Daiwa Capital Markets

Euro wrap-up

Overview

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- While the ifo survey implied a pickup in German economic growth momentum and euro area bank lending was relatively well maintained, Bunds made gains on lower wholesale energy prices.
- Gilts also followed the global trend higher on a quiet day for UK economic news.
- Tuesday will bring updates on French consumer confidence and UK shop prices.

Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/28	2.783	-0.040
OBL 2.9 10/31	2.879	-0.048
DBR 3 08/36	3.125	-0.045
UKT 4⅜ 03/28	4.365	-0.041
UKT 4⅛ 03/31	4.549	-0.042
UKT 4¾ 10/35	4.984	-0.047

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

Euro area

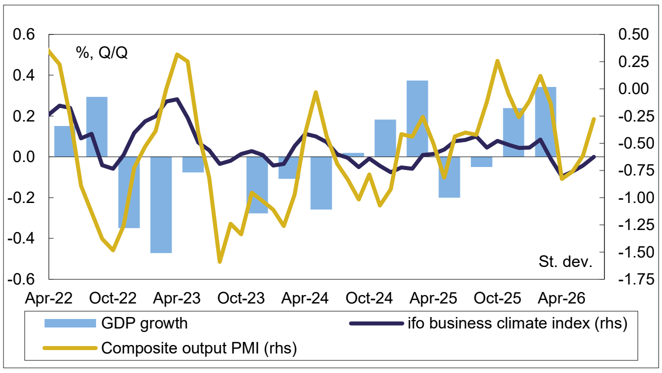
German ifo survey tallies with PMIs to suggest a pickup in growth momentum at start of Q3

Data for manufacturing, construction and services output, as well as retail sales, suggest that Thursday's estimate of German GDP in Q2 will report a third successive quarter of moderate growth of about ¼%Q/Q. But some second-tier data, including the Bundesbank's composite weekly activity index (WAI), point to weakness. And many survey indicators also implied that German economic growth in Q2 softened somewhat from the four-quarter high of 0.3%Q/Q in Q1. Nevertheless, surveys also signalled a gradual pickup in activity in May and June after an initial pullback in April. And today's ifo indices tallied with Friday's flash German PMIs to point to a further strengthening of momentum in July. Indeed, the headline ifo business climate index rose almost 1pt to a five-month high of 86.6, less than 1pt below last year's average. Having risen in June to the highest level in almost two years, the survey's gauge of current conditions edged down about ½pt to 86.5 but was still a touch above the Q1 average. Most encouragingly, the ifo index of expectations for the coming six months rose more than 2pts, the most in 16 months, to a five-month high of 86.7. Among the various sectors, only construction and retail firms suggested that conditions had improved in July. But all major sectors were more upbeat about the six-month outlook, with services and retail firms the most upbeat in five months and manufacturers the most optimistic since January.

Bank lending to firms well maintained in June, but household loan demand softens

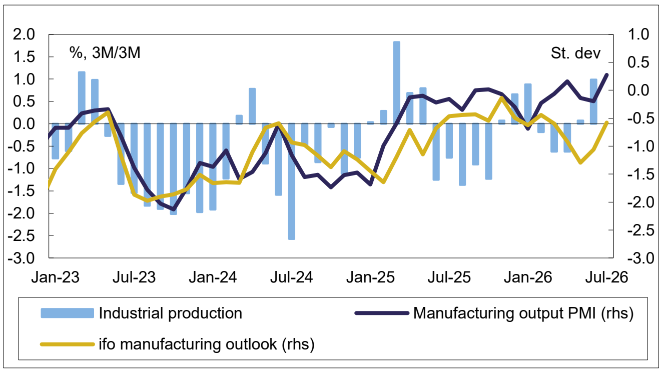
Despite a tightening of financial conditions in terms of both prices and credit standards, the ECB's monetary data suggest that credit continued to flow at the end of Q2 helping businesses meet increased funding needs in the face of the energy price shock. While borrowing costs for firms rose to the highest level in over a year, net lending to non-financial corporations (NFCs) moderated in June from the almost four-year high of €34.3bn in May to €25.6bn, a level still well above the average of the previous 12 months. As a result, annual growth in the stock of loans to NFCs was unchanged at a three-year high (4.0%Y/Y). Surveys suggest that funding needs increased particularly for working capital and inventories. But lending with maturities of five years or longer, which is typically associated with fixed investments, picked up in June (€20.6bn), taking the annual growth in the stock of such loans to the highest since early 2023 (4.1%Y/Y). At the country level, business loan growth in Germany (0.9%Y/Y) and France (4.9%Y/Y) was the strongest in more than two and three years respectively, and in Spain matched the fastest since 2007 outside of the global financial crisis and Covid lockdown periods. At face value, today's data also suggested that household borrowing remained relatively resilient in June, with the net flow unchanged on the month at €17.1bn, contrasting the decline implied by the ECB's Bank Lending Survey (BLS). Nevertheless, consumer credit issuance eased to a five-month low (€2.2bn) and mortgage lending slowed to a 13-month low (€11.9bn), with growth in other niche categories. Moreover, given the ECB's June rate hike and expectations of a further tightening of credit standards in Q3, household demand for consumer credit and mortgage lending is expected to soften again over the near term.

