

# Euro wrap-up

## Overview

- Bunds made losses even as German and French consumer confidence slipped back and Governing Council member Rehn suggested that market implied pricing for two further rate cuts this year was reasonable.
- Gilts also followed the global trend lower despite a disappointing UK retail survey.
- Thursday will bring the Commission's economic sentiment indices, ECB monetary data and flash June inflation from Belgium.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	2.813	+0.017
OBL 2.1 04/29	2.450	+0.033
DBR 2.2 02/34	2.449	+0.044
UKT 0½ 01/26	4.225	+0.038
UKT 0½ 01/29	4.007	+0.059
UKT 4% 01/34	4.137	+0.060

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

Source: Bloomberg

## Euro area

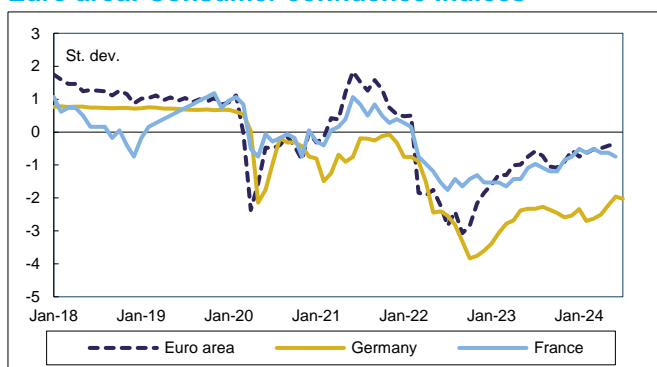
### German consumer confidence slips back as inflation and employment uncertainties rise

Contrasting the modest improvement in the Commission's [euro area flash consumer confidence](#) index and despite the hoped-for feelgood factor from the start of the European football championship this month, today's GfK survey suggested that German households have become somewhat less upbeat. In particular, the headline GfK consumer confidence index fell for the first month in five, by 0.8pt to -21.8, to remain some 24pts below the long-run average and more than 30pts below the pre-pandemic five-year average. Admittedly, this still represented the second-highest reading since April 2022 and was more than 5pts above the average in the first half of the year, suggesting that private consumption should still provide modest support to GDP growth. The survey's detail suggested that the weakening in German sentiment at the end of Q2 was broad-based and linked in part to the recent uptick in inflation. Expectations with respect to personal income and the broader economy over the coming twelve months worsened slightly in June. But following a marked improvement earlier in the quarter, the respective indices in Q2 were a substantial 19pts and 10pts above the Q1 averages. Today's moderation in consumer sentiment perhaps also reflected increased uncertainty about the labour market outlook. Certainly, an ifo employment survey – also published today – suggested that, on average, firms are looking to hire fewer staff amid a persisting lack of orders. Indeed, only services firms are reportedly still planning to increase headcount, particularly in the tourism, IT and management and tax consultancy sub-sectors, albeit less strongly than in recent months. Against this backdrop, the GfK survey suggested that households have become more inclined to save. Admittedly, intentions to purchase big-ticket items were moderately higher over the second quarter as a whole, perhaps hinting at a slight increase in spending on goods this quarter. And spending on services at the end of Q2 and start of Q3 should be boosted by the hordes of tourists arriving for the Euros tournament.

### French consumers more downbeat about economic outlook

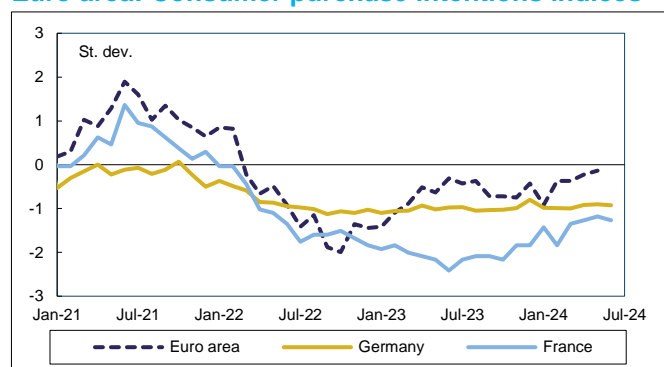
The French INSEE survey also signalled a further modest deterioration in consumer confidence at the end of Q2, even before President Macron called a snap general election following his party's poor European Parliament election results. Indeed, the headline sentiment index – calculated from responses mostly received before 10 June – slipped back 1pt to 89, a six-month low and still well below the long-run average (100). The deterioration was led by concerns that the economic outlook is worsening, with the respective net balance down 4pts to an eight-month low (-50). But with prices still expected to decline over the coming twelve months (albeit at a softer pace than previously anticipated), income expectations were slightly improved this month. Meanwhile, the share of households considering it a good time to make major purchases trended higher over the second quarter as a whole. That jarred with the latest findings of the Bank of France's recent retail survey, which suggested that sales volumes declined in both April and May by 0.4%M/M a piece. But they were still

### Euro area: Consumer confidence indices



Source: EC, GfK, INSEE, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumer purchase intentions indices



Source: EC, GfK, INSEE, Macrobond and Daiwa Capital Markets Europe Ltd.

unchanged from the Q1 average over the first two months of Q2. And with spending on services to be supported by improved purchasing power and tourism related to the Olympics, we still expect household consumption to be a key driver of growth over the months ahead.

