Euro wrap-up

Overview

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- While French consumers were more upbeat at the start of Q3, euro govvies followed the global trend slightly higher on lower oil prices.
- Gilts also made modest gains as a UK survey showed shop price inflation moderating to a seven-month low.
- On Thursday, the BoE is expected to leave interest rates unchanged, but its updated projections and MPC members' views will be closely watched. Flash euro area estimates of Q2 GDP and German and Spanish July inflation are also due.

Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/28	2.748	-0.039
OBL 2.9 10/31	2.850	-0.030
DBR 3 08/36	3.108	-0.018
UKT 4⅜ 03/28	4.331	-0.035
UKT 4⅛ 03/31	4.509	-0.042
UKT 4¾ 10/35	4.951	-0.034

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

Euro area

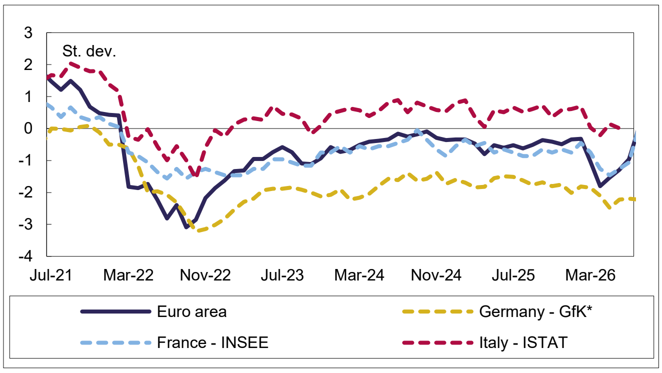
French consumers more content in July, but perhaps only as petrol prices fell earlier in the month

Over the past few years, consumer confidence in France has often provided a reliable guide to household sentiment in the euro area as a whole, with the respective INSEE and Commission indices moving closely together at broadly similar levels. So, perhaps unsurprisingly, after last week's flash euro area index for July beat expectations to rise to the highest level since February, today's INSEE survey results were also more upbeat than during the early stages of the Iran conflict. Contrasting the persisting greater pessimism of German households, French consumer confidence improved for a second successive month, with the headline index up by 2pts to 86, the highest level since March. French households this month were the most sanguine about the economic outlook since February. But in large part that likely reflected the decline in auto fuel prices at the start of the month to the lowest levels since March. Indeed, the INSEE survey measure of inflation expectations eased to the softest level in 13 months, a shift that seems unlikely to be sustained next month given the more recent rise in petrol prices. And in part as the ECB's June rate hike pushed consumer savings intentions to the highest level so far this year, major French purchase intentions ticked up only slightly this month, remaining below the range in the two years to April. In Q1, French consumer spending declined for the first quarter in four due in part to the suspension of a government home improvement incentive scheme. But it likely ticked up slightly in Q2 despite the weakening in sentiment around the turn of the quarter. Nevertheless, with major purchase intentions low by historical standards and real wages now declining, we don't expect much traction in the second half of the year and full-year growth in French consumption in 2026 will likely be minimal. Moreover, with political uncertainty to weigh increasingly as next year's elections approach, we also don't expect much of a boost to GDP growth from the French household next year even if auto fuel prices fall and inflation eases significantly.

The coming two days in the euro area

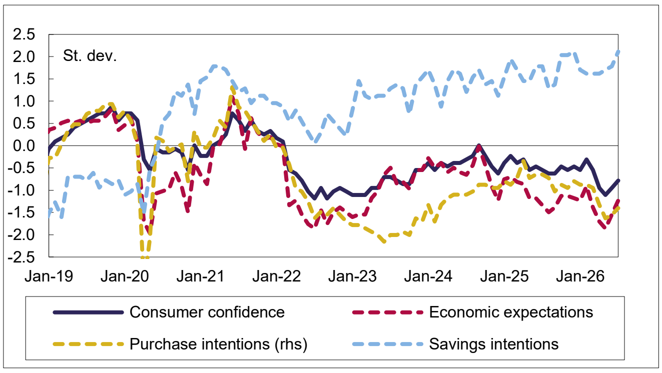
Although Wednesday should be comparatively quiet day for euro area data, Thursday will bring several top tier releases. The most prominent of those will be the first estimates for Q2 GDP, and some national inflation data. And the Commission's economic sentiment indicators will provide a cross-check on the evidence of gathering momentum flagged by July's flash PMIs. While surveys have been broadly downbeat about the prospects for GDP last quarter, the actual data will likely display resilience. Of course, euro area GDP growth could have amounted to as much as 0.3%Q/Q in Q1 were it not for the significant distortion from Ireland (-7%Q/Q) which ensured that it was flat in Q1. Absent any further notable distortions in Wednesday's preliminary Irish estimates, we expect the euro area GDP data for Q2 to reflect that underlying strength. Indeed, while the oil shock likely weighed on business investment and retail spending, services activity looks robust. Industrial output (trending 0.5% above the Q1 average in April and May) has benefited from precautionary stock-building and

