

Euro wrap-up

Overview

- Bunds made modest gains after the Commission's survey reported a notable decline in economic sentiment in July, while Germany's flash harmonised inflation estimate fell more than expected.
- Gilts also made gains, while sterling fell to a more than two-year low against cable as concerns about a no-deal Brexit remained to the fore.
- Tomorrow will bring flash estimates of euro area Q2 GDP and July inflation. In the UK, a consumer and business sentiment survey are due.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/21	-0.757	+0.007
OBL 0 04/24	-0.720	-0.004
DBR 0¼ 02/29	-0.441	-0.008
UKT 1½ 01/21	0.452	-0.021
UKT 1 04/24	0.417	-0.027
UKT 1½ 10/28	0.637	-0.017

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

Euro area

Economic sentiment declines to four-year low

Last week's [flash PMIs](#) signalled a notable deterioration in business conditions in July, with the euro area composite index falling 0.7pt to 51.5, one of the lowest readings of the past six years and signalling a further moderation in GDP growth at the start of Q3. This downbeat message was today reaffirmed by the more comprehensive European Commission survey, with the headline euro area Economic Sentiment Index (ESI) falling 0.7pt to 102.7, the lowest in more than four years. Similar to the PMIs, the decline in Germany's ESI was most striking, down a further 2.4pts to 100.2, the lowest since mid-2013 and now only just above the long-run average. In contrast, France's ESI was unchanged on the month to a still-above-average 103.9, while there were modest improvements in Italy (up 1.4pts to 101.6) and Spain (up 0.6pt to 105.4). Perhaps unsurprisingly, the worsening in the euro area was led by a further marked decrease in industrial sector confidence to its lowest level for six years – to leave the index now below its long-run average – with production expectations, orders and employment plans notably lower. But service sector sentiment also fell to its lowest since September 2016 as firms' pessimism about near-term demand increased. And disappointingly, confidence among retailers and construction firms deteriorated too. So, the only bright spot of today's survey was the modest improvement in consumer confidence previously reported in the preliminary estimate.

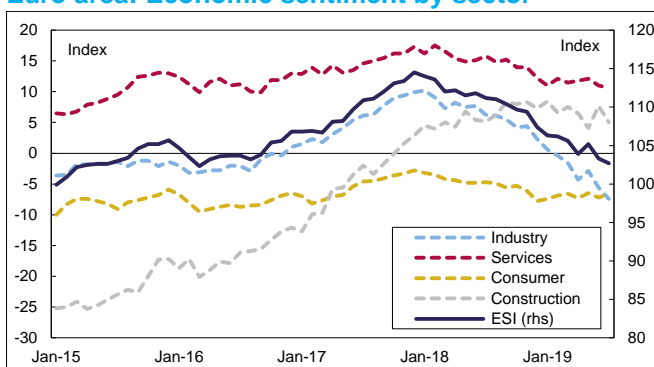
French GDP growth moderated in Q2

Sentiment surveys had previously signalled a slowdown in the euro area's economic momentum through the first half of the year. And the first of the Q2 GDP estimates today confirmed a moderation in growth in the second largest member state. In particular, in France, GDP growth declined 0.1ppt to 0.2%Q/Q, the softest pace for a year, to leave output up 1.3% compared with a year earlier. Household consumption was also softer in Q2, with growth of 0.2%Q/Q half the pace seen in Q1. But this contrasted with a pickup in government consumption and private sector investment growth, to leave final domestic demand accelerating slightly in Q2 and contributing 0.4ppt to GDP growth. So, with net trade providing a negligible contribution, growth was principally dragged lower by private sector inventories which provided a negative contribution of 0.2ppt, having boosted GDP by 0.3ppt in Q1.

German inflation provides mixed messages

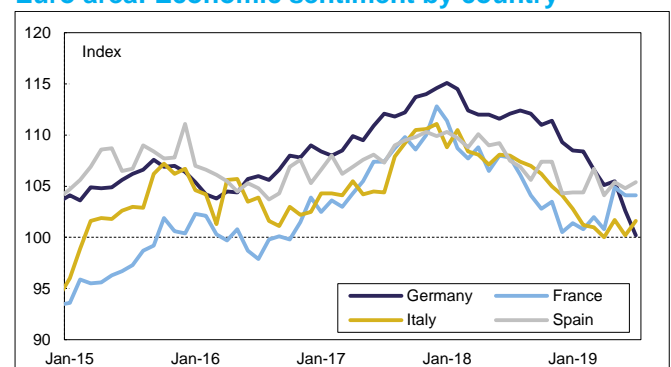
Today's Commission's survey was also more downbeat about the near-term inflation outlook. Selling price expectations declined significantly in industry, while also maintaining a downward trend in services. Consumer price expectations eased further too. Today's flash inflation estimate from Germany also fell short of expectations in July, with the headline EU-

Euro area: Economic sentiment by sector



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

Euro area: Economic sentiment by country



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



harmonised CPI rate declining a larger-than-expected 0.4ppt to 1.1%Y/Y, the lowest rate since September 2016. Admittedly, the flash estimate on this measure was revised slightly higher in the final release in June. And on the national measure, today's CPI figures provided a markedly different outcome. In particular, headline CPI rose 0.1ppt to 1.7%Y/Y, underpinned by a jump in food price inflation (up 0.9ppt to 2.1%Y/Y). Nevertheless, services inflation fell 0.4ppt to 1.5%Y/Y, suggesting that German core inflation fell back in July.

