

# Euro wrap-up

## Overview

- Bunds made modest losses while the latest ifo business survey pointed to firm current conditions but a slight softening of expectations.
- Gilts were little changed as MPC member Vlieghe signalled that he would not favour any change to monetary policy at next week's BoE policy meeting.
- Tuesday will bring euro area bank lending data and a UK retail survey.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.741	-0.004
OBL 0 04/26	-0.703	+0.004
DBR 0 08/31	-0.415	+0.007
UKT 0 <sup>7</sup> / <sub>8</sub> 01/23	0.078	+0.011
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.281	+0.007
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.577	-0.005

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

Source: Bloomberg

## Euro area

### German ifo survey disappoints as expectations weaken

Germany's [flash July PMIs](#) beat expectations, with the composite output index up to a record high. However, today's ifo business climate indices disappointed somewhat. Admittedly, the survey's measure of current conditions rose for the sixth successive month to a two-year high. However, the improvement of less than 1pt to 100.4 was somewhat smaller than anticipated. And the survey's index of expectations for the coming six months fell back a larger-than-expected 2.5pts to a three-month low of 101.2. As a result, contrary to the forecast improvement to a 2½-year high, the headline ifo business climate index dropped for the first time in six months, falling 0.9pt to 100.8 to suggest a modest loss of recovery momentum at the start of the second quarter.

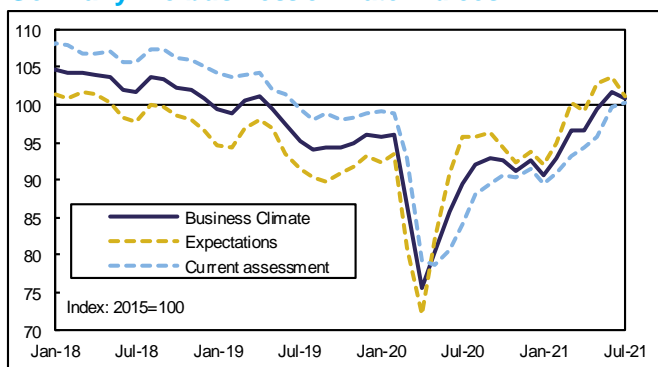
### Current conditions continued to improve in July

The improvement in current conditions in July flagged by the ifo survey was again broad-based and suggested little cause for immediate concern. Indeed, the indices of current conditions increased in every major sector bar retail, where – having last month risen to the best since mid-July – the modest deterioration might have reflected unease at the spread of the delta variant. Contrasting with a 2pt drop in the manufacturing output PMI, and despite intensified concerns of supply bottlenecks, manufacturers signalled that conditions in July were the best since August 2018, while those in wholesaling were the most favourable since February of that year. In both sectors, conditions were judged to be far superior to the respective long-run averages. Current conditions in services were judged to be the best since February 2020 just ahead of lockdown, while construction firms reported an improvement to a four-month high with the second-best reading of the pandemic and assessment that was favourable by historical standards.

### Expectations softer in most sectors with growth momentum set to pass its peak

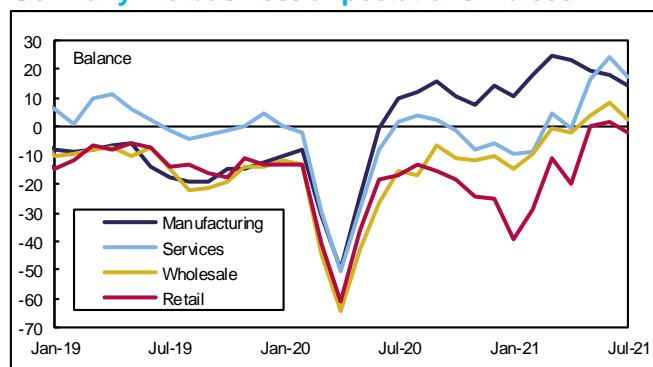
Contrasting the survey's assessment of current conditions, the ifo indices for expectations for the coming six months deteriorated in all major sectors bar construction. Manufacturers' expectations weakened for a fourth successive month to the lowest since January, as concerns about supply shortages of intermediate items had become more critical while skill shortages were also judged a source of unease. With the easing of restrictions in hospitality having in June pushed expectations in services up to a series high, the drop of more than 7pts in the respective index in July was sizeable. And expectations in retail were judged on balance to be unfavourable once more, with those in wholesale only modestly positive. So, overall, the ifo survey suggests that, by year-end, German economic growth is highly likely to have peaked. Since the pre-pandemic level of GDP might be surpassed this current quarter, however, that is probably a reasonable – and not overly concerning – prospect.

