

# Euro wrap-up

## Overview

- Bunds made losses even as today's ECB monetary data further illustrated the impact of higher interest rates on bank lending and deposits.
- Gilts also made losses on a quiet day for top-tier UK economic data.
- The main event on Thursday will be the ECB policy announcement, when the Governing Council is expected to hike rates by a further 25bps and leave the door open to a possible further increase in September.

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### Daily bond market movements

Bond	Yield	Change
BKO 3.1 09/25	3.093	+0.070
OBL 2.4 10/28	2.572	+0.070
DBR 2.6 08/33	2.476	+0.058
UKT 0% 06/25	5.026	+0.085
UKT 1% 10/28	4.433	+0.071
UKT 3¼ 01/33	4.281	+0.019

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

## Euro area

### Loans to households down for second successive month in June

Like Monday's [flash PMIs](#) and yesterday's [Bank Lending Survey](#) results, today's monetary data unsurprisingly suggested that the aggressive ECB rate hikes of the past year continue to impact euro area economic activity. With average interest rates on new mortgages up more than 2.2ppts since the start of 2022 to a 10-year high, house prices falling, and surveys reporting sharp falls in demand for such loans, total lending to households contracted for a second successive month in June when adjusted for sales and securitisations. That marked the first consecutive declines in almost a decade bar the initial wave of pandemic. Admittedly, the decline of €2bn was relatively modest. And on an unadjusted basis, having fallen sharply in May due to a technical-driven plunge in France, lending for house purchase edged up slightly in June. But that still left the net flow of loans for home purchase over the second quarter at -€28bn, the weakest since 2014. Moreover, despite pressures on real incomes, the stock of consumer credit was unchanged in June, the least since January, to leave quarterly growth of such loans in Q2 at €3.4bn, the lowest in two years. And the annual adjusted growth rate of loans to households slowed to a seven-year low of 1.7%Y/Y, down almost 3ppts from the peak in April and May last year.

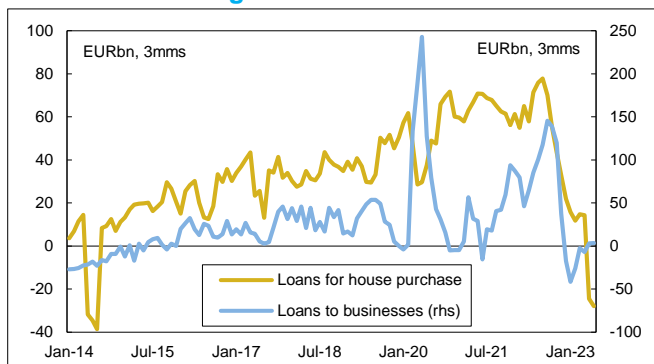
### Lending to businesses stagnates as credit impulse on activity turns negative

With respect to loans to businesses, the findings of the ECB's Q2 bank lending survey were particularly striking, reporting the steepest decline in demand on the two-decades-long series as well as a continued tightening of credit standards. Today's data for actual lending to firms was not quite so shocking, however, with the stock of loans unchanged for a second successive month in June on an adjusted basis. That left the cumulative net flow in Q2 at just €1bn, the weakest since Q115 but also consistent with stagnation in lending to non-financial corporations (NFCs) rather than a credit crunch. Moreover, the net flow of loans of maturities of more than five years – which would normally respond most closely to lending for fixed investments – remained positive in June to take the total rise in Q2 to €22bn. Admittedly, of course, the lengthening in the average maturity of such loans will at least in part reflect the increase in shorter-term interest rates as well as expectations of higher interest rates to come. And, overall, the annual adjusted growth rate of loans to NFCs slowed 1.0ppt in June to 3.0%Y/Y, down almost 6ppts from the peak in September last year and consistent with a particularly negative credit impulse on business activity since the ECB pushed interest rates into positive territory that month.

