

Euro wrap-up

Overview

- Bunds made losses as Germany's ifo survey signalled stable business conditions at the end of Q2 but growing expectations of recession ahead.
- Gilts also made losses even though UK retail sales fell to a 14-month low and consumer confidence hit a series low.
- An eventful week ahead brings the ECB's annual Sintra central banking forum, flash euro area inflation estimates for June and the Commission's economic sentiment survey results for the same month.

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Daily bond market movements

Bond	Yield	Change
BKO 0.2 06/24	0.784	+0.005
OBL 0 04/27	1.169	+0.020
DBR 0 02/32	1.449	+0.027
UKT 1 04/24	1.972	+0.040
UKT 1½ 07/27	1.995	+0.033
UKT 4½ 06/32	2.343	+0.027

*Change from close as at 4:00pm BST.
Source: Bloomberg

Euro area

German ifo survey signals steady end to Q2 but expectations of recession ahead

After yesterday's [flash PMIs](#) surprised significantly on the downside, suggesting an abrupt slowdown in services activity and contraction in manufacturing, today's German ifo business survey indices also seemed highly likely to suggest a deterioration in conditions at the end of Q2. In the event, the headline business climate index did indeed decline. However, the drop of 0.7pt to 92.3 failed fully to reverse the increase the prior month. And current conditions were judged to be little changed, with the respective index down just 0.3pt from May's seven-month high to 99.3, a level still above the long-run average and arguably consistent with positive growth in the current quarter. However, as has typically been the case over recent months, the deterioration in expectations regarding the outlook was more substantive, with the relevant survey measure down almost 1pt to 85.8. That represented the second-lowest since the first wave of Covid-19, superior over that period only to the level in March in the immediate aftermath of the Russian invasion of Ukraine, and previously a level only lower during the worst of the global financial crisis in 2008-9. So, despite stable current conditions, the survey signalled expectations of recession ahead, with the ifo institute highlighting fears of gas shortages were among the main concerns.

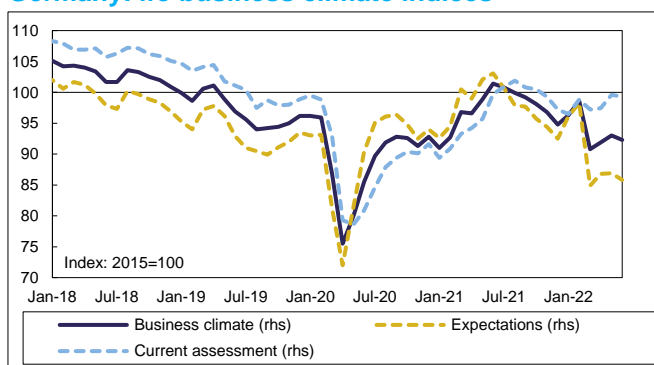
Manufacturers and retailers expectations at historically low levels

Certainly, fears of disruption to energy supply contributed to the deterioration in expectations in manufacturing, which worsened for the first month in three. Notably, the range for this index since March is firmly below all levels on the series bar readings during the first wave of Covid-19 and global financial crisis. And the ifo institute reported that the chemical industry was particularly "alarmed". Retailers were also extremely pessimistic about the outlook, with the expectations index for the sector dropping to the second-lowest level on the series, worse only in April 2020. However, while still extremely downbeat, construction firms were a little less pessimistic about the outlook for a second successive month. And, on average, services firms were the least pessimistic since February, with hospitality reportedly faring well and the summer tourism season likely to provide support to overall demand. However, services such as transport and logistics, whose fortunes are tied to those in the manufacturing sector, are – perhaps rightly – also increasingly concerned about prospects for the coming six months.

