

# Euro wrap-up

## Overview

- Despite some weaker German production figures as supply bottlenecks continue to weigh, Bunds followed USTs notably lower after a strong US payrolls report.
- Gilts also made substantial losses, while a UK labour market survey revealed ongoing wage pressures as demand for candidates outpaces supply.
- The coming week will bring UK Q2 GDP results, along with June monthly output figures. Euro area industrial output and trade numbers are also due.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.765	+0.018
OBL 0 10/26	-0.731	+0.036
DBR 0 08/31	-0.455	+0.046
UKT 0 <sup>7</sup> / <sub>8</sub> 01/23	0.130	+0.046
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.294	+0.064
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.615	+0.090

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

Source: Bloomberg

## Euro area

### German production disappointed in June as supply bottlenecks appear to weigh

As foreshadowed by yesterday's [factory turnover](#), Germany's industrial production had a disappointing end to the second quarter. In particular, today's release showed that output fell for the third consecutive month and by a steeper 1.3% M/M in June, to leave it down 0.5% Q/Q in Q2 and still 6.8% lower than the pre-pandemic level. The weakness in part reflected construction activity, which declined for the fourth consecutive month (-2.6% M/M). But manufacturing output also remained fragile in June (-0.9% M/M), as ongoing supply constraints seemingly continued to weigh. For example, production of autos fell for the sixth consecutive month (-0.9% M/M), to leave it down a whopping 11% Q/Q and still some 29% lower than the pre-pandemic level. Machinery and equipment output fell a sharp 6.6% M/M in June to leave the level some 8½% lower than February 2020. And so overall production of capital goods fell 2.9% M/M in June to be down 4.6% Q/Q in Q2, with output of intermediate goods down 0.9% M/M, but up 0.6% Q/Q. In contrast, the recovery in production of consumer goods continued, with growth of 3.4% M/M in June leaving it almost 2½% higher over the second quarter as a whole.

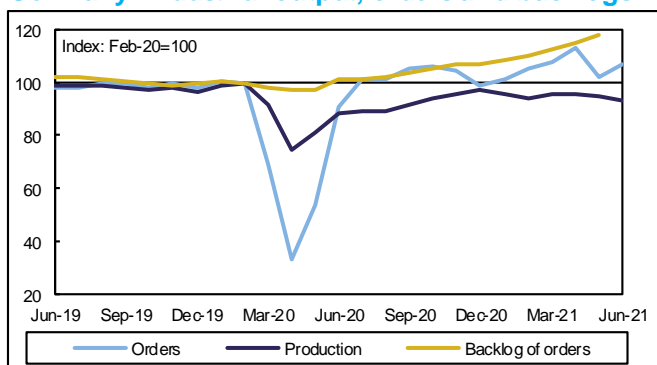
### Auto production to remain subdued

Given the weakness of [car production in July](#) (-25% Y/Y), the autos sub-sector might well cause a further decline in overall manufacturing production that month. The likelihood of continued soft IP at the start of Q3 is also reflected in the truck-toll-mileage index, which again moderated throughout July and remains well down on levels in April and May. So, despite elevated orders and strong sentiment as reflected in the manufacturing PMIs, the recovery in manufacturing output in H221 is likely to be restrained by ongoing supply struggles. Of course, given the ever-growing backlogs, as and when the supply bottlenecks – particularly in semiconductors – ease, we see scope for notable strength in manufacturing growth in Germany in due course.

### Italian manufacturing up for second successive quarter in Q2

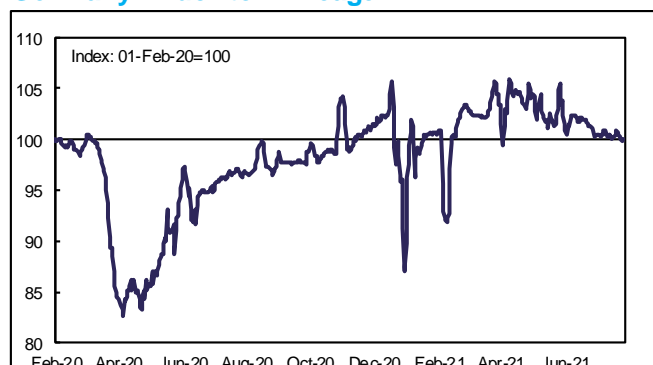
Contrasting with Germany, the manufacturing recovery in Italy continues to strengthen. Indeed, industrial output rose 1.0% M/M in June, marking the sixth consecutive monthly increase out of the past seven, to leave it back above the pre-pandemic level. And this left output up 1% Q/Q in Q2, marking the second successive quarter of growth, and contributing to the strong GDP growth (2.7% Q/Q) last quarter. Admittedly, part of the rebound that month reflected stronger energy production (4.1% M/M). Meanwhile, manufacturing output (0.7% M/M) was in part driven by the autos sub-sector (3.9% M/M). Output of textile and clothing items also jumped in June (5.0% M/M), although, contrasting with the manufacturing sector as a

