

# Euro wrap-up

## Overview

- Shorter-dated Bunds made modest gains as German consumer confidence slipped back despite an improvement in economic and income expectations.
- Gilts also made gains as a UK retail survey signalled a marked decline in sales volumes at the end of Q2.
- Friday will bring the June results of the Commission's economic survey and French and Spanish flash inflation.

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### Daily bond market movements

Bond	Yield	Change
BKO 1.7 06/27	1.814	-0.020
OBL 2.4 04/30	2.124	-0.016
DBR 2½ 02/35	2.563	-
UKT 3% 03/27	3.813	-0.034
UKT 4% 03/30	3.942	-0.033
UKT 4½ 03/35	4.465	-0.013

\*Change from close as at 4:15pm BST.  
Source: Bloomberg

## Euro area

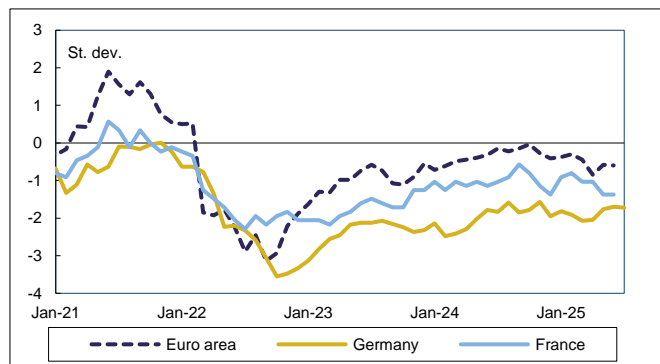
### German consumer confidence slips back, but economic and income expectations improve

While the German [ifo survey](#) and [flash PMIs](#) pointed to improving business conditions at the end of Q2, today's GfK confidence survey suggested that German households were somewhat more apprehensive in the face of heightened geopolitical tensions and the associated spike in oil and gas prices. Indeed, consistent with the modest deterioration reported in the Commission's flash euro area indicator, the headline German GfK consumer confidence index – presented as a forecast for July – fell 0.3pt to -20.3, leaving it some 1.7 standard deviations below the long-run average, by far the weakest of all equivalent indicators for the large member states. Having risen in the previous four months, however, this still marked the second-highest reading in eight months. The detail also suggested that households were the most upbeat about the economic outlook since Russia's invasion of Ukraine in early 2022. With inflation back close to the 2% target and the government planning measures to cut electricity prices at the start of next year, income expectations were also considered the most favourable since October. But amid declining labour demand and moderating wage growth, today's survey also signalled an ongoing preference to save. This notwithstanding, big-ticket purchase intentions remained close to the top of the range of the past three years. And, according to the ifo retail survey, expectations for sales of durable goods in the second half of the year are the most upbeat in ten months, suggesting that spending on the German high street is expected to continue to rise over coming months. As such, after household consumption rose in Q1 by 0.5%Q/Q, the most in more than two years, we expect it to provide further support to GDP growth this quarter and through the second half of the year.

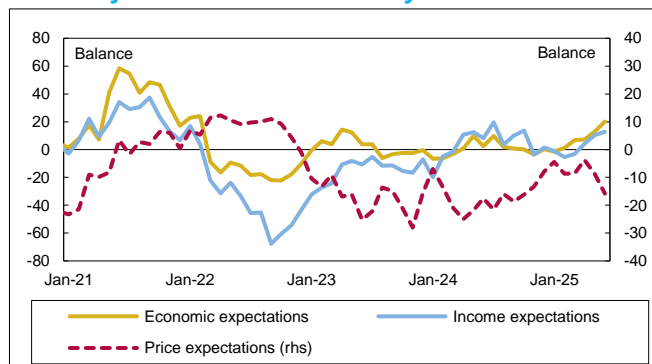
### French consumer confidence remains subdued amid unemployment fears

Yesterday's equivalent French INSEE survey also suggested that consumer confidence remained relatively subdued at the end of Q2. In particular, the headline sentiment indicator was steady in June at 88, the joint-lowest level since December 2023 and some 12% below the long-run average. Perhaps reflecting ongoing uncertainties surrounding the government's pension reforms, as well as elevated unemployment fears, French consumers – in contrast to their German counterparts – were the most downbeat about the outlook since March 2023. And while France boasts one of the softest rates of inflation of all the euro area member states, household expectations for their future financial situation remained well below the historical average. As such, savings intentions rose close to a series high, suggesting that the household saving ratio likely remains close to the 45-year high reached in Q1. And the share of respondents considering it a good time to make major purchases stayed well below the long-run average. But having risen sharply in April, the purchase intentions component was still trending just above the Q1 average, suggesting a potential return to growth in spending on goods this quarter. This notwithstanding, given ongoing economic uncertainties, slowing labour demand amid cuts to government employment-

### Euro area: Consumer confidence indices



### Germany: GfK consumer survey – selected indices



related subsidies and persisting political uncertainty, French household confidence is likely to remain relatively sluggish over coming quarters.

