

Euro wrap-up

Overview

- Bunds made modest losses as the flash euro area PMIs were consistent with ongoing solid recovery, despite easing in August.
- Gilts also made losses despite a more pronounced drop in the flash UK PMIs in August, signalling a further moderation in the recovery momentum.
- Tomorrow brings updated German GDP figures for Q2, with the first official expenditure breakdown.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.760	+0.003
OBL 0 10/26	-0.744	+0.007
DBR 0 08/31	-0.480	+0.018
UKT 0 ⁷ / ₈ 01/23	0.106	+0.016
UKT 0 ¹ / ₈ 01/26	0.259	+0.021
UKT 4 ³ / ₄ 12/30	0.537	+0.015

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

Source: Bloomberg

Euro area

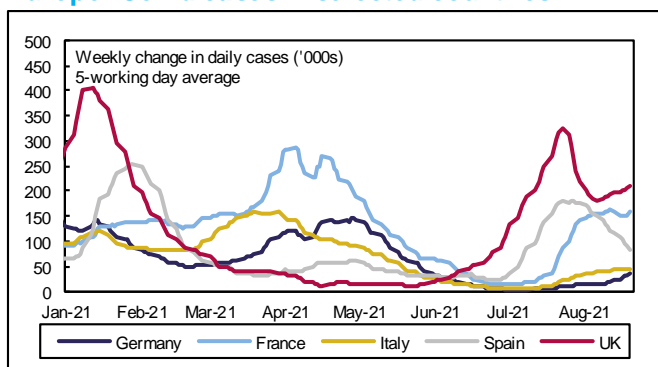
Flash PMIs still signal solid recovery momentum despite drop

Today's flash euro area PMIs for August broadly aligned with expectations, signalling a slight moderation in the pace of recovery momentum as firms continue to face supply difficulties, persistent price pressures and an accelerated spread of the delta variant. Indeed, the composite output index fell for the first month in seven, down 0.7pt to 59.5, nevertheless still the joint-second-strongest reading since 2006. In addition, expectations for the year ahead eased for the third consecutive month. The drop in the output index principally reflected developments in the manufacturing sector, with the output index declining for the fourth month out of the past five and by 1.9pts to 59.2, a six-month low (but still a respectable level), as production remains hindered by supply shortages. The services activity index fell only marginally from July's fifteen-year high, by 0.1pt to 59.7, overtaking the manufacturing index for the first time since the pandemic. While manufacturers reportedly struggled to recruit due to labour shortages, jobs growth in the services sector was the strongest for almost three years as restrictions in the sector continued to ease. And with growth in new orders in both sectors having slowed marginally, firms reduced very slightly the number of backlogs, albeit the relevant composite index was still the third-highest in the survey's history. But while suppliers' delivery times moderated very slightly, they remained historically high amid persistent supply-chain disruption. As such, the composite index for input prices remained only just below July's near-21-year high, while the output price PMI was similarly the third highest on the series despite easing back in August.

German and French services still solid, but manufacturers hit by supply bottlenecks

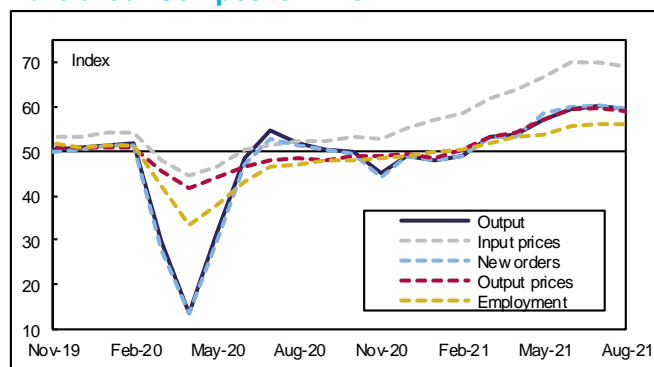
At the country level, Germany's flash PMIs suggested that the manufacturing sector remained most severely impacted by persistent supply bottlenecks. Indeed, the output PMI declined for the second successive month and by a sizeable 4.7pts to 59.0, the joint-lowest reading for a year. The new orders index similarly fell sharply to its lowest level since January, enabling firms to catch up with orders somewhat, with the backlogs of work measure easing very slightly, albeit remaining at a high level. And input prices remained sky-high, with output prices close to historical highs despite slipping back this month too. With the services activity PMI remaining close to July's record high (down just 0.3pt to 61.5), the drop in the German composite index was more limited, down 1.8pts to leave it at a still-elevated 60.6. Meanwhile, the deterioration in the French flash PMIs was more marginal – the composite index fell 0.7pt to 55.9, with the relaxation of restrictions and improving tourism helping to support the services sector in particular. Indeed, the services activity PMI fell just 0.4pt to 56.4, while the manufacturing output index declined for the third consecutive month and by 1.5pts to 54.0, a six-month low. The detail was similar to the rest of the euro area, with still solid growth in demand (admittedly down slightly from recent months) meeting significant supply bottlenecks and stronger price pressures with respect to both input and output costs. Contrasting with the

Europe: Covid cases in selected countries



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Euro area: Composite PMIs



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

moderation reported in Germany and France, however, Markit reported that growth in the rest of the euro area accelerated in August to the fastest in 21 years.

