

# Euro wrap-up

## Overview

- While French and Italian consumer confidence pointed to firmer consumption growth, Bunds followed USTs higher as an Italian business survey signalled slowing economic growth.
- Gilts also made gains on a quiet day for UK economic data.
- The coming week will bring the BoE's monetary policy announcement and updated macroeconomic projections on Thursday, while flash estimates of euro area July inflation and Q2 GDP will be published.

**Emily Nicol**

+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.602	-0.022
OBL 2½ 10/29	2.326	-0.016
DBR 2.6 08/34	2.404	-0.010
UKT 0% 01/26	3.885	-0.034
UKT 0½ 01/29	3.891	-0.019
UKT 4% 01/34	4.097	-0.031

\*Change from close as at 5.00pm BST.

Source: Bloomberg

## Euro area

### Consumer confidence rises to highest since early 2022

Contrasting with the marked deterioration in the [French INSEE business sentiment](#) indices in July, but tallying with the improvement in the Commission's flash euro area consumer confidence index, today's INSEE consumer survey suggested that French households largely ignored the rise in political uncertainties at the start of Q3. In particular, the headline confidence index rose for the first month in four, by 1pt to 91, matching the top of the range of the past two years. Admittedly, this remains well below levels seen ahead of Russia's invasion of Ukraine and some 9% below the long-run average. And within the detail, households remained relatively downbeat about the economic outlook. But expectations with respect to personal income over the coming twelve months were the best since March. And while the share of French consumers considering it a good time to make major purchases was unchanged on the month, it was nevertheless the joint-highest for more than two years.

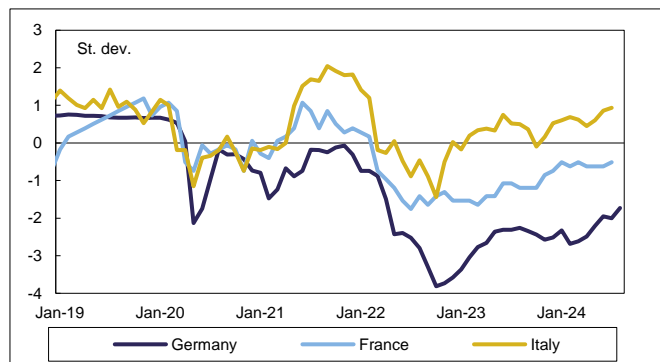
### Sentiment bolstered by higher income expectations as households expect inflation to ease further

According to ISTAT, Italian consumers were similarly the most upbeat since February 2022, with the respective index rising 0.6pt to 98.9, still some 1% below the 2021 average but roughly 7% above the long-run average. Expectations with respect to personal income and the broader economy over the coming twelve months improved slightly in July. And while recent spending trends were a touch softer, the respective index for purchase intentions over the coming year was the joint highest in eleven months. The improvement in household sentiment in part reflects expectations that inflation will continue to fall over the coming year. The results of the ECB's latest consumer survey also reported that the median forecast for euro area inflation three years ahead was unchanged at 2.3%Y/Y, the joint softest since February 2022 and pointing to confidence in the ECB's ability to achieve its target over the medium term. Overall, given the anticipated improvement in real disposable incomes, today's surveys suggest that household consumption growth should contribute positively to euro area GDP growth in Q3, and likely beyond.

### Italian business sentiment signals slowing economic growth

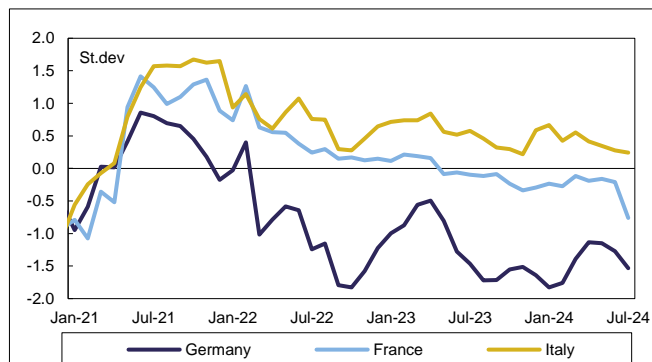
Compared with the monthly drop in French and German business sentiment in July, today's ISTAT survey suggested that the deterioration in Italian business confidence was more moderate in July. Nevertheless, the headline sentiment index – down 0.3pt to 94.2 – maintained the steady downtrend since the start of the year, with the level in July at the bottom of the range of the previous three years. The decline in July was led by services (down more than 1pt to an eight-month low of 95.9) amid a marked weakening in recent and expected demand. Despite a modest pickup in factory orders, manufacturing sentiment

