

Euro wrap-up

Overview

- Despite downbeat consumer confidence surveys from Germany, France and Italy, Bunds made losses and spreads to BTPs widened as a rating agency lowered Italy's sovereign rating outlook to stable from positive on recent political developments.
- Gilts also made losses as a UK survey saw shop price inflation jump to a series high in July.
- Thursday will bring the first estimates of July inflation from Germany, as well as the European Commission's economic sentiment indicators.

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Daily bond market movements

Bond	Yield	Change
BKO 0.2 06/24	0.388	+0.068
OBL 1.3 10/27	0.682	+0.030
DBR 1.7 08/32	0.931	+0.013
UKT 1 04/24	1.836	+0.045
UKT 1½ 07/27	1.712	+0.044
UKT 4¼ 06/32	1.952	+0.039

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

Source: Bloomberg

Euro area

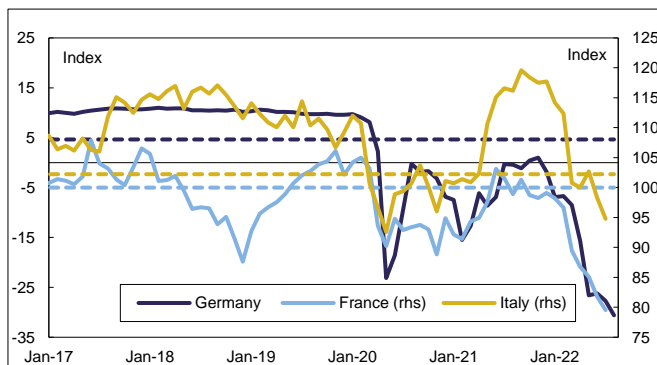
German consumers the gloomiest on record as high inflation and recession concerns mount

Like last week's [flash PMIs](#) and Monday's [ifo](#) business survey results, risks of impending recession in Germany were flagged again by today's GfK consumer confidence report. Indeed, the headline sentiment index – presented as a forecast for the coming month – hit a new post-reunification low, dropping 2.9pts from a downwardly revised prior reading to -30.6, 7½pts below the trough recorded in the first wave of Covid-19. Households are particularly concerned about sufficient natural gas supplies ahead of the winter period, not least reflecting various maintenance disruptions to supply along the Nord Stream 1 pipeline, which today saw Russia cut inflows to just 20% of capacity. Indeed, while natural gas storage in Germany (66.8%) is currently almost 20pts above the level at this time last year, it remains well below levels seen in the previous two years and short of the target of 80% by 1 November. Taken together with ongoing supply constraints, fears of unemployment and high inflation, consumers' expectations for the economic outlook deteriorated markedly in July, with the respective index falling 6½pts to -18.2, the lowest since April 2020 and more than 70pts lower than a year earlier. This coincided with another slump in income expectations to the lowest in the survey's history. So, the survey's measure of consumers' propensity to buy also fell to the lowest since the global financial crisis in 2008. That tallies with the marked deterioration in retail sector sentiment to recessionary levels signalled earlier this week by the ifo survey. And with the ifo similarly suggesting that the mood has turned for the worse in services, the outlook for German consumer spending remains very weak.

