

# Euro wrap-up

## Overview

- Despite some disappointing German factory orders data, Bunds followed USTs significantly lower as risk appetite returned on the back of more positive geopolitical news and US economic data.
- Gilts made big losses as draft legislation seeking to prevent a no-deal Brexit looked set to be approved by the House of Lords tomorrow.
- Tomorrow will also bring revised euro area GDP and employment figures for Q2 and German IP data for July.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.877	+0.028
OBL 0 10/24	-0.862	+0.048
DBR 0 08/29	-0.592	+0.087
UKT 3% 09/21	0.445	+0.086
UKT 1 04/24	0.429	+0.093
UKT 0% 10/29	0.604	+0.111

\*Change from close as at 4:30pm BST.  
Source: Bloomberg

## Euro area

### German factory orders maintain downtrend

Today's German factory orders figures, which provided an update on demand for manufactured goods at the start of Q3, were extremely disappointing, giving credence to the findings of recent downbeat surveys. Total orders fell a much steeper-than-expected 2.7% M/M in July, the fourth substantial monthly decline so far this year. Some payback for the sharp increase in June, which was upwardly revised to 2.7% M/M, had been anticipated. But the magnitude of the drop in July left orders down 0.6% 3M/3M and a hefty 5.6% Y/Y. The weakness principally reflected a reversal in overseas orders (down 4.2% M/M) due to a notable drop in new orders from countries beyond the euro area (down 6.7% M/M). Indeed, orders from other member states posted a welcome, albeit very modest, increase (up 0.3% M/M) for the first month in four. Meanwhile, domestic orders fell 0.5% M/M, the sixth decline in the past seven months, to leave them down a whopping 8.1% Y/Y, the steepest annual drop since September 2017.

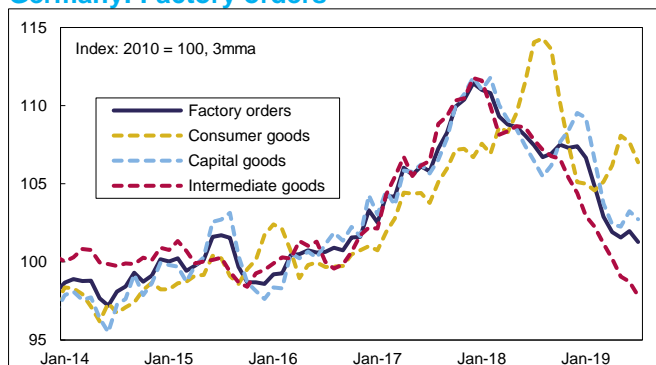
### Volatility around a weak trend

Admittedly, orders data are notoriously volatile and often distorted by one-off major items. And when excluding such items, today's figures were somewhat more positive, with total orders on this basis rising 0.5% M/M in July and new orders from overseas up a stronger 1.3% M/M. But this still left the level of orders excluding major one-offs down ½% compared with the average in Q2. Furthermore, domestic orders on this basis were still very weak, declining for the fifth consecutive month (-0.7% M/M), underscoring the subdued current state of Germany's economy. Today's figures also showed that German manufacturing turnover – which typically closely aligns with production – failed to rise for a fourth consecutive month in July, with a decline of 1.0% M/M leaving it down a sizeable 1.7% 3M/3M. This further suggests that tomorrow's industrial production release will be soft. Indeed, while expectations are for a rise in IP of ½% M/M in July, this would reverse only a fraction of the 1½% M/M drop in June. Surveys such as the ifo indices and PMIs point to further weakness in manufacturing output over the remainder of the third quarter. And today's construction PMI, which saw the output and new orders plunge in August to five-year lows consistent with significant contraction in that sector, suggest that manufacturing weakness is increasingly contaminating the rest of the German economy too.

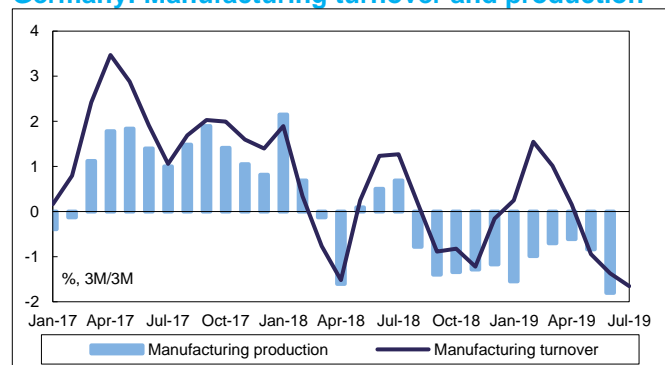
### The day ahead in the euro area and US

