

# Euro wrap-up

## Overview

- Bunds made very modest losses today, even as a French survey reported a deterioration in consumer confidence in July.
- Gilts also made losses as UK lending data showed some recovery in mortgage lending, while demand for loans from SMEs remained strong.
- Tomorrow will bring flash Q2 GDP and July inflation data from Germany, as well as the Commission's latest sentiment survey and euro area unemployment figures.

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.698	+0.003
OBL 0 10/25	-0.697	+0.009
DBR 0 08/30	-0.501	+0.009
UKT 0½ 07/22	-0.075	+0.018
UKT 0% 06/25	-0.112	+0.012
UKT 4% 12/30	0.120	+0.011

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

## Euro area

### French consumer confidence slips back

Contrasting with the upbeat message from [Germany's consumer confidence](#) survey, today's French INSEE sentiment indicators underscored the fragile nature of the recent recovery in spending as concerns about a rise in coronavirus cases across the region undoubtedly weighed on confidence. In particular, the headline index fell 2pts in July to 94, to leave it just 2pts above May's trough and well below the pre-pandemic level of 105. This reflected a deterioration in households' perceived living standards, not least reflecting a reported worsening of their financial situations. And while consumers assessed little change in the outlook over the coming twelve months, there was a notable increase in their saving intentions no doubt reflecting heightened uncertainty about the near-term recovery. Certainly, fears about unemployment remained at a high level, although down slightly from June, while the share of households considering it a suitable time to make major purchases decreased slightly, with the respective index falling back below its long-run average.

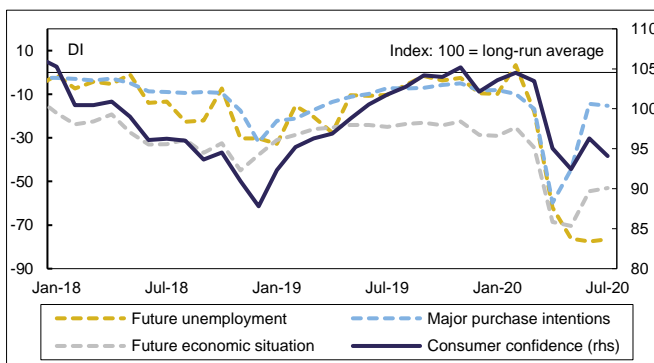
### Spanish retail sales continue to rebound

Like in [France](#), the recovery in Spanish retail sales in June was given a boost by the further relaxation of lockdown measures. In particular, sales jumped 17.8%M/M last month following growth of 19.4%M/M in May. This left them down just 4.7%Y/Y (from -18.9%Y/Y previously) and a little more than 5% below February's level ahead of the Covid outbreak. And when excluding auto fuel, sales were down just 2½% from the pre-pandemic peak. Indeed, there was another strong rise in spending on household equipment (43%M/M) to leave it almost 6% higher than February's level. But the recovery in other product-types has been less marked. For example, despite a near-90%M/M jump in sales of clothing and accessories, they were still down by almost a quarter from the pre-pandemic peak. And a solid increase in spending at service stations (35%M/M) still left sales there down around one fifth compared to February's level. Moreover, with localised lockdowns having been reintroduced over the past month, we might well see some payback in spending at the start of Q3.

### The day ahead in the euro area

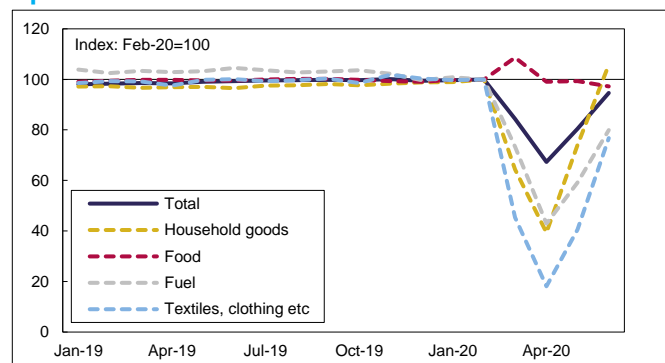
Tomorrow brings the first look at growth for Q2 in the euro area, with the release of preliminary GDP data from Germany, Austria, Belgium and Lithuania. We expect German GDP to have declined by at least 7%Q/Q in Q2, compared with a drop of 2.2%Q/Q in Q1 and the previous steepest contraction of -4.7%Q/Q in Q109. Thursday also sees the publication of the European Commission's July economic sentiment survey - arguably the best guide to euro area GDP growth. While we may see further signs of improvement in business sentiment in July - consistent with the [flash PMIs](#) and Monday's [German ifo](#) sentiment survey - consumer confidence slipped back this month. As such, we still expect the headline ESI to remain well

