

Euro wrap-up

Overview

- Bunds made losses as industrial production data from Germany and other member states beat expectations.
- Gilts also made losses on a quiet day for UK economic news.
- The coming week brings the first estimates of UK GDP and euro area employment in Q2, and euro area production and trade in June.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.697	+0.017
OBL 0 10/25	-0.699	+0.024
DBR 0 08/30	-0.510	+0.024
UKT 0½ 07/22	-0.018	+0.015
UKT 0% 06/25	-0.064	+0.019
UKT 4% 12/30	0.143	+0.035

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

Euro area

German manufacturing continues to recover

Following yesterday's much stronger-than-expected [factory orders](#) data, today's German production and trade figures maintained the broadly positive newsflow from the euro area's largest member state, even though activity remained some way below pre-Covid levels. Most notably, total German industrial production rose 8.9%M/M in June. That meant that roughly half of the drop in production caused by the lockdown had been reversed, with IP still more than 12% below February's level and down 11.5%Y/Y. Within the detail, output of manufacturing and mining rose 11.1%M/M with production of capital goods up a vigorous 18.3%M/M. And most striking was production of autos as producers anticipated stronger domestic demand in the second half of the year, rising 54.7%M/M, albeit leaving it still down a little more than one fifth from February's level. Among other components, energy production rose 5.5%M/M but was still down more than 9% from February. And construction rose just 1.4%M/M to be still more than 4.5% below the recent peak in March.

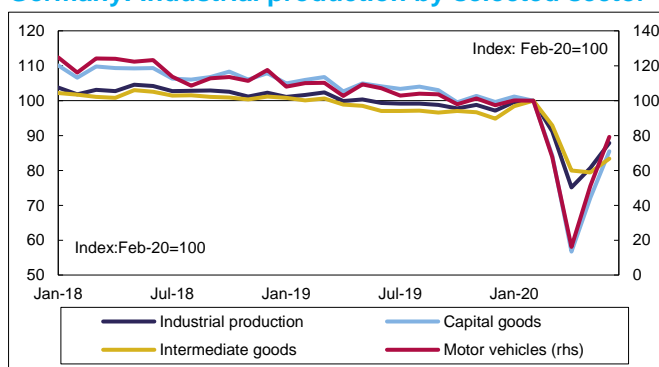
Consistent with the improvement in manufacturing, the value of German exports also continued to recover in June, rising for a second successive month and by a post-reunification high of 14.9%M/M to reverse a little more than half of the peak-to-trough drop between February and April. As a result, they were still about 16% below the February peak and down 9.4%Y/Y. On the same basis, imports rose 10.6%M/M, the most in a decade, to be down 12.5%Y/Y and more than 13% from their peak at the start of the year.

Like the orders data, surveys such as the [manufacturing PMIs](#) point to further production growth in July, as did today's truck toll mileage figures, which often correlate closely with IP. These reported a rise of 1.9%M/M in large truck mileage on the autobahns last month, leaving it down just 2.0%Y/Y and 4.7% below the pre-Covid peak in July. But yesterday's construction PMI suggested that the sector struggled to recover much more of the lost ground at the start of Q3. And there are undeniable concerns that manufacturing output will similarly eventually lose momentum and fail to return to the pre-Covid peak for some time to come.

