

Euro wrap-up

Overview

- Bunds made gains even as data confirmed that French retail sales rose back above their pre-pandemic level last month.
- Gilts also made gains despite a more upbeat Rightmove housing market survey, which suggested that asking prices are rising at their fastest pace since 2016.
- After a quiet day for economic data tomorrow, Wednesday will bring July inflation figures from the euro area and UK.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/22	-0.670	-0.010
OBL 0 10/25	-0.663	-0.020
DBR 0 08/30	-0.455	-0.030
UKT 0½ 07/22	-0.044	-0.024
UKT 0% 06/25	-0.045	-0.029
UKT 4% 12/30	0.217	-0.026

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

Euro area

French retail sales recover post-Covid slump

As the Bank of France's monthly economic update [last week](#) cautioned that the pace of recovery had slowed somewhat in July following the initial bounce back from April's trough, today's retail sales figures confirmed a more moderate increase at the start of Q3. Sales were still up for the third consecutive month and by 1.7%M/M, to leave them 4½% higher than a year earlier and a little more than 1% higher than the pre-Covid level. Spending on clothing and textiles remained particularly strong (18%M/M) to be 6% above February's peak. Perhaps supported by increased home-working, sales of furniture maintained an upward trend, leaving them almost one-third higher than the pre-pandemic level. But despite a further modest increase in July, sales of pharmaceuticals remained 6% below February's level, while sales of perfumes, stationary and food similarly remained lower than the peaks earlier in the year. Today's release also suggested that consumers remained more reluctant to return to large general retailers – indeed, sales at department stores were still well below the pre-Covid level and down by more than one-quarter compared with a year earlier. And with the rebound in spending on services – which accounts for more than 50% of total consumption – more limited by ongoing social distancing, concerns about the continuing steep uptrend in new coronavirus cases and deterioration in the labour market suggest that, the recovery in overall household spending will remain more gradual than that in the sales of goods.

The coming two days in the euro area

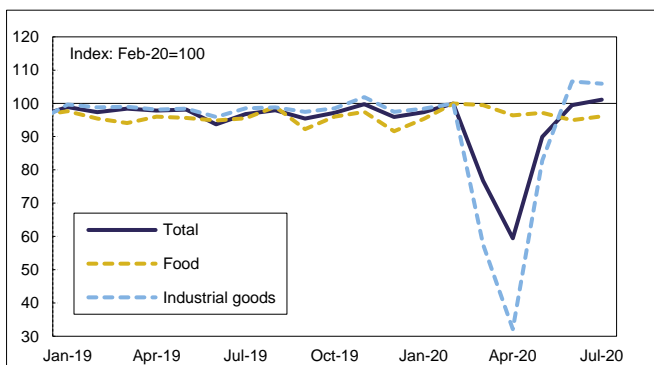
Tomorrow should be relatively quiet, with no euro area economic data scheduled for release, while ECB Vice President de Guindos will participate in an online event on the economic consequences of the crisis and recovery measures in Spain and the EU. The focus on Wednesday, meanwhile, will be on final euro area CPI figures for July. The preliminary estimate saw headline inflation unexpectedly rise 0.1ppt to 0.4%Y/Y, with core inflation up 0.4ppt to 1.2%Y/Y. But this primarily reflected a surge in clothing inflation in certain member states as containment measures delayed the start of the summer sales, an effect which seems bound to be reversed in August. Indeed, services inflation fell to its weakest since April 2016.

UK

Housing market recovery boosted by temporary factors

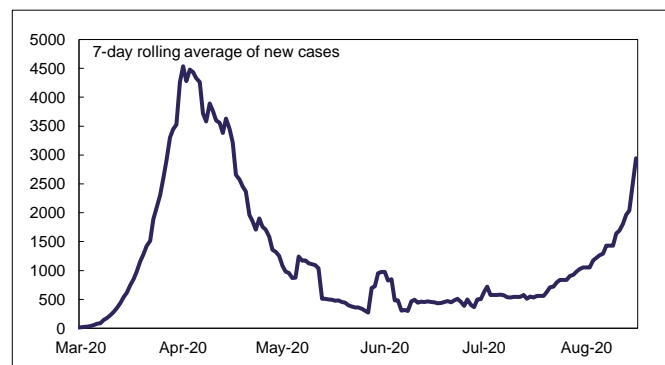
Today's Rightmove housing survey suggested that the relaxation of lockdown measures, changing property preferences after the experience of lockdown, and the Chancellor's announcement of a temporary Stamp Duty holiday had

France: Retail sales



Source: Bank of France, Refinitiv and Daiwa Capital Markets Europe Ltd.

