

Euro wrap-up

Overview

- Despite some softer euro area bank lending data, Bunds made losses as euro area economic sentiment surveys continued to beat expectations.
- Despite a levelling off in UK consumer confidence, Gilts also made losses as a survey flagged another strong month for retail sales and a shortage of inventories.
- The coming week will bring the flash estimates of June inflation in the euro area along with further updates on the labour market, spending and economic sentiment in the region.

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Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.656	+0.002
OBL 0 04/26	-0.554	+0.020
DBR 0 08/31	-0.159	+0.032
UKT 0 ¹ / ₈ 01/23	0.072	+0.012
UKT 0 ¹ / ₈ 01/26	0.369	+0.022
UKT 4 ³ / ₄ 12/30	0.774	+0.035

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

Source: Bloomberg

Euro area

German and Italian consumer confidence jumps ahead of expectations

Following yesterday's strong [ifo business survey](#) and the [flash PMIs](#) earlier in the week, today's German GfK consumer survey was also more upbeat than of late, with the headline index rising a greater-than-expected 6.6pts to -0.3. That, however, still left it no higher than the level registered in the lull in the pandemic last August, and hence still some way down on the pre-pandemic levels, suggesting that optimism among German households still lags that of businesses. Within the detail, German consumers were only a little more inclined to make purchases in June. But they were significantly more upbeat about their expected future incomes, with the respective index rising to the highest since the pandemic. And expectations with respect to the economic outlook for the coming twelve months were the best in a decade. In Italy, according to the latest ISTAT survey, consumer confidence rose more than expected to the highest level since October 2018. And the indicators related to the economic outlook and readiness to purchase durable goods both rose to the highest levels on the series, which dates back more than 25 years.

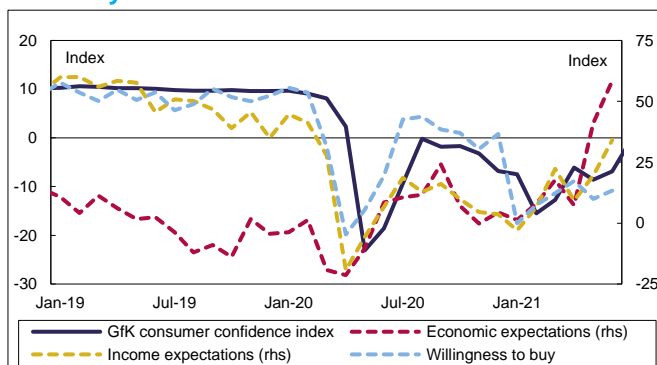
Italian business sentiment up to 14-year high

Just like consumers, Italian businesses continue to grow in optimism, with the headline ISTAT sentiment index rising a larger-than-expected 5.5pts in June to 112.8, the highest level since 2007. Perhaps unsurprisingly, services firms were significantly more upbeat, with order books and activity growing and the respective confidence indicator rising to its highest since June 2018. Retail sector sentiment also improved markedly, albeit merely to the highest level since the onset of the pandemic. But with future production expectations revised up on rising demand, Italian manufacturing confidence rose to its highest level in more than two decades. And while sentiment in construction softened slightly on reduced employment intentions, it did so from the prior month's 20-year high and new orders reportedly picked up in the sector. Overall, therefore, today's ISTAT sentiment indices point to an accelerated Italian economic expansion heading into the second half of 2021, with full-year growth of more than 4½% this year perfectly feasible.

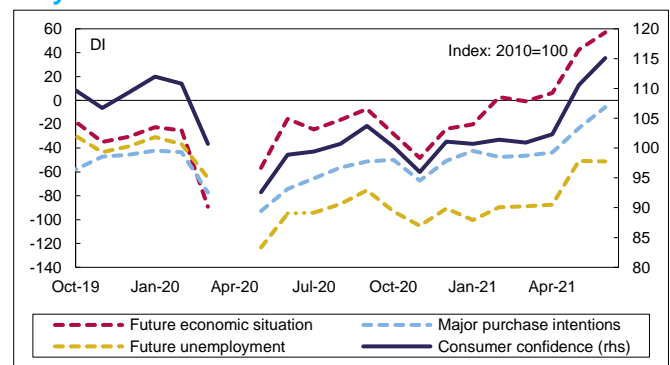
Euro area bank lending to firms slows after surge at end-Q1

While greater business confidence and clear signs of a rebound in economic activity might be expected to prompt a rebound in private capex and associated bank lending, the latest ECB monetary data reported a second successive net repayment of bank loans by non-financial corporations in May. The net repayment was modest, however, at just €2.9bn, while the total volume of long-dated loans outstanding to non-financial corporations (i.e. those with a maturity of more than five years) rose for a fifth successive month, which should tally with rising business investment. Moreover, the pull back in total lending in

