

Euro wrap-up

Overview

- Bunds made modest gains while today's data showed that French retail sales declined in Q2 despite modest growth in June.
- Despite an upside surprise to UK retail sales figures, Gilts ended the day higher as consumer confidence deteriorated at the start of Q3.
- The main event in the euro area in the coming week will be the ECB policy announcement on Thursday. Flash inflation estimates from Germany, France and Spain will be in focus, while preliminary PMIs for July are also due.

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Daily bond market movements

Bond	Yield	Change
BKO 3.1 09/25	3.061	-0.022
OBL 2.4 10/28	2.539	-0.024
DBR 2.6 08/33	2.448	-0.029
UKT 0% 06/25	4.938	-0.051
UKT 1% 10/28	4.353	-0.031
UKT 3% 01/33	4.263	-0.012

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

Euro area

French retail sales edge slightly higher in June, but fell over second quarter as a whole

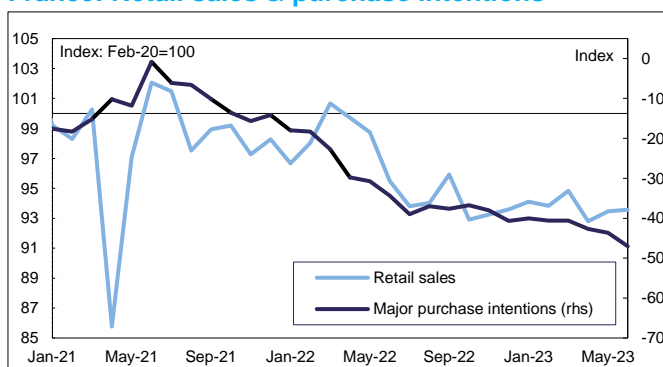
While the latest French consumer confidence survey suggested that households were the most upbeat for a year in June, the share that considered it a good time to make major purchases fell markedly. Admittedly, today's Bank of France retail survey suggested that retail sales rose for a second successive month in June, albeit by just 0.1% M/M. And given the sharp decline in April, this left sales down 1% 3M/3M in Q2 – reversing the increase recorded in Q1 – and 2% lower than a year ago. Within the detail, a pickup in food store sales was accompanied by a rebound in spending on perfume and hygiene products and household appliances, as well as a further uptick in bicycle and motorcycle purchases. This was offset by a decline in spending on clothing and games and toys, as well as a dip in new autos purchases, albeit the latter was still up almost 7% 3M/3M in Q2 as supply bottlenecks eased. Of course, the weakness in spending on goods in Q2 will likely be partly related to a pickup in services consumption last quarter.

The week ahead in the euro area

The main event in the euro area in the coming week will be the ECB policy announcement on Thursday. While the Governing Council at the conclusion of its last meeting on 15 June maintained its guidance that forthcoming decisions would be data dependent, President Lagarde was unambiguous in her press conference that the Governing Council still had “further ground to cover” and that a “material change” to the ECB's baseline outlook would be required to prevent it hiking again in July. Indeed, the account from that meeting flagged that some members had initially preferred a hike of 50bps in June. So, a further 25bps hike in interest rates in the coming week is effectively a done deal, taking the deposit rate to 3.75% and the cumulative tightening since last July to 425bps.

