

# Euro wrap-up

## Overview

- Bunds partially reversed yesterday's gains, while final French and Spanish June inflation figures confirmed ongoing disinflation in goods but stickiness in certain services components.
- Gilts followed Bunds lower on a quiet day for UK economic data.
- The ECB will leave its interest rates and forward guidance unchanged on Thursday while the coming week will also bring updates on inflation in the euro area and inflation, the labour market and retail sales in the UK.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	2.810	+0.029
OBL 2.1 04/29	2.470	+0.035
DBR 2.2 02/34	2.492	+0.033
UKT 0% 01/26	4.050	+0.022
UKT 0½ 01/29	3.943	+0.031
UKT 4% 01/34	4.107	+0.035

\*Change from close as at 5.00pm BST.  
Source: Bloomberg

## Euro area

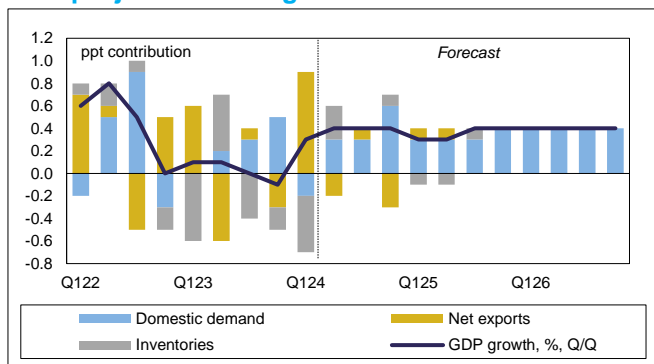
### ECB set to leave rates & guidance unchanged but Lagarde might give clues regards the path ahead

Having eased policy at its [previous meeting](#) in early June, the ECB seems bound to leave rates unchanged when its next policy meeting concludes on Thursday. The Governing Council will also repeat the key points of last month's forward guidance, i.e. that it's "not pre-committing to a particular rate path", will keep "rates sufficiently restrictive for as long as necessary" and will also maintain "a data-dependent and meeting-by-meeting approach". The refusal to set policy on a pre-determined path reflects the view of the Governing Council that the economic outlook remains highly uncertain as the shocks of recent years continue to unwind and new structural changes unfold. That uncertainty was a key theme of last week's monetary policy forum in Sintra, with President Lagarde acknowledging there the divergent views about the implications for the euro area economy and ECB policy of ongoing cyclical and structural shifts. And while only one member of the Governing Council – Austrian uber-hawk Robert Holzmann – voted against last month's rate cut, the published account of the meeting suggested that there was unease about the decision among some other members, not least as it coincided with an upwards revision to the Eurosystem's inflation projection at the same meeting. While Lagarde will therefore insist again that the future path of rates will depend on incoming data, however, she might hopefully also give an indication of the Governing Council's reaction function with respect to those figures and hence the likelihood that rates will be cut again at the following meeting in September.

### ECB projections broadly on track despite further modest core inflation overshoot

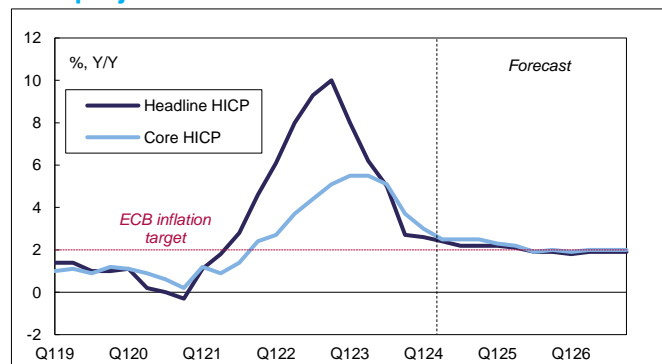
When they meet in the coming week, Governing Council members should at least be able to agree that the Eurosystem's June projections appear to be broadly on track. If anything, the softer flash PMIs for June, coupled with a weakening in manufacturing production, factory orders and construction output in May, suggest that the central bankers' projection of euro area GDP growth of 0.4%Q/Q from Q2 to Q4 this year looks a little too strong. Of course, the inflation projection is the key driver of the ECB's policy decisions. The June projections suggested that inflation is likely to return to the 2% target from Q425 onwards, justifying last month's rate cut. And as the stance of monetary policy would otherwise tighten as and when inflation falls steadily back to target, it also pointed to the likelihood of further gradual rate cuts over coming quarters. Thankfully, at 2.5%Y/Y, the flash estimate of headline inflation in June was down 0.1ppt from May and thus fully consistent with the Eurosystem's projection. The flash core rate, however, was unchanged at 2.9%Y/Y, leaving the Q2 average 0.1ppt above the central bankers' forecast. While on average in Q2 headline (2.5%Y/Y) and core inflation (2.8%Y/Y) fell to their lowest rates since Q121 and Q122 respectively, the hawks will no doubt argue that that further modest overshoot in the core measure relative to the Eurosystem's projection calls for caution from a policy perspective.

