

Euro wrap-up

Overview

- Gilts made gains as UK retail data showed a drop in sales in June.
- Longer-dated Bunds followed USTs higher as the euro area dataflow brought no noteworthy releases.
- After a quiet end to the working week tomorrow, the focus in the coming week will be on Thursday's ECB policy announcement. Data-wise, latest sentiment surveys from the euro area and the UK will provide an update on how the major European economies are faring at the start of Q3.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/20	-0.630	+0.005
OBL 0 04/23	-0.305	-0.002
DBR 0½ 02/28	0.329	-0.011
UKT 2 07/20	0.728	-0.013
UKT 0¾ 07/23	0.965	-0.026
UKT 4¼ 12/27	1.184	-0.042

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

UK

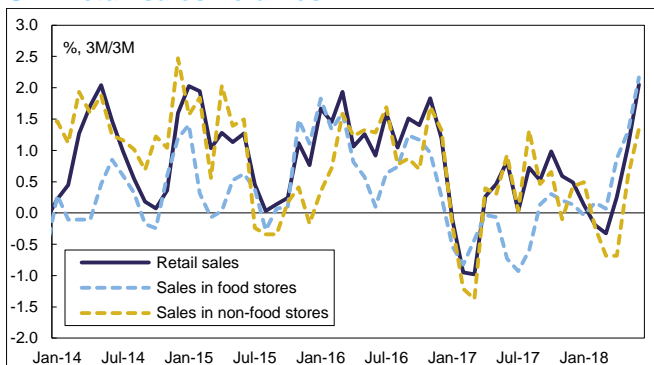
Heatwave on the High Street

High street spending posted an emphatic recovery in Q2, with retail sales volumes registering their fastest quarterly growth, of 2.1%Q/Q, since 2004. That's despite a fall in spending of -0.5%M/M in June alone, when something of a contraction was perhaps inevitable after the very robust increases seen in the previous couple of months. Furthermore the ONS highlighted that the hot weather, during one of the driest Junes on record, and the England team's unexpectedly prolonged stay in the World Cup kept shoppers away from the High Street. Non-food sales were dented to the tune of -1.1%M/M in the latest month. However, this detracted little from the strong performance of these categories of sales in April and May (when the early arrival of summer is thought to have brought forward clothing sales in particular) and still resulted in clothing and household goods sales rising by a striking 1.6%Q/Q and 4.3%Q/Q respectively. Food and beverage sales meanwhile benefited in June as Brits ate and drank their way through World Cup matches, resulting in the best quarterly performance, up 2.2%Q/Q, for seventeen years. The ONS estimates that total retail spending added 0.11ppt to Q2 GDP growth. That leaves growth comfortably on track to meet the BoE – and our – forecast of 0.4%Q/Q. Accordingly, despite the benign June inflation figures revealed yesterday, these sales numbers further our expectations of a Bank Rate hike from the MPC on 2 August. Consistent with the CPI data, the retail sales deflator measure of inflation came in at 2.3%Y/Y in June, down 0.1ppt from May, with higher petrol prices offset by weaker inflation of other goods. Looking ahead, the still very subdued growth of real wages, and mounting uncertainty about the path of Brexit, may cause the pace of spending growth to moderate.

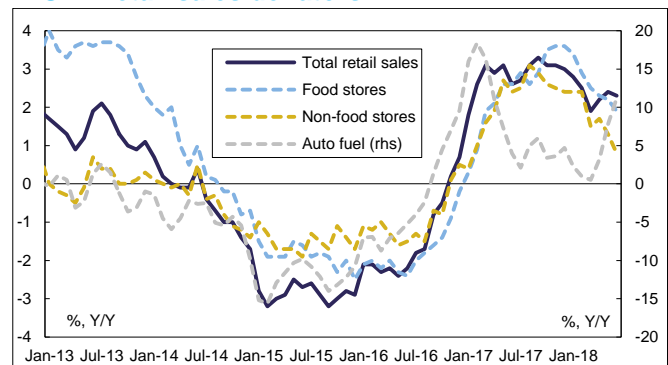
The week ahead in the UK

It should be a relatively quiet week in the UK: the summer recess at the UK Parliament, which starts on Tuesday, means that political affairs should settle down for a while, and the economic dataflow will likely generate few news headlines. Indeed, the only noteworthy releases are Tuesday's quarterly CBI Industrial Trends Survey and the Distributive Trades survey, by the same CBI, on the following day. The latter will provide first indications on whether we can expect the retail sector activity to continue supporting GDP growth in Q3. The UK Finance lending data are also due for release on Wednesday. In the bond market, the DMO will issue £2.75bn of 1% 6Y Gilts on Tuesday.

