

Euro wrap-up

Overview

- Bunds made losses even as the German ifo business survey pointed to a loss of economic growth momentum at the end of Q2.
- Gilts were little changed while a survey signalled modest output growth and a pickup in selling price intentions in UK manufacturing.
- Tuesday will bring updated Spanish GDP data while Wednesday will bring survey results of German and French consumers and UK retailers.

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Daily bond market movements

| Bond | Yield | Change |
|---------------|-------|--------|
| BKO 2.9 06/26 | 2.805 | +0.030 |
| OBL 2.1 04/29 | 2.432 | +0.027 |
| DBR 2.2 02/34 | 2.420 | +0.016 |
| UKT 0½ 01/26 | 4.169 | +0.012 |
| UKT 0½ 01/29 | 3.934 | +0.006 |
| UKT 4% 01/34 | 4.078 | -0.003 |

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

Source: Bloomberg

Euro area

German ifo indices point to loss of momentum at end of Q2

Last week's flash German PMIs for June were weaker than expected, suggesting a loss of growth momentum in services and a renewed weakening in manufacturing at the end of the first quarter. Today's German ifo survey results similarly disappointed, with the headline business climate index unexpectedly weakening for a second successive month, dropping to a four-month low some way (88.6) almost 8% below the long-run average. In aggregate, the decline reflected less upbeat expectations with respect to the coming six months, which softened for the first time in five months (down more than 1pt to 89.0). In contrast, perceptions of current conditions were unchanged (88.3). Despite weakening in June, both the PMIs and the ifo indices improved on average in Q2 compared to Q1, and are consistent with a successive quarter of positive GDP growth this quarter. However, compared to their long-run averages, the ifo indices point to somewhat more subdued conditions than the flash PMIs, and suggest that growth over the coming couple of quarters is likely to be sub-potential.

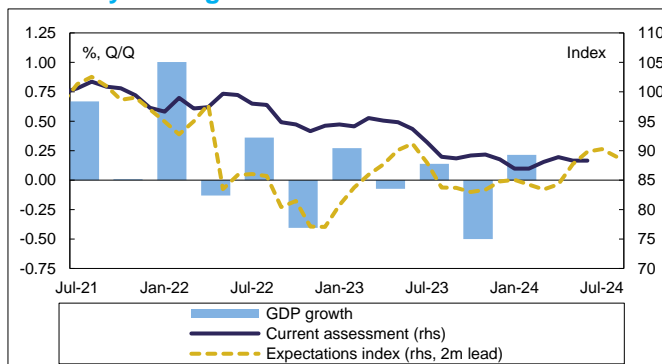
ifo survey signals firmer services but manufacturers & retailers more downbeat about the outlook

While the weakening in the headline ifo business climate index in June tallied with that of the German flash composite PMI, the messages from the two surveys did not entirely align at the sectoral level. Most notably, unlike the PMIs, the ifo indices suggested that the situation in services – which was the driver of growth in Q1 – improved at the end of Q2, with the current conditions index up to the second-highest level in 11 months and expectations the most upbeat in 15 months. According to the ifo institute, hoteliers were notably more upbeat, perhaps reflecting the boost from the European football championships. Perhaps surprisingly, however, other firms in hospitality were not quite so satisfied. Also contrasting the message from the flash PMIs, the ifo's manufacturing current conditions improved at the end of Q2. However, reportedly given concerns about a declining order backlog, manufacturers were also significantly more pessimistic about the outlook, with the respective index down for the first time in six months to a three-month low. Meanwhile, of those sectors not captured by the flash PMIs, probably thanks to the ECB's rate cut, the ifo survey suggested that constructors were the least pessimistic about the outlook since the Russian invasion of Ukraine. But retailers judged conditions in June to be the worst since February and were also the most downbeat about the outlook since that month, further suggesting that spending on goods is expected to be subdued over the second half of the year.

