

Euro wrap-up

Overview

- Bunds made gains as concerns about a second wave of coronavirus infections across the euro area offset a further improvement in a German business sentiment survey.
- Gilts also made gains on a quiet day for UK economic news.
- The coming two days will bring a French consumer and UK retail sentiment survey, as well as UK bank lending figures.

Emily Nicol

+44 20 7597 8331

Daily bond market movements

| Bond | Yield | Change |
|--------------|--------|--------|
| BKO 0 06/22 | -0.680 | -0.007 |
| OBL 0 10/25 | -0.687 | -0.034 |
| DBR 0 08/30 | -0.494 | -0.044 |
| UKT 0½ 07/22 | -0.105 | -0.017 |
| UKT 0% 06/25 | -0.130 | -0.031 |
| UKT 4% 12/30 | 0.108 | -0.036 |

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

Source: Bloomberg

Euro area

Lending driven by a jump in public sector credit growth

The ECB's latest lending figures again illustrated that the impact of government loan guarantees and direct fiscal support, as well as large-scale monetary policy support, continues to feed into strong credit growth to the public and private sectors. Indeed, total credit to euro area residents rose 7.0%Y/Y in June, up 0.8ppt from May and the strongest rate since 2008. That was driven by an acceleration in credit to the public sector, which jumped a further 3.8ppts to 13.6%Y/Y – the strongest rate since the global financial crisis, as massive new issuance of government debt was absorbed. Meanwhile, having leapt in recent months, the annual growth rate of credit to the private sector moved broadly sideways in June, at 4.8%Y/Y, with the loan component moderating 0.5ppt to 4.8%Y/Y on an adjusted basis.

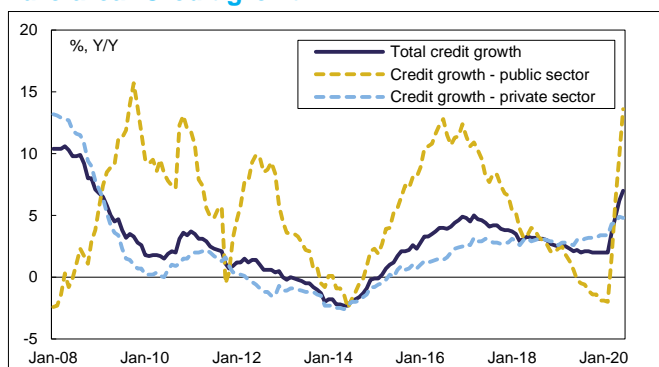
Demand for business loans stabilised somewhat

Indeed, having risen by a cumulative €245bn over the previous three months, the flow of new lending to non-financial corporations stabilised in June, rising just €8.6bn, to leave the annual growth in the stock of such loans moderating 0.2ppt to 7.1%Y/Y, nevertheless, still the second-highest reading since early 2009. But while demand fell back in Germany, Spain and the Netherlands, net new lending continued to rise in France, Italy and Portugal. Meanwhile, lending to euro area households rose 3.0%Y/Y in June, unchanged from the previous two months. There was a further pickup in loans for house purchase (with net new lending up €10bn, to leave the stock up 4.1%Y/Y), which contrasted with ongoing subdued demand for consumer credit, with the outstanding stock of such loans unchanged compared with a year earlier, the weakest rate for more than five years.

German sentiment takes a further step-up in July...

