

# Euro wrap-up

## Overview

- Bunds made substantive gains across the curve as euro area consumer inflation expectations continued to moderate and data confirmed that the drop in German inflation in July was relatively broad-based.
- Gilts largely followed the global trend higher as another survey indicated that UK retail sales had been weak at the start of Q3.
- Ahead of the release of the UK's Q2 GDP report on Friday, Thursday will bring final Italian inflation figures for July and a UK housing survey, while tomorrow will be quiet for new European data.

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### Daily bond market movements

Bond	Yield	Change
BKO 3.1 09/25	2.896	-0.053
OBL 2.4 10/28	2.477	-0.103
DBR 2.6 08/33	2.464	-0.131
UKT 0% 06/25	4.903	-0.001
UKT 1% 10/28	4.414	-0.026
UKT 3% 01/33	4.387	-0.067

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

Source: Bloomberg

## Euro area

### Consumer inflation expectations continue to moderate

Euro area consumers continue to revise down their expectations for future inflation in response to the steady decline in headline inflation. According to the ECB's Consumer Expectations Survey for June, the median household expectation for inflation over the coming twelve months dropped for a third successive month and by 0.5ppt to 3.4%Y/Y, 2.0ppts down from the peak last October and the lowest since the Russian invasion of Ukraine. The decline this month was led by consumers in Spain, where inflation is now the lowest of all member states, with French and Dutch expectations also down and those in Germany and Italy stable. Further ahead, inflation expectations also became more firmly anchored, with the median expectation of inflation three years ahead edging down 0.2ppt on the month to 2.3%Y/Y, just 0.2ppt above the level before the Russian invasion of Ukraine, 0.6ppt below the post-invasion peak, and of course only 0.3ppt above the ECB's target. Admittedly, the distribution of inflation expectations remains skewed to the upside, with a non-negligible share of households anticipating substantive price pressures to persist. But mean inflation expectations for twelve months and three years ahead also declined, by 0.4ppt to 4.7%Y/Y and 0.2ppt to 3.8%Y/Y respectively.

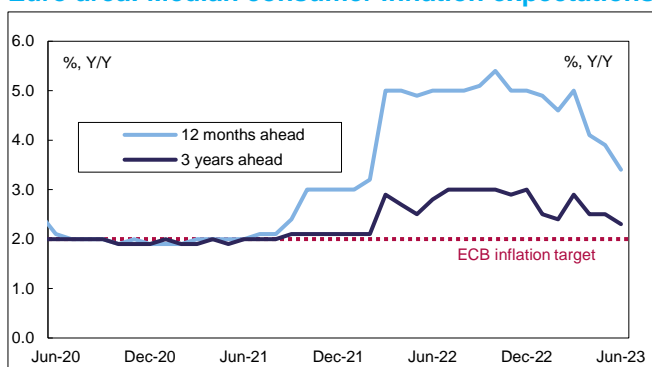
### Households expect a stagnant economy amid further erosion of real purchasing power

While the ECB's survey results were encouraging with respect to inflation expectations, they were also consistent with perceptions of broad stagnation in the economy as a whole amid an erosion of living standards. Indeed, with respect to the coming twelve months, household income expectations remained stable but well below the expected rate of inflation at 0.1%Y/Y on the median and 1.2%Y/Y on the mean view, implying a significant drop in real purchasing power. Households revised down further their expectations of nominal spending growth over the coming twelve months to just 2.1%Y/Y on the median view, less than half the rate signalled for the past year and the lowest expectation since the Russian invasion of Ukraine. As has been the norm on the survey, the median expectation for GDP growth over the coming year was unchanged at 0.0% although the mean became a touch less negative at -0.6%Y/Y as households in France, Italy and Spain became less downbeat to offset greater pessimism in Germany and the Netherlands. And most happily perhaps, the labour market was expected to remain stable with no significant increase in unemployment anticipated, while house prices were also expected to be unchanged over the coming year.

