

Euro wrap-up

Overview

- Bunds made losses as producer price data suggested that disinflation in Germany's goods sector is near an end.
- Despite some weak UK retail sales figures at end-Q2, Gilts followed US Ts lower, while a consumer survey suggested that conditions for making major purchases were the most favourable since early 2022.
- The coming week will bring flash July PMIs from the euro area and UK, the Commission's preliminary consumer confidence indicator and euro area monetary data.

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Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	2.770	+0.014
OBL 2½ 10/29	2.414	+0.026
DBR 2.6 08/34	2.463	+0.034
UKT 0% 01/26	3.953	+0.007
UKT 0½ 01/29	3.924	+0.040
UKT 4% 01/34	4.123	+0.061

*Change from close as at 4:45pm BST.
Source: Bloomberg

Euro area

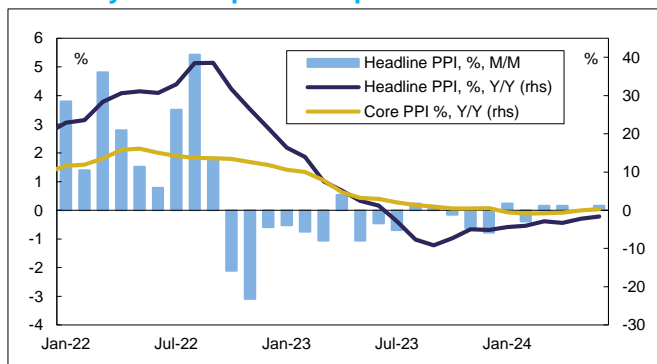
German producer price data suggest that disinflation in goods sector is near an end

German industrial producer prices in June remained well below their levels a year earlier. But today's figures suggest that disinflation in the goods sector has come to an end. In particular, German industrial producer prices were down 1.6%Y/Y, the smallest decline in a year. And core goods prices (i.e. excluding energy) were up 0.3%Y/Y, the first positive annual rate so far this year. Indeed, industrial producer prices overall rose for the third time in the past four months, albeit just 0.2%M/M. And while core goods prices rose just 0.1%M/M, they were up 0.7%3M/3M, the most on a three-month basis since September 2022 pointing to a firming of inflation momentum. Within the detail, as lower prices of auto fuel more than offset the impact of higher prices of gas and electricity, energy prices fell for a third successive month. But their annual rate of decline moderated to -5.9%Y/Y, the softest in 12 months. More importantly, although they were still below their level a year earlier and chemicals prices fell in June, prices of intermediate goods rose for a fourth successive month to be up the most on a three-month basis (0.7%3M/3M) since September 2022. Due particularly to pressures in the non-durable category including fruit and vegetable-based products, momentum in consumer goods producer prices (0.9%3M/3M) was also the most since September 2022. And prices of capital goods rose for the ninth successive month to be up the most on a three-month basis in 14 months (0.5%3M/3M). These German producer price data broadly tally with recent survey indicators, which have pointed to a modest pickup in industrial selling-price intentions over recent months. So, while German core consumer goods inflation fell on the EU-harmonised measure to a 3½-year low of just 1.1%Y/Y in June, we currently expect the near-term trend to be broadly sideways.

The week ahead in the euro area

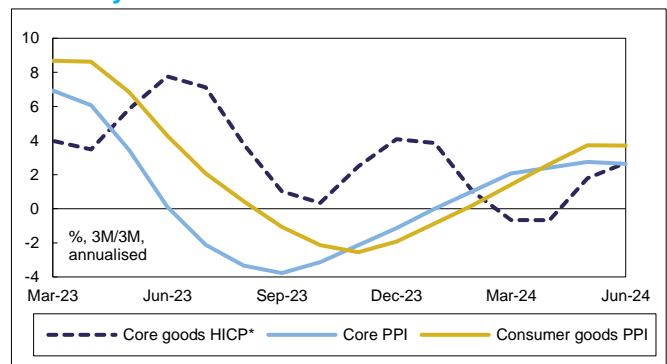
The most notable new data of the coming week in the euro area will be the first top-tier survey results for July, including the flash PMIs (Wednesday). The euro area PMIs for June unexpectedly deteriorated – the composite output index fell 1.3pts to a three-month low – suggesting slowing economic momentum at end-Q2. But this principally reflected ongoing contraction in the manufacturing sector. While the services activity PMI (52.8) also fell, it remained consistent with ongoing expansion. And while we expect the services survey to signal positive growth momentum at the start of Q3, the composite PMI is expected to move broadly sideways weighed by persisting manufacturing weakness. In June, the euro area PMIs also implied that growth in services input costs and prices charged was the lowest in three years, a trend that we expect to continue at the start of Q3. While the PMIs also suggested that factory input costs ticked up at end-Q2 due in part to higher shipping costs, the indices remained below the long-run average. And while ongoing subdued demand in the sector will likely keep a lid on output prices, the recent trends in producer price data, such as those released today from Germany, suggest that we might expect a further modest uptick in the respective PMIs in July.