### ECB projection: GDP growth & contributions



Source: ECB and Daiwa Capital Markets Europe Ltd.

### ECB projection: Headline & core inflation



Source: ECB and Daiwa Capital Markets Europe Ltd.

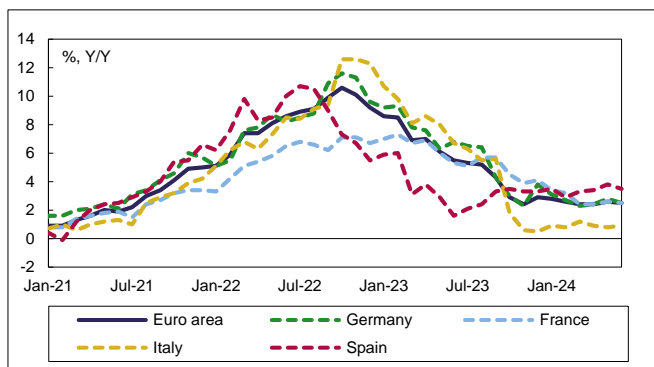
## Disinflation continued in June for a range of goods

Based on the national figures published so far by the larger member states, the final euro area inflation data for June (due on Wednesday) should broadly align with the flash estimates. And the detail should reinforce the view that the overshoot in the core measure relative to the ECB projection in Q2 was no major cause for concern and probably related to temporary factors. Predictably, the final headline HICP rates in Germany (2.5%Y/Y) and France (2.5%Y/Y) were unrevised from the preliminary releases, while the modest upwards revision in Spain (+0.1ppt to 3.6%Y/Y) still left it down 0.2ppt from May. Admittedly, the modest drop in June related to non-core items, with the national detail confirming that lower petrol prices subtracted from inflation across the region, while the food component maintained a downwards trajectory in France, Italy and Spain. While the flash release suggested that euro area core goods inflation moved sideways in June, at just 0.7%Y/Y this matched its lowest reading for almost three years. The final national data revealed ongoing disinflation in items such as furniture, household appliances and new cars across the larger member states. Moreover, used-car inflation in Germany and France is back in negative territory. And while clothing inflation picked up in Germany, it moved broadly sideways and remained very subdued in the other major member states at 1.0%Y/Y or less.

