

Euro wrap-up

Overview

- Bunds made gains as the German ifo business survey implied a further loss of momentum, while the French INSEE survey signalled a marked deterioration in business conditions at the start of Q3.
- While a UK survey signalled an improvement in expected manufacturing output ahead, Gilts followed the global trend higher as firms' selling-price expectations fell back.
- Friday will bring the release of the ECB's consumer expectations survey, alongside national sentiment indices from France and Italy.

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Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.624	-0.020
OBL 2½ 10/29	2.342	-0.024
DBR 2.6 08/34	2.414	-0.026
UKT 0½ 01/26	3.918	-0.037
UKT 0½ 01/29	3.911	-0.022
UKT 4½ 01/34	4.128	-0.026

*Change from close as at 5.00pm BST.
Source: Bloomberg

Euro area

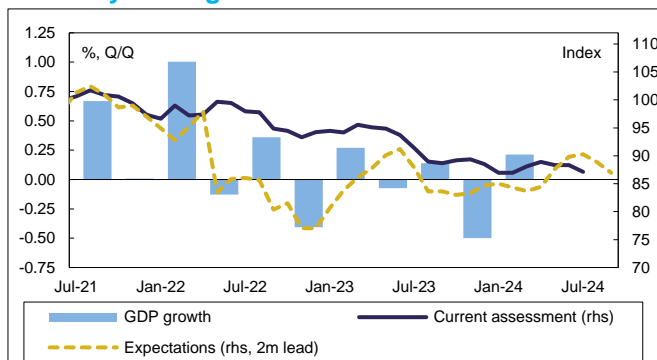
German ifo indices point to a further loss of momentum at the start of Q3

Yesterday's flash [German PMIs](#) for July were weaker than expected, suggesting a loss of growth momentum at the start of the third quarter. Today's German ifo survey results similarly disappointed, with the headline business climate index falling for a third consecutive month, by 1.6pts – the most in 13 months – to a five-month low (87.0), and almost 9½% below the long-run average. Firms judged current conditions to have worsened in July, with the respective index down 1.2pts to 87.1, near the bottom of the range for the past four years. Like the PMIs, there was a marked deterioration in manufacturing sentiment, which fell to the weakest since September 2020 amid concerns about declining order backlogs. And despite the recent improvement in consumer confidence, retailers were also notably more downbeat about the current situation, suggesting that spending on goods remained subdued at the start of Q3. Despite slipping back slightly from June, the ifo suggested that recent business conditions in the services sector remained broadly positive in July, perhaps reflecting the temporary boost to certain hospitality and recreation sectors from the European football championships. But looking ahead to the coming six months, firms in the sector were the most downbeat since February. And with manufacturers, retailers and construction firms also expressing greater pessimism about the six months ahead, the composite ifo expectations index fell for a second successive month to a five-month low (86.9), suggesting risks to the near-term growth profile remain skewed to the downside and that Germany's GDP growth through the second half of the year is likely to be sub-potential.

French INSEE survey suggests significant deterioration in sentiment amid political uncertainties

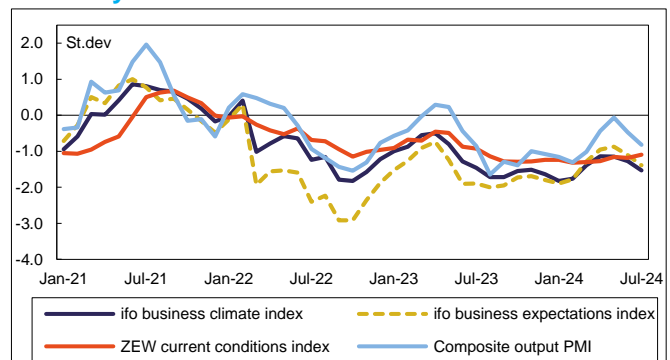
In contrast to the German indices, the flash French PMIs signalled some stabilisation at the start of Q3. But today's INSEE business survey – which has recently been a better guide to economic conditions in the euro area's second-largest member state – reported a marked and widespread deterioration in sentiment in July, as a rise in political uncertainty seemingly weighed. In particular, the headline composite business index declined 5pts – the most since Russia's invasion of Ukraine – to 94, the lowest level since February 2021 and 6% below the long-run average. Within the detail, manufacturers were the most downbeat since December 2020 amid greater pessimism with respect to recent production trends as well as a slump in overseas orders. Indeed, while the decline in sentiment was widespread across subsectors, it was largest in other transport equipment, which had benefitted from significant orders last year. Services firms were also the gloomiest since April 2021, with a surprising notable deterioration in the near-term outlook despite an anticipated boost to tourism in Paris for the imminent start of the Olympic Games. In addition, retailers were the most downbeat since April 2022 when consumer confidence slumped as real disposable incomes were hit by a surge in inflation. And although the fall in construction sentiment was more moderate, it nevertheless maintained a steady downtrend seen over the past couple of years to its lowest reading since June 2020. Overall, the INSEE survey raises significant uncertainties about near-term economic growth