Germany: GDP growth & survey indices



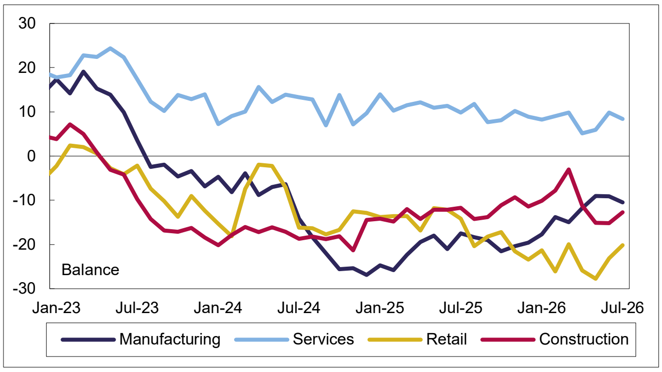
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Industrial production & survey indices



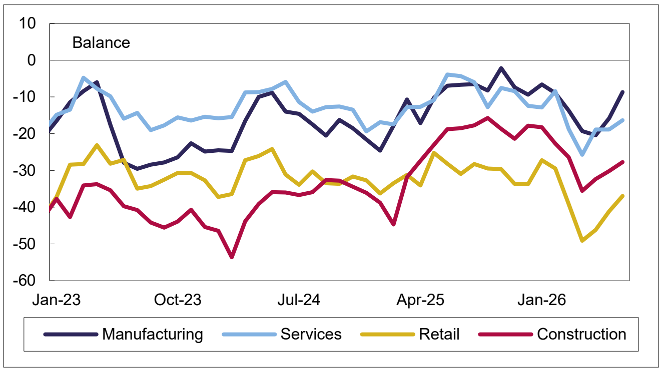
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo current conditions indices by sector



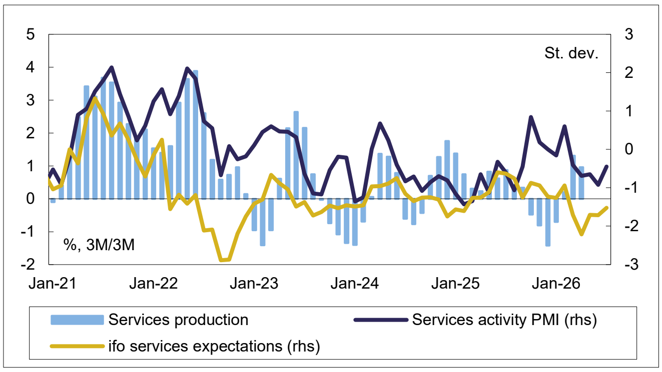
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo expectations indices by sector



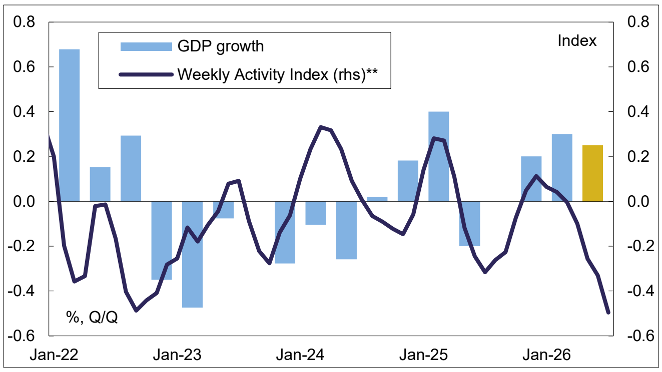
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Services production & survey indices



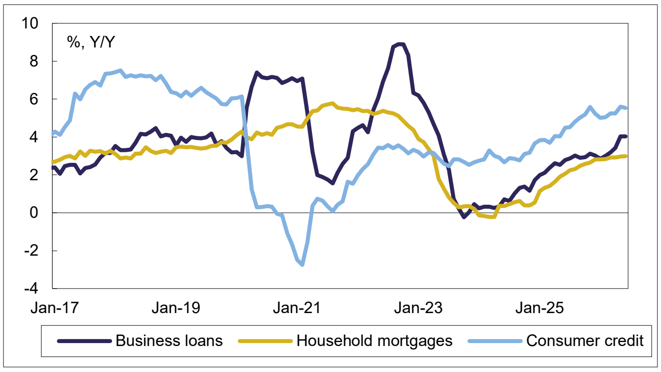
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: GDP & Bundesbank Activity Index*



