

Euro wrap-up

Overview

- Bunds followed the global trend higher, while Irish GDP accelerated in Q2 to make a non-negligible contribution to growth in the region but Belgian growth moderated to give a better guide to the euro area figure.
- Gilts also made gains while a UK survey signalled that retail sales remained subdued at the start of Q3.
- Tomorrow will bring the first estimates of Q2 GDP from the euro area and larger member states, as well as flash July inflation figures from Germany and Spain.

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Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.582	-0.019
OBL 2½ 10/29	2.287	-0.039
DBR 2.6 08/34	2.354	-0.050
UKT 0½ 01/26	3.835	-0.049
UKT 0½ 01/29	3.849	-0.044
UKT 4½ 01/34	4.039	-0.058

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

Source: Bloomberg

Euro area

Irish GDP accelerates in Q2 to make a non-negligible contribution to the region's growth

Ahead of tomorrow's first estimate of euro area GDP in Q2, today brought initial readings from Belgium and Ireland. The latter often has a significant impact on the euro area figure due to the reported large swings in the activities of large multinational corporations based there for tax purposes. According to today's release, Irish GDP accelerated for a second successive quarter in Q2, rising 1.2%Q/Q, the most since Q322, contributing 0.05ppt to euro area growth. The pickup in Ireland likely in part reflects some payback for the weakness in 2023, when GDP declined 5.6%Y/Y. But thanks to the strong growth in the initial post-Covid period, the level of GDP in Q2 was still some 22% above the pre-pandemic benchmark in Q419. Ireland's Central Statistical Office again attributed growth in Q2 to the multinational-dominated industrial sector. This was in line with expectations, as monthly figures published for April and May showed industrial production tracking some 5% above the Q1 average, while manufacturing output was up more than 6½% on the same basis.

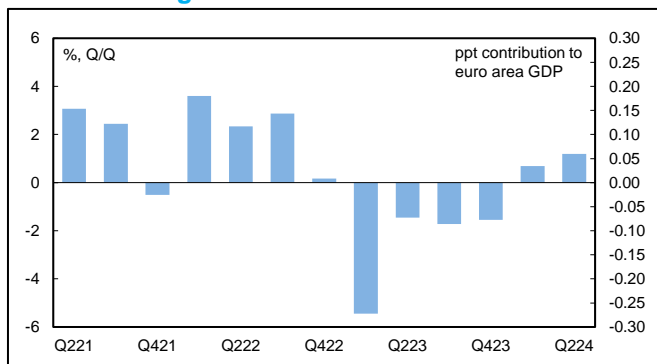
Growth in Belgium slows to 6-quarter low suggestive of moderation in the rest of the euro area too

In contrast to Ireland, other figures published today suggested that Belgian industrial output fell slightly in Q2 (-0.3%Q/Q). Nevertheless, supported by growth in services (0.2%Q/Q) and construction (1.1%Q/Q), Belgian GDP grew 0.2%Q/Q in Q2, down 0.1ppt from Q1 and the softest rate in six quarters. Like Ireland, Belgium accounts for only around 4% of euro area GDP. But it is often a bellwether for the region as a whole and provides a much more reliable guide to the strength of growth in the rest of euro area last quarter. Certainly, surveys like the PMIs signalled a slowing in growth momentum towards the end of Q2. And while services provided a boost to euro area GDP, 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, after today's data, we still 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 day ahead in the euro area

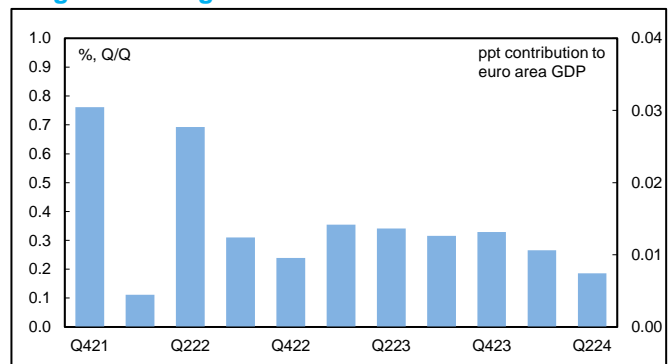
Of course, the euro area GDP data will depend on the performance of the four largest member states, for which the preliminary GDP figures are also due tomorrow. The slowdown in the region in part will likely reflect weaker growth in Germany, where we think that GDP grew 0.1%Q/Q with the risks skewed to the downside despite a boost to certain services sectors from the European football championship. 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, it will still have significantly outperformed the other larger member states (0.5%Q/Q). Meanwhile, the Commission's economic sentiment indices, also due tomorrow, will provide an update on economic momentum at the start of Q3. These are highly likely to validate the message of the [flash](#)

Ireland: GDP growth & contribution to EA GDP



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Belgium: GDP growth & contribution to EA GDP



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

PMIs that economic growth momentum weakened significantly further in July despite an improvement in consumer confidence. In addition, ahead of Wednesday's euro area flash inflation estimates for July, tomorrow will bring equivalent figures from Germany and Spain. The headline German HICP inflation rate is expected to move sideways at 2.5%Y/Y, but Spanish inflation is expected to drop 0.4ppt to 3.2%Y/Y from June's 12-month high.