Germany: GDP growth and ifo business indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Business sentiment indices



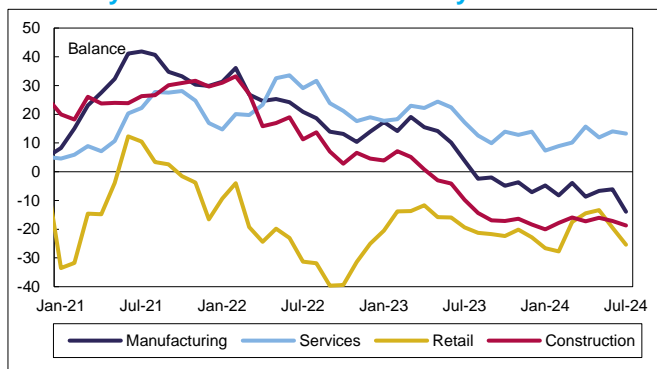
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

in France. It is worth noting, however, that the majority of responses were submitted between 27 June and 9 July, during the first and second round of election voting. So, while the outcome of a hung parliament suggests a prolonged period of political paralysis, we might well see some reversal of the weakness in sentiment in August. And not least due to the arrival of overseas visitors for the Olympic Games, we continue to expect GDP growth to remain positive this quarter and beyond.

Lending to NFCs accelerated in June as credit standards eased

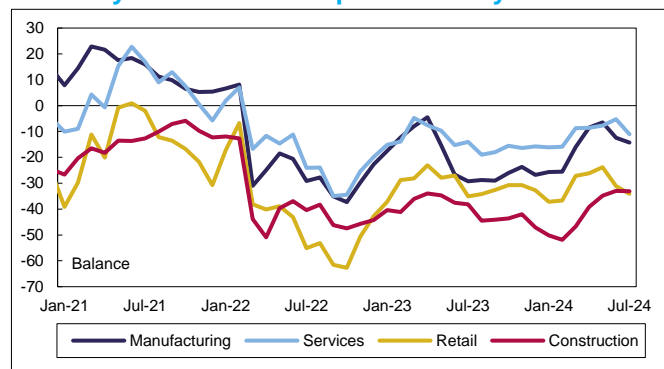
More encouragingly, today's monetary data highlighted that bank lending in the euro area picked up at the end of Q2 as the ECB's first rate cut this cycle prompted an easing in credit standards and boost in loan demand. Indeed, the monthly flow of lending to non-financial corporations on an adjusted basis rose the most in 20 months (€18.9bn), to take the annual stock of such loans up to a ten-month high of 0.7%Y/Y, albeit still well below the pre-pandemic five-year average (2.3%Y/Y) and consistent with a non-negligible decline in real terms. The unadjusted figures suggested that such loans were concentrated in shorter-term loans (i.e. those with a maturity of up to 1 year), while the net flow of medium-term loans (i.e. with a maturity of over 1 year and up to 5 years) was positive for the first month in five. Meanwhile, net lending to households increased slightly on an adjusted basis in June (€3.7bn), although this left the annual rate unchanged at just 0.3%Y/Y, therefore firmly negative in real terms. With mortgage rates moderating, net mortgage lending rose the most in four months (€4.0bn), albeit the annual rate remained negligible (0.4%Y/Y). And growth in consumer credit slowed in June (2.9%Y/Y) as the net monthly flow fell (€1.1bn) for just the 2nd month in 22 and by the most since March 2021, suggesting still lacklustre consumer spending.

Germany: ifo current assessment by sector



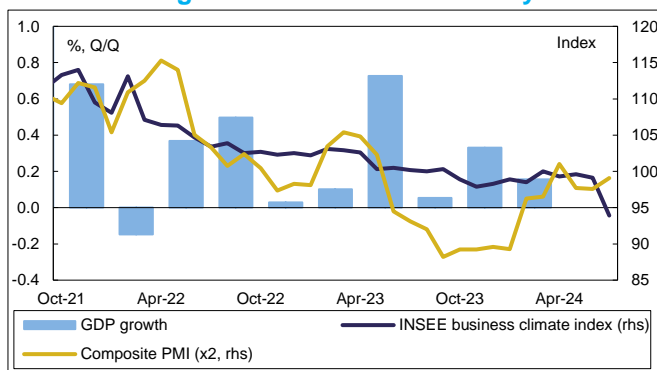
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo business expectations by sector



