

# Euro wrap-up

## Overview

- Shorter-dated Bunds made modest gains as a German consumer survey flagged uncertainties ahead, while the Commission's sentiment indicator pointed to ongoing recovery.
- Gilts made gains as BoE Governor Bailey stated that the MPC still had plenty of firepower to add extra stimulus if necessary.
- The coming week will bring the flash August inflation estimates from the euro area, as well as final PMIs and new car registrations figures from major European countries.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.679	-0.009
OBL 0 10/25	-0.653	-0.009
DBR 0 08/30	-0.411	-0.003
UKT 0½ 07/22	-0.057	-0.039
UKT 0% 06/25	-0.007	-0.034
UKT 4% 12/30	0.311	-0.025

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

## Euro area

### Commission's sentiment survey signals ongoing recovery

Like the national sentiment surveys published throughout the past week, today's European Commission economic sentiment survey – arguably the best guide to euro area economic activity – offered some reassurance that the recovery has been sustained following last Friday's downbeat flash PMIs. This was particularly evident in the services sector, where, contrasting with the drop in the headline PMI, the relevant ESI posted the largest monthly increase (9.0pts) of all sectoral indices this month, as firms were notably more upbeat about current demand. Retailers were similarly more upbeat, while the upwards trend in manufacturing conditions was also sustained, suggesting that around 75% of the post-pandemic slump in industrial sentiment had been recovered, by far the biggest turnaround in fortunes among the key sectors. So, while construction firms continued to find conditions challenging, the overall euro area headline Economic Sentiment Indicator (ESI) posted another sizeable increase in August, up 5.3pts to 87.7, leaving it almost 23pts above April's trough. Admittedly, this suggested that only around 60% of the decline in sentiment from the pre-pandemic peak to trough had been recovered. And likely reflecting the recent rise in coronavirus cases across the region, services firms and retailers were marginally less upbeat about their expectations for demand over the near term.

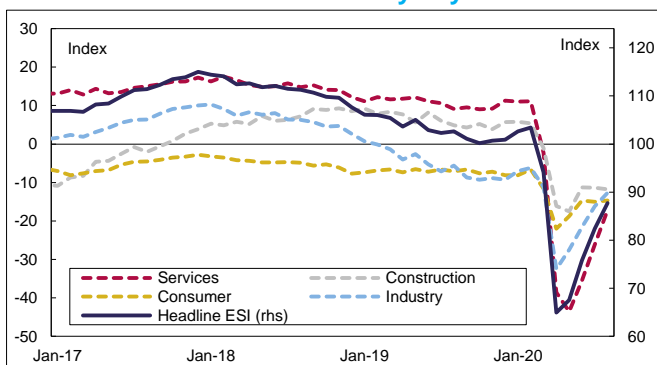
### Germany and France leading the recovery

With Germany having fared relatively well compared to other member states during the initial wave, and demand having received a boost from the temporary VAT cut, a further solid increase in the country's ESI (+5.9pts) in August left it 22pts above April's trough and about three-quarters of the way back to the initial post-Covid level. The rebound in France was the strongest of the largest member states in August (the French ESI rose 9.3pts to be 24pts above the post-Covid low), while the Dutch ESI had similarly reversed around two-thirds of the cumulative decline in March and April. And consistent with the gradual improvement in today's ISTAT surveys, the Italian ESI rose for the third consecutive month (+2.7pts), albeit suggesting the softest recovery of major member states. And reflecting renewed concerns surrounding the current sharp spike in infections, which has seen the flow of new cases exceed the peak in the first wave, the Spanish ESI fell for the first month since April. So, while today's survey is clearly supportive of the anticipated bounce back in GDP growth across the euro area in Q3, it also illustrates potential vulnerabilities to a further intensification of the pandemic.

