

Euro wrap-up

Overview

- Bunds followed USTs higher, while final German national inflation data confirmed a slight easing in July thanks to temporary support measures. A Bank of France survey suggested that output was stable at the start of Q3.
- Longer-dated Gilts also made modest gains on a quiet day for UK economic data releases.
- After a day bereft of top-tier European data tomorrow, Friday brings euro area IP figures for June, along with the first estimate of UK GDP in Q2 and monthly output and trade data for June.

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Daily bond market movements

Bond	Yield	Change
BKO 0.4 09/24	0.498	-0.039
OBL 1.3 10/27	0.634	-0.043
DBR 1.7 08/32	0.880	-0.034
UKT 1 04/24	1.890	+0.037
UKT 1½ 07/27	1.783	-0.016
UKT 4½ 06/32	1.949	-0.017

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

Source: Bloomberg

Euro area

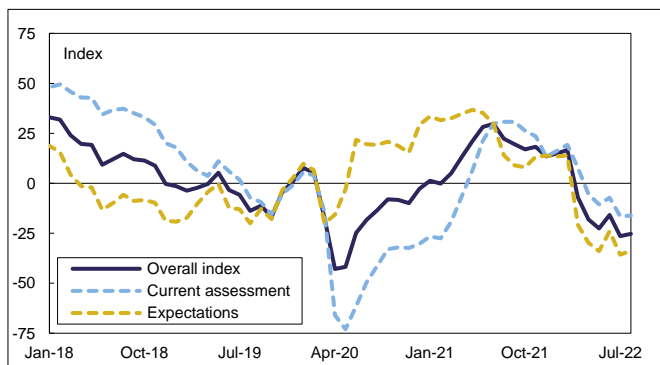
Sentix investor survey points to a probable recession

Surveys have pointed to a marked deterioration in the euro area's economic growth at the start of the third quarter, with the composite PMI implying contraction for the first time in more than two years and the European Commission's economic sentiment index falling below the long-run average for the first time seventeen months. But the latest euro area sentix investor confidence indicators, the first for August, suggested a slight easing in pessimism this month. Contrasting with expectations of a further decline, the headline confidence index rose 1.2pts to -25.2. This was nevertheless the second-weakest reading since the onset of the pandemic and well below the long-run average (3.3). And while there was a slightly stronger pickup in the outlook index (up 2.0pts to -33.8) it was still the third-lowest since the global financial crisis and a level that sentix warned was consistent with a likely recession over the coming six months. The outlook for Germany was even worse, with the headline index falling to a 27-month low (-0.2pts to -24.4) suggesting the economy was firmly on track for a recession, as investors signalled greater concern about current conditions amid mounting fears about energy supply, higher cost burdens and tighter monetary policy.

BoF survey suggests stable output at the start of Q3

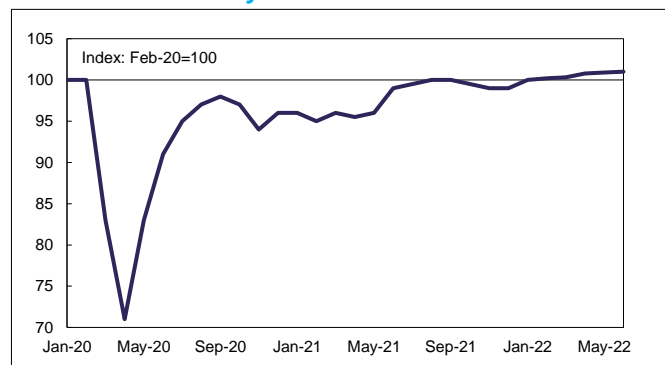
Based on its latest business survey conducted at the turn of the month, the Bank of France judged French economic activity in July to have been broadly stable after rising in May and June. This was despite further modest growth in services reflecting a boost in personal services, including vehicle repair, as well as rentals and accommodation, perhaps reflecting improved tourism. While industrial production was estimated to have been little changed in July, there were diversions between sub-sectors, with significant growth in chemicals, electrical and food industries contrasting with sharp falls in autos and clothing. But firms noted that construction contracted again in July. And business leaders reported an increasingly unfavourable outlook for both manufacturing and construction in August. Indeed, although the Bank of France reported that supply constraints had eased for the third consecutive month, they also appear to have remained substantive, with 57% (-2ppt on the month) of firms in industry and 48% (-4ppt) of firms in construction reporting that they were a barrier to activity. But this has been accompanied by a further slowdown in the increase in raw material prices. As such, the share of firms suggesting that they were increasing their selling prices fell again in manufacturing and services (each to 25%) and are expected to decrease further in August (to 14% and 17% respectively).

