

Euro wrap-up

Overview

- While the Commission survey flagged a deterioration in economic sentiment in June, Bunds followed USTs lower as flash estimates of French and Spanish inflation ticked higher.
- Gilts also made losses on a quiet day for UK economic news.
- The coming week will bring flash inflation estimates from the euro area and Germany, the account of the ECB's June monetary policy meeting, and the ECB's annual Sintra forum.

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Daily bond market movements

Bond	Yield	Change
BKO 1.7 06/27	1.857	+0.040
OBL 2.4 04/30	2.166	+0.034
DBR 2½ 02/35	2.596	+0.029
UKT 3¾ 03/27	3.836	+0.021
UKT 4¾ 03/30	3.969	+0.024
UKT 4½ 03/35	4.506	+0.037

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

Euro area

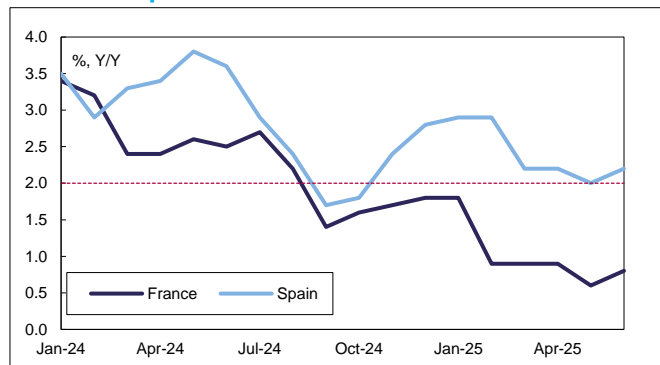
Energy pushes French & Spanish inflation higher, with an upside surprise from French services too

Ahead of the euro area flash June inflation estimates on Tuesday, the first of the figures to be published from the member states came in a touch stronger than expected, suggesting upside risks to our forecast that euro area headline inflation moved sideways at 1.9%Y/Y this month. While French inflation has been below the 2% target since last August and one of the lowest rates in the euro area since the start of the year, the headline HICP and national CPI rates unexpectedly ticked higher in June, by 0.2ppt apiece to 0.8%Y/Y and 0.9%Y/Y respectively. Spanish inflation also rose 0.2ppt, to 2.2%Y/Y. As expected, higher petrol prices and less favourable base effects pushed up energy inflation. Food prices also rose slightly more than in June 2024, with French fresh food inflation edging up to a 14-month high. But the limited detail provided by the Spanish statistical office suggested that, when excluding energy and unprocessed foods, core inflation held steady at 2.2%Y/Y. In contrast, the upside in France stemmed in part from the all-important services component, where the monthly increase in prices (0.6%M/M) was 0.4ppt above the norm for June. This pushed its annual rate up 0.3ppt to 2.4%Y/Y, the joint-highest since last August. Admittedly, upwards pressure related in part to an acceleration in the volatile accommodation and transport services components, and so might well prove temporary. In contrast, core goods price pressures appeared to remain largely absent, with the respective French CPI rate unchanged at -0.2%Y/Y for a fourth consecutive month.

Commission survey points to broad-based easing in price pressures

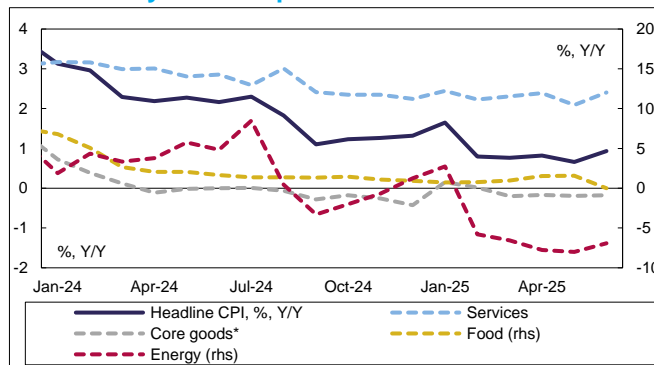
While ongoing geopolitical risks and the impending 9 July deadline for the 90-day pause on US reciprocal tariffs pose significant risks to the inflation outlook, policymakers should at least take reassurance that inflation expectations remain well anchored. Indeed, despite the temporary spike in wholesale gas and oil prices, today's Commission consumer and business survey results were consistent with a continued moderation in price pressures. Firms' selling price expectations for the coming three months eased across the manufacturing, construction and services sectors, with the latter encouragingly the softest in four years. Furthermore, the index of consumer price expectations for the coming twelve months fell to a five-month low, only slightly above the long-run average, broadly consistent with inflation remaining stable around the 2% target. And consumer price expectations moderated across all of the large member states, with the respective German index the lowest for 14 months and the French and Italian indices the softest since February.

France & Spain: Headline HICP inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Key CPI components



*Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

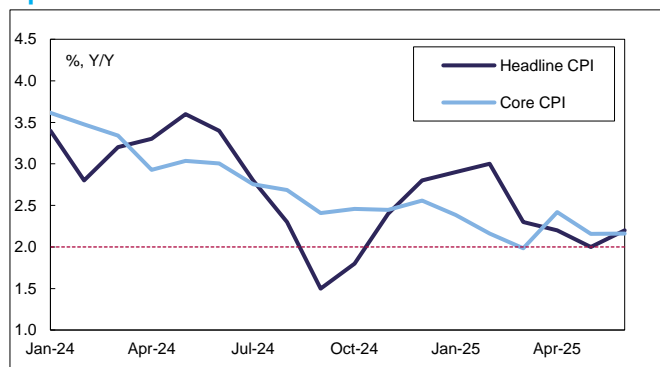
Commission survey flags deterioration in sentiment in June in