### Decline in German inflation in July was broad-based despite unfavourable base effects

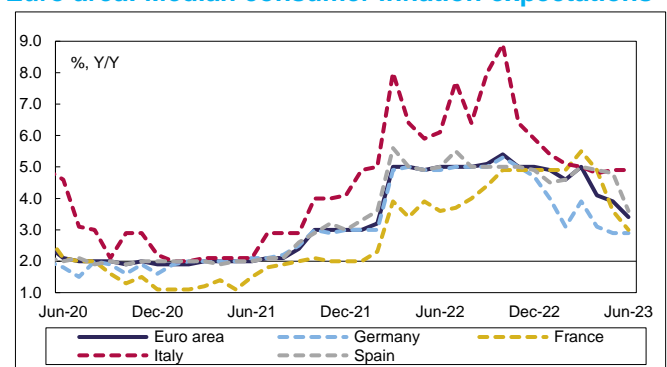
The final German inflation estimates for July provided no surprises, aligning with the flash estimates. As such, they confirmed that inflation declined last month, but failed fully to reverse the increase in June, which related to base effects associated

#### Euro area: Median consumer inflation expectations



Source: ECB and Daiwa Capital Markets Europe Ltd.

#### Euro area: Median consumer inflation expectations\*



\*12 months ahead. Source: ECB and Daiwa Capital Markets Europe Ltd.

with last summer's rail travel discount. So, German inflation on the EU-harmonised HICP rate fell 0.3ppt to 6.5%Y/Y, 5.1ppts below last October's peak, while the national CPI rate fell 0.2ppt to 6.2%Y/Y to be 2.6ppts below the peak. This time around, a base effect associated with the end of the renewable energy surcharge on electricity bills a year earlier meant that electricity inflation jumped more than 7ppts to 17.6%Y/Y despite falling on the month. So, while energy prices overall also edged lower for a third successive month, the annual energy inflation rate rose 2.7ppts to 5.7%Y/Y. However, the other major components were weaker on the month. Food prices fell for a fourth successive month, so that the respective annual rate fell 2.7ppts to a fourteen-month low of 11.0%Y/Y, little more than half its peak in February. Although it was still inflated by the travel component, services inflation also edged slightly lower, by 0.1ppt from the series high in June to 5.2%Y/Y, as the hotel and restaurant component eased to a thirteen-month low of 7.6%Y/Y. And with the downward trend in global manufacturing costs and more aggressive summer discounting of clothes allowing core goods inflation to fall to the lowest in a year (6.0%Y/Y), the national core CPI rate largely reversed the pickup in July, easing 0.3ppt to an admittedly still-elevated 5.5%Y/Y.

**The coming three days in the euro area**

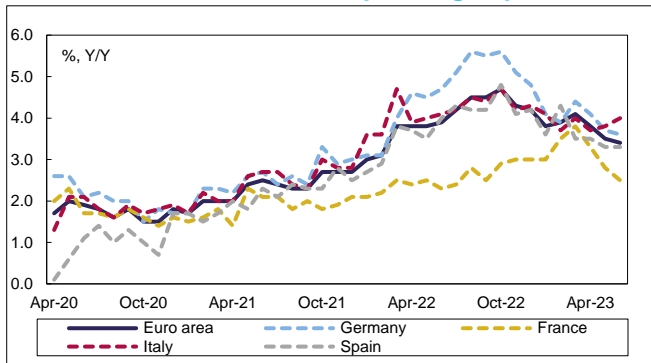
The remainder of the week is set to be relatively quiet on the euro area economic data front with no top-tier releases scheduled. Most notably perhaps, we will get the final inflation estimates for Italy (tomorrow), France and Spain (Friday). The flash readings saw the headline HICP rates ease in France and Italy by 0.3ppt apiece to 5.0%Y/Y and 6.4%Y/Y respectively. But Spanish inflation jumped last month, by 0.5ppt to 2.1%Y/Y, albeit still representing the lowest rate of all the member states. These releases will provide more granular detail than the flash estimates. Differences in the extent of summer discounting on clothing, and prices of package holidays and airfares, as well as country-specific variation in the pace of pass-through from wholesale energy markets to consumers are all likely to have played a role in explaining the latest relative shifts.