UK

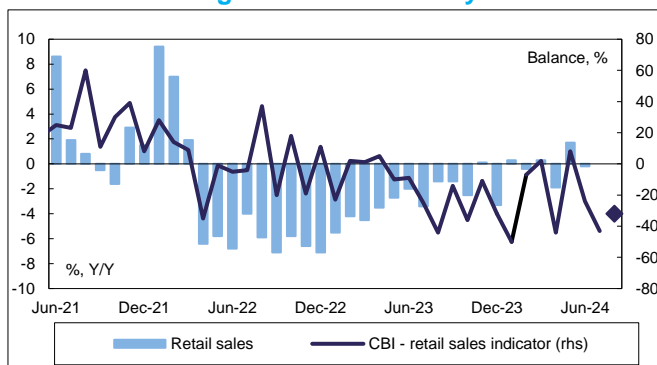
Retail survey signals subdued sales at start of Q3

After the sharp decline in **sales** in June, today's CBI distributive trades survey offered a gloomy assessment of UK retail sector conditions at the start of Q3. In particular, the headline balance for retail sales volumes compared with a year earlier declined sharply in July, by 19pts to -43%, one of the weakest readings since early 2021. While this series has been particularly volatile over recent quarters, the share of retailers suggesting that sales were below seasonal norms for the time of the year was similarly large to June with inclement weather again reportedly a key factor dampening demand. With retailers expecting sales volumes to fall again in August, albeit at a somewhat more modest pace, and the ratio of stocks to expected sales the highest since June 2023, they reportedly cut back sharply orders placed on suppliers. When also including wholesale activity and car dealerships, the CBI recorded the largest share of firms reporting a decline in sales volumes since the start of the year, with a similar drop expected next month too. Given the recent pickup in consumer confidence and rising real disposable incomes, however, we continue to expect consumption of services to offset the weakness in spending on goods and provide support to GDP growth through the second half of the year.

Consumer credit remains subdued, while pickup in mortgage lending might prove temporary

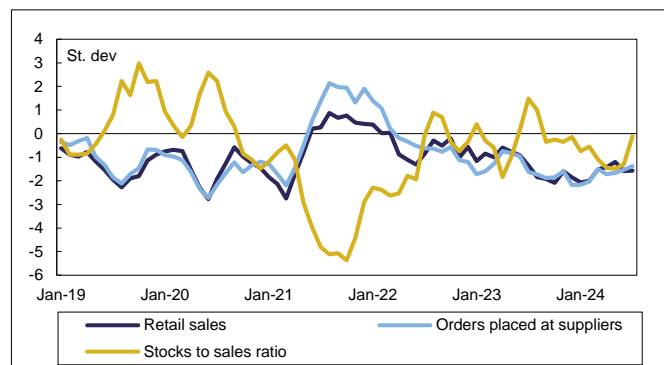
For some consumers, subdued spending on goods perhaps also relates to their reluctance to borrow amid still elevated interest rates. Today's BoE monetary figures showed that consumer credit growth slowed in June to £1.2bn, leaving the annual growth rate at a nine-month low of 8.0%Y/Y and momentum down to 6.3%3M/3M annualised, the softest since January 2023. Today's figures also saw another sizeable increase in household deposits in June, by £8.4bn, to be up 3.6%Y/Y, the most since end-2022, as savers seemingly tried to take advantage of higher interest rates before the BoE eases monetary policy. More encouragingly, today's numbers reported that households borrowed a net £2.7bn of mortgage debt in June, double the amount in May and the most in 19 months. However, this left the annual growth rate in the stock of such loans at just 0.5%Y/Y, the highest in nine months but still well below the average pace in the five years before the pandemic (3.1%Y/Y). And with the amount of new mortgage approvals slipping back slightly to 60k in June, a five-month low, mortgage lending might well remain relatively subdued for the time being. In terms of lending to businesses, there was a net

