

# Euro wrap-up

## Overview

- Bunds made modest gains today despite an upside surprise to the Commission's consumer confidence indicator. Bonos initially made losses after Spain's parliament voted against Sánchez's bid to be appointed as PM.
- Gilts also made small gains, as Johnson was confirmed as May's successor and a UK survey signalled very weak manufacturing orders.
- Tomorrow brings the euro area flash PMIs for July, while Boris Johnson will formally be invited to become the new UK Prime Minister.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 06/21	-0.779	-0.004
OBL 0 04/24	-0.721	-0.006
DBR 0¼ 02/29	-0.398	-0.010
UKT 1½ 01/21	0.486	-0.007
UKT 1 04/24	0.471	-0.015
UKT 1½ 10/28	0.686	-0.021

 \*Change from close as at 4.15pm BST.  
 Source: Bloomberg

## Euro area

### Consumer confidence ticks higher

Ahead of Thursday's ECB announcement, the European Commission's flash euro area consumer confidence indicator today further added to the decidedly mixed economic data of late, further supporting our view that the Governing Council will judge it appropriate to wait until September when it has updated staff economic forecasts before easing policy. In particular, consumer confidence unexpectedly improved at the start of Q3, with the headline index rising 0.6pt to -6.6 in July. While this is the second highest reading this year, it still maintained the broadly sideways trend seen since the start of the year and was well down on levels seen this time last year. So, having likely moderated in the second quarter, today's survey suggested that household spending growth is likely to remain relatively subdued in the third quarter too.

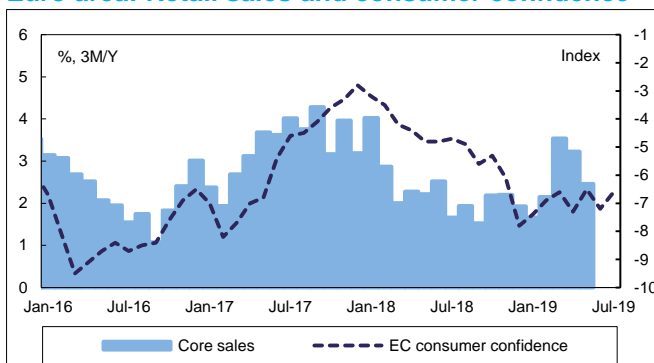
### Credit standards tightened in Q2, but loan demand increased

Elsewhere, today's quarterly ECB Bank Lending survey suggested that the forthcoming TLTRO-III programme in September might provide some timely relief after an unexpected tightening of credit standards over the past quarter. Indeed, having eased significantly over recent years, credit standards tightened for loans to enterprises for the first time in nine quarters as heightened uncertainties about the economic outlook and banks' diminished risk tolerances were accompanied by higher cost of funds and balance sheet concerns. Conditions on consumer credit continued to tighten further in Q2, while credit standards on loans for house purchases remained broadly unchanged. Nevertheless, with interest rates on new loans still close to historical lows, demand for loans from enterprises increased in Q2, driven principally by needs to finance fixed investment. Given extremely low interest rates and positive dynamics in the housing market, banks also reported a much larger-than-anticipated pickup in net demand for housing loans, which was above the historical average. While it was lower than expected, demand for consumer credit also increased in Q2. And encouragingly, despite increased uncertainty about the domestic and global outlook, banks expect continued net loan demand growth, from firms and households alike, in the third quarter of the year.

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

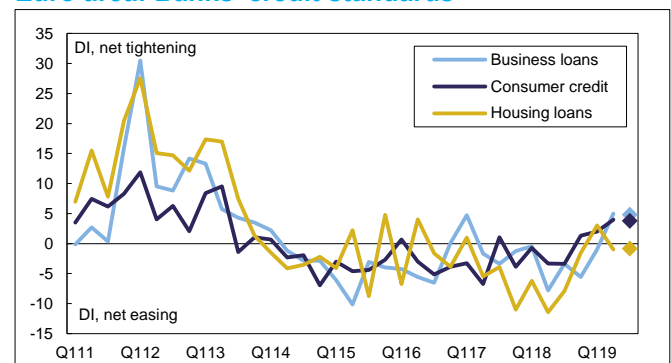
The focus in the euro area tomorrow will remain on sentiment surveys, with the flash manufacturing and services PMIs for July due for release. In June, the euro area services PMI edged up to an eight-month high (53.6). But the equivalent index for manufacturing weakened a little to remain firmly in contractionary territory (47.6). So, while the composite PMI rose to its highest level since October, at 52.2 it remained consistent with subdued economic growth. And, the PMIs are expected to be little changed in July, suggesting that economic momentum remained underwhelming at the start of Q3. The equivalent PMIs

### Euro area: Retail sales and consumer confidence



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

### Euro area: Banks' credit standards\*



\*Diamonds represent survey forecast for Q319. Source: ECB, Bloomberg and Daiwa Capital Markets Europe Ltd.



for Germany and France are similarly expected to signal subdued growth in July, with Germany's manufacturing sector likely to have remained a particular source of weakness at the start of Q3. In addition, tomorrow will bring the French INSEE business confidence survey for July and the ECB's latest lending figures for June.

In the US, tomorrow will bring a further update on the housing market in June, with new home sales figures likely to be boosted by lower interest rates and payback for notable declines in the previous two months. The flash Markit manufacturing and services PMIs for July are also scheduled for release. In the markets, the US Treasury will sell 2Y floating-rate and 5Y fixed-rate notes.

