

Euro wrap-up

Overview

- Bunds were little changed today, as sentiment surveys from France and Italy provided mixed messages.
- Gilts made modest gains on a quiet day for UK economic news.
- The coming week brings several top-tier euro area releases including the first estimates of Q2 GDP and July inflation on Wednesday. In the UK, the BoE's monetary policy decision and Inflation Report are due on Thursday.

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change*
BKO 0 06/21	-0.749	+0.007
OBL 0 04/24	-0.706	+0.004
DBR 0¼ 02/29	-0.413	-0.009
UKT 1½ 01/21	0.493	-0.013
UKT 1 04/24	0.480	-0.014
UKT 1½ 10/28	0.692	-0.017

*Change from close as at 4.00pm BST.

Source: Bloomberg

Euro area

French and Italian households upbeat

Consistent with the Commission's flash consumer confidence indicator published earlier this week, today's household surveys from France and Italy signalled an improvement in sentiment at the start of Q3. In particular, the French INSEE's headline confidence indicator increased for the seventh consecutive month in July, by 1pt to 102, a whopping 15pts higher than the 'gilets-jaunes'-related low in November, its highest level for eighteen months and above the long-run average. With households' assessment of their current and future financial situations up slightly, the share of households judging it to be a suitable time to make major purchases rose for the seventh successive month too, suggesting a further pickup in private consumption growth at the start of Q3. Italian consumers were also more upbeat in July, with the headline index rising a stronger-than-expected 3.6pts to 113.4, a six-month high, with households more positive about current and future economic conditions alike.

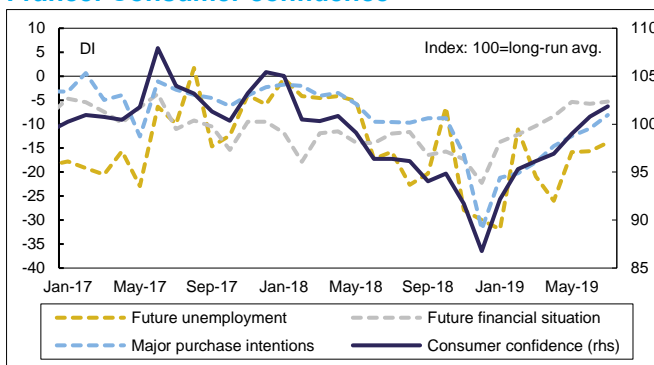
Italian manufacturers more downbeat

In marked contrast, business sentiment appears to have maintained a downward trend at the start of Q3. Consistent with the past week's dire [PMIs](#) and [German ifo](#) indices, today's ISTAT survey showed a further deterioration in Italian manufacturing conditions in July. In particular, the headline index fell for the ninth month out of the past ten to 100.1, a 4½-year low, reflecting a further decline in orders. Today's survey suggested that conditions in the services sector however were more stable, with the relevant indicator rising 1.2pt to 100.1, a four-month high. Retailers were also more optimistic, with the equivalent index up for the third consecutive month to 109.9, a nineteen-month high. But despite the improvement in the services and retail sectors, which took the overall business conditions index to the highest since October, sentiment still remains well down on the levels seen through the second half of 2017. And this no doubt will have continued to weigh on economic activity at the start of Q3.

