

# Euro wrap-up

## Overview

- Bunds made modest gains as German and French consumer sentiment surveys were softer than expected, but Italian consumer and business confidence reached new multi-year highs.
- Gilts made modest losses even as UK house price inflation moderated and shop price inflation weakened.
- Tomorrow brings the European Commission economic sentiment survey, flash German and Spanish inflation and the ECB account from the meeting that finalised the conclusions of the strategic policy review.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.765	-0.012
OBL 0 10/26	-0.742	-0.015
DBR 0 08/31	-0.452	-0.009
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.073	+0.009
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.276	+0.009
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.572	+0.016

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

Source: Bloomberg

## Euro area

### German and French consumer confidence fail to advance from below pre-pandemic levels

Ahead of tomorrow's European Commission economic sentiment indices for the euro area, today's national surveys offered insight into conditions in the largest three member states. After the [ifo business survey](#) released at the start of the week suggested that firms were a little less upbeat, the German GfK consumer confidence survey suggested that household sentiment has levelled off some way below the long-run average. Contrary to expectations of a third successive increase, the headline GfK indicator moved sideways at -0.3, still down on pre-pandemic levels. Expectations for future incomes and the economic outlook softened slightly, although the latter remained elevated by historical standards after reaching a decade high in June. But while German consumers' willingness to buy rose to the highest since April, it still remained below the long-run average. The INSEE French consumer survey results were a touch disappointing, with the headline index down 2pts in July to 101, still below pre-pandemic levels albeit a touch above the long-run average. Probably hurt by the marked pickup in the spread of the delta variant, the share of households considering it is a suitable time to make major purchases fell back sharply, albeit remaining above the long-run average. Households' assessment of their future financial situation also deteriorated as did (albeit only slightly) fears of unemployment.

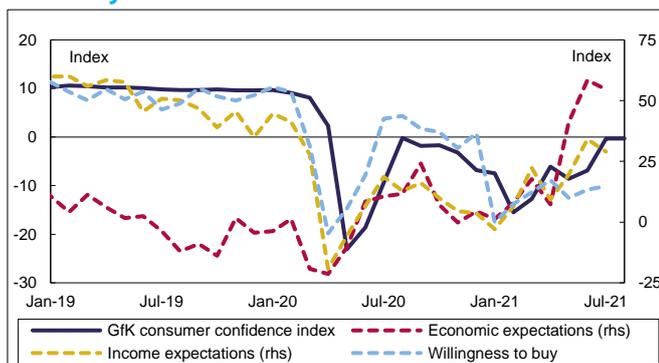
### Italian consumer and business confidence continues to reach new multi-year highs

Contrasting with the slightly disappointing German and French surveys, the ISTAT indices suggested that sentiment among Italy's consumers and businesses improved further at the start of Q3. In particular, consumer confidence rose for a fourth successive month, up 1.5pts to 116.6, the highest since September 2018 and a level rarely surpassed over the past thirty years. Admittedly, fears of unemployment ticked up, while expectations softened slightly albeit remaining very strong by historical standards. But current conditions were judged by consumers to have improved further and the survey measure of intentions to buy durable goods rose to a new series high. Moreover, business sentiment improved in every sector, similarly buoyed by stronger assessments of current conditions and order books, if not future expectations. Retail confidence jumped to the best since before the pandemic in December 2019, but also to a level near the top of the series range. Likewise, sentiment in services jumped to the best since 2007. Confidence in manufacturing reached the best since 2000, with producers of consumer goods the most upbeat in more than three years. And manufacturers of intermediate and capital goods, and construction firms, were the most optimistic on the series dating back more than two decades.

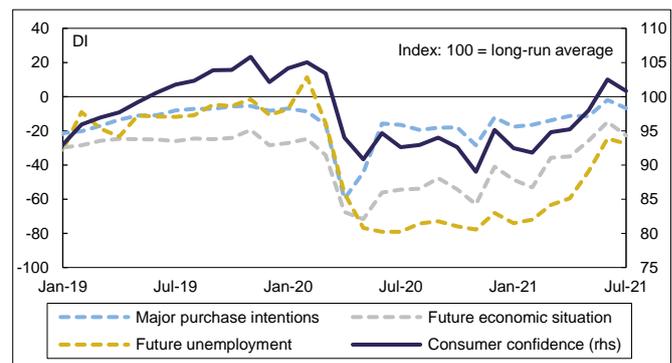
### The day ahead in the euro area

The flow of economic sentiment surveys continues tomorrow with the release of the business and consumer confidence indicators from the European Commission (EC). The headline euro area economic sentiment index is expected to rise for the

#### Germany: Consumer confidence



#### France: Consumer confidence



sixth consecutive month in July, by ½pt – to 118 – the highest level since May 2000. Within the detail, industrial confidence is forecast to move broadly sideways from June's record high of 12.7, while services sentiment is expected to rise 1.4pts to 19.3, which would be the highest since April 2007. In contrast, probably due to the spread of the delta variant, the EC's consumer confidence indicator is highly likely to align with the preliminary estimate, which dropped 1pt to -4.4, a level nevertheless only beaten once in the past three years. While selling price expectations of manufacturers are likely to remain extremely high by historical standards, consumer price expectations are likely to remain well contained.