### Euro area member states: Consumer confidence



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

### Euro area member states: Business confidence



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

remained range-bound too, with recent production trends judged to be the weakest since end-2020. More encouragingly, assessments of recent construction activity were the strongest since January, while order books were also the fullest since December. Overall, however, like the German and French national business indices, today's survey signalled a further slowing in Italy's economic growth this quarter.

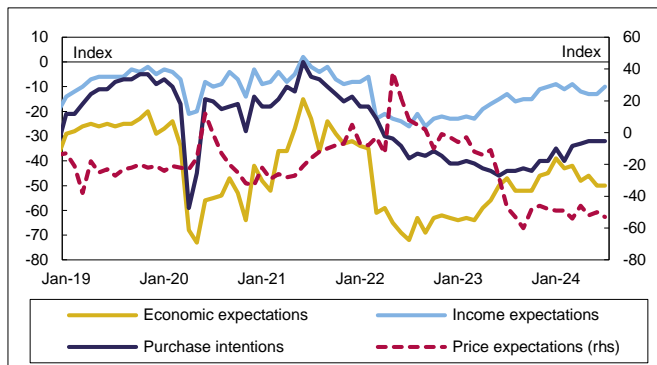
### The week ahead in the euro area

In a busy week ahead for economic data releases, the highlights will be the flash estimates of euro area inflation in July (Wednesday) and GDP growth in Q2 (Tuesday). Having eased back slightly in June to 2.5%Y/Y, we expect headline consumer price inflation to be unchanged in July. However, that figure will be partly boosted by higher prices of auto fuel and heating gas oil, offsetting ongoing moderate disinflation in food. But having fallen to a near-3-year low over recent months (0.7%Y/Y), non-energy industrial goods inflation might also tick slightly higher reflecting a recent acceleration in input costs. As such, while we expect services inflation to have edged marginally lower to 4.0%Y/Y, core inflation might well merely move sideways, at 2.9%Y/Y for third successive month. The preliminary inflation estimates from Germany, Spain, Belgium and Ireland, due Tuesday, will provide an initial guide to the euro area data.

The preliminary estimates of economic output in Q2 are likely to confirm a slightly softer pace of expansion than in Q1. Surveys like the PMIs signalled a slowing in growth momentum towards the end of the second quarter. And while services will provide a boost, manufacturing output likely moved broadly sideways over the quarter, while construction is on track to reverse the weather-assisted jump in activity in Q1. Overall, we expect euro area GDP growth of 0.2%Q/Q in Q2, down from 0.3%Q/Q in Q1 and 0.2ppt below the ECB's projection. The slowdown in part reflects weaker growth in Germany, where GDP might well merely move sideways in Q2, despite a boost from the European football championship to certain services. We also think that growth in France and Italy slowed slightly in Q2 to 0.1%Q/Q. But while growth in Spain might have moderated from 0.8%Q/Q in Q1, we continue to expect it to significantly outperform other larger member states (0.5%Q/Q). While the preliminary figures for the four largest member states will be published on Tuesday, the data from Belgium and Ireland – the latter of which often has a significant impact on the euro area figure – will be published on Monday.

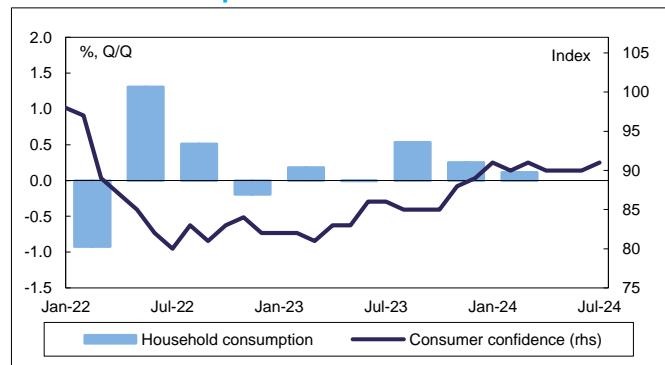
Among other notable data due in the coming week, the Commission's economic sentiment indices (due Tuesday) might well validate the message of the flash PMIs that economic growth stagnated at the start of Q3 despite an improvement in consumer confidence. Labour market data from Germany (for July on Wednesday) and the euro area (for June on Thursday) might well point to a modest pickup in unemployment.

