

Euro wrap-up

Overview

- Bunds underperformed other European govies as Chancellor Merz's Cabinet approved additional debt issuance in Q3 and key spending and borrowing plans for the coming four years.
- Gilts followed USTs higher while BoE Governor Bailey acknowledged that there is more evidence that the labour market is softening and pay growth is slowing.
- The coming two days will bring June consumer sentiment surveys from Germany and France.

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Daily bond market movements

Bond	Yield	Change
BKO 1.7 06/27	1.844	+0.010
OBL 2.4 04/30	2.129	+0.021
DBR 2½ 02/35	2.541	+0.037
UKT 3% 03/27	3.865	-0.016
UKT 4% 03/30	3.988	-0.017
UKT 4½ 03/35	4.471	-0.019

*Change from close as at 5.00pm BST.

Source: Bloomberg

Euro area

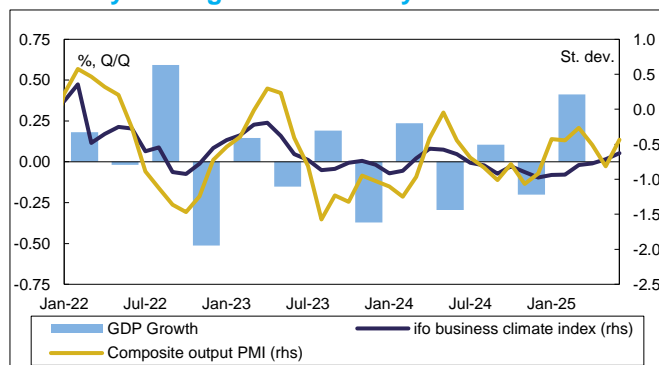
German business climate boosted by improved expectations for the coming six months

Like yesterday's flash PMIs, today's ifo survey suggested that the German economy is still relatively resilient to persisting trade uncertainties and heightened geopolitical risks, raising hopes that the euro area's largest member state can avoid a contraction over the summer and secure recovery momentum into 2026. The headline ifo business climate index rose for a fourth consecutive month in June, by 0.9pt to 88.4, a 13-month high and some 3½pts above December's low. This left the quarterly average almost 2pts above the Q1 and Q4 levels. Admittedly, firms judged current conditions to be little changed in June, with the 0.2pt rise in the respective index (86.2) failing to fully reverse the decline in May and leaving it still almost 1½ standard deviations below the long-run average. But, on average over the second quarter, that index was marginally higher than in Q1. And today's survey pointed to a further marked improvement in expectations of the near-term outlook, seemingly buoyed by the government's tax reforms and commitment to boost public sector spending on defence and infrastructure. Indeed, the ifo index of business expectations for the coming six months jumped 1.7pts in June to 90.7, a level exceeded only once in more than three years (in April 2023).

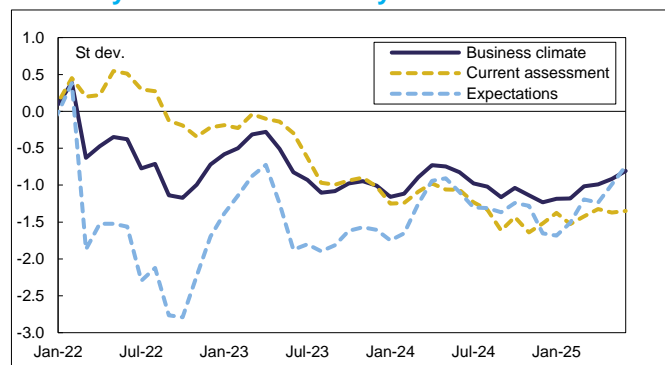
Services and construction firms most upbeat about outlook since February 2022

Ahead of the 9 July deadline to end the pause in Trump's reciprocal tariffs, manufacturers considered conditions in June to be less favourable than in recent months due to disappointing order books. But despite slipping to a three-month low, the ifo current conditions index for the sector was still on average in Q2 up a chunky 5pts compared with Q1. And expectations for the coming six months were the best for almost two years. Certainly, the latest hard data to be published suggest that new factory orders in April were almost 3% above the Q1 level, with core factory orders (excluding bulk items) rising to the highest level since August 2023. And with order backlogs having similarly risen to the highest level in 20 months – including a pickup in the electrical equipment, pharmaceuticals, autos and other transport equipment sectors – positive production momentum should resume over coming months. Moreover, the services sector looks well placed to offset any manufacturing pullback this quarter after the front-loading in Q1. For example, a rise in turnover in the hospitality sector in April – by the most in five months – left it some 0.8% above the Q1 level. And today's ifo survey suggested a further marked improvement in the sector's business climate at the end of the quarter too, with expectations considered the most favourable since early 2022 thanks to greater optimism among business-related services. Wholesale traders were also more satisfied with current business. And benefiting from declining borrowing costs and a recovery in the housing market, constructors were the least downbeat about the outlook since February 2022.