Improved Italian business sentiment bucks trend, but consumers much more downbeat

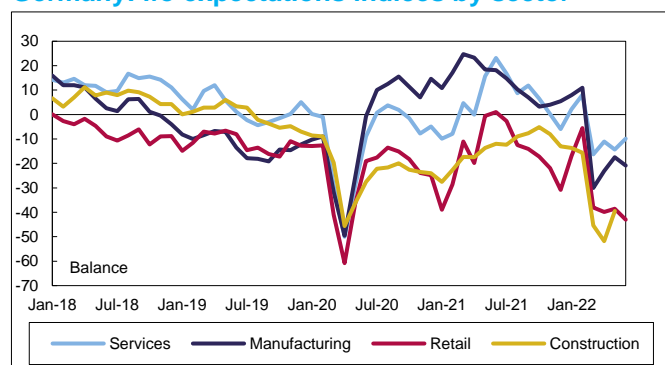
Contrasting with the findings from the German ifo survey and yesterday's flash PMIs, today's ISTAT business survey suggested that Italian business conditions had improved at the end of the second quarter. This was particularly evident in services, for which the sentiment index rose 5.3pts in June to 109.1, some 10pts above the trough in February and the highest since December. Firms reported greater optimism about both recent activity and the near-term outlook, not least in

Germany: ifo business climate indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: ifo expectations indices by sector



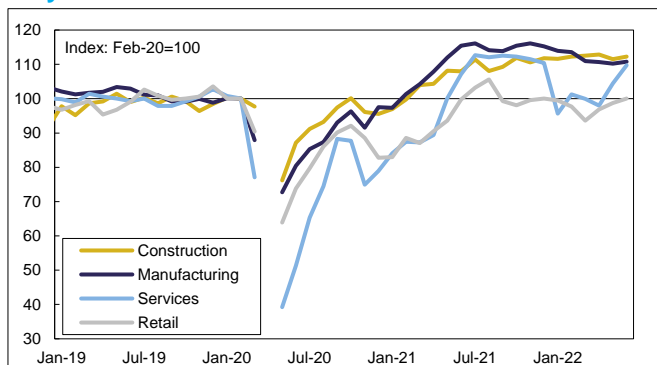
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

the tourism and transportation sectors. Retailers were also the most upbeat since December, although they were more cautious about the near-term outlook. There was also a hint of a change of fortunes in the manufacturing sector, with the respective sentiment index rising for the first month in seven, albeit by just 0.6pt to 110, with suggestions that an easing of supply bottlenecks had helped to boost production expectations. So, overall, the composite business indicator increased 2.6pts, the most in eleven months, to 113.6, a six-month high. Italian households, however, did not share this optimism. Amid high inflation, the prospect of higher ECB interest rates and increased economic uncertainty, they considered conditions to have deteriorated further in June. In particular, the headline consumer confidence index slumped to 98.3, the lowest since November 2020, with households more concerned about both the general economic outlook and their own financial situation. They were also more fearful of unemployment and more inclined to save than spend. Indeed, the survey's purchase intentions indicator slumped close to its initial pandemic trough, suggesting the likelihood of very subdued household spending over the near term.