### German consumer survey flags concerns ahead

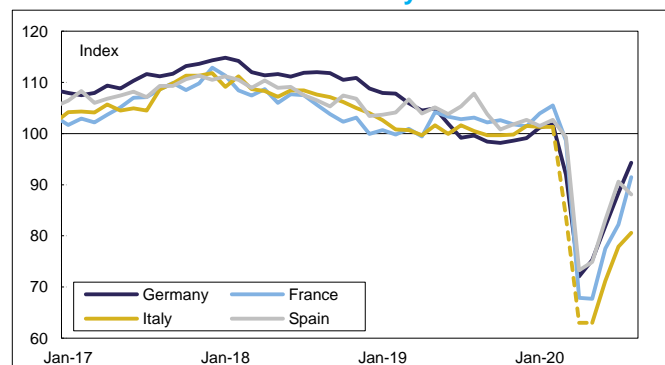
Certainly, having risen notably last month as German households benefitted from the VAT cut – with the headline GfK consumer confidence index up more than 9pts to -0.2 – today's GfK survey flagged renewed pessimism about the outlook

### Euro area: Sentiment indices by key sectors



Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Sentiment indices by member state\*



\*Italian survey in April was not published. Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.



ahead, with the index forecast to drop back to -1.8 next month. With the number of new coronavirus cases in Germany this week rising to the highest since April, that might be unsurprising. Within the survey detail, despite marginal gains in economic expectations and willingness to spend, German consumers were seemingly much more downbeat about their income expectations. And there was a further increase reported in households' propensity to save too.

### French inflation falls sharply as temporary effects reverse

Meanwhile, there were no surprises from the first of the flash inflation estimates for August, which came today from France. In particular, having leapt 0.7ppt to 0.9%Y/Y last month, French CPI inflation on the EU-harmonised measure fully reversed back to 0.2%Y/Y. The detail on the national measure showed that the drop in inflation this month principally reflected lower prices of non-energy industrialised goods, as the delayed summer sales finally got under way. Indeed, inflation of manufactured products fell a marked 2.0ppts to -0.2%Y/Y. In addition, food inflation slowed too (down 0.3ppt to 0.8%Y/Y), negating the slightly less steep decline in energy prices (up 0.3ppt to -7.1%Y/Y). Inflation of services, meanwhile, was unchanged at 0.9%Y/Y. So, like the headline measure, French core inflation will also have fallen sharply – an outcome that seems bound to be replicated in the euro area figures due on 1st September.

### The coming week in the euro area

The euro area's economic focus at the start of the coming week will be the further flash estimates of August inflation. Following today's French release and preliminary German numbers (due Monday) – which are likely to show the headline CPI rate remaining around zero percent on the back of the VAT cut – the euro area's figures (Tuesday) are expected to have reversed the uptick seen in July. In particular, we expect headline inflation to fall 0.1ppt to 0.3%Y/Y, and core inflation to fall a steeper 0.4ppt to 0.8%Y/Y reflecting the belated start to summer discounting. Tuesday will also bring euro area unemployment figures for July, which despite the various government job support schemes, are expected to show that the headline rate edged up to 8.0%, its highest for more than 2½ years. National labour market releases for August are also due from Germany (Tuesday) and Spain (Wednesday). And national car registration figures for this month from the largest four member states will also be published from Tuesday. These will be followed by German and euro area retail sales data for July on Wednesday and Thursday respectively. Meanwhile, the final August PMIs are also due throughout the week, with the manufacturing, services and construction surveys to be released on Tuesday, Thursday and Friday respectively. Not least reflecting the recent steady increase in coronavirus cases and reintroduction of certain travel restrictions, the flash composite PMI fell 3.3pts to 51.6, implying a softer pace of recovery in the middle of the third quarter. Finally, German factory orders figures for July are due on Friday.

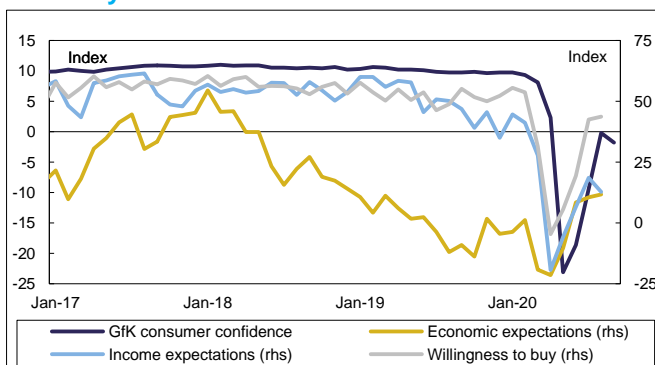
## UK

### The coming week in the UK

After the Bank Holiday weekend, the UK's data calendar kicks off on Tuesday with the BoE's latest bank lending figures for July. These are likely to show that demand for loans from SMEs remained strong, while lending to larger firms likely continued to stabilise. And although mortgage lending might report a further uptick as the backlog of applications during the lockdown continued to clear, consumer credit growth likely remained very subdued. The final August PMIs will also be published in the coming week, with the manufacturing, services and construction surveys due on Tuesday, Thursday and Friday respectively. The flash estimates showed a further notable increase in the headline indices, with the composite PMI rising to 60.3, its highest in seven years. Friday will also bring car registrations figures for August.

