

Euro wrap-up

Overview

- Bunds made modest gains as the flash euro area PMIs fell short of expectations and signalled a loss of recovery momentum.
- Gilts also made gains even as the UK's composite PMI rose to a seven-year high and the level of retail sales returned back above the pre-pandemic peak.
- The coming week will bring the Commission's sentiment survey and euro area bank lending figures, while ECB and BoE policymakers will make virtual appearances at the Jackson Hole economic symposium.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.696	-0.005
OBL 0 10/25	-0.709	-0.010
DBR 0 08/30	-0.508	-0.009
UKT 0½ 07/22	-0.044	-0.009
UKT 0% 06/25	-0.043	-0.013
UKT 4% 12/30	0.209	-0.017

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

Euro area

Euro PMIs point to a loss of momentum

While economic activity in many euro area sectors returned to greater normality in July as lockdown measures were relaxed, the recent levelling off in high-frequency data and resurgence in coronavirus cases in certain member states was today matched by some relatively sombre flash PMI surveys. This was particularly evident in the services sector, with the headline activity index falling a steeper-than-expected 4.6pts to 50.1, implying stagnation in the sector after the indicator jumped to a near-two-year high in July. And growth in new business was dampened by a further fall in exports as travel restrictions were reimposed in certain countries. So, while manufacturing output reportedly continued to accelerate – the relevant component rose 0.4pt to 55.7, a more than two-year high – the euro area's flash composite PMI fell 3.3pts to 51.6, implying a loss of momentum in the recovery. While new orders continued to recover in the manufacturing sector, overall demand remained muted. And faced with higher costs associated with social distancing rules, firms margins continued to be squeezed. So, with expectations about future activity having also softened this month, firms continued to cut back their work forces. Against this backdrop, there was only minimal improvement in consumer confidence this month, with the Commission's flash indicator rising just 0.3pt to -14.7, leaving it still more than 8pts lower than the pre-pandemic level.

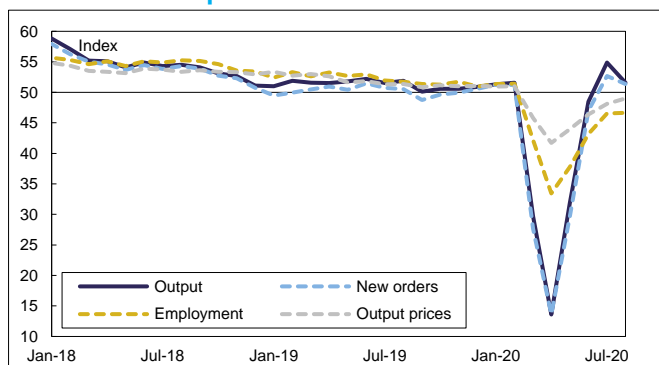
French PMI drops as Covid cases spike

Among the largest two member states, today's surveys suggest that against a backdrop of rising coronavirus infections the loss of momentum this month was most evident in France. Indeed, the headline French composite PMI fully reversed the 5.6pts jump recorded in July back down to 51.7, with declines in both the manufacturing and service sector indices alike. With growth in new orders having also slowed and firms hinting at greater concerns surrounding the pandemic, job-shedding accelerated slightly in August, particularly among manufacturing firms. Germany's composite PMI (down 1.6pts to 53.7) also implied a softer pace of expansion this month as the services index fell 4.8pts to 50.8. In contrast, the manufacturing output PMI jumped a further 4.4pts to 59.2, implying the strongest production growth for 2½ years, as survey respondents suggested that new orders were boosted by stronger domestic and external demand, particularly from China and Turkey. This notwithstanding, while the German government looks set to extend its furlough scheme, significant job losses were still being reported across the economy as whole.