## The day ahead in the euro area

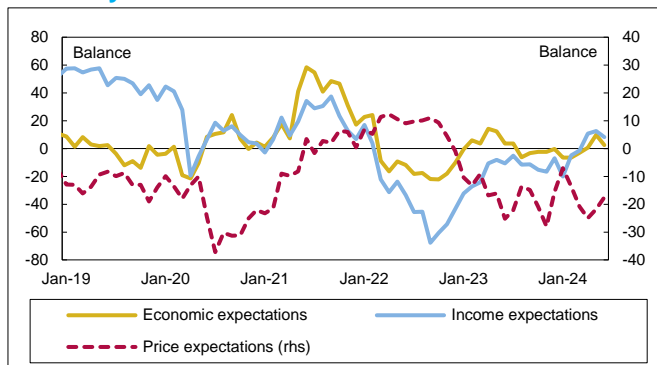
The flow of June sentiment surveys continues tomorrow with the release of the European Commission's economic sentiment indicators, which in the past has provided the most reliable guide to euro area GDP growth. Contrasting the upbeat PMIs in May, the Commission's headline economic sentiment indicator (ESI) edged only slightly higher to 96.0 to remain firmly within the range since the start of the year and still some 4% below the long-run average. And following Friday's disappointing flash June PMIs, the ESI is forecast merely to move sideways this month to be little changed over the second quarter as a whole. The survey's price expectations indices will also be closely watched, with the respective services selling price index having moderated in May to its lowest since August 2021, but consumer inflation expectations having ticked up to a three-month high. Meanwhile, the first of the member states' flash June inflation estimates will be published from Belgium. In addition, the ECB's monetary data for May will likely suggest that bank lending growth remained subdued amid still restrictive monetary conditions.

## UK

### Retail survey signalled weather-assisted slump in June

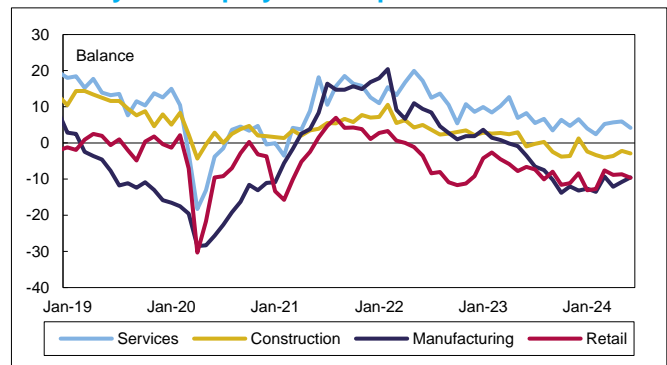
While UK [retail sales](#) exceeded expectations in May, today's CBI distributive trades survey suggested a notable weakening in June as unseasonably cold and wet weather earlier in the month dampened demand. In particular, the headline net balance recording sales volumes compared with a year earlier fell 32ppts to -24%, with the share of respondents reporting a rise in sales having halved compared with May. Looking through the monthly volatility, the sales net balance fell some 9ppts to -20%, a four-month low. Particularly striking in today's release was the marked increase in the net share of retailers that suggested sales were poor for the time of year (-49%), which was the second highest since March 2021. While the CBI attributed some of the weakness to the weather, the survey also suggested a notable weakening in internet sales too, with the respective net balance (down 39ppts to -45%) the lowest since January. And respondent firms expected sales volumes (on the High Street and online) to decline again in July, albeit at a softer pace. In contrast, today's survey suggested a pickup in sales volumes at car dealerships at the end of Q2, although the respective net balance still moderated on a three-month basis to a three-month low. And if the latest GfK consumer confidence survey is to be believed, willingness to spend on big-ticket items will remain relatively subdued for the time being.

### Germany: Consumer confidence indices



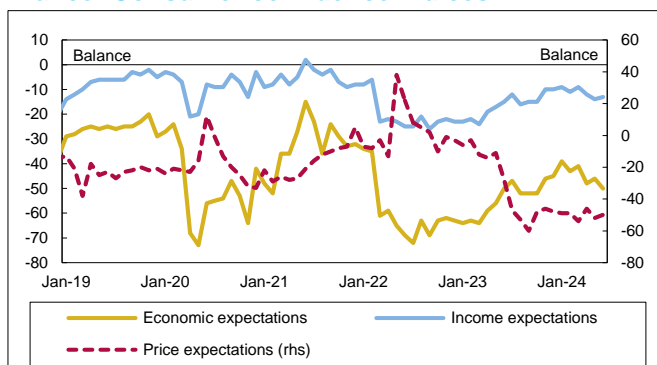
Source: GfK, Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: ifo employment expectations



