

# Euro wrap-up

## Overview

- Bunds made modest gains as German and French consumer surveys suggested that household purchase intentions remained weak despite a decline in inflation expectations.
- Longer-dated Gilts underperformed on a quiet day for UK economic news.
- Friday will bring the latest results of the ECB's consumer expectations survey and Italian business and consumer sentiment surveys.

**Emily Nicol**  
+44 20 7597 8331

**Edward Maling**  
+44 20 7597 8030

### Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.534	-0.008
OBL 2½ 04/31	2.603	-0.002
DBR 2.9 02/36	2.860	-0.003
UKT 4¾ 03/28	4.117	-0.008
UKT 4¾ 03/31	4.258	+0.009
UKT 4¾ 10/35	4.706	+0.025

\*Change from close as at 4:15pm BST.  
Source: Bloomberg

## Euro area

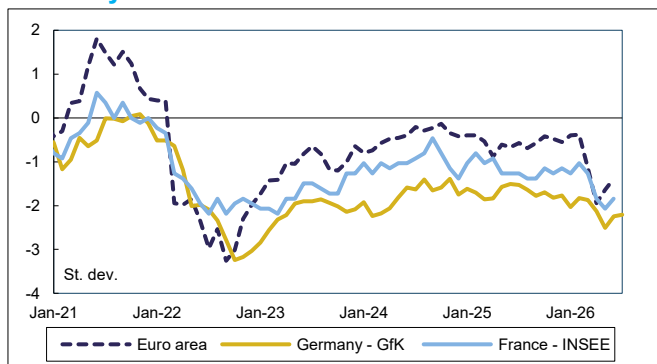
### German & French consumer confidence stabilises at low level, with purchase intentions still weak

Today's consumer surveys from Germany and France suggest that, like the euro area in aggregate, household sentiment began to stabilise heading into the summer. A tentative peace agreement in the Middle East and decline in energy prices appear to have supported the near-term outlook, however, the improvement was modest, indicating that households are likely to remain cautious in their spending. In Germany, the headline GfK index – presented as a forecast for July – rose just 0.5pt to -29.2, remaining some 5pts below the pre-Iran-war level and still more than 2 standard deviations below the long-run average. Survey responses to the GfK are usually collected during the first half of the month, however, which could imply a more pronounced improvement next month. In France, the headline INSEE index increased by 2pts to 84 following May's drop to one of the lowest readings on the series dating back to the early 1970s, albeit remaining well below the long-run average. While there was a modest recovery in expectations for the economy and household incomes, spending intentions remained constrained, not least reflecting worsening job prospects. Indeed, the INSEE survey showed that unemployment fears rose to the highest in over a decade outside of Covid lockdown periods. As such, households in both countries remain as reluctant regarding future major purchases as they had in May, with the respective survey indices in Q2 their weakest since Q124. This broadly tallied with the Bank of France's latest retail survey, which showed sales volumes falling in May (-0.6%M/M) to leave them tracking just 0.1% above the Q1 average when spending rose almost ½%Q/Q.

### Broad-based declines in business and consumer price expectations in June

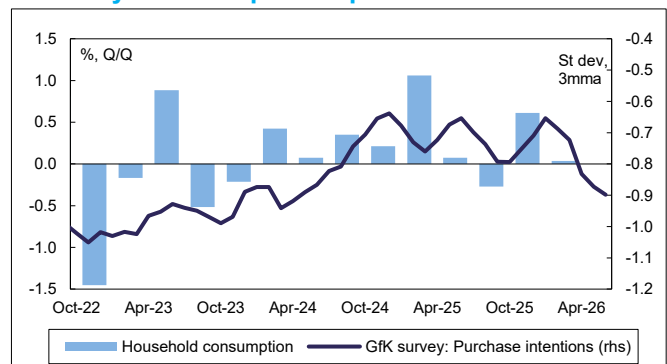
The near-term outlook for consumption, however, might receive some support from the recent decline in wholesale energy prices and their implications for the inflation outlook more generally. Business surveys – including the flash PMIs, ifo and INSEE indices – continue to indicate limited pass-through of higher input costs across a range of goods and services. Consistent with this, national surveys signal that the share of firms – aside from German retail – intending to raise prices fell further in June. At the same time, consumer inflation expectations in Germany and France fell sharply this month. While still above the long-run average and not as subdued as before the global energy shock, this marked a meaningful easing. The expected rebound in German energy inflation in July following the expiry of the fuel VAT cut, is also likely to be partly offset by the recent fall in oil prices. So, while ECB Executive Board member Isabel Schnabel stated in an interview yesterday that further rate hikes may be needed to return inflation to target, the combination of softer energy prices, easing inflation expectations and a weak growth backdrop should help limit second-round inflation effects and reduce the case for a more forceful monetary policy response by the ECB.