The coming week in the euro area

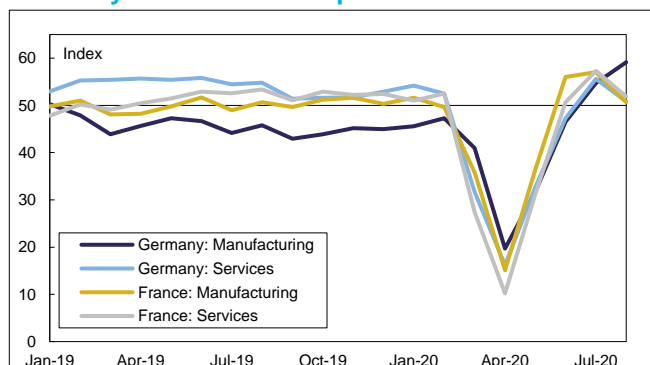
Following today's flash PMIs, the coming week will bring the European Commission economic sentiment survey (Friday), as well as various national business and consumer confidence releases from the larger member states. Overall, these are

Euro area: Composite PMI



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

Germany and France: Output PMIs



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



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expected to point towards continued recovery in activity across all sectors of the euro area, albeit the improvement is likely to be more moderate than seen over recent months. Among the national releases, the German ifo business survey is due on Tuesday and expected to show that firms were somewhat more upbeat about the outlook than their current situation. In France, INSEE's consumer confidence (due Wednesday) and business confidence (Thursday) indicators might well see some negative impact from the recent surge in coronavirus cases. Meanwhile, Italy's ISTAT consumer and manufacturing sentiment surveys will be released on Friday.

In terms of hard data, final Q2 GDP numbers for Germany and France, due to be published on Tuesday and Friday respectively, are expected to confirm double-digit record declines in output in both countries (-10.1%Q/Q in Germany and -13.8%Q/Q in France). The German release will bring the first official expenditure breakdown. But likely of more interest will be the release of July figures for German and Spanish retail sales and French consumer spending on goods at the back end of the week, which will provide further information on the pace of recovery at the start of Q3. Most notably, German retail sales figures are expected to confirm a strong gain on the month as shoppers took advantage of the temporary cut in VAT on 1st July. Friday will also bring the flash French CPI estimate for August, which is likely to show that headline inflation fell sharply, reversing the surge in July, reflecting the impact of delayed summer sales this year. Meanwhile, euro area bank lending figures for July will also be published on Thursday.

In terms of policy, the back end of the week will see ECB Chief Economist Lane and Executive Board members Panetta and Schabel make virtual appearances at this year's Jackson Hole economic symposium on the topic of 'Navigating the decade ahead – implications for monetary policy'.

UK

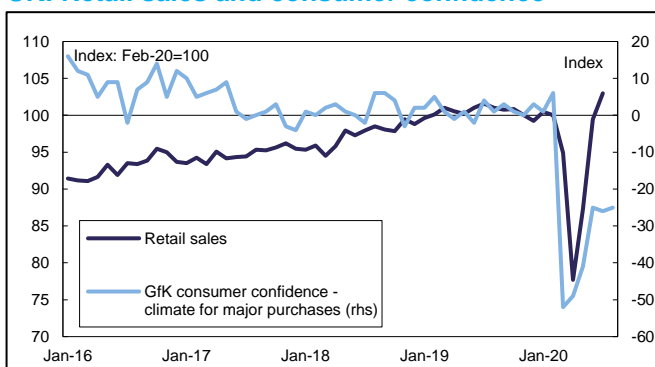
Retail sales back above pre-Covid level...

With footfall continuing to gradually pick up and July being the first full month of trading for non-essential retailers across the UK since February, last month inevitably saw a further notable improvement in sales, with a rise of 3.6%M/M following growth of 13.9%M/M in June and 12%M/M in May. This left sales up 1.4%Y/Y and 3% above the pre-pandemic level. And when excluding auto fuel, sales were almost 4½% higher than February's peak. Indeed, while sales in July were driven by spending at petrol stations (26%M/M), with road traffic still considerably lower than the first week of February fuel sales still remained more than 11½% below the pre-pandemic level. Similarly, with clothing stores having been hit worst during the lockdown, sales were still down by more than one quarter from February's level despite another month of strong growth in July (11.9%M/M). But supported by ongoing robust spending at DIY stores, the revival in overall non-food store sales since the trough was more pronounced, with more than 85% of the initial slump having been recovered. A gradual return to the High Street saw online sales dip slightly in July, although they still remained around 50% higher than February's level. And the reopening of restaurants and cafes similarly appeared to impact food store sales, which fell 3%M/M, having risen by more than 5½% during lockdown.