The week ahead in the euro area and US

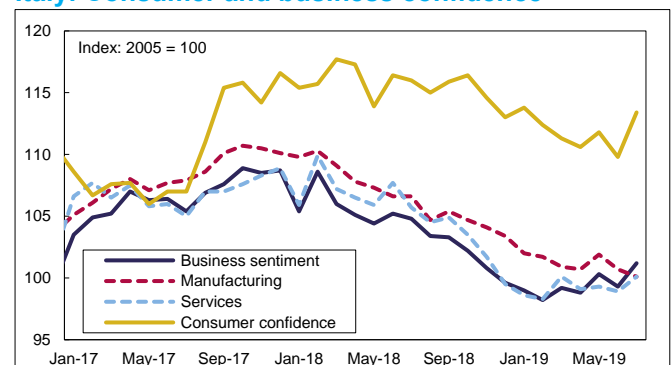
The coming week will bring a number of key economic releases from the euro area, including the first estimates of Q2 GDP and July inflation on Wednesday. In particular, Q2 GDP in the euro area is expected to show that growth slowed to 0.2%Q/Q, half the pace seen in Q1. We expect growth in France (figures due Tuesday) to have moderated by 0.1ppt to 0.2%Q/Q, but this is a touch below the consensus forecast. While Spain's economy likely continued to outperform other major member states, we also anticipate a slowdown in growth of 0.2ppt from Q1 to 0.5%Q/Q. And with Italy's economy set to have moved sideways (at best), year-on-year GDP growth will have remained negative. Wednesday will also bring the flash estimates of

France: Consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Italy: Consumer and business confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.


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July inflation from the euro area, France and Italy, with the equivalent figures for Germany due on Tuesday and Spain on Monday. Having surprised on the upside in June, euro area headline and core CPI are expected to have edged lower in July by 0.1ppt to 1.1%Y/Y and 1.0%Y/Y respectively.

The coming week will also bring the Commission's business and consumer surveys – which arguably provide the best guide to GDP growth in the euro area – for July on Tuesday. While the flash consumer confidence indicator unexpectedly improved at the start of the third quarter (rising 0.6pt in July to -6.6), business conditions are likely to have further deteriorated. So, the headline ESI is expected to have declined to a more-than three-year low. Certainly, the woes of the manufacturing sector will be evident in the final manufacturing PMIs (due Thursday), which are expected to show that the headline euro area index fell 1.2pts to 46.4, the lowest since 2012, suggesting that the contraction in the sector has deepened significantly. The following day will also bring euro area unemployment figures for June, followed on Friday by retail sales figures for the same month.

At a country level, German retail sales and French consumer spending figures for June will be published in the first half of the week, while German consumer confidence and the latest labour market figures will be published on Tuesday and Wednesday respectively. In the markets, Germany will sell 2Y bonds on Tuesday and 10Y bonds on Wednesday. Meanwhile, Italy will sell 5Y and 10Y bonds on Tuesday.

In the US, all eyes this week will of course be on the conclusion of the FOMC meeting on Wednesday, where the FFR target range is widely expected to be cut by 25bps to 2.00-2.25%. But attention will also be on the Fed's accompanying policy statement and Chair Powell's press conference for insights into the near-term policy path. Certainly, we would expect a relatively dovish assessment, underscoring the downside risks to the outlook from abroad and concerns that US inflation will remain below target for far longer than originally anticipated, therefore leaving the door open for further cuts this year.

It will be a busy week for economic data too, kicking off on Tuesday with the monthly personal income and spending figures for June, including the closely watched deflators. That day will also bring the Conference Board's consumer confidence survey for July, pending home sales figures for June and the S&P CoreLogic home price indices for May. Wednesday, meanwhile, will see the release of the employment cost index for Q2 and the ADP employment report for July, followed on Thursday by July's manufacturing ISM and June construction spending figures. All eyes on Friday will be on July's employment report, with non-farm payrolls expected to have risen a healthy 164k, albeit down from the surge (224k) in June. So the unemployment rate is expected to remain unchanged at 3.7%. Friday will also bring the full trade report for June, as well as factory orders figures for the same month. There are no UST bond auctions scheduled in the coming week.

