

# Euro wrap-up

## Overview

- Bunds were little changed as revised euro area GDP figures confirmed the record drop in output and employment in Q2, while monthly trade figures reported ongoing modest recovery at the end of the quarter.
- Gilts were also little changed on a quiet end to the week for UK economic data.
- The coming week will bring flash August PMIs and consumer confidence surveys, as well as July inflation figures from the euro area and UK.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.659	-0.001
OBL 0 10/25	-0.698	-0.002
DBR 0 08/30	-0.421	-0.005
UKT 0½ 07/22	-0.011	-0.005
UKT 0% 06/25	-0.010	+0.002
UKT 4% 12/30	0.249	+0.006

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

## Euro area

### Record drop confirmed in euro area GDP...

There were no surprises from revised euro area GDP figures today, which confirmed the record drop in the second quarter, of 12.1%Q/Q. Following the 3.6%Q/Q decline in Q1, euro area output last quarter was more than 15% below the pre-pandemic level in Q419, compared with the near-11% drop in the US and 22% decline in the [UK](#). The country breakdown similarly aligned with earlier estimates, showing that those countries that underwent less stringent lockdowns performed relatively well compared with those where containment measures were more draconian and longer lasting – i.e. among the larger member states Germany reported a 10.1%Q/Q drop, while GDP in the Netherlands was down 8.5%Q/Q versus an 18.5%Q/Q contraction in Spain. However, elsewhere in the EU, it was notable that GDP in Sweden (-8.6%Q/Q), which avoided a lockdown altogether, experienced a deeper contraction in Q2 than in neighbouring Finland (-3.2%Q/Q) and Denmark (-7.1%Q/Q)

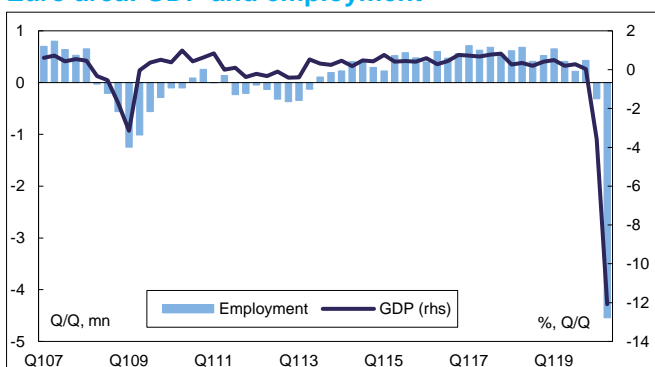
### ...and employment in Q2

Against this backdrop, today's release also reported that euro area employment plunged in Q2, by 2.6%Q/Q and 4.54mn, the most since the series began in 1995, to 155.9mn, the lowest level for three years. But given that government-funded short-term working and furlough schemes provided support for tens of millions of workers – in Germany and France alone 18½mn are still registered on the respective programmes – and therefore limited the increase in unemployment, the labour market impact of Covid-19 was best reflected in working hours. After the total number of hours worked in the euro area fell by a then-record 3.1%Q/Q in Q1, the equivalent figure for Q2 is yet to be published. However, the latest releases from the large member states confirmed a much steeper deterioration in Q2. In Germany, employees' paid weekly working hours on average fell 8½%Q/Q, to be down 4.7%Y/Y in Q2, with the accommodation, vehicle production (-20%Y/Y) and travel sectors (-18%Y/Y) most severely impacted. And in France, the average number of hours worked per week fell 12.9%Q/Q in Q2 to be down 18%Y/Y. While labour market support programmes in the larger member states have been extended – and with the Italian programme to be part-financed by borrowing from the EU under its SURE programme – surveys pointing to ongoing job-shedding in Q3. And we expect to see a further marked fall in employment and rise in unemployment in due course.