Euro area: Sentix investor sentiment indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: BoF survey – estimated level of GDP



Source: BoF and Daiwa Capital Markets Europe Ltd.

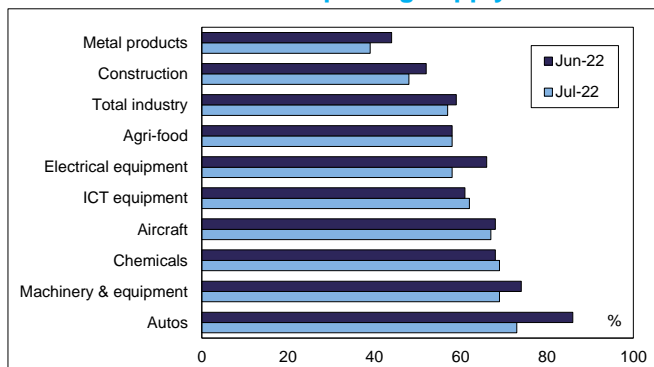
Final German inflation unrevised as temporary measures remain a slight drag

While there had been surprises in the flash CPI estimates, today's final July inflation figures from Germany aligned with expectations, with the national CPI measure unrevised at 7.5%Y/Y, down 0.1ppt on the month. This principally reflected temporary policy measures, with the €9 monthly travel ticket and fuel discounts causing inflation in the transport sector to drop a further 3ppts on the month to 5.4%Y/Y, from more than 16%Y/Y in May. And the abolishment of the renewable energy (EEG) surcharge last month saw electricity prices fall 3.3%M/M to leave the annual rate down 4ppts to 18.0%Y/Y. Nevertheless, Germany's energy inflation still stood at a lofty 35.5%Y/Y, from 38.0%Y/Y in June, with prices of natural gas up 75%Y/Y and heating oil more than doubling in price. Meanwhile, food inflation jumped 2.1ppts to 14.8%Y/Y, a fresh record high. But while the non-energy industrial goods component rose in June (up 0.2ppt to 5.8%Y/Y), the lower public transport fares meant that services inflation edged down again (-0.1ppt to 2.0%Y/Y). Overall, core inflation moved sideways at 3.2%Y/Y. Principally reflecting differences in utilities inflation, the HICP inflation edged higher in July, by 0.3ppt to 8.5%Y/Y. Of course, inflation on both the national and EU-harmonised measures is set to rise again in the autumn when the relief measures elapse. Elsewhere, final Italian CPI figures also aligned with the flash estimates, with the national and EU-harmonised CPI measures down 0.1ppt a piece to 7.9%Y/Y and 8.4%Y/Y respectively. But this principally reflected softer energy inflation. Indeed, core inflation rose 0.3ppt to 4.3%Y/Y (on the HICP measure), a new series high.

The coming two days in the euro area

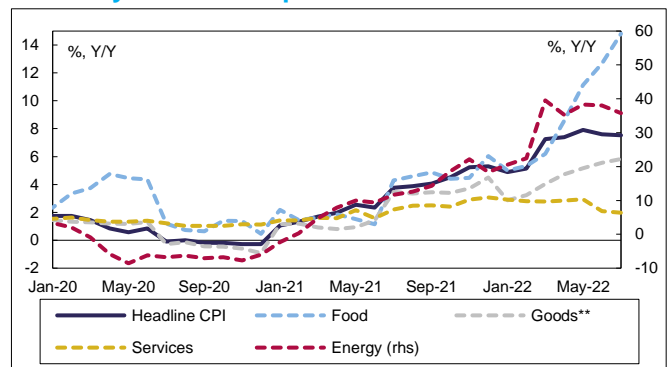
After a day bereft of euro area top-tier economic releases tomorrow, Friday will bring euro area industrial production figures for June. Data from the four largest member states had suggested only a very modest increase in euro area IP that month, to leave it down over the second quarter as a whole. But a surge in production from Ireland – up 6.7%M/M, following a substantial upwards revision to growth in May, by 20ppts to 34%M/M, with manufacturing output up 12.0%M/M in June after growth of 22.3%M/M in May – suggests that the risks to the forecast for euro area IP are to the upside. Indeed, taken together with a near-8%M/M increase from Greece, national figures point to aggregate euro area IP growth of around ½%M/M, with output set to have risen almost 1%Q/Q in Q2. Friday will also bring July's final CPI inflation readings from France and Spain. The preliminary estimates showed HICP inflation increasing last month by 0.3ppt to 6.8%Y/Y in France and 0.8ppt to 10.8%Y/Y in Spain.