Germany: GDP growth & survey indices



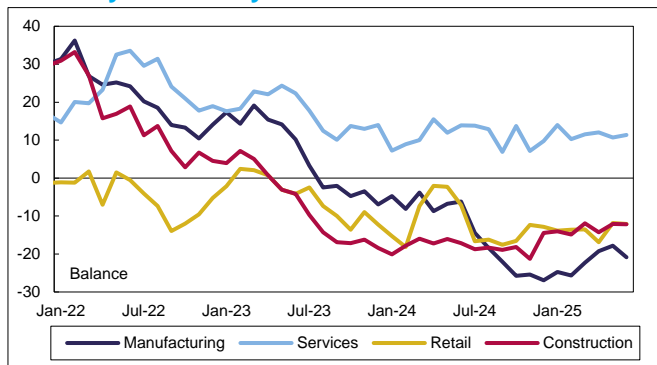
Germany: ifo business survey indices



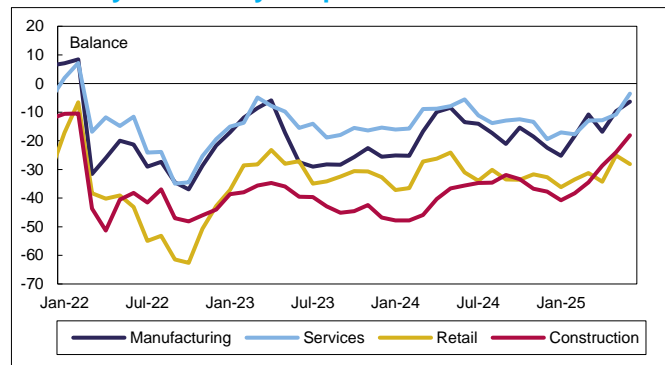
Merz flexes German fiscal muscle announcing extra issuance across the curve in Q3

Bunds underperformed other euro area government bonds today, but not markedly so, as German Chancellor Merz's cabinet approved additional debt issuance for the coming quarter as well as the key spending and net 'core budget' borrowing plans for the coming four years that have helped to buoy business sentiment. In terms of the third quarter, the German debt management agency announced an increase in planned gross new issuance of €19bn (more than 19%) to €118.5bn. Only €4bn of that additional borrowing will be issued as bills in the money market, with the remaining €15bn to be issued across the bond curve. A little more than half (€8bn) of the extra funds will be raised via a new 7Y bond. But flexing the German fiscal muscle – reflected in a gross general government debt stock still just 63% of GDP last year and a ratio of debt interest payments to GDP that is by far the lowest of the G7 countries – the agency was also able to announce extra borrowing at the super-long end. So, the German plans for additional 15Y and 30Y issuance conspicuously contrast the recent decisions of government debt managers in Japan and UK to reduce their own super-long issuance plans. Over 2025 as a whole, gross German debt sales will reach about €410bn, €30bn more than originally announced at the end of 2024.

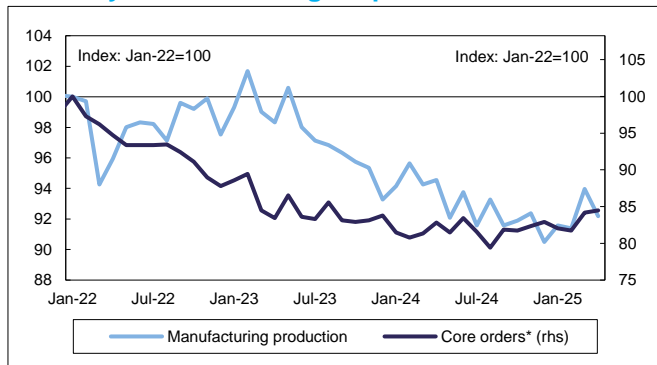
Germany: ifo survey – current conditions



