

# Euro wrap-up

## Overview

- Bunds closed the day little changed having initially made losses as the Commission's economic sentiment indicator rose to a new record and German HICP inflation jumped to a thirteen-year high.
- Gilts ended the day marginally higher, with UK car production figures reporting ongoing difficulties associated with supply shortages.
- A busy end to the week will bring flash Q2 GDP and July inflation from the euro area and various member states.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.766	-0.002
OBL 0 10/26	-0.740	+0.001
DBR 0 08/31	-0.454	-0.002
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.058	-0.016
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.270	-0.007
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.567	-0.006

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

## Euro area

### Economic sentiment rises to a series high

Consistent with last week's [flash PMIs](#), today's Commission business survey results for July suggested a further improvement in confidence at the start of Q3. Indeed, the headline euro area economic sentiment indicator (ESI) rose for the sixth successive month and by 1.1pts to 119, the highest reading on the series dating back to 1985. But this marked the softest monthly increase in the current upturn, suggesting that the ESI might be approaching its peak. Certainly, the marked jump in the French ESI (up 4pts to 116.7, the highest since early-2001) was surprising given the surge in coronavirus infections this month, while the ESIs for Italy (119.6) and Spain (108.9) rose 1.7pts to their highest for more than 21 years and 3 years respectively. While the pickup in the German ESI was negligible, at 117.5 it was the highest on record. Across the various sectors, the improvement in July was driven by the manufacturing sector, which rose to a new series high boosted by improved assessments of order books. But while confidence among firms in the services sector was considered to be the best since August 2007, managers' expectations for future demand fell for the first time since November. Meanwhile, sentiment among retailers moved broadly sideways, while consumer confidence dipped as households' willingness to buy durable goods moderated slightly. And partly reflecting unchanged order books and worsening employment expectations, confidence among construction firms slipped back for the first time in eleven months. Overall, the Employment Expectations Indicator moved sideways in July, with the relevant index of employment plans in industry approaching an all-time high.

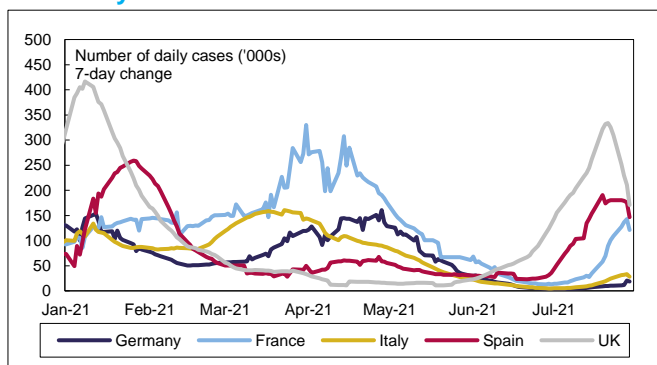
### Consumer price expectations rise, but so do those of businesses

Among other details, the survey implied that supply bottlenecks continue to bite, with stocks of finished products in manufacturing assessed to be scarcer than ever and the adequacy of retail sector inventories falling further to a new low. In addition, selling price expectations rose significantly for a fifth successive month to reach their highest in services since mid-2008, and the highest since the early 1990s in retail trade and construction too. And while selling price expectations slipped back very slightly in industry, this was from a series high in June. Consumer price expectations increased for a seventh successive month, with the respective survey measure edging slightly higher than the recent peak in May 2020. And having last been higher in 2012, today's survey signalled some tentative signs that firms are starting to pass on at least some of their increased costs.

### German and Spanish inflation jumps in July

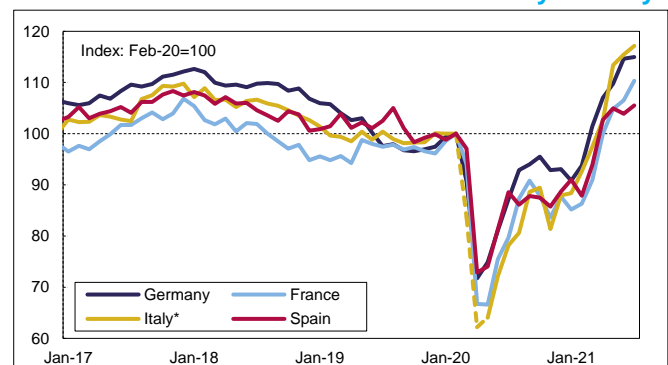
According to the flash estimates, German inflation jumped in July, with the national measure up a stronger-than-expected 1.5pts to 3.8%Y/Y, the firmest rate since 1993. But this in part reflected base effects from the temporary VAT cut introduced