French consumer confidence declines to the lowest since 2013

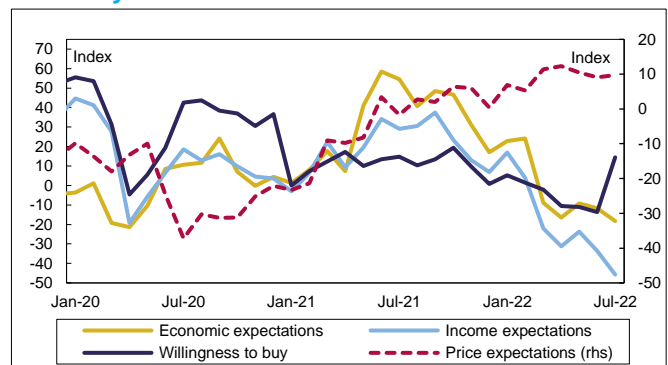
The French INSEE consumer confidence survey also offered a gloomy assessment, and similarly pointed to declining household spending ahead. The headline sentiment index fell for the seventh consecutive month in July and by 2pts to 80, well below the long-run average (100) and the lowest for more than nine years. The weakness was broad based, with households the most downbeat about the economic situation on record, with the exception of May 2020 in the early stages of the pandemic. And with current inflation at its highest for decades, they were more pessimistic regarding their financial situation despite a further easing in inflation expectations. So with households reporting a deterioration in their ability to save and fears of unemployment having risen slightly, the share considering it a good time to make major purchases fell to its lowest since the onset of the pandemic – indeed, the corresponding survey balance fell 4pts to -39, almost 30pts lower than the long-run average.

Euro area: Selected consumer confidence indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Consumer confidence indices



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

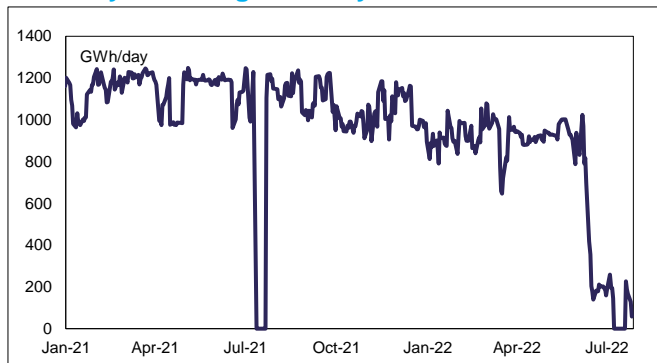
Italian consumers, manufacturers and services more downbeat at the start of Q3

The Italian ISTAT consumer survey also reported that confidence fell in July for the sixth month out of the past seven, with the headline index down 3.5pts to 94.8, the lowest since May 2020 and before that the euro crisis in 2012, as well as being well below the long-run average (104.1). Households' economic expectations were similarly the lowest for more than two years, with future income prospects the weakest since 2012 as persisting price pressures and fears of unemployment rose slightly. So it was perhaps somewhat surprising to see an improvement in consumers' purchase intentions, with the respective survey measure up 9pts on the month, albeit to a still-below-average -78 and some 75pts lower than a year earlier. Reflecting expectations of improved future sales and orders, retailers were the most upbeat for eleven months, while sentiment among construction firms rose to a new series high. In marked contrast, however, services firms became more pessimistic as the initial boost to hospitality and tourism demand from the relaxation of pandemic restrictions waned. And manufacturers were the most downbeat about conditions since March 2021 reflecting unfavourable developments with order books and production expectations. As such, the overall composite business index fell 2.6pts in July, reversing the increase in June to 110.8, a touch below the average seen over the past year but nevertheless still well above the long-run average. With the ISTAT survey having been conducted during the half of the month, today's results will not reflect the latest political developments. And so we would expect to see a further deterioration in sentiment over coming months as political uncertainty remains to the fore ahead of the September general election.