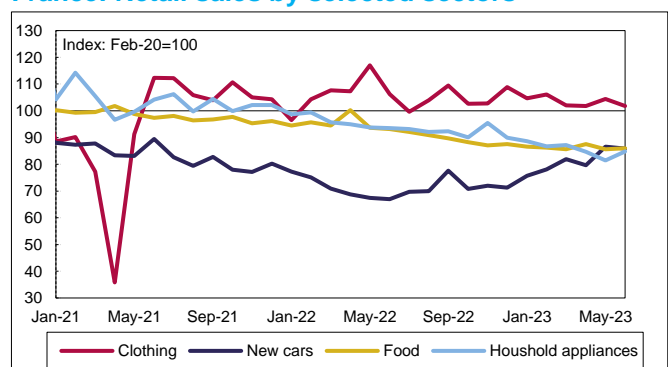
Of most interest at the coming week's meeting will be signals for forthcoming policy decisions. Since the June meeting, surveys have pointed to a notable softening in economic activity towards the end of the second quarter, while bank lending figures continue to illustrate the negative impact of higher borrowing costs on the supply and demand of credit. The coming week's ECB quarterly bank lending survey (due Tuesday) and June bank lending numbers (Wednesday) will no doubt further illustrate this transmission of the ECB's aggressive tightening so far this cycle. And the flash PMIs for July (Monday) will provide an initial insight into economic momentum at the start of Q3. Of course, what matters most for the ECB is the inflation outlook. The past week's [final HICP](#) figures for June aligned with the ECB's projections published last month. But while these provided further evidence of a moderation in a range of underlying inflation measures, the uptick in the core rate (to 5.5% Y/Y), although related to base effects associated with last year's discounted travel pass in Germany, will likely remain a concern for many on the Governing Council. Moreover, the Governing Council will be wary of a potential loss of

France: Retail sales & purchase intentions



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

France: Retail sales by selected sectors



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

credibility should it face significant upside surprises to inflation over the near term. So, like in her speech at the ECB forum in Sintra, President Lagarde is likely to maintain a hawkish tone in her post-meeting press conference and leave the door wide open for a further rate hike in September.

In addition to the aforementioned data, Friday will bring several top-tier releases of note. Likely of greatest interest will be flash July inflation estimates from Germany, France and Spain. The German and French headline HICP rates are expected to have eased slightly this month, by 0.2ppt to 6.6%Y/Y and 0.3ppt to 5.0%Y/Y respectively. The equivalent Spanish figure, meanwhile, is expected to have edged higher, albeit still likely remaining below 2%Y/Y. Friday will also bring the first insights into Q2 GDP from France and Spain. Growth is expected to have moderated from Q1 in both countries, with our expectation for French GDP to have risen a modest 0.1%Q/Q from 0.2%Q/Q previously, while Spanish GDP is expected to rise 0.3%Q/Q from 0.6%Q/Q previously. The European Commission's sentiment surveys will also provide insight into economic activity and price expectations at the start of Q3.

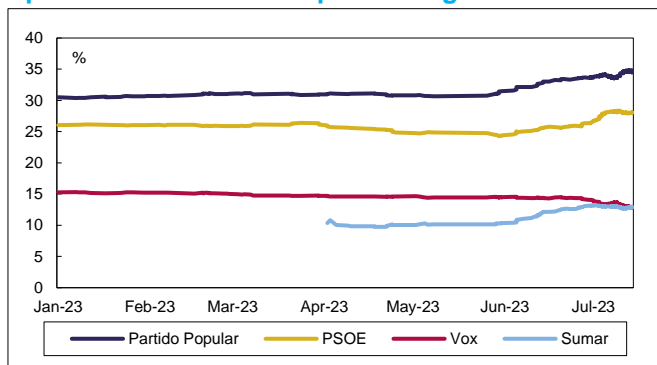
Attention will also be on the outcome of Sunday's snap general election in Spain. After significant success at the country's regional elections in May, the main opposition party, the centre-right People's Party (PP) led by Alberto Núñez Feijóo, has continued to lead polls, with the latest suggesting that PP will secure around 34% of the vote on Sunday, with the ruling Socialists projected to garner 28%. PP have campaigned on reducing Spain's high debt burden, while at the same time arguing for tax cuts. But with both parties likely to need to form an alliance in order to govern, much will depend on the success of the other parties in the ballot. The far-right Vox party (13%) is currently polling just ahead of the new left-wing platform Sumar. And so, with PP having formed regional coalitions with Vox, the far-right party could well enter government for the first time. But a re-election of the incumbent Socialist party remains a possibility if Sumar beat expectations on Sunday. Furthermore, there is a reasonable chance that neither the left or right garner sufficient support to govern, which would lead to a longer period of uncertainty and another snap election in due course.

