

# Euro wrap-up

## Overview

- While German consumer confidence fell to a post-reunification low, Bunds made significant losses as Christine Lagarde emphasised the need for the ECB to proceed with policy normalisation “in a sustained manner”.
- Gilts also made significant losses while Scotland’s First Minister announced plans to hold a new referendum on independence from the UK in October 2023, subject first to a judgement by the UK Supreme Court on its legality.
- Wednesday will bring flash estimates of German and Spanish inflation and the Commission’s economic sentiment indices, all for June, while Lagarde, Powell and Bailey will all speak on a panel at the Sintra policy forum.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 0.2 06/24	0.928	+0.078
OBL 0 04/27	1.409	+0.081
DBR 0 02/32	1.630	+0.088
UKT 1 04/24	2.124	+0.122
UKT 1¼ 07/27	2.153	+0.114
UKT 4¼ 06/32	2.474	+0.083

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

## Euro area

### German consumer confidence hits new record low flagging rising recession risks

Like last week’s [flash PMIs](#) and [ifo](#) business survey results, risks of recession in Germany were flagged again by today’s GfK consumer confidence report. Indeed, the headline sentiment index – presented as a forecast for the coming month – hit a new post-reunification low, dropping 1.2pts from a downwardly revised prior reading to -27.4, more than 4pts below the trough recorded in the first wave of Covid-19. While the survey again reported a modest easing in price expectations for the coming year, with German inflation continuing to hit new highs – the flash June data tomorrow are expected to show a further increase in the EU-harmonised measure to 8.8%Y/Y – income expectations have deteriorated markedly, with the respective index falling almost 10pts over the past month to the lowest in almost two decades. So, the survey’s measure of consumers’ propensity to buy fell to the lowest since the global financial crisis in 2008. That tallies with the marked deterioration in retail sector sentiment to recessionary levels signalled last week by the ifo survey. So, while spending in hospitality and tourism currently appears to be holding up as consumers seek a return to normality, the outlook for expenditure on goods looks very weak indeed. And with wage growth remaining underwhelming, German consumer spending overall looks unlikely to do much better than track sideways between now and the end of the year.

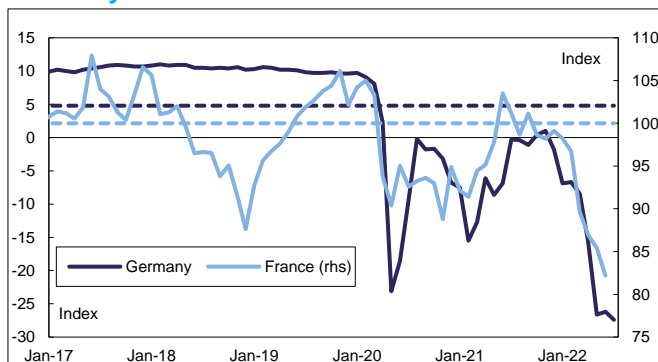
### French consumer confidence declines to its lowest since 2013

The French INSEE consumer confidence survey also offered a downbeat assessment, and similarly suggested the likelihood of weak household spending ahead. The headline sentiment index fell for the sixth consecutive month in June and by a larger than expected 3pts to 82, well below the long-run average (100) and the lowest since July 2013. The weakness was broad based, with households the most downbeat about the economic situation on record, with the exception of May 2020 in the early stages of the pandemic. And they were more pessimistic regarding their financial situation despite a decline in inflation expectations. So with households regarding their ability to save to have diminished further, the share considering it a good time to make major purchases fell to its lowest since the onset of the pandemic – indeed, the corresponding survey balance fell 5pts to -35, 34pts lower than its level a year ago and some 20pts lower than the long-run average.

### Lagarde acknowledges that ECB normalisation means rising yields and spreads

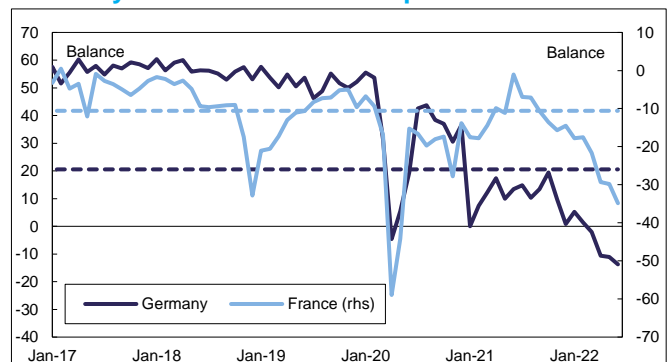
In her introductory speech to the Sintra forum today, ECB President Lagarde acknowledged the downbeat signals from economic sentiment surveys. But she insisted that the Governing Council still expected positive economic growth to be maintained thanks to service-sector reopening, and support from the large stock of household savings, fiscal policy and the labour market. Moreover, given her concerns that the current “broadening and intensifying” inflation shock might trigger a

### Germany & France: Headline consumer confidence\*



\*Dashed lines represent long-run average. Source: Refinitiv, GfK, INSEE and Daiwa Capital Markets Europe Ltd.