Households reduce the amount they saved, while firms borrowing increases sharply

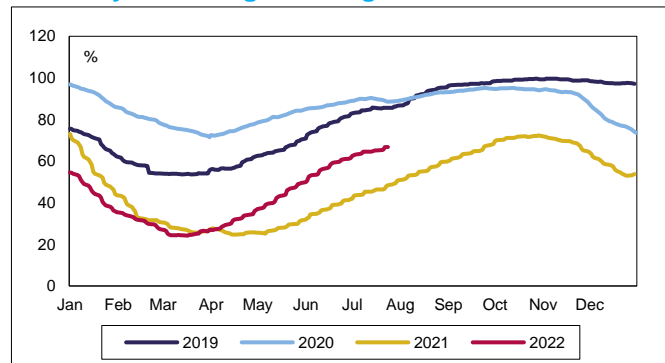
With consumers' real incomes being squeezed by high inflation, today's ECB bank lending figures suggested that households added the least amount to their savings since 2015, with merely an additional €8.5bn in new bank deposits in June, compared with an average increase of almost €30bn over the prior twelve months and €42bn since the start of the pandemic. This likely in part offset an easing in the net increase of consumer credit amid rising borrowing rates and tighter credit standards, by €1.4bn to €1.8bn. Admittedly, when smoothing for monthly volatility, net consumer credit has been on an upwards trend over recent months, with the three-month sum (€7.5bn) the highest since November. Borrowing for house purchase, however, remained strong, with the net flow of €22.9bn in June above the average over the prior twelve months, leaving the annual rate down only very slightly to 5.3%Y/Y. And there was a notable pickup in lending to firms, with the flow of €53.7bn the second-highest since the start of the pandemic. While this in part reflected increased demand for shorter-dated loans as near-term funding needs increased on the back of higher cost burdens, the flow of longer-term loans (i.e. those with a maturity of more than five years) was the strongest in eleven months, perhaps suggestive of a welcome pickup in investment spending.

Germany: Russia gas – daily Nord Stream 1 inflows



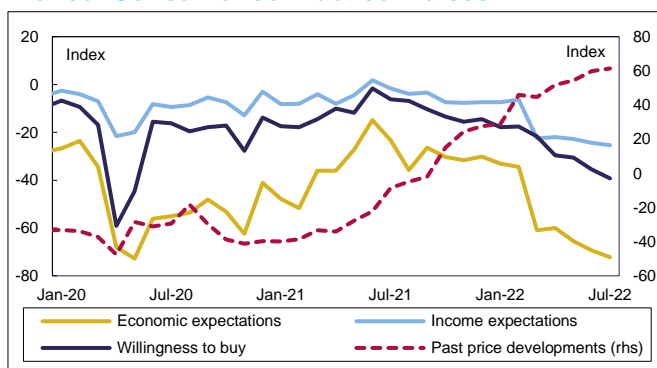
Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Germany: Natural gas storage levels



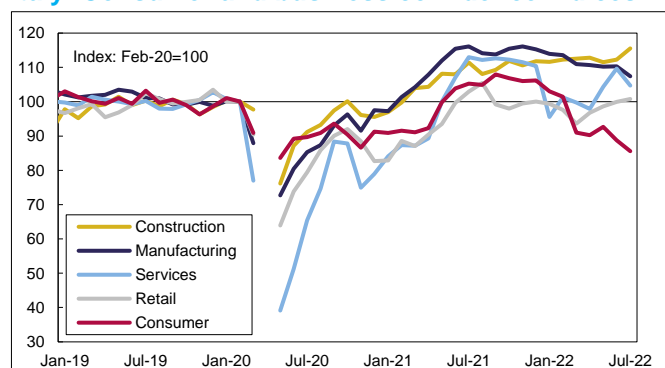
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: Consumer confidence indices



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

Italy: Consumer and business confidence indices



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

The day ahead in the euro area

The flow of sentiment indicators continues tomorrow with the release of the European Commission's comprehensive consumer and business surveys for July. The flash euro area consumer confidence index signalled a further notable deterioration in sentiment in July – with the headline survey index down 3.2pts to -27.0, a new record low and some 2.26pts below the long-run average – as households struggle with high inflation, and fret about possible disruption to energy supply, tighter monetary policy and a deteriorating economic outlook. At the same time, the Commission survey is expected to report a deterioration in the manufacturing and services indicators, more than reversing the modest improvements seen in June and aligning more closely with the [flash PMI surveys](#). The manufacturing index is forecast to fall 1.7pts to 5.7 – the lowest since March 2021 – and the services index is expected to drop 1.5pts to 13.3, a six-month low. Of course, ahead of Friday's release of flash euro area CPI data for July, most attention tomorrow will be on the equivalent preliminary estimates from Germany. The German data are expected to reveal that prices on the EU harmonised measure rose 0.4%M/M, albeit easing somewhat compared to a year earlier, to 8.1%Y/Y in July, from 8.2%Y/Y previously, largely due to the government's temporary energy support measures.