Germany: Goods producer price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Goods inflation momentum



*Non-energy industrial goods. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Other July survey indicators due in the coming week include the Commission's preliminary estimate of euro area consumer confidence (Tuesday). But having risen in June to its highest level since February 2022, household sentiment might well be little changed at the start of Q3 as political uncertainties persist in France. The German GfK consumer survey (Wednesday) will provide further details. And the German ifo and French INSEE business surveys (both due Thursday) and the Italian ISTAT indices (Friday) will offer further insight into business conditions in the member states, including assessments of the construction and retail sectors. Meanwhile, the ECB's consumer survey for June (Friday) will report on households' inflation expectations, with most focus on the indicator for three years ahead, which in May fell to a 27-month low of 2.3%Y/Y pointing to increased confidence in the ECB's ability to achieve its target over the medium term. Beyond the surveys, the ECB's monetary data (Thursday) and Italian hourly wage growth (Friday) both for June are due.

UK

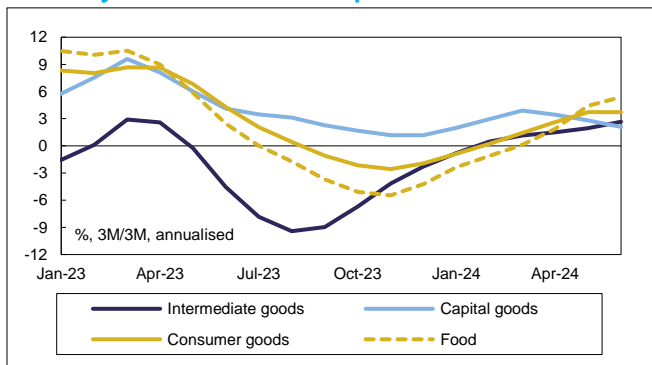
Bad weather deters shoppers in June to leave sales down marginally in Q2

While last week's [GDP data for May](#) suggested that economic growth in Q2 was probably stronger than anticipated by the BoE in the May Monetary Policy Report, today's retail sales figures for June provided a reminder that momentum in spending on goods remains subdued and lacks resilience. Indeed, just as they did in April, sales fell significantly further than expected in June as bad weather deterred shoppers. In particular, having rebounded a rapid 2.9%M/M in May, the volume of retail sales fell in June by 1.2%M/M, twice as steep as the median forecast on the Bloomberg survey as footfall was hit by unseasonably cool weather in the first two weeks of the month and intermittent rain showers and occasional thunderstorms for much of the time thereafter. As a result, sales in June were down 4.5%Y/Y, 1.3% below the pre-pandemic level and broadly in line with the Q1 average level. And, having jumped 1.9%Q/Q in Q1, sales in Q2 fell 0.1%Q/Q and were unchanged on the quarter when excluding auto fuel. Sales over the quarter as a whole fell at food stores (-1.3%Q/Q) and non-food stores (-0.5%Q/Q) with weakness in clothing and furniture tallying with the bad weather. With many shoppers choosing to stay at home, online sales provided some offset, with non-store sales up 4.9%Q/Q.

Consumer survey signals firm spending in Q3

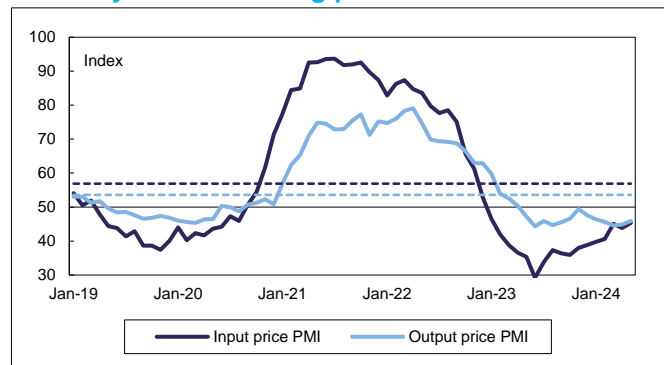
While spending on goods was broadly flat over Q2 as a whole, growth in spending on services was likely firm. And, notwithstanding the vagaries of the British weather, the July GfK consumer confidence survey suggests that retail sales should return to growth in the current quarter and private consumption should provide the principal source of economic growth in Q3. Admittedly, the headline sentiment index rose only 1pt in July to -13, still some way below the pre-pandemic