...but consumers still downbeat

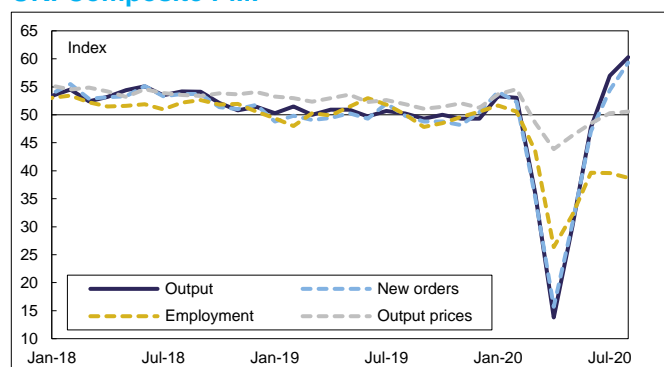
Despite the clearly positive start to Q3 and likelihood of very strong growth in sales over the third quarter as a whole – given the recent monthly profile, sales in July were almost 17% higher than the average in Q2 – retail accounts for a little less than a third of total consumption and just 5½% of GDP. And while the government's 'Eat out to help out' scheme and 15ppt VAT cut in the hospitality sector will no doubt provide a boost over the near term, overall consumption will be limited by ongoing strict social distancing rules. Moreover, today's flash GfK consumer confidence survey suggested that spending might well remain subdued by still fragile household sentiment. In particular, the headline index was unchanged from July's preliminary survey at -27, still 20pts below the peak seen earlier in the year. And while there was a marginal uptick in the survey's major purchase component, this merely reversed the decline seen in July, with households willingness to spend on big ticket items unsurprisingly still well below levels seen earlier in the year.

UK: Retail sales and consumer confidence



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Composite PMI



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

PMIs rise to multi-year highs...

Notwithstanding subdued consumer sentiment, with lockdown measure still easing, additional government support initiatives and the pandemic relatively well contained in the UK, the flash PMIs implied continued notable recovery in business conditions in August. This was particularly evident in the services sector, with the headline activity index rising 3.6pts to 60.1, the highest for six years. With supply chains becoming less disrupted, manufacturers also cited an acceleration in growth, with the output index jumping to 61.6. As such, the headline composite PMI increased 3.3pts to 60.3, a near-seven-year high. There was a further improvement in new orders too, although survey respondents suggested that demand remained well below levels seen before the covid-19 outbreak. And Markit also cautioned that there were widespread concerns that the honeymoon period for growth may begin to fade through the autumn months.