#### France: Consumer confidence indices



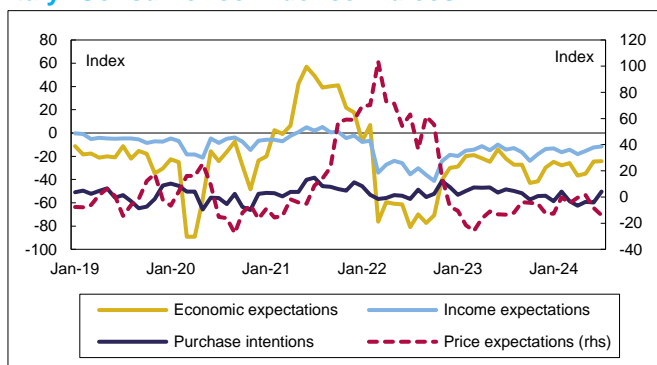
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: Consumption & consumer confidence



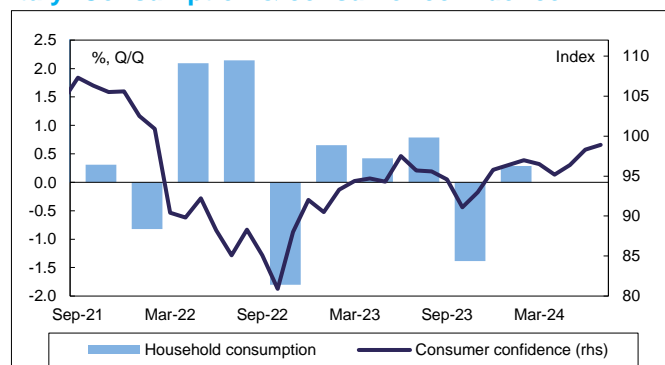
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Italy: Consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Italy: Consumption & consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## UK

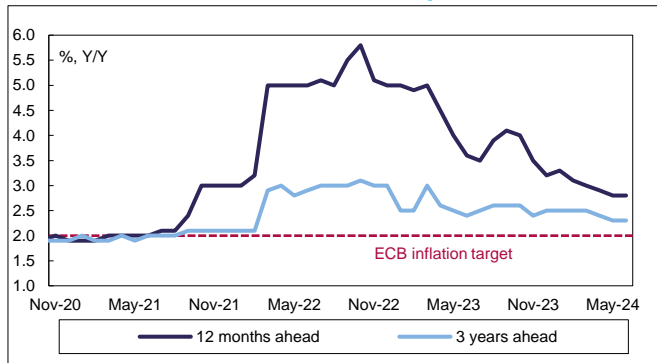
### BoE policy decision to be a close call, but we expect a first 25bp cut in Bank Rate

The main event in the UK in the coming week will be the BoE's latest monetary policy announcement on Thursday, which will be accompanied by the publication of updated macroeconomic forecasts in its August Monetary Policy Report (MPR). In June, the MPC left Bank Rate at 5.25% for an eighth successive meeting, with just two members – the uber-dove Dhingra and Deputy Governor Ramsden – voting for a 25bps cut. But the decision to keep policy unchanged for some of the remaining seven members was “finely balanced”, and we think that BoE Governor Bailey was in this pivotal group. So not to appear politicised ahead of the general election on 4 July, commentary from policymakers has been largely absent since the June monetary policy meeting, so it is difficult to gauge to what extent MPC members might now have adjusted their views on the risks of inflation persistence. Moreover, this meeting will be the first for new Deputy Governor Clare Lombardelli, who at the start of this month replaced Ben Broadbent – probably another member who judged the decision in June to be “finely balanced” – and whose current reaction function is unknown. As such, the outcome of the 1 August meeting is still too close to call with great conviction, with market implied probabilities for a cut of around 50% seeming appropriate to us. On balance, however, we still expect rates to be cut for the first time this cycle next week, by 25bps to 5.00%, but wouldn't be surprised if the vote split was as close as 5 to 4. And policymakers might well prefer to await another month's data on inflation and conditions in the labour market before pulling the trigger.