### Germany & France: Consumer confidence indices



Source: EC, GfK, INSEE, Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Consumption & purchase intentions



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

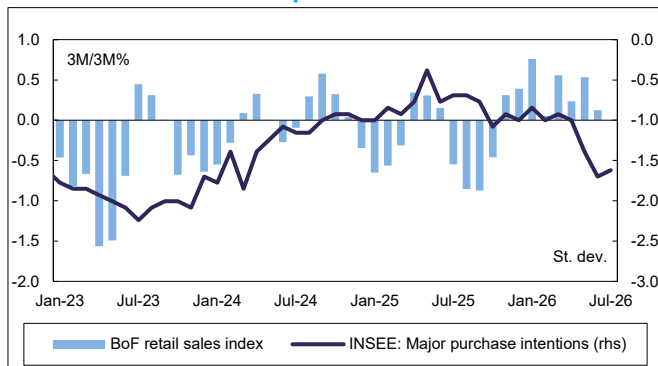
### The day ahead in the euro area

From a monetary policy perspective, the ECB's consumer expectations survey (CES) should be the highlight of Friday's dataflow. Some policymakers have recently raised concerns about a potential deanchoring of consumer inflation expectations, with the ECB's Schnabel citing a rightwards shift in the distribution of medium-term expectations in the CES. In her post-Governing Council meeting press conference, President Lagarde also acknowledged that short-term inflation expectations had risen in response to the energy shock, with consumers' year-ahead expectations jumping 1½ppts to 4%Y/Y in March, a 2½-year high. Medium-term expectations also rose at the onset of the Iran war but, crucially, softened a touch in April to be only marginally higher than their pre-war levels. While the recent moderation in oil prices should weigh on shorter-term measures over the coming months, they should remain elevated in Friday's release, but medium-term measures will remain broadly anchored. Otherwise, June's national business and consumer surveys from Italy are also due on Friday. Like the equivalent releases from Germany and France, those are also expected to point towards a tentative stabilisation at the end of Q2.

### The day ahead in the UK

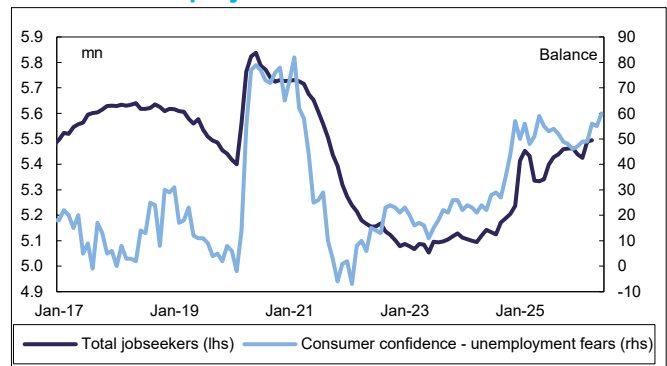
With no economic data or Bank speak scheduled for Friday, it should be a relatively quiet end to the week in the UK.

#### France: Retail sales & purchase intentions



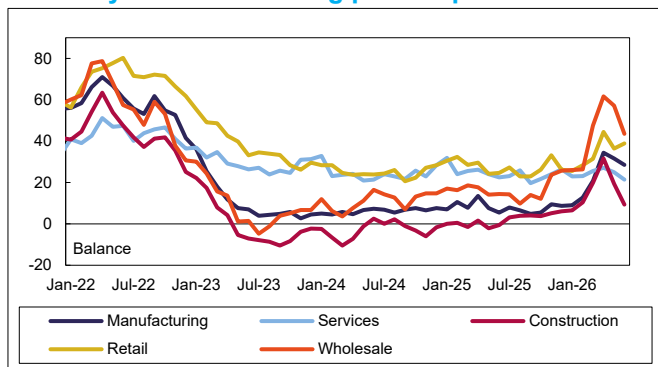
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: Unemployment claims & fears