## The day ahead in the euro area

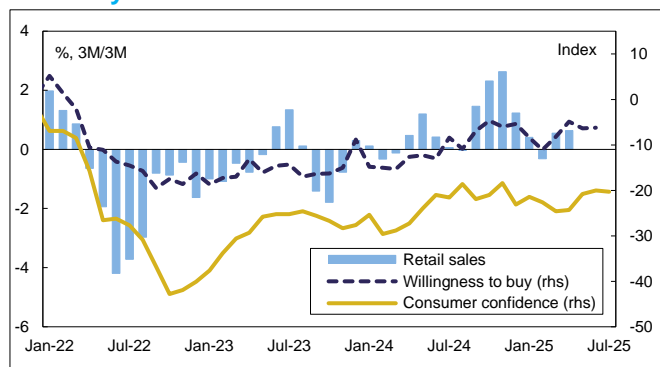
In view of next week's flash euro area inflation estimates for June (due Tuesday), Friday's French and Spanish releases will be of particular interest. Certainly, we expect the fortnight-long uptick in oil and gas prices to lessen the drag from the energy component in those countries, noting a roughly 2% increase in petrol prices there in the last two weeks. Still, on a month-on-month basis, that increase was closer to ¾%. And we expect softness elsewhere – from services components, and still subdued core goods in particular – to help to offset their impact on headline inflation. May industrial price figures for France and Italy should be softer still, chiefly owing to falling wholesale energy prices in that month. Meanwhile, focus will also be on the Commission's sentiment indicators, which will provide a cross-check to the side-step reported by Monday's flash PMIs. We expect the ESIs to show just a marginal improvement in business confidence while, in line with the flash release, a slight decline in consumer confidence (down 0.2pt to -15.3) should also be confirmed. ISTAT will also provide an update on Italian consumer and business sentiment in June ahead of the national PMI release next week. Data for French consumer spending and Spanish retail sales in May are also due.

## UK

### CBI survey flags a potential downside to June's retail sales

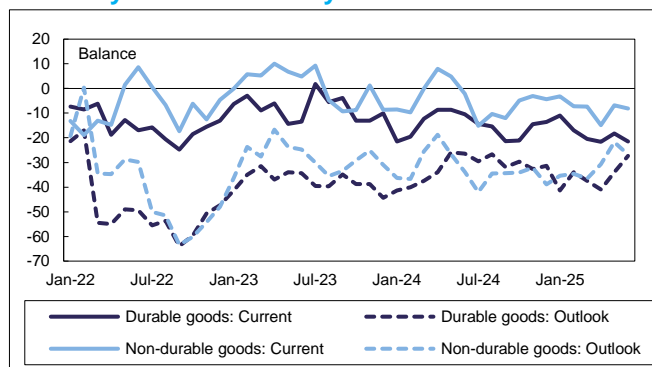
Given the extent of May's retail sales weakness (-2.7%M/M) but also the recovery in consumer confidence (to a six-month high) and hot weather in June, we expect June's official retail sales print to report a return to positive growth this month. So, the extent of the weakness implied by today's CBI distributive trades survey proved surprising. Indeed, the balance of businesses reporting that retail sales volumes were down versus a year ago was its lowest in 18 months (-46), as too was the index of expectations for sales in July (-50). And with expectations for future sales flagging, retailers also highlighted intentions to further reduce orders with suppliers, the balance of which in June was the lowest since December 2023 (-51), while expectations (-53) were their worst on record outside of March 2021. On a brighter note, online sales volumes were positive for a second consecutive month. And with relatively better assessments among the wholesale (-34) and motor trades (-37), the broader distributive trades balance was slightly less subdued (-39). Still, on a three-month basis, that left wholesale sector sales the most downbeat in close to 5 years, and retail sector sales trading close to the trough of the recent weak trend. Of course, we caveat that this CBI survey is often a poor predictor for the official retail sales data, not

### Germany: Retail sales & consumer confidence



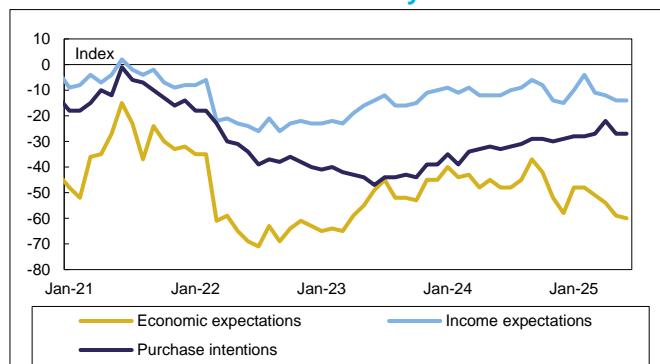
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: ifo retail survey – business conditions