The coming two days in the euro area

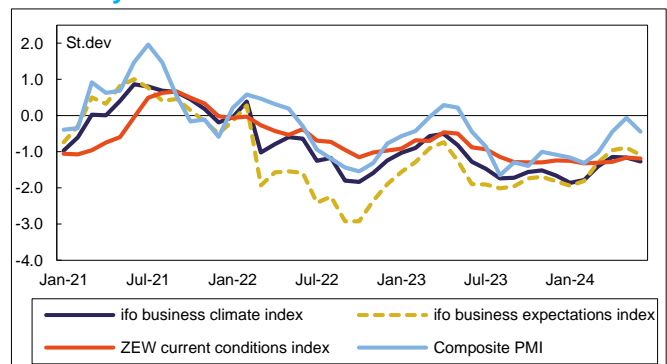
A quiet day for euro area economic releases tomorrow will bring just updated national accounts figures from Spain. The previous estimate saw Spanish GDP rise 0.7%Q/Q in Q1, the firmest rate among the major member states, led by strong

Germany: GDP growth and ifo business indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Business sentiment indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

growth in fixed investment and net trade. Ahead of the Commission's economic sentiment indices on Thursday, Wednesday will bring the German GfK and French INSEE consumer confidence surveys for June, which are expected to report a further modest pickup in household sentiment in line with the slight improvement in the Commission's flash euro area consumer index published last week. Aside from the data, Chief Economist Lane on Wednesday is scheduled to give a keynote speech on monetary policy in the euro area.

UK

Industrial trends survey signals patchy manufacturing recovery & higher selling-price intentions

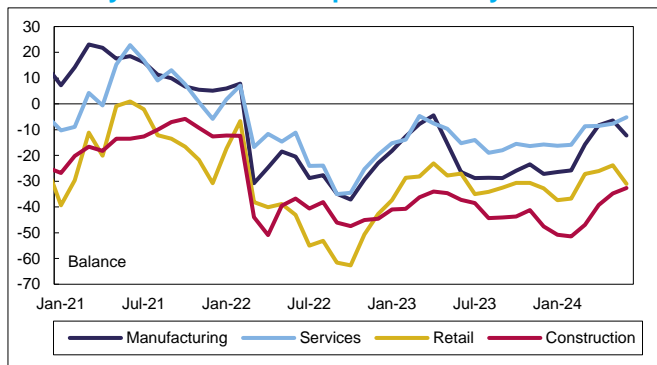
While Friday's flash UK services PMIs were somewhat softer than of late, the manufacturing indices signalled the strongest production growth for more than two years in June. Today's CBI's Industrial Trends Survey results were also consistent with recovery in the factory sector. However, while manufacturers reported that output volumes had risen for the first time in a year and a half in the quarter to May (a net balance of +14%), they were broadly unchanged in the three months to June (+3%). According to the CBI, growth in Q2 was concentrated in food, drink and tobacco, motor vehicles and other transport goods, plastics, furniture and upholstery. Moreover, on balance, manufacturers expect output to rise only moderately in the three months to September (+13%). Moreover, perceptions of order books remained below normal, with external demand (-39%) judged strikingly to have deteriorated the most since February 2021. Additionally, firms assessed that inventories remained more than adequate, again a factor likely to weigh on future output growth. Finally, tallying with the deterioration reported in the manufacturing PMIs, which was anecdotally tied to the further rise in shipping costs, the index of average selling-price intentions accelerated in June (up 5ppts to +20%) to remain firmly above the long-run average.

The coming two days in the UK

Tuesday will be quiet for new UK data. However, Wednesday will bring the CBI's distributive trades survey for June, which will provide an update on retail conditions at the end of the second quarter. Last month, retailers expected sales volumes in June to be broadly in line with the norm for the time of year. The heavy rainfall in the first half of the month might well have dampened demand and reduced footfall, although an improvement in the weather in the second half should have resulted in a pickup in summer-related items.