UK

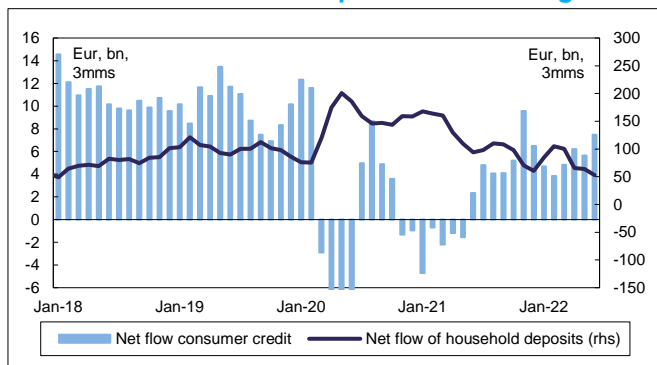
UK shop price inflation at highest on record as food and non-food price inflation jumps

In the UK, the main data focus today was on inflation, with the BRC's shop price index jumping at the start of Q3 to a series high. Indeed, its headline measure of inflation rose for the ninth consecutive month and by 1.2ppts – the second-highest monthly increase, beaten only by the impact of the conclusion of the VAT holiday at the end of 2009 – to 4.4%Y/Y. Despite fierce competition among retailers, rising production costs associated with the Ukraine war and elevated transport costs, saw the survey's measure of food inflation jump 1.5ppts to 7.0%Y/Y, the highest since April 2009, with fresh food prices up a whopping 8%Y/Y. But, despite subdued demand, there were also signs that price pressures were being increasingly passed on to consumer on a wide range of goods, as non-food inflation rose 1.1ppts to 3.0%Y/Y, a series high. Of course, not least due to the exclusion of prices of energy, cars and services, the BRC survey measure of shop price inflation will continue to track well below CPI inflation. Given households diminishing purchasing power, yesterday's CBI distributive trades survey suggested that retail sales remained poor for the time of year in July, implying a fourth consecutive decline in the year-on-year rate of sales growth, with retailers expecting a steeper drop in August too.

The day ahead in the UK

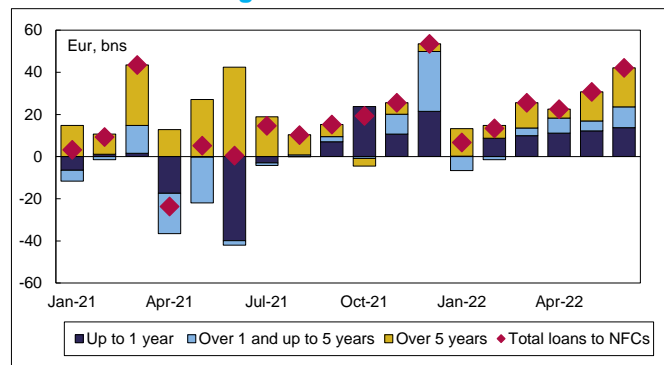
Tomorrow should be a quiet day on the economic front in the UK with no top-tier data scheduled for release.

Euro area: Households deposits and lending



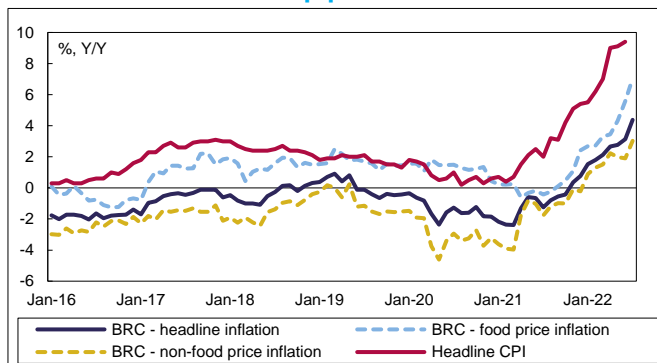
Source: Refinitiv, ECB and Daiwa Capital Markets Europe Ltd.