Euro area: Consumer confidence by member state



*German GfK forecast for August omitted. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Consumer confidence & selective detail



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

defence-related orders. And Germany's infrastructure push has spurred activity in the construction sector (trending 1.4% above the Q1 level). With public spending compensating for slightly weaker private activity, Germany was likely able to sustain its momentum for at least another quarter (perhaps as firm as 0.3%Q/Q). And while growth in Italy might have slowed (0.1%Q/Q), France should receive some payback for the prior quarter's weakness (0.2%Q/Q) which was related in part to the withdrawal of a government incentive for home renovation and supply-chain disruption in the transport goods sector. Continued Spanish outperformance is also assured. Indeed, with services and industrial activity up some 1.0% and 1.9% respectively in Q2 thus far, GDP growth close to 1.0%Q/Q in Spain is possible.

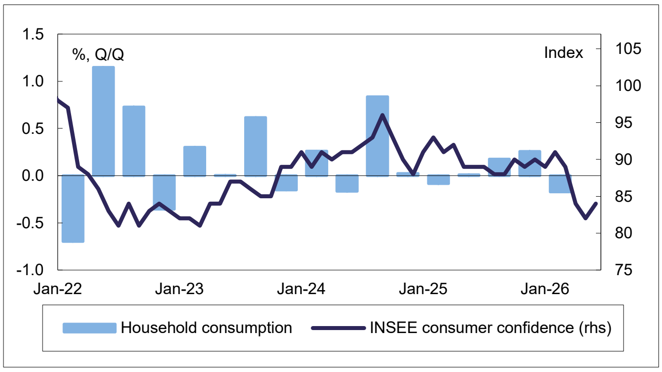
Meanwhile, preliminary inflation data from Germany and Spain will provide the prelude to Friday's euro area release. While we expect little change for the aggregate, the risks are undoubtably skewed to the upside. That fact is most true for Germany and Spain, since on top of rising wholesale costs, the expiry of fiscal support measures will have driven a sharper increase in headline inflation. Underlying inflation is still expected to be broadly well-behaved, but indirect spillovers pose upside risks to core components, while food inflation could also have been impacted by extreme heat. In those respects, both of those releases will help to inform expectations before Friday.

UK

Shop prices mixed in July, with inflation of food & clothing down but electrical goods prices up

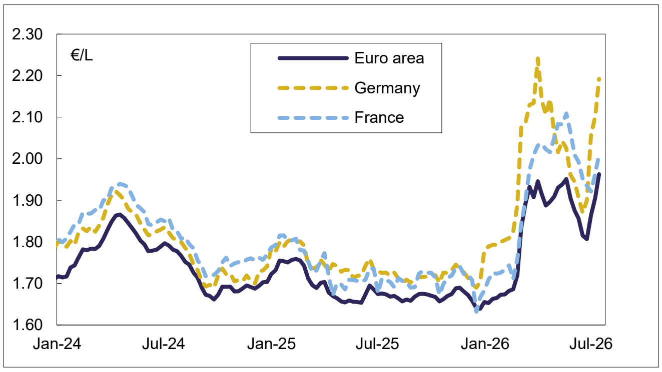
Despite renewed upwards pressure on wholesale energy prices since the start of the month, today's BRC shop price monitor suggested that retail inflation remained relatively well-behaved at the start of Q3, supporting the case for the BoE to keep Bank Rate unchanged for a while yet. Indeed, shop prices fell in July for the third month out of the past four, lowering the BRC survey's headline inflation rate by 0.3ppt to a seven-month low 0.9%Y/Y. The decline was partly driven by a further easing in food inflation, which slowed for a sixth successive month to a 17-month low of 2.2%Y/Y. Admittedly, fresh food prices rose the most in any July since 2011 excluding the previous energy shock in 2022, perhaps reflecting the impact of the prolonged heatwave. Nevertheless, the annual rate of fresh food inflation was still the second softest in 14 months (3.1%Y/Y). Non-food inflation, meanwhile, eased 0.3ppt from June's more than two-year high to 0.2%Y/Y. But this remained towards the upper end of its range of the past two years. The moderation largely reflected another steep decline in clothes prices as retailers seemingly brought forward summer promotions by one month compared with recent years. In contrast, electrical goods inflation rose the most in almost five years, likely owing to high demand for fans and air conditioners but also shortages of certain key inputs. Indeed, PPI data for June had already registered the highest rates of input and output inflation of ICT products since November 2024. Among other details, the BRC measure of inflation of books and stationery rose the most in a year, perhaps reflecting cost pressures in the energy-intensive paper industry. Overall, the survey

