

# Euro wrap-up

## Overview

- Bunds were little changed as French consumer confidence fell back from its recent multi-year high while Italian consumer confidence edged higher.
- Gilts made gains as UK GDP data aligned with subdued expectations.
- Thursday will bring data for euro area bank lending as well as new survey results for German consumer confidence and the UK retail sector.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 06/19	-0.663	-0.015
OBL 0 10/22	-0.158	-0.015
DBR 0½ 08/27	0.557	-0.009
UKT 1¾ 07/19	0.275	-0.035
UKT 0½ 07/22	0.588	-0.027
UKT 4¼ 12/27	1.230	-0.028

\*Change from close as at 4.30pm BST.  
Source: Bloomberg

## Euro area

### French consumers less upbeat as Macron reality bites

In the wake of Emmanuel Macron's election victories in May and June, French consumer confidence soared last month to the highest level in a decade. However, Macron's honeymoon period looks to have been a short one, with his popularity ratings recently dropping significantly as various interest groups – such as public sector workers, the military and older people – expressed alarm at the new administration's detailed proposals to cut public expenditure. And with that decline in public approval for Macron, so too has overall French consumer sentiment seemingly deteriorated, with the headline INSEE sentiment index falling in July from 108 to 104 – the biggest single-month decline in four years – as respondents revised down expectations with respect to their future personal financial situations and standards of living. Nevertheless, the survey's index of willingness to make major purchases remained stable at a multi-year high, and the headline index was still the second-highest reading this year. So, we are not alarmed and expect consumer spending to remain the principal source of French economic growth over coming quarters.

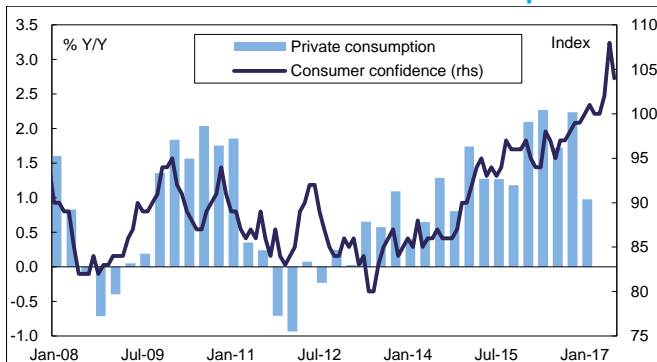
### Italian consumer sentiment stabilises after recent slide

In contrast to the upbeat trend in most member states, Italian consumer confidence has been more subdued over recent months, with the headline index of sentiment having fallen to a more than two-year low in May. That deterioration, which was likely at least in part related to increased political uncertainty associated with Renzi's referendum failure and unease about weaknesses in the Italian banking sector, coincided with a slowing in personal consumption from the multi-year high rates of 1½%Y/Y and above when consumer confidence peaked in H215 and H116. Perhaps reassuringly, therefore, with gradual progress being made in tackling the problems in the banking sector without imposing losses on retail investors, consumer confidence appears to have stabilised. Indeed, the headline ISTAT index of consumer confidence rose in July for the second successive month albeit only to a three-month high, still below the average rate for the year to-date, and well below the top of the range of the past couple of years. And the survey suggested no increased readiness to boost spending on durable goods over the coming year. So, we expect Italian consumer spending to continue to grow only a touch above 1%Y/Y over coming quarters, with risks of a further slowing around the turn of the year as household concerns rise due to heightened uncertainties related to the forthcoming general election and the impact of a likely slower rate of ECB asset purchases.

### The day ahead in the euro area and US

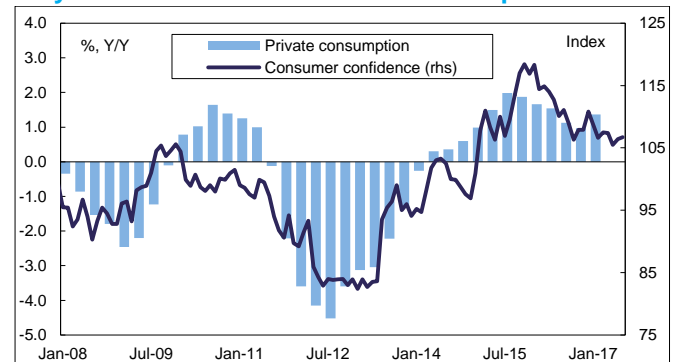
Thursday brings the latest German GfK consumer confidence survey, for which the headline index reached a sixteen-year high last month. Euro area bank lending data for June are also due, with loans to households having risen in May at the fastest rate in eight years and the flow of net new loans to businesses also close to the top of the post-crisis range.

### France: Consumer confidence & consumption



Source: INSEE, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Italy: Consumer confidence & consumption



Source: ISTAT, Thomson Reuters and Daiwa Capital Markets Europe Ltd.



In the US, preliminary durable goods order data for June are due along with the advanced goods trade report and inventory data for the same month. The latest weekly claims figures are also scheduled for release. In addition, the US Treasury will sell 7Y notes.