UK: Retail sales volumes



UK: Retail sales deflators



Euro area

The week ahead in the euro area and US

The main event of the coming week will be Thursday's conclusion of the ECB's monetary policy meeting, the first to be held since the agreement last month to end its net asset purchases by the end of the year and issue new forward guidance on interest-rate and reinvestment policy. We do not expect any significant news to emerge, with Draghi likely to stick very much to the language agreed in June despite the continued soft tone to the recent economic data.

That said, in his press conference following the June meeting, Draghi had emphasised that the Governing Council still retained some "flexibility and optionality" for monetary policy going forward, and underlined that policy would remain data-dependent – a point subsequently reinforced by the published account. So, policy is certainly not set in stone. Nevertheless, while the account also acknowledged "signs that the slowdown identified in the first quarter was likely to extend into the second quarter in a number of countries and would imply downside risks regarding the near term" it added that "short-term fluctuations should be of limited relevance from a medium-term perspective". Therefore, despite concerns about recent weak data, including yesterday's downwards revision to core inflation in June to just 0.9%Y/Y, we do not expect Draghi to give any hint that the ECB is yet willing to revisit its overall policy stance.
















Last month, Draghi had also insisted that the Governing Council members were unanimous in their support for the policy statement, a point also subsequently noted in the published account. However, differences of opinion among some members of the Governing Council have since emerged about the precise meaning of certain aspects of policy, e.g. whether the expectation that rates will remain unchanged "at least through the summer of 2019" precludes a rate hike in September next year. And there also appear to be a range of views about how the reinvestment policy might evolve over coming quarters. We do not think that a rate hike in September 2019 can be ruled out, although recent data might suggest that is becoming less likely. And, despite the Bundesbank's recent exhortations, future innovations to the reinvestment policy – such as greater flexibility over the timing of reinvestments to facilitate larger-scale purchases at times of upwards pressure on yields, and/or a future 'operation twist' initiative to anchor longer-dated yields once net asset purchases have ended and the first rate hikes come into view – might well emerge in due course. However, at the coming meeting, we do not expect Draghi to offer any additional clarity on these points. Instead, he'll likely remain deliberately vague.

Data-wise, tomorrow will represent a relatively uneventful end to the week, with just the ECB's euro area balance of payments report for May due. However, the coming week will be a busy one, dominated by economic survey results, but with the first GDP numbers for Q2 also scheduled for release. Those GDP data will come from France next Friday, and we expect growth in the euro area's second largest member state to have picked up 0.1ppt from Q1 to 0.3%Q/Q, still well down on last year's average of 0.7%Q/Q. Before that report, the week will get underway with July's flash estimate of euro area consumer confidence, which fell in June to an eight-month low, albeit still remaining historically high. The following day will bring the July flash PMIs, for which the June figures had provided a rare upside surprise, with the headline euro area composite PMI picking up for the first time since January to above the Q2 average thanks to improvement in the services sector, albeit with the manufacturing PMI falling to the lowest since end-2016. Wednesday, meanwhile, will bring the release of Germany's July Ifo business survey and euro area bank lending figures for June. Finally, on Thursday, ahead of the ECB's announcement, national consumer sentiment survey results from Germany, France and Italy are due. In the markets, Germany will sell 5Y Bunds on Wednesday while Italy will sell zero-coupon and inflation-linked bonds on Thursday.