## Stickiness in services still likely temporary despite pickup in wage tracker in June

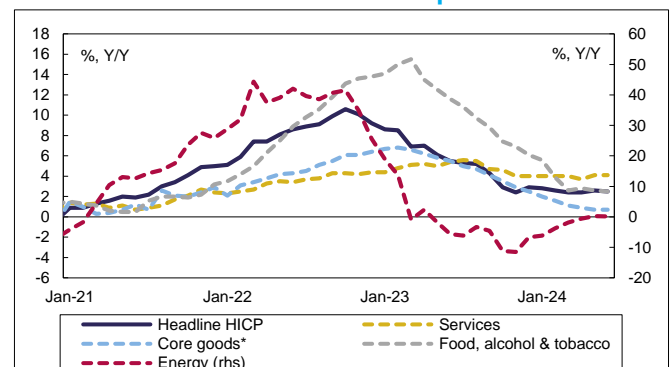
While the flash estimate of euro area core inflation disappointingly moved sideways in June, the detailed national data suggest that ongoing stickiness might relate to temporary factors in certain services components. For example, while accommodation inflation in Germany rose to a six-month high in June, that was likely influenced by the hordes of tourists arriving for the European football championship. In contrast, inflation of restaurant services eased slightly across the member states. While package holiday inflation rose in France, Italy and Spain, where the release of pandemic-related pent-up demand appears again to be providing a boost to demand, it moderated in Germany. And although insurance inflation maintained an uptrend in Italy and Spain, it was down from the recent peaks in both Germany and France and appears likely to moderate steadily as the lagged impact of past price pressures in cars and household goods fades. With the Paris Olympics and summer tourist season likely to keep certain services components elevated for several months more, the Governing Council will continue to watch pay growth to gauge the risks that persistence will be sustained into next year too. But while the hawks might well flag the uptick in the Indeed wage tracker in June – for which headline pay growth rose 0.7ppt to a seven-month high of 4.2%Y/Y – this principally reflected a pickup in Italy, Spain and the Netherlands. In contrast, growth in the wage tracker moved sideways and thus remained well down from its recent peak in Germany, and fell to a near-three-year low in France. And there are signs that employee bargaining power continues to diminish, with German negotiated wage growth averaging 4.3%Y/Y in Q2 down from 5.6%Y/Y in Q1.

### Euro area member states: Headline HICP inflation



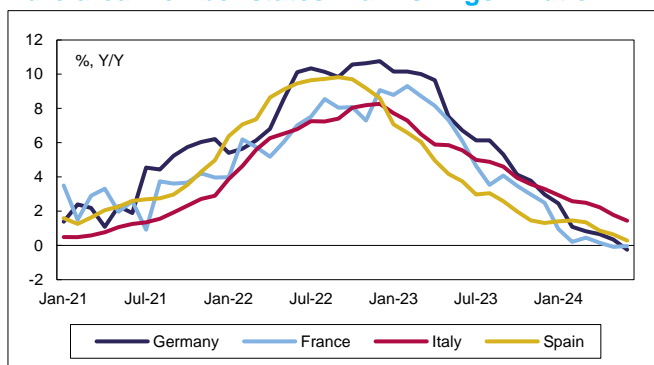
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Selected inflation components



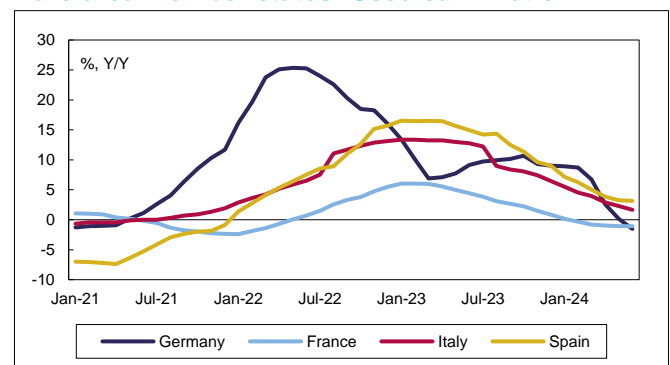
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area member states: Furnishings inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area member states: Used car inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## French OAT auction to coincide with French National Assembly vote

Separately, focus on Thursday will also turn to France where the Treasury plans to sell up to €11.5bn of 2027-2032 bonds, as well as inflation-linked securities, in the first OAT auction since Sunday's election resulted in a hung parliament. As with the prior auction on 4 July, we expect demand to be ample albeit with the recent re-pricing of spreads locked in. Attention in France on Thursday will also be on the French National Assembly, where MPs will meet for the first time since the election to appoint a new President for the chamber. The first two rounds of voting will probably fail to deliver the required absolute majority for any candidate. But with the third-round vote based on a first-past-the-post system, we expect it to result in the appointment as National Assembly President of a member of the left-wing New Popular Front alliance as successor to Yaël Braun-Pivet from President Macron's centrist bloc.