Consumers seemingly less upbeat too

With the increase in the number of reported coronavirus cases in certain member states having seemingly spread to Germany over recent weeks – admittedly still well down on the levels for France and Spain – today’s flash European Commission survey indicator reported a further deterioration in household sentiment in August. In particular, the indicator fell 1.1pts to -5.3, the lowest reading since April. Of course, this still remains considerably higher than in the first quarter of the year (average -13.7) and the trough (-21.9) in April 2020. And with pent-up demand for services in particular still high, household consumption should continue to provide a solid contribution to GDP growth in the third quarter.

The day ahead in the euro area

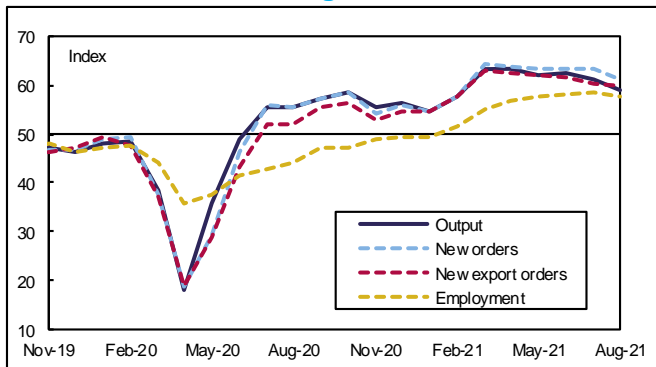
Tomorrow brings the second estimate of German Q2 GDP data, which will include the expenditure breakdown for the first time. The flash estimate revealed that Germany’s performance was somewhat disappointing last quarter, with the 1.5% Q/Q increase softer than anticipated and following a steeper-than-previously-estimated decline in Q1 (-2.1% Q/Q). As such, output remained below the Q420 level and a sizeable 3.9% below Q419’s pre-pandemic level. The detail is expected to reveal that higher household and government consumption expenditure boosted growth in Q2.

UK

UK composite PMI points to a further slowdown in recovery momentum

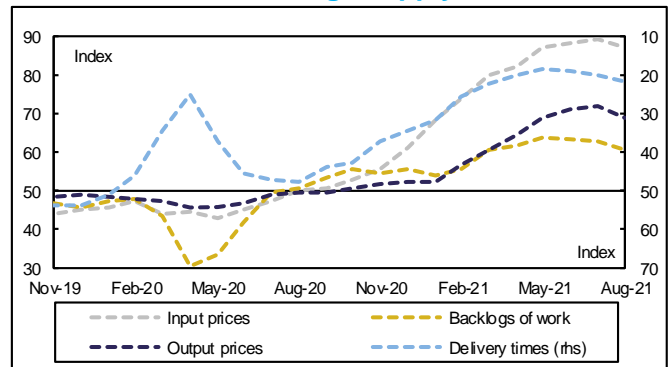
In contrast to the euro area, today’s UK flash PMIs signalled a more pronounced slowdown in the pace of recovery in August, as supply shortages continued to impact the manufacturing and services sectors alike. Indeed, the headline composite output PMI fell for the third consecutive month and by a sizeable 3.9pts to 55.3, the lowest reading since February but nevertheless a level that is still historically elevated. Despite being the first full month of looser restrictions, the services sector reported the greatest loss of momentum – the activity PMI was down 4.1pts on the month to 55.5 – with businesses reporting that reduced output due to shortages of staff or materials was fourteen times higher than usual and the largest since the survey began in 1998. The manufacturing output PMI also fell for the third consecutive month (down 3pts to 54.1, a four-month low). This aligned with the message from today’s CBI industrial trends survey, which saw manufacturing output in the three months to August moderate as stock adequacy worsened to its weakest on record (since April 1977).

