# Euro wrap-up

## Overview

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- While the ECB predictably left interest rates and its forward guidance unchanged, Bunds made gains as Lagarde downplayed concerns about recent strong pay growth and services inflation.
- Gilts also made gains as UK data pointed to diminished labour market tightness amid moderating wage growth.
- Friday will bring the latest figures for UK retail sales and consumer confidence, as well as German producer prices.

**Daily bond market movements**

| Bond | Yield | Change |
|---|---|---|
| BKO 2.9 06/26 | 2.728 | -0.039 |
| OBL 2½ 10/29 | 2.360 | -0.032 |
| DBR 2.6 08/34 | 2.407 | -0.001 |
| UKT 0⅛ 01/26 | 3.933 | -0.035 |
| UKT 0½ 01/29 | 3.872 | -0.035 |
| UKT 4⅝ 01/34 | 4.050 | -0.025 |

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

# Euro area

### Predictably uneventful Governing Council meeting further fuels expectations of September rate cut

The conclusion of the ECB's July monetary policy meeting was largely as expected, with interest rates and the Governing Council's forward guidance unchanged. So, predictably, the policymakers again refused to pre-commit to any future path in rates. They reiterated that they will continue to follow a "data-dependent and meeting-by-meeting approach" to rate decisions. And in her press conference, President Lagarde insisted that the outcome of the next meeting in September was wide open. However, in its policy statement, the Governing Council's assessment of recent economic data leant on the dovish side. Correctly, it judged that its June economic projections – that foresee inflation returning to target by end-2025 – appear on track; the increase in certain measures of underlying inflation in May was associated with one-off factors; and that the inflationary impact of high wage growth is being absorbed within profit margins. And that message was reinforced in the press conference, with Lagarde insisting that recent high rates of wage growth were fully consistent with the ECB's projections, and that wage settlements and surveys point to a strong likelihood that pay growth will moderate steadily next year and further into 2026. The market responded by pushing the euro lower against the dollar, nudging euro area govvies higher and increasing the probability of a September rate cut implied by swaps up to 80%. And certainly, in our view, the limited new information provided by the ECB today reinforced our own view that it will cut by 25bps in September and December too.

### The day ahead in the euro area

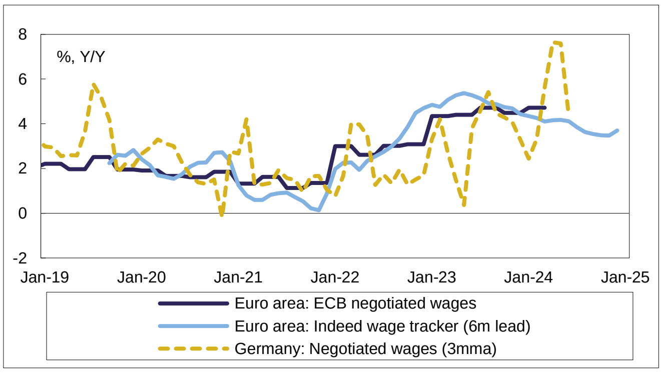
A relatively quiet end to the week for euro economic releases brings German producer price figures for June, which are expected to signal that pipeline pressures in the factory sector remained largely absent at the end of Q2. In particular, prices are expected to rise 0.1%M/M to leave them down 1.6%Y/Y, the twelfth consecutive annual decline.

# UK

### Unemployment rises to highest level since August 2021

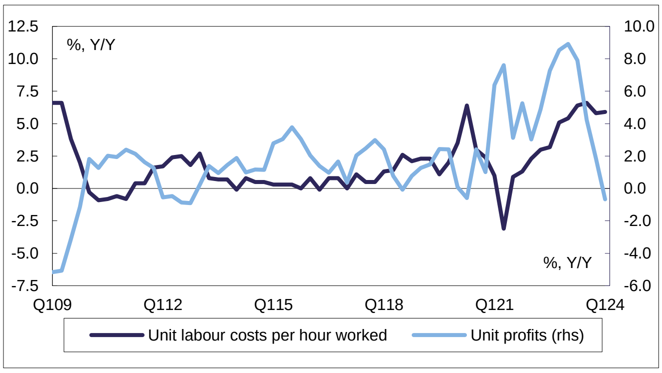
Today's UK data offered evidence of a further loosening in the labour market and moderation of pay growth, arguably supporting the case for an interest rate cut at the BoE's August monetary policy meeting. And while still sticky services inflation and signs of firm GDP growth in Q2 suggest the outcome of this meeting is close to a coin-toss, a cut remains our baseline view. Indeed, despite the pickup in economic activity so far this year, the ONS's Labour Force Survey (LFS) suggested that joblessness rose for a fourth consecutive month, by 88k in the three months to May to 1.528mn, the highest