A busy end to the week will bring a number of top-tier euro area releases, including the euro area's updated national accounts for Q2. While we expect GDP growth to align with the previous estimate of 0.2% Q/Q, this release will provide the first official expenditure breakdown, in which the weakness of exports will be striking. Tomorrow will also see revised euro

### Germany: Factory orders



### Germany: Manufacturing turnover and production



area employment data for Q2, which are similarly expected to confirm that growth moderated 0.2ppt to 0.2%Q/Q, with the accompanying country breakdown likely to show softer growth across the member states. More up-to-date information about the extent of economic growth in Q3 will come in the form of the aforementioned German industrial production release, while the French trade report for July is also due. Friday will also bring German labour costs figures for Q2.

All eyes in the US, meanwhile, will be on the August labour market report. While non-farm payrolls are expected to have increased at a similar rate to the 164k seen in July, weaker manufacturing and non-manufacturing employment ISM indices this week suggest risks to this forecast might be skewed to the downside. Nevertheless, the unemployment rate is expected to have moved sideways at 3.7%. But average hourly wage growth is expected to have moderated in August to 3.0%Y/Y, which would be the softest rate for eleven months.

## UK

### Anti-no-deal bill on track to become law

After a further three decisive defeats for PM Johnson in the House of Commons yesterday, a climb-down by the Government in the middle of the night means that the draft legislation designed by a cross-party group of MPs to prevent a no-deal Brexit at end-October will be able to complete its passage through the House of Lords by tomorrow afternoon. That would enable MPs on Monday to consider any legislative amendments imposed by the Lords, and allow the bill to be presented for royal assent, and entry into law, later that day. If and when approved, the legislation would compel the Prime Minister to request from the EU an extension of the Article 50 deadline to end-January 2020 if no Brexit deal has been reached by 19 October. And given the lack of meaningful negotiations between the Johnson Government and the European Commission, and the absence of workable alternative arrangements to the Irish backstop that Johnson claims to seek, such a request for an extension will indeed be required to prevent a no-deal Brexit at end-October. However, the EU would still need to agree unanimously to that request for an extension of the Article 50 deadline to end-January, or set an alternative deadline which would need to be agreed by the UK Government and Parliament. Nevertheless, with the bill set for fair passage through the House of Lords, the probability of a no-deal Brexit at end-October has certainly diminished further.

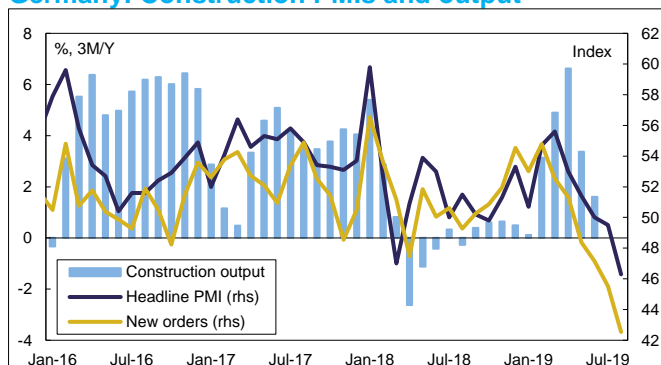
### General election date also key for determining no-deal risk

One of yesterday's defeats for Johnson in the House of Commons was on his proposal for an early general election, as the opposition parties insisted that the anti-no-deal legislation must be adopted into law before they are willing to agree to a new poll. But with the bill likely to receive royal assent on Monday, the Government will present another motion for an early general election later that day. Johnson's stated preference is for an election on 15 October, which would allow him to cash in on his 'honeymoon' ratings boost and retain backing of many Brexit Party supporters by re-opening the possibility of a no-deal Brexit at end-October. For the same reasons, most Labour and other opposition MPs appear to prefer an election in November or later still. Indeed, a November general election could reduce to near zero the risk of a no-deal Brexit at the end of next month. By allowing Johnson to go to the European Council on 17-18 October, it would also expose fully the hollowness of his current insistence that he still hopes to be able to negotiate a deal.