#### Germany: ifo business climate indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Germany: ifo business expectations indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

## The day ahead in the euro area

Looking ahead, tomorrow brings the release of euro area M3 money supply data for June. The annual pace of M3 growth is expected to slow a further 0.2ppt in June to fourteen-month low of 8.2%, 4.3ppts down from January's peak. The associated bank lending data are likely to show continued strong growth in loans for house purchases, but net new loans to business seem likely to remain relatively subdued. Tomorrow also sees the French Labour Office publish data on the number of jobseekers. The number filing jobless claims is likely to fall in Q2 for the fourth successive quarter, from 3.56mn in Q121 and a pandemic peak of 4.14mn in Q220.

## UK

### Vlieghe adds to likelihood of a majority in favour of no change to BoE QE next week

Ahead of next week's BoE monetary policy announcement, a speech today from MPC member Gertjan Vlieghe – for whom the August policy meeting will be his last – further clarified the likely balance of views on the Committee. Recent comments from [Saunders and Deputy Governor Ramsden](#) had at one stage hinted at a more hawkish shift on the MPC. But subsequent speeches from [Haskel](#) and [Deputy Governor Broadbent](#) had suggested that the majority might still be dovish. And today's comments from Vlieghe reinforced that likelihood, as he concluded unambiguously that "it will remain appropriate to keep the current monetary stimulus in place for several quarters at least, and probably longer." Certainly, he will not be voting next week to curtail the BoE's QE programme prematurely.

In particular, Vlieghe acknowledged that the expected peak in inflation is now likely to be higher than he previously expected. But as the increase in price pressures had been driven largely by supply bottlenecks and base effects, he expected inflation to ease next year. In addition, he judged that the pandemic was still significantly impacting the level of GDP and employment, the latter of which he thought remained consistent with conditions in an average recession. In addition, he cited persistent damage to both health and the economy from the delta variant. And he was clear that he would first want to assess the impact of the ending of various government support programmes, including the Job Retention Scheme, before supporting a tightening of monetary policy. His speech also made clear that, when tightening does become appropriate, "not much of it will be needed, given the low level of the neutral rate". Indeed, more than anything, by discussing various drivers of the neutral rate, Vlieghe made clear his view that very low rates are likely here to stay – in both the UK and other major economies – for several decades to come.




## The day ahead in the UK

After a quiet start to the week for UK economic data releases, with no new figures to report today, tomorrow will bring the CBI's latest distributive trades survey. This will provide an update on retail sector activity at the start of Q3 following the moderate growth in June reported in the [official retail sales figures](#) last Friday.

## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Ifo business climate	Jul	100.8	102.0	101.8	101.7
	 Ifo current assessment balance (expectations)	Jul	100.4 (101.2)	101.8 (103.6)	99.6 (104.0)	99.7 (103.7)
Spain	 PPI Y/Y%	Jun	15.4	-	15.3	15.2




#### 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/ <i>Daiwa forecast</i>	Previous
EMU	 09.00	M3 money supply Y/Y%	Jun	8.2	8.4
France	 11.00	Total jobseekers '000s	Q2	-	3561
UK	 11.00	CBI distributive trades survey, reported sales	Jul	-	40

#### Auctions and events

Italy	 10.00	Auction: €3.75bn of 0.375% 2026 bonds
UK	 10.00	Auction: £3bn of 0.375% 2026 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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