### Bank deposits more stable but money supply flags downside risks to economic outlook

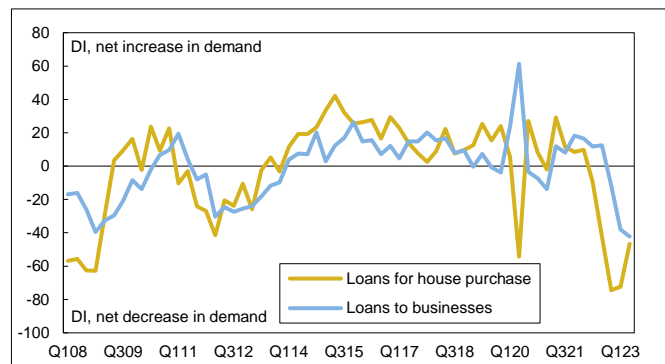
Like bank lending, the ECB's rate hikes also continue to affect bank deposits. With average interest rates on such assets still below 25bps in May, overnight deposits of households and NFCs dropped in June for the ninth and tenth successive months

#### Euro area: Lending to businesses & households\*



\*Unadjusted basis. Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

#### Euro area: Demand for loans



Source: ECB Bank Lending Survey, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

respectively. But with time deposits with maturities of between three months to two years continuing to rise, the overall stock of household deposits rose for the second successive month, although the increase of just €3bn left a cumulative outflow of €10bn in Q2. And with the net increase in NFC time deposits jumping to an eight-month high of €54bn as businesses appeared to become more risk averse, the cumulative outflow in NFC deposits in Q2 slowed to just €4bn from a drop of almost €30bn in Q1. Nevertheless, growth in the M1 measure of money supply, which includes currency in circulation and overnight deposits, fell 1.6ppts on the month to a record -8.0%Y/Y in June. And growth in the broader monetary aggregate M3, which includes time deposits and money market funds among other items, slowed 0.4ppt to a thirteen-year low of just 0.6%Y/Y, a level that has only been lower in the aftermath of the global financial crisis and might in normal times be considered consistent with deflation. Like the flash PMIs and Bank Lending Survey, therefore, today's monetary data flagged non-negligible downside risks to the outlook for both economic growth and inflation – a reminder to the ECB not to tighten monetary policy excessively.

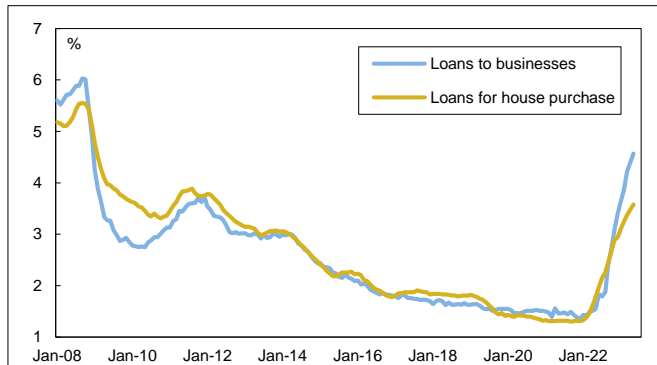
## French consumer confidence stable in July, but purchase intentions remain historically weak

Like last week's [French INSEE business survey](#), the results from today's INSEE consumer survey suggested that sentiment remained broadly stable at the start of Q3, with the headline confidence indicator moving sideways at 85, the highest reading since May 2022. Admittedly, it remained well below levels seen ahead of Russia's invasion of Ukraine (97) and 15pts below the long-run average, but was also nevertheless 5pts above the recent troughs last July and September. The survey detail was more encouraging with respect to the forward-looking indicators, with expectations with respect to the general economic outlook and consumers' own future financial situation the best since February 2022. This in part reflected a further notable decline in households' inflation expectations for the year ahead, with the respective survey index declining to the lowest since May 2009. But while the share of households considering it a good time to make major purchases picked up in July, the 4pt increase in the survey gauge failed to fully reverse the decline recorded in June to leave it at its fourth lowest reading since the survey began in 1981. Therefore, overall, the survey suggests that French household consumption is likely to remain subdued for a while to come.