...but firms continue to cut jobs

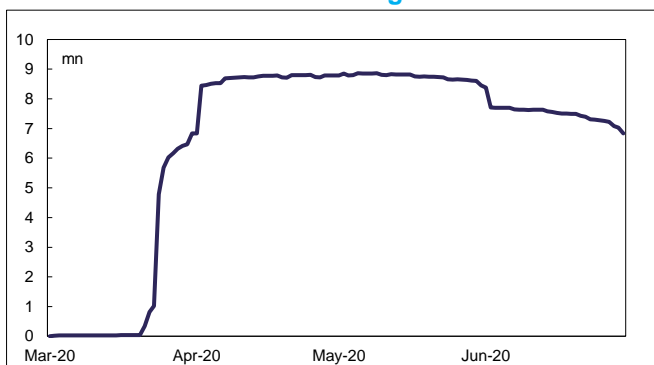
As such, the PMIs suggested that firms across manufacturing and services firms alike shed jobs at a steeper pace in August. While down from the peak of 8.9mn in early May, HMRC today confirmed that a staggering 6.8mn people were still enrolled on the government's Job Retention Scheme (JRS) at the end of June, with roughly 40% of these in the hospitality and retail sectors. So, although this has likely fallen further as the lockdown eased, we expect employment conditions to deteriorate significantly as the furlough programme eventually comes to an end in October. This will of course likely hold back growth in private consumption over coming months. And given the lack of progress during this week's Brexit negotiations – the EU's chief negotiator Barnier today suggested that as things currently stood a deal by the end of the year seemed unlikely – businesses might well be faced with additional costs and uncertainty at the turn of the year too. And so, even in the absence of a second wave of coronavirus infections during the winter months, risks to the economic recovery will remain firmly to the downside.

The coming week in the UK

Looking ahead, in a very quiet week on the UK economic data front, the main event will likely be BoE Governor Bailey's (virtual) appearance at the Jackson Hole symposium on Friday, when his comments will be scrutinized for any further insight into future policy adjustments. In terms of releases, the CBI's distributive trades survey for August is due out on Tuesday and expected to point to further modest recovery in retail sales in August, as households increasingly return to the high street, encouraged in part by additional relaxation of lockdown measures and the government's 'Eat out to help out' scheme. However, with the government's Job Retention Scheme beginning to unwind, and some large retailers already announcing their intention to make significant reductions in staffing levels, the survey will also likely point to tougher times ahead for the retail sector. Finally, the Lloyds business barometer and Nationwide house price index are due on Friday.

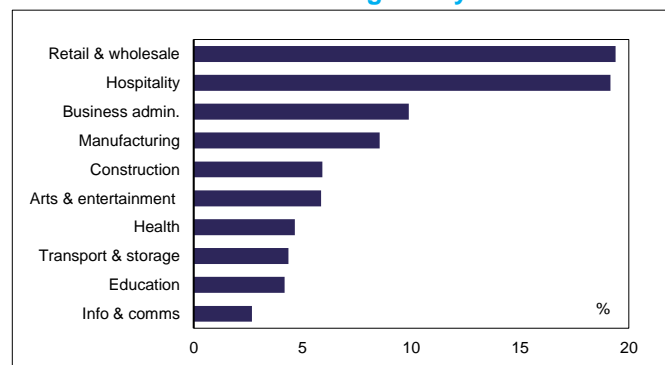
The next edition of the Euro wrap-up will be published on 25th August 2020

UK: Number of workers furloughed


















Source: HMRC and Daiwa Capital Markets Europe Ltd.