## The week ahead in the euro area for data

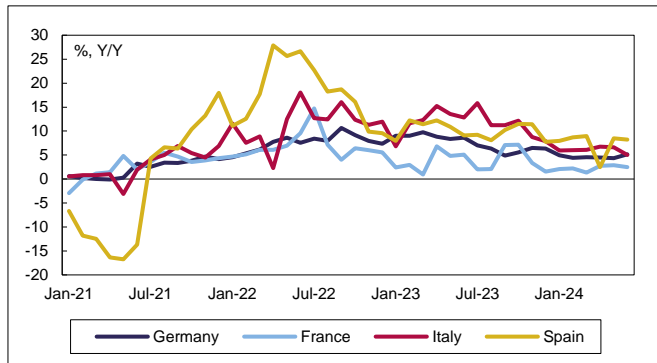
Data-wise, as well as the aforementioned final euro area June inflation figures on Wednesday, the coming week will bring May data for industrial production (Monday), goods trade (Tuesday) and construction activity (Thursday). Despite a marked increase in Irish industrial production in May (6.7%M/M) and modest growth in Italy (0.5%M/M), national figures have largely disappointed, particular the steep declines in [Germany](#) (-2.9%M/M) and France (-2.1%M/M). As such, we expect euro area IP to decline around 0.8%M/M in May, which would leave output trending so far in Q2 0.1% below the Q1 average. [German trade](#) figures also reported a steep decline in exports in May, while construction activity in the region's two largest member states similarly contracted sharply that month. Survey-wise, as suggested by the past week's [Sentix indices](#), the German ZEW investor sentiment indicators (Tuesday) will likely signal a deterioration in confidence at the start of July due to concerns about French politics. The results of the ECB's quarterly surveys on the access to finance of enterprises (SAFE) and bank lending are also due on Monday and Tuesday respectively.

## UK

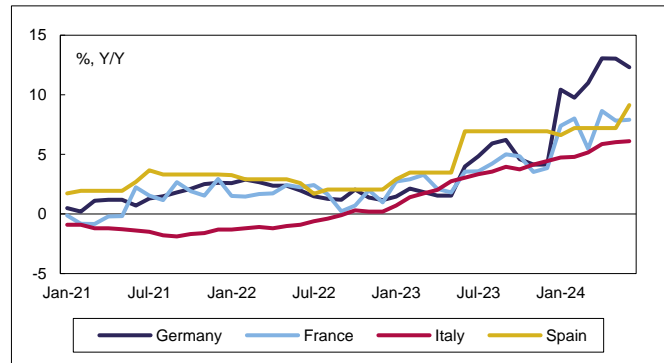
### The week ahead in the UK

Ahead of the BoE's monetary policy announcement and publication of updated economic forecasts at the start of next month, the coming week's data – including the latest reports on inflation (Wednesday) and the labour market (Thursday) – will provide an important update on key parameters in the MPC's reaction function. Having fallen back to the Bank's 2% target in May for the first time in almost three years, we expect headline inflation to ease slightly further in June, by 0.1ppt to 1.9%Y/Y, in line with the Bloomberg survey consensus. But we see risks to the headline CPI rate to be skewed slightly to the

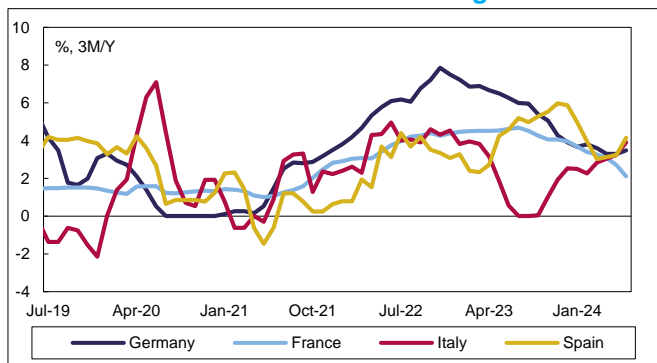
### Euro area member states: Accommodation inflation