French and Spanish IP jumps too

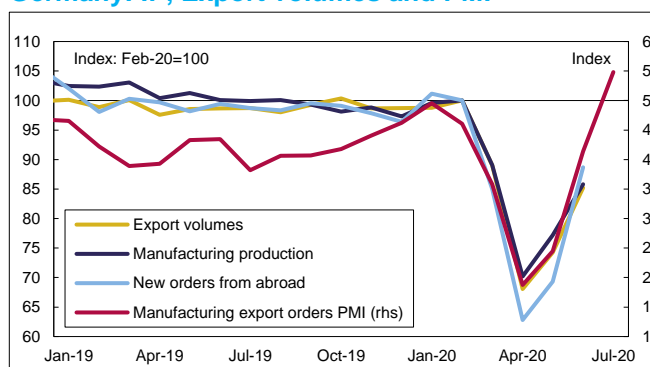
French industrial production also continued to rebound at the end of Q2. In particular, manufacturing output rose a further 14.4%M/M in June following growth of 22.2%M/M in May to be down 12.4% from February's pre-Covid level. As in Germany, the autos sector led the way, where output rose 74.1%M/M having risen six-fold in May, albeit leaving it still down by a little more than one third from February's level. Production of machinery and equipment also rose vigorously for the second successive month (up 14.6%M/M following growth of almost 30%M/M in May). The pace of growth in French construction

Germany: Industrial production by selected sector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: IP, Export volumes and PMI



Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.



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again outpaced that in Germany, with output rising by 12%M/M having more than doubled in May. But having been hit particularly hard during the lockdown period, it still remained around 8½% below the earlier peak. As in Germany, surveys and other leading indicators point to further recovery in French manufacturing production in July.

Spanish production also maintained a steady upwards trend in June, with total IP up 14.0%M/M following a similar pace of growth in May. This left output still more than 12% below February's level, with manufacturing almost 13½% lower. Like elsewhere, car production accelerated in June (95.6%M/M), as did that of machinery and textiles. But the level of output in all subsectors remained substantially lower than the peak. Taken together with yesterday's Italian figures, today's releases suggest that aggregate euro area IP (due on Wednesday) will post another double-digit monthly increase in June, following growth of almost 20%M/M in May. This would mean that roughly two-thirds of the initial drop between February and April had been reversed to leave output nevertheless still almost 10% below the pre-pandemic peak.

The coming week in the euro area

In the coming week, economic releases out of the euro area include the aforementioned June industrial production report (Wednesday) as well as the second estimate of Q2 GDP and employment figures and June trade data (Friday). Despite the anticipated improvement in manufacturing output in June, revised Q2 GDP figures are likely to confirm that the economy contracted at a record rate close to the initial estimate of 12.1%Q/Q, to leave output more than 15% below its pre-pandemic peak. Against this backdrop, despite various government job support schemes, employment is expected to have fallen significantly in Q2. Meanwhile sentiment surveys due to be published in the coming week – including the Bank of France's business sentiment indicators for July on Monday and German ZEW confidence survey for August on Tuesday – are expected to signal that firms are generally a little more optimistic about their current and near-term situations. Over the second half of the week, final CPI data for July will be published from the member states, starting with Italian numbers on Wednesday, with German and Spanish following on Thursday and French figures on Friday.

UK

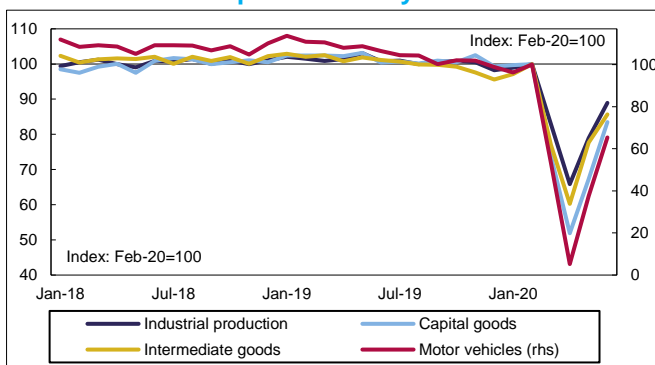
The coming week in the UK

After a quiet end to the week for UK economic news, the week ahead will be a busy one with the most noteworthy data coming on Wednesday with the first estimate of Q2 GDP, as well as monthly output and trade figures for June. With strict containment measures in place for much of the second quarter, the hit to economic activity will inevitably be hard. Broadly in line with the [BoE's latest projections](#) and representing the worst performance of all of the major economies, we expect GDP to have contracted at a record rate, a little more than 20%Q/Q, to its lowest level since 2003. So, while the monthly figures for June are likely to reveal a second monthly pick-up in activity across the services, manufacturing and construction sectors alike as the country eased out of lockdown, output will have remained well below pre-pandemic levels that month.