### New daily coronavirus cases in selected countries



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Euro area: Economic sentiment indices by country\*



\*Survey was not compiled in April 2020 due to Covid-related difficulties.  
Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

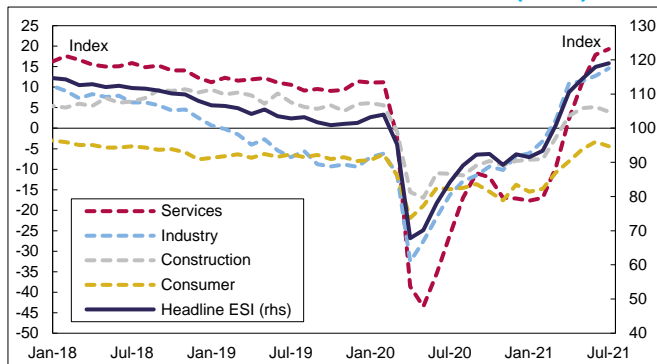
in July last year. Indeed, goods inflation rose 2.3ppts to 5.4%Y/Y, with higher energy and food inflation partly contributing to this increase. Services inflation also reversed the drop in June to rise back to 2.2%Y/Y. So we would also expect core inflation (on the national measure) to have risen markedly from 1.7%Y/Y in June. The increase in the HICP rate was somewhat less marked – mainly due to the reweighting of the HICP index in January and package holidays in particular – although the 1ppt increase left inflation at 3.1%Y/Y, a touch above expectations and its strongest since 2008. While to a lesser extent, Spanish inflation also ticked higher in July, with the HICP rate up 0.4ppt to 2.9%Y/Y, the highest since February 2017. The Spanish Statistical Office noted that the pickup in the national measure of inflation, by 0.2ppt to 2.9%Y/Y, was underpinned by stronger accommodation services and gas inflation. Of course, this partly reflects base effects associated with the pandemic, with prices up in July 2021 having declined this time last year. And while core inflation (on the national measure) also rose 0.4ppt in July, at 0.6%Y/Y it continued to signal very weak underlying price pressures.

## The day ahead in the euro area

A busy end to the week for euro area top tier economic releases, brings flash Q2 GDP and July inflation figures. We anticipate a moderate rebound in euro area GDP in Q2 following the modest contraction (-0.3%Q/Q) in Q1, with growth of 1.2%Q/Q to leave output up almost 13%Y/Y but still 3.9% below the pre-pandemic level. In addition, Germany is likely to have more than fully reversed its 1.8%Q/Q contraction in Q1 and Spain is also likely to have grown by a touch above 2.0%Q/Q. We expect growth of close to 1.0%Q/Q in France and Italy, where GDP moved broadly sideways in Q1.

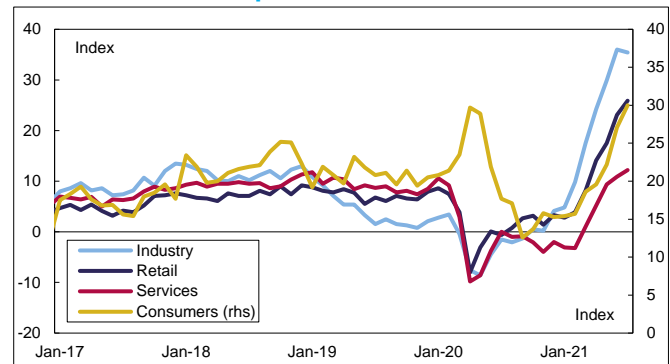
In terms of inflation, we forecast the headline euro area rate to rise just 0.1ppt to the ECB's 2.0% target in July, due principally to higher energy prices. But with services inflation still subdued and non-energy goods inflation having likely eased back after a jump in June, core inflation is likely to slip back further from 0.9%Y/Y in June. Admittedly, after the today's German figures, risks to the euro area figures are skewed slightly to the upside. Friday will also bring euro area labour market figures for June, which are expected to show the unemployment rate moving sideways at 7.9%, 0.6ppt lower than the peak last year. Today's German figures were again more encouraging in July, reporting one of the largest declines in unemployment on record (-91k) taking the cumulative drop since the peak last June to 321k, reversing almost half the initial Covid-related surge and taking the unemployment rate (on the national measure) down 0.2ppt to 5.7%.