UK

Retail sales beat expectations, recording the second successive quarterly increase

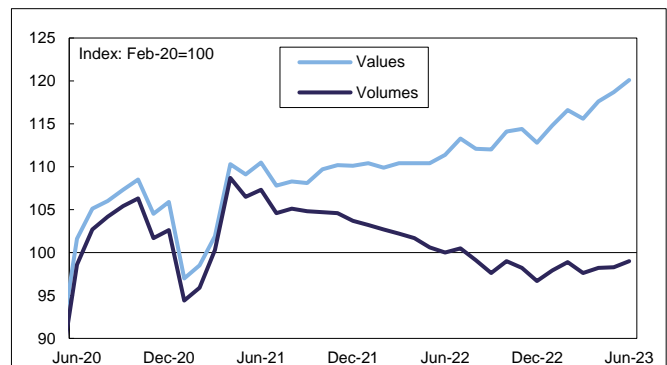
Today's UK retail sales figures once again surprised on the upside, with sales volumes in June up for a fifth month out of the past six, by 0.7%M/M, to the highest level for eight months. So, while growth was revised lower in May (by 0.2ppt to 0.1%M/M), sales were up for a second successive quarter in Q2 (0.4%3M/3M) for the first time since Q319. Sales were, however, still down compared with a year earlier (-1.0%Y/Y) and still a touch below the pre-pandemic level in February 2020. When excluding the downwards impulse from petrol sales in June, retail sales were up a slightly firmer 0.6%3M/3M and

Spain: National election poll average



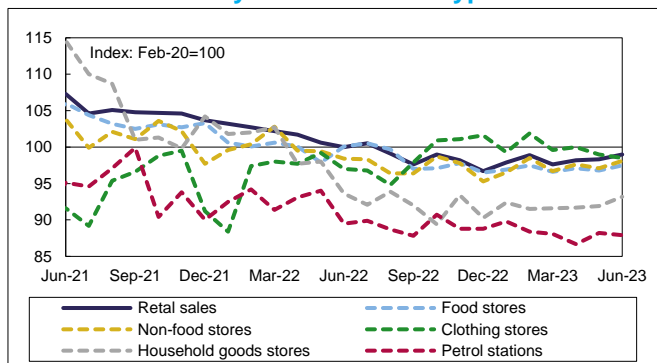
Source: Europe Elects and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes & values



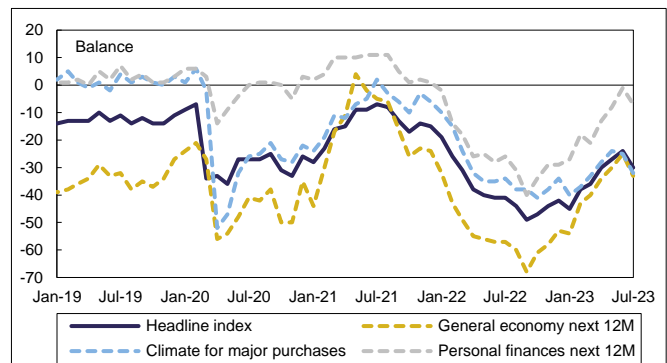
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

UK: Retail sales by selected store-type



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

almost 1% above the pre-pandemic benchmark. Indeed, the increase in sales in June was relatively broad-based, with non-food store sales rebounding (+1.0%M/M) as department stores and furniture retailers benefitted from the improved weather, summer sales, and increased footfall, offsetting a second successive decline in clothing sales. Online sales were also higher, rising for a third consecutive month to be up almost 2%3M/3M on the quarter. And reportedly also boosted by the warmer weather and promotions, food store sales (0.7%M/M) were up by the most since November following a decline in May. Admittedly, food sales over the second quarter as a whole were broadly flat, with households' purchasing power still diminished by elevated prices. Indeed, the value of food sales was up 3½%3M/3M in Q2 to leave them more than 10% higher compared to a year earlier, versus a decline in sales volumes of more than 2½%Y/Y. And the value of overall sales was up more than 4%Y/Y (almost 8%Y/Y when excluding auto fuel), compared with a decline of around 1%Y/Y in volumes terms, to leave them almost 20% above the pre-pandemic level.