### Germany: Industrial output, orders and backlogs



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

### Germany: Truck toll mileage



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

whole (which returned to its pre-pandemic level), it was still considerably lower than the level in February 2020 (-13%) having been disproportionately impacted at the outbreak of the pandemic. While the manufacturing PMI slipped back in July, it remained at an elevated level by historical standards suggesting that the sector should continue to support the economic recovery over the near term.

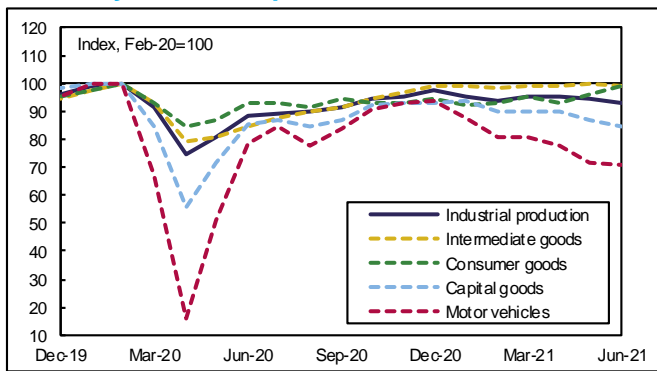
### Spanish output weighed down by energy and autos production

At face value, Spain's industrial output figures were somewhat disappointing, with production declining 1.0%MM in June and the pace of growth in May revised notably lower too (by almost 3ppts to 1.5%MM). But the drop in June followed five consecutive increases to leave output 0.8% higher than the pre-pandemic peak and up 2.6%Q/Q in Q2. Moreover, the weakness that month principally reflected a decline in energy production (-2.4%MM). Admittedly, there was ongoing weakness in the autos sub-sector – with production down for the seventh month out of the past eight to be still 31% lower than the pre-pandemic level – and therefore continued declines in capital goods production (-2.5%MM). But there was also a surge in clothing output in June (51.7%MM) as well as stronger machinery and equipment production (15.2%MM). And so with intermediate and consumer goods production up in June (by 0.5% and 1.9% respectively) to rise further above their pre-pandemic levels, overall manufacturing output was down just 0.1%MM to leave it up 3.4%Q/Q in Q2 and 0.6% higher than February 2020.

### The week ahead in the euro area

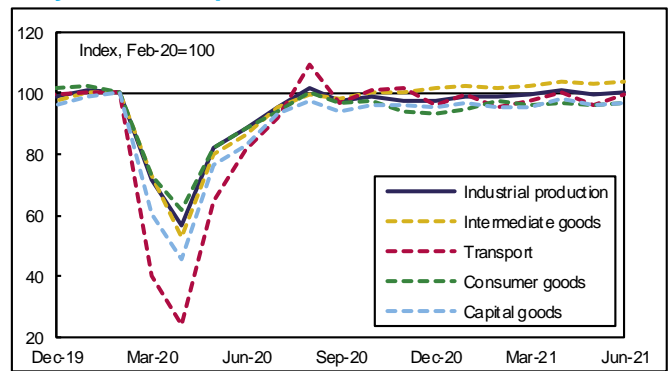
It should be another relatively quiet week for euro area top-tier data. Arguably most interesting will be Thursday's release of aggregate euro area industrial production figures, which, given the mixed findings from the largest four member states, might well see a further modest decline in output at the end of Q2, following a fall of 1%MM in May. It will be particularly interesting to see how production in the autos sector evolved having declined a cumulative 28% since last November. Ahead of this will bring the euro area Sentix investor confidence survey for August on Monday, with the German ZEW and French BoF surveys due in the first half of the week too. Germany's June trade figures are due on Monday, with the euro area's trade numbers due on Friday. The second half of the week will also bring updated July inflation estimates from the four largest members states – German and Italy figures on Wednesday and French and Spanish data on Friday. These are likely to confirm a further notable jump in the German HICP rate, by about 1.0ppt to above 3.0%Y/Y, underpinned by base effects associated with last year's VAT cut and energy inflation. In contrast, the equivalent French and Italian figures are expected to confirm a modest easing in July, by 0.3ppt to 1.6%Y/Y and 0.4ppt to 0.9%Y/Y respectively, due in part to base effects from delayed summer sales.