In the US, tomorrow will be very quiet with no new economic data due. Looking ahead to the coming week, the most notable release are due in the second half – on Thursday we will receive the advance goods trade report and durable good's orders data for June, while Friday brings the first estimate of Q2 GDP. After a relatively modest increase in GDP at the start of the year of 2.0%Q/Q annualised, expectations are for a sharp acceleration. Indeed, a reading above 4.0%Q/Q annualised, which would be consistent with the latest Atlanta Fed GDP now estimate, would not be a big surprise, although calculations of other regional Feds, New York and St Louis, suggest somewhat more moderate increases. Meanwhile, the first half of the week will be dominated by housing market data. Existing home sales figures are due on Monday, with the FHFA price indices out on Tuesday and new homes sales on Wednesday. Survey data will be watched too: Tuesday's preliminary PMIs and Friday's University of Michigan consumer confidence indices will provide an update on changes in economic sentiment at the start of Q3.

In the absence of significant news, the next edition of the Euro wrap-up will be published on 24 July 2018.

Daiwa economic forecasts



	2018				2019				2017	2018	2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q											
Euro area 	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	2.6	2.0	1.6
Germany 	0.3	0.5	0.4	0.5	0.4	0.5	0.4	0.5	2.5	2.0	1.8
France 	0.2	0.3	0.4	0.3	0.4	0.3	0.4	0.4	2.3	1.7	1.5
Italy 	0.3	0.2	0.3	0.2	0.3	0.2	0.3	0.3	1.6	1.2	1.0
Spain 	0.7	0.5	0.6	0.6	0.5	0.5	0.5	0.5	3.1	2.6	2.2
UK 	0.2	0.4	0.3	0.3	0.3	0.3	0.3	0.3	1.7	1.2	1.2
Inflation forecasts %, Y/Y											
Euro area											
Headline CPI 	1.3	1.7	1.9	1.7	1.5	1.4	1.4	1.5	1.5	1.7	1.5
Core CPI 	1.0	0.9	1.0	1.1	1.1	1.2	1.3	1.4	1.0	1.0	1.3
UK											
Headline CPI 	2.7	2.4	2.2	1.9	1.9	1.9	1.9	1.9	2.7	2.3	1.9
Core CPI 	2.5	2.0	1.8	1.7	1.7	1.9	1.9	1.9	2.4	2.0	1.9
Monetary policy											
ECB											
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate % 	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.25	-0.25	-0.40	-0.40	-0.25
Net asset purchases* 	30	30	30	15	0	0	0	0	60	15	0
BoE											
Bank Rate % 	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.50	0.75	0.75
Net asset purchases** 	0	0	0	0	0	0	0	0	0	0	0

*Monthly target €bn, end of period. **Monthly target £bn, 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
UK	 Retail sales excluding auto fuel M/M% (Y/Y%)	Jun	-0.6 (3.0)	0.1 (3.7)	1.3 (4.4)	1.4 (4.5)
	 Retail sales including auto fuel M/M% (Y/Y%)	Jun	-0.5 (2.9)	0.2 (3.5)	1.3 (3.9)	1.4 (4.1)

Auctions

Country	Auction
France sold	 €3.3bn of 0% 2021 bonds (25-Feb-2021) at an average yield of -0.425%
	 €4.2bn of 0% 2024 bonds (25-Mar-2024) at an average yield of 0.01%
	 €490mn of 0.1% 2025 index-linked bonds (01-Mar-2025) at an average yield of -1.1%
	 €795mn of 0.7% 2030 index-linked bonds (25-Jul-2030) at an average yield of -0.7%
	 €330mn of 0.1% 2047 index-linked bonds (25-Jul-2047) at an average yield of -0.24%
Spain sold	 €1.3bn of 0.35% 2023 bonds (30-Jul-2023) at an average yield of 0.313%
	 €1.1bn of 2.35% 2033 bonds (30-Jul-2033) at an average yield of 1.798%
	 €831 mn of 5.9% 2026 bonds (30-Jul-2026) at an average yield of 0.953%
	 €1.3bn of 1.4% 2028 bonds (30-Jul-2028) at an average yield of 1.308%
UK sold	 £2bn of 1.75% 2057 bonds (22-Jul-2057) at an average yield of 1.6%