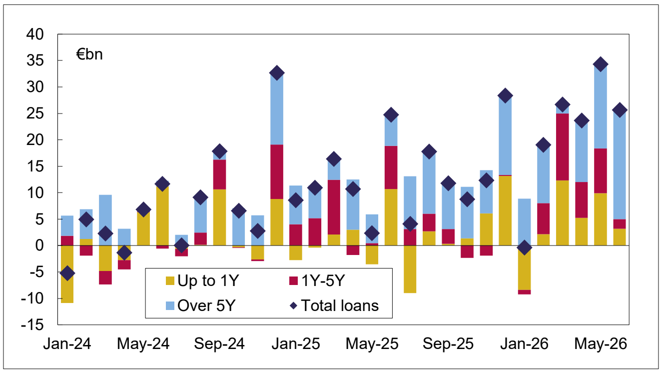
**Gold bar shows Daiwa forecast for Q226. **Monthly averages.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loans to NFCs & households



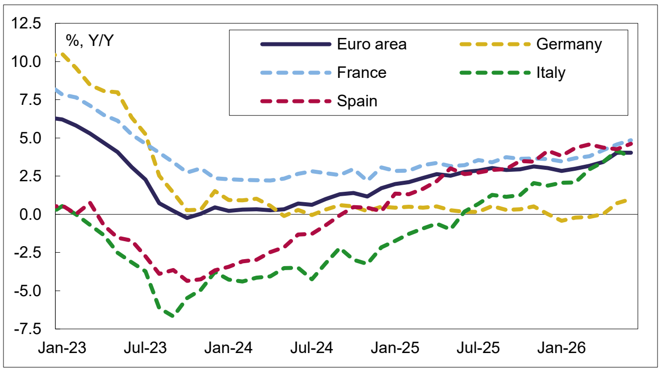
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Lending flows to NFCs by maturity



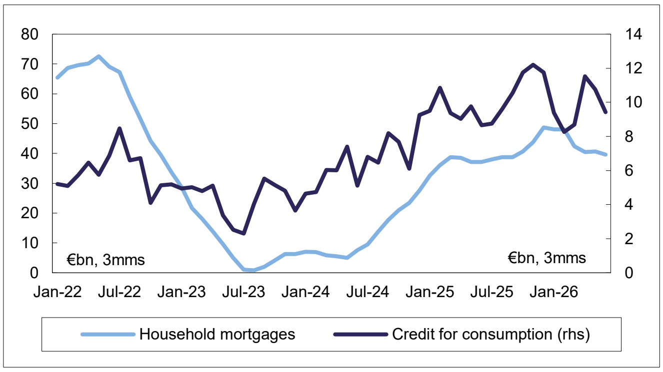
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member state: Loans to NFCs



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Lending flows to households



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

Datawise, Tuesday should be a relatively quiet day for the euro area. In France, INSEE will publish its July consumer confidence survey results, which over the past few months have been downbeat as events in the Middle East spurred inflation fears and amplified unemployment uncertainties. Indeed, over Q2, French consumers were reportedly the most downbeat since Q123. The subsequent rebound in fuel prices and damage caused by the summer heatwave would suggest that sentiment is unlikely to rebound strongly. However, given the improvement to the Commission's flash euro area consumer confidence indicator, which was not matched in Germany, a rebound shouldn't be ruled out. Meanwhile, Spanish data will also show whether the extremely high temperatures had any detrimental effect on June's retail sales.

The day ahead in the UK

Despite a relatively quiet preamble to Thursday's BoE announcement, July's BRC shop price indices should be of some interest. The survey results will provide some indication as to whether higher input costs have been feeding through to prices on the high street, although sampling closer to the start of the month means that any impact from the subsequent energy price surge should be absent. Nevertheless, the official UK inflation data for June appeared to corroborate with the soft signals from that month's BRC survey, whose measure of food inflation moderated to a 15-month low. Non-food goods inflation also remained soft at just 0.6%Y/Y. But that marked the highest rate since February 2024 as electrical goods inflation recorded the strongest annual increase in almost five years, likely owing to high demand for electrical fans and air conditioners but also acute shortages of some important inputs.

European calendar

Today's results

Economic data

Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area	M3 money supply Y/Y%	Jun	**3.3**	3.3	3.2	3.0
Germany	ifo current assessment (expectations) indicator	Jul	**86.5 (86.7)**	87.3 (84.8)	87.0 (84.1)	- (84.3)
	ifo business climate indicator	Jul	**86.6**	86.0	85.6	85.7
UK	CBI distributive sales survey – reported retail sales % net balance	Jul	**-26**	-47	-54	-

Auctions

Country	Auction
	- Nothing to report -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
France	07.45	INSEE consumer confidence indicator	Jul	85	84
	11.00	Total jobseekers mn	Q2	-	3.30
Spain	08.00	Retail sales Y/Y%	Jun	-	1.3
	08.00	Unemployment rate %	Q2	-	10.83
UK	00.01	BRC shop price index Y/Y%	Jul	1.1	1.2

Auctions and events

Country	BST	Auction
Italy	10.00	Auction: to sell up to €1.25bn of 2.2% 2028 bonds
	10.00	Auction: to sell up to €1.25bn of 0.5% 2028 bonds
	10.00	Auction: to sell up to €3bn of 2% 2037 inflation-linked bonds
UK	10.00	Auction: to sell £750mn of 0.125% 2028 bonds
	11.30	Auction: to sell £750mn of 4.25% 2040 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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