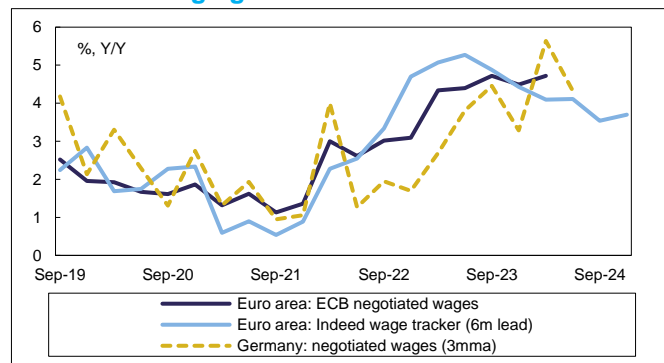
### Euro area member states: Insurance inflation



### Euro area member states: Indeed wage tracker



### Euro area: Wage growth measures\*












upside. Within the detail, we forecast food inflation to moderate further to its lowest since October 2021, offsetting a slight upwards impulse from a slightly softer pace of decline in the energy component. And while non-energy goods inflation might tick up, it will remain very subdued close to zero. Of most interest for policymakers will be services inflation, which we expect to edge only marginally lower, by 0.1ppt, to a still elevated 5.6%Y/Y. As such, in line with the consensus, we expect core inflation to move sideways at 3.5%Y/Y.

In terms of the labour market, we expect the ILO unemployment rate to remain steady at 4.4% in the three months to May with employment likely to have fallen over the same period for a fifth consecutive month. That would match the highest unemployment rate since September 2021. Having risen in recent months to reflect the near-10% rise in the National Living Wage in April, we expect growth in average weekly earnings to moderate in the three months to May in part reflecting favourable base effects. The BoE will be watching more closely the detailed figures for private sector regular wage growth, which despite easing in April to a 22-month low of 5.8%3M/Y was tracking well above the Bank's forecast for 5.1% in Q2.

In addition, Friday will bring retail sales figures for June, alongside the July results of the GfK's consumer confidence survey. Retailer surveys – including the CBI distributive trades survey and BRC monitor – suggest that sales volumes were weak for the time of the year as heavy rainfall at the start of the month dampened demand on the High Street. Nevertheless, the forecast decline of 1.0%M/M would only partly reverse the near-3%M/M rise in May, to leave sales up on a three-month basis in Q2.

## Daiwa economic forecasts

	2024				2025		2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2			
<b>GDP</b>	%, Q/Q						%, Y/Y		
Euro area 	0.3	0.3	0.3	0.3	0.3	0.4	0.6	0.7	1.4
UK 	0.7	0.5	0.3	0.2	0.2	0.3	0.1	0.9	1.1
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline HICP 	2.6	2.5	2.3	2.6	2.3	1.8	5.4	2.3	1.8
Core HICP 	3.1	2.8	2.9	3.1	2.6	1.8	4.9	3.0	1.8
UK									
Headline CPI 	3.5	2.1	2.1	2.6	2.3	1.9	7.3	2.6	2.0
Core CPI 	4.6	3.6	3.3	3.3	2.8	1.7	6.2	3.7	1.9
<b>Monetary policy, %</b>									
ECB									
Deposit Rate 	4.00	3.75	3.50	3.25	3.00	2.75	4.00	3.25	2.25
Refi Rate 	4.50	4.25	3.65	3.40	3.15	2.90	4.50	3.40	2.40
BoE									
Bank Rate 	5.25	5.25	5.00	4.75	4.50	4.25	5.25	4.75	3.75

