap-up

Overview

- Bunds followed USTs higher as Germany's services PMIs for July were revised lower.
- Gilts also made gains, pushing 10Y yields to record lows, despite a slightly improved UK services PMI survey.
- Tuesday will bring new data on German factory orders and a UK retail sector survey.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/21	-0.807	-0.024
OBL 0 04/24	-0.786	-0.016
DBR 0¼ 02/29	-0.550	-0.016
UKT 1½ 01/21	0.434	+0.003
UKT 1 04/24	0.321	-0.017
UKT 1½ 10/28	0.521	-0.038

*Change from close as at 4.30pm BST.

Source: Bloomberg

Euro area

Euro area composite PMI unrevised at weak level

There were no major surprises from today's final euro area services PMIs from the euro area, which continued to point to subdued growth in the sector at the start of Q3. In particular, the headline activity index was nudged a touch lower from the flash estimate in July to leave it down 0.4pt on the month at 53.2. And while the new orders PMI was revised slightly higher, it too still reported a decline of 0.6pt from June to 52.7. But with the final manufacturing PMI marginally stronger than initially estimated (albeit at 46.5, it was still the lowest for 6½ years), the euro area's final composite PMI was unrevised at 51.5, leaving it 0.7pt lower than in June and still one of the lowest levels since 2014. And despite modest tweaks from the initial estimates, the key composite components still suggested a loss of momentum at the start of Q3 too, i.e. the new orders PMI was 0.7pt lower on the month at 50.8; the employment index was 1pt lower at 51.9, a more-than five-year low; and the output price indicator was 0.5pt lower at 51.3, a more-than 2½-year low. So, after last week's Q2 GDP estimate showed that growth halved to just 0.2%Q/Q, overall the final July PMIs were consistent with a further slowdown at the start of Q3 to around 0.1%Q/Q.

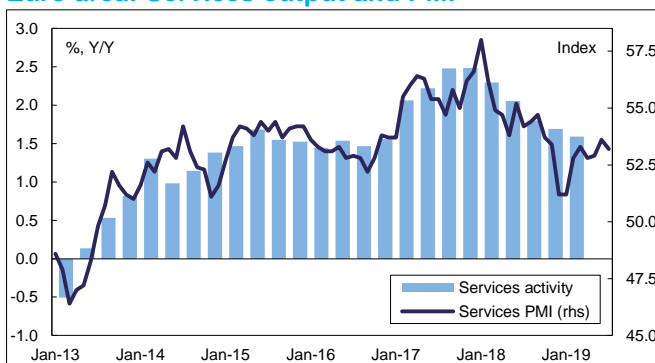
Germany's PMIs revised even lower

At the country level, there was a notable downwards revision to Germany's services PMI from the flash release, to leave it down on the month by a hefty 1.3pts to 54.5, a six-month low and the largest monthly drop of the member states. Given also the near-2pt drop in the manufacturing PMI, Germany's composite PMI declined by a sizeable 1.7pts in July, to 50.9, the lowest for more than six years and the weakest of all member states to report a figure, and consistent with a further slowdown in economic momentum. While there was a modest upwards revision to the final French services PMI, this still left it 0.3pt lower on the month at 52.6. As such, the headline French composite index was also lower in July, by 0.8pt to 51.9. So, surprisingly, Italy's services and composite PMIs – released for the first time today – were the only key indices to buck the trend in July, rising around 1pt to 51.7 and 51.0 respectively, the highest for ten months. Indeed, despite suggesting ongoing expansion at the start of Q3, Spain's services PMI fell 0.7pt in July to 52.9, to leave the country's composite PMI declining to 51.7, the lowest since late-2013.

The day ahead in the euro area and US

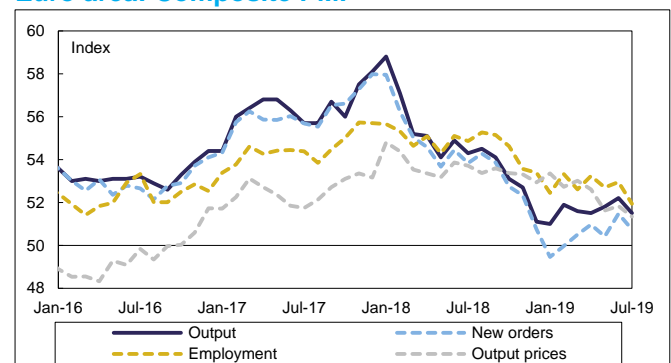
The focus tomorrow shifts back to the manufacturing sector, with German factory orders figures for June expected to report a modest increase at the end of Q2, of ½%M/M. But following a decline of more than 2%M/M in May, this would still leave orders down more than 5%Y/Y and by almost 2%Q/Q over the second quarter as a whole. In the US, a quiet day for top-tier

Euro area: Services output and PMI



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

Euro area: Composite PMI



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



data brings just the JOLTS job openings and turnover figures for June. In addition, FOMC voting member James Bullard is due to speak on the US economy. In the markets, the US Treasury will sell 3Y notes.