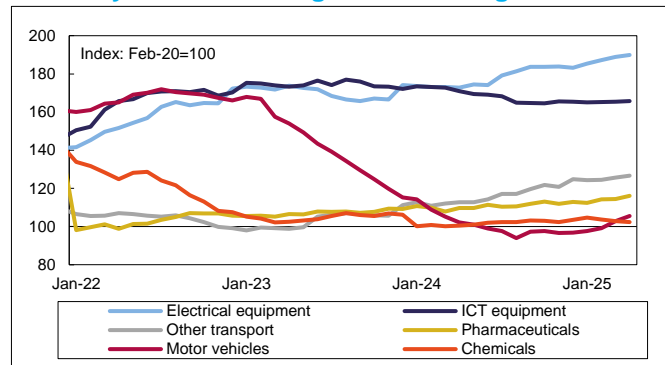
Germany: ifo survey - expectations



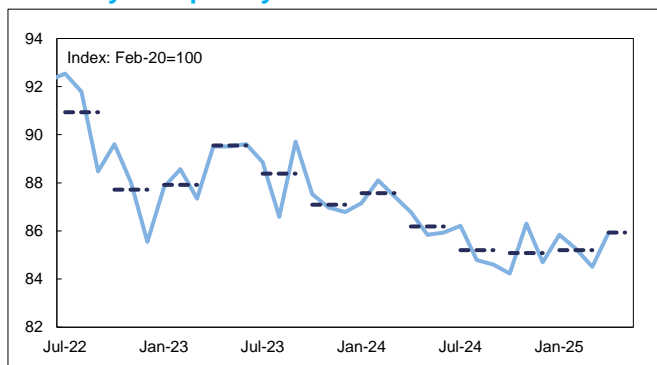
Germany: Manufacturing output & orders



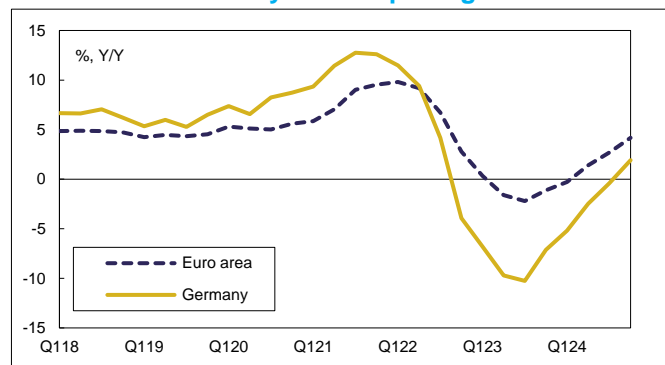
Germany: Manufacturing order backlogs



Germany: Hospitality turnover



Euro area & Germany: House price growth



Big increase in spending on infrastructure, defence & debt interest over coming years

Within the expenditure detail, benefiting also from the government's special funds, federal investment will rise 55%Y/Y to a record €115bn. And investment is planned to be sustained close to this level over the coming years. Assuming bureaucratic and regulatory obstacles can be removed, that should support growth-enhancing new projects in rail and other transport infrastructure as well as social housing and urban redevelopments, education, digitisation and the transition to net zero. The mid-term financial plan also confirms the government's intention to increase 'core' defence spending from about €99.5bn (2.4% of GDP) this year to €162bn (3.5% of GDP) by 2029. An additional 1.5% of GDP will be spent by then on defence-related items to be consistent with new NATO proposals. With 'core budget' net borrowing planned to increase from close to €82bn in 2025 to above €126bn in 2029, debt interest payments are expected to more than double by 2029 from about €30bn this year. As a share of GDP, however, that should still represent the lowest among the G7.

The coming two days in the euro area

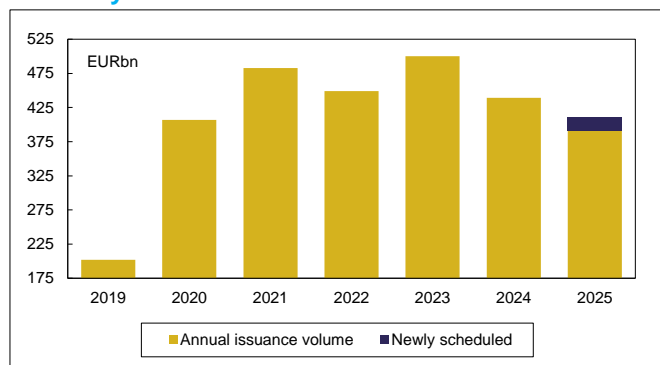
Ahead of Friday's updated June release of the Commission's consumer confidence indicator, the coming two days will bring national surveys from France (Wednesday) and Germany (Thursday). Last week's flash estimate of euro area consumer confidence surprised slightly to the downside (falling 0.2pt to -15.3), suggesting that geopolitical and trade uncertainties offset the support from an additional ECB rate cut and easing price pressures. In line with recent trends, we expect these surveys to flag an ongoing preference to save and subdued major purchases intentions reflecting growing job insecurity in both countries. With regards to ECB speakers, a presentation by Executive Board member Schnabel on Wednesday will likely be of interest. President Lagarde is also due to give a speech that evening.