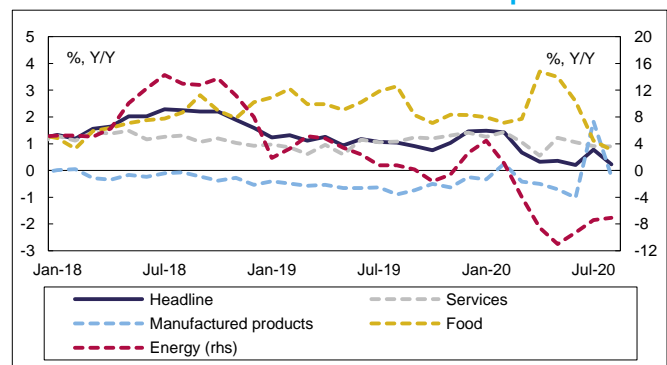
*The next edition of the Euro wrap-up will be published on 1 September 2020*

### Germany: Consumer confidence


















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

### France: Headline CPI and selected components\*











\*National measure of inflation. August 2020 figures are flash estimates.  
 Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

## 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	-9.7	7.5	1.5	-5.5	4.5	2.4
France 	0.2	-0.2	-5.9	-13.8	12.0	1.0	-10.4	5.5	4.0
Italy 	0.0	-0.2	-5.4	-12.4	9.0	0.5	-10.4	2.9	2.2
Spain 	0.4	0.4	-5.2	-18.5	13.0	1.0	-12.5	6.0	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	0.7	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
<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 	Commission's economic sentiment indicator	Aug	<b>87.7</b>	85.0	82.3	82.4	
	Industrial (services) confidence 	Aug	<b>-12.7 (-17.2)</b>	-12.0 (-)	-16.2 (-26.1)	- (-26.2)	
	Final consumer confidence 	Aug	<b>-14.7</b>	-14.7	-15.0	-	
Germany 	GfK consumer confidence	Sep	<b>-1.8</b>	1.9	-0.3	-0.2	
France 	GDP – revised estimate Q/Q% (Y/Y%)	Q2	<b>-13.8 (-18.9)</b>	-13.8 (-19.0)	-5.9 (-5.0)	- (-5.7)	
	Preliminary CPI (EU-harmonised) Y/Y%	Aug	<b>0.2 (0.2)</b>	0.2 (0.2)	0.8 (0.9)	-	
	Consumer spending M/M% (Y/Y%)	Jul	<b>0.5 (0.6)</b>	0.6 (2.5)	9.0 (1.3)	10.3 (0.5)	
Italy 	ISTAT business (manufacturing) confidence	Aug	<b>80.8 (86.1)</b>	-	76.7 (85.2)	77.0 (85.3)	
	ISTAT consumer confidence	Aug	<b>100.8</b>	101.0	100.0	100.1	
Spain 	Retail sales Y/Y%	Jul	<b>-3.9</b>	-	-4.7	-	
UK 	Lloyds business barometer	Aug	<b>-14</b>	-	-22	-	
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 31 August 2020</b>					
Germany		13.00 Preliminary CPI (EU harmonised CPI) Y/Y%	Aug	0.1 (0.1)	-0.1 (0.0)
Italy		09.00 GDP – revised estimate Q/Q% (Y/Y%)	Q2	-12.4 (-17.3)	-5.4 (-5.5)
		10.00 Preliminary CPI (EU harmonised CPI) Y/Y%	Aug	-0.4 (0.0)	-0.4 (0.8)
Spain		08.00 Preliminary CPI (EU harmonised CPI) Y/Y%	Aug	-0.6 (-0.7)	-0.6 (-0.7)
<b>Tuesday 01 September 2020</b>					
EMU		09.00 Final manufacturing PMI	Aug	51.7	51.8
		10.00 Preliminary CPI (core CPI) Y/Y%	Aug	0.2 (0.9)	0.4 (1.2)
		10.00 Unemployment rate %	Jul	7.9	7.8
Germany		08.55 Final manufacturing PMI	Aug	53.0	51.0
		08.55 Unemployment rate % (change 000s)	Aug	-	6.4 (-18.0)
France		08.50 Final manufacturing PMI	Aug	49.0	52.4
		- New car registrations* Y/Y%	Aug	-	3.9
Italy		08.45 Manufacturing PMI	Aug	-	51.9
		09.00 Unemployment rate %	Jul	-	8.8
		17.00 New car registrations Y/Y%	Aug	-	-11.0
Spain		08.15 Manufacturing PMI	Aug	-	53.5
		- New car registrations* Y/Y%	Aug	-	1.1