The week ahead in the euro area

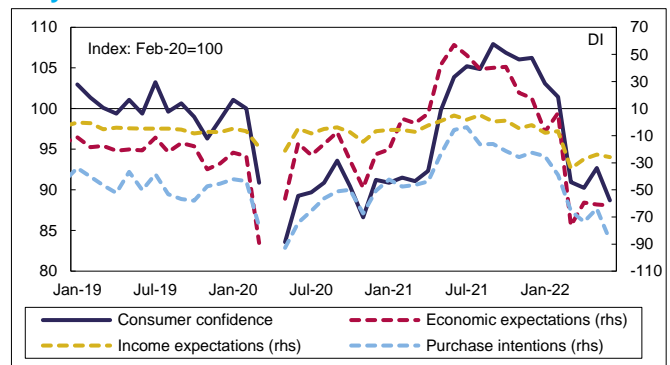
In a busy week ahead in the euro area, much attention will be on the ECB's annual Sintra central banking forum. President Lagarde will give the main introductory speech on Tuesday morning while she will also participate on Wednesday's policy panel alongside BoE Governor Bailey and Fed Chair Powell. In terms of economic data, the highlight will be the preliminary June inflation figures, concluding with the aggregate euro area estimates on Friday. With energy and food prices set to have increased further, we forecast headline HICP inflation to have risen to a new series high of 8.4%Y/Y from 8.1%Y/Y in May. But with services and non-energy industrial goods inflation likely to have moved sideways, we expect core inflation to be unchanged at 3.8%Y/Y, albeit similarly a record high. And given recent hints of a change to firms' pricing behavior, the risks to these forecasts appear skewed to the upside. The flash data from Germany and Spain (Wednesday), France and Italy (Thursday and Friday respectively) will provide greater insight. Also of note in the coming week will be the European Commission's detailed business and consumer confidence survey results on Wednesday. Consistent with this week's flash PMIs, these are expected to show that the headline ESI index fell 2pts to 103.0, the lowest since February 2021. Meanwhile, the latest euro area jobless figures (Thursday) are expected to reveal that the region's unemployment rate remained at a series low of 6.8% in May. Euro area bank lending numbers for May are also due on Wednesday. At the national level, Spanish and German retail sales (Wednesday and Thursday respectively), and French consumer spending numbers (also Thursday) will give a guide to private expenditure in May. And at the end of the week, new car registrations figures for June will be published for France, Italy and Spain.

Italy: Business confidence*



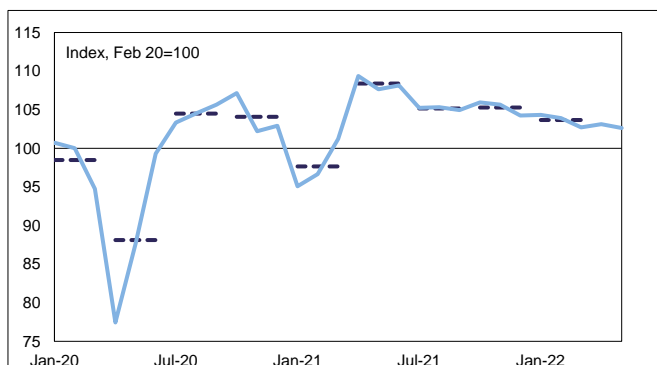
*No survey results for April 2020. Source: Refinitiv, ISTAT and Daiwa Capital Markets Europe Ltd.

Italy: Consumer confidence*



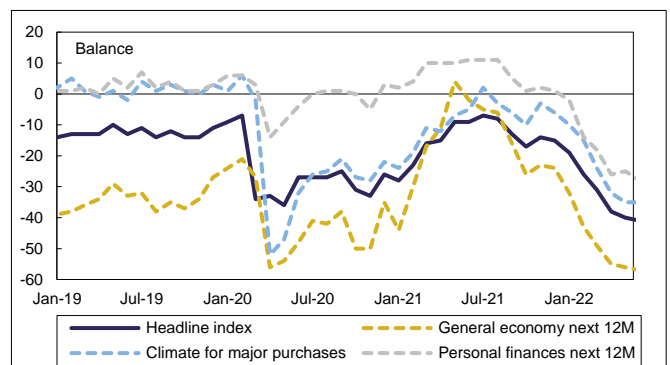
*No survey results for April 2020. Source: Refinitiv, ISTAT and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes*



*Dashed lines represent quarterly average. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence



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

UK

Retail sales volumes fall to 14-month low

Broadly as expected, UK retail sales volumes fell 0.5%M/M in May. But with growth in April (for which the initial estimate had previously looked suspiciously firm) revised down by 1ppt to just 0.4%M/M, the level of sales in May was also a 14-month low, down a hefty 4.7%Y/Y and more than 6% below the post-Covid peak, albeit still 2.6% above the pre-pandemic level in February 2020. The drop in May also left the average level of sales in the first two months of Q2 0.8% below the average in Q1. With yesterday's CBI distributional trades survey pointing to ongoing sales weakness in June, retail sales look highly likely to post a drop of between ½-1%Q/Q in Q2, reaffirming expectations for a fall in GDP this quarter too.