Germany: Consumer confidence



Italy: Consumer confidence*



April and May followed a surge in March of €52.6bn, the most since April 2020. Nevertheless, given the record surge in lending a year earlier as firms sought emergency liquidity to cope with the initial shock of the pandemic, growth in the stock of loans to NFCs slowed a further 1.3ppts to 1.9%Y/Y, the softest pace since June 2016. With short-dated loans down a marked 7.6%Y/Y. Meanwhile, in line with the recent trend, bank lending to households remained solid in May, with the net flow moderating just €4bn to €23bn and the annual growth rate steady at the prior month's thirteen-year high of 4.3%Y/Y. Net new lending for house purchase slowed by €7bn to €21bn. But that was sufficient to maintain the annual rate in the stock of such loans at 5.4%Y/Y, also the highest since 2008. Households borrowed a net €2bn of consumer credit, only the second time in the past seven months that they have eschewed from making a net repayment of such loans. And that pushed the growth rate of consumer credit up 0.3ppt to 0.6%Y/Y.

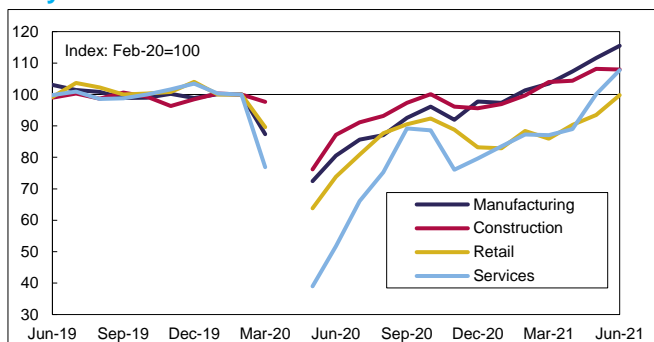
Household and firm deposit growth remains solid, but M3 growth slows on base effects

Meanwhile, despite greater opportunities for consumer spending thanks to an easing of lockdown measures, households have continued to accumulate bank deposits that arguably represent a potent source of future demand. Indeed, with the ECB having estimated that excess savings accrued over the course of the pandemic had already reached some €540bn in Q121, household deposits rose a further €51bn over the first two months of Q2. Base effects, however, meant that the twelve-month increase in the stock slowed somewhat to €573bn (7.8%Y/Y). Deposits placed by NFCs rose a further €9bn in May, insufficient to reverse the decline in April, similarly slowing the twelve-month increase to €237bn (8.4%Y/Y). And, overall, the annual pace of M3 growth slowed by a further 1.2ppts in May to a thirteen-month low (also 8.4%Y/Y).

The week ahead in the euro area

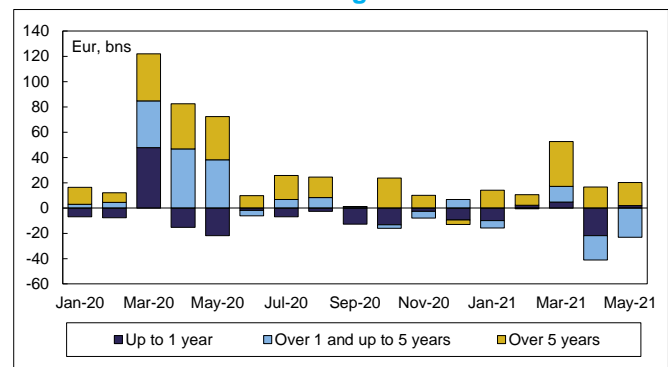
Looking ahead, the economic data due in the coming week seem likely to maintain the positive tone of recent releases, featuring further sentiment survey results for June, spending figures for May and updates on the labour market. And the flash estimates of inflation in June – with German and Spanish numbers due on Tuesday, followed by the French, Italian and aggregate euro area data on Wednesday – will be watched closely. With the annual rate of energy inflation now likely to have peaked, we expect the headline euro area HICP rate to fall back 0.2ppt to 1.8%Y/Y with the core measure also perhaps easing 0.1ppt to 0.8%Y/Y. Tuesday will also bring the European Commission's sentiment survey for June, which will signal a notable acceleration in activity at the end of Q2 as lockdown measures continued to be relaxed and the vaccination programme gained traction. Indeed, the headline euro area economic sentiment index is likely to rise to the highest since 2000. Among other releases, spending data from Spain and France, due on Tuesday and Wednesday respectively, will provide an insight into household consumption mid-quarter while June new car registration data from France, Italy and Spain