## UK

### Johnson confirmed as May's successor

As had been widely expected, populist Brexiter Boris Johnson was today confirmed as Theresa May's replacement as the new leader of the Conservative Party, defeating his opponent Jeremy Hunt by a convincing margin with two-thirds of the vote share. But his brief acceptance speech will have done little to reduce concerns about a no-deal Brexit, with his predictably jovial demeanor merely stating that he will deliver Brexit on 31 October but without offering any new insight into his plan for leaving the EU. Although he is scheduled to lay out his vision for the country in a speech on Friday in the North of England, we suspect this will continue to lack any meaningful near-term strategy. Moreover, we would expect Johnson to once again confirm his willingness to leave without a deal. So while European leaders pledged to work closely with Johnson on a number of matters, including Brexit, markets are likely to remain sceptical that any meaningful amendments to May's Brexit deal are possible in the current context of a fragmented Conservative Party and a divided parliament.

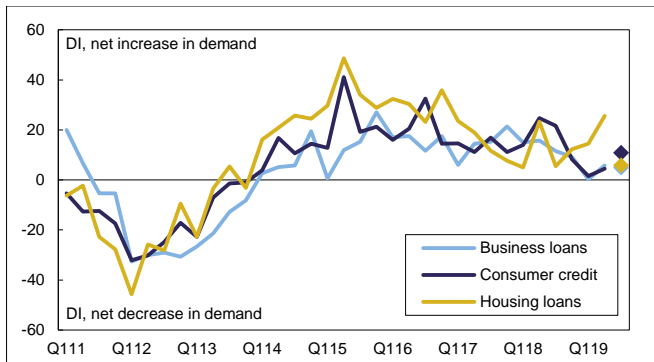
### Manufacturing orders decline at steepest pace in 9 years

So, concerns about the outlook for Brexit will continue to weigh on the UK's economy, with British manufacturers particularly exposed to the ongoing uncertainties. This was certainly the message from today's CBI Industrial Trends survey, which showed a further marked decline in orders at the start of Q3. Indeed, with weakness in domestic and external demand alike, the survey suggested that overall orders in July declined at the steepest pace for more than nine years, with order books below 'normal' levels to the greatest extent since 2010 too. And while manufacturers reportedly continued to increase inventories (albeit at a much more moderate pace than in the run-up to the end-March Brexit deadline), the survey's output indicator posted the second successive double-digit decline, to -11, the first negative reading since March 2016. So, with manufacturers' optimism about the year ahead at its weakest since the post-referendum trough, firms remained inevitably downbeat about the investment and employment intentions. Against this backdrop, one of the MPC's external members Michael Saunders – one of the more hawkish Committee members – today acknowledged in a Bloomberg interview that the underlying pace of growth was weak and below trend, with no signs that the economy was currently overheating.

### The day ahead in the UK

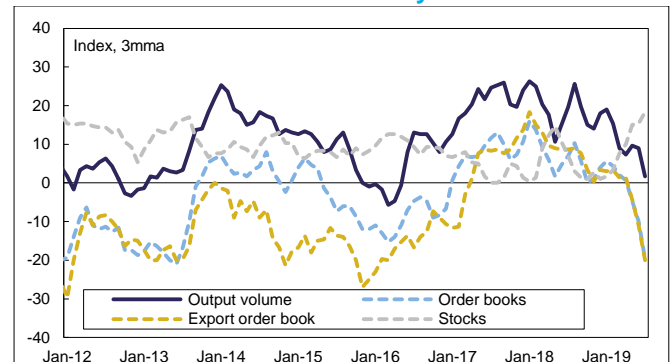
All eyes tomorrow will remain on UK politics as Theresa May will formally resign after taking questions in the House of Commons for the final time and Boris Johnson will be subsequently invited to become the new Prime Minister. Of course, tomorrow will be the final day that Labour's Jeremy Corbyn could table a vote of no-confidence for it to be held before the House of Commons rises for summer recess on Thursday.

### Euro area: Demand for bank loans\*







\*Diamonds represent survey forecast for Q319. Source: ECB, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### UK: CBI Industrial Trends survey













Source: Thomson Reuters 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
EMU	 Preliminary consumer confidence	Jul	<b>-6.6</b>	-7.3	-7.2	-
Spain	 Trade balance €bn	May	<b>-2.1</b>	-	1.6	-
UK	 CBI industrial trends survey - total orders (business optimism)	Jul	<b>-34 (-32)</b>	-15 (-)	-15 (-13)	-
Auctions						
Country	Auction					
UK sold	 £2.75bn of 0.875% 2029 bonds at an average yield of 0.789%					

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	Preliminary composite PMI	Jul	52.1	52.2	
	 09.00	Preliminary manufacturing PMI (services PMI)	Jul	47.6 (53.3)	47.6 (53.6)	
	 09.00	M3 money supply Y/Y%	Jun	4.6	4.8	
Germany	 08.30	Preliminary composite PMI	Jul	52.2	52.6	
	 08.30	Preliminary manufacturing PMI (services PMI)	Jul	45.0 (55.3)	45.0 (55.8)	
France	 07.45	Business confidence (manufacturing confidence)	Jul	106 (102)	106 (102)	
	 08.15	Preliminary composite PMI	Jul	52.5	52.7	
	 08.15	Preliminary manufacturing PMI (services PMI)	Jul	51.6	51.9 (52.9)	
UK	 09.30	UK Finance loans approved for house purchase £bn	Jun	52.6	42.4	
Auctions and events						
Country	BST	Auction / Event				
UK	 -	Conservative party leader to be invited to become the new Prime Minister				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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