

Euro wrap-up

Overview

- Bunds were little changed as updated German GDP figures brought a modest upwards revision to growth in Q221 and confirmed that household consumption principally supported the recovery.
- Gilts were also little changed on a quiet day for UK economic news.
- Tomorrow will bring the German ifo business sentiment indicators and a UK retail sector survey.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.758	-0.001
OBL 0 10/26	-0.741	+0.005
DBR 0 08/31	-0.479	+0.003
UKT 0 ¹ / ₈ 01/23	0.124	+0.008
UKT 0 ¹ / ₈ 01/26	0.269	+0.008
UKT 4 ³ / ₄ 12/30	0.537	+0.002

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

Source: Bloomberg

Euro area

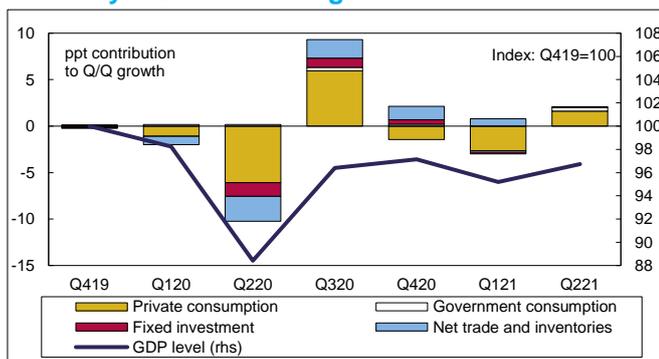
German Q2 GDP revised a touch higher, supported by households

There was a very modest upwards revision to Germany's second estimate of Q2 GDP, with growth estimated to have risen 1.6%Q/Q (compared with 1.5%Q/Q in the initial release). While this left output up 9.4%Y/Y, it failed to fully reverse the decline seen in Q1 (similarly upwardly revised by 0.1ppt to -2.0%Q/Q). And so, output was still 3.3% lower than the pre-pandemic level in Q419. Moreover, Germany's economy was the only one of the larger member states to contract during the first half of the year, with the Bundesbank yesterday acknowledging that the economy had underperformed its expectations. Within the expenditure breakdown – released for the first time today – the gradual easing of lockdown restrictions in mid-May saw household consumption unsurprisingly increase by a solid 3.2%Q/Q in Q2 to fully account for the quarterly GDP growth. Indeed, spending on clothing and hospitality surged 30%Q/Q and 37%Q/Q respectively. But the rebound in total household expenditure followed a decline of more than 5%Q/Q in Q1 and more than 2½%Q/Q in Q4, to leave the level still some 8% below the pre-pandemic level. Government expenditure also provided support (up 1.8%Q/Q to account for 0.4ppt of growth), while fixed investment rose 0.5%Q/Q following a 0.7% drop in Q1. This left the level of fixed investment just shy of its pre-pandemic level (0.6%), with investment in construction up 0.3%Q/Q to be 2.4% above the pre-crisis level, while spending on machinery and equipment was also up 0.3%Q/Q in Q2 albeit still 5.5% below Q419. But while exports rose for the fourth consecutive quarter, the pace of growth slowed notably to just 0.5%Q/Q. And with imports up a solid 2.1%Q/Q, net trade was a drag (0.6ppt) on growth for the second successive quarter.

Services boosted by looser restrictions; manufacturing hit by supply bottlenecks

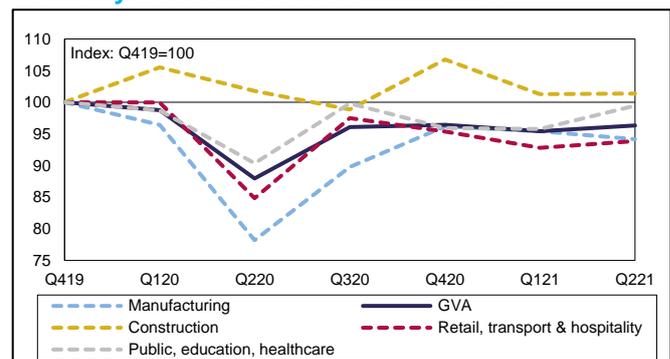
Looking at gross value added, today's report inevitably showed that services activity saw the strongest rates of growth, with public service providers including education and healthcare up 3.8%Q/Q. Retail, transport and hospitality also saw a return to positive growth for the first quarter in three, albeit up a more modest 1.1%Q/Q. Meanwhile, there was negligible growth in output in the construction sector, perhaps reflecting ongoing delivery constraints in the sector. Supply bottlenecks were undoubtedly a key factor of the ongoing weakness in the manufacturing sector too, with output down a further 1.3%Q/Q in Q2. Yesterday's flash PMIs offered tentative signs that delivery bottlenecks in Germany's manufacturing sector, while still significant, are not worsening. And with order books in both the manufacturing and construction sectors elevated, as and when these constraints ease, activity in these sectors should rebound strongly. Those services sectors predominantly hit by the pandemic – i.e. hospitality and travel – should continue to benefit from pent-up demand over the summer. And a still-elevated savings ratio should also help support household consumption. As such, the Bundesbank expects GDP to rise

