

Euro wrap-up

Overview

- Bunds had a mixed performance as a downbeat German ifo business survey suggested that the economy was on the 'cusp of a recession' and concerns rose that Russia would temporarily curb gas flows to Germany from Wednesday.
- Gilts made modest gains as a UK survey signalled a marked slowdown in manufacturing output and orders.
- Sentiment indices will continue to dominate the European data calendar over the coming two days, with consumer confidence from Germany, France and Italy (Wednesday) and a retail survey from the UK (tomorrow).

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0.2 06/24	0.386	+0.028
OBL 1.3 10/27	0.753	-0.011
DBR 1.7 08/32	1.017	-0.006
UKT 1 04/24	1.831	-0.018
UKT 1¼ 07/27	1.697	-0.009
UKT 4¼ 06/32	1.939	+0.001

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

Euro area

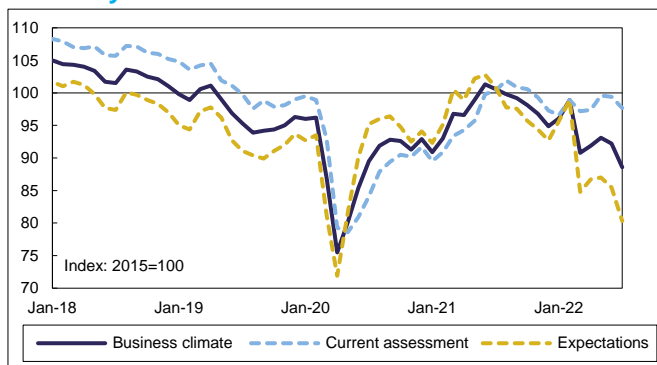
German ifo suggests economy on 'cusp of a recession'

After Friday's [flash PMIs](#) surprised on the downside, suggesting the worst economic performance for more than two years in the euro area's largest member state, today's German ifo business survey indices also fell short of expectations, confirming a marked deterioration in conditions at the start of Q3. Indeed, the headline business climate index fell for the second successive month in July and by a steeper 3.6pts to 88.6, the lowest level for more than two years and well below the long-run average (96.9). Contrasting with recent months, firms were less satisfied with current conditions at the start of the third quarter, with the respective index down 1.7pts – the most since the start of 2021 – to 97.7, albeit this was merely the lowest reading since May and still above the long-run average (96.7). But firms were again markedly more downbeat about expectations regarding the near-term outlook, with the relevant survey measure down more than 5pts to 80.3, well below the long-run average (96.7) and a level that has been lower only twice in the survey history – at the start of the pandemic in April 2020 and during the global financial crisis in December 2008. So, the survey suggested that Germany is on the 'cusp of a recession', with the ifo institute highlighting higher energy prices and fears of gas shortages among the main concerns. Certainly, the news today that Russia would again curb its gas flows through the Nord Stream 1 pipeline from Wednesday due to ongoing maintenance issues will undoubtedly continue to weigh on confidence.

Widespread pessimism among German subsectors

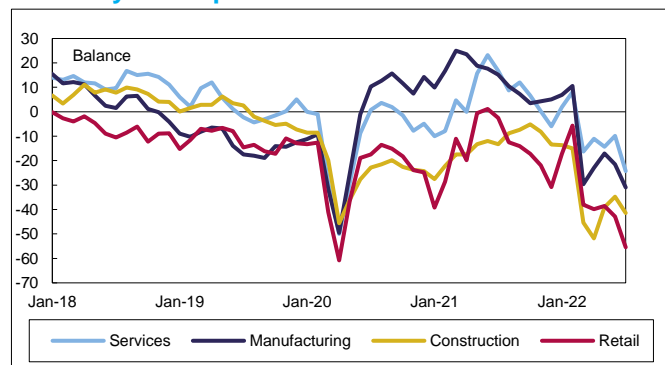
Fears of disruption to energy supply contributed in particular to the deterioration in manufacturing expectations, which worsened substantially for the second successive month, with almost all subsectors citing pessimism about the outlook. Indeed, the relevant index slumped a further 9½pts to be firmly below all levels on the series bar readings at the onset of Covid-19 and the global financial crisis. ifo also noted that new factory orders fell slightly for the first time in two years. The mood within the services industry also took a notable turn for the worse in July, with even firms in the tourism and hospitality sub-sectors – which had recently benefited from a post-lockdown rebound in demand – feeling the pinch. But retailers were again the most 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, with ifo noting that there were no responding retailers that were optimistic about the future. And following a brief recovery in June, construction firms were notably more downbeat about the current and expected business conditions, with the former at the lowest since April 2016.

Germany: ifo business sentiment indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: ifo expectations indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

The coming two days in the euro area

After a quiet day on the euro area economic data front tomorrow, Wednesday will bring the latest national consumer confidence surveys from Germany, France and Italy. Consistent with the [Commission's flash consumer confidence](#) indicator, these are expected to reveal a further deterioration in sentiment at the start of Q3 due to persistently high price pressures, higher interest rates and concerns regarding energy supply from Russia as well as the global economic outlook. Italy's ISTAT will also publish the latest business sentiment survey, with the manufacturing confidence indicator expected to fall 2pts to 108 in July – the lowest since April 2021 – although following today's disappointing German ifo survey, the risks to this forecast are clearly to the downside. Also due to be published on Wednesday are the euro area bank lending numbers for July, which will provide an update on demand for household and business lending.