#### Germany: Industrial production



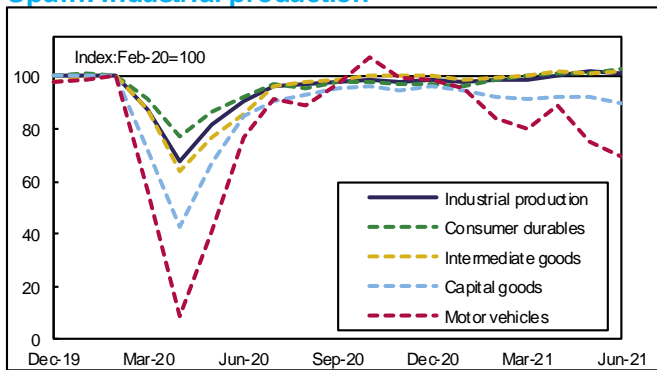
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Italy: Industrial production



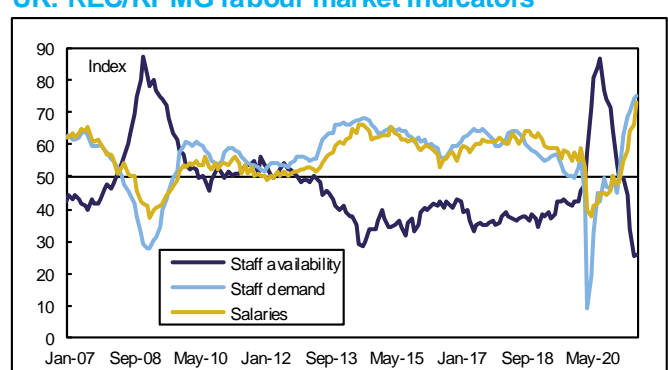
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Spain: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: REC/KPMG labour market indicators



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

## UK












### Labour market survey shows excess demand pushing wages higher

As the **BoE** yesterday reaffirmed that it will be focussing more on the medium-term drivers of inflation – including the labour market and in particular wages – than the likely transitory effects currently underpinning the spike in inflation, the **REC/KPMG** report on UK jobs today continued to signal reduced spare capacity at the start of Q3. According to the survey, recruitment continued to rise sharply in July – the indices for both permanent and temporary appointments remained close to series highs – as demand for employment was sky-high due to the easing of restrictions and ongoing recovery in economic activity. However, recruitment consultants continued to flag a notable rise in vacancies due to a shortage of candidates, underpinned in part by concerns over job security and a lack of European workers due to Brexit. As such, today's survey suggested that starting salaries were rising at their fastest pace in the 24-year history. Of course, official wage growth (7.2%3MY in May) has been materially boosted by both compositional and base effects over recent months. And the Bank currently estimates underlying wage growth – stripped of these effects – to be less than half that rate, closer to pre-Covid rates.

### The week ahead in the UK

The main event in the UK in the coming week will be Thursday's release of the preliminary estimate of UK GDP in Q2, including the expenditure breakdown, as well as production and trade figures for June. We currently forecast a second successive month of growth in GDP in June (circa 0.7%MM) to leave total economic output up 4.7%Q/Q in Q2 as a whole following a drop of 1.6%Q/Q in Q1. The risks to that forecast, however, are perhaps skewed to the upside. With pandemic restrictions having been eased steadily over the second quarter as a whole, growth in Q2 is likely to have been accounted for primarily by private consumption, which dropped 4.6%Q/Q in Q1. In addition, business investment seems bound to have rebounded after the steep drop of 10.7%Q/Q previously. Within the detail in June, however, we expect supply bottlenecks to weigh on manufacturing production with services activity also at risk of a temporary retreat following firm growth over the prior three months. Construction output, however, is due a rebound following two months of declines. Beyond the GDP and associated data, the latest BRC retail sales survey, which will provide a guide to spending on the high street in July, is due on Tuesday.