Ahead of this, the latest UK labour market figures (Tuesday) are likely to show an accelerated drop in the number of people in employment in the three months to June. But with almost 12 million workers registered with the government's Job Retention Scheme and equivalent support programme for the self-employed at the end of that month, the unemployment rate is likely to remain relatively low, perhaps rising no higher than 4½%. And with the economy starting to reopen, the more timely Claimant Count measure (which also includes lower-paid workers) for July is likely to have eased back slightly from 7.3% the prior month, with the number of job vacancies in July expected to have stabilised too. Among other releases, Tuesday will also bring the BRC's retail sales monitor for July.

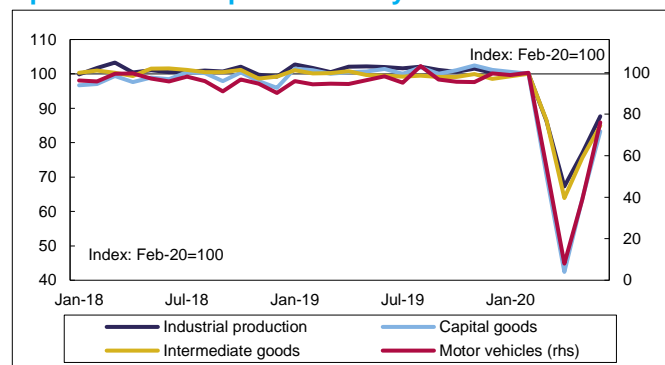
The next edition of the Euro wrap-up will be published on 11th August 2020

France: Industrial production by selected sector


















Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Spain: Industrial production by selected sector










Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

		2019		2020				2020	2021	2022
		Q3	Q4	Q1	Q2	Q3	Q4			
GDP growth, %, Q/Q										
Euro area		0.3	0.0	-3.6	-12.1	9.5	0.9	-7.9	4.3	3.1
Germany		0.3	0.0	-2.0	-10.1	7.5	1.5	-5.8	4.5	2.4
France		0.2	-0.2	-5.9	-13.8	12.0	1.0	-10.6	5.3	4.0
Italy		0.0	-0.2	-5.4	-12.4	9.5	0.5	-10.2	3.2	2.2
Spain		0.4	0.4	-5.2	-18.5	14.0	1.0	-12.2	6.1	4.4
UK		0.5	0.0	-2.2	-21.0	18.0	2.5	-9.9	6.9	2.9
Inflation, %, Y/Y										
Euro area										
Headline CPI		1.0	1.0	1.1	0.2	0.2	-0.1	0.4	0.8	1.3
Core CPI		0.9	1.2	1.1	0.9	0.7	0.2	0.7	0.7	1.1
UK										
Headline CPI		1.8	1.4	1.7	0.6	0.2	0.0	0.6	1.2	1.5
Core CPI		1.7	1.6	1.6	1.3	0.8	0.4	1.0	1.2	1.3
Monetary policy										
ECB										
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Net asset purchases*		0	20	20	140	140	140	140	20	20
BoE										
Bank Rate %		0.75	0.75	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Net asset purchases**		0	0	36	40	17	17	17	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	
Germany	 Trade balance €bn	Jun	15.6	11.3	7.1	7.0	
	 Industrial production M/M% (Y/Y%)	Jun	8.9 (-11.7)	8.2 (-11.4)	7.8 (-19.3)	7.4 (-19.5)	
France	 Industrial production M/M% (Y/Y%)	Jun	12.7 (-11.7)	8.4 (-12.9)	19.6 (-23.4)	19.9 (-)	
	 Manufacturing production M/M% (Y/Y%)	Jun	14.4 (-12.5)	13.0 (-13.3)	22.0 (-25.2)	22.2 (-)	
	 Trade balance €bn	Jun	-8.0	-	-7.1	-7.5	
Italy	 Trade balance €bn	Jun	6.2	-	5.6		
Spain	 Industrial output M/M% (Y/Y%)	Jun	14.0 (-14.0)	10.0 (-15.2)	14.7 (-24.5)	14.3 (-24.7)	
Auctions							
Country	Auction						
- Nothing to report -							