### No election before November if Government loses Monday evening vote

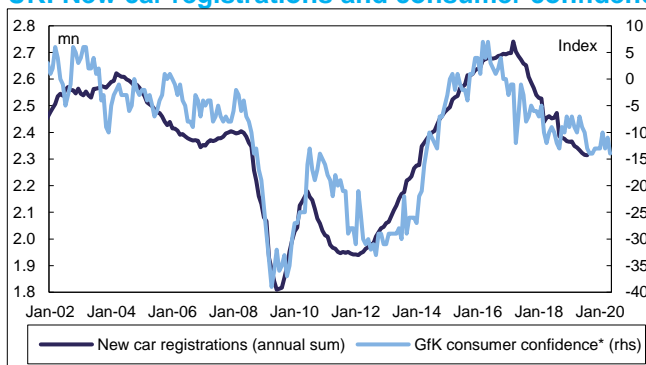
In addition, the longer the delay to a general election, the greater the likelihood that the Conservative party will further tear itself apart. In this respect, today saw the PM's own brother announce his intention to resign as a Government minister and MP given his concerns about Johnson's adverse impact on the national interest. And more than 100 Conservative MPs have written to complain to the Prime Minister about his "purge" from the party of their twenty-one colleagues who voted in favour of the anti-no-deal legislation on Tuesday. So, while today Johnson effectively launched his election campaign with a

### Germany: Construction PMIs and output



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

### UK: New car registrations and consumer confidence



\*Confidence has eight-month lead. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

combative speech, the overall impression is that he has lost control of many of his MPs as well as Parliament as a whole. And if the House of Commons does not vote in favour of his new motion on Monday evening, there simply will not be a general election before November.

### **New car registrations down again**

Data-wise, a quiet day for new releases from the UK brought only new car registrations figures for August, which is typically a very light month for auto sales. As expected, these showed another decline compared with a year earlier when registrations were boosted ahead of the implementation of the new testing standards in September 2018. In particular, car registrations fell 1.6%Y/Y in August to leave them down 3.4%YTD/Y. The softness of new car registrations tallies with survey evidence of subdued consumer confidence, and has also weighed on auto production. However, domestic demand accounts for only about one fifth of production. And unfortunately, so far this year, external demand for cars built in the UK has been weaker still, explaining why [production has declined](#) even more sharply than the new car registration figures might suggest.



### **The day ahead in the UK**

In the UK, the anti-no-deal Brexit legislation is set to conclude its passage through the House of Lords tomorrow, to allow MPs on Monday to consider their amendments and allow the bill to receive royal assent before next week's prorogation of Parliament. Data-wise, the end of the week will bring the KPMG/REC report on UK jobs, which will provide an update from recruitment consultancies on labour market conditions in August.










# European calendar

## Today's results

### Economic data








Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Factory orders M/M% (Y/Y%)	Jul	<b>-2.7 (-5.6)</b>	-1.4 (-4.2)	2.5 (-3.6)	2.7 (-3.5)
UK	 New car registrations Y/Y%	Aug	<b>-1.6</b>	-	-4.1	-

### Auctions

Country	Auction
France	 sold €3.9bn of 0.5% 2029 bonds at an average yield of -0.36%  sold €1.5bn of 1.25% 2034 bonds at an average yield of -0.03%  sold €1.7bn of 1.75% 2039 bonds at an average yield of 0.19%  sold €3.0bn of 1.5% 2050 bonds at an average yield of 0.52%
Spain	 sold €0.9bn of 0.25% 2024 bonds at an average yield of -0.33%  sold €1.7bn of 0.6% 2029 at an average yield of 0.18%  sold €1.0bn of 3.45% 2066 bonds at an average yield of 1.45%  sold €0.5bn of 1% 2030 index-linked bonds at an average yield of -0.72%
UK	 sold £2.75bn of 0.875% 2029 bonds at an average yield of 0.548%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tomorrow's releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU		10.00 Final GDP Q/Q% (Y/Y%)	Q2	0.2 (1.1)	0.4 (1.2)
		10.00 Final employment Q/Q% (Y/Y%)	Q2	0.2 (1.1)	0.4 (1.3)
Germany		07.00 Industrial production M/M% Y/Y%	Jul	0.3 (-3.8)	-1.5 (-5.2)
		07.00 Labour costs Q/Q% (Y/Y%)	Q2	-	1.1 (2.5)
France		07.45 Trade (current account) balance €bn	Jul	-4.5 (-)	-5.2 (-0.8)
Italy		09.00 Retail sales M/M% (Y/Y%)	Jul	-	1.9 (1.3)
UK		08.30 Halifax house price index M/M% (3M/Y%)	Aug	0.2 (3.4)	-0.2 (4.1)

### Auctions

Country	BST	Auction/Event
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



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