Italy: Business confidence*



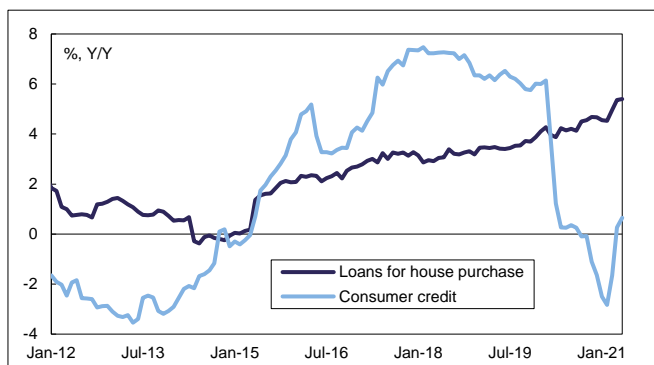
*No survey conducted in April 2020. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Net bank lending to NFCs



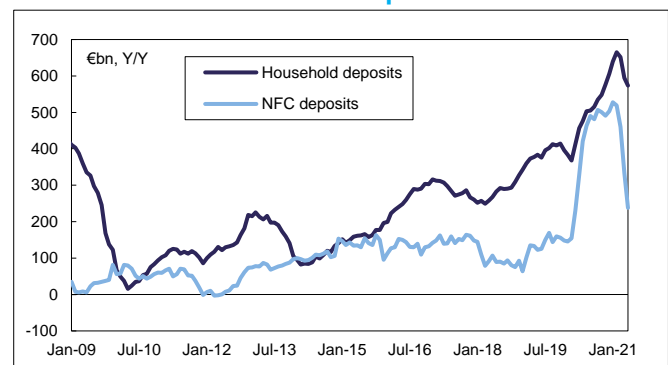
Source: ECB and Daiwa Capital Markets Europe Ltd.

Euro area: Growth in loans to households



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

Euro area: Growth in bank deposits



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

are due on Thursday. German labour market figures for June are due on Wednesday, with aggregate euro area unemployment numbers for May due the following day and Spanish labour market data for June out on Friday. Finally, in a busy week for scheduled speeches from ECB Governing Council members, Christine Lagarde will speak publicly on Tuesday, Thursday and Friday.

UK

Consumer confidence fails to improve further in June

Somewhat disappointingly, the UK's latest GfK consumer confidence survey suggested no overall improvement in sentiment in June, with the headline index steady at -9, thus failing to recapture its pre-pandemic level. The detail of the survey registered only a modest improvement in the climate for making major purchases, which – jarring with recent strong spending on goods – similarly remained down on the pre-pandemic level. But while it was a touch softer on the month, consumers' assessment of the economic outlook was still close to the best since 2015. Consumers' expectation for their own personal financial situation was also a touch weaker, but was broadly in line with the pre-pandemic level. The lack of further improvement in confidence this month might well relate the renewed uptrend in new coronavirus cases and associated postponement to further relaxation of restrictions.

CBI survey signals decent month of retail sales in June, inventories judged inadequate

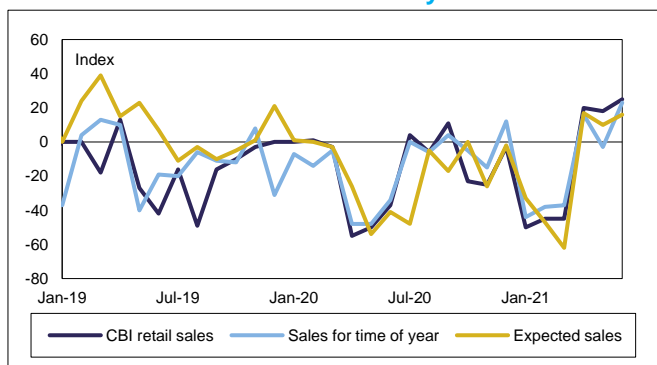
Despite some mixed data on shopping centre footfall over recent weeks as well as the levelling off in consumer confidence, today's CBI distributive trades survey suggested no material impact on spending on goods in June, with sales judged to be good for the time of year. While the headline survey figures – based on annual growth rates – were hard to interpret with any accuracy given extreme base effects associated with the first wave of pandemic – grocers reported that sales remained above seasonal norms, as did stores related to home furnishings, hardware and DIY. Department stores also reported an improvement, with sales now judged in line with the norm for this time of year. And clothing stores reported that sales were not quite as poor as in May. Wholesalers and auto traders also reported good sales. But supply bottlenecks were reflected in firms' judgement on inventories, which were considered to be the least adequate relative to expected sales on the survey, which dates back almost 40 years. Indeed, firms in the retail, wholesale and motor trade sectors all reported relative stocks as being insufficient relative to expected sales, with no improvement anticipated next month too.

