

# Euro wrap-up

## Overview

- Bunds made gains as the German ifo business survey disappointed expectations, signalling a marked deterioration in the manufacturing outlook over H223.
- Gilts also rose as a UK retail survey pointed to underwhelming sales growth and a decline in orders.
- The main focus in the euro area tomorrow will be ECB President Lagarde's introductory statement at the start of the central bank forum in Sintra. Data-wise, Italian business and consumer confidence survey results are due.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.8 06/25	3.065	-0.027
OBL 2.4 10/28	2.437	-0.053
DBR 2.3 02/33	2.300	-0.051
UKT 0% 06/25	5.159	-0.023
UKT 1% 10/28	4.552	-0.018
UKT 3¼ 01/33	4.298	-0.022

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

## Euro area

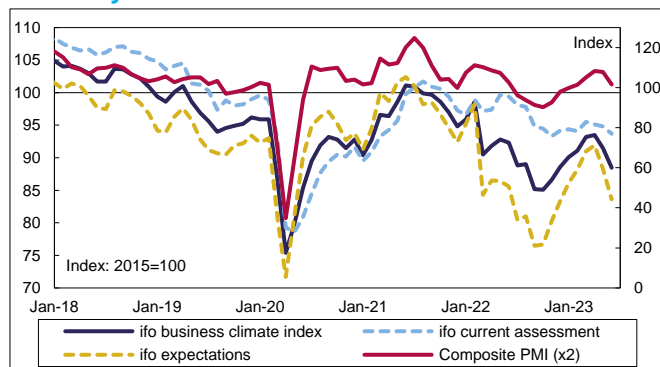
### Germany's ifo disappoints in June but points to stagnation rather than contraction in Q2

Like Friday's [flash PMIs](#), today's German ifo institute business survey for June fell short of expectations, suggesting that sentiment in the euro area's largest member state clouded considerably towards the end of the second quarter. Certainly, the likelihood of a prolonged recession appears to have increased. But it is not yet a done deal. In particular, the ifo business climate index fell a striking 3pts on the month – the most in nine months – to 88.5, the lowest since October 2022. But this left the average business climate index down just 0.3pt in Q2. And the decline in the current assessment balance in June was a less marked 1.1pt to 93.7, which left it moving broadly sideways on average in Q2. Moreover, the average current conditions index in the services sector for Q2 rose 3.7pts on the quarter to point to firm expansion. Against this backdrop, the Bundesbank's latest monthly report, published today, suggested that the German economy as a whole probably expanded slightly in the second quarter. This tallies with its most recent weekly activity indicator, which in the first half of June rose to its highest level since August 2021. But the Bundesbank also acknowledged that challenges persist. And although the quarterly profile in the ifo survey suggests stagnation rather than contraction this quarter, today's survey clearly suggested a loss of momentum towards the end of the quarter.

### Ifo survey signals a marked deterioration in business sentiment for H223

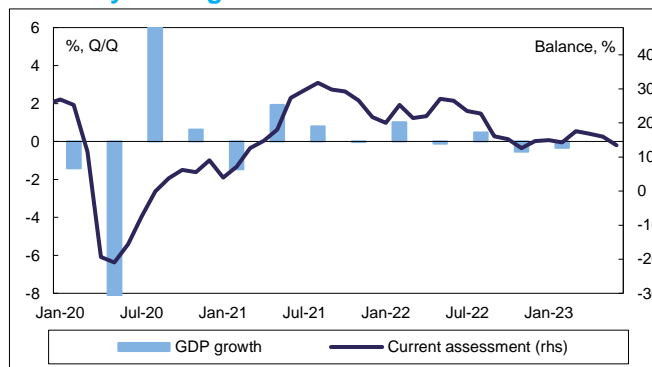
Despite the improvement over the quarter as a whole, the ifo survey tallied with the flash PMIs to suggest that services firms were less satisfied about conditions in June. And with factory orders having recently maintained a downwards trend, and truck toll mileage suggesting a slight weakening in manufacturing turnover in the first half of June, the ifo institute reported that manufacturers assessed conditions this month to be the least favourable since the start of 2021. Moreover, given a marked deterioration in export expectations and low levels of order backlogs, the survey presented a particularly gloomy outlook for the sector for the second half of the year. Indeed, the manufacturing expectations index fell a whopping 13.8pts in June – the steepest monthly drop since the series began in 1991 with the exception of the onset of the first Covid lockdown and Russia's invasion of Ukraine – to a seven-month low of -28.1. Admittedly, this remains some 10pts above last October's trough and well above the lows seen at the start of the pandemic. Given the knock-on impact on transport and logistics activity, services firms on the whole were also the most downbeat about the coming six months since December. So, while confidence among retailers and construction with respect to the coming six months was broadly stable this month, overall the ifo expectations index fell 4.7pts in June – the biggest drop in eleven months – to a six-month low. While that left it on average only marginally lower (-0.5pt) in Q2 than in Q1, it remains to be seen whether this reflects a dose of random volatility in the data or signals a sudden turn for the worse.