Food sales drop as high inflation erodes purchasing power

The drop in volumes in May was principally due to food-store sales, which fell 1.6%M/M to be 2.4% below the pre-pandemic level, seemingly a response to sharply higher prices which rose 8.5%Y/Y that month. While auto fuel sales rose 1.1%M/M, that effectively merely extended a broadly sideways trend in place since last September, and they were still some 1.6% below the pre-pandemic level. Non-food store sales were unchanged from April to be still 2.0% above the pre-pandemic level. In particular, higher sales of clothes (2.2%M/M) were offset by a drop of 2.3%M/M in sales of furniture (another category currently experiencing record inflation) and a decline in sales in department stores of 1.1%M/M. Given the sharp increase in the deflator (9.7%3M/Y), the value of retail sales rose 0.6%M/M and 5.0%Y/Y in May following an increase of 1.0%M/M the prior month to be some 13.0% above the pre-pandemic level.

Consumer confidence drops to record low

The ongoing downtrend in sales volumes is hardly a surprise in light of weak household sentiment. Indeed, the GfK survey reported a further drop in its headline consumer confidence indicator in June, down 1pt to -41, a new low on the series dating back almost 50 years. The climate for making major purchases was still judged to be the worst since the first wave of Covid-19, while consumers' assessment of the outlook for their own personal finances also fell to a new series low. Against that gloomy backdrop, retail sales – and consumer spending as a whole – seem likely to take another step down between now and the end of the year, particularly as household energy bills will rise sharply again in October. However, excess savings accumulated over the course of the pandemic provide some scope to cushion demand in the face of cuts to real disposable income.

By-election results add to pressure on Johnson, but rule change required to dislodge him










With households so downbeat, yesterday's resounding defeats for the ruling Conservative Party in two very contrasting by-elections – one to Labour, the other to the Lib Dems – were also not unexpected, particularly alongside the seemingly endless flow of scandal, shambolic policymaking and culture-war noise out of Downing Street. The result clearly adds to uncertainty about the future of PM Boris Johnson just weeks after he unconvincingly survived his Party's no-confidence vote. But a change to rules governing the Conservative leadership – which is certainly not unimaginable – will be required to enable a new challenge to Johnson over the coming twelve months. And with the House of Commons cross-party Privileges Committee unlikely to conclude its investigation into Johnson's (mis)conduct before the autumn, expect provocative politics and bad headline-driven policymaking to continue to weigh on sterling for a while to come.

The week ahead in the UK

On the data front, it should be a relatively quiet week for top-tier UK releases, kicking off with the BRC shop price index for June on Wednesday. This seems bound to report further upwards price pressures on the high street, not least reflecting higher global food prices. Meanwhile, June sentiment surveys due include the Lloyds business barometer (Thursday) and final manufacturing PMIs (Friday). The flash output PMI fell 0.4pt to a fifteen-month low of 51.2, while the new orders PMI was down a steeper 1.5pts to 49.6, the lowest since January 2021. Friday will also offer an update on bank lending in May, with demand for new consumer credit likely to have remained subdued amid rising interest rates and diminished willingness to spend although we may well see further evidence of lower credit card repayments as the higher cost of living continues to weigh on households' finances. Mortgage lending is expected to have remained firm as the Nationwide house price index for June (due Thursday) is likely to report that annual house price inflation remained in double-digits. The final release of Q1 GDP (Thursday) should confirm growth of 0.8%Q/Q and 8.7%Y/Y in the first quarter of the year, although this masks the steady weakening as the quarter progressed. In addition, as well as Governor Bailey's appearance at the ECB Sintra forum, BoE Deputy Governor Cunliffe will speak on a panel about digital currencies.