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

## The coming week's data calendar

### The coming few week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
<b>Monday 15 July 2024</b>					
Euro area	10.00	Industrial production M/M% (Y/Y%)	May	-0.8 (-3.7)	-0.1 (-3.0)
UK	00.01	Rightmove house prices M/M% (Y/Y%)	Jul	-	0.0 (0.6)
<b>Tuesday 16 July 2024</b>					
Euro area	10.00	Trade balance €bn	May	-	19.4
Germany	10.00	ZEW investor survey – current situations (expectations) balance %	Jul	-75.0 (40.5)	-73.8 (47.5)
Italy	09.00	Final HICP (CPI) Y/Y%	Jun	<u>0.9 (0.8)</u>	0.8 (0.8)
	10.00	Trade balance €bn	May	-	4.8
<b>Wednesday 17 July 2024</b>					
Euro area	10.00	Final HICP (core HICP) Y/Y%	Jun	<u>2.5 (2.9)</u>	2.6 (2.9)
UK	07.00	CPI (core CPI) Y/Y%	Jun	<u>1.9 (3.5)</u>	2.0 (3.5)
	07.00	PPI – output (input) prices Y/Y%	Jun	1.8 (1.1)	1.7 (-0.1)
	07.00	House price index Y/Y%	May	-	1.1
<b>Thursday 18 July 2024</b>					
Euro area	07.00	New car registrations Y/Y%	Jun	-	-3.0
	10.00	Construction output M/M% (Y/Y%)	May	-	-0.2 (-1.1)
	13.15	ECB Deposit Rate (Refi Rate) %	Jul	<u>3.75 (4.25)</u>	3.75 (4.25)
UK	07.00	Average weekly earnings (excluding bonuses) 3M/Y%	May	5.7 (5.7)	5.9 (6.0)
	07.00	ILO unemployment rate 3M%	May	4.4	4.4
	07.00	Employment change 3M/3M 000s	May	-	-139
	07.00	Payrolled employees change M/M 000s	Jun	-	-3
	07.00	Claimant count rate % (change 000s)	Jun	-	4.3 (50.4)
<b>Friday 19 July 2024</b>					
Euro area	09.00	Current account balance €bn	May	-	38.6
Germany	07.00	PPI Y/Y%	Jun	-1.6	-2.2
France	07.45	Final HICP (CPI) Y/Y%	Jun	<u>2.5 (2.1)</u>	2.6 (2.3)
UK	00.01	GfK consumer confidence indicator	Jul	-12	-14
	07.00	Retail sales – including auto fuel M/M% (Y/Y%)	Jun	-0.5 (0.2)	2.9 (1.3)
	07.00	Retail sales – excluding auto fuel M/M% (Y/Y%)	Jun	-0.5 (0.2)	2.9 (1.2)
	07.00	Public sector net borrowing £bn	Jun	-	15.0

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



### The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 15 July 2024</b>		
Euro area 	09.00	ECB to publish survey on the access to finance of enterprises (SAFE)
<b>Tuesday 16 July 2024</b>		
Euro area 	09.00	ECB to publish quarterly Bank Lending Survey
Germany 	10.30	Auction: To sell €4.0bn of 2029 bonds
UK 	10.00	Auction: To sell £2.25bn of 4.75% 2043 bonds
<b>Wednesday 17 July 2024</b>		
Germany 	10.30	Auction: To sell €1.0bn of 0% 2052 bonds
	10.30	Auction: To sell €1.0bn of 2.5% 2054 bonds
UK 	10.00	Auction: To sell £4.0bn of 4.125% 2029 bonds
<b>Thursday 18 July 2024</b>		
Euro area 	13.15	ECB monetary policy announcement
	13.45	ECB President Lagarde holds post Governing Council meeting press conference
France 	09.50	Auction: To sell up to €11.5bn of 1.0% and 2.5% 2027, 2.75% 2030 and 2.0% 2032 bonds
France 	10.50	Auction: To sell up to €2.5bn of 0.1% 2028, 0.1% 2029, 0.6% 2034 and 0.1% 2053 inflation-linked bonds
Spain 	09.30	Auction: To sell bonds with various maturities
<b>Friday 19 July 2024</b>		
- Nothing scheduled -		

Source: Bloomberg 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
France 	Final HICP (CPI) Y/Y%	Jun	<b>2.5 (2.2)</b>	<u>2.5 (2.1)</u>	2.6 (2.3)	
Spain 	Final HICP (CPI) Y/Y%	Jun	<b>3.6 (3.4)</b>	<u>3.5 (3.4)</u>	3.8 (3.6)	
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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