The week ahead in the UK

Data-wise, the coming week will be relatively quiet in the UK with little in the way of top-tier releases. The calendar kicks off on Tuesday with the latest BoE bank lending figures for May, and the Nationwide house price index for June, which is expected to show an acceleration in house price inflation to more than 13%Y/Y, the strongest since 2004. On Wednesday, final Q1 data are expected to confirm that GDP contracted by 1.5%Q/Q, more than reversing the growth of 1.3%Q/Q in Q4 to leave output down 6.1%Y/Y and 8.7% below the pre-pandemic level in Q419. However, the trough came in January when GDP dropped 2.5%M/M in response to new lockdown measures. Monthly growth in February (0.7%M/M) and March (2.1%M/M, as households and firms adjusted to the restrictions) left economic output at the end of Q1 down a more moderate 5.9% from the pre-pandemic level. These figures will be accompanied by balance of payments data for Q1. Thursday brings the final manufacturing PMIs for June, which are expected to align with the preliminary results, suggesting that growth in manufacturing output was a touch less vigorous this month with the respective PMI slipping back 0.9pt to 62.1. The preliminary data also signalled that growth in new orders moderated not least due to a softening in export demand. And, as elsewhere, the PMIs suggested that supply bottlenecks remain challenging, with the indices of input costs and output prices up to series highs amid a further increase in supplier delivery times. Beyond the data, BoE Governor Bailey will give his annual Mansion House speech on Thursday evening.

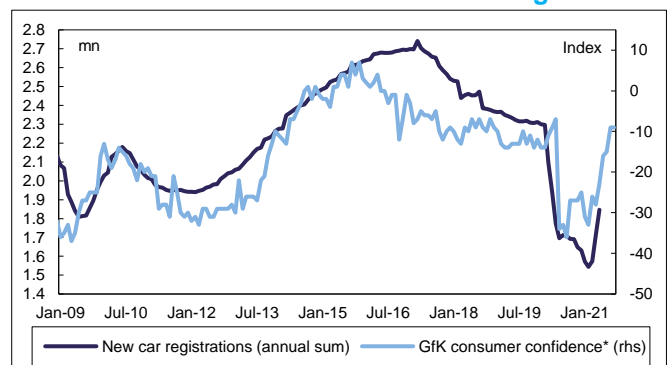
The next edition of the Euro wrap-up will be published on 29th June 2021

UK: CBI distributive trades survey














Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: GfK consumer confidence and car registrations



*3-month lead. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.








Daiwa economic forecasts

		2020	2021				2022	2020	2021	2022
		Q4	Q1	Q2	Q3	Q4	Q1			
GDP growth, %, Q/Q										
Euro area		-0.6	-0.3	1.2	2.4	1.2	1.0	-6.7	4.5	4.6
UK		1.3	-1.5	3.5	3.2	2.5	1.0	-9.8	6.6	6.2
Euro area										
Headline CPI		-0.3	1.1	1.8	2.0	2.3	1.2	0.3	1.8	1.2
Core CPI		0.2	1.2	0.8	1.0	1.3	0.6	0.7	1.1	1.0
UK										
Headline CPI		0.5	0.6	1.9	2.2	2.8	2.8	0.9	1.9	2.1
Core CPI		1.3	1.2	1.7	2.0	2.3	2.2	1.4	1.8	1.9
ECB										
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
PEPP envelope* (€bn)		1850	1850	1850	1850	1850	1850	1850	1850	1850
BoE										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases** (£bn)		895	895	895	895	895	895	895	895	895



*Monthly target €bn, end of period. **Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
EMU	 M3 money supply Y/Y%	May	8.4	8.5	9.2	-
Germany	 GfK consumer confidence	Jul	-0.3	-4.0	-7.0	-6.9
Italy	 ISTAT economic sentiment	Jun	112.8	-	106.7	107.3
	 ISTAT consumer (manufacturing) confidence	Jun	115.1 (114.8)	112.0 (112.0)	110.6 (110.2)	-(110.9)
Spain	 PPI Y/Y%	May	15.3	-	12.8	13.0
UK	 GfK consumer confidence	Jun	-9	-7	-9	-
	 CBI distributive trades survey, reported sales	Jun	40	-	43	-



































Auctions

Country	Auction
Italy	 sold €1bn of 0.15% 2051 index-linked bonds at an average yield of 0.47%
	 Sold €2.75bn of 0% 2021 bonds at an average yield of -0.37%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.




