France: Household consumption & confidence



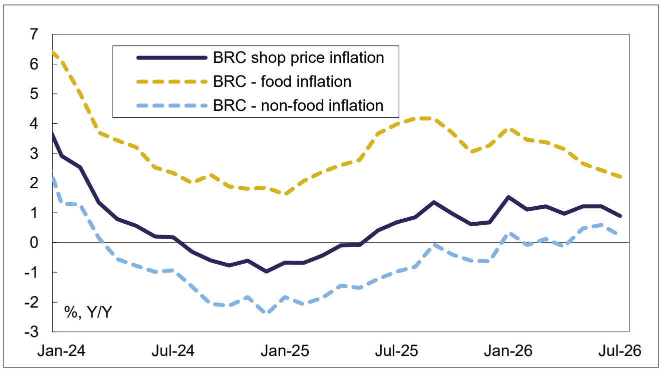
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Weekly petrol prices



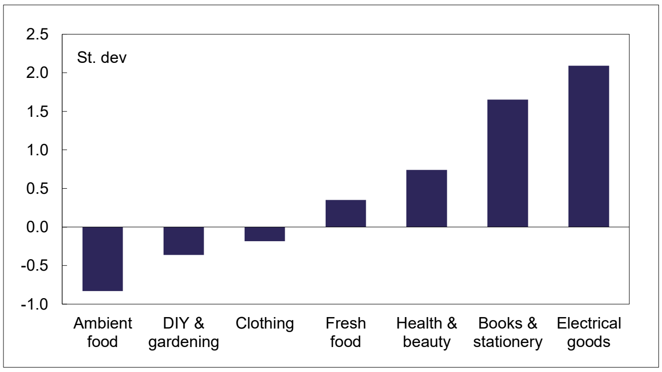
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: BRC shop price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

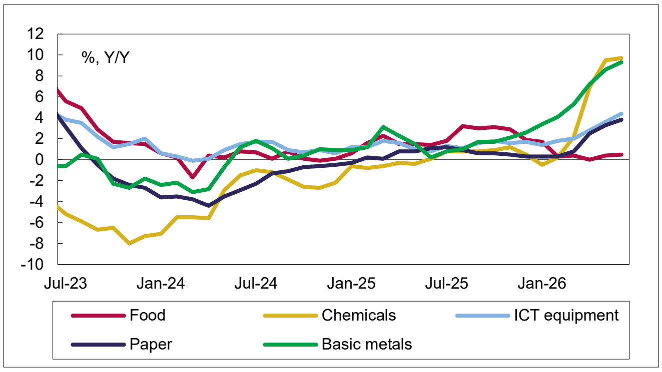
UK: BRC – M/M change in shop prices in July*



**Change in same month of each year since 2006.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

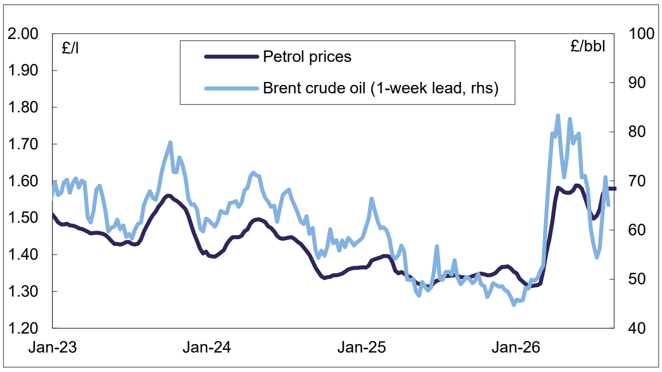
supports our view that the official ONS CPI data for July, due next month, will show further softening of food inflation and a broadly steady core rate, but also a pickup in headline inflation due to the increase in Ofgem's household energy price cap. Auto fuel prices should still provide a little offset. But the renewed spike in oil prices earlier this month was evident in today's updated auto fuel figures, with pump prices of petrol up 2.5%W/W and diesel up 4.1%W/W in the week to 27 July to be more than 4% and 5½% above the trough at the start of the month.