Germany: GDP level and growth contributions



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: GVA and selected industries



Source: Destatis and Daiwa Capital Markets Europe Ltd.

rapidly during the summer. And while it recognises downside risks from the spread of the delta variant and slowdown in the vaccination programme, the Bundesbank still expects output to return to its pre-pandemic level by the autumn at the latest.

The day ahead in the euro area

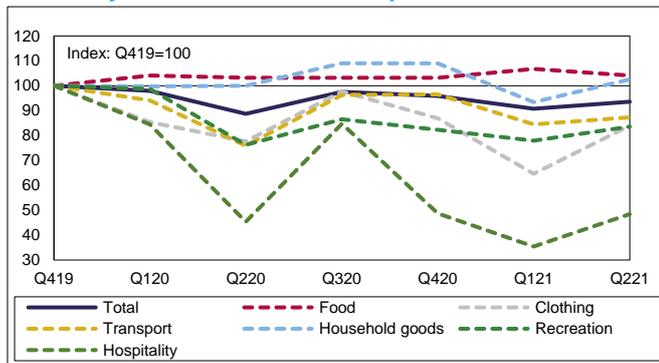
Tomorrow will bring the German ifo business sentiment survey for August. Consistent with yesterday's [flash PMIs](#), these are likely to show that confidence moderated again this month as the recent rise in coronavirus cases and persistent supply bottlenecks weigh. Indeed, the headline business climate is expected to have fallen to a three-month low (circa 100.4), although this would still remain considerably higher than the average level seen over the past two years.

UK

The day ahead in the UK

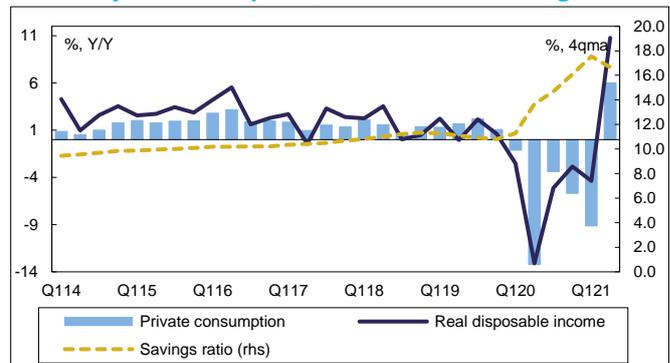
After a quiet day for economic news, tomorrow will bring the CBI's distributive trades survey for August. Official retail sales figures fell in July to cause the annual pace of growth narrow considerably as households substituted spending on goods for services as the final restrictions eased. And with still pent-up demand for services, tomorrow's survey is likely to suggest a further easing in the annual increase in sales this month.

Germany: Household consumption



Source: Destatis and Daiwa Capital Markets Europe Ltd.

Germany: Consumption, income and savings



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
Germany 	GDP – 2 nd estimate Q/Q% (Y/Y%)	Q2	1.6 (9.4)	1.5 (9.2)	-2.1 (-3.1)	-2.0 (-)

Auctions

Country	Auction
Germany 	sold €2.5bn of 0% 2028 bonds at an average yield of -0.65%
UK 	sold £3bn of 0% 2026 bonds at an average yield of 0.324%

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	Ifo business climate index	Aug	100.4	100.8
Germany 	08.30	Ifo current situations (expectations) balance	Aug	100.8 (100.2)	100.4 (101.2)
UK 	11.00	CBI distributive trades survey, reported sales	Aug	20	23

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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