Euro area: Lending to NFCs



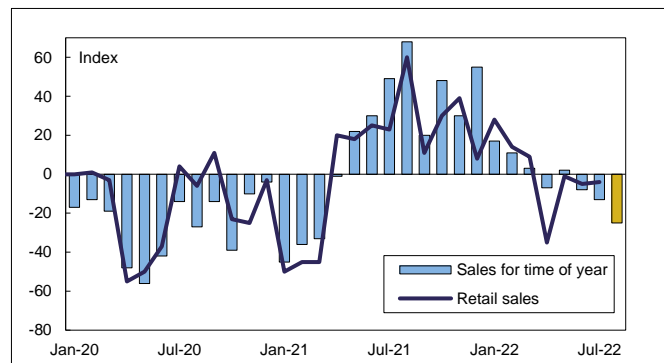
Source: ECB and Daiwa Capital Markets Europe Ltd.

UK: Consumer and shop price inflation



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








UK: CBI distributive trades indices*





*Gold bar represents expected sales for time of year in August.
 Source: 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
Euro area	 M3 money supply	Jun	5.7	5.4	5.6	5.8
Germany	 GfK consumer confidence	Jul	-30.6	-29.0	-27.4	-27.7
France	 INSEE consumer confidence	Jul	80	80	82	-
Italy	 ISTAT business (manufacturing) confidence	Jul	110.8 (106.7)	-(108.0)	113.6 (110.0)	113.4 (109.5)
	 ISTAT consumer confidence	Jul	94.8	96.6	98.3	-
	 Hourly wages M/M% (Y/Y%)	Jun	0.3 (1.0)	-	0.1 (0.7)	-
UK	 BRC shop price index Y/Y%	Jul	4.4	-	3.1	-

Auctions	
Country	Auction
Germany	 sold €3.30bn of 0% 2032 bonds at an average yield of 0.94%
UK	 sold £700mn of 0.125% 2051 index-linked bonds at an average yield of -0.583%

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	 PPI M/M% (Y/Y%)	Jun	1.9 (43.2)	-	0.9 (43.6)	1.0 (-)
UK	 CBI distributive trades survey – reported retail sales	Jul	-4	-10	-5	-

Auctions	
Country	Auction
Italy	 sold €2.5bn of 1.75% 2024 bonds at an average yield of 1.71%
	 sold €750mn of 0.1% 2033 index-linked bonds at an average yield of 1.37%
	 sold €500mn of 2.55% 2041 index-linked bonds at an average yield of 1.45%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data							
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous		
Euro area		10.00	EC economic sentiment indicator	Jul	102.0	104.0	
		10.00	EC industrial (services) confidence	Jul	5.7 (13.3)	7.4 (14.8)	
		10.00	EC consumer confidence	Jul	-27.0	-23.8	
Germany		13.00	Preliminary CPI M/M% (Y/Y%)	Jul	0.6 (7.4)	0.1 (7.6)	
		13.00	Preliminary EU-harmonised CPI M/M% (Y/Y%)	Jul	0.4 (8.1)	-0.1 (8.2)	
France		07.45	PPI M/M% (Y/Y%)	Jun	-	-0.1 (27.3)	
Spain		08.00	Retail sales Y/Y%	Jun	-	1.4	

Auctions and events			
Italy		10.00	Auction: €2.75bn of 2.65% 2027 bonds
		10.00	Auction: €2bn of 2.5% 2032 bonds
		10.00	Auction: €1.5bn of 0.95% 2032 bonds
		10.00	Auction: €1.25bn of 2030 floating-rate bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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