UK		09.30 Final manufacturing PMI	Aug	55.3	53.3
		09.30 Net consumer credit Y/Y% (£bn)	Jul	-	-3.6 (-0.1)
		09.30 Mortgage approvals 000s (net lending £bn)	Jul	-	40.0 (1.9)
<b>Wednesday 02 September 2020</b>					
EMU		10.00 PPI Y/Y%	Jul	-	-3.7
Germany		07.00 Retail sales M/M% (Y/Y%)	Jul	0.5 (4.1)	-2.0 (6.0)
Spain		08.00 Unemployment change 000s	Aug	-	-89.8
UK		07.00 Nationwide house price index M/M% (Y/Y%)	Aug	0.5 (2.0)	1.7 (1.5)
<b>Thursday 03 September 2020</b>					
EMU		09.00 Final services (composite) PMI	Aug	50.1 (51.6)	54.7 (54.9)
		10.00 Retail sales M/M% (Y/Y%)	Jul	1.2 (3.7)	5.7 (1.3)
Germany		08.55 Final services (composite) PMI	Aug	50.8 (51.7)	55.6 (57.3)
		- New car registrations* Y/Y%	Aug	-	-5.4
France		08.50 Final services (composite) PMI	Aug	51.9 (51.7)	57.3 (57.3)
Italy		08.45 Services (composite) PMI	Aug	49.0 (50.0)	51.6 (52.5)
Spain		08.15 Services (composite) PMI	Aug	-	51.9 (52.8)
UK		09.30 Final services (composite) PMI	Aug	60.1 (60.3)	56.5 (57.0)
<b>Friday 04 September 2020</b>					
EMU		09.00 Construction PMI	Aug	-	48.9
Germany		07.00 Factory orders M/M% (Y/Y%)	Jul	5.5 (-5.7)	27.9 (-11.3)
		08.30 Construction PMI	Aug	-	47.1
France		- Construction PMI	Aug	-	49.4
Italy		- Construction PMI	Aug	-	51.0
UK		09.00 New car registrations Y/Y%	Aug	-	11.3
		09.30 Construction PMI	Aug	58.1	58.1

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

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

Country	BST	Event / Auction
<b>Monday 31 August 2020</b>		
- Nothing scheduled -		
<b>Tuesday 01 September 2020</b>		
EMU		17.00 ECB Chief Economist Lane to participate in a panel at 2020 Annual meeting of the Central Bank Research Association
Germany		10.30 Auction: €250mn of 0.1% 2026 index-linked bonds
<b>Wednesday 02 September 2020</b>		
Germany		10.30 Auction: €4bn of 0% 2025 bonds
UK		10.00 Auction: £400mn of 0.125% 2056 index-linked bonds
		16.30 BoE Deputy Governor Broadbent to give keynote speech at 2020 Annual meeting of the Central Bank Research Association
<b>Thursday 03 September 2020</b>		
France		09.50 Auction: 0% 2030 bonds
		09.50 Auction: 1.25% 2036 bonds
		09.50 Auction: 0.75% 2052 bonds
		09.50 Auction: 4% 2060 bonds
Spain		09.45 Auction: 0% 2025 bonds
		09.45 Auction: 1.4% 2028 bonds
		09.45 Auction: 0.7% 2033 bonds
		09.45 Auction: 1.85% 2035 bonds
UK		10.00 Auction: £2.75bn of 0.125% 2028 bonds
		11.30 Auction: £2.0bn of 1.25% 2041 bonds
<b>Friday 04 September 2020</b>		
UK		- BoE's Saunders to give a speech on the economy's recent performance and view on the outlook

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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