UK
















The week ahead in the UK

After a quiet end to the week for UK economic news, the coming week looks set to be a busy one, with the main events being Thursday's announcement by the BoE of its latest monetary policy decision and publication of its August Inflation Report. We expect no changes to policy, with Bank Rate set to be left at 0.75%. But with Carney having recently noted increased downside risks to global and UK GDP growth, we would expect the MPC to be more downbeat about the near-term outlook. And with Bank staff last month having revised down their Q2 GDP forecast from 0.2%Q/Q to 0.0%Q/Q, we expect the Inflation Report to reveal downward revisions to the Bank's GDP growth forecasts and possibly its inflation projection too. Of course, with the appointment of Boris Johnson as Prime Minister increasing the risk of a no-deal Brexit on 31 October, the MPC's assessment of the economic effects of Brexit uncertainty will be in the limelight too. Given heightened downside risks, domestic and overseas alike, it would seem appropriate for the MPC to tweak its forward guidance that "were the economy to develop broadly in line with [the] May Inflation Report projections that included an assumption of a smooth Brexit, an ongoing tightening of monetary policy over the forecast period, at a gradual pace and to a limited extent, would be appropriate".




Thursday will also bring the most noteworthy data release of the coming week, with the July manufacturing PMI. In June, this survey was particularly disappointing, with the headline PMI declining for the third consecutive month and by 1.4pts to 48.0. The weakness in the output PMI was even more striking, down more than 3pts to 47.2. And we expect no improvement at the start of Q3, with the headline indices likely to signal ongoing marked contraction in the sector. This will be followed on Friday by the equivalent construction PMI, which, despite an anticipated improvement from the ten-year low of 43.1 in June, is likely to indicate another steep decline in activity. The first half of the week will bring the BoE's bank lending figures for June on Monday, followed by the GfK's consumer confidence and Lloyd's business surveys for July on Wednesday. There are no Gilt auctions scheduled in the coming week.

In the absence of significant news, the next edition of the Euro wrap-up will be published on 30 July 2019

Daiwa economic forecasts







































	2019				2020				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q											
Euro area 	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.1	1.8	1.0	0.8
Germany 	0.4	0.1	0.2	0.2	0.2	0.3	0.2	0.1	1.4	0.7	0.9
France 	0.3	0.2	0.3	0.3	0.3	0.3	0.2	0.2	1.6	1.1	1.1
Italy 	0.1	0.0	0.0	0.0	0.0	0.1	-0.1	-0.1	0.7	0.1	0.1
Spain 	0.7	0.5	0.4	0.4	0.4	0.4	0.4	0.3	2.6	2.3	1.6
UK 	0.5	-0.1	0.2	0.2	0.2	0.2	0.2	0.1	1.4	1.2	0.7
Inflation forecasts %, Y/Y											
Euro area											
Headline CPI 	1.4	1.4	1.0	1.0	1.4	1.3	1.4	1.5	1.8	1.2	1.4
Core CPI 	1.0	1.0	1.0	1.0	1.1	1.2	1.3	1.4	1.0	1.0	1.2
UK											
Headline CPI 	1.9	2.0	1.8	1.6	1.9	1.6	1.5	1.7	2.5	1.8	1.8
Core CPI 	1.9	1.7	1.7	1.7	1.8	1.9	1.8	1.7	2.1	1.7	1.8
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	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.40	-0.60	-0.60
Net asset purchases* 	0	0	0	50	50	50	0	0	15	50	0
BoE											
Bank Rate % 	0.75	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.75	0.50	0.50
Net asset purchases** 	0	0	0	0	0	0	0	0	0	0	0

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
France 	Consumer confidence	Jul	102	102	101	-	
Italy 	Business confidence (manufacturing confidence)	July	101.2 (100.1)	-(100.5)	99.3 (100.8)	-(100.7)	
	Consumer confidence	Jul	113.4	109.6	109.6	109.8	
	Hourly wages Y/Y%	Jun	0.7	-	1.4	-	
Auctions							
Country	Auction						
Italy 	sold €2bn of 0% 2021 bonds at an average yield of 0.041%						








Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Monday 29 July 2019						
Spain		08.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	0.6 (0.6)	0.4 (0.6)
		08.00	Retail sales Y/Y%	Jun	-	2.4
UK		-	Nationwide house price index* M/M% (Y/Y%)	Jul	0.2 (0.1)	0.1 (0.5)
		09.30	Net consumer credit £bn (Y/Y%)	Jun	0.9 (-)	0.8 (5.6)
		09.30	Mortgage lending £bn (approvals '000s)	Jun	3.5 (65.8)	3.1 (65.4)
Tuesday 30 July 2019						
EMU		10.00	Economic sentiment indicator	Jul	102.8	103.3
		10.00	Industrial confidence (services)	Jul	-6.5 (10.7)	-5.6 (11.0)
		10.00	Final consumer confidence	Jun	-6.6	-7.2
Germany		07.00	GfK consumer confidence	Aug	9.7	9.8
		13.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	1.5 (1.4)	1.6 (1.5)
France		06.30	Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>0.2 (1.0)</u>	0.3 (1.2)
		07.45	Consumer spending M/M% (Y/Y%)	Jun	0.2 (0.0)	0.4 (-0.1)
Wednesday 31 July 2019						
EMU		10.00	Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>0.2 (1.0)</u>	0.4 (1.2)
		10.00	Preliminary CPI (core CPI) Y/Y%	Jul	<u>1.1 (1.0)</u>	1.2 (1.1)
		10.00	Unemployment rate %	Jun	7.5	7.5
Germany		08.55	Unemployment rate % (change '000s)	Jul	5.0 (2.0)	5.0 (-1.0)
		07.00	Retail sales M/M% (Y/Y%)	Jun	0.5 (0.6)	-1.7 (4.0)
France		07.45	Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	1.1 (1.2)	1.2 (1.4)
Italy		09.00	Unemployment rate %	Jun	10.0	9.9
		10.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	0.5 (0.5)	0.7 (0.8)
		11.00	Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>0.0 (-0.2)</u>	0.1 (-0.1)
Spain		08.00	Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>0.5 (2.3)</u>	0.7 (2.4)
UK		00.01	GfK consumer confidence	Jul	-13	-13
		00.01	Lloyds business barometer	Jul	-	13
		00.01	BRC shop price index Y/Y%	Jul	-	-0.1
Thursday 1 August 2019						
EMU		09.00	Final manufacturing PMI	Jul	46.4	47.6
Germany		08.55	Final manufacturing PMI	Jul	43.1	45.0
France		08.50	Final manufacturing PMI	Jul	50.0	51.9
Italy		08.45	Manufacturing PMI	Jul	48.0	48.4
Spain		08.15	Manufacturing PMI	Jul	48.1	47.9
UK		09.30	Manufacturing PMI	Jul	49.2	48.0
		12.00	BoE Bank Rate %	Jul	<u>0.75</u>	0.75
Friday 2 August 2019						
EMU		10.00	Retail sales M/M% (Y/Y%)	Jun	0.3 (1.3)	-0.3 (1.3)
		10.00	PPI Y/Y%	Jun	0.9	1.6
Italy		09.00	Industrial production M/M% (Y/Y%)	Jun	-0.4 (-1.3)	0.9 (-0.7)
		10.00	Retail sales M/M% (Y/Y%)	Jun	-	-0.7 (-1.8)
Spain		08.15	Unemployment change '000s	Jul	-	-63.8
UK		09.30	Construction PMI	Jul	46.0	43.1

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

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 29 July 2019		
- Nothing scheduled -		
Tuesday 30 July 2019		
Germany		10.30 Auction: to sell €4bn of 0% 2021 bonds
Italy		10.00 Auction: to sell €2.75bn of 2.09% bonds
		10.00 Auction: to sell €2.25bn of 1.34% bonds
Wednesday 31 July 2019		
Germany		10.35 Auction: to sell €4bn of 0% 2021 bonds
		10.35 Auction: to sell €3bn of 0% 2029 bonds
Thursday 1 August 2019		
France		09.50 Auction: to sell 4.75% 2035 bonds
		09.50 Auction: to sell 2.75% 2027 bonds
		09.50 Auction: to sell 2.5% 2030 bonds
		10.50 Auction: to sell index-linked bonds
UK		12.00 BoE interest rate announcement
		12.00 BoE publishes its quarterly Inflation Report
Friday 2 August 2019		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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