### Germany & France: Consumer purchase intentions\*



\*Dashed lines represent long-run average. Source: Refinitiv, GfK, INSEE and Daiwa Capital Markets Europe Ltd.

persistent pickup in domestic price pressures, she reiterated the ECB's determination to proceed with monetary policy normalisation in a "sustained manner". Among other things, she repeated the commitment to hike rates by 25bps in July and, unless the inflation outlook improves, more than that in September, while insisting on the need for flexibility in the pace of tightening thereafter. (Separately today, Belgian Governor Wunsch argued that a first 200bps of rate hikes should be implemented quickly, while Latvian Governor Kazaks suggested that a 50bps increase should be considered next month.) In addition, recognising that monetary policy normalisation "will naturally lead to rising risk-free rates and sovereign yields... [and] can also lead to a rise in spreads", Lagarde noted the "need to ensure that this repricing is not exacerbated and distorted by destabilising market dynamics".

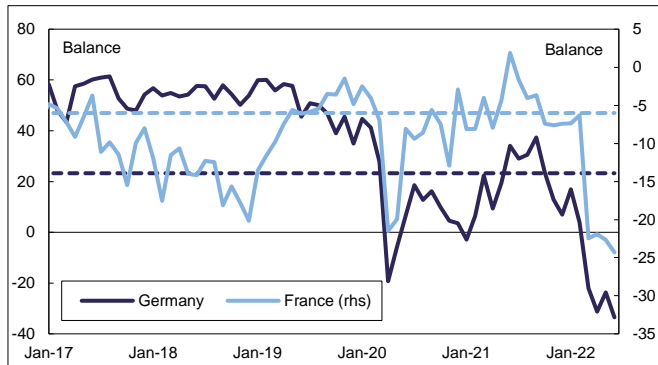
**Monetary impact of new policy tool to be offset by higher rate on ECB term deposits?**

Lagarde also therefore restated the Governing Council's proposals to counter fragmentation risks. First, from as soon as this Friday, the ECB will be flexible in reinvesting its proceeds of maturing PEPP bonds. That, of course, will likely have only a modest impact – perhaps freeing up some €10bn per month for additional purchases of periphery bonds. So, the Governing Council's discussion next month of its plans for a new anti-fragmentation policy tool will be all-important in determining the future path for BTP spreads. Lagarde offered no detail, but judged that the instrument "will have to be effective, while being proportionate and containing sufficient safeguards to preserve the impetus of Member States towards a sound fiscal policy". As such, she intimated that purchases might be limited to the shorter end of the curve with conditionality attached to the use of the new tool will be related to consistency with the EU fiscal rules and other EU programmes. She added that, by preserving the monetary policy transmission mechanism across the euro area, the new tool "will allow rates to rise as far as necessary". So, as expected, the ECB will intend to mop up the additional liquidity created by use of the anti-fragmentation tool. Lagarde offered no insights into what to expect in that respect. However, a report from Reuters today suggested that the ECB would drain from the banking sector any new money created via a higher interest rate on term deposits, likely determined at auction, rather than by selling existing holdings of "core" government bonds or ECB paper. The decision not to sell "core" government bond holdings seems driven in particular by concerns about the distribution of losses that might arise from such sales, which under existing rules would have to be borne fully by the national central bank concerned as opposed to being shared evenly across the Eurosystem.

**The day ahead in the euro area**

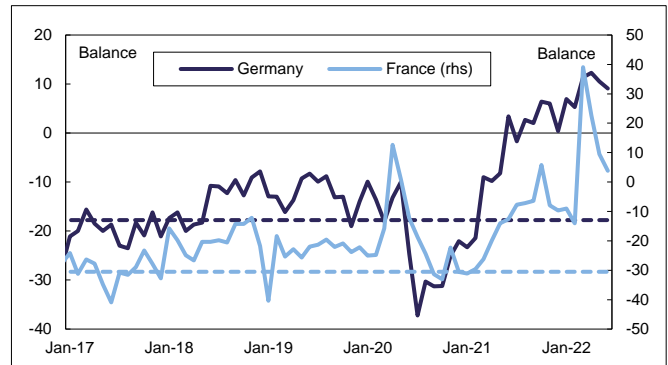
Plenty of attention tomorrow will be on the first of the region's flash June inflation estimates, from Germany and Spain. Despite government action to reduce the impact of energy price pressures, the consensus forecasts on the Bloomberg

**Germany & France: Consumer income expectations\***



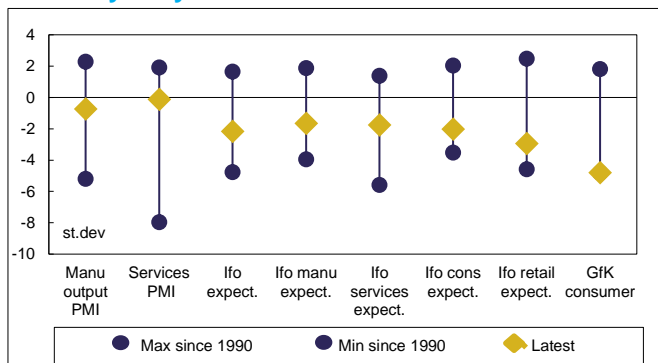
\*Dashed lines represent long-run average. Source: Refinitiv, GfK, INSEE and Daiwa Capital Markets Europe Ltd.