**Euro area: Selected wage trackers**




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

**Euro area: Unit labour costs & profits**




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

since August 2021 and some 133k above the level a year ago. Contrasting the recent trend, the pickup in May principally related to short-term unemployment, which rose the most in eleven months. While this left the unemployment rate unchanged at 4.4%, it was still 0.1ppt above the BoE's projection for Q2, a substantive 0.6ppt above December's recent low and the highest level in over 2½ years, and close to the Bank's most recent estimate of the equilibrium rate. Meanwhile, the number of people claiming Job Seekers Allowance and Universal Credit rose to the highest since February 2022, with the claimant count rate up to 4.4%, also the highest since that date, although the ONS acknowledged that these figures had been boosted by recent threshold amendments.

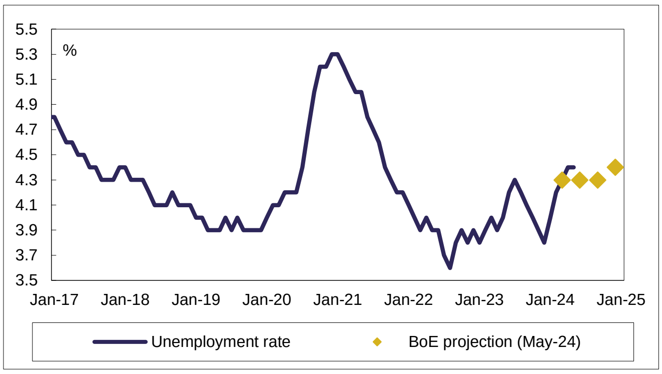
## Fall in vacancies to lowest level since July 2021 points to diminished labour market tightness

In terms of jobs, although the LFS measure of employment rose over the past quarter (+19k) for the first month in five to 33.0mn, this reflected an increase in part-time employees and full-time self-employment. And employment was still down some 312k compared with a year ago and 91k below the February 2020 level. Admittedly, the alternative HMRC estimate of payrolled employees rose again in June (15.5k), but its annual growth rate (0.8%Y/Y) was the softest since May 2021. Moreover, the number of job openings fell in June for the 23rd month out of the past 25 to 889k. As a result, the vacancies-to-unemployment ratio – a key metric of labour market tightness watched by the BoE – fell back below the average in the two years before the pandemic. Moreover, in terms of a persisting supply-side challenge in the labour market, today's figures also reported a decline in economic inactivity in the three months to May (-21k) for the first time in eleven months, principally reflecting a return of students towards the end of the academic year. But this still left inactivity up 389k from a year ago and some 832k above the pre-pandemic level, of which the rise in long-term sickness accounted for 700k.