**UK**

**Retail sales dampened by wet weather in July according to the BRC**

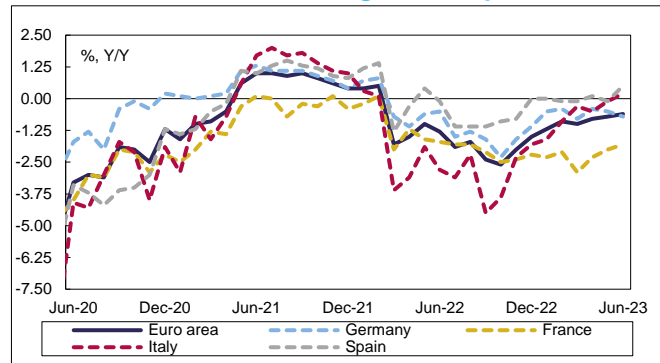
Like the [CBI distributive trades survey](#) results published late last month, the BRC retail monitor suggested that sales on the UK high street were weak in July, as particularly wet weather dampened demand for summer clothing and other seasonal items, and more broadly deterred footfall. The survey measure of sales values slowed 3.4ppts last month to an eleven-month low of 1.5%Y/Y while like-for-like sales slowed 2.4ppts to a nine-month low of 1.8%Y/Y. The value of non-food sales on a

**Euro area: Mean consumer spending expectations\***



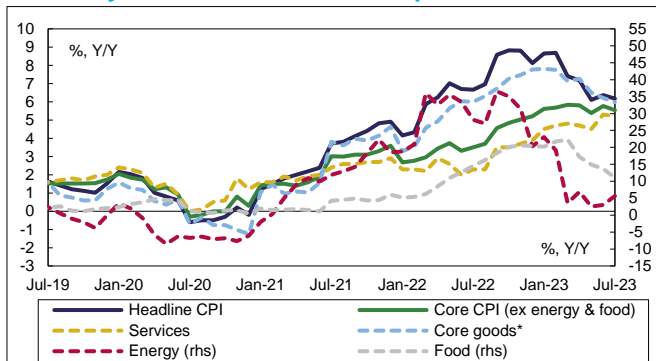
\*12 months ahead. Source: ECB and Daiwa Capital Markets Europe Ltd.

**Euro area: Mean economic growth expectations\***



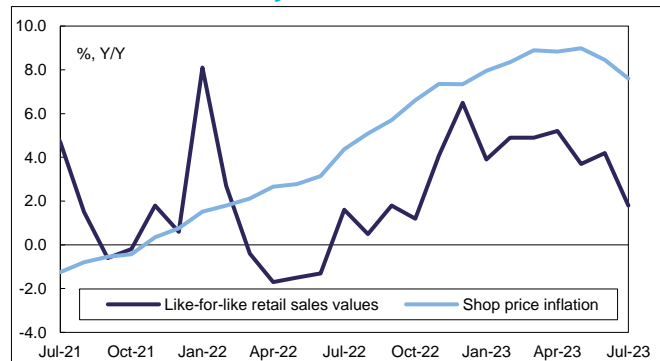
\*12 months ahead. Source: ECB and Daiwa Capital Markets Europe Ltd.

**Germany: CPI and selected components**



\*Non-energy industrial goods. Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

**UK: BRC retail survey indicators**



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.






like-for-like three-month basis slowed 0.3ppt to -0.5%3M/Y, the weakest in nine months. And the value of online sales of non-food items fell a steep 6.9%Y/Y, the most in more than a year, with furniture one of the only categories to see growth in this segment. While elevated food inflation on the BRC measure kept the respective nominal rate of sales growth firmly in positive territory, that also slowed into July, moderating 1.4ppts to 8.7%3M/Y. And overall, when deflated by the BRC shop price index, the pace of decline in total sales volumes intensified by 0.6ppt in July to -4.8%3M/Y, the sharpest since the first wave of Covid-19. According to the official ONS data, retail sales volumes grew in both Q1 (0.2%Q/Q) and Q2 (0.4%Q/Q). Given the pickup real incomes, the BoE had expected sales to remain resilient over the near term. However, sales were clearly very subdued in July, and the failure so far of the weather to improve in August raises the risks of a step back over Q3 as a whole. And with competition among retailers intense, that is likely to add downwards pressure to goods inflation.