The next edition of the Euro wrap-up will be published on 28 June 2022

Daiwa economic forecasts






	2022				2023		2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.6	0.1	0.3	0.2	0.1	0.2	2.8	0.6	1.1
UK 	0.8	-0.3	0.3	-0.3	0.0	-0.1	3.4	-0.2	0.9
Inflation, %, Y/Y									
Euro area									
Headline HICP 	6.1	7.9	8.4	7.2	5.3	3.7	7.4	3.5	1.9
Core HICP 	2.7	3.7	3.9	3.2	2.9	2.8	3.3	2.6	2.0
UK									
Headline CPI 	6.2	9.1	9.9	10.3	9.6	6.5	8.9	6.3	2.4
Core CPI 	5.1	6.0	6.5	6.4	5.9	5.1	6.0	4.9	2.5
Monetary policy, %									
ECB									
Refi Rate 	0.00	0.00	0.75	1.25	1.50	1.75	1.25	1.75	1.75
Deposit Rate 	-0.50	-0.50	0.25	0.75	1.00	1.25	0.75	1.50	1.50
BoE									
Bank Rate 	0.75	1.25	2.00	2.50	2.50	2.50	2.50	2.50	2.00

Source: Bloomberg, ECB, BoE 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
Germany 	Ifo business climate	Jun	92.3	92.8	93.0	-
	Ifo current assessment (expectations) balance	Jun	99.3 (85.8)	99.0 (87.4)	99.5 (86.9)	99.6 (-)
France 	Final wages Q/Q%	Q1	1.1	<u>1.1</u>	0.5	-
Italy 	ISTAT consumer confidence index	Jun	98.3	103.0	102.7	-
	ISTAT business (manufacturing) sentiment indicator	Jun	113.6 (110.0)	-(108.5)	110.9 (109.3)	111.0 (109.4)
Spain 	Final GDP Q/Q% (Y/Y%)	Q1	0.2 (6.3)	<u>0.3 (6.4)</u>	2.2 (5.5)	-
UK 	GfK consumer confidence	Jun	-41	-40	-40	-
	Retail sales including auto fuel M/M% (Y/Y%)	May	-0.5 (-4.7)	-0.7 (-4.5)	1.4 (-4.9)	0.4 (-5.7)
	Retail sales excluding auto fuel M/M% (Y/Y%)	May	-0.7 (-5.7)	-0.9 (-5.0)	1.4 (-6.1)	0.2 (-6.9)