### France: Consumer confidence



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Spain: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.



below the level seen at the start of the year. Also due to be published tomorrow are June unemployment data for the euro area as well as German national labour market figures for July. Flash July inflation from Germany and Spain are also due.

## UK

### Lending to SMEs remains strong

After Treasury figures yesterday showed that, as of 26 July, a little more than 1.1mn small- and medium-sized businesses had taken advantage of the government's 'bounce back' scheme, today's BoE bank lending figures confirmed a further sizeable increase in borrowing by SMEs in June. In particular, such borrowing was up £10.2bn, having leapt £18.2bn in May – compared with the previous largest net increase of £589mn – to see the annual growth rate rise 5.6ppts to a record-17.4%Y/Y. In contrast, larger firms repaid a further £16.7bn in June, the largest net repayment since the series began in 2011. While this still left net borrowing by large firms up £16bn since the start of the current crisis, the annual increase eased markedly to 4.8%Y/Y, broadly back in line with the average growth seen in the year to February.

### Modest recovery in mortgage market, but consumer credit still weak

With June the first full month of property transactions since the UK went into lockdown, there were some signs of recovery in the mortgage market that month, with secured lending up £1.9bn, following a cumulative increase of just £1.3bn in the previous two months. There was also a marked pick up in mortgage approvals last month, by 40k, albeit leaving them still 46% below the February level of 73.7k. And so, while the government has subsequently announced a temporary stamp duty holiday, mortgage demand and availability seems bound to be hit by rising joblessness. Certainly, demand for consumer credit remained extremely weak in June, although the net repayment (£86mn) was significantly smaller than the total (£15.6bn) over the previous three months. Nevertheless, this still meant that the annual growth rate in the stock of such lending fell 3.6%Y/Y, the most since the series began in 1994.

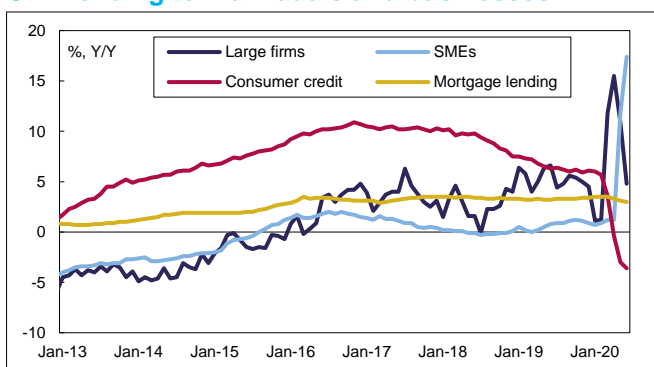
### Survey suggests sales stabilised in July

A sharp rebound in [retail sales](#) in June saw them return to just 1½% below their level before the pandemic hit and a similar shortfall compared with a year earlier too. And yesterday's CBI distributive trades survey suggested further stabilisation this month. In particular, the headline index jumped 41pts to +4, the first positive reading for four months, with retailers on average considering sales as being average for this time of the year. But while grocers and DIY stores reported growth in July, most other retailers – including clothing, footwear and department stores – continued to see significant declines compared with a year earlier. Furthermore, against a backdrop of subdued consumer credit growth and fragile confidence as employment prospects look set to deteriorate further, the survey suggested that overall sales were expected to weaken slightly in August.