The day ahead in the euro area and US

Another busy day for euro area data tomorrow brings the first estimate of Q2 GDP, which is expected to show that growth moderated to just 0.2%Q/Q, half the pace of Q1. This would leave the year-on-year rate of increase at just 1.0%, the softest pace since Q413. Tomorrow will also bring preliminary GDP figures from Italy, with non-negligible risks that growth will have returned to negative territory. But while growth is set to have moderated, Spain's economy is likely to have expanded by a still-healthy 0.5%Q/Q in Q2, down 0.2ppt from Q1. Tomorrow will also bring the flash estimates of July CPI from the euro area, France and Italy. Having surprised to 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. Of course, given the downside surprise to today's German data, we might well see a larger drop in the euro area figures tomorrow. Wednesday will also bring euro area unemployment figures for June, as well as Germany's labour market data for July.

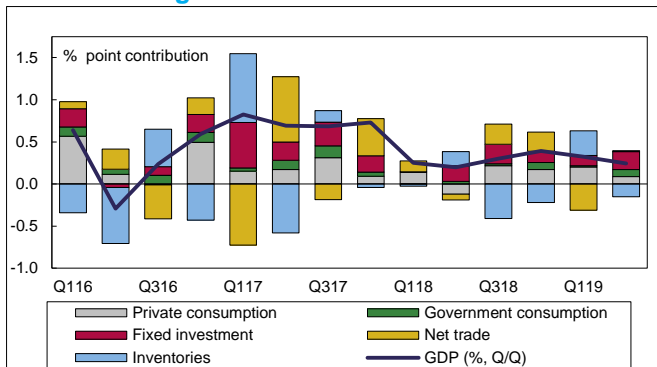
In the US, all eyes tomorrow of course will be on the FOMC policy announcement, where a cut of 25bps is widely expected, taking the FFR target range to 2.00-2.25%. The policy statement will also be of interest, as will Chair Powell's press conference, for any insight into the near-term policy path. With respect to data, tomorrow will bring the employment cost index for Q2, along with the ADP employment report for July.

UK

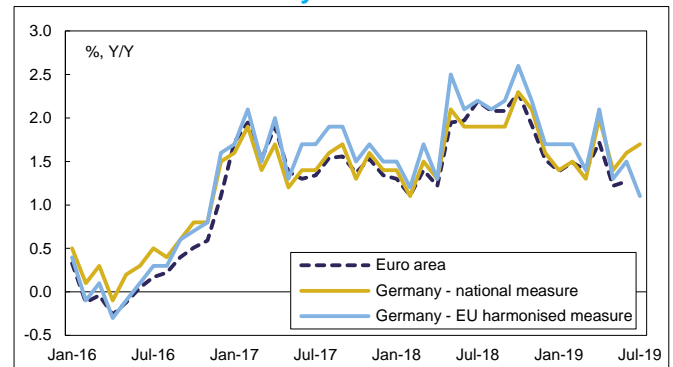
The day ahead in the UK

Ahead of Thursday's BoE monetary policy announcement, the focus tomorrow will be on July sentiment surveys. In particular, the GfK consumer confidence indicator is expected to have moved sideways at -13, signalling still very weak sentiment among households. And the Lloyd's business barometer is similarly expected to show that corporates remained downbeat about the outlook at the start of the third quarter.












France: GDP growth







Euro area and Germany: Headline CPI inflation



European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Economic sentiment indicator	Jul	102.7	102.8	103.3	-
	 Industrial confidence (services)	Jul	-7.4 (10.6)	-6.5 (10.7)	-5.6 (11.0)	-
	 Final consumer confidence	Jun	-6.6	-6.6	-7.2	-
Germany	 GfK consumer confidence	Aug	9.7	9.7	9.8	-
	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	1.7 (1.1)	1.5 (1.4)	1.6 (1.5)	-
France	 Preliminary GDP Q/Q% (Y/Y%)	Q2	0.2 (1.3)	<u>0.2 (1.0)</u>	0.3 (1.2)	-
	 Consumer spending M/M% (Y/Y%)	Jun	-0.1 (-0.6)	0.2 (0.0)	0.4 (-0.1)	0.3 (-0.3)
Auctions						
Country	Auction					
Germany sold	 €3.27bn of 0% 2021 bonds at an average yield of -0.76%					
Italy sold	 €2.75bn of 2.09% 2024 bonds at an average yield of 0.8%					
	 €508mn of floating-rate 2025 bonds at an average yield of 1.11%					
	 €3.25bn of 1.34% 2029 bonds at an average yield of 1.56%					















Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Spain	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	0.5 (0.7)	0.6 (0.6)	0.4 (0.6)	-
	 Retail sales Y/Y%	Jun	2.4	-	2.4	2.6
UK	 Net consumer credit £bn (Y/Y%)	Jun	1.0 (5.5)	0.9 (-)	0.8 (5.6)	0.9 (5.7)
	 Mortgage lending £bn (approvals '000s)	Jun	3.7 (66.4)	3.5 (65.8)	3.1 (65.4)	2.9 (65.6)
Auctions						
Country	Auction					
- Nothing to report -						


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		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		07.00 Retail sales M/M% (Y/Y%)	Jun	0.5 (0.6)	-1.7 (4.0)
		08.55 Unemployment rate % (change '000s)	Jul	5.0 (2.0)	5.0 (-1.0)
France		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	1.1 (1.2)	1.2 (1.4)
		09.00 Unemployment rate %	Jun	10.0	9.9
Italy		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
		07.00 Nationwide house price index M/M% (Y/Y%)	Jul	0.2 (0.1)	0.1 (0.5)

Auctions and events

Country	BST	Auction / Event
Germany		10.30 Auction: to sell €3bn of 0% 2029 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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