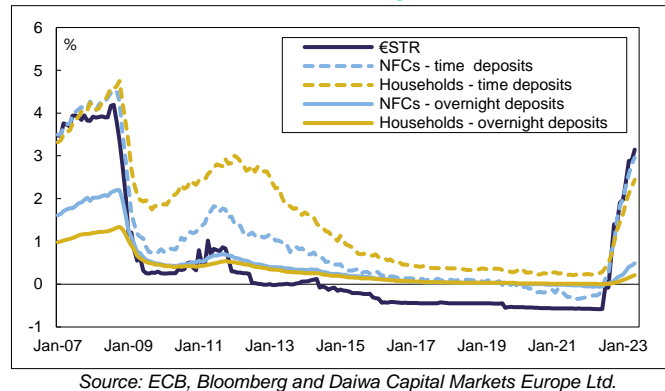
## The day ahead in the euro area

The main event in the euro area tomorrow will be the ECB's monetary policy announcement, for which the immediate policy decision appears clear-cut. Indeed, last month 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. As such, we expect interest rates to be increased by a further 25bps, taking the deposit rate to 3.75% and the cumulative tightening so far this cycle to 425bps.

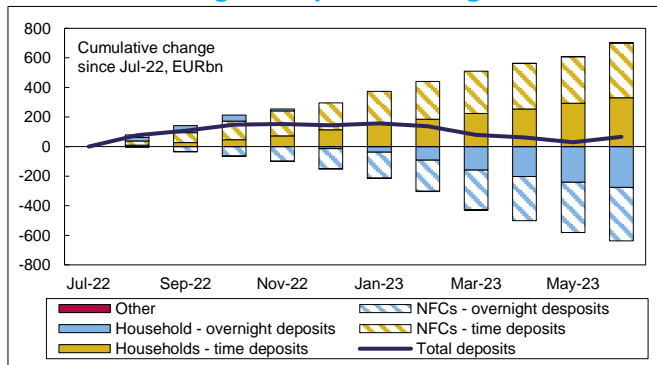
### Euro area: Interest rates on loans



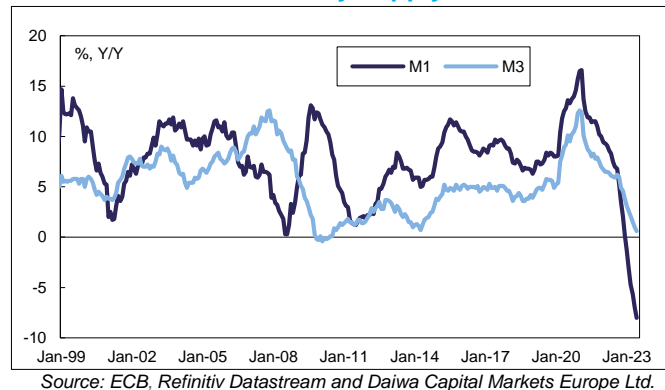
### Euro area: Interest rates on deposits



### Euro area: Change in deposit holdings



### Euro area: M1 & M3 money supply



Of most interest, therefore, will be signals with respect to the near-term policy outlook. The Governing Council's forward guidance in the policy statement will no doubt be left unchanged, with forthcoming decisions to remain data dependent. But since the June meeting, surveys have pointed to a marked slowdown in economic activity in the middle of the year, with the [flash euro area PMIs](#) earlier this week consistent with contraction at the start of Q3. Moreover, yesterday's [Bank Lending Survey](#) and today's monetary data illustrated the significant dampening impact of the ECB's monetary tightening on credit supply and demand, with banks expecting a further tightening of credit standards and weaker demand this quarter too. This notwithstanding, Governing Council members might well continue to argue that the risks to the inflation outlook remain skewed to the upside. Indeed, although it was related to base effects associated with last year's discounted travel pass in Germany, the hawks on the Governing Council will have been dissatisfied by the uptick in core inflation in June (up 0.2ppt to 5.5%Y/Y). The policymakers might also point to the acceleration in negotiated wage growth in Q1, to a three-decade high of 4.3%Y/Y, and continued evidence that the labour market is tight. And they will also be aware that the services PMIs still implied elevated growth in costs in the sector. So, while many measures of underlying inflation continue to ease – including the persistent and common component of inflation (PCCI) rate, which fell to the lowest level since October 2021 – we expect many Governing Council members, and particularly those that had initially preferred a 50bps hike at the June meeting, to want to signal the likelihood of more tightening to come. So, like in her speech at the ECB forum in Sintra, President Lagarde is likely to maintain a relatively hawkish tone in her post-meeting press conference and leave the door open for a further, albeit possibly final, rate hike in September.