### Germany: Business sentiment indices



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

### Germany: GDP growth & ifo current conditions index



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

## The day ahead in the euro area

The flow of sentiment surveys continues tomorrow with the Italian ISTAT business and consumer confidence numbers for June, which are expected to reveal that sentiment moved broadly sideways in June, suggesting that the economic recovery in that country is holding up relatively well. Of course, given the deterioration in Friday's PMIs and today's ifo surveys, risks to the Italian survey are skewed to the downside. But the main focus tomorrow will be ECB President Lagarde's introductory remarks at the central bank's two-day forum in Sintra, which will be watched closely for any further insights into the near-term policy path. Executive Board members Schnabel and Panetta will also chair separate panel discussions.

## UK

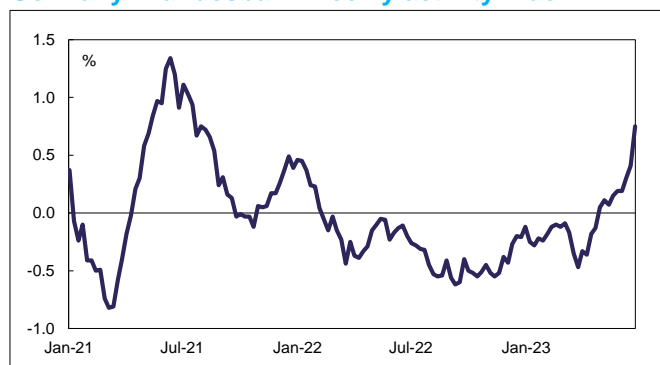
### CBI survey points to underwhelming retail sales in June

The minutes of last week's [BoE](#) monetary policy meeting, when Bank Rate was hiked by 50bps, reported that most indicators of household spending were judged to have strengthened a little over recent months, albeit rising from very weak levels in some cases. Consistent with that judgement, data released on Friday revealed that [retail sales](#) volumes grew for a second successive month in May to be on track for a second successive quarter of modest growth in Q2, albeit remaining down a still-sizeable 2.1%Y/Y. And according to the GfK survey released the same day, consumer confidence rose ahead of the MPC's announcement to the highest level since before Russia's invasion of Ukraine, but still lay some way below the long-run average. Today's CBI distributive trades survey, meanwhile, suggested that spending remained underwhelming this month, with the headline measure of sales volumes in the year to June in negative territory for a second successive month, edging up just 1ppt to -9%. In addition, according to the CBI survey, retail sales next month were expected merely to be unchanged on the same basis and not materially stronger than levels considered normal for the time of year.

### Retail orders down as inventories appear elevated and demand looks set to remain subdued

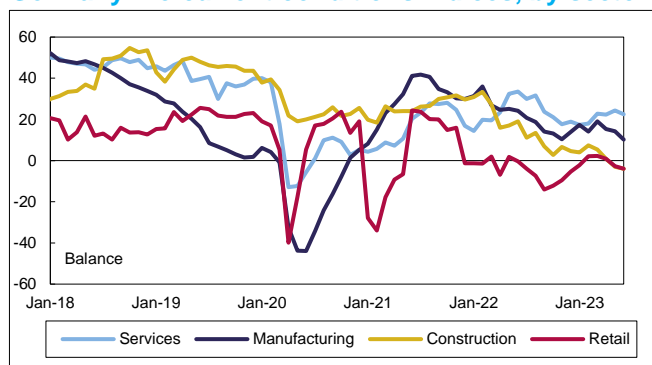
Within the other detail of the survey, retailers reported that their inventories had risen in June to the highest levels since the first wave of Covid-19 in May 2020, and were expected to remain elevated relative to expected sales next month. And so, orders placed with suppliers reportedly fell in the year to June, and were expected to be down at a broadly similar pace next month. That tallied with the feedback from wholesalers, who reported that sales volumes in the year to June fell at a quicker pace and were predicted to remain sub-par next month. And motor traders also reported falling sales in the year to June with

#### Germany: Bundesbank weekly activity index\*



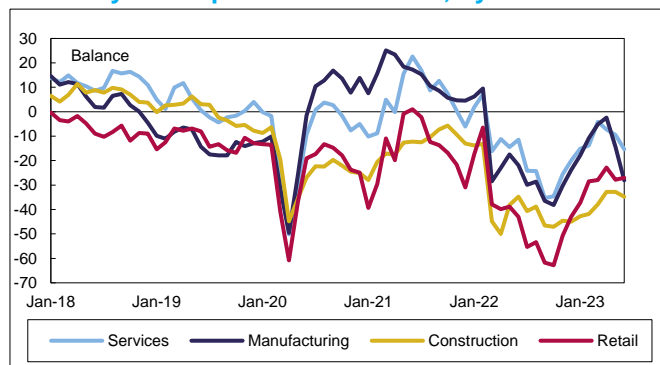
\*Index indicates trend-adjusted activity in the latest 13-week period compared with the previous 13-week period. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