France: Share of firms reporting supply difficulties



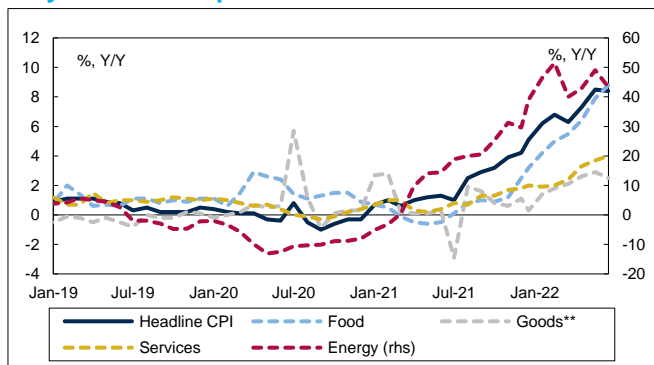
Source: BoF and Daiwa Capital Markets Europe Ltd.

Germany: Consumer price inflation*



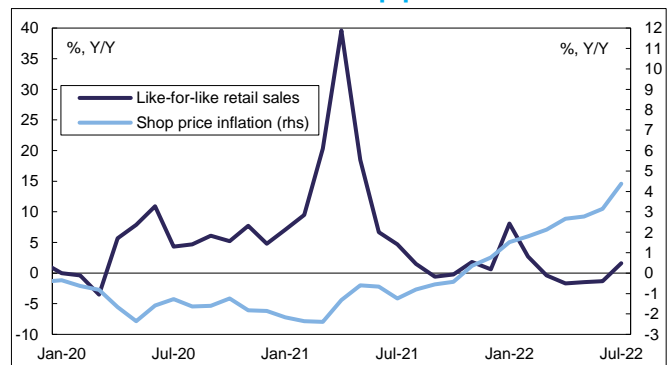
*National measure. **Non-energy industrial goods. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Italy: Consumer prices inflation*



*EU-harmonised measure. **Non-energy industrial goods. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: BRC retail sales and shop price indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK

Retail survey suggests that sales volumes remain weak amid higher prices

After retail sales fell in June to their lowest level in fifteen months and were a drag on GDP growth in Q2 for the fourth consecutive quarter, several retail releases suggest the sector received a boost at the start of Q3 by last month's heat wave and increase in staycations. In particular, yesterday's BRC retail monitor showed the value of total sales rising for the first month in four in July, by 2.3%Y/Y, with like-for-like sales up 1.6%Y/Y. But smoothing for monthly volatility, like-for-like sales growth remained in negative territory (-0.5%3M/Y), with spending at non-food stores down 2.0%3M/Y despite stronger sales of summer clothing and electric fans. But while sales at food stores were up 2.3%3M/Y, this likely reflects higher prices. Indeed, when adjusting with the BRC's shop price indicator, food sales were down more than 3%3M/Y. And the volume of total sales was down 4.4%Y/Y in July, the second-largest drop since the series began in 2006 and only exceeded at the beginning of the pandemic in April 2020. The latest Barclaycard credit card spending report also flagged the impact of higher prices. This showed that rising petrol prices drove a near-30%Y/Y increase in the value of fuel spending, while credit card spending on utility bills jumped almost 44%Y/Y. Almost nine out of ten consumers noted an increase in the price of everyday items, with a little more than 50% cutting down on luxury items due to tighter budgets. In addition, roughly two-fifths reported purchasing certain items on a need-to-buy basis. And while spending on non-essential items (8.0%Y/Y) was likely boosted by the warmer weather and start of the school holidays, rising inflation will have also played a role. With consumer confidence already at a record low and household budgets set to be squeezed significantly further as the year progresses, the volume of consumer spending on a wide range of goods and services seems bound to weaken substantially.














