

Euro wrap-up

Overview

- Despite a further easing in German producer price inflation, Bunds made losses as euro area consumer confidence beat expectations.
- Gilts also followed the global trend lower on a quiet day for UK economic data.
- Friday will bring the latest results for French and UK retail sales, as well as UK consumer confidence.

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Daily bond market movements

Bond	Yield	Change
BKO 3.1 09/25	3.081	+0.042
OBL 2.4 10/28	2.556	+0.049
DBR 2.6 08/33	2.472	+0.041
UKT 0% 06/25	4.930	+0.087
UKT 1% 10/28	4.359	+0.068
UKT 3% 01/33	4.256	+0.055

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

Source: Bloomberg

Euro area

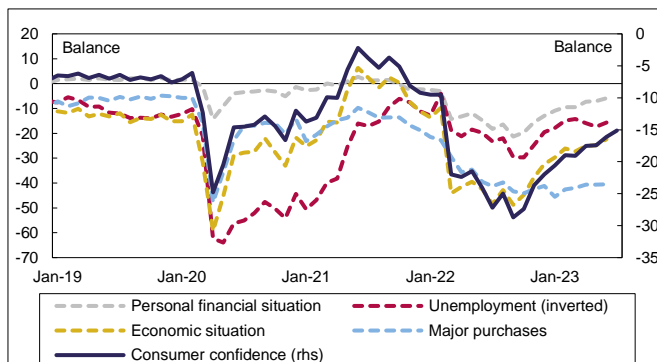
Euro area consumer confidence beats expectations in July

Against a backdrop of improving household real incomes thanks to the steady easing in inflation, the European Commission's flash consumer confidence indicator today confirmed the continuation of a gradual recovery at the start of the third quarter. Indeed, the headline sentiment index beat expectations in July, rising for the ninth month out of the past ten, by a full percentage point to -15.1, the highest reading since Russia's invasion of Ukraine in February 2022. While the index remains 5pts off its long-run average, it is now 14pts above the recent trough in October and a little more than 2pts above the Q2 average, suggesting that household consumption might be expected to give a boost to GDP growth this quarter. In contrast, however, the latest Dutch consumer survey, also published today, suggested no improvement in sentiment in the Netherlands. Indeed, the headline confidence index moved sideways at -39, to remain well below the average over the previous two decades (-10), albeit some 20pts above October's record low. Moreover, there was a modest deterioration in households' expectations of the economic outlook over the coming twelve months, with the respective index down to a six-month low (-36). Admittedly, this remains well above the trough last year (-68). But the share of households considering it to be a good time to make large purchases also slipped back in July, suggesting that household spending in the Netherlands remained very weak at the start of Q3.

INSEE survey suggests French business conditions remained stable in July

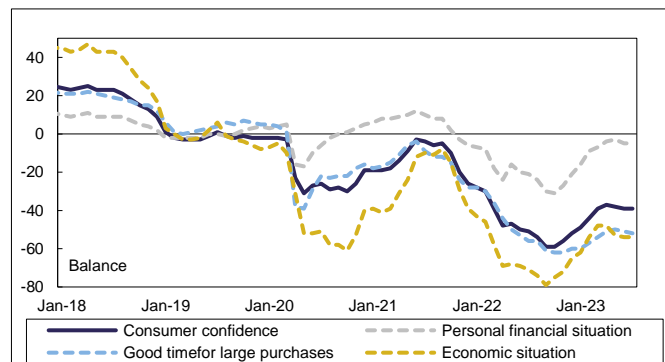
French business surveys provided mixed messages about economic conditions at the end of the second quarter, with the composite PMIs implying a marked contraction (47.2), but the INSEE and Bank of France surveys signalling broader stability in line with the long-run average. Indeed, the BoF assessed the survey findings to be consistent with modest GDP growth of 0.1%Q/Q in Q2. And, despite recent protests across France, today's INSEE business survey suggested little change in sentiment at the start of Q3. In particular, the headline business climate indicator moved sideways in July at 100 for a third successive month. Admittedly, this was well down on the levels seen during the post-lockdown recovery in H221 and early 2022, but was nevertheless bang in line with the long-run average. With production bottlenecks easing to the lowest for more than two years, manufacturers were on the whole more upbeat about recent output trends. But despite an improvement in domestic and overseas orders, firms were notably more downbeat about production over the coming three months. And so, while the autos business climate index jumped to its joint-highest for more than 22 years, the composite manufacturing indicator merely moved sideways at 100. The equivalent services index was similarly unchanged on the month at 102, with firms in the hospitality sector assessing the outlook to be more favourable, but real estate agents remaining downbeat. While the headline construction composite indicator was unchanged in July at an above-average 106, expectations for the outlook deteriorated sharply. In contrast, conditions in the retail and auto trade sector were reported to have improved notably at the