## Regular wage growth falls to 2½-year low, with signs of further moderation to come

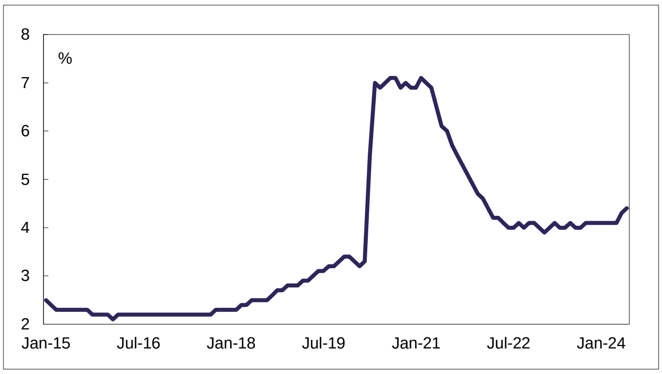
Today's wage figures were also consistent with a better balance between supply and demand in the labour market in the middle of Q2. While both rates remained high, total pay growth slowed 0.2ppt to 5.7%3M/Y, while regular wage growth fell 0.3ppt to 5.7%3M/Y, the lowest since October 2022. Moreover, annual growth in private sector regular pay – which is of particular interest to the BoE – eased 0.3ppt to 5.6%3M/Y, the lowest for 23 months. And with the single-month figure down a hefty 1.0ppt to 4.9%Y/Y, private sector regular wage growth was averaging in the first two months of Q2 just 0.3ppt above the BoE's quarterly projection for Q2 (5.1%). Today's figures again confirmed that some of the strongest increases in pay have been occurring in sectors with the lowest nominal wage levels – not least hospitality and retail – pointing to the impact of the 10% increase in the minimum wage at the start of Q2. But the strongest pay growth was concentrated in finance and business services, which appear much less relevant for consumer price pressures. Moreover, timely indicators suggest that pay growth will moderate notably over coming months, as the need for additional compensation for recent high inflation will

### UK: Unemployment rate



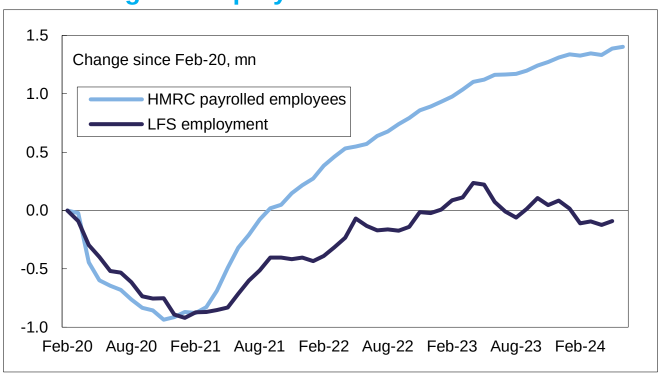

*Source: BoE, Macrobond and Daiwa Capital Markets Europe Ltd.*

### UK: Claimant count rate



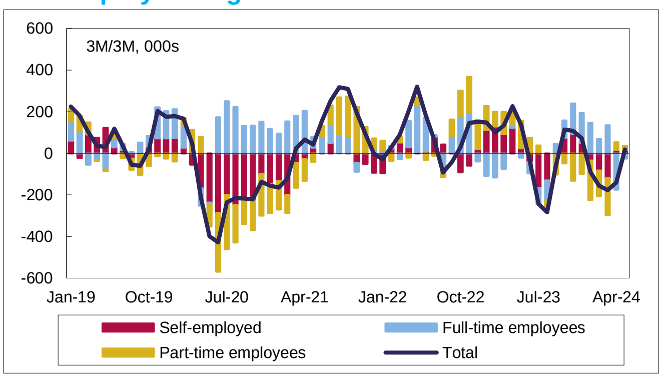

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### UK: Change in employment




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

### UK: Employment growth



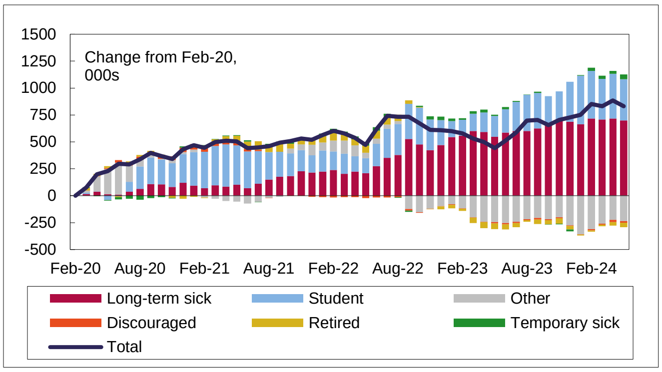

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

diminish. Indeed, the HMRC's estimate of median pay growth calculated from PAYE dropped sharply in June, by 2.4ppts to 3.6%Y/Y, the lowest since August 2020. And the findings of the latest DMP survey suggested that firms' wage growth expectations for the twelve months ahead have eased to the lowest in more than two years.