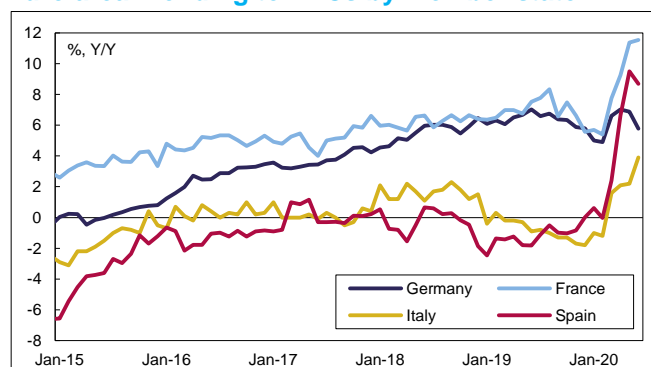
Consistent with last week's [flash PMIs](#), today's German ifo sentiment survey signalled a further recovery in business conditions at the start of Q3 as the government's stimulus package, including the VAT cut this month, provided a boost. In particular, the headline business climate index rose for the third consecutive month in July and by a stronger-than-expected 4.2ppts to 90.5, to leave it 16ppts higher than April's trough. This reflected an improvement in firms assessments of both current conditions and expectations over the coming six months, with the index for the latter rising to its highest since November 2018. This judgment was particularly evident in the manufacturing sector, where the expectations index recorded the strongest reading for 2½ years. Firms in the sector were also less downbeat about the current situation than in recent months as operating capacity increased to 74.9%, albeit remaining still well below the long-run average (83.5%). Services firms were markedly more upbeat too, with that sector the only one to record a positive business climate index. This

Euro area: Credit growth



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

Euro area: Lending to NFCs by member state



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.



notwithstanding, the business climate indices for all sectors still remain considerably lower than the pre-Covid level.

...but activity remains well below pre-pandemic level

Germany's economy has fared the Covid-crisis relatively well compared with its peers, as the stringency and duration of containment measures were not as severe. But while the Bundesbank's latest monthly economic report today suggested that the trough in economic activity was likely reached in April it still expected the economy to have contracted in Q2 significantly more than in the first quarter and at the steepest pace since the GDP series began in 1970. Certainly, while there had been a rapid recovery in retail sales over recent months, manufacturing production still remains well below pre-pandemic levels, while many services firms, not least in hospitality, continue to be particularly affected by containment measures. As such, despite a recent rapid improvement over recent weeks, the Bundesbank noted that its weekly activity index was still noticeably negative in mid-July. In the absence of a significant second wave of Covid-infections, the Bundesbank anticipated a continuation of the economic recovery though the second half of the year, supported by the government's fiscal package. However, output will remain considerably lower than the pre-pandemic level this year, with a shortfall expected through to 2022 too.

The coming two days in the euro area

Following a day bereft of any notable euro area economic releases tomorrow, Wednesday will bring the French INSEE consumer confidence survey for July, which is expected to show a further modest improvement in the headline index albeit remaining well below its pre-Covid level. Meanwhile, Spanish retail sales figures for June are also due for release.