## The coming three days in the UK

The data highlight in the UK in the coming three days will be the first estimate of Q2 GDP on Friday. While we might expect to see some bounce back in June as the adverse impact of the additional bank holiday in May reversed, surveys suggest a notable slowdown in recovery momentum at the end of the second quarter. As such, we expect GDP to have merely moved sideways in Q2 to leave the level of output still 0.5% below the pre-pandemic benchmark in Q419, with modest growth in household consumption likely to be offset by some payback in fixed investment and a negative contribution from net trade. The risks to that view, however, are skewed to the upside. And in its [latest projections](#), published last week, the BoE projected growth of 0.1%Q/Q. June's monthly services, manufacturing, construction and trade figures (also due Friday) will give greater insight into economic momentum at the end of the second quarter. Ahead of this, the RICS residential market survey results for July, to be published on Thursday, are likely to suggest that house prices fell at a faster pace in July, with the respective net balance expected to fall 5ppts to a fourteen-year low of -51%. With interest rate expectations having jumped in June, the survey measures of house price expectations over the coming year and new buyer enquiries are also likely to have weakened.

*The next edition of the Euro wrap-up will be published on 11<sup>th</sup> August 2023*















## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany 	Final HICP (CPI) Y/Y%	Jul	<b>6.5 (6.2)</b>	<u>6.5 (6.2)</u>	6.8 (6.4)	-
France 	Trade balance €bn	Jun	<b>-6.7</b>	-	-8.4	-7.9
UK 	BRC retail monitor, like-for-like sales Y/Y%	Jul	<b>1.8</b>	-	4.2	-
Auctions						
Country	Auction					
Germany 	sold €3.37bn of 2.400% 2028 bonds at an average yield of 2.500%					
UK 	sold £900mn of 0.125% 2039 index-linked bonds at an average yield of 0.986%					

*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

## Upcoming releases

## Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Wednesday 09 August 2023</b>					
- Nothing scheduled -					
<b>Thursday 10 August 2023</b>					
Italy		10.00	Final HICP (CPI) Y/Y%	Jul	<u>6.4 (6.0)</u> 6.7 (6.4)
UK		00.01	RICS house price balance %	Jul	-51 -46
<b>Friday 11 August 2023</b>					
France		07.45	Final HICP (CPI) Y/Y%	Jul	<u>5.0 (4.3)</u> 5.3 (4.5)
Italy		09.00	Trade balance €bn	Jun	- 4.7
Spain		08.00	Final HICP (CPI) Y/Y%	Jul	<u>2.1 (2.3)</u> 1.6 (1.9)
UK		07.00	GDP – 1st estimate Q/Q% (Y/Y%)	Q2	<u>0.0 (0.2)</u> 0.1 (0.2)
		07.00	Monthly GDP M/M%	Jun	0.2 -0.1
		07.00	Industrial production M/M% (Y/Y%)	Jun	0.2 (-1.1) -0.6 (-2.3)
		07.00	Manufacturing production M/M% (Y/Y%)	Jun	0.2 (0.3) -0.2 (-1.2)
		07.00	Services activity M/M% (Q/Q%)	Jun	0.2 (0.0) 0.0 (0.0)
		07.00	Construction output M/M% (Y/Y%)	Jun	0.0 (2.9) -0.2 (0.2)
		07.00	Trade (goods) balance £bn	Jun	-4.1 (-1.2) -6.6 (-18.7)
<b>Auctions and events</b>					
<b>Wednesday 09 August 2023</b>					
Germany		10.30	Auction: €5.0bn of 2.6% 2033 bonds		
UK		10.00	Auction: 3.25% 2033 bonds		
<b>Thursday 10 August 2023</b>					
- Nothing scheduled -					
<b>Friday 11 August 2023</b>					
- Nothing scheduled -					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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