UK

CBI survey points to ongoing manufacturing weakness

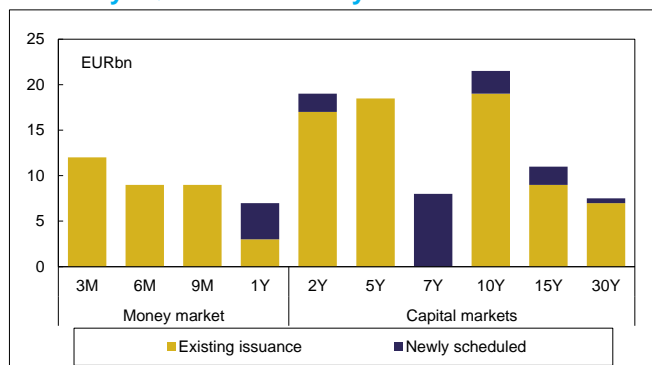
Consistent with the message from yesterday's flash PMIs, today's CBI industrial trends survey was downbeat, reinforcing the view that manufacturing will remain weak amid persistently subdued demand. Indeed, despite a marginal improvement from May, the headline output balance (-23%) remained firmly in contractionary territory in the three months to June, with 40% of respondents reporting a decline in production compared with a year earlier, the largest share in six months. Output reportedly contracted in 14 out of 17 subsectors, driven by the chemicals, metals and mechanical engineering industries. And while the anticipated pace of decline is expected to slow over the coming three months, less than a quarter of

Germany: Total annual debt issuance



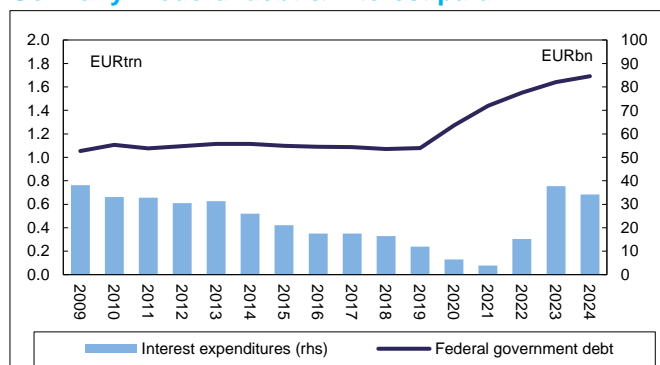
Source: German Finance Agency and Daiwa Capital Markets Europe Ltd.

Germany: Q325 issuance by tenor



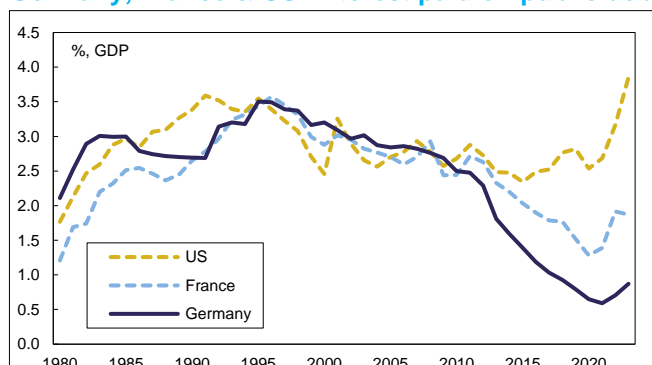
Source: German Finance Agency and Daiwa Capital Markets Europe Ltd.