## The day ahead in the UK

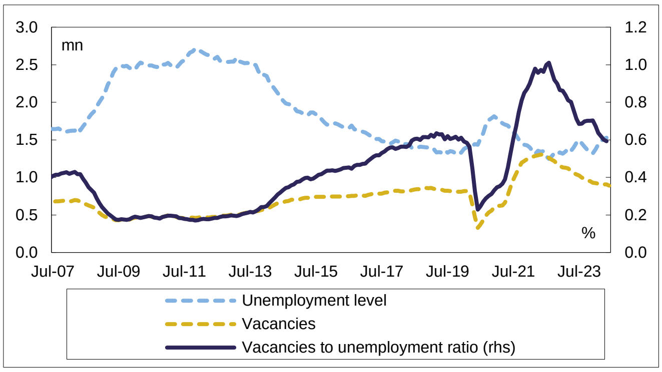
Friday will bring retail sales figures for June, alongside the July results of the GfK's consumer confidence survey. Retail surveys – including the CBI distributive trades survey and BRC monitor – suggest that sales volumes were weak for the time of the year as heavy rainfall at the start of the month dampened demand on the High Street. Nevertheless, the forecast decline of ½%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. In addition, tomorrow will bring June public finance figures, which are likely to illustrate the budgetary constraints facing the new Labour government given its self-imposed fiscal rules.

### UK: Reasons for inactivity



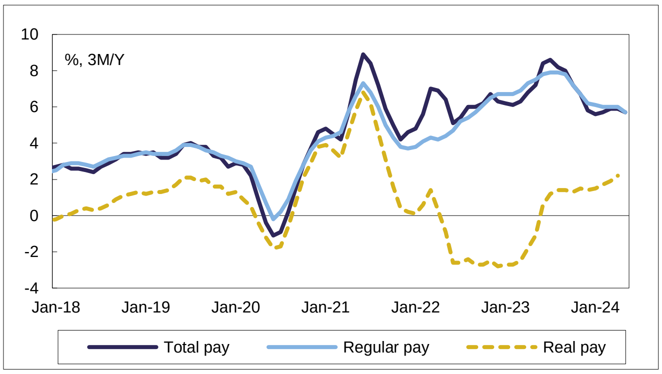

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### UK: Vacancies & unemployment



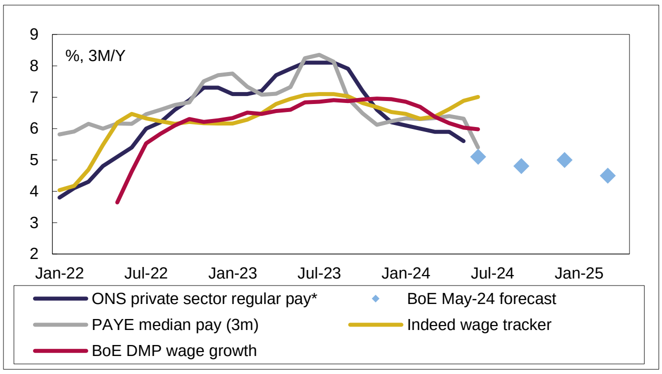

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### UK: Average weekly earnings



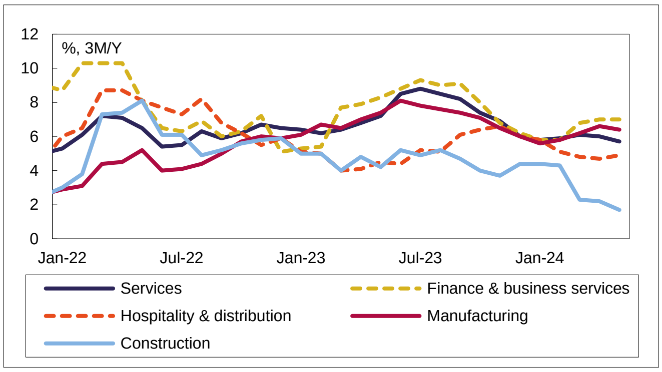

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### UK: Measures of wage growth