Nevertheless, the flash German and Spanish consumer price inflation numbers for July, the first from the large member states, will report further notable increases. The EU-harmonised measure of German inflation is expected to rise 0.8ppt to 2.9%Y/Y – the highest since September 2008 – not least due to base effects associated with the temporary VAT cut last year. Spanish HICP inflation is forecast to rise 0.4ppt to 2.9%Y/Y, which would be the highest since February 2017. Meanwhile, Germany's unemployment rate is expected to edge down 0.1ppt in July to 5.8%, which would be the lowest since March 2020.

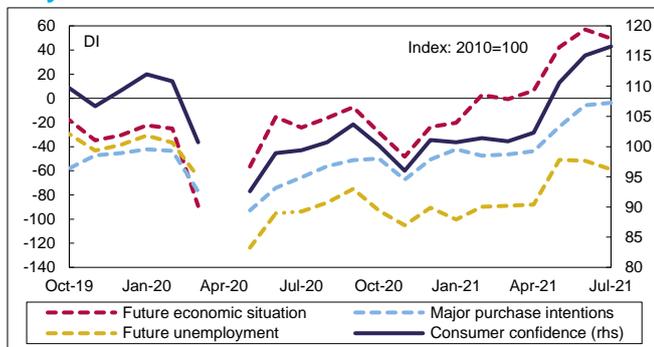
Beyond the economic data, Thursday sees the publication of the account of the ECB's special policy meeting of 7-8 July when the Governing Council agreed its strategic policy review conclusions. All decisions, including the setting of a symmetric 2% inflation target, were unanimous. But the account might shine light on the debate on issues that are still unresolved, including the purpose and effectiveness of the asset purchases and likely PEPP pace into the autumn and beyond.

## UK

### House prices slow as stamp duty relief is tapered

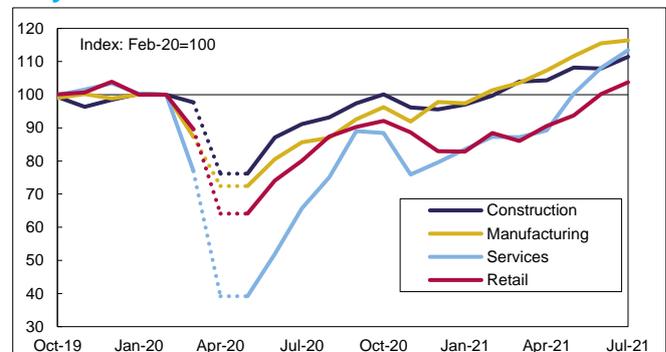
Having in June jumped to a 17-year high of 13.4%Y/Y, UK house price inflation moderated in July. According to the Nationwide indices, house prices fell 0.5%M/M, having risen by an average of 1.6%M/M between April and June. And given base effects, that left the annual rate of house price growth at a three-month low of 10.5%Y/Y. The tapering of the government's stamp duty relief from this month – with the zero percent ceiling halved from £500k to £250k – likely played a role in slowing both demand and house price growth. Indeed, data from HMRC showed that housing market transactions jumped 74.1%M/M in June to a record 198.2k, as buyers looked to save on stamp duty costs. Surveys such as that of the RICS point to the likelihood of a further moderation of house price inflation over coming months.

#### Italy: Consumer confidence\*



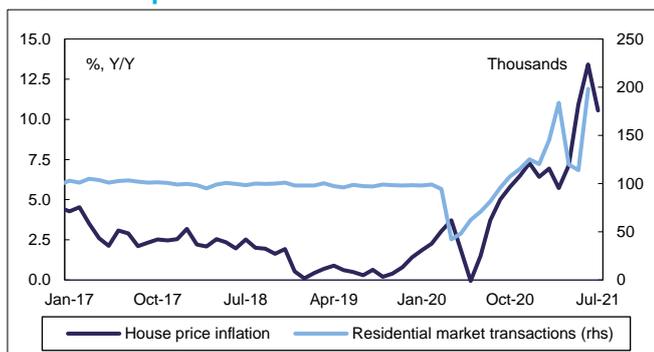
\*No survey conducted in April 2020. Source: ISTAT, Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Italy: Business confidence\*