**Germany & France: Consumer price expectations\***



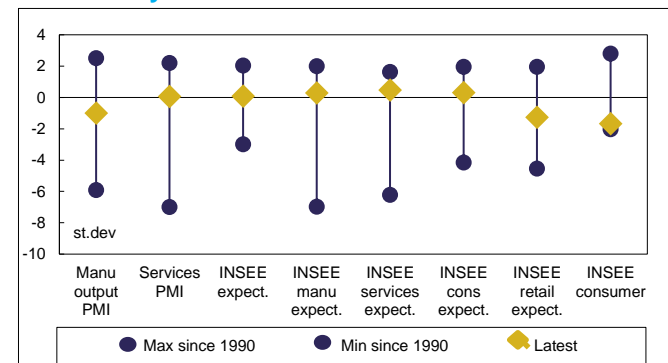
\*Dashed lines represent long-run average. Source: Refinitiv, GfK, INSEE and Daiwa Capital Markets Europe Ltd.

**Germany: Key sentiment indices**



Source: Refinitiv, S&P Global, Ifo, GfK and Daiwa Capital Markets Europe Ltd.

**France: Key sentiment indices**



Source: Refinitiv, S&P Global, INSEE and Daiwa Capital Markets Europe Ltd.

survey are for the headline HICP rates in both countries to shift slightly higher, by 0.1ppt to 8.8%Y/Y in Germany and 0.2ppt to 8.7%Y/Y in Spain. Wednesday will also bring euro area bank lending and Spanish retail sales figures for June.

The flow of sentiment indicators for June also continues tomorrow with the European Commission's consumer and business survey results, which typically provide the most comprehensive guide to euro area economic activity. According to the preliminary estimate, consumer confidence fell to its lowest level since the euro crisis in 2013. And consistent with the flash PMIs, we expect the Commission's business confidence indices to signal a loss of momentum in both manufacturing and services. Indeed, the headline economic sentiment indicator is forecast to decline 2pts to 103.0, which would make the lowest reading since February 2021, albeit still well above the trough at the onset of the pandemic (61.0).





Of course, the policy panel at the ECB's Sintra central banking forum will be watched, with ECB President Lagarde, BoE Governor Bailey, Fed Chair Powell and BIS head Carstens likely to signal the need for further significant monetary policy tightening ahead.

## UK


### The day ahead in the UK

After another quiet day for UK economic releases, tomorrow will bring the BRC's latest shop price index. Despite waning demand and the hit to retail footfall amid last week's rail strikes, this seems bound to report further upwards price pressures on the high street, not least reflecting higher global food prices. As well as BoE Governor Bailey's appearance at the ECB forum, tomorrow afternoon will also see the Treasury Select Committee quiz incoming external MPC member, academic Swati Dhingra, at her appointment hearing. She is currently scheduled to replace hawkish MPC member Michael Saunders on 9 August.

## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany 	GfK consumer confidence	Jul	<b>-27.4</b>	-27.5	-26.0	<b>-26.2</b>
France 	INSEE consumer confidence	Jun	<b>82</b>	84	86	<b>85</b>
Auctions						
Country	Auction					
Germany 	€3.24bn of 0% 2027 bonds at an average yield of 1.41%					
UK 	£1.00bn of 0.125% 2031 index-linked bonds at an average real yield of -1.335%					











Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Spain 	PPI M/M% (Y/Y%)	May	<b>0.9 (43.6)</b>	-	1.6 (45.0)	<b>1.3 (44.5)</b>
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
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	0.4 (7.9)	0.9 (7.9)
	 13.00	Preliminary EU-harmonised CPI M/M% (Y/Y%)	Jun	0.4 (8.8)	1.1 (8.7)
Spain	 08.00	Preliminary CPI M/M% (Y/Y%)	Jun	0.7 (8.8)	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

### Auctions and events

Euro area	 14.30	ECB President Lagarde, BoE Governor Bailey and Fed Chairman Powell participate in policy panel			
UK	 14.15	Incoming MPC member Swati Dhingra to attend appointment hearing before Treasury Select Committee			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are MiFID 2 Professional (or equivalent) Clients and should not therefore be distributed to such Retail Clients. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Dislosures.action>.

#### Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: <https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>

#### IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Opinions [and/or estimates] reflect a judgment as at the date of publication and are subject to change without notice. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.