Consumer confidence deteriorates amid growing economic and financial uncertainties

Notwithstanding the improvement in consumer spending through the first half of the year, today's consumer confidence survey raises uncertainties for the UK's near-term consumption outlook. Perhaps unsurprisingly given the recent leap in borrowing costs, the survey reported a decline in the headline sentiment indicator in July for the first time in six months, by 6pts to -30. Admittedly, this remained equidistant between the Truss-related trough in September (-49) and the long-run average (-10). And while expectations for the general economic outlook over the coming twelve months slipped back and expectations for households' financial situations over the year ahead also took a step down despite the boost to purchasing power, both survey indices were closer to their long-run averages than September's low. The share of households considering it a good time to make major purchases also fell in July, with the respective index (-32) at a four-month low and considerably closer to the recent low than the long-run average, suggesting that consumers might well tighten their purse strings over coming months, preferring to save and/or reduce debt amid the uncertain economic outlook.

The week ahead in the UK

The UK data highlight in the coming week will be the publication of the preliminary PMIs for July on Monday, which will be watched closely for any signs of easing inflationary pressures, particularly in the services sector. Last month saw only a slight moderation in the services prices charged index (59.8) to be still well above the long-run average (52.6) reinforcing the MPC's concerns about the stickiness of services inflation. At the same time, the survey suggested slowing recovery momentum in the sector, while the manufacturing output PMI remained in contractionary territory (48.2). Given intensified concerns about the economic outlook amid the prospect of further significant monetary policy tightening, the composite output PMI measure is likely to signal a further slowing in UK economic recovery momentum at the start of Q3. The coming week also brings the release of the July CBI surveys, with the industrial trends report to be published on Tuesday, followed by the distributive trades survey on Thursday. At the end of the week, the Nationwide house price index for July will likely reveal a further fall in house price inflation, as demand diminishes amid high mortgage borrowing costs.


































Daiwa economic forecasts

	2023				2024		2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	%, Y/Y								
Euro area 	0.0	0.1	0.2	0.1	0.1	0.2	0.4	0.7	1.1
UK 	0.1	0.0	0.1	0.0	-0.2	-0.2	0.3	-0.3	0.3
Inflation, %, Y/Y									
Euro area									
Headline HICP 	8.0	6.2	4.3	2.7	2.6	2.2	5.2	2.3	1.7
Core HICP 	5.5	5.5	5.0	4.2	3.5	2.7	5.1	2.6	1.8
UK									
Headline CPI 	10.2	8.4	6.6	4.4	4.1	2.5	7.3	2.9	1.6
Core CPI 	6.1	6.9	6.4	5.7	5.2	3.4	6.3	3.4	1.8
Monetary policy, %									
ECB									
Refi Rate 	3.50	4.00	4.50	4.50	4.50	4.50	4.50	4.25	3.50
Deposit Rate 	3.00	3.50	4.00	4.00	4.00	4.00	4.00	3.75	3.00
BoE									
Bank Rate 	4.25	5.00	5.50	6.00	6.00	6.00	6.00	5.75	4.75