Euro area: Manufacturing – demand side



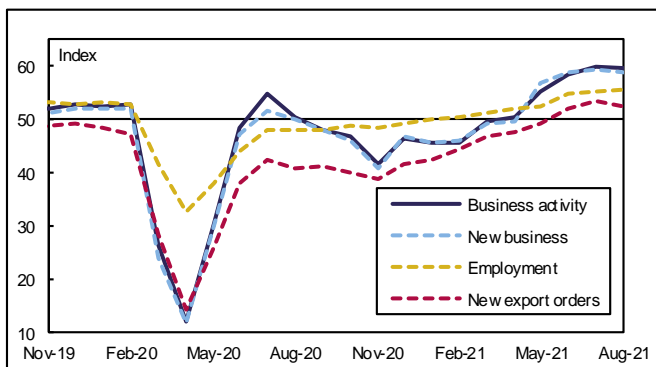
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing – supply side



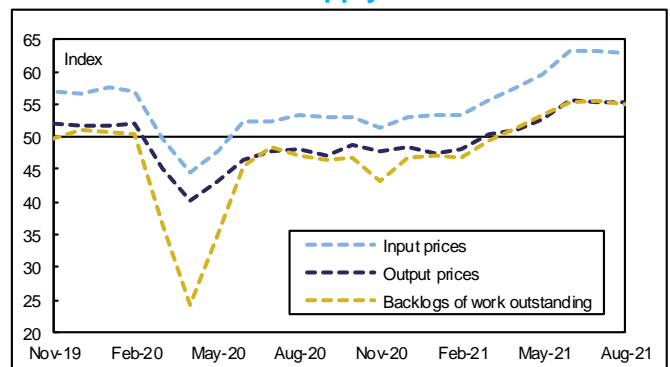
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

Euro area: Services – demand side



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

Euro area: Services – supply side



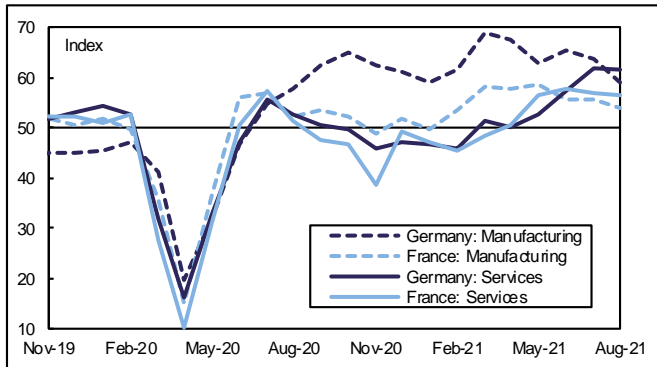
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

Encouragingly, both surveys suggested that new orders remained firm this month, while Markit saw business expectations in the manufacturing sector rise to a three-month high. According to the PMIs, firms in the service sector were also marginally more upbeat about the year ahead. As such, as and when supply constraints ease, the economy – and the manufacturing sector in particular – should see solid growth ahead. But for now, the mismatch between demand and supply will likely limit the pace of recovery this quarter. And while the composite input and output price PMIs moderated slightly in August, they remained consistent with persistently high price pressures, with the CBI survey suggesting that expectations for output prices over the next three months remained close to the near-30-year high seen in June.

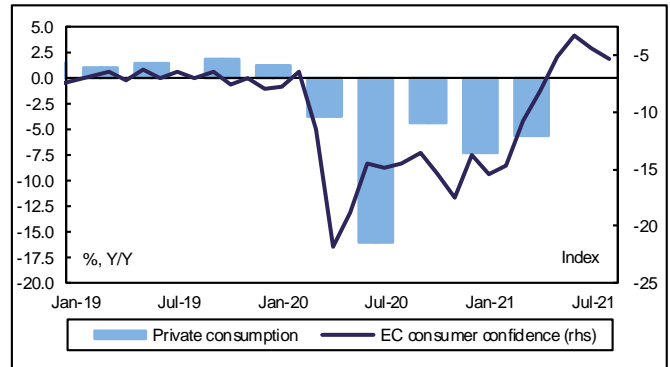
The day ahead in the UK

Tomorrow is a quiet day for UK economic data, with no releases scheduled.