The coming two days in the UK

Following a likely quiet day for UK economic releases tomorrow, with only the RICS house price balance for July scheduled, the week's main event comes on Friday, in the form of the preliminary estimate of GDP in Q2, as well as the monthly GDP, production and trade figures for June. We currently forecast a sizeable decline in growth in GDP in June of a little more than 1%M/M, to leave total economic output down 0.1%Q/Q in Q2 following an increase of 0.8%Q/Q in Q1, with household consumption and business investment likely to have contracted. Not least given sizable revisions to the monthly data over recent months, the additional bank holiday in June and transport sector strikes at the end of the month, there is greater uncertainty surrounding the growth forecast last quarter. Within the detail in June, we expect supply bottlenecks and subdued demand to have weighed on manufacturing production, with services activity also expected to contract despite the warmer weather.

The next edition of the Euro wrap-up will be published on 12 August 2022

European Calendar

Economic data and auction results/upcoming releases

Country	BST	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 08 August 2022						
Euro area 	09.30	Sentix investor confidence	Aug	-25.2	-29.0	-26.4
Tuesday 09 August 2022						
UK 	00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Jul	1.6	-	-1.3
Germany 	10.30	sold €4.61bn of 0.4% 2024 bonds at an average yield of 0.58%				
UK 	10.00	sold £1.75bn of 1.25% 2051 bonds at an average yield of 2.36%				
Wednesday 10 August 2022						
Germany 	07.00	Final CPI M/M% (Y/Y%)	Jul	0.9 (7.5)	0.9 (7.5)	0.1 (7.6)
	07.00	Final EU-harmonised CPI M/M% (Y/Y%)	Jul	0.8 (8.5)	0.8 (8.5)	-0.1 (8.2)
Italy 	09.00	Final CPI M/M% (Y/Y%)	Jul	0.4 (7.9)	0.4 (7.9)	1.2 (8.5)
	09.00	Final EU-harmonised CPI M/M% (Y/Y%)	Jul	-1.1 (8.4)	-1.1 (8.4)	1.2 (8.5)
Germany 	10.30	sold €1.17bn of 1.25% 2048 bonds at an average yield of 1.1%				
Thursday 11 August 2022						
UK 	00.01	RICS house price balance %	Jul	-	60	65
Friday 12 August 2022						
Euro area 	10.00	Industrial production M/M% (Y/Y%)	Jun	-	<u>0.3 (1.1)</u>	0.8 (1.6)
France 	06.30	ILO unemployment rate %	Q2	-	7.1	7.1
	07.45	Final CPI M/M% (Y/Y%)	Jul	-	<u>0.3 (6.1)</u>	0.7 (5.8)
	07.45	Final EU-harmonised CPI M/M% (Y/Y%)	Jul	-	<u>0.3 (6.8)</u>	0.9 (6.5)
Italy 	09.00	Total trade balance €mn	Jun	-	-	-12
Spain 	08.00	Final CPI M/M% (Y/Y%)	Jul	-	<u>-0.2 (10.8)</u>	1.9 (10.2)
	08.00	Final EU-harmonised CPI M/M% (Y/Y%)	Jul	-	<u>-0.5 (10.8)</u>	1.9 (10.0)
UK 	07.00	Preliminary GDP Q/Q% (Y/Y%)	Q2	-	<u>-0.1 (2.9)</u>	0.8 (8.7)
	07.00	GDP M/M%	Jun	-	<u>-1.1</u>	0.5
	07.00	Industrial production M/M% (Y/Y%)	Jun	-	-1.4 (1.6)	0.9 (1.4)
	07.00	Manufacturing production M/M% (Y/Y%)	Jun	-	-1.9 (0.8)	1.4 (2.3)
	07.00	Index of services M/M% 3M/3M%	Jun	-	-1.0 (-0.4)	0.4 (0.1)
	07.00	Goods trade balance £bn	Jun	-	-22.3	-21.4

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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