### Recent data have been mixed, but sticky services likely to be temporary & pay growth moderating

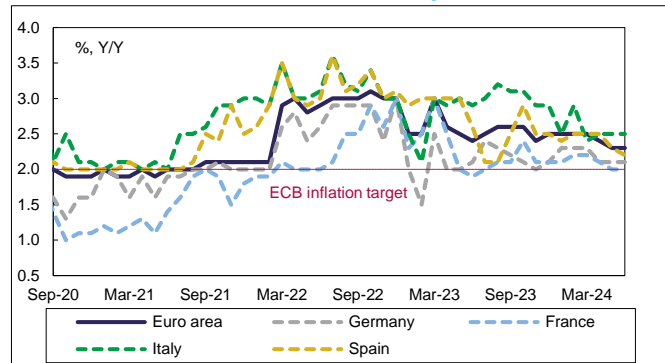
Key data related to the BoE's policy reaction function have recently been mixed. While [headline inflation](#) fell back to the 2% target last quarter to be broadly in line with the Bank's projection, services inflation remained elevated and trended a chunky 0.6ppt above the BoE's projection. While this arguably adds support to the case for keeping rates unchanged, the detail suggests that the stickiness relates to temporary and exceptional factors, particularly in the hotel sector. Indeed, the Bank's preferred core services measure – excluding airfares, accommodation and rents – eased in June to a two-year low. The latest [labour market](#) data also offered evidence of a further reduction in the risks of inflation persistence over recent months. The vacancies-to-unemployment ratio – a key metric of labour market tightness watched by the MPC – has fallen back below the average in the two years before the pandemic. Wage pressures also appear to be moderating, with private sector regular pay growth falling to its lowest rate in 23 months and averaging in the first two months of Q2 just 0.3ppt above the BoE's quarterly projection for last quarter (5.1%3M/Y). Meanwhile, although monthly GDP surprised on the upside in May, we expect some payback in June as illustrated by the drop in [retail sales](#) that month, to leave GDP broadly on track with the updated Bank staff expectations at the June policy meeting. While the past week's [flash PMIs](#) improved in July, they still

#### Euro area: Consumer inflation expectations



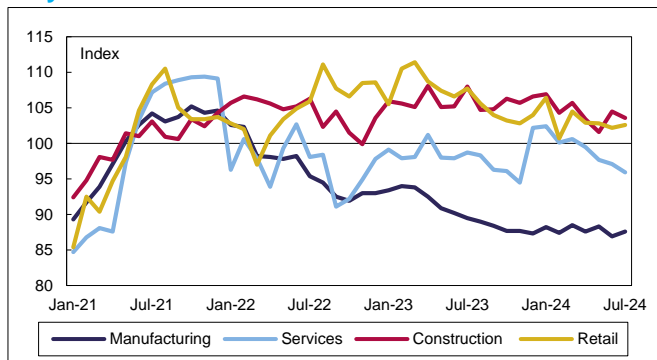
Source: Macrobond, ECB and Daiwa Capital Markets Europe Ltd.

#### Euro area: Consumer inflation expectations\*



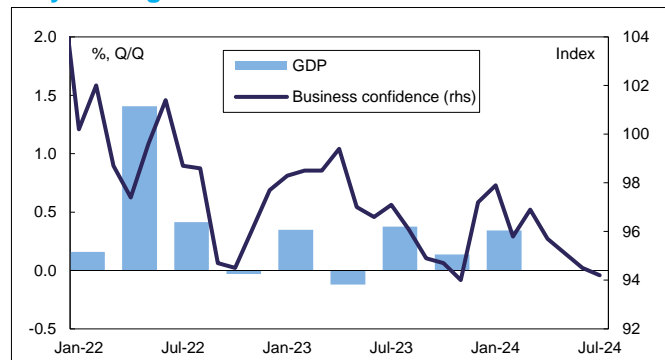
\*Three years ahead. Source: Macrobond, ECB and Daiwa Capital Markets Europe Ltd.

