

Euro wrap-up

Overview

- Bunds made gains as German retail sales unexpectedly slipped back despite the VAT cut in July.
- Gilts made gains as BoE officials emphasised the downside risks to the near-term economic outlook, while also reminding that the MPC could boost QE significantly in terms of both size and pace if necessary.
- Thursday will bring euro area retail sales figures for July, and final services and composite PMIs for August.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.709	-0.023
OBL 0 10/25	-0.703	-0.044
DBR 0 08/30	-0.476	-0.054
UKT 1 1/4 09/22	-0.125	-0.014
UKT 0% 06/25	-0.074	-0.034
UKT 4 1/4 12/30	0.228	-0.063

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

Source: Bloomberg

Euro area

German retail sales slip back despite VAT cut

German retail sales fell for the second successive month in July, dropping 0.9%M/M in real terms following a decline of 1.9%M/M in June. Nevertheless, given the strong rebound in May (+13.2%M/M), the level of sales was still up 4.2%Y/Y and 0.9% above February's pre-pandemic level, to leave total sales in the year to-date 2.6% higher than in the same period last year. Within the detail, sales of food, beverages and tobacco were also up 4.2%Y/Y (5.7%YTD/Y), while non-food sales were up a similar 4.4%Y/Y (but only 0.8%YTD/Y). There was significant variation in the various categories of goods, however. Supported by the temporary 3ppt cut in the main VAT rate to 16%, to last from 1 July until year-end, sales of furniture, household appliances and building supplies were up a vigorous 12.9%Y/Y in July, albeit only up a modest 1.6%YTD/Y in the first seven months of the year. In contrast, sales of clothes, textiles, etc. fell 8.0%Y/Y to be down a whopping 27.8%YTD/Y. And sales of cosmetics and pharmaceuticals were down 4.1%Y/Y in July, albeit still up 1.1% in the year to-date compared to the same period last year. The shift to increased online shopping brought about by the pandemic remained intact, with internet and mail order sales up 15.6%Y/Y and 20.4%YTD/Y in real terms.

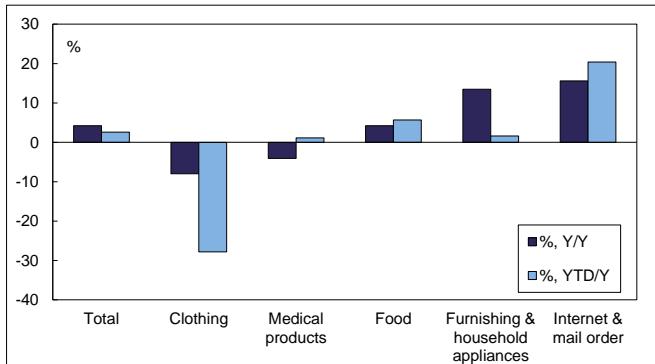
Spanish employment up again despite resurgence in pandemic

Despite the resurgence in Spain's pandemic over the past month, which has seen numbers of new Covid-19 cases rival those in the first wave in March and the resumption of local restrictions on activity, employment in the euro area's fourth largest member state rose for the third successive month in August, up 232.6k (1.25%M/M) in seasonally adjusted terms from July. That left it down 528k from a year ago (-2.7%Y/Y), a further improvement from the trough year-on-year decline of 882k and -4.6%Y/Y in June. While the number of jobless claims rose 29.8k to be up 24%Y/Y in July, that failed to fully reverse the drop of 89.8k the prior month. And when adjusting for seasonal factors, unemployment fell for the second successive month and by 34.4k. Moreover, the number of workers registered under Spain's ERTE furlough scheme dropped last month by a further 27% to 812.4k, having supported more than 3mn workers earlier in the pandemic. The ERTE scheme is likely to be extended beyond the end of the current month, when it is currently scheduled to conclude.

The day ahead in the euro area

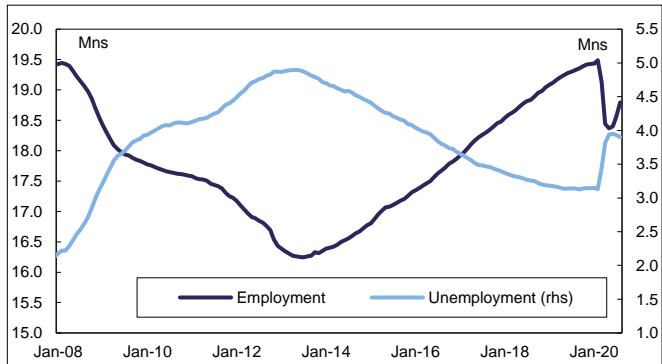
Tomorrow brings the release of euro area retail sales figures for July. While sales in France and Spain maintained an upwards trend at the start of Q3, the unexpected fall in today's German retail figures suggests that there are some downside risks to the forecast increase of 1.0%M/M. Nevertheless, retail sales will still remain higher than a year earlier. In addition, new car registrations numbers from Germany for August may give further insight into the potency of the temporary

Germany: Retail sales – July 2020



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Spain: Labour market indicators



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.



Follow us on twitter @DaiwaEurope

VAT in stimulating demand against the backdrop of the recent rise in new Covid-19 cases. Meanwhile, the final August services and composite PMIs are expected to point to a softer pace of recovery in the middle of the third quarter. Indeed, despite the very modest uptick in the [manufacturing output PMI](#), the flash euro area composite PMI fell 3.3pts to 51.6 in August.

