

# Euro wrap-up

## Overview

- Bunds followed USTs higher, despite a pickup in euro area bank lending at the end of the second quarter.
- Gilts also made gains, even though a UK retail survey signalled solid sales growth in July while also citing ongoing concerns about supply and labour shortages.
- Tomorrow brings national sentiment surveys from the three largest euro area member states.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 06/23	-0.753	-0.013
OBL 0 10/26	-0.725	-0.019
DBR 0 08/31	0.035	-0.025
UKT 0 <sup>1</sup> / <sub>8</sub> 01/23	0.068	-0.003
UKT 0 <sup>1</sup> / <sub>8</sub> 01/26	0.269	-0.005
UKT 4 <sup>3</sup> / <sub>4</sub> 12/30	0.559	-0.011

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

Source: Bloomberg

## Euro area

### Euro area longer-dated bank lending to NFCs jumps

With the economic recovery having gathered momentum towards the end of the second quarter, and business confidence having jumped to multi-year highs, the latest ECB monetary data today reported a sixth successive increase in the flow of longer-dated loans to non-financial corporations (NFCs), which should tally with rising business investment. Indeed, the net flow of loans with a maturity of more than five years jumped €40bn in June, the most since the series began in 2003, to leave growth in the stock of such loans up 1.1ppts to 7.2%Y/Y. This was partially offset by a further fall in short-dated loans as the surge a year earlier to cope with the initial shock of the pandemic rolled off balance sheets, with growth in the stock of such loans to NFCs down a marked 11.9%Y/Y. Overall, the flow of total lending to NFCs (adjusted for loan sales and securitisation) increased for the first month in three (€11bn), to maintain the annual rate in the stock of loans at 1.9%Y/Y, the softest pace for five years. Meanwhile, bank lending to households remained solid in June, with the net flow up €3bn to €25bn pushing the annual growth rate up 0.1ppt to 4.0%Y/Y, a 12½-year high. This was underpinned by a further notable increase in net new lending for house purchase (€23bn), with the annual rate in the stock of such loans up 0.2ppt to 5.6%Y/Y, the highest since 2008. While households borrowed a net €2bn of consumer credit for the second successive month, the growth rate of consumer credit eased 0.2ppt to 0.4%Y/Y.

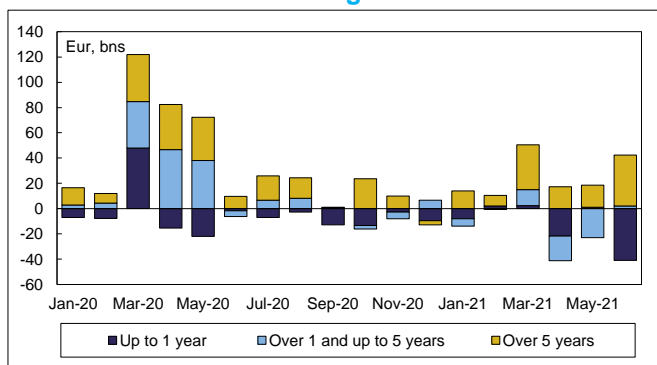
### Household and firm deposits continue to grow, but M3 growth slows on base effects

Despite greater opportunities for consumer spending thanks to an easing of lockdown measures, households continued to accumulate bank deposits in June (€32bn) taking the cumulative increase over the second quarter to €82bn, admittedly just half the increase reported in Q1 but perhaps will in due course support future demand. Base effects, however, meant that the twelve-month increase in the stock slowed somewhat to €558bn (7.6%Y/Y). Meanwhile, deposits placed by NFCs jumped in June, by €42bn, the most for eleven months. Nevertheless, the twelve-month increase again slowed, to a still-elevated €235bn (8.5%Y/Y). And, overall, the annual pace of M3 growth eased a further 0.2ppt in June to a fourteen-month low (8.3%Y/Y).

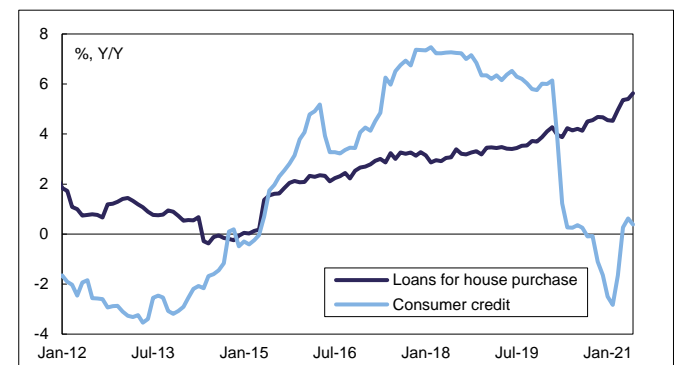
### The day ahead in the euro area

The focus tomorrow returns to July sentiment surveys, with national consumer and business indices from the largest three member states set to provide a guide to the closely followed European Commission surveys due to be published on Thursday. In particular, the GfK release of German consumer confidence is expected to have risen notably further in August to 1.0, from -0.3 in July, the highest since the Covid outbreak, albeit still some way off the pre-Pandemic level of 9.1 in

### Euro area: Net bank lending to NFCs



### Euro area: Growth in loans to households



February 2020. Meanwhile, INSEE's measure of French consumer confidence is expected to remain unchanged at a sixteen-month high of 102 in July, while the ISTAT measure of Italian consumer sentiment is expected to edge up to 115.5, the highest level since September 2018. And the ISTAT measure of manufacturing confidence is forecast to have risen to its strongest for almost 21 years.