UK: PPI input inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Weekly petrol & oil prices*



**Latest figure is Brent Crude oil spot price on 28 July.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The coming two days in the UK

The key event in the UK over the coming two days will be the BoE's monetary policy announcements on Thursday. As in June, we expect the MPC to leave Bank Rate at 3.75% for a fifth consecutive meeting. The risks surrounding the inflation outlook have not receded as much as might have been hoped just one month ago. But a majority of MPC members is likely to be broadly satisfied by recent data. In particular, inflation moderated to a 15-month low in June, undershooting the BoE's baseline projection by a chunky 0.3ppt. The labour market remains subdued, weighing on private sector wage growth. And survey measures of wage and price expectations continue to moderate. Of course, those indicators would have benefitted from the temporary decline in energy prices last month. And policymakers will be mindful of new upside pressures on inflation posed by recent developments in wholesale oil and gas markets as well as risks of an extension of the disruption to freight transit from the Strait of Hormuz to the Red Sea. But with financial conditions also having recently tightened again, we expect a majority on the MPC – likely with the same 7-2 vote split as in June – to be satisfied that rates currently provide sufficient restrictiveness. The MPC will of course reiterate that it stands 'ready to act as necessary'. And Governor Bailey's post-meeting press conference, the members' views presented in the minutes, and the Bank's updated economic projections and scenarios will all be scrutinised for clues as to what might prompt a hike over coming meetings. The updated Monetary Policy Report might also discuss the BoE's quantitative tightening programme ahead of the MPC's decision, due to be taken in September, on the size and composition of its active Gilt sales.

The next Euro wrap-up will be published on Thursday 30 July 2026

European calendars

Today's results

Economic data

Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
France	INSEE consumer confidence indicator	Jul	**86**	85	84	-
	Total jobseekers mn	Q2	**3.32**	-	3.30	-
Spain	Retail sales Y/Y%	Jun	**0.5**	-	1.3	-
	Unemployment rate %	Q2	**9.87**	10.10	10.83	-
UK	BRC shop price index Y/Y%	Jul	**0.9**	1.1	1.2	-

Auctions

Country	Auction
Italy	sold €1.25bn of 2.2% 2028 bonds at an average yield of 2.92%
	sold €1.25bn of 0.5% 2028 bonds at an average yield of 2.89%
	sold €3bn of 2% 2037 inflation-linked bonds at an average yield of 2.04%
UK	sold £750mn of 0.125% 2028 bonds at an average yield of 4.09%
	sold £750mn of 4.25% 2040 bonds at an average yield of 5.332%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Germany	07.00	Import prices M/M% (Y/Y%)	Jun	-0.7 (6.0)	0.7 (6.8)
Italy	10.00	Hourly wages Y/Y%	Q2	-	2.4
UK	09.30	Net consumer credit £bn (Y/Y%)	Jun	-	1.7 (8.9)
	09.30	Net mortgage lending £bn (approvals 000s)	Jun	3.9 (57.1)	2.9 (56.2)

Auctions and events

Country	BST	Event
Euro area	09.00	ECB to publish wage tracker update
Germany	10.30	Auction: to sell up to €6bn of 3% 2036 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Daiwa Capital Markets

Thursday's releases

Economic data

Country		BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Euro area		10.00	GDP – first estimate Q/Q% (Y/Y%)	Q2	*0.3 (0.5)*	0.0 (0.5)
		10.00	Commission economic sentiment indicator	Jul	96.0	95.0
		10.00	Commission services (industrial) confidence indicator	Jul	3.8 (-7.0)	3.2 (-7.7)
		10.00	Final Commission consumer confidence indicator	Jul	*-15.9*	-17.7
		10.00	Unemployment rate %	Jun	6.2	6.2
Germany		09.00	GDP – first estimate Q/Q% (Y/Y%)	Q2	*0.3 (0.8)*	0.3 (0.5)
		13.00	Preliminary HICP (CPI) Y/Y%	Jul	2.8 (2.7)	2.4 (2.3)
France		06.30	GDP – first estimate Q/Q% (Y/Y%)	Q2	*0.2 (0.8)*	-0.1 (0.9)
		06.30	Consumer spending M/M% (Y/Y%)	Jun	-0.1 (0.1)	0.5 (0.3)
		07.45	Preliminary private sector payrolls Q/Q%	Q2	-0.1	-0.1
Italy		09.00	GDP – first estimate Q/Q% (Y/Y%)	Q2	*0.1 (0.7)*	0.3 (0.8)
		11.00	PPI Y/Y%	Jun	-	9.1
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Jul	3.7 (3.2)	3.6 (3.2)
		08.00	GDP – first estimate Q/Q% (Y/Y%)	Q2	*0.9 (2.9)*	0.6 (2.7)
UK		12.00	BoE Bank Rate %	Jul	*3.75*	3.75

Auctions and events

Italy		10.00	Auction: to sell up to €3bn of 3.15% 2031 bonds
		10.00	Auction: to sell up to €1.25bn of 1.45% 2036 bonds
		10.00	Auction: to sell up to €1.75bn of 3.8% 2036 bonds
		10.00	Auction: to sell up to €2bn of 2036 floating bonds
UK		12.00	BoE monetary policy announcement, summary and minutes, and Monetary Policy Report to be published
		12.30	BoE Governor Bailey to conduct post-MPC press conference

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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