### Euro area: Economic sentiment indices (ESIs)



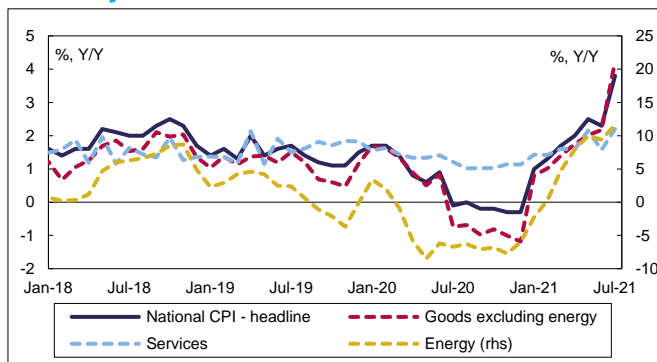
Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Price expectations\*



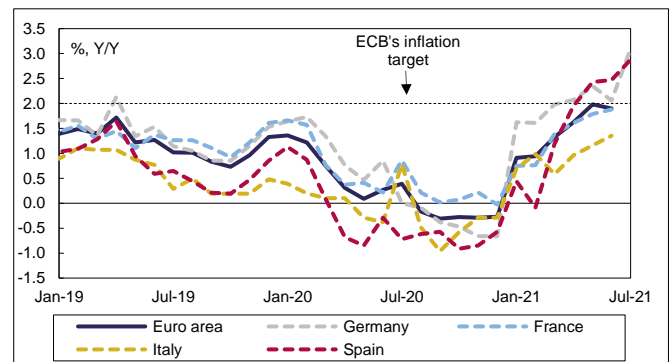
\*European Commission survey indices for price-setting expectations, except for consumers. Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: Inflation\*



\*Flash estimates for July 2021. National measure. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: HICP inflation in selected member states



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

## UK

### Car production second-weakest since 1953

Figures published by the SMMT today emphasised the severely dampening effect supply bottlenecks continue to have on UK car production. In particular, auto factories produced just 69k units in June, admittedly up 22% from the Covid-hit outturn a year ago, but representing the second-worst June since 1953. And coming on the back of a challenging first six months of the year, with the renewed pandemic, global chip shortage and Brexit taking their toll, this left car production during H121 down by one quarter from the same period in 2019 and down by more than 40% compared with the comparative average between 2015 and 2018. Manufacturers also expressed concerns about staff shortages due to self-isolation associated with the so-called 'pingdemic'. And with supply issues expected to last into 2022, the outlook for car manufacturers looks set to remain challenging, with one study forecasting that planned production for 2021 could be reduced by as much as 100,000 units.

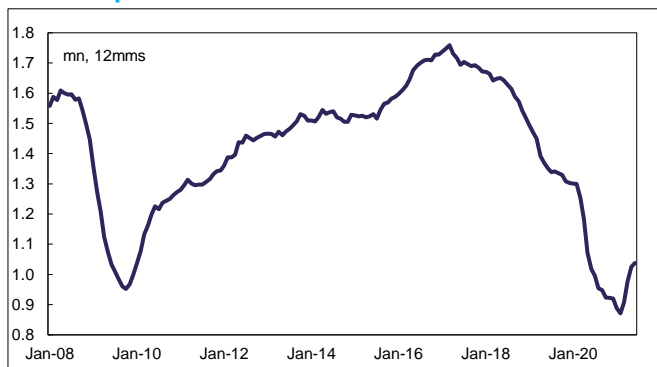
### Mortgage lending surges as stamp duty relief starts to taper

With [housing market transactions](#) having jumped to a record amount in June, figures published by the BoE today perhaps inevitably showed a record amount of mortgage lending that month too. In particular, the amount of secured loans rose £17.9bn in June, surpassing the previous peak (£11.5bn in March 2021) and compared with an average £5.3bn in the twelve months leading up to the Covid outbreak. Of course, with the government's stamp duty tax holiday starting to taper this month, this seems bound to mark the peak. And there was a modest drop in the number of mortgage approvals in June to an eleven-month low (81.3k), albeit still significantly higher than the pre-pandemic level. In contrast, consumer credit remained relatively subdued in June, increasing just £0.3bn, to leave it still more than 2% lower than a year earlier. Nevertheless, this marked the third consecutive rise (following significant net repayments – cumulative £22bn – in the year to February). And with the final lockdown restrictions having eased over the past month, the rise in new daily coronavirus cases now moderating, and consumer confidence improving, we might see a pickup in demand for credit over coming months.