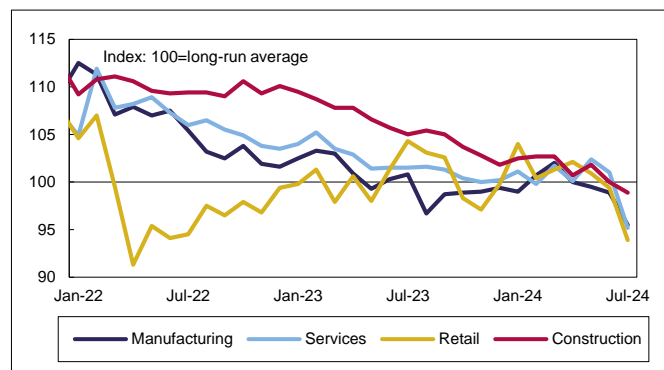
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: GDP growth and business survey indices



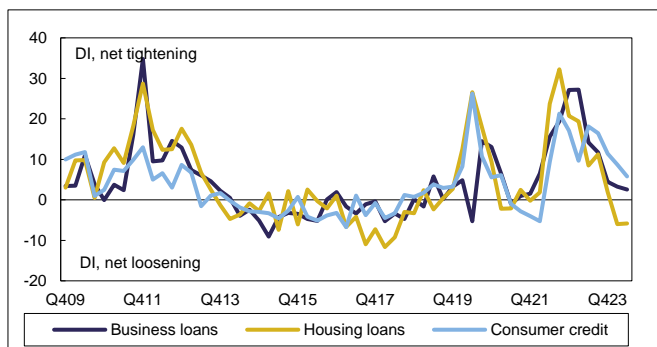
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

France: INSEE business sentiment indices



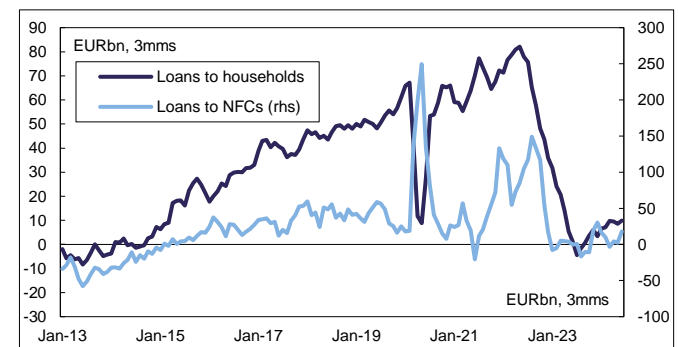
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: BLS – credit standards



Source: ECB Bank Lending Survey, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loans to households and NFCs



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

The day ahead in the euro area

Survey indicators will continue to dominate the dataflow on Friday, including the release of the ECB's consumer survey for June, which will report on households' inflation expectations. In May, the median forecast for euro area HICP inflation 12 months ahead fell to a 32-month low of 2.8%Y/Y, while the indicator for three years ahead – of more significance for monetary policy setting – fell to just 2.3%Y/Y, the softest since February 2022 and pointing to increased confidence in the ECB's ability to achieve its target over the medium term. Meanwhile, the French INSEE consumer survey might well report a slight deterioration in household sentiment as political uncertainties persist. And similar to the findings of German and French business surveys, the Italian ISTAT business indices might also point to a further slowdown in economic growth momentum at the start of Q3.

UK

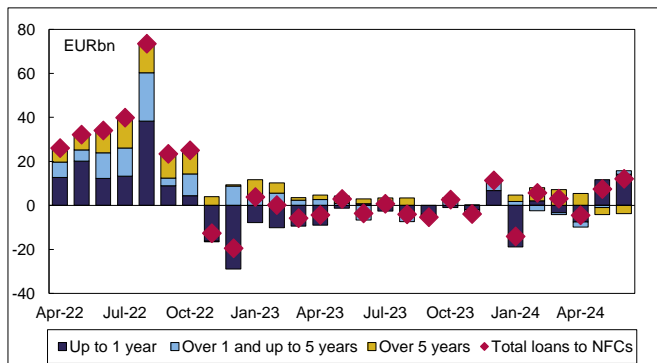
Manufacturing output expected to rise over coming three months despite subdued orders

While yesterday's flash [UK PMIs](#) signalled the strongest manufacturing production growth for two years in July, today's CBI industrial trends survey offered a more muted assessment of recent conditions in the sector. In particular, the headline balance for output in the three months to July slipped back to a four-month low to suggest no growth over the past quarter, with output rising in just 6 out of 18 subsectors. But while the share of respondent firms reporting that order books were below historical norms was the highest in six months and at almost 50%, the net share of firms expecting output to rise over the coming three months rose to the highest in over two years, with inventory building expected to provide some support over the near term. Investment intentions for the year ahead generally strengthened compared with three months ago, with manufacturers signalling an increase in spending on product and process innovation, training and in plant and machinery. In contrast, investment in buildings was anticipated to fall further, with a key constraint on overall capex plans related to uncertainty about demand. In terms of price pressures, today's survey suggested an acceleration in average costs over the past three months, tallying with the findings of the PMIs and likely associated in part with higher shipping costs. Nevertheless, firms' selling price expectations for the coming three months fell to the lowest since end-2020, suggesting that manufacturers will likely absorb additional costs in their profit margins.