## UK

### GDP growth remained weak in Q2

Mixed signals from recent UK economic data had left greater uncertainty than usual about what the first estimate of Q2 GDP growth might bring. But there was no particular drama in today's figures, with the rate of growth aligning with expectations of 0.3%Q/Q. This represented an increase of only 0.1ppt from Q1, when growth slowed sharply from 0.7%Q/Q to 0.2%Q/Q. Taking the first two quarters of the year together, GDP growth was the slowest since Q412-Q113, the period immediately following the London Olympics. Within the output breakdown, there was a bounce back in services growth to 0.5%Q/Q, up from 0.1%Q/Q at the start of the year (but still below the 0.6-0.9%Q/Q rates seen in 2016), with the retail sector providing the largest positive growth contribution. However, other output categories were disappointing: construction activity declined by 0.9%Q/Q, while industrial output fell by 0.4%Q/Q, as growth in manufacturing, its largest subcomponent, was curbed by a 6.3%Q/Q drop in vehicle production.

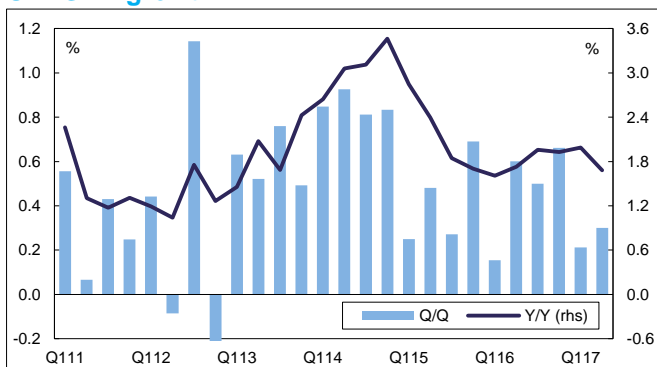
### MPC set to keep monetary policy unchanged

The weak quarterly growth left the Y/Y number down 0.3ppt to 1.7%Y/Y, significantly below the 2.1%Y/Y pace the BoE expected in its May forecast. And considering that the latest downward surprise to CPI inflation, when the headline rate declined from 2.9%Y/Y to 2.6%Y/Y, left the quarterly reading for Q2 back in line with the BoE's inflation forecast, the likelihood that more MPC members will join those voting for a rate hike now looks to be zero. Meanwhile, today's figures also highlighted the fact that living standards are barely growing: on a per capita basis, GDP increased by only 0.1%Q/Q, having been flat in Q1. And with the latest indicators continuing to suggest that household budgets remain under pressure and against a backdrop of Brexit-related risks to economy, we expect that MPC will leave policy unchanged into next year.

### The day ahead in the UK

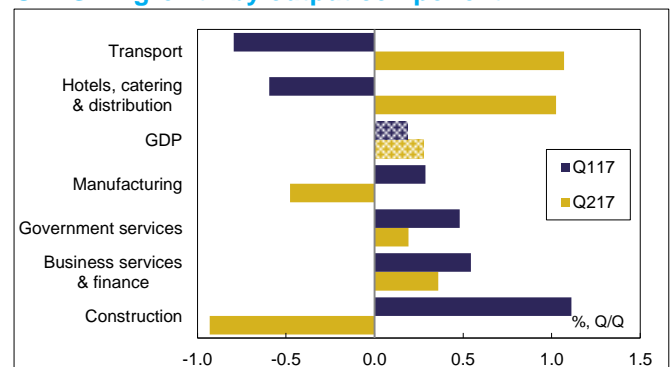
The CBI Distributive Trades survey will be the most notable release in the UK tomorrow. Retail sales recovered in Q2 after a sharp fall in Q1 to leave growth in the first half of the year broadly unchanged. And tomorrow's figures are expected to indicate that momentum in the retail sector was moderately positive in July.

#### UK: GDP growth












Source: ONS, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

#### UK: GDP growth by output component







Source: ONS, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
France	 Consumer confidence survey	Jul	<b>104</b>	108	108	-
Italy	 Consumer confidence indicator	Jul	<b>106.7</b>	106.3	106.4	-
	 Manufacturing (economic) confidence	Jul	<b>107.7 (105.5)</b>	107.0 (-)	107.3 (106.4)	<b>-(106.3)</b>
Spain	 Retail sales Y/Y%	Jun	<b>2.5</b>	2.2	2.4	<b>2.8</b>
UK	 GDP – 1st release Q/Q% (Y/Y%)	Q2	<b>0.3 (1.7)</b>	<u>0.3 (1.7)</u>	0.2 (2.0)	-
	 Index of services M/M% (3M/3M%)	May	<b>0.2 (0.4)</b>	0.1 (0.4)	0.2 (0.2)	<b>0.1 (-)</b>
	 BBA loans for house purchase 000s	Jun	<b>40.2</b>	40.0	40.3	-
Auctions						
Country	Auction					
Italy sold	 €2bn of 0% 2019 bonds (30-May-2019) at an average yield of -0.16%					
	 €1.25bn of 1.3% 2028 index-linked bonds (15-May-2028) at an average yield of 1.24%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases						
Economic data						
Country	BST	Release	Period	Market consensus/ <u>Daiwa forecast</u>	Previous	
EMU	09:00	 M3 money supply Y/Y%	Jun	5.0	5.0	
Germany	07:00	 GfK consumer confidence survey	Aug	10.6	10.6	
	07:00	 Retail sales* M/M% (Y/Y%)	Jun	0.2 (2.7)	0.5 (4.8)	
UK	11:00	 CBI Distributive Trades survey, retail sales	Jul	10	12	
Auctions and events						
Country	BST	Auction / Event				
- Nothing scheduled -						

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

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