## Daiwa economic forecasts






	2021				2022		2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2			
<b>GDP growth, %, Q/Q</b>									
Euro area 	-0.3	2.0	1.8	1.1	1.0	0.8	4.7	4.4	2.1
UK 	-1.6	4.7	2.7	2.3	1.0	0.6	7.1	6.1	1.3
<b>Euro area</b>									
Headline CPI 	1.1	1.8	2.6	2.8	1.7	1.8	2.1	1.7	1.6
Core CPI 	1.2	0.9	1.3	1.7	1.0	1.5	1.2	1.3	1.3
<b>UK</b>									
Headline CPI 	0.6	2.0	2.9	3.8	3.7	3.7	2.3	2.6	2.0
Core CPI 	1.2	1.8	2.7	3.3	3.2	3.2	2.2	2.5	2.0
<b>ECB</b>									
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
PEPP envelope* (€bn) 	1850	1850	1850	1850	1850	1850	1850	1850	1850
<b>BoE</b>									
Bank Rate % 	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25
Bond purchases* (£bn) 	895	895	895	895	895	895	895	895	895

\*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
Germany	 Industrial production M/M% (Y/Y%)	Jun	<b>-1.3 (5.1)</b>	0.5 (7.9)	-0.3 (17.3)	<b>-0.8 (16.6)</b>
France	 Trade balance €bn	Jun	<b>-5.8</b>	-	-6.8	<b>-6.6</b>
	 Private sector pay rolls (wages) Q/Q%	Q2	<b>1.2 (0.3)</b>	-	0.5 (0.6)	-
Italy	 Industrial production M/M% (Y/Y%)	Jun	<b>1.0 (13.9)</b>	0.8 (12.8)	-1.5 (21.1)	<b>-1.6 (-)</b>
Spain	 Industrial production M/M% (Y/Y%)	Jun	<b>-1.0 (11.1)</b>	0.7 (14.1)	4.3 (26.0)	<b>1.5 (25.0)</b>




















#### Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's data calendar

### The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast/actual</i>	Previous
<b>Monday 09 August 2021</b>					
EMU		09.30 Sentix investor confidence	Aug	29.0	29.8
Germany		07.00 Trade balance €bn	Jun	13.5	12.5
France		- Bank of France industrial sentiment*	Jul	107	107
<b>Tuesday 10 August 2021</b>					
Germany		10.00 ZEW current situation balance (expectations)	Aug	30.0(55.0)	21.9 (63.3)
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	Jul	5.0	6.7
<b>Wednesday 11 August 2021</b>					
Germany		07.00 Final CPI (EU-harmonised CPI) Y/Y%	Jul	3.8 (3.1)	2.0 (2.1)
Italy		09.00 Final CPI (EU-harmonised CPI) Y/Y%	Jul	1.8 (0.9)	1.3 (1.3)
<b>Thursday 12 August 2021</b>					
EMU		10.00 Industrial production M/M% (Y/Y%)	Jun	-0.2 (10.5)	-1.0 (20.5)
UK		00.01 RICS house price balance %	Jul	76	83
		07.00 Preliminary GDP Q/Q% (Y/Y%)	Q2	<b>4.7 (22.0)</b>	-1.6 (-6.1)
		07.00 GDP M/M%	Jun	<b>0.7</b>	0.8
		07.00 Industrial production M/M% (Y/Y%)	Jun	0.3 (9.4)	0.8 (20.6)
		07.00 Manufacturing production M/M% (Y/Y%)	Jun	0.3 (13.4)	-0.1 (27.7)
		07.00 Index of services M/M% (3M/3M%)	Jun	0.9 (5.7)	0.9 (3.9)
		07.00 Construction output M/M% (Y/Y%)	Jun	1.0 (32.2)	-0.8 (56.5)
		07.00 Goods trade balance £bn	Jun	-9.2	-8.5
<b>Friday 13 August 2021</b>					
EMU		10.00 Trade balance €bn	Jun	10.8	9.4
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	Jul	1.2 (1.6)	1.5 (1.9)
Spain		08.00 Final CPI (EU-harmonised CPI) Y/Y%	Jul	2.9 (2.9)	2.7 (2.5)

\*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 09 August 2021</b>		
- Nothing scheduled -		
<b>Tuesday 10 August 2021</b>		
UK		10.00 Auction: £2.75bn of 0.25% 2031 bonds
<b>Wednesday 11 August 2021</b>		
Germany		10.30 Auction: €4bn of 2031 bonds
UK		10.00 Auction: £700mn of 0.125% 2039 index-linked bonds
<b>Thursday 12 August 2021</b>		
Italy		10.00 Auction: to sell bonds
<b>Friday 13 August 2021</b>		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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