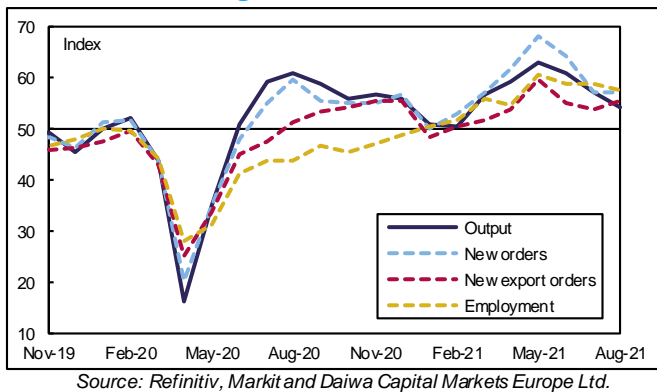
Germany & France: Manufacturing & services PMIs



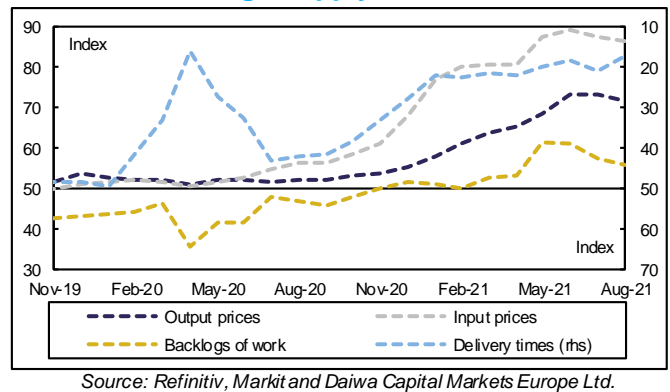
Euro area: Consumer confidence and spending



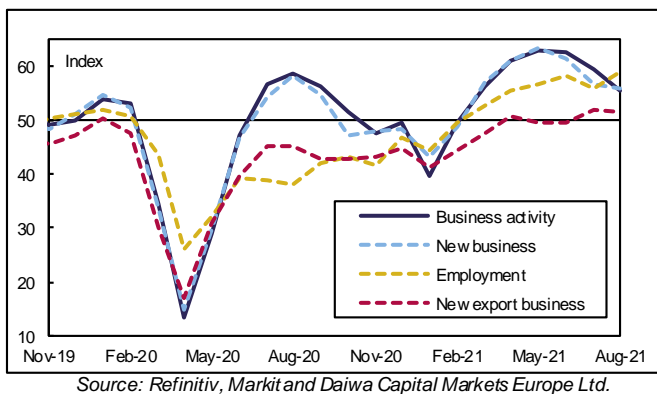
UK: Manufacturing – demand side



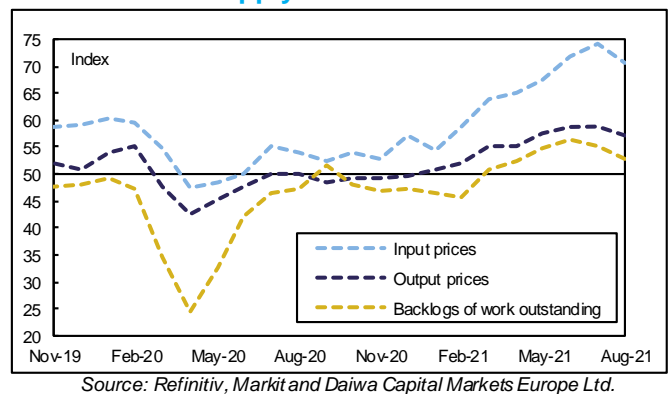
UK: Manufacturing – supply side













UK: Services – demand side






UK: Services – supply side



European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Preliminary manufacturing (services) PMI	Aug	61.5 (59.7)	62.0 (59.5)	62.8 (59.8)	-
	 Preliminary composite PMI	Aug	59.5	59.6	60.2	-
	 European Commission preliminary consumer confidence	Aug	-5.3	-4.8	-4.4	-
Germany	 Preliminary manufacturing (services) PMI	Aug	62.7 (61.5)	65.0 (61.5)	65.9 (61.8)	-
	 Preliminary composite PMI	Aug	60.6	62.3	62.4	-
France	 Preliminary manufacturing (services) PMI	Aug	57.3 (56.4)	57.2 (56.3)	58.0 (56.8)	-
	 Preliminary composite PMI	Aug	55.9	56.1	56.6	-
UK	 Preliminary manufacturing (services) PMI	Aug	60.1 (55.5)	59.5 (59.1)	60.4 (59.6)	-
	 Preliminary composite PMI	Aug	55.3	58.5	59.2	-
	 CBI industrial trends survey, total orders	Aug	18	16	17	-
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases						
Economic data						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Germany		08.30 GDP – 2 nd estimate Q/Q% (Y/Y%)	Q2	1.5 (9.2)	-2.1 (-3.1)	
Auctions and events						
Germany		10.30 Auction: €3bn of 0% 2028 bonds				
UK		10.00 Auction: £3bn of 0% 2026 bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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