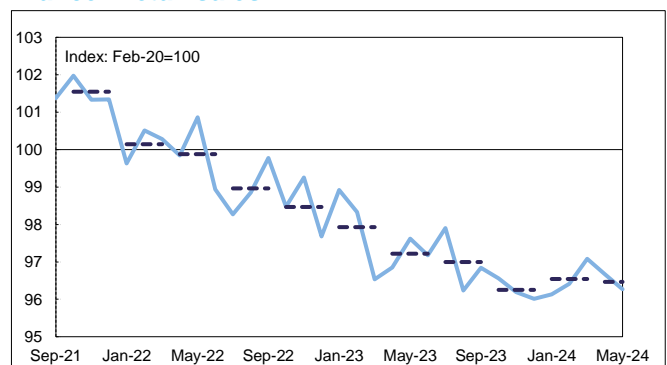
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### France: Consumer confidence indices



Source: INSEE, Macrobond and Daiwa Capital Markets Europe Ltd.

### France: Retail sales\*

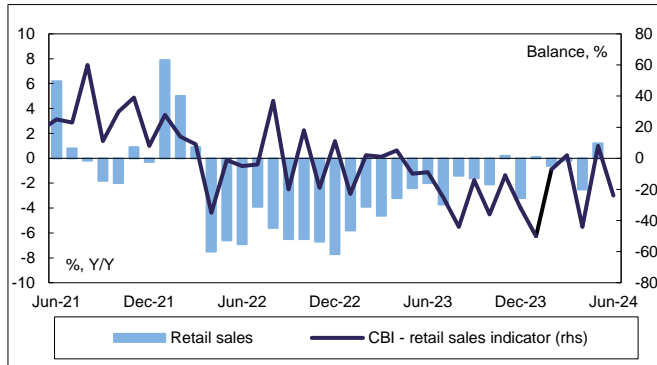


\*Dashed lines represent quarterly averages. Source: BoF, Macrobond and Daiwa Capital Markets Europe Ltd.

## The day ahead in the UK

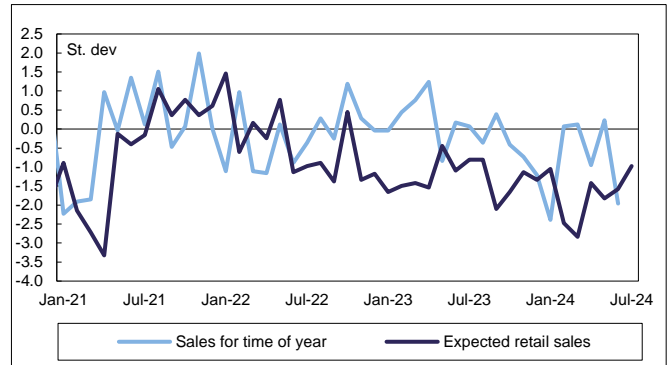
Thursday will be another relatively quiet day for economic news with no top-tier data due from the UK.

### UK: Retail sales



Source: CBI, Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: CBI distributive trades survey indices



Source: CBI, 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	GfK consumer confidence indicator	Jul	<b>-21.8</b>	-19.8	-20.9	-21.0
France	INSEE consumer confidence indicator	Jun	<b>89</b>	89	90	-
UK	CBI distributive trends survey – reported retail sales balance %	Jun	<b>-24</b>	0	8	-

#### Auctions

Country	Auction
UK	sold £3.0bn of 3.75% 2038 bonds at an average yield of 4.314%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Yesterday's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Spain	GDP – final estimate Q/Q% (Y/Y%)	Q1	<b>0.8 (2.5)</b>	<u>0.7 (2.4)</u>	0.7 (2.1)	-









#### Auctions

Country	Auction
Germany	sold €3.65bn of 2.9% 2026 bonds at an average yield of 2.8%
Italy	sold €2.5bn of 3.2% 2026 bonds at an average yield of 3.48%
	sold €1.0bn of 0.4% 2030 inflation-linked bonds at an average yield of 1.68%
	sold €1.25bn of 2.4% 2039 inflation-linked bonds at an average yield of 2.26%
UK	sold £1.5bn of 0.75% 2033 inflation-linked bonds at an average yield of 0.518%





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	 09.00	M3 money supply Y/Y%	May	1.6	1.3
	 10.00	Commission's Economic Sentiment Indicator	Jun	96.0	96.0
	 10.00	Commission's industrial (services) confidence indicator	Jun	-9.5 (6.3)	-9.9 (6.5)
	 10.00	Commission's final consumer confidence indicator	Jun	<u>-14.0</u>	-14.3
Italy	 09.00	ISTAT consumer confidence indicator	Jun	97.0	0.3
	 09.00	ISTAT business (manufacturing) confidence indicator	Jun	- (88.6)	96.4
	 10.00	PPI Y/Y%	May	-	95.1 (88.4)
Spain	 08.00	Retail sales Y/Y%	May	-	-8.1

### Auctions and events

Italy	 10.00	Auction: to sell up to €3.5bn of 3.35% 2029 bonds			
	 10.00	Auction: to sell up to €1.75bn of 2032 floating bonds			
	 10.00	Auction: to sell up to €3.5bn of 3.85% 2034 bonds			
UK	 10.30	BoE to publish Financial Stability Report			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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