UK

High-street prices still under downwards pressure

[UK consumer price inflation](#) has recently surprised on the upside, driven by some one-off and temporary factors associated with the pandemic. However, today's BRC shop price indices illustrated ongoing pressures on profit margins of high-street retailers, as they continued to offer discounts to entice consumers back into the shops. Indeed, average shop prices were down a steeper 1.6%Y/Y in August, to mark the fifteenth consecutive year-on-year drop. And this was driven by a sharper pace of decline in prices of non-food goods (-3.4%Y/Y), as prices of DIY and electrical goods fell further and clothes prices were still down more than 10%Y/Y. While still positive, food inflation eased back slightly too, down 0.2ppt to 1.3%Y/Y. Not least given the ongoing deterioration in the labour market, persistently low footfall in city centres as a large share of office workers continues to work from home, and continued uncertainties surrounding the pandemic as the country heads into autumn, demand on the high street seems bound to remain subdued, providing ongoing downwards pressure on prices. Of course, we are likely to see significant upwards price pressures from January on if the government fails to agree on a trade deal with the EU by then.

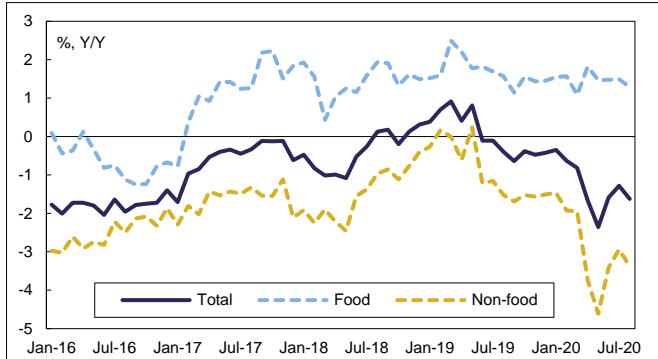
House prices jump most since 2004

Meanwhile, as suggested by certain [leading indicators](#) in the housing market, the Nationwide house price index today suggested a notable increase in house prices last month as pent up demand during the lockdown continued to be released, demands for housing changed due to working from home, and the temporary Stamp Duty holiday (to last until next March) also provided a boost to activity. In particular, house prices rose 2%M/M in August – the largest monthly increase since early 2004 – to leave them up 3.7%Y/Y and back above the pre-pandemic level. However, Nationwide also cautioned that the housing market outlook remained uncertain, not least as government support measures – including the Job Retention Scheme as well as the Stamp Duty cut – will soon come to an end, and concerns over the future path of the pandemic persist.

The day ahead in the UK

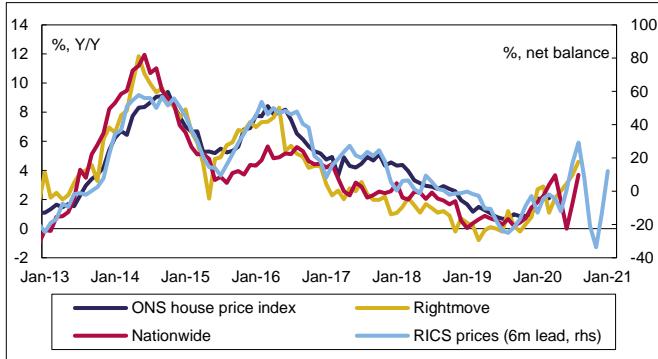
Looking ahead, like in the euro area, the final UK services sector and composite PMIs for August will be published tomorrow. Despite the reimposition of certain local lockdowns, with the pandemic relatively well contained in the UK and government support programmes providing extra targeted support to demand, the flash PMIs implied continued improvement in business conditions in August. In particular, the headline services activity index rose 3.6pts to 60.1, the highest for six years. And, coupled with an uptick in the manufacturing activity index, the composite index rose to 60.3 in August, from 57.0 previously.

UK: BRC shop price indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Housing market indicators



Source: Refinitiv 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	PPI Y/Y%	Jul	-3.3	-	-3.7	-
Germany	Retail sales M/M% (Y/Y%)	Jul	-0.9 (4.2)	0.5 (4.1)	-1.6 (5.9)	-1.9 (6.7)
Spain	Unemployment change 000s	Aug	29.8	9.0	-89.8	-
UK	BRC shop price index Y/Y%	Aug	-1.6	-	-1.3	-
	Nationwide house price index M/M% (Y/Y%)	Aug	2.0 (3.7)	0.5 (2.0)	1.7 (1.5)	1.8 (-)

Auctions						
Country	Auction					
Germany	sold €3.3bn of 0% 2025 bonds at an average yield of -0.69%					
UK	sold £400mn of 0.125% 2056 index-linked bonds at an average yield of -2.012%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
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	49.5 (50.0)	51.6 (52.5)	
Spain	08.15	Services (composite) PMI	Aug	48.0 (49.3)	51.9 (52.8)	
UK	09.30	Final services (composite) PMI	Aug	60.1 (60.3)	56.5 (57.0)	

Auctions and events						
Country	BST	Auction / Event				
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 index-linked 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				

*Approximate date of release. 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>.