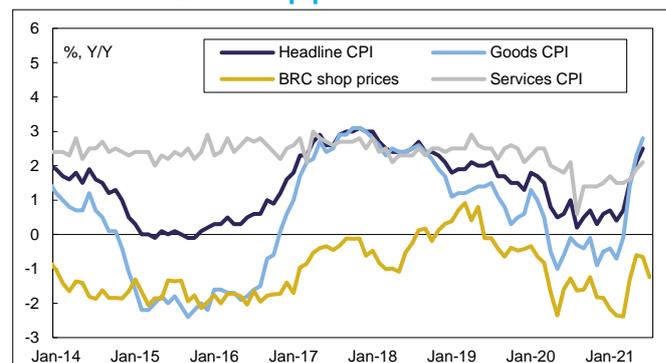
\*No survey conducted in April 2020. Source: ISTAT, Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: House prices and market transactions



Source: Nationwide, HMRC, Refinitiv, Bloomberg and Daiwa Capital Markets Europe Ltd.

#### UK: CPI and BRC shop price inflation



Source: BRC, ONS, Refinitiv and Daiwa Capital Markets Europe Ltd.

## Shop prices remain weak despite pressures further up the supply chain

Price pressures further up the supply chain remain significant, with input producer prices up 9.1%Y/Y in June and producer output prices up 4.3%Y/Y. However, today's BRC shop price survey suggested that prices on the High Street remained under downwards pressure this month. In particular, given continued intense competition among retailers, and perhaps a greater willingness of consumers to spend on services rather than goods, the survey's measure of shop price inflation fell 0.5ppt in July to a three-month low of -1.2%Y/Y. The weakening was reportedly widespread across a range of goods. According to the BRC, food inflation dropped 0.2ppt to -0.4%Y/Y while non-food inflation dropped 0.8ppt to -1.8%Y/Y. The survey findings reinforce expectations that headline consumer price inflation in the UK will fall back next year once base effects associated with post-pandemic price normalisation and supply bottlenecks reverse.

## The day ahead in the UK

In another relatively quiet day for UK economic data, tomorrow will see the BoE publish figures for consumer credit and mortgage lending in June.

## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 GfK consumer confidence	Aug	<b>-0.3</b>	1.0	-0.3	-
France	 INSEE consumer confidence	Jul	<b>101</b>	102	102	<b>103</b>
Italy	 ISTAT consumer confidence	Jul	<b>116.6</b>	115.5	115.1	-
	 ISTAT manufacturing confidence	Jul	<b>115.7</b>	115.3	114.8	-
	 ISTAT business confidence	Jul	<b>116.3</b>	-	112.8	-
UK	 BRC shop price index Y/Y%	Jul	<b>-1.2</b>	-	-0.7	-
	 Nationwide house price index M/M% (Y/Y%)	Jul	<b>-0.5 (10.5)</b>	0.3 (11.9)	0.7 (13.4)	-

#### Auctions

Country	Auction
Germany	 sold €1.8bn of 0% 2036 bonds at an average yield of -0.18%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	 10.00	Economic sentiment indicator	Jul	118.4	117.9
	 10.00	Final consumer confidence	Jul	-4.4	-3.3
	 10.00	Industrial confidence (services)	Jul	12.6 (19.3)	12.7 (17.9)
Germany	 08.55	Unemployment rate % (change '000s)	Jul	5.8 (-29.0)	5.9 (-38.0)
	 13.00	Preliminary CPI (EU-harmonised) Y/Y%	Jul	3.2 (2.9)	2.3 (2.1)
France	 07.45	PPI Y/Y%	Jun	-	7.2
Italy	 10.00	PPI Y/Y%	Jun	-	10.0
Spain	 08.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	2.7 (2.9)	2.7 (2.5)
UK	 09.30	Net consumer credit £bn (Y/Y%)	Jun	0.5 (-)	0.3 (-3.2)
	 09.30	Net mortgage lending £bn (approvals '000s)	Jun	7.0 (84.5)	6.6 (87.5)
	 09.30	M4 money supply M/M% (Y/Y%)	Jun	-	0.4 (7.3)

#### Auctions and events

EMU	 12.30	ECB to publish account from the 7-8 July meeting that finalised the strategic policy review conclusions
Italy	 10.00	Auction: €4.5bn of 0% 2026 bonds
	 10.00	Auction: €3bn of 0.95% 2031 bonds
	 10.00	Auction: €1.25bn of 2029 floating rate notes

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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