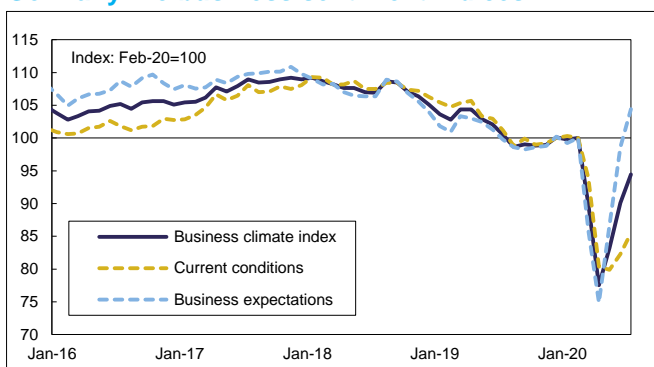
UK

The coming two days in the UK

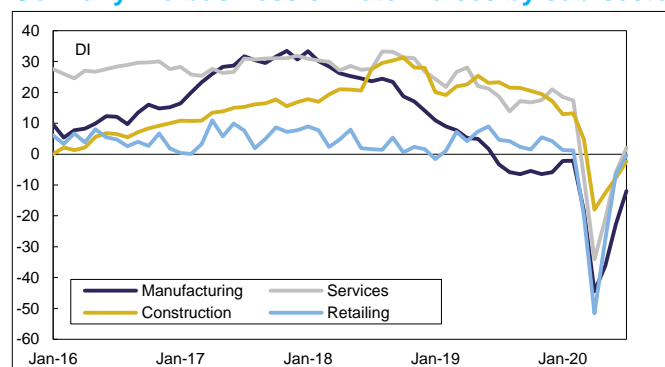
Following a quiet start to the week for UK economic releases, tomorrow will bring just the publication of the CBI's distributive trades survey for July, which, following the rebound in the official retail sales figures in June, is expected to show a further uptick in reported sales this month. This notwithstanding, the Bank of England's latest money and credit figures for June – due Wednesday – are likely to show that consumer credit remained down on a year earlier as the effects of Covid-19 continued to weigh on spending. June will be the first full month of property transactions since the UK went into lockdown. However, mortgage lending is expected to remain well down on the average of £4.1bn in the six months to February. And going forward, despite the temporary stamp duty holiday on purchases of properties valued below £500k, mortgage demand and availability will be hit by rising joblessness. Meanwhile, demand for businesses loans is likely to have remained strong.

The next edition of the Euro wrap-up will be published on 29 July 2020

Germany: Ifo business sentiment indices







Germany: Ifo business climate indices by sub-sector



European calendar

Today's results

Economic data

| Country | Release | Period | Actual | Market consensus/ Daiwa forecast | Previous | Revised |
|---------|---|--------|-------------|-------------------------------------|-------------|---------|
| EMU |  M3 money supply Y/Y% | Jun | 9.2 | 9.3 | 8.9 | - |
| Germany |  Ifo business climate index | Jul | 90.5 | 89.2 | 86.2 | 86.3 |
| |  Ifo current assessment balance (expectations) | Jul | 84.5 (97.0) | 85.3 (93.7) | 81.3 (91.4) | -(91.6) |
| France |  Total jobseekers '000s | Q2 | 4149 | - | 3334 | |

Auctions

| Country | Auction |
|-----------------------|---------|
| - Nothing to report - | |






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

| Country | BST | Release | Period | Market consensus/ Daiwa forecast | Previous |
|---------|--|--|--------|-------------------------------------|----------|
| UK |  | 00.01 Lloyds business barometer | Jul | - | -30 |
| |  | 11.00 CBI distributive trades survey, total reported sales | Jul | -23 | -37 |






Auctions and events

| Country | BST | Auction / Event |
|---------|---|---|
| Germany |  | 10.30 Auction: €4bn of 0% 2027 bonds |
| Italy |  | 10.00 Auction: €3.25bn of 0% 2022 bonds |
| |  | 10.00 Auction: 0.4% 2030 index-linked bonds |
| UK |  | 10.00 Auction: £2.75bn of 1.25% 2027 bonds |
| |  | 10.00 Auction: £1.5bn of 1.625% 2054 bonds |




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's data releases

Economic data

| Country | BST | Release | Period | Market consensus/ Daiwa forecast | Previous |
|---------|---|--|--------|-------------------------------------|-------------|
| France |  | 07.45 Consumer confidence | Jul | 98 | 97 |
| Spain |  | 08.00 Retail sales Y/Y% | Jun | - | -19.0 |
| UK |  | 00.01 BRC shop price index Y/Y% | Jul | - | -1.6 |
| |  | 09.30 Net consumer credit £bn (Y/Y%) | Jun | -1.4 (-) | -4.6 (-3.0) |
| |  | 09.30 Net mortgage lending £bn (approvals '000s) | Jun | 0.9 (35.0) | 1.2 (9.3) |

Auctions and events

| Country | BST | Auction / Event |
|---------|---|---|
| Germany |  | 10.30 Auction: €3.5bn of 0% 2035 bonds |
| UK |  | 10.00 Auction: £3.5bn of 0.125% 2023 bonds |
| |  | 11.30 Auction: £2.75bn of 1.625% 2028 bonds |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited 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 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 Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited 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 for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe'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.

Daiwa Capital Markets Europe Limited 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>.