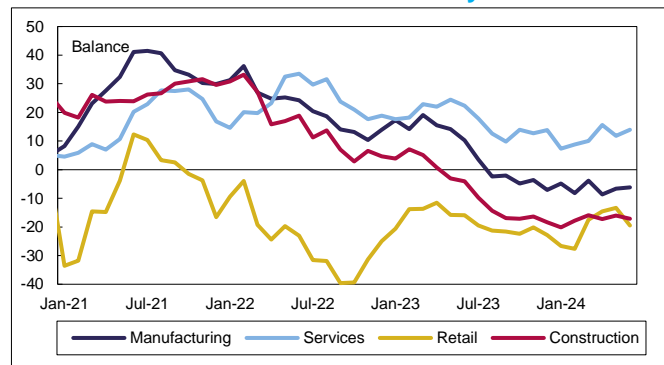
The next edition of the Euro wrap-up will be published on 26 June 2024

Germany: ifo business expectations by sector



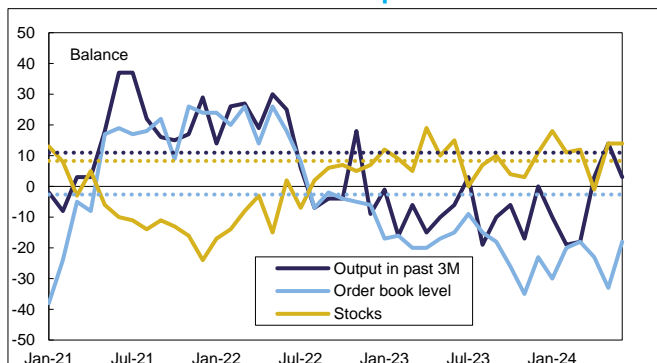
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: ifo current assessment by sector



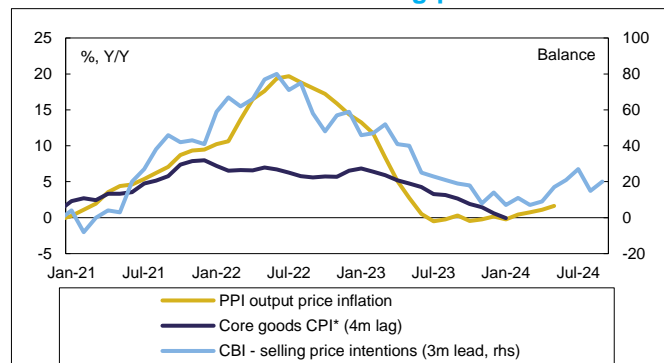
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: CBI Industrial Trends output-related indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: CBI Industrial Trends selling-price intentions






Source: Macrobond 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 |
|---------|---|--------|--------------------|--|-------------|----------|
| Germany |  ifo business climate indicator | Jun | 88.6 | 89.6 | 89.3 | - |
| |  ifo current assessment (expectations) indicator | Jun | 88.3 (89.0) | 88.5 (90.7) | 88.3 (90.4) | - (90.3) |
| UK |  CBI industrial trends survey – total orders (selling price) balance % | Jun | -18 (20) | -26 (15) | -33 (15) | - |


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 |
|---------|---|----------------------------------|--------|--|-----------|
| Spain |  08.00 | GDP – final estimate Q/Q% (Y/Y%) | Q1 | <u>0.7 (2.4)</u> | 0.7 (2.1) |




Auctions and events

| | | | | | |
|---------|---|--|--|--|--|
| Germany |  10.30 | Auction: €4.5bn of 2.9% 2026 bonds | | | |
| Italy |  10.00 | Auction: Up to €2.5bn of 3.2% 2026 bonds | | | |
| |  10.00 | Auction: Up to €1bn of 0.4% 2030 inflation-linked bonds | | | |
| |  10.00 | Auction: Up to €1.25bn of 2.4% 2039 inflation-linked bonds | | | |
| UK |  10.00 | Auction: £1.5bn of 0.75% 2033 inflation-linked bonds | | | |



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

| Country | BST | Release | Period | Market consensus/ <i>Daiwa forecast</i> | Previous |
|---------|---|--|--------|--|----------|
| Germany |  07.00 | GfK consumer confidence indicator | Jul | -19.5 | -20.9 |
| France |  07.45 | INSEE consumer confidence indicator | Jun | 89 | 90 |
| UK |  11.00 | CBI distributive trades survey – reported retail sales balance % | Jun | 0 | 8 |

Auctions and events

| | | | | | |
|-----------|---|--|--|--|--|
| Euro area |  11.00 | ECB Executive Board member Panetta (11.00) and Chief Economist Lane (11.40) to deliver speeches at Bank of Finland | | | |
| UK |  10.00 | Auction: £3bn of 3.75% 2038 bonds | | | |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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