*previous figure for Q419. 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
Monday 10 August 2020					
EMU		09.30 Sentix investor confidence	Aug	-16.0	-18.2
France		07.30 Bank of France industrial sentiment	Jul	-	89
Tuesday 11 August 2020					
Germany		10.00 ZEW current situation balance (expectations)	Aug	-69.0 (55.5)	-80.9 (59.3)
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	Jul	-	10.9
		07.00 Unemployment claimant count rate %, change '000s	Jul	-	7.3 (-28.1)
		07.00 Average earnings including bonuses (excluding bonuses) 3M/Y%	Jun	-1.2 (-0.1)	-0.3 (0.7)
		07.00 ILO unemployment rate 3M%	Q2	4.2	3.9
		07.00 Employment change Q/Q, '000s	Jun	-295	-125
Wednesday 12 August 2020					
EMU		10.00 Industrial production M/M% (Y/Y%)	Jun	10.0 (-11.4)	12.4 (-20.9)
Italy		09.00 Final CPI (EU-harmonised CPI) Y/Y%	Jul	-0.3 (0.9)	-0.2 (-0.4)
UK		07.00 Preliminary GDP Q/Q% (Y/Y%)	Q2	-20.5 (-22.0)	-2.2 (-1.7)
		07.00 Monthly GDP M/M%	Jun	8.1	1.8
		07.00 Industrial production M/M% (Y/Y%)	Jun	9.9 (-12.2)	6.0 (-20.0)
		07.00 Manufacturing production M/M% (Y/Y%)	Jun	10.0 (-15.0)	8.4 (-22.8)
		07.00 Construction output M/M% (Y/Y%)	Jun	15.0 (-29.8)	8.2 (-39.7)
		07.00 Index of services M/M% (Q/Q%)	Jun	8.2 (-20.3)	0.9 (-18.9)
		07.00 Total trade balance (goods trade balance) £bn	Jun	2.6 (-4.5)	-4.3 (2.8)
		Thursday 13 August 2020			
Germany		07.00 Final CPI (EU-harmonised CPI) Y/Y%	Jul	-0.1 (0.0)	0.9 (0.8)
Spain		08.00 Final CPI (EU-harmonised CPI) Y/Y%	Jul	-0.6 (-0.7)	-0.3 (-0.3)
UK		00.01 RICS house price balance %	Jul	-5	-15
Friday 14 August 2020					
EMU		10.00 GDP – second estimate Q/Q% (Y/Y%)	Q2	-12.1 (-15.0)	-3.6 (-3.1)
		10.00 Employment Q/Q% (Y/Y%)	Q2	-	-0.2 (0.4)
		10.00 Trade balance €bn	Jun	15.0	8.0
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	Jul	0.8 (0.9)	0.2 (0.2)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 10 August 2020		
- Nothing scheduled -		
Tuesday 11 August 2020		
UK		10.00 Auction: £3.25bn of 0.625% 2025 bonds
		11.30 Auction: £1.25bn of 1.75% 2057 bonds
Wednesday 12 August 2020		
Germany		10.30 Auction: €4bn of 0% 2030 bonds
UK		10.00 Auction: £2.75bn of 0.125% 2028 bonds
Thursday 13 August 2020		
Italy		10.00 Auction 3Y and 7Y bonds
Friday 14 August 2020		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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