

Euro wrap-up

Overview

- Bunds made further notable gains as comments from the ECB's Rehn further hinted at an extensive policy package in September.
- Longer-dated Gilts also followed the global trend higher, with 10Y Gilt yields falling further below 2Y yields, despite some stronger than expected UK retail sales data.
- Friday will bring euro area trade figures for June.

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0 06/21	-0.923	-0.036
OBL 0 10/24	-0.906	-0.043
DBR 0 08/29	-0.706	-0.052
UKT 1½ 01/21	0.456	-0.002
UKT 1 04/24	0.340	-0.002
UKT 1 % 10/28	0.414	-0.034

*Change from close as at 4:30pm BST.

Source: Bloomberg

Euro area

Bond markets respond to dovish ECB comments

While it was a quiet day for euro area economic data, there were further significant moves in financial markets as concerns over the global economic outlook continued to push bond yields to new record lows. And European markets were given an extra push today – 10Y Bund yields fell through -0.70% for the first time, while 10Y BTPs were down more than 15bps to 1.32%, a drop of around 50bps from last Friday's peak – by dovish comments from ECB Governing Council member Olli Rehn. In particular, he suggested that it was often better to overshoot than undershoot expectations. And broadly in line with the message from the ECB's Governing Council meeting last month, he noted the importance of delivering a 'significant and impactful policy package in September'. Today's comments further support our view that an extensive multi-faceted policy package is on its way next month. Indeed, we continue to anticipate at the very least a cut of 20bps in the deposit rate to -0.60%, accompanied by a tiered interest rate system – similar to that adopted by the BoJ and Danish, Swedish and Swiss National Banks – to ensure easier financial conditions and support economic sentiment. And given the ECB's assessment that its asset purchases provided more support to growth and inflation over the past few years than negative rates, we also expect it to announce a new net asset purchase programme, of circa €50bn per month over nine months to end-June 2020.

The day ahead in the euro area and US

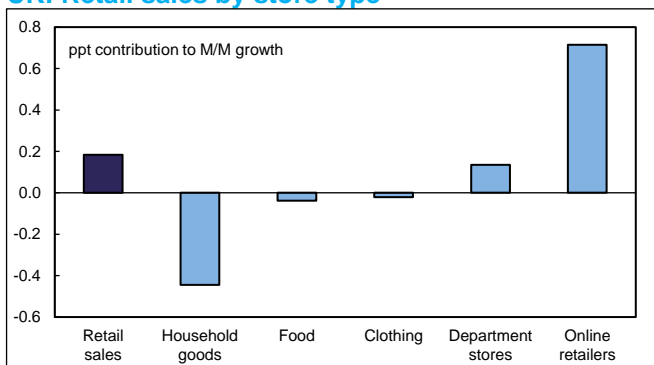
The end of the week will bring euro area trade figures for June. Similar to [Germany](#), these are likely to indicate a sharp decline in the value of exports in Q2. And while the value of imports is expected to have also fallen, tomorrow's report is likely to suggest that net trade was a drag on GDP growth last quarter. In the US, tomorrow will bring the preliminary University of Michigan's consumer sentiment survey for August, along with housing starts figures for July.

UK

Retail sales post surprise gain in July

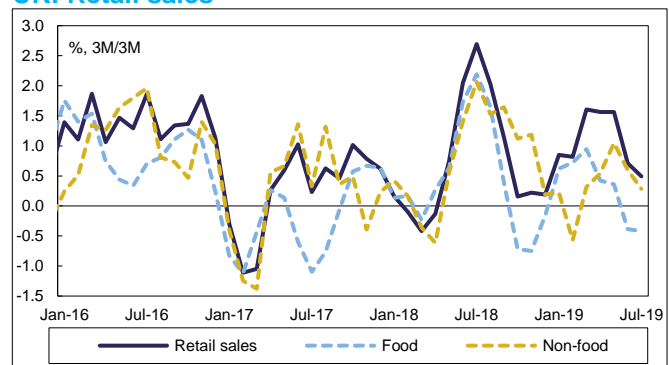
Against the backdrop of persistent Brexit uncertainty, rising concerns about the domestic and global economic outlooks and weak consumer confidence, household spending in the UK has remained remarkably resilient. For example, retail sales rose a robust 1.6%Q/Q in Q1, followed by a still-healthy increase of 0.7%Q/Q in Q2. And contrasting with the downbeat message from various retail surveys, today's official retail sales figures exceeded expectations at the start of Q3 too. In particular, total sales rose 0.2%M/M in July, to leave them more than 3% higher than a year earlier. Growth was once again underpinned by online spending (with the 6.9%M/M the fastest for more than three years), as promotions from various retailers – including

UK: Retail sales by store type



Source Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Retail sales



Source Thomson Reuters and Daiwa Capital Markets Europe Ltd.





Amazon Prime – provided a boost. Department store sales also rose for the first month in seven – with the 1.6%M/M increase the largest for fourteen months – underpinned by summer discounting. This notwithstanding, total sales at non-food stores fell for the third month out of the past four, as did spending on food. Moreover, smoothing out monthly volatility, sales growth on a three-month basis moderated further in July to 0.5%3M/3M, the softest rate since December. So, while rising wage growth should provide some support, ongoing uncertainty about the near-term economic outlook will likely keep a lid on spending to some extent over coming months. And while we might well see some consumer stock-piling as the end-October Brexit deadline approaches, we would expect to see only modest underlying consumption growth through the second half of the year.


The day ahead in the UK

It should be a quiet day for economic news with no data of note due for release.

European calendar

Today's results							
Economic data							
Country	Release		Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 Retail sales including fuel M/M% (Y/Y%)		Jul	0.2 (3.3)	-0.2 (2.5)	1.0 (3.8)	0.9 (-)
	 Retail sales excluding fuel M/M% (Y/Y%)		Jul	0.2 (2.9)	-0.2 (2.3)	0.9 (3.6)	0.8 (-)
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	Trade balance €bn		Jun	18.6	20.2
Auctions and events							
Country	BST	Auction / Event					
- Nothing scheduled -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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