UK: Share of workers furloughed by sector*







*End-June 2020. Source: HMRC 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	-20.4	18.0	2.5	-9.3	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	0.7	0.4	0.9	1.4	1.6
Core CPI 	1.7	1.6	1.6	1.4	1.4	0.5	1.0	1.3	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/ <i>Daiwa forecast</i>	Previous	Revised
EMU 	Preliminary manufacturing (services) PMI	Aug	51.7 (50.1)	52.7 (54.5)	51.8 (54.7)	-
	Preliminary composite PMI	Aug	51.6	55.0	54.9	-
	Preliminary consumer confidence	Aug	-14.7	-15.0	-15.0	-
Germany 	Preliminary manufacturing (services) PMI	Aug	53.0 (50.8)	52.3 (55.2)	51.0 (55.6)	-
	Preliminary composite PMI	Aug	53.7	55.0	55.3	-
France 	Preliminary manufacturing (services) PMI	Aug	49.0 (51.9)	53.0 (56.3)	52.4 (57.3)	-
	Preliminary composite PMI	Aug	51.7	57.0	57.3	-
UK 	Preliminary GfK consumer confidence	Aug	-27	-25	-27	-
	Retail sales including fuel M/M% (Y/Y%)	Jul	3.6 (1.4)	2.0 (0.1)	-1.6 (13.9)	-
	Retail sales excluding fuel M/M% (Y/Y%)	Jul	2.0 (3.1)	0.2 (1.5)	13.5 (1.7)	13.4 (-)
	Public sector net borrowing £bn	Jul	25.9	28.3	34.8	28.8
	Preliminary manufacturing (services) PMI	Aug	55.3 (60.1)	54.0 (57.0)	53.3 (56.5)	-
	Preliminary composite PMI	Aug	60.3	56.9	57.0	-
	CBI industrial trends survey, total orders	Aug	-44	-34	-46	-
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
Monday 24 August 2020					
- Nothing scheduled -					
Tuesday 25 August 2020					
Germany		07.00 GDP – revised estimate Q/Q% (Y/Y%)	Q2	-10.1 (-11.7)	-2.2 (-2.3)
		09.00 Ifo business climate	Aug	92.5	90.5
		09.00 Ifo current assessment balance (expectations)	Aug	87.0 (98.4)	84.5 (97.0)
UK		11.00 CBI distributive trades survey, total sales	Aug	8	4
Wednesday 26 August 2020					
France		07.45 INSEE consumer confidence	Aug	94	94
Thursday 27 August 2020					
EMU		09.00 M3 money supply Y/Y%	Jul	9.3	9.2
Germany		- Retail sales* M/M% (Y/Y%)	Jul	0.5 (4.1)	-2.0 (6.0)
France		07.45 INSEE business confidence	Aug	87	85
		07.45 INSEE manufacturing confidence (production outlook)	Aug	-	82 (-3)
Italy		09.00 Industrial orders (sales) Y/Y%	Jun	-	-34.7 (-25.9)
Friday 28 August 2020					
EMU		10.00 Commission's economic sentiment indicator	Aug	85.0	82.3
		10.00 Industrial (services) confidence	Aug	-12.0 (-)	-16.2 (-26.1)
		10.00 Final consumer confidence	Aug	-14.7	-15.0
Germany		07.00 GfK consumer confidence	Sep	1.9	-0.3
France		07.45 GDP – revised estimate Q/Q% (Y/Y%)	Q2	-13.8 (-19.0)	-5.9 (-5.0)
		07.45 Preliminary CPI (EU-harmonised) Y/Y%	Aug	0.2 (0.3)	0.8 (0.9)
		07.45 Consumer spending M/M% (Y/Y%)	Jul	2.0 (2.5)	9.0 (1.3)
Italy		09.00 ISTAT business (manufacturing) confidence	Aug	-	76.7 (85.2)
		09.00 ISTAT consumer confidence	Aug	101.0	100.0
Spain		08.00 Retail sales Y/Y%	Jul	-	-4.7
UK		00.01 Lloyds business barometer	Aug	-	-22
		- Nationwide house price index* M/M% (Y/Y%)	Aug	0.6 (2.1)	1.7 (1.5)

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 24 August 2020		
- Nothing scheduled -		
Tuesday 25 August 2020		
Germany		10.30 Auction: €6bn of 2022 bonds
UK		10.00 Auction: £3bn of 0.125% 2026 bonds
		11.30 Auction: £1.25bn of 1.625% 2054 bonds
Wednesday 26 August 2020		
EMU		12.30 ECB's Schnabel scheduled to speak at EEA conference
Germany		10.30 Auction: €3.5bn of 0% 2035 bonds
Italy		10.00 Auction: Fixed-rate and index-linked bonds
UK		10.00 Auction: £2.75bn of 0.375% 2030 bonds
		17.00 BoE's Haldane scheduled to speak
Thursday 27 August 2020		
EMU		- ECB's Lane, Panetta and Schnabel to participate in Jackson Hole Symposium
Friday 28 August 2020		
Italy		10.00 Auction: 5Y and 10Y bonds
UK		14.05 BoE Governor Bailey to speak at Jackson Hole Symposium

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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