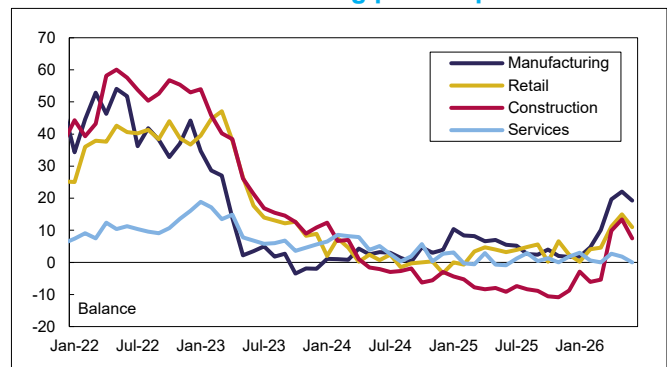
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: ifo firms' selling price expectations\*



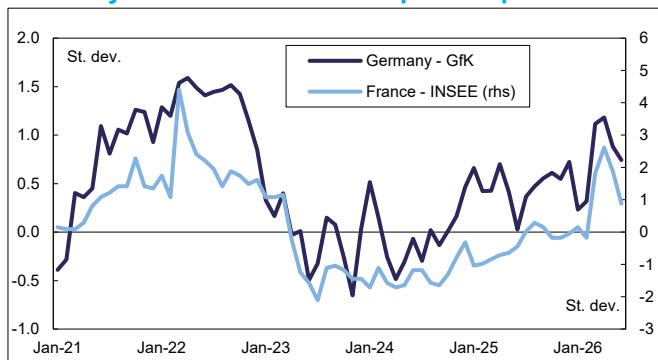
\*3 months ahead. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: INSEE firms' selling price expectations\*



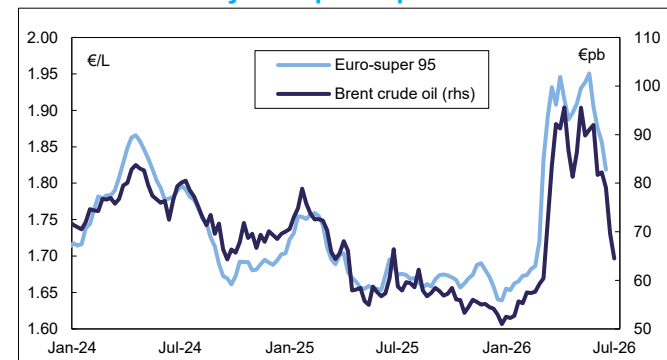
\*3 months ahead. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany & France: Consumer price expectations\*



\*12 months ahead. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Weekly oil & petrol prices








Source: Bloomberg, Macrobond 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
Germany	 GfK consumer confidence indicator	Jul	-29.2	-28.0	-29.8	-29.7
France	 INSEE consumer confidence indicator	Jun	84	83	82	-
Spain	 GDP – final estimate Q/Q% (Y/Y%)	Q1	0.6 (2.7)	0.6 (2.7)	0.8 (2.6)	-
	 PPI Y/Y%	May	10.5	-	8.3	-
UK	 CBI distributive trades – reported retail sales % net balance	Jun	-54	-40	-46	-




#### Auctions

Country	Auction
UK	 sold £1.5bn of 0.5% 2029 bonds at an average yield of 4.062%





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- (3Y-) ahead CPI Y/Y%	May	3.9 (2.8)	4.0 (2.9)
Italy	 10.00	Istat economic (manufacturing) sentiment indicator	Jun	-	94.1 (87.9)
	 10.00	Istat consumer confidence indicator	Jun	94.3	93.4

#### Auctions and events

Italy	 10.00	Auction: to sell up to €3bn of 3.15% 2031 bonds
	 10.00	Auction: to sell up to €2.5bn of 3.8% 2036 bonds
	 10.00	Auction: to sell up to €1.5bn of 3.45% 2036 bonds
	 10.00	Auction: to sell up to €2bn of floating 2036 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research reports at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

#### Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at:

[https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit\\_ratings.pdf](https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf). If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

#### IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.