Auctions










































Country	Auction
- Nothing to report -	

- Nothing to report -

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> forecast/actual	Previous
Monday 27 June 2022					
Spain		08.00 PPI M/M% (Y/Y%)	May	-	1.6 (45.0)
Tuesday 28 June 2022					
Germany		07.00 GfK consumer confidence	Jul	-27.5	-26.0
France		07.45 INSEE consumer confidence	Jun	84	86
Wednesday 29 June 2022					
Euro area		09.00 M3 money supply Y/Y%	May	5.8	6.0
		10.00 European Commission's economic sentiment indicator	Jun	103.0	105.0
		10.00 European Commission's industrial (services) confidence	Jun	4.8 (12.5)	6.3 (14.0)
		10.00 European Commission's final consumer confidence	Jun	-23.6	-21.1
Germany		13.00 Preliminary CPI M/M% (Y/Y%)	Jun	0.3 (7.9)	0.9 (7.9)
		13.00 Preliminary EU-harmonised CPI M/M% (Y/Y%)	Jun	0.2 (8.7)	1.1 (8.7)
Spain		08.00 Preliminary CPI M/M% (Y/Y%)	Jun	0.7 (9.0)	0.8 (8.7)
		08.00 Preliminary EU-harmonised CPI M/M% (Y/Y%)	Jun	-0.8 (8.7)	0.7 (8.5)
		08.00 Retail sales Y/Y%	May	2.0	1.5
UK		00.01 BRC shop price index Y/Y%	Jun	-	2.8
Thursday 30 June 2022					
Euro area		10.00 Unemployment rate %	May	6.8	6.8
Germany		07.00 Retail sales M/M% (Y/Y%)	May	0.4 (-1.8)	-5.4 (3.3)
		08.55 Unemployment change '000s (rate %)	Jun	-4.0 (5.0)	-4.0 (8.4)
France		07.45 Preliminary CPI M/M% (Y/Y%)	Jun	0.7 (5.7)	0.7 (5.2)
		07.45 Preliminary EU-harmonised CPI M/M% (Y/Y%)	Jun	0.9 (6.2)	0.8 (5.8)
		07.45 PPI M/M% (Y/Y%)	May	-	0.0 (27.8)
		07.45 Consumer spending M/M% (Y/Y%)	May	-	-0.4 (7.2)
Italy		09.00 Unemployment rate %	May	8.4	8.4
		10.00 PPI M/M% (Y/Y%)	May	-	-0.3 (44.1)
UK		00.01 Lloyds business barometer	Jun	-	38
		07.00 Final GDP Q/Q% (Y/Y%)	Q1	<u>0.8 (8.7)</u>	1.3 (6.6)
		07.00 Nationwide house price index M/M% (Y/Y%)	Jun	0.5 (10.8)	0.9 (11.2)
Friday 01 July 2022					
Euro area		09.00 Final manufacturing PMI	Jun	<u>52.0</u>	54.6
		10.00 Preliminary CPI M/M% (Y/Y%)	Jun	<u>0.7 (8.4)</u>	0.8 (8.1)
		10.00 Preliminary core CPI Y/Y%	Jun	<u>3.8</u>	3.8
Germany		08.55 Final manufacturing PMI	Jun	<u>52.0</u>	54.8
France		08.50 Final manufacturing PMI	Jun	<u>51.0</u>	54.6
		- New car registrations* Y/Y%	Jun	-	-10.1
Italy		08.45 Manufacturing PMI	Jun	50.5	51.9
		10.00 Preliminary CPI M/M% (Y/Y%)	Jun	0.6 (7.4)	0.8 (6.8)
		10.00 Preliminary EU-harmonised CPI M/M% (Y/Y%)	Jun	0.8 (7.8)	0.9 (7.3)
		17.00 New car registrations Y/Y%	Jun	-	-15.1
Spain		08.15 Manufacturing PMI	Jun	52.2	53.8
		- New car registrations* Y/Y%	Jun	-	-10.9
UK		09.30 Final manufacturing PMI	Jun	<u>53.4</u>	54.6
		09.30 Net consumer credit £bn (Y/Y%)	May	1.3 (-)	1.4 (5.7)
		09.30 Net mortgage lending £bn (approvals '000s)	May	4.2 (64.0)	4.1 (66.0)
		09.30 M4 money supply Y/Y%	May	-	4.9

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

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 27 June 2022		
Euro area	 08.00	ECB's Villeroy scheduled to speak publicly
	 18.30	ECB President Lagarde gives welcome remarks at the ECB's Forum on Central Banking in Sintra
Tuesday 28 June 2022		
Euro area	 09.00	ECB President Lagarde gives introductory speech at the ECB's Forum on Central Banking in Sintra
Germany	 10.30	Auction: €4bn of 0% 2027 bonds
UK	 10.00	Auction: £1bn of 0.125% 2031 index-linked bonds
Wednesday 29 June 2022		
Euro area	 14.30	ECB President Lagarde, BoE Governor Bailey and Fed Chairman Powell participate in policy panel
Thursday 30 June 2022		
Italy	 10.00	Auction: 5Y and 10Y bonds
Friday 01 July 2022		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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