### The day ahead in the UK

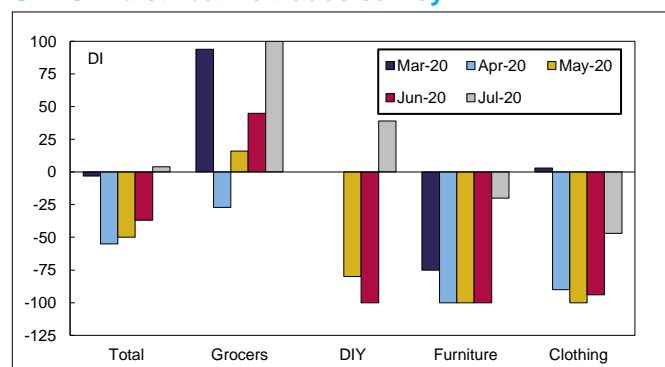
Looking ahead, tomorrow brings the release of UK car production figures from the SMMT for June. Data for May revealed that car production improved in May, but remained 95% lower than a year earlier as social distancing restrictions remained in place. And while car dealerships reopened at the start of June, ongoing subdued demand and capacity constraints will continue to limit car production.

#### UK: Lending to individuals and businesses



Source: BoE and Daiwa Capital Markets Europe Ltd.

#### UK: CBI distributive trades survey








Source: Refinitiv 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
France	 Consumer confidence	Jul	<b>94</b>	99	97	96
Spain	 Retail sales Y/Y%	Jun	<b>-4.7</b>	-	-19.0	-18.9
UK	 BRC shop price index Y/Y%	Jul	<b>-1.3</b>	-	-1.6	-
	 Net consumer credit £bn (Y/Y%)	Jun	<b>-0.1 (-3.6)</b>	-2.0 (-)	-4.6 (-3.0)	-4.5 (-)
	 Net mortgage lending £bn (approvals '000s)	Jun	<b>1.9 (40.0)</b>	1.5 (35.0)	1.2 (9.3)	1.3 (-)



#### Auctions

Country	Auction
Germany	 sold: €2.92bn of 0% 2035 bonds at an average yield of -0.33%
UK	 sold £2.75bn of 1.625% 2028 bonds at an average yield of 0.003%
	 sold £3.5bn of 0.125% 2023 bonds at an average yield of -0.088%






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Yesterday's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 Lloyds business barometer	Jul	<b>-22</b>	-	-30	-
	 CBI distributive trades survey, total reported sales	Jul	<b>4</b>	-25	-37	-









#### Auctions

Country	Auction
Germany	 sold €3.28bn of 0% 2027 bonds at an average yield of -0.62%
Italy	 sold €3.25bn of 0% 2022 bonds at an average yield of -0.031%
	 sold €1bn of 0.4% 2030 index-linked bonds at an average yield of 0.46%
UK	 sold £2.75bn of 1.25% 2027 bonds at an average yield of -0.046%
	 sold £1.5bn of 1.625% 2054 bonds at an average yield of 0.612%





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's data releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU		10.00 Economic confidence (final consumer confidence)	Jul	82.0 (-15.0)	75.7 (-14.7)
		10.00 Industrial confidence (services confidence)	Jul	-17.3 (-24.0)	-21.7 (-35.6)
		10.00 Unemployment rate %	Jun	7.7	7.4
Germany		08.55 Unemployment rate % (change '000s)	Jul	6.5 (50.0)	6.4 (69.0)
		09.00 Preliminary GDP Q/Q% (Y/Y%)	Q2	-9.0 (-10.9)	-2.2 (-2.3)
		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	0.2 (0.4)	0.9 (0.8)
Italy		09.00 Unemployment rate %	Jun	8.6	7.8
Spain		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jul	-0.3 (-0.1)	-0.3 (-0.3)

#### Auctions and events

Country	BST	Auction / Event
EMU		09.00 ECB publishes its Economic Bulletin
Italy		10.00 Auction: 5Y bonds
		10.00 Auction: 10Y bonds
UK		- SMMT to publish auto production figures for June

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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