Germany: Selected PPI components



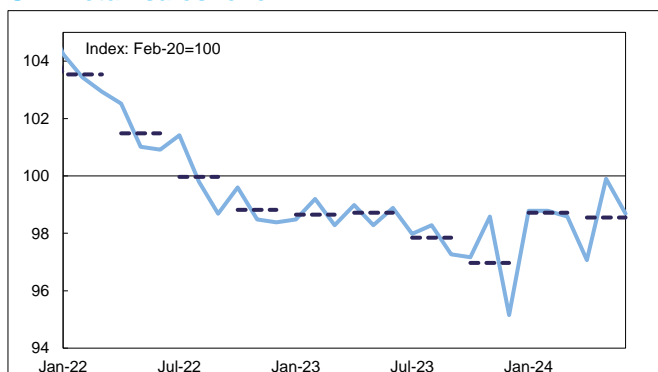
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing price PMIs*



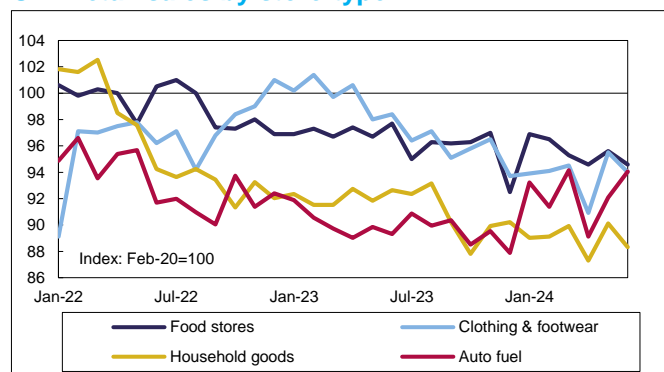
*Dashed lines represent long-run average. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Retail sales level*



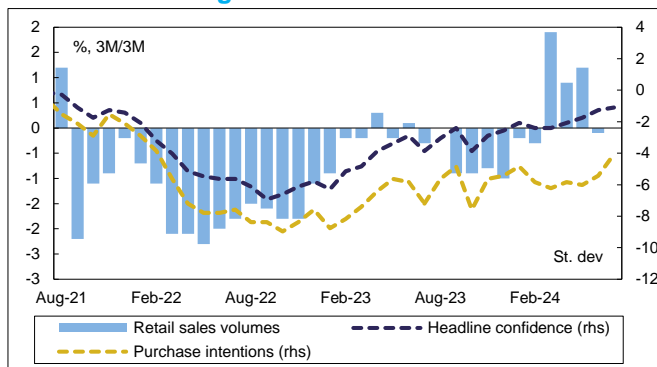
*Dashed lines represent quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales by store-type



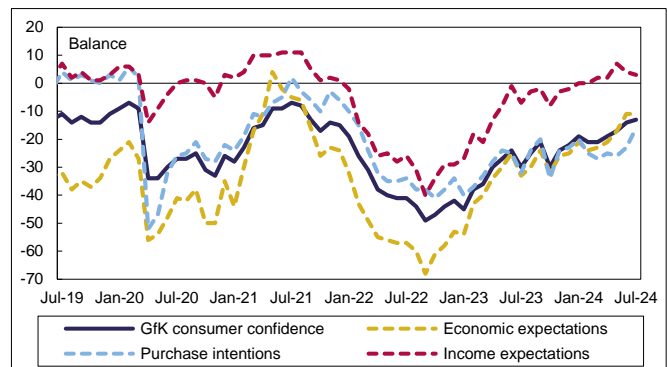
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales growth & consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.










five-year average (-6). But that represented the fourth successive monthly increase and took the index to its highest since September 2021. Households were no more optimistic about the economic outlook than last month, and – despite elevated wage growth – were somewhat less upbeat about prospects for their own incomes. However, perhaps given the recent moderation in inflation, the climate for making major purchases was judged to have improved markedly to be the most favourable since the Russian invasion of Ukraine.

The week ahead in the UK

Like in the euro area, the flash July PMIs will represent the key UK economic data release in the coming week. While the UK PMIs for June signalled a further slowing in economic momentum at the end of Q2, they remained consistent with another quarter of solid GDP growth. Indeed, despite falling to a six-month low in June (52.3), the quarterly composite output PMI was a touch firmer than in Q1 when GDP grew a surprisingly vigorous 0.7%Q/Q. The detail suggested that services activity softened slightly over the second quarter, contrasting a marked improvement in manufacturing production. Overall, the July output components are forecast to move sideways on the month, suggesting broadly stable economic conditions at the start of Q3. The price PMIs will also be in focus. A further notable moderation in services input costs in June and softer demand might feed through to renewed downwards pressure on the index for services output inflation at the start of Q3. In contrast, a pickup in input costs in the factory sector associated not least with higher shipping costs and longer delivery times might put some upwards pressure on output prices, although the relevant index will likely still remain below the long-run average. The CBI's industrial trends survey (Thursday) will offer further insights into manufacturing conditions, with the quarterly survey to provide an update on firms' investment intentions for the coming 12 months.