#### Germany: ifo current conditions indices, by sector



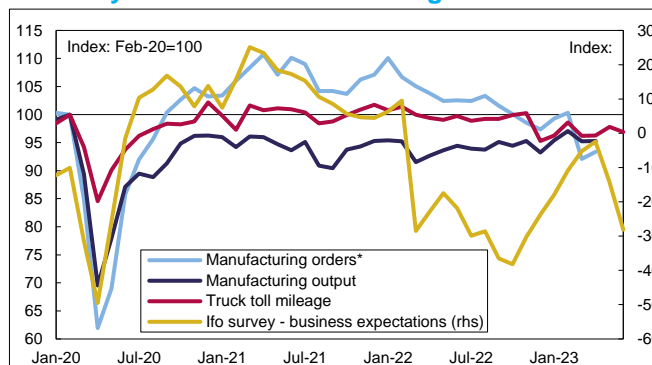
Source: ifo, Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Germany: ifo expectations indices, by sector



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

#### Germany: Selected manufacturing indicators



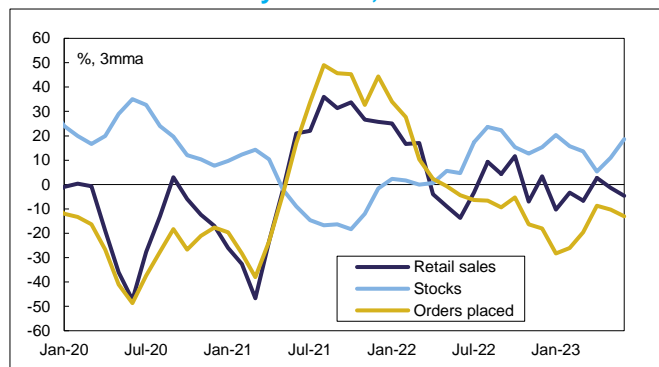
\*Excluding bulk orders. Source: ifo, Refinitiv and Daiwa Capital Markets Europe Ltd.

an accelerated decline anticipated in July. Overall, therefore, spending on goods appears to have remained on a soft trend, offering little if any support to overall economic growth. Indeed, the likelihood of further tightening of monetary policy in coming months, and probable associated softening of consumer confidence, suggests a non-negligible risk of a contraction in expenditure on durable goods in the second half of the year and into 2024 even if – as seems likely – inflation falls steadily from July on. And the findings of the quarterly CBI distributive trades survey released last month, which suggested that retail investment intentions deteriorated in Q2 by the most since the onset of the pandemic, and the outlook for retail sector employment was the most negative since mid-2021, also continue to ring true.

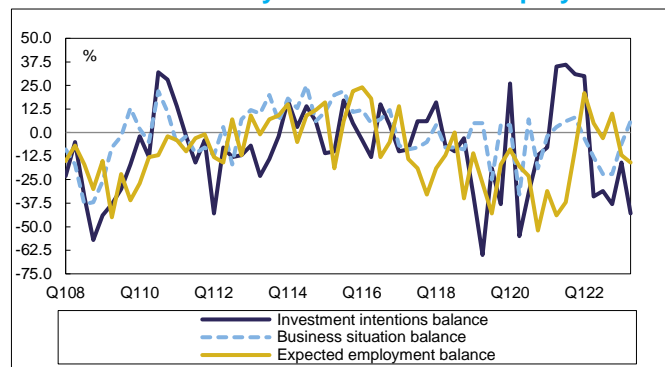
### The day ahead in the UK

Looking ahead in the UK, tomorrow brings the release of the BRC shop price index for June. Consistent with the upside surprise to last week's [CPI inflation](#) release, this survey is expected to reveal prices remain elevated on the High Street, contributing to dampening demand for consumer spending on goods.

#### UK: CBI retail survey – sales, orders & stocks






#### UK: CBI retail survey – investment & employment



# European calendar

## Today's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 ifo business climate index	Jun	<b>88.5</b>	90.9	91.7	91.5
	 ifo current assessment (expectations) index	Jun	<b>93.7 (83.6)</b>	90.9 (93.2)	94.8 (88.6)	- (88.3)
UK	 CBI distributive trades survey, reported sales	Jun	<b>-10</b>	-	-10	-




### 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
Italy		10.00 ISTAT business (manufacturing) confidence	Jun	- (101.0)	108.7 (101.4)
		10.00 ISTAT consumer confidence	Jun	105.5	105.1
UK		00.01 BRC shop price index Y/Y%	Jun	-	9.0

### Auctions and events

Euro area		-	ECB Forum on Central Banking in Sintra (27-28 June)		
		09.00	ECB President Lagarde gives opening remarks at ECB Forum in Sintra		
		09.30	ECB's Panetta chairs session on 'Monetary policy in the face of multiple shocks'		
		13.00	ECB's Schnabel chairs session on 'Structural change in energy markets and implications for inflation'		
Italy		10.00	Auction: €2.50bn of 3.4% 2025 bonds		
		10.00	Auction: €1.75bn of 1.5% 2029 bonds		
UK		10.00	Auction: £1.5bn of 0.75% 2033 index-linked bonds		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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