France: Coronavirus cases



Source: ECDC and Daiwa Capital Markets Europe Ltd.



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also prompted a notable revival in housing market activity over recent months. In particular, the headline index of average asking house prices accelerated 4.6%Y/Y in August, the strongest annual growth since September 2016. Moreover, average weekly sales agreed were up by 60% compared with a year earlier. Rightmove also saw the highest number of properties coming to the market in a single month since March 2008. This report broadly aligned with last week's RICS Residential survey of surveyors, which saw the headline house price balance return to positive territory in July (up 25pts to 12%). Like Rightmove, the RICS also reported a further notable rise in agreed sales last month, and was more upbeat about near-term sales expectations. But surveyors were less optimistic about the outlook further ahead, expecting sales to be declining in twelve months' time in response to the end of the government's Job Retention Scheme in October and the expiration of the Stamp Duty holiday in March 2021. So, the RICS judged that its survey was consistent with an outlook for house prices over the coming year that was just 'flat to marginally positive'. And this assessment might prove to be too upbeat if unemployment jumps more than expected, the pandemic re-escalates, and/or downside risks associated with the end of the Brexit transition period crystallise.

The coming two days in the UK

After a day bereft of UK economic data tomorrow, the focus on Wednesday will be the July CPI report. We expect inflation to remain close to June's rate of 0.6%Y/Y, as high street retailers continue to take advantage of returning shoppers. But underlying prices pressures are likely to have remained subdued, not least with the temporary 15ppt reduction in the VAT rate for the hospitality and entertainment sectors from the middle of the month likely to have provided a downwards impulse.

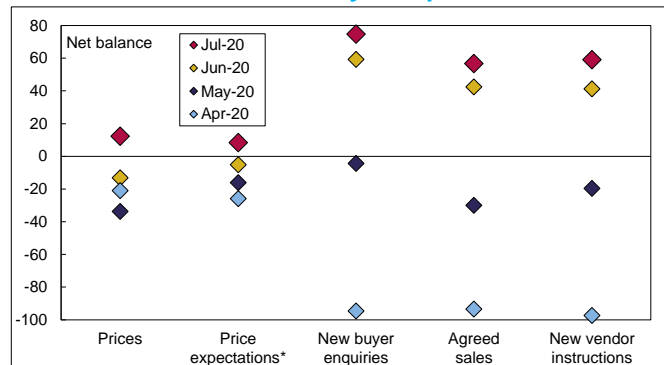
The next edition of the Euro wrap-up will be published on 19th August 2020

UK: House price indicators*





*Rightmove survey not conducted during April and May 2020. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: RICS residential survey components







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







European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
France	 Bank of France retail sales M/M% (Y/Y%)	Jul	1.7 (4.5)	-	10.1 (6.0)	10.6 (6.2)	
UK	 Rightmove house price index Y/Y%	Aug	4.6	-	3.7	-	
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		
- Nothing scheduled -							
Auctions and events							
Country	BST	Auction / Event					
EMU		09.00	ECB's Luis de Guindos participates in an online event				
Germany		10.30	Auction: €4bn of 0% 2027 bonds				
UK		10.00	Auction: £3.25bn of 0.125% 2023 bonds				
		11.30	Auction: £2bn of 0.625% 2050 bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's data releases							
Economic data							
Country	BST	Release	Period	Market consensus/ Daiwa forecast	Previous		
EMU		09.00	Current account balance €bn		Jun	-	8.0
		10.00	Final CPI (core CPI) Y/Y%		Jul	0.4 (1.2)	0.3 (0.8)
UK		07.00	CPI (core CPI) Y/Y%		Jul	0.5 (1.3)	0.6 (1.4)
		07.00	PPI input prices (output prices) Y/Y%		Jul	-6.1 (-0.9)	-6.4 (-0.8)
Auctions and events							
Country	BST	Auction / Event					
Germany		10.30	Auction: €1.5bn of 0% 2050 bonds				
UK		10.00	Auction: £2.75bn of 0.875% 2029 bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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