Source: Bloomberg, ECB, BoE 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> <i>forecast/actual</i>	Previous	
Monday 24 July 2023						
Euro area		09.00	Preliminary manufacturing (services) PMI	Jul	43.4 (51.6)	43.4 (52.0)
		09.00	Preliminary composite PMI	Jul	49.5	49.9
Germany		08.30	Preliminary manufacturing (services) PMI	Jul	41.0 (53.0)	40.6 (54.1)
		08.30	Preliminary composite PMI	Jul	47.4	50.6
France		08.15	Preliminary manufacturing (services) PMI	Jul	45.9 (48.5)	46.0 (48.0)
		08.15	Preliminary composite PMI	Jul	47.4	47.2
Spain		08.00	PPI Y/Y%	Jun	-	-6.9
UK		09.30	Preliminary manufacturing (services) PMI	Jul	46.0 (53.0)	46.5 (53.7)
		09.30	Preliminary composite PMI	Jul	52.4	52.8
Tuesday 25 July 2023						
Germany		09.00	Ifo business climate	Jul	88.0	88.5
		09.00	Ifo current assessment (expectations) balance	Jul	93.0 (83.4)	93.7 (83.6)
UK		11.00	CBI industry trends survey, total orders (business optimism)	Jul	-17 (3)	-15 (-2)
Wednesday 26 July 2023						
Euro area		09.00	M3 money supply Y/Y%	Jun	0.9	1.4
France		07.45	INSEE consumer confidence	Jul	86	85
Thursday 27 July 2023						
Euro area		13.15	ECB Deposit (Refi) Rate %	Jul	<u>3.75 (4.25)</u>	3.50 (4.00)
Germany		07.00	GfK consumer confidence	Aug	-24.0	-25.4
Italy		09.00	ISTAT business confidence (manufacturing)	Jul	- (100.0)	108.3 (100.3)
		09.00	ISTAT consumer confidence	Jul	107.0	108.6
Spain		08.00	Retail sales Y/Y%	Jun	-	6.0
		08.00	Unemployment rate %	Q2	13.0	13.3
UK		11.00	CBI distributive trades, total reported retail sales	Jul	-9	-9
Friday 28 July 2023						
Euro area		10.00	European Commission's Economic Sentiment Indicator	Jul	95.0	95.3
		10.00	European Commission's industrial (services) confidence	Jul	-7.8 (5.3)	-7.2 (5.7)
		10.00	European Commission's final consumer confidence	Jul	-15.1	-16.1
Germany		13.00	Preliminary HICP (CPI) Y/Y%	Jul	6.6 (6.2)	6.8 (6.4)
France		06.30	Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>0.1 (0.4)</u>	0.2 (0.9)
		06.30	Consumer spending M/M% (Y/Y%)	Jun	-	0.5 (-3.6)
		07.45	Preliminary HICP (CPI) Y/Y%	Jul	5.1 (4.2)	5.3 (4.5)
		07.45	PPI Y/Y%	Jun	-	5.8
Italy		09.00	PPI Y/Y%	Jun	-	-6.8
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Jul	1.9 (1.8)	1.6 (1.9)
		08.00	Preliminary GDP Q/Q% (Y/Y%)	Q2	<u>0.3 (1.7)</u>	0.6 (4.2)
UK		-	Nationwide house price index* M/M% (Y/Y%)	Jul	- (-4.0)	0.1 (-3.5)

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






The coming week's key events & auctions

Country	BST	Event / Auction
Monday 24 July 2023		
- Nothing scheduled -		
Tuesday 25 July 2023		
Euro area	 09.00	ECB publishes Bank Lending Survey
Italy	 10.00	Auction: €3.75bn of 3.60% 2025 bonds
	 10.00	Auction: €1.25bn of 0.10% 2033 index-linked bonds
UK	 10.00	Auction: £3.00bn of 3.75% 2038 bonds
Wednesday 26 July 2023		
Germany	 10.30	Auction: €4.00bn of 2030 bonds
Thursday 27 July 2023		
Euro area	 13:15	ECB monetary policy announcement
	 13.45	ECB President Lagarde holds press conference following the Governing Council meeting
Italy	 10.00	Auction: 5Y and 10Y bonds
Friday 28 July 2023		
Euro area	 -	ECB Survey of Professional Forecasters

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France	 Bank of France retail sales Y/Y%	Jun	-2.0	-	-5.2	-5.4
UK	 GfK consumer confidence	Jul	-30	-26	-24	-
	 Retail sales including autos fuel M/M% (Y/Y%)	Jun	0.7 (-1.0)	0.2 (-1.6)	0.3 (-2.1)	0.1 (-2.3)
	 Retail sales excluding autos fuel M/M% (Y/Y%)	Jun	0.8 (-0.9)	0.2 (-1.6)	0.1 (-1.7)	0.0 (-1.9)
	 Public sector net borrowing (excluding banks) £bn	Jun	17.7 (18.5)	20.6 (22.0)	19.2 (20.0)	15.8 (16.6)

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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