#### Italy: ISTAT business sentiment indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Italy: GDP growth & ISTAT business sentiment



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

suggested slightly softer economic growth compared with the first half of the year. And, anyway, the recent softness of job growth suggests that firmer economic growth this year has been associated with a long-awaited pickup in productivity, which would suggest that it should not be inflationary.

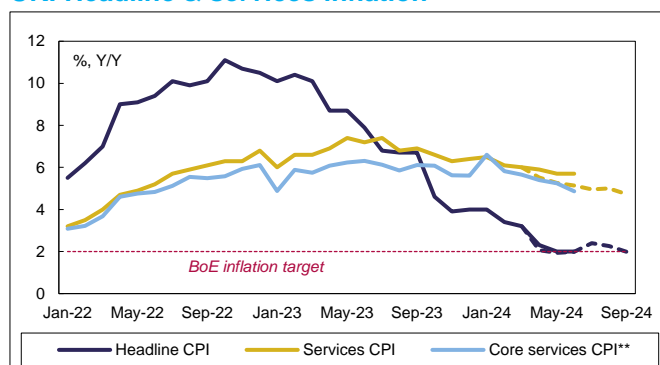
### MPC to revise up GDP projection, but should still expect inflation to be on target in 2026

In terms of the BoE's forecasts, we expect the MPC to shift higher its baseline projection for full-year GDP growth in 2024 from 0.4%Y/Y to around 1.0%Y/Y. There is also a decent case for revising up the growth projection for 2025 (1.0%Y/Y). But leading indicators – such as the HMRC's estimate of median pay and the BoE's DMP measure of firms' expectations for pay growth 12-months ahead – suggest that the Bank will expect the downtrend in wage growth to be maintained. Moreover, while the Bank's expected profile for services inflation might be nudged up, the price of Brent crude oil has fallen and the effective sterling exchange rate has appreciated from the assumptions used in the May projections. Admittedly, with the Ofgem regulated household energy price cap likely to rise about 10% in October, inflation will take a step up from that month. But our current CPI forecast for end-2024 of 2.7%Y/Y aligns with that of the MPC's May projections. In addition, as suggested in its previous projection, inflation should still fall back close to the 2% target by end-2025. And while the Bank might well nudge up slightly its projections for 2026, which in May had expected inflation to fall to 1.6% in Q426, we still expect it to anticipate inflation to return to target by the end of the forecast horizon, allowing for a first rate cut next week.

### The week ahead for UK data

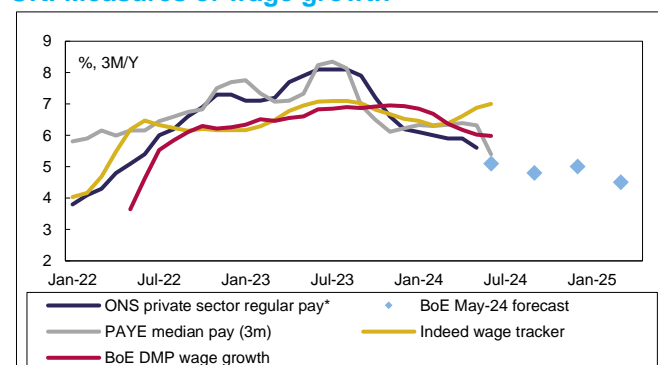
Data-wise, the coming week will bring largely second-tier releases, kicking off with the BoE's monetary figures for June on Monday. The findings of the BoE's credit conditions survey that suggested that the availability of secured and unsecured credit to households and firms alike was unchanged in Q2. So, while the survey also suggested a pickup in loan demand from households, the latest monthly data are likely to show still lacklustre bank lending growth at the end of Q2. Monday will also bring the CBI's distributive trade survey for July, which will provide a first insight into retail sales growth at the start of Q3. Spending on goods is likely to remain lacklustre as inclement weather dampened demand. Take together with strong competition on the High Street, we expect the BRC's measure of shop price inflation (data due Tuesday) to remain extremely weak in July – likely close to the 2½-year low of 0.2%Y/Y recorded in June.