UK

CBI survey signals a marked slowdown in manufacturing output

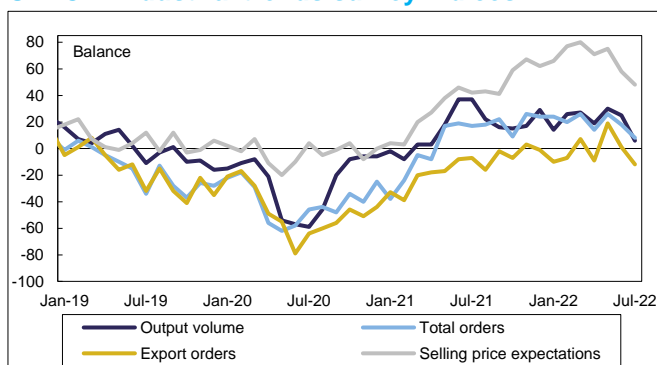
After the flash UK PMIs suggested that industrial production went into reverse in July for the first time in two years, today's CBI industrial trends survey indicated a marked slowdown in manufacturing output in the three months to July. Indeed, the relevant survey index fell 19ppts – the steepest monthly drop since May 2020 – to 6%, the softest reading since April 2021. And expectations for output growth over the coming three months also fell sharply, with the relevant survey index below the long-run average for the first time since February 2021. This coincided with a sizeable moderation in new orders too – the index fell 10ppts to 8%, a fifteen-month low – with renewed weakness in overseas and domestic demand. And firms expect orders to slow further over the coming three months, not least reflecting greater pessimism regarding exports. Against this backdrop, today's survey again suggested that manufacturers' expectations for selling prices over the coming three months had weakened further in July. Indeed, the relevant survey balance fell 10ppts to 48%, admittedly still well above the long-run average (14%) but nevertheless the lowest in ten months. Given squeezed profit margins, and still very weak business sentiment surrounding the outlook for the coming twelve months – with the relevant indicator recording the third consecutive quarterly reading – it was somewhat surprising to see that firms' investment intentions for the coming year picked up from April, albeit from a low base.

The coming two days in the UK

Looking ahead, tomorrow sees the publication of the CBI's retail trade survey for July, which, following Friday's subdued retail sales figures for June, is also likely to indicate that conditions remain difficult for retailers, as high inflation squeezes household budgets. Indeed, Wednesday's BRC shop price index for July is likely to rise to a new series high, not least reflecting the ongoing upwards trend in global food prices.

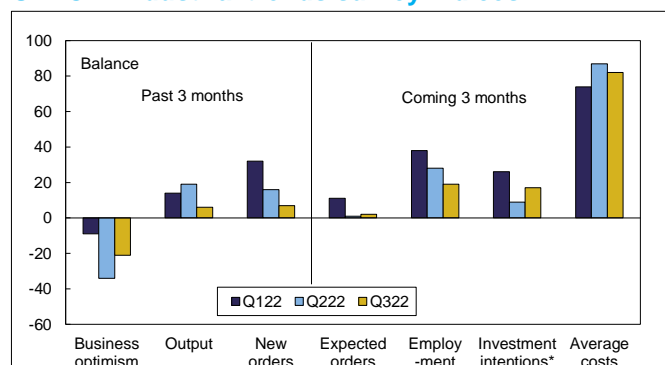
The next edition of the Euro wrap-up will be published on 27 July 2022

UK: CBI industrial trends survey indices*



*Monthly survey. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: CBI industrial trends survey indices*







*Quarterly 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
Germany	 ifo business climate index	Jul	88.6	90.1	92.3	92.2
	 ifo current assessment (expectations)	Jul	97.7 (80.3)	97.5 (83.0)	99.3 (85.8)	99.4 (85.5)
UK	 CBI industrial trends survey – total orders (selling prices)	Jul	8 (48)	12 (-)	18 (58)	-
	 CBI industrial trends survey – business optimism	Jul	-21	-	-34	-

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
Spain	 08.00	PPI M/M% (Y/Y%)	Jun	-	0.9 (43.6)
UK	 11.00	CBI distributive trades survey – reported retail sales	Jul	-10	-5








Auctions and events

Italy	 10.00	Auction: €2.5bn of 1.75% 2024 bonds	
	 10.00	Auction: 0.1% 2033 index-linked bonds	
	 10.00	Auction: 2.55% 2041 index-linked bonds	



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	 09.00	M3 money supply	Jun	5.4	5.6
Germany	 07.00	GfK consumer confidence	Jul	-28.9	-27.4
France	 07.45	INSEE consumer confidence	Jul	80	82
Italy	 09.00	ISTAT business (manufacturing) confidence	Jul	- (108.0)	113.6 (110.0)
	 09.00	ISTAT consumer confidence	Jul	96.6	98.3
	 09.00	Hourly wages M/M% (Y/Y%)	Jun	-	0.1 (0.7)
UK	 00.01	BRC shop price index Y/Y%	Jul	-	3.1

Auctions and events

Germany	 10.30	Auction: €4.0bn of 0% 2032 bonds	
UK	 10.00	Auction: £700mn of 0.125% 2051 index-linked bonds	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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