UK

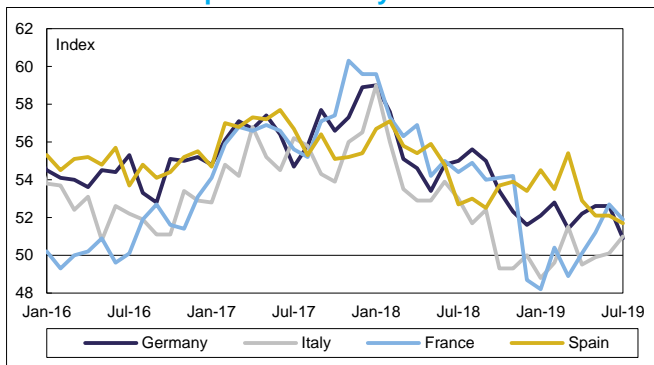
Services PMI surprises to the upside, but still weak

While last week's manufacturing PMI signalled ongoing significant weakness at the start of the third quarter and the construction PMI remained firmly in contractionary territory, the services sector is what matters most the UK economy, accounting for roughly 80% of total output. And, in that respect, today's services PMI offered some modest encouragement that the economy stabilised somewhat at the start of Q3. In particular, the survey's headline activity index unexpectedly rose 1.2pts in July to 51.4, the highest reading since October. Moreover, the new orders component jumped more than 3pts to 53.0, the strongest in ten months. As such, the composite output PMI returned to 'expansionary' territory in July, rising 1pt to 50.7, while the new orders index increased 2.7pts to 52.0. But there were still reports that new business – in services and manufacturing alike – remains impeded by ongoing political uncertainty. And overall, the composite output and new orders PMIs remained well below their respective level over recent years and consistent with only modest economic growth at the start of Q3. Moreover, when also including the construction sector, the all-sector PMI stood at just 50.3 in July, up from 49.2 in June, implying that the UK's economy merely stagnated at the start of Q3 after the same indicator suggested a contraction of 0.1%Q/Q in Q2.

The day ahead in the UK

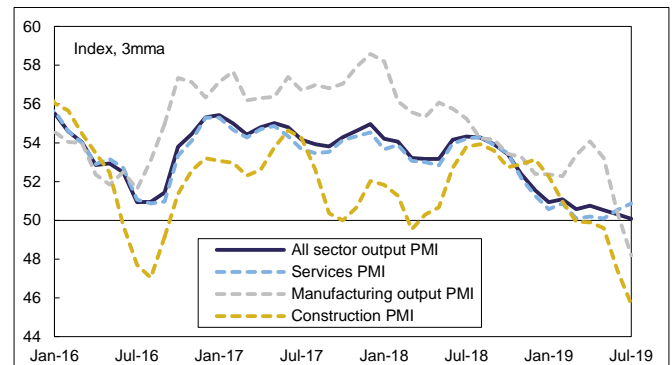
Tomorrow will provide an update on the UK's retail sector, with the BRC's retail monitor for July expected to show a modest pickup in retail sales compared with a year earlier at the start of Q3 following a marked decline in June. Supply-wise, the DMO will sell 5Y Gilts.

Euro area: Composite PMIs by member state



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








UK: PMIs



Source: Markit, Thomson Reuters 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	 Final services PMI (composite PMI)	Jul	53.2 (51.5)	53.3 (51.5)	53.6 (52.2)	-
Germany	 Final services PMI (composite PMI)	Jul	54.5 (50.9)	55.4 (51.4)	55.8 (52.6)	-
France	 Final services PMI (composite PMI)	Jul	52.6 (51.9)	52.2 (51.7)	52.9 (52.7)	-
Italy	 Services PMI (composite PMI)	Jul	51.7 (51.0)	50.6 (50.1)	50.5 (50.1)	-
Spain	 Services PMI (composite PMI)	Jul	52.9 (51.7)	53.6 (52.0)	53.6 (52.1)	-
UK	 Services PMI (composite PMI)	Jul	51.4 (50.7)	50.3 (49.8)	50.2 (49.7)	-
	 New car registrations Y/Y%	Jul	-4.1	-	-4.9	-

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	 07.00	Factory orders M/M% (Y/Y%)	Jun	0.5 (-5.2)	-2.2 (-8.6)	
UK	 00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Jul	0.5	-1.6	

Auctions and events			
Country	BST	Auction / Event	
UK	 10.30	Auction: To sell £3bn of 0.625% 2025 Gilts	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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