#### UK: Headline & services inflation\*



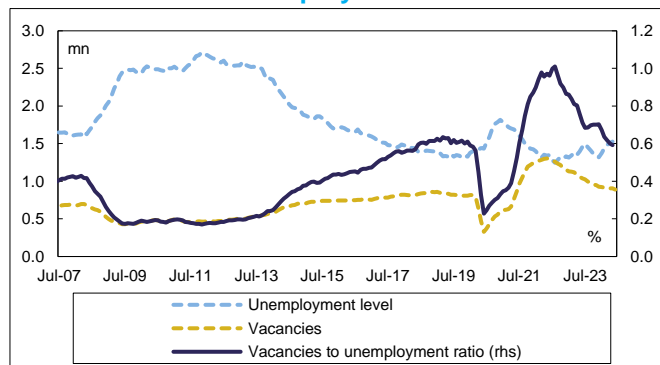
\*Dashed lines represent BoE forecast from May Monetary Policy Report. \*\*Core services excludes airfares, accommodation and rents. Source: BoE, Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Measures of wage growth



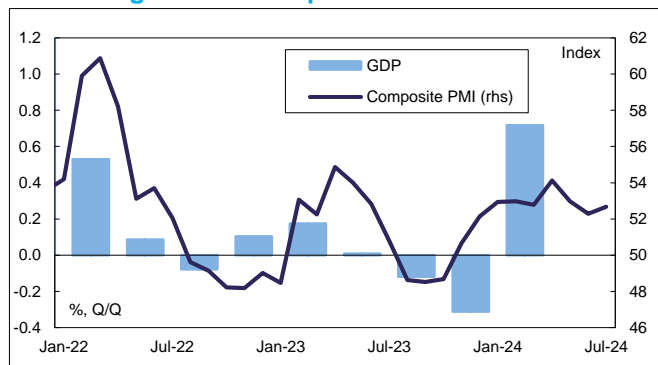
\*Data between Jan-22 & Nov-22 are BoE Staff estimates of underlying private regular pay growth. Source: BoE, Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Vacancies & unemployment












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: GDP growth & composite PMI










Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

## Daiwa economic forecasts

		2024				2025		2023	2024	2025
		Q1	Q2	Q3	Q4	Q1	Q2			
GDP		%, Q/Q						%, Y/Y		
Euro area		0.3	0.2	0.3	0.3	0.3	0.4	0.6	0.7	1.3
UK		0.7	0.5	0.3	0.3	0.2	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/ <i>Daiwa forecast</i>	Previous	Revised	
Euro area	 ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Jun	2.8 (2.3)	-	2.8 (2.3)	-	
France	 INSEE consumer confidence indicator	Jul	91	90	89	90	
Italy	 ISTAT consumer confidence indicator	Jul	98.9	98.7	98.3	-	
	 ISTAT business (manufacturing) confidence indicator	Jul	94.2 (87.6)	- (87.3)	94.5 (86.8)	- (86.9)	
	 Hourly wages Y/Y%	Jun	3.6	-	3.0	-	
Spain	 Retail sales Y/Y%	Jun	-1.5	-	0.4	-	
	 Unemployment rate %	Q2	11.3	11.4	12.3	-	
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 29 July 2024						
UK		09.30	Net consumer credit £bn (Y/Y%)	Jun	1.3 (-)	1.5 (8.3)
		09.30	Net mortgage lending £bn (approvals 000s)	Jun	1.1 (60.3)	1.2 (60.0)
		11.00	CBI distributive trades survey – reported retail sales balance %	Jul	-	-24
Tuesday 30 July 2024						
Euro area		10.00	GDP – first estimate Q/Q% (Y/Y%)	Q2	<u>0.2 (0.5)</u>	0.3 (0.4)
		10.00	Commission Economic Sentiment indicator	Jul	95.4	95.9
		10.00	Commission industrial (services) confidence indicator	Jul	-10.8 (5.4)	-10.1 (6.5)
		10.00	Final Commission consumer confidence indicator	Jul	-13.0	-14.0
Germany		09.00	GDP – first estimate Q/Q% (Y/Y%)	Q2	<u>0.0 (0.0)</u>	0.2 (-0.2)
		13.00	Preliminary HICP (CPI) Y/Y%	Jul	2.5 (2.2)	2.5 (2.2)
France		06.30	GDP – first estimate Q/Q% (Y/Y%)	Q2	<u>0.1 (0.7)</u>	0.2 (1.3)
		06.30	Consumer spending M/M% (Y/Y%)	Jun	-	1.5 (0.9)
Italy		09.00	GDP – first estimate Q/Q% (Y/Y%)	Q2	<u>0.1 (1.0)</u>	0.3 (0.7)
Spain		08.00	GDP – first estimate Q/Q% (Y/Y%)	Q2	<u>0.5 (2.5)</u>	0.8 (2.5)
		08.00	Preliminary HICP (CPI) Y/Y%	Jul	3.3 (3.1)	3.6 (3.4)
UK		00.01	BRC shop price index Y/Y%	Jul	-	0.2
Wednesday 31 July 2024						
Euro area		10.00	Preliminary headline (core) HICP Y/Y%	Jul	<u>2.5 (2.9)</u>	2.5 (2.9)
Germany		08.55	Unemployment rate % (change 000's)	Jul	6.0 (15.0)	6.0 (19.0)
France		07.45	Preliminary HICP (CPI) Y/Y%	Jul	2.7 (2.4)	2.5 (2.2)
		07.45	PPI Y/Y%	Jun	-	-6.7
Italy		10.00	Preliminary HICP (CPI) Y/Y%	Jul	1.2 (1.1)	0.9 (0.8)
		11.00	PPI Y/Y%	Jun	-	-4.9
UK		00.01	Lloyds business barometer (own price expectations)	Jul	-	41 (53)
Thursday 1 August 2024						
Euro area		09.00	Final manufacturing PMI	Jul	45.6	45.8
		10.00	Unemployment rate %	Jun	6.5	6.4
Germany		09.00	Final manufacturing PMI	Jul	42.6	43.5
France		08.50	Final manufacturing PMI	Jul	44.1	45.4
Italy		08.45	Manufacturing PMI	Jul	46.0	45.7
		-	Budget balance	Jul	-	-13.4
Spain		08.15	Manufacturing PMI	Jul	52.2	52.3
UK		09.30	Final manufacturing PMI	Jul	51.8	50.9
		12.00	BoE Bank Rate %	Aug	<u>5.00</u>	5.25
		14.00	DMP 3M output price (1Y CPI) expectations Y/Y%	Jul	-	3.9 (2.8)
Friday 2 August 2024						
France		07.45	Industrial production M/M% (Y/Y%)	Jun	-	-2.1 (-3.1)
		07.45	Budget balance YTD €bn	Jun	-	-113.5
Italy		09.00	Industrial production M/M% (Y/Y%)	Jun	-	0.5 (-3.3)
		10.00	Retail sales Y/Y%	Jun	-	0.4
Spain		08.00	Unemployment (employment) change 000s	Jul	-	-46.8 (31.3)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



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

Country	BST	Event / Auction
<b>Monday 29 July 2024</b>		
- Nothing Scheduled -		
<b>Tuesday 30 July 2024</b>		
Italy 	10.00	Auction: to sell up to €1.75bn of 3.35% 2029 bonds
	10.00	Auction: to sell up to €1.5bn of 4.1% 2029 bonds
	10.00	Auction: to sell up to €1.5bn of floating rate 2032 bonds
	10.00	Auction: to sell up to €4.5bn of 3.85% 2035 bonds
UK 	10.00	Auction: to sell £3.75bn of 4.25% 2034 bonds
<b>Wednesday 31 July 2024</b>		
Germany 	10.30	Auction: to sell €3.0bn of 2.4% 2030 bonds
<b>Thursday 1 August 2024</b>		
Euro area 	09.00	ECB to publish Economic Bulletin
France 	09.50	Auction: to sell up to €10.5bn of 3.0% 2034, 1.25% 2038, 2.5% 2043 and 4.0% 2055 bonds
Spain 	09.30	Auction: to sell bonds of varying maturities
UK 	12.00	BoE monetary policy announcement, minutes and Monetary Policy Report to be published
	12.30	BoE Governor Bailey to present updated macroeconomic projections at press conference
	17.00	BoE Chief Economist Pill to hold virtual Q&A session
<b>Friday 2 August 2024</b>		
UK 	12.15	BoE Chief Economist Pill to brief Bank's Agents on updated macroeconomic projections

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.blumatrix.com/sellside/Disclosures.action>.

#### Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: [https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit\\_ratings.pdf](https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf). If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

#### IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.