The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 28 June 2021					
- Nothing scheduled -					
Tuesday 29 June 2021					
EMU		10.00 European Commission final consumer confidence	Jun	-3.3	1.7
		10.00 European Commission industrial (services) confidence	Jun	12.0 (14.5)	11.5 (11.3)
		10.00 European Commission economic confidence	Jun	116.4	114.5
Germany		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jun	2.3 (2.1)	2.5 (2.4)
		07.45 INSEE consumer confidence	Jun	100	97
Spain		08.00 Retail sales Y/Y%	May	-	41.0
		08.00 CPI (EU-harmonised CPI) Y/Y%	Jun	2.7 (2.4)	2.7 (2.4)
UK		09.30 Net consumer credit £bn (Y/Y%)	May	0.3 (-)	-0.4 (-5.7)
		09.30 Net mortgage lending £bn (approvals '000s)	May	4.2 (85.3)	3.3 (86.9)
		09.30 M4 money supply Y/Y%	May	-	9.1
		- Nationwide house price index M/M% (Y/Y%)	Jun	0.8 (13.7)	1.8 (10.9)
Wednesday 30 June 2021					
EMU		10.00 Preliminary CPI (core CPI) Y/Y%	Jun	<u>1.8 (0.8)</u>	2.0 (1.0)
Germany		08.55 Unemployment change '000s (rate %)	Jun	-19.0 (5.9)	-15.0 (6.0)
France		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jun	1.6 (1.9)	1.4 (1.8)
		07.45 PPI Y/Y%	May	-	7.3
		07.45 Consumer spending M/M% (Y/Y%)	May	7.8 (-)	-8.3 (32.0)
Italy		10.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Jun	1.4 (1.4)	1.3 (1.2)
		09.00 PPI Y/Y%	May	-	7.9
UK		00.01 Lloyds business barometer	Jun	-	33
		00.01 BRC shop price index Y/Y%	Jun	-	-0.6
		07.00 Final GDP Q/Q% (Y/Y%)	Q1	-1.5 (-6.1)	1.3 (-7.3)
		07.00 Current account balance £bn	Q1	-15.2	-26.3
Thursday 01 July 2021					
EMU		09.00 Final manufacturing PMI	Jun	63.1	63.1
		10.00 Unemployment rate %	May	8.0	8.0
Germany		08.55 Final manufacturing PMI	Jun	64.9	64.4
France		08.50 Final manufacturing PMI	Jun	58.6	59.4
		- New car registrations* Y/Y%	Jun	-	46.4
Italy		08.45 Manufacturing PMI	Jun	62.5	62.3
		17.00 New car registrations Y/Y%	Jun	-	42.96
Spain		08.15 Manufacturing PMI	Jun	59.5	59.4
		- New car registrations* Y/Y%	Jun	-	177.8
UK		09.30 Final manufacturing PMI	Jun	64.2	65.6
Friday 02 July 2021					
EMU		10.00 PPI Y/Y%	May	9.5	7.6
Spain		08.00 Unemployment change '000s	Jun	-	-129.4

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 28 June 2021		
EMU		- European Commission publishes summer economic forecasts
		10.10 ECB's Panetta scheduled to speak – 'Central banks at the frontline of the Covid-19 crisis'
		16.00 ECB's de Guindos scheduled to speak at the Euro finance summit
Tuesday 29 June 2021		
EMU		14.40 ECB President Lagarde speaks at the Brussels Economic Forum 2021
Wednesday 30 June 2021		
Italy		10.00 Auction: 5Y & 10Y bonds
Thursday 01 July 2021		
EMU		08.00 ECB President Lagarde speaks at the Hearing before Committee on Economic and Monetary Affairs
France		09.50 Auction: 0.5% 2040 bonds
		09.50 Auction: 1.25% 2036 bonds
		09.50 Auction: 0% 2030 bonds
		09.50 Auction: 0% 2031 bonds
Spain		09.30 Auction: 0.7% 2033 index-linked bonds
		09.30 Auction: 2026 bonds
		09.30 Auction: 1.4% 2028 bonds
		09.30 Auction: 1% 2050 bonds
		09.30 Auction: 0.5% 2040 bonds
UK		09.30 BOE's Monthly Decision Maker Panel data published
		10.00 Auction: £3.5bn of 0.25% 2025 bonds
		20.00 BoE Governor Bailey speaks at the Mansion House Financial event
Friday 02 July 2021		
EMU		13.30 ECB President Lagarde scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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