Euro area: Consumer confidence indices



Source: EC, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Netherlands: Consumer confidence indices



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

start of Q3, amid a strong rebound in recent sales and greater optimism about the general outlook. Indeed, the respective composite business conditions indicator jumped to its highest in 19 months.

German PPI inflation eases to 2½-year low, with widespread softening in price pressures

While Germany's consumer inflation bucked the euro area's downward trend in June, this was due principally to base effects in transport service costs associated with last year's heavily discounted travel pass. Admittedly, core goods inflation was a touch firmer than expected in June moving sideways at a nine-month low. But today's German producer price figures suggest that a downwards trend in consumer goods inflation should resume over coming months. In particular, producer prices fell for an eighth month out of the past nine, by 0.3%M/M, to leave the annual PPI rate up just 0.1%Y/Y, the softest increase since November 2020. This partly reflected a further fall in energy prices (-0.3%M/M), to leave them down 5%Y/Y, the steepest decline for almost three years. But there was also a further notable drop in intermediate goods prices (-0.9%M/M), to leave them down 2.7%Y/Y, the lowest since April 2020. Encouragingly, the increase in capital goods prices (0.2%M/M) was the softest for two years, to leave the annual rate of that component moderating for a fourth consecutive month, by 0.2ppt, to a fifteen-month low of 6.3%Y/Y. Prices of consumer durable goods rose just 0.1%M/M, with the inflation of that component dropping 1.2ppts, to 6.7%Y/Y, a sixteen-month low. And while still more elevated due not least to elevated food prices, consumer non-durable goods inflation eased 0.7ppt to 9.4%Y/Y, almost 10ppts below October's peak. Surveys, including the PMIs, suggest a significant decline in input costs over recent months, with the manufacturing output PMI in June also consistent with a decline for the first time since September 2020.

The day ahead in the euro area

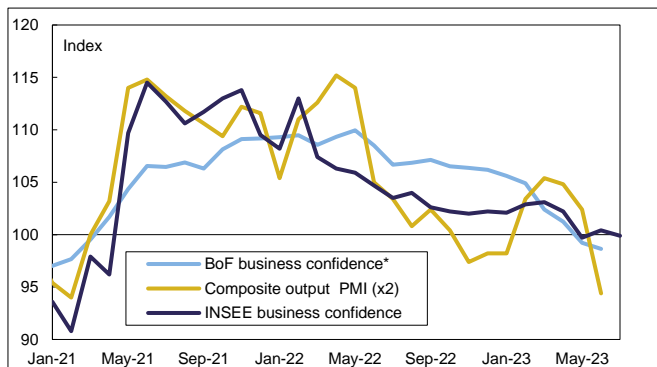
The week ends on a relatively quiet note in the euro area, with the release of the Bank of France retail trade survey for June. Consumer confidence in France has moved broadly sideways in recent months and households still consider it a preferable time to save rather than spend, suggesting that retail activity will likely have remained subdued.

UK

The day ahead in the UK

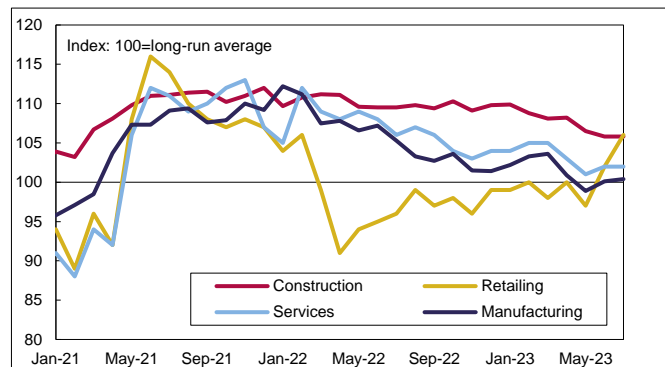
Following a quiet day for economic news today, the data highlight in the UK tomorrow will be the publication of June retail sales data. These are likely to show that household spending on goods remained subdued at the end of the second quarter amid an ongoing squeeze on disposable incomes. The latest GfK consumer confidence survey, meanwhile, is also expected to suggest that household purchase intentions remain historically low as concerns surrounding the economic outlook and worsening financial situations intensify.