The next edition of the Euro wrap-up will be published on 24 July 2024

Daiwa economic forecasts

	2024				2025		2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	%, 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	0.3	0.3	0.3	0.1	1.0	1.2
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.6	2.5	2.3	2.6	2.3	1.8	5.4	2.5	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	2.7	2.6	2.2	7.3	2.6	2.3
Core CPI 	4.6	3.6	3.4	3.4	3.2	2.2	6.2	3.7	2.3
Monetary policy, %									
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.
























European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Euro area 	Current account balance €bn	May	36.7	-	38.6	36.7
Germany 	PPI Y/Y%	Jun	-1.6	-1.6	-2.2	-
UK 	GfK consumer confidence indicator	Jul	-13	-12	-14	-
	Retail sales – including auto fuel M/M% (Y/Y%)	Jun	-1.2 (-0.2)	-0.6 (0.3)	2.9 (1.3)	-(1.7)
	Retail sales – excluding auto fuel M/M% (Y/Y%)	Jun	-1.5 (-0.8)	-0.5 (0.2)	2.9 (1.2)	-(1.6)
	Public sector net borrowing £bn	Jun	14.5	11.2	15.0	16.5
Auctions						
Country	Auction	- Nothing to report -				

Source: Bloomberg 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
Monday 22 July 2024					
- Nothing scheduled -					
Tuesday 23 July 2024					
Euro area		15.00 Preliminary Commission consumer confidence indicator	Jul	-13.5	-14.0
Wednesday 24 July 2024					
Euro area		09.00 Preliminary manufacturing (services) PMI	Jul	46.0 (52.9)	45.8 (52.8)
		09.00 Preliminary composite PMI	Jul	50.8	50.9
Germany		07.00 GfK consumer confidence indicator	Aug	-21.0	-21.8
		08.30 Preliminary manufacturing (services) PMI	Jul	44.0 (53.3)	43.5 (53.1)
		08.30 Preliminary composite PMI	Jul	50.6	50.4
France		08.15 Preliminary manufacturing (services) PMI	Jul	45.8 (49.8)	45.4 (49.6)
		08.15 Preliminary composite PMI	Jul	48.8	48.8
UK		09.30 Preliminary manufacturing (services) PMI	Jul	51.2 (52.5)	50.9 (52.1)
		09.30 Preliminary composite PMI	Jul	52.6	52.3
Thursday 25 July 2024					
Euro area		09.00 M3 money supply Y/Y%	Jun	1.9	1.6
Germany		09.00 Ifo business climate indicator	Jul	89.0	88.6
		09.00 Ifo current assessment (expectations) indicator	Jul	88.5 (89.0)	88.3 (89.0)
France		07.45 INSEE business (manufacturing) confidence indicator	Jul	-	98.8 (98.6)
		11.00 Total jobseekers mn	Q2	-	2.8
UK		11.00 CBI industrial trends survey – total orders (selling price) balance %	Jul	-20 (-)	-18 (20)
Friday 26 July 2024					
Euro area		09.00 ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Jun	-	2.8 (2.3)
France		07.45 INSEE consumer confidence indicator	Jul	90	89
Italy		09.00 ISTAT consumer confidence indicator	Jul	98.3	98.3
		09.00 ISTAT business (manufacturing) confidence indicator	Jul	-(87.5)	94.5 (86.8)
		10.00 Hourly wages Y/Y%	Jun	-	3.4
Spain		08.00 Retail sales Y/Y%	Jun	-	0.2
		08.00 Unemployment rate %	Q2	-	12.3

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 22 July 2024		
- Nothing Scheduled -		
Tuesday 23 July 2024		
Germany 	10.30	Auction: to sell €5.0bn of 2026 bonds
UK 	10.00	Auction: to sell £1.0bn of 0.125% 2039 inflation-linked bonds
Wednesday 24 July 2024		
Euro area 	09.00	Eurostat to publish quarterly data on government deficit/debt in the Euro Area
	13.00	ECB Chief Economist Lane to discuss 'the global new normal' on panel at the Joint ECB-IMF-IMFER conference in Frankfurt
Germany 	10.30	Auction: to sell €5.0bn of 2.60% 2034 bonds
UK 	10.00	Auction: to sell £2.25bn of 4.375% 2054 bonds
Thursday 25 July 2024		
Italy 	10.00	Auction: to sell 2026 inflation-linked bonds
Friday 26 July 2024		
- Nothing Scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

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