### Record drop in export values in Q2

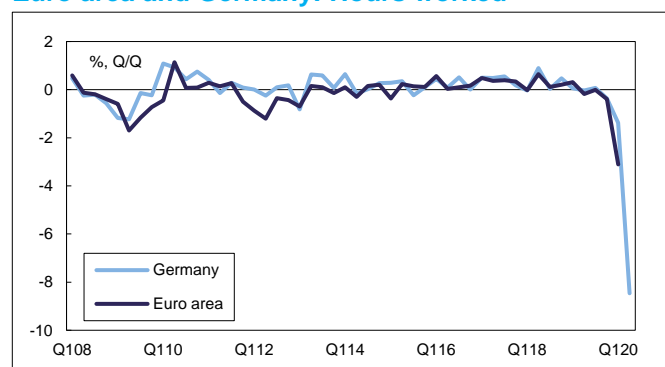
While we will have to wait until 8 September for the full GDP expenditure breakdown, today's monthly goods trade figures for June offered some insight into the performance of external demand during the second quarter. Perhaps inevitably following the sharp decline at the height of the Covid outbreak across the region, there was a further notable recovery in trade in June,

### Euro area: GDP and employment



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area and Germany: Hours worked



Source: Refinitiv, ECB, Destatis and Daiwa Capital Markets Europe Ltd.



Follow us on twitter [@DaiwaEurope](https://twitter.com/DaiwaEurope)

with the value of exports up a record 11.2%M/M after an increase of 8½%M/M in May. That meant that almost half of the initial peak-to-trough decline in exports due to the pandemic had been reversed at the end of Q2, albeit exports were still down 15.5%Y/Y. While the improvement was broad based, the rebound was led by shipments to Asia – e.g. exports to China were up 9.1%M/M (8.1%Y/Y), and those to India were up 43.0%M/M (-27.8%Y/Y) – as well as the UK (up 18.8%M/M, but still down 19.8%Y/Y). Nevertheless, over Q2 as a whole, goods exports fell a whopping 22½%Q/Q, outpacing the near-17%Q/Q decline in imports. And once services and relative price shifts have been taken into account, we would expect net trade volumes to have been a notable drag on GDP growth in Q2.

## The coming week in the euro area

The main euro area data focus in the coming week will be the publication on Friday of the flash August PMIs for the euro area and its two largest member states. With economic activity having returned to greater normality as lockdown measures relaxed over recent months, and after the euro area's composite index jumped to a near-two-year high of 54.9 in July, the surveys are expected to point to ongoing expansion in both the manufacturing and services sectors. However, high-frequency data have also suggested some levelling-off in the pace of expansion, which might be reflected in declines from the July PMIs. That day will also bring the European Commission's preliminary consumer confidence index. While household sentiment has also reversed some of the initial post-Covid outbreak slump, further improvement seems likely to have been limited by renewed concerns about the rise in coronavirus infections across the region, as well as the uncertain labour market outlook.

The start of the week will bring euro area construction output figures for June, as well as the Bank of France's retail sales data for July on Monday. Tuesday will be quiet, but final euro area CPI figures for July are due on Wednesday. The preliminary estimate of euro area inflation unexpectedly rose 0.1ppt to 0.4%Y/Y, with core inflation up 0.4ppt to 1.2%Y/Y. But this primarily reflected a surge in clothing inflation in certain member states as containment measures delayed the start of the summer sales, an effect which seems bound to be reversed in August. Indeed, services inflation fell to its weakest since April 2016. Today's final French CPI release confirmed that the EU measure of inflation jumped 0.7ppt to 0.9%Y/Y, a five-month high. The national measure was also up 0.6ppt to 0.8%Y/Y, as the annual rate of clothing prices leapt 14ppts to a record-high 10.1%Y/Y due to the aforementioned delay to the start of the summer sales. So, despite an easing in services inflation (down 0.2ppt to 0.9%Y/Y), French core inflation rose 1.1ppts to 1.4%Y/Y, its highest since 2012.