## UK

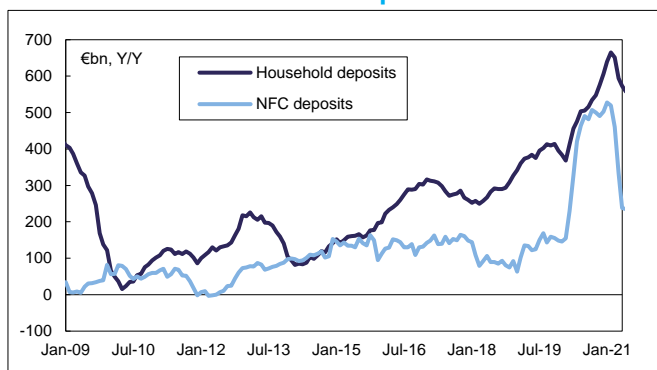
### UK retail sales survey signals ongoing growth but stock shortages

With [household confidence](#) having further improved in July, reporting the highest share of consumers assessing it a good time to buy durable goods since February 2020, today's CBI distributive trades survey suggested that UK retail sales in July continued to grow at a rate well above the long-run average. Admittedly, the headline indices – based on annual growth rates – remain difficult to interpret with accuracy due to base effects associated with the first wave of the pandemic. Indeed, the headline index – down just 2pts to a still historically elevated +23 – was likely flatter by a weak base a year earlier, while online sales were reportedly flat in July, with the survey balance the weakest since first being asked almost twelve years ago, likely in part reflecting the surge in such sales last year. Overall retailers assessed sales to be broadly average for the time of the year and were expected to remain robust over the coming month. However, supply bottlenecks were reflected in firms' judgement of inventories, which were considered 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 the situation anticipated to deteriorate next month too. And firms cited concerns about labour shortages in the sector too, not least associated with the so-called 'pingdemic'.

### The day ahead in the UK

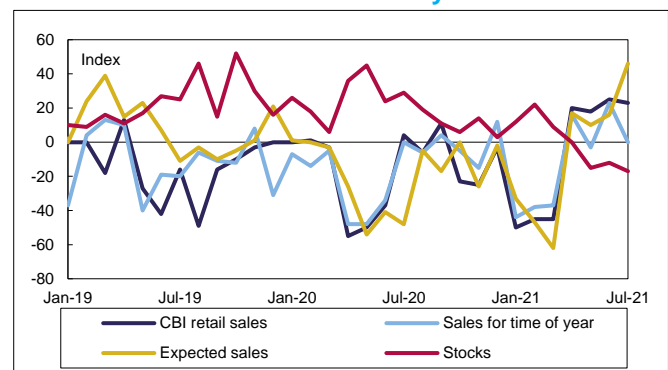
Tomorrow sees the release of the BRC shop price index, which will provide the first look at prices on the high street this month. In June, the survey suggested that prices remained down on a year ago, as retailers continued to respond to competitive pressures. Also due out tomorrow is the Nationwide house price index for July, which is expected to see annual house price growth remain elevated, albeit slowing slightly to 11.9%Y/Y, from 13.4%Y/Y in June, in part flattered by a relatively low base a year earlier.

### Euro area: Growth in bank deposits



Source: ECB, Refinitiv 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
EMU	 M3 money supply Y/Y%	Jun	8.3	8.2	8.4	8.5
France	 Total jobseekers '000s	Q2	3511	-	3561	-
UK	 CBI distributive trades survey, reported retail sales	Jul	23	-	25	-





#### Auctions

Country	Auction
Italy	 sold €3.75bn of 0.375% 2026 bonds at an average yield of -0.29%
UK	 sold £3bn of 0.375% 2026 bonds at an average yield of 0.334%


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany		07.00 GfK consumer confidence	Aug	1.0	-0.3
France		07.45 INSEE consumer confidence	Jul	102	102
Italy		09.00 ISTAT consumer confidence	Jul	115.5	115.1
		09.00 ISTAT manufacturing confidence	Jul	115.3	114.8
		09.00 ISTAT business confidence	Jul	-	112.8
UK		00.01 BRC shop price index Y/Y%	Jul	-	-0.7
		07.00 Nationwide house price index M/M% (Y/Y%)	Jul	0.3 (11.9)	0.7 (13.4)

#### Auctions and events

Germany		10.30 Auction: €2.5bn of 0% 2036 bonds
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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