### The day ahead in the UK

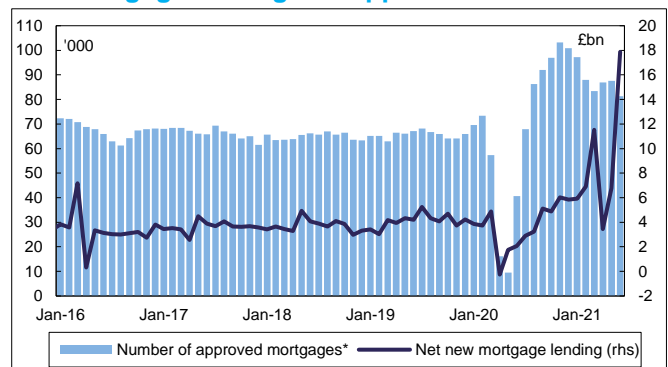
It should be a quiet end to the week for UK economic news, with no data due for release.

#### UK: Car production



Source: SMMT, Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Mortgage lending and approvals














Source: BoE, Refinitiv 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	 Economic sentiment indicator	Jul	<b>119.0</b>	118.2	117.9	-
	 Final consumer confidence	Jul	<b>-4.4</b>	-4.4	-3.3	-
	 Industrial confidence (services)	Jul	<b>14.6 (19.3)</b>	13.0 (19.3)	12.7 (17.9)	<b>12.8 (-)</b>
Germany	 Unemployment rate % (change '000s)	Jul	<b>5.7 (-91.0)</b>	5.8 (-29.0)	5.9 (-38.0)	<b>- (-39.0)</b>
	 Preliminary CPI (EU-harmonised) Y/Y%	Jul	<b>3.8 (3.1)</b>	3.2 (2.9)	2.3 (2.1)	-
France	 PPI Y/Y%	Jun	<b>7.5</b>	-	7.2	-
Italy	 PPI Y/Y%	Jun	<b>11.0</b>	-	10.0	-
Spain	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	<b>2.9 (2.9)</b>	2.7 (2.9)	2.7 (2.5)	-
UK	 Net consumer credit £bn (Y/Y%)	Jun	<b>0.3 (-2.2)</b>	0.5 (-)	0.3 (-3.2)	<b>0.4 (-2.9)</b>
	 Net mortgage lending £bn (approvals '000s)	Jun	<b>17.9 (81.3)</b>	7.0 (84.5)	6.6 (87.5)	<b>6.8 (86.9)</b>
	 M4 money supply M/M% (Y/Y%)	Jun	<b>0.5 (6.9)</b>	-	0.4 (7.3)	<b>0.5 (7.4)</b>













#### Auctions

Country	Auction
Italy	 sold €4.5bn of 0% 2026 bonds at an average yield of 0.02%
	 sold €3bn of 0.95% 2031 bonds at an average yield of 0.66%
	 sold €1.25bn of 2029 floating rate notes at an average yield of 0.05%

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	 Flash CPI (core CPI) Y/Y%	Jul	<u>2.0 (0.7)</u>	1.9 (0.9)
	10.00	 Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>1.2 (12.9)</u>	-0.3 (-1.3)
	10.00	 Unemployment rate %	Jun	7.9	7.9
Germany	09.00	 Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>2.0 (9.5)</u>	-1.8 (-3.1)
France	06.30	 Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>1.0 (17.8)</u>	-0.1 (1.2)
	06.30	 Consumer spending M/M% (Y/Y%)	Jun	-	10.4 (7.4)
Italy	07.45	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	1.0 (1.4)	1.5 (1.9)
	08.00	 Unemployment rate %	Jun	10.6	10.5
	09.00	 Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>1.2 (15.3)</u>	0.1 (-0.8)
Spain	10.00	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	1.6 (1.0)	1.3 (1.3)
	08.00	 Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>2.2 (19.0)</u>	-0.4 (-4.2)
	08.00	 Retail sales Y/Y%	Jun	10.0	19.6

#### Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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