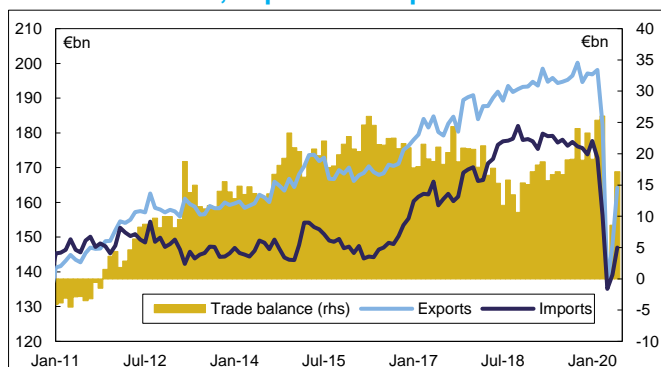
In terms of policy news, Thursday will see the publication of the ECB's detailed account of its [monetary policy meeting of 16 July](#). On that occasion, the Governing Council made no changes to policy, re-committing to keeping interest rates at the current levels or lower until the inflation outlook has moved back to target and reaffirming the PEPP purchase envelope at €1.35trn. In her subsequent press conference, President Lagarde stated that the ECB expects to purchase the full €1.35trn envelope unless there is a significant upside surprise to the economic outlook. But a subsequent report from Bloomberg suggested that there was not unanimity on the Governing Council on this point, and the account of the meeting might provide further colour on this aspect of the debate.

## UK

### The coming week in the UK

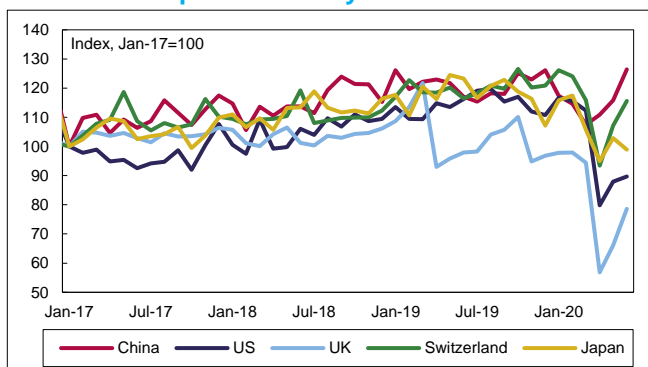
After a quiet end to the week for UK economic news, the coming week's data calendar will bring several releases of note, with July inflation and retail sales figures to be accompanied by flash August PMIs and the latest consumer confidence survey. First up on Wednesday will be the July CPI report, which is expected to remain close to June's rate of 0.6%Y/Y, which represented an unexpected rise as retailers on the high street took advantage of returning shoppers. Indeed, Friday's retail sales figures for July are expected to reveal another gain on the month, following an increase of 1.7%M/M in June, as spending patterns continued to improve somewhat. However, we expect that the persistent shortfall of demand for certain services, the temporary 15ppt reduction in the VAT rate for the hospitality and entertainment sectors from 15 July to 12

### Euro area: Trade, export and import values



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Export values by destination


















Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

January 2021, and the government's Eat Out to Help Out restaurant meal subsidies this month, will likely push inflation close to or even beyond zero from August.



The forward-looking consumer confidence survey from the GfK, to be published on Friday, will shed some light on spending expectations. Given the gloomy outlook for the labour market, with many more redundancies expected as the Job Retention Scheme is phased out, we expect consumers to be cautious about their spending plans for the coming months. And Friday's preliminary PMIs for August are expected to suggest that firms plan to shed staff at an even faster pace than last month, particularly in the services sector. Nevertheless, the headline composite PMI is expected to point to continued expansion, after jumping to 57.0 in July, from 47.7 in June. Friday will also bring public finance figures for July.

## Daiwa economic forecasts

	2019		2020				2020	2021	2022
	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP growth, %, Q/Q</b>									
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	-20.4	18.0	2.5	-9.3	6.9	2.9
<b>Inflation, %, Y/Y</b>									
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
<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
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/ <i>Daiwa forecast</i>	Previous	Revised	
EMU 	GDP – second estimate Q/Q% (Y/Y%)	Q2	<b>-12.1 (-15.0)</b>	-12.1 (-15.0)	-3.6 (-3.1)	-	
	Employment Q/Q% (Y/Y%)	Q2	<b>-2.8 (-2.9)</b>	-	-0.2 (0.4)	-	
	Trade balance €bn	Jun	<b>17.1</b>	14.5	8.0	8.6	
France 	Final CPI (EU-harmonised CPI) Y/Y%	Jul	<b>0.8 (0.9)</b>	0.8 (0.9)	0.2 (0.2)	-	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Yesterday's results

## Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany 	Final CPI (EU-harmonised CPI) Y/Y%	Jul	<b>-0.1 (0.0)</b>	-0.1 (0.0)	0.9 (0.8)	-
Spain 	Final CPI (EU-harmonised CPI) Y/Y%	Jul	<b>-0.6 (-0.7)</b>	-0.6 (-0.7)	-0.3 (-0.3)	-
UK 	RICS house price balance %	Jul	<b>12</b>	-5	-15	-13























## 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 17 August 2020</b>					
EMU 	10.00	Construction output M/M% (Y/Y%)	Jun	-	27.9 (-11.9)
France 	-	Bank of France retail sales M/M% (Y/Y%)	Jul	-	10.1 (6.0)
UK 	00.01	Rightmove house price index Y/Y%	Aug	-	3.7
<b>Tuesday 18 August 2020</b>					
- Nothing scheduled -					
<b>Wednesday 19 August 2020</b>					
EMU 	09.00	Current account balance €bn	Jun	-	8.0
EMU 	10.00	Final CPI (core CPI) Y/Y%	Jul	0.4 (1.2)	0.3 (0.8)
UK 	07.00	CPI (core CPI) Y/Y%	Jul	0.5 (1.3)	0.6 (1.4)
UK 	07.00	PPI input prices (output prices) Y/Y%	Jul	-6.1 (-0.9)	-6.4 (-0.8)
<b>Thursday 20 August 2020</b>					
Germany 	07.00	PPI Y/Y%	Jul	-1.9	-1.8
UK 	11.00	CBI industrial trends survey, total orders	Aug	-33	-46
<b>Friday 21 August 2020</b>					
EMU 	09.00	Preliminary manufacturing (services) PMI	Aug	52.9 (54.6)	51.8 (54.7)
EMU 	09.00	Preliminary composite PMI	Aug	55.6	54.9
EMU 	15.00	Preliminary consumer confidence	Aug	-14.8	-15.0
Germany 	08.30	Preliminary manufacturing (services) PMI	Aug	52.5 (55.3)	51.0 (55.6)
Germany 	08.30	Preliminary composite PMI	Aug	56.0	55.3
France 	08.15	Preliminary manufacturing (services) PMI	Aug	53.5 (56.2)	52.4 (57.3)
France 	08.15	Preliminary composite PMI	Aug	58.0	57.3
UK 	00.01	Preliminary GfK consumer confidence	Aug	-25	-27
UK 	07.00	Retail sales including fuel M/M% (Y/Y%)	Jul	2.0 (0.1)	-1.6 (13.9)
UK 	07.00	Retail sales excluding fuel M/M% (Y/Y%)	Jul	-0.5 (1.2)	13.5 (1.7)
UK 	07.00	Public sector net borrowing £bn	Jul	28.3	34.8
UK 	09.30	Preliminary manufacturing (services) PMI	Aug	54.0 (57.0)	53.3 (56.5)
UK 	09.30	Preliminary composite PMI	Aug	57.0	57.0

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 17 August 2020</b>		
- Nothing scheduled -		
<b>Tuesday 18 August 2020</b>		
EMU		09.00 ECB's Luis de Guindos participates in an online event
Germany		10.30 Auction: €4bn of 0% 2027 bonds
UK		10.00 Auction: £3.25bn of 0.125% 2023 bonds
		11.30 Auction: £2bn of 0.625% 2050 bonds
<b>Wednesday 19 August 2020</b>		
Germany		10.30 Auction: €1.5bn of 0% 2050 bonds
UK		10.00 Auction: £2.75bn of 0.875% 2029 bonds
<b>Thursday 20 August 2020</b>		
EMU		12.30 ECB's account of its July monetary policy meeting
France		09.50 Auction: 1.75% 2024 bonds
		09.50 Auction: 0% 2025 bonds
		09.50 Auction: 1% 2027 bonds
		10.50 Auction: 0.1% 2028 index-linked bonds
		10.50 Auction: 3.15% 2032 index-linked bonds
		10.50 Auction: 0.1% 2036 index-linked bonds
UK		10.00 Auction: £1.1bn of 0.125% 2028 index-linked bonds
<b>Friday 21 August 2020</b>		
France		- Moody's to publish latest French sovereign debt rating report

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.