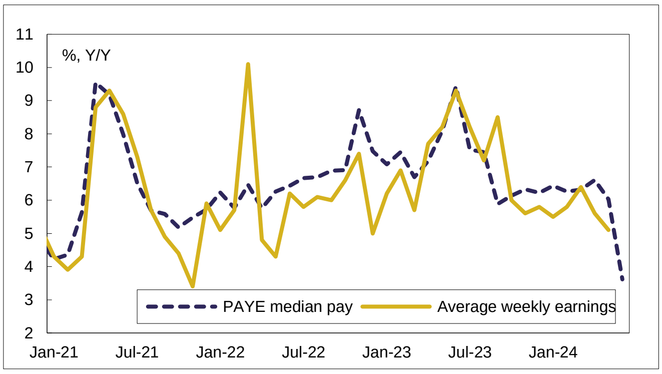

**Data between Jan-22 & Nov-22 are BoE Staff estimates of underlying private regular pay growth. Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### UK: Average weekly earnings




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

### UK: Wage growth




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

# European calendar

## Today's results

| Economic data | | | | | | |
|---|---|---|---|---|---|---|
| Country | Release | Period | **Actual** | Market consensus/ *Daiwa forecast* | Previous | Revised |
| Euro area | New car registrations Y/Y% | Jun | **2.8** | - | -4.0 | - |
| | Construction output M/M% (Y/Y%) | May | **-0.9 (-2.4)** | - | -0.2 (-1.1) | -0.4 (-1.5) |
| | ECB Deposit Rate (Refi Rate) % | Jul | **3.75 (4.25)** | *3.75 (4.25)* | 3.75 (4.25) | - |
| UK | Average weekly earnings (excluding bonuses) 3M/Y% | May | **5.7 (5.7)** | 5.7 (5.7) | 5.9 (6.0) | - |
| | ILO unemployment rate 3M% | May | **4.4** | 4.4 | 4.4 | - |
| | Employment change 3M/3M 000s | May | **19** | 20 | -139 | - |
| | Payrolled employees change M/M 000s | Jun | **16** | - | -3 | - |
| | Claimant count rate % (change 000s) | Jun | **4.4 (32.3)** | - | 4.3 (50.4) | - (51.9) |

| Auctions | |
|---|---|
| Country | Auction |
| France | sold €3.18bn of 1.0% 2027 bonds at an average yield of 2.86% |
| | sold €3.31bn of 2.5% 2027 bonds at an average yield of 2.86% |
| | sold €2.92bn of 2.75% 2030 bonds at an average yield of 2.87% |
| | sold €2.09bn of 2.0% 2032 bonds at an average yield of 2.96% |
| | sold €516mn of 0.1% 2028 inflation-linked bonds at an average yield of 1.11% |
| | sold €812mn of 0.1% 2029 inflation-linked bonds at an average yield of 0.84% |
| | sold €768mn of 0.6% 2034 inflation-linked bonds at an average yield of 0.88% |
| | sold €400mn of 0.1% 2053 inflation-linked bonds at an average yield of 0.98% |
| Spain | sold €2.02bn of 1.25% 2030 bonds at an average yield of 2.888% |
| | sold €2.66bn of 3.45% 2034 bonds at an average yield of 3.192% |
| | sold €1.77bn of 0.85% 2037 bonds at an average yield of 3.394% |

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

## Tomorrow's releases

| Economic data | | | | | |
|---|---|---|---|---|---|
| Country | BST | Release | Period | Market consensus/ *Daiwa forecast* | Previous |
| Euro area | 09.00 | Current account balance €bn | May | - | 38.6 |
| Germany | 07.00 | PPI Y/Y% | Jun | -1.6 | -2.2 |
| UK | 00.01 | GfK consumer confidence indicator | Jul | -12 | -14 |
| | 07.00 | Retail sales – including auto fuel M/M% (Y/Y%) | Jun | -0.6 (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 | 11.2 | 15.0 |

| Auctions and events | | |
|---|---|---|
| Euro area | 09.00 | ECB to publish Survey of Professional Forecasters |

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

Access our research blog at:
https://www.uk.daiwacm.com/ficc-research/recent-blogs