France: Business sentiment indices



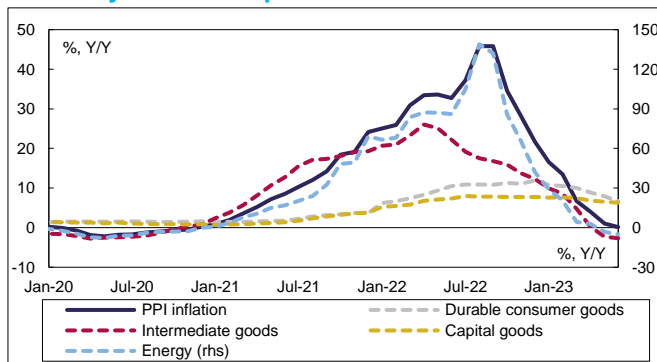
Source: Refinitiv Datastream, S&P Global and Daiwa Capital Markets Europe Ltd.

France: INSEE business sentiment indices



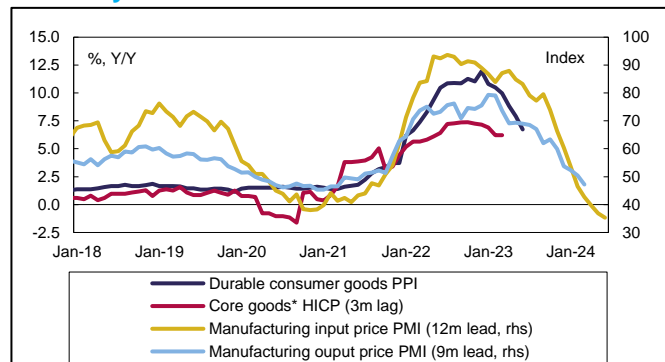
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany: Producer price inflation



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany: Goods inflation measures








Source: Refinitiv Datastream, S&P Global 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
Euro area	 ECB current account €bn	May	9.1	-	3.6	3.8
	 European Commission's preliminary consumer confidence	Jul	-15.1	-15.8	-16.1	-
Germany	 PPI Y/Y%	Jun	0.1	0.0	1.0	-
France	 INSEE business confidence	Jul	100	100	100	-
	 INSEE manufacturing (production outlook) confidence	Jul	100 (-9)	100 (-10)	101 (-9)	100 (-)

Auctions

Country	Auction
France	 sold €6.17bn of 2.50% 2026 bonds at an average yield of 3.05%
	 sold €2.48bn of 0.75% 2028 bonds at an average yield of 2.85%
	 sold €3.35bn of 2.75% 2029 bonds at an average yield of 2.86%
	 sold €2.25bn of 0.60% 2034 index-linked bonds at an average yield of 0.65%
Spain	 sold €1.69bn of 2.80% 2026 bonds at an average yield of 3.303%
	 sold €1.68bn of 1.40% 2028 bonds at an average yield of 3.137%
	 sold €1.58bn of 3.90% 2039 bonds at an average yield of 3.736%
	 sold €1.50bn of 1.00% 2050 bonds at an average yield of 3.755%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
France	-	Bank of France retail sales Y/Y%	Jun	-	-5.2
UK	00.01	GfK consumer confidence	Jul	-25	-24
	07.00	Retail sales including autos fuel M/M% (Y/Y%)	Jun	0.2 (-1.6)	0.3 (-2.1)
	07.00	Retail sales excluding autos fuel M/M% (Y/Y%)	Jun	0.2 (-1.7)	0.1 (-1.7)
	07.00	Public sector net borrowing (excluding banks) £bn	Jun	20.6 (22.0)	19.2 (20.0)

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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