Germany: Federal debt & interest paid



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

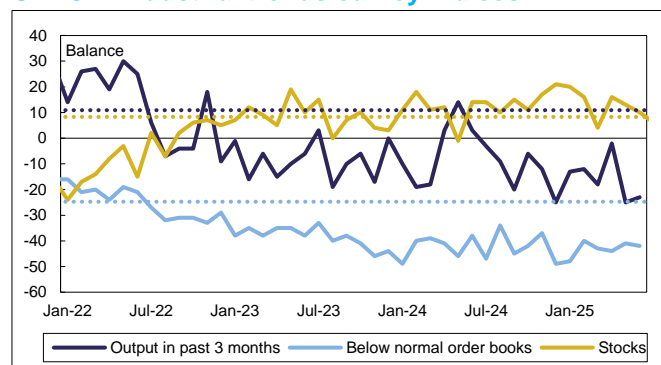
Germany, France & US: Interest paid on public debt



Source: IMF and Daiwa Capital Markets Europe Ltd.

respondents were forecasting an increase. Consistent with the findings of the PMIs, the CBI survey suggested a slightly softer pace of decline in export orders this month. However, still more than 40% of respondents judged total order books to be below 'normal' for the time of year. And while below the long-run average, manufacturers considered stocks of finished goods to be more than adequate in June. Against this backdrop, today's survey showed that selling price expectations eased – particularly among smaller firms that appear to lack pricing power – to the joint-lowest level in seven months. So, while core goods CPI inflation rose to a four-month high in May, today's survey suggests that price pressures in the sector are likely to remain relatively benign.

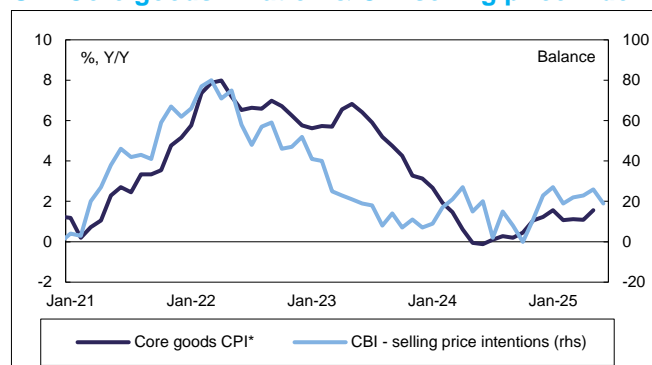
UK: CBI industrial trends survey indices*



*Dotted lines represent long-run average.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Core goods inflation & CBI selling price index



*Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The coming two days in the UK




While tomorrow should be a relatively quiet day for UK economic news, Thursday's CBI distributive trades survey will provide first insights into retail and wholesale trades activity in June. This might report a pickup in retail sales after a marked decline in May, tallying the modest recovery in consumer confidence and likely boost from the warm weather this month. Otherwise, speaking events should again take centre stage. BoE Governor Bailey will give a keynote speech to the British Chambers of Commerce on Thursday – titled *'Where's the growth?'* – while Deputy Governor Breeden is also due to speak a little earlier on a conference panel organised by CityAM.

The next edition of the Euro wrap-up will be published on Thursday 26 June 2025



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 ifo business climate indicator	Jun	88.4	88.0	87.5	-
	 ifo current assessment (expectations) indicator	Jun	86.2 (90.7)	86.5 (89.9)	86.1 (88.9)	- (89.0)
UK	 CBI industrial trends survey – total orders (selling prices) balance %	Jun	-33 (19)	-28 (23)	-30 (26)	-





Auctions

Country	Auction
Germany	 sold €3.066bn of 1.7% 2027 bonds at an average yield of 1.85%
UK	 sold £1.7bn of 1.125% 2035 inflation-linked bonds at an average yield of 1.386%




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro Area	 05.00	New car registrations Y/Y%	May	-	1.1
France	 07.45	INSEE consumer confidence indicator	Jun	89	88
Spain	 08.00	GDP – final estimate Q/Q% (Y/Y%)	Q1	<u>0.6 (2.8)</u>	0.7 (3.3)
	 08.00	PPI Y/Y%	May	-	1.9



Auctions and events

Italy	 10.00	Auction: to sell up to €3bn of 2.1% 2027 bonds
	 10.00	Auction: to sell up to €3bn of 1.1% 2031 inflation-linked bonds
UK	 10.00	Auction: to sell £3.25bn of 4.375% 2040 bonds






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	 07.00	GfK consumer confidence indicator	Jul	-19.2	-19.9
UK	 11.00	CBI distributive trades survey – reported retail sales balance %	Jun	-25	-27

Auctions and events

Euro Area	 12.00	ECB Executive Board Member Schnabel to give presentation at a business association conference, Frankfurt
	 19.30	ECB President Lagarde to give speech at opening of an Opera festival, Munich
UK	 09.30	BoE Deputy Governor Breeden on panel at the CityUK annual conference, London
	 10.00	Auction: to sell £1bn of 4.25% 2046 bonds
	 12.00	BoE Governor Bailey speaks at the British Chambers of Commerce annual conference, London

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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