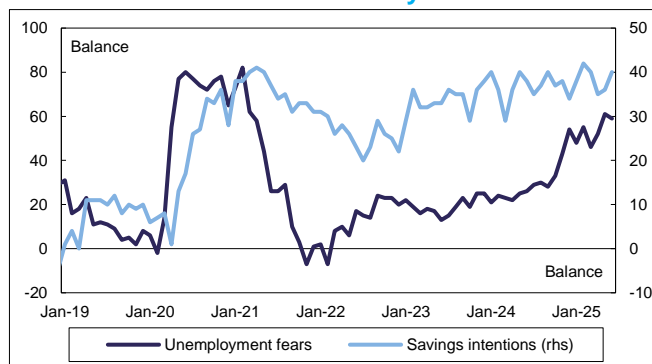
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### France: INSEE consumer survey – selected indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### France: INSEE consumer survey – selected indices



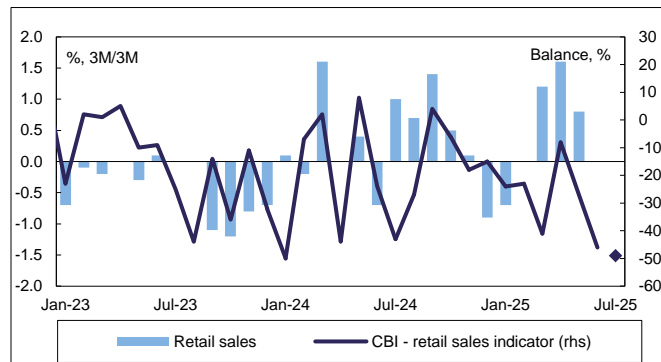
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

least given its month-to-month volatility. Nonetheless, today's report marks a further clear deterioration from the headline in April's survey (-8), with price increases, rising job insecurity and heightened uncertainty all feasibly weighing on discretionary spending. More broadly, the survey continues to flag that underlying activity in the retail sector remains weak.

## The day ahead in the UK

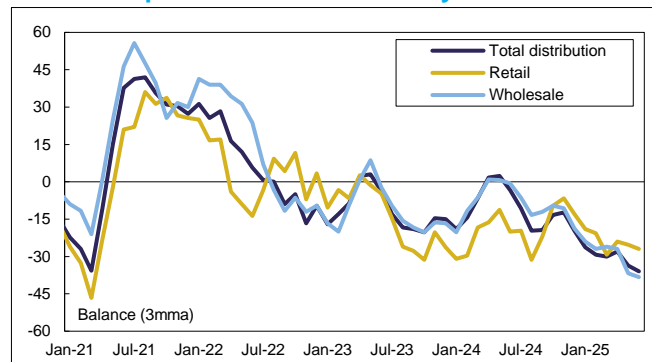
With no data releases or speaking arrangements scheduled, it should be a quiet end to the week for UK economic news.

### UK: Retail sales volumes & CBI indicator\*



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: CBI reported sales volumes by trade



Source: Macrobond 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
Germany	GfK consumer confidence indicator	Jul	<b>-20.3</b>	-19.2	-19.9	-20.0
UK	CBI distributive trades survey – reported retail sales balance %	Jun	<b>-46</b>	-25	-27	-

#### Auctions

Country	Auction
UK	sold £1bn of 4.25% 2046 bonds at an average yield of 5.162%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Wednesday's results

#### Economic data











Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro Area	New car registrations Y/Y%	May	<b>1.5</b>	-	1.1	-
France	INSEE consumer confidence indicator	Jun	<b>88</b>	89	88	-
Spain	GDP – final estimate Q/Q% (Y/Y%)	Q1	<b>0.6 (2.8)</b>	<u>0.6 (2.8)</u>	0.7 (3.3)	-
	PPI Y/Y%	May	<b>0.0</b>	-	1.9	1.6

#### Auctions





Country	Auction
Italy	sold €3bn of 2.1% 2027 bonds at an average yield of 2.12%
	sold €3bn of 1.1% 2031 inflation-linked bonds at an average yield of 1.21%
UK	sold £3.25bn of 4.375% 2040 bonds at an average yield of 4.85%

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	Commission economic sentiment indicator	Jun	94.8	94.8
		10.00	Commission services (industrial) confidence indicator	Jun	1.6 (-10.0)	1.5 (-10.3)
		10.00	Final Commission consumer confidence indicator	Jun	<u>-15.3</u>	-15.1
France		07.45	Preliminary HICP (CPI) Y/Y%	Jun	0.7 (0.8)	0.6 (0.7)
		07.45	PPI Y/Y%	May	-	-0.8
		07.45	Consumer spending M/M% (Y/Y%)	May	-	0.3 (-0.1)
Italy		09.00	ISTAT consumer confidence indicator	Jun	97.0	96.5
		09.00	ISTAT business (manufacturing) confidence indicator	Jun	- (87.0)	93.1 (86.5)
		11.00	PPI Y/Y%	May	-	3.8
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Jun	2.2 (2.1)	2.0 (2.0)
		08.00	Retail sales Y/Y%	May	4.2	4.0

**Auctions and events**

Italy		10.00	Auction: to sell up to €1.5bn of 2.7% 2030 bonds
		10.00	Auction: to sell up to €1.5bn of 2.95% 2030 bonds
		10.00	Auction: to sell up to €2bn of 2034 floating bonds
		10.00	Auction: to sell up to €3.5bn of 3.6% 2035 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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