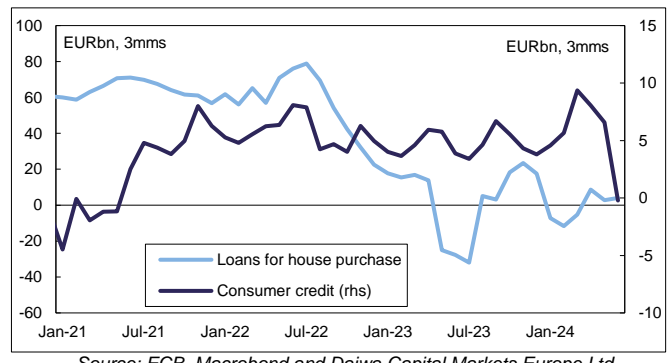
The day ahead in the UK

It should be a quiet end to the week with no top-tier UK data scheduled for release.

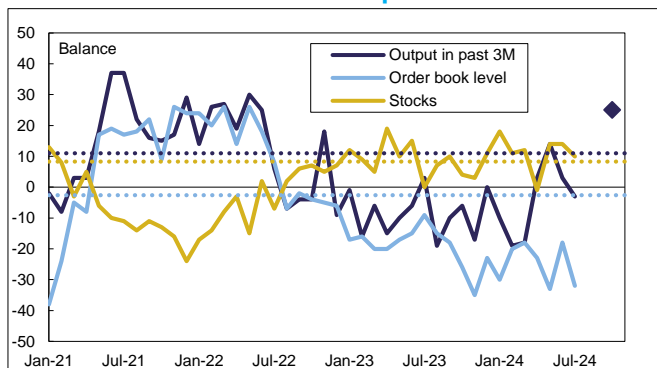
Euro area: Loans to NFCs



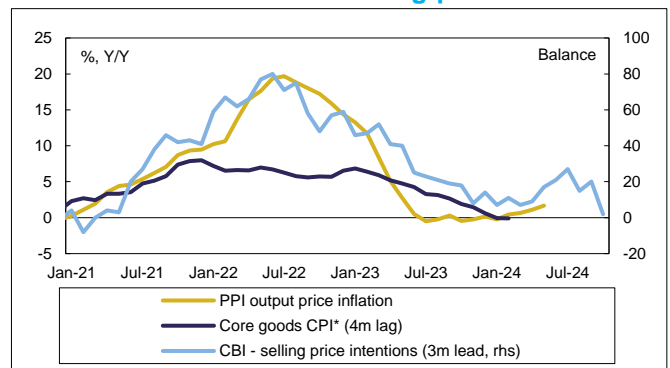
Euro area: Loans to households



UK: CBI Industrial Trends output-related indices*









UK: CBI Industrial Trends selling-price intentions






European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 M3 money supply Y/Y%	Jun	2.2	1.9	1.6	1.5
Germany	 Ifo business climate indicator	Jul	87.0	89.0	88.6	-
	 Ifo current assessment (expectations) indicator	Jul	87.1 (86.9)	88.5 (89.3)	88.3 (89.0)	-(88.8)
France	 INSEE business (manufacturing) confidence indicator	Jul	93.9 (95.0)	99 (99)	99.1 (98.9)	-
	 Total jobseekers mn	Q2	2.81	-	2.82	-
UK	 CBI industrial trends survey – total orders (selling price) balance %	Jul	-32 (2)	-20 (20)	-18 (20)	-








Auctions

Country	Auction
Italy	 sold €3.5bn of 3.1% 2026 bonds at an average yield of 3.1%
	 sold €1.25bn of 1.5% 2029 inflation-linked bonds at an average yield of 1.6%
	 sold €1.0bn of 2.55% 2041 inflation-linked bonds at an average yield of 2.19%

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	09.00	 ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Jun	-	2.8 (2.3)
France	07.45	 INSEE consumer confidence indicator	Jul	90	89
Italy	09.00	 ISTAT consumer confidence indicator	Jul	98.7	98.3
	09.00	 ISTAT business (manufacturing) confidence indicator	Jul	-(87.3)	94.5 (86.8)
	10.00	 Hourly wages Y/Y%	Jun	-	3.0
Spain	08.00	 Retail sales Y/Y%	Jun	-	0.2
	08.00	 Unemployment rate %	Q2	11.4	12.3

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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