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	Current account balance €bn	May	-	28.4
Germany	07:00	PPI M/M% (Y/Y%)	Jun	0.3 (3.0)	0.5 (2.7)
Spain	09:00	Trade balance €bn	May	-	3.1
UK	09:30	Public sector net borrowing excluding interventions £bn	Jun	5.0	5.0

Auctions and events

Country	BST	Auction / Event
- Nothing scheduled -		







Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

Key data releases						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Monday 23 July 2018						
EMU		14:45 ECB public sector asset purchases €bn	Weekly	<u>4.8</u>	9.0	
		15:00 Consumer confidence indicator	Jul	-0.7	-0.5	
Tuesday 24 July 2018						
EMU		09:00 Preliminary manufacturing PMI	Jul	54.7	54.9	
		09:00 Preliminary services PMI (preliminary composite PMI)	Jul	55.0 (54.8)	55.2 (54.9)	
Germany		08:30 Preliminary manufacturing PMI	Jul	-55.7	55.9	
		08:30 Preliminary services PMI (preliminary composite PMI)	Jul	54.5 (54.8)	55.2 (54.9)	
France		07:45 Business sentiment indicator	Jul	-	106	
		07:45 Manufacturing confidence (production outlook) indicator	Jul	-	110 (14)	
		08:00 Preliminary manufacturing PMI	Jul	-	52.5	
		08:00 Preliminary services PMI (preliminary composite PMI)	Jul	-	55.9 (55.0)	
UK		11:00 CBI Industrial Trends Survey, total orders	Jul	10	13	
Wednesday 25 July 2018						
EMU		09:00 M3 money supply Y/Y%	Jun	-	4.0	
Germany		09:00 Ifo business climate index	Jun	101.6	101.8	
		09:00 Ifo current assessment balance (expectations)	Jun	104.9 (98.6)	105.1 (98.6)	
France		08:00 PPI M/M% (Y/Y%)	Jun	-	0.6 (2.9)	
Spain		08:00 PPI M/M% (Y/Y%)	Jun	-	1.1 (2.9)	
UK		09:30 UK Finance mortgage approvals 000's	Jun	-	3.9	
		11:00 CBI Distributive Trades survey, retail sales	Jul	-	18	
Thursday 26 July 2018						
EMU		12:45 ECB Main Refinancing rate	Aug	<u>0.000%</u>	0.000%	
		12:45 ECB Marginal Lending Facility rate	Aug	<u>0.250%</u>	0.250%	
		12:45 ECB Main Deposit rate	Aug	<u>-0.400%</u>	-0.400%	
Germany		07:00 GfK consumer confidence indicator	Aug	10.7	10.7	
France		07:45 Consumer confidence indicator	Jul	-	97	
Italy		09:00 Consumer confidence indicator	Jul	-	116.2	
		09:00 Manufacturing confidence indicator	Jul	-	106.9	
		09:00 Economic sentiment indicator	Jul	-	105.4	
Spain		08:00 Unemployment rate %	Q2	-	16.7	
Friday 27 July 2018						
France		06:30 GDP – first estimate Q/Q% (Y/Y%)	Q2	<u>0.3 (1.9)</u>	0.2 (2.2)	
		07:45 Consumer spending M/M% (Y/Y%)	Jun	-	0.9 (-0.2)	
Spain		08:00 Retail sales Y/Y%	Jun	-	-0.3	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions		
Country	BST	Event / Auction
Monday 23 July 2018		
UK		18:00 BoE's Broadbent speaks in London
Tuesday 24 July 2018		
UK		10:30 Auction: to sell £2.75bn of 1% 2024 bonds (22-Apr-2024)
Wednesday 25 July 2018		
Germany		10:30 Auction: to sell €4bn of 2023 bonds (13-Oct-2023)
Thursday 26 July 2018		
EMU		13:30 ECB's Draghi holds a press conference after a monetary policy decision
Italy		10:00 Auction: to sell zero bonds
		10:00 Auction: to sell index-linked bonds
Friday 27 July 2018		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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