UK: Retail sales growth & CBI survey indicator*



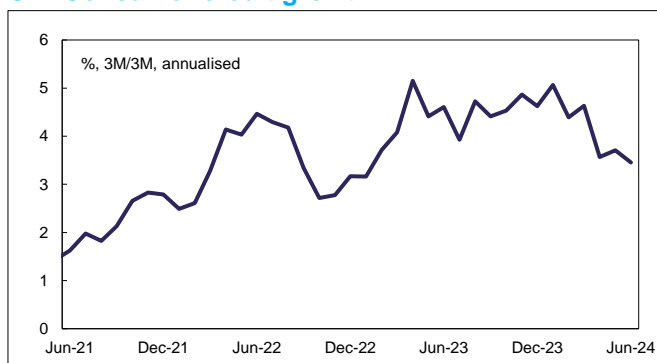
*Diamond represents survey expectation for August. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: CBI distributive trades indices



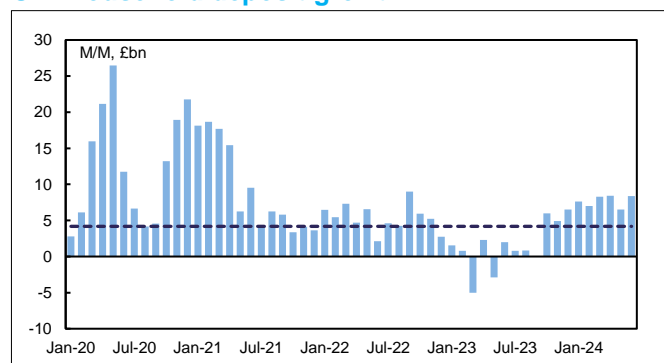
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Consumer credit growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

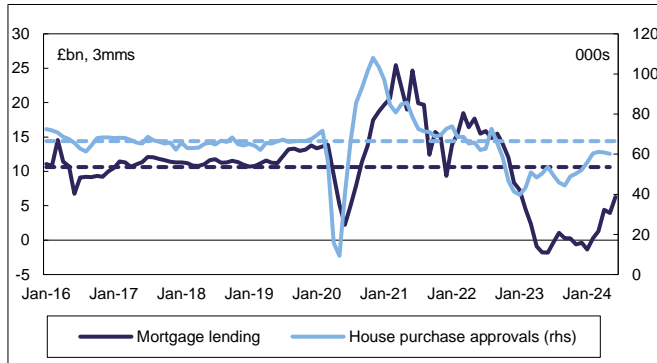
UK: Household deposit growth*



*Dashed dark blue line represent pre-pandemic five-year average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

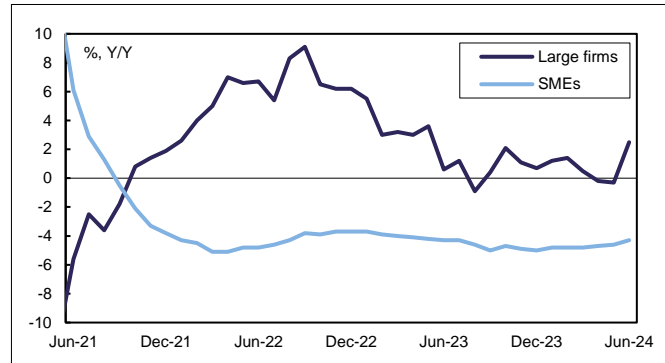
increase in borrowing to large firms for a second-successive month in June, by £2.7bn – the most in nine months – to take annual growth in the stock up to the highest in 13 months (2.5%Y/Y). This, however, contrasted markedly with a further net repayment (£0.8bn) by SMEs for a 37th month out of the past 39, despite a 29bps drop in the effective interest rate on new loans to SMEs.

UK: Mortgage lending & approvals



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Loans to businesses



Source: Macrobond and Daiwa Capital Markets Europe Ltd.




The day ahead in the UK

Tomorrow will bring the release of the BRC's measure of shop price inflation in July. Given a softer food component, weak demand and strong competition on the High Street, we expect the shop price inflation to remain extremely weak, likely close to the 2½-year low of just 0.2%Y/Y recorded in June.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 Net consumer credit £bn (Y/Y%)	Jun	1.2 (8.0)	1.3 (-)	1.5 (8.3)	- (8.4)
	 Net mortgage lending £bn (approvals 000s)	Jun	2.7 (60.0)	1.1 (60.3)	1.2 (60.0)	1.3 (60.1)
	 CBI distributive trades survey – reported retail sales balance %	Jul	-43	-10	-24	-













Auctions

Country	Auction
	- Nothing to report -






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	 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	95.2	95.9
	 10.00	Commission industrial (services) confidence indicator	Jul	-10.6 (6.3)	-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>0.10 (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	-0.1 (-0.2)	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	3.2 (3.0)	3.6 (3.4)
UK	 00.01	BRC shop price index Y/Y%	Jul	0.0	0.2

Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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