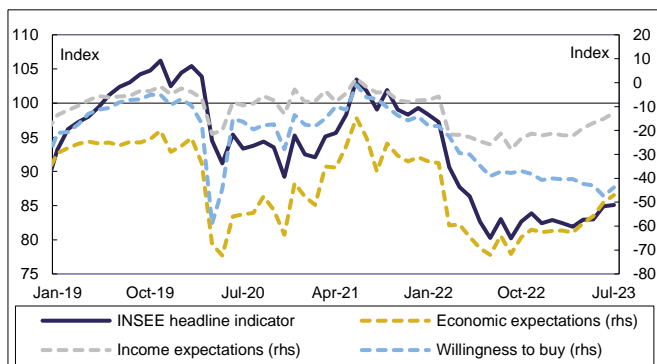
On the data front, the flow of sentiment indicators continues tomorrow, with Germany's GfK consumer and Italy's ISTAT consumer and business confidence surveys due for release. The headline German sentiment indicator is expected to confirm a slight deterioration in July, but signal an expected pickup in the survey's forecast for August. Italian consumer confidence is also expected to have edged a little lower in July, after rising to a sixteen-month high in June, while businesses are also expected to be less upbeat about conditions at the start of Q3.

## UK

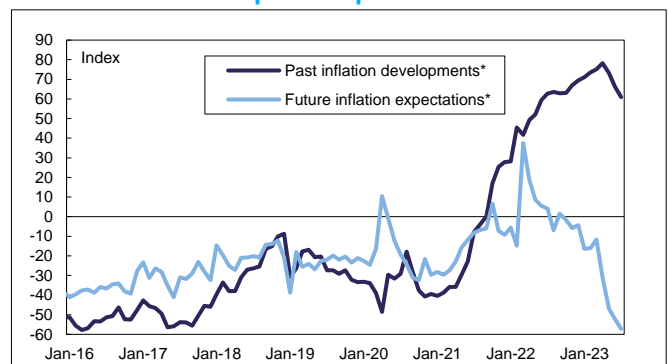
### The day ahead in the UK

After a quiet day for UK economic releases today, Thursday will bring the CBI's distributive trades survey for July. While Friday's [retail sales](#) report for June surprised on the upside, with consumer confidence having fallen back this month, this survey might well suggest that retailing conditions deteriorated at the start of Q3.

#### France: Consumer confidence indices





#### France: Consumer price expectations




## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 M3 money supply Y/Y%	Jun	0.6	0.9	1.4	1.0
France	 INSEE consumer confidence	Jul	85	86	85	-

#### Auctions

Country	Auction
Germany	 sold €4.0bn of 2030 bonds at an average yield of 2.45%







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	 13.15	ECB Deposit (Refi) Rate %	Jul	<u>3.75 (4.25)</u>	3.50 (4.00)
Germany	 07.00	GfK consumer confidence	Aug	-24.8	-25.4
Italy	 09.00	ISTAT business confidence (manufacturing)	Jul	- (100.0)	108.3 (100.3)
	 09.00	ISTAT consumer confidence	Jul	107.3	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

#### Auctions and events

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: €3.50bn of 3.80%2028 bonds
	 10.00	Auction: €1.25bn of 2.50% 2032 bonds
	 10.00	Auction: €3.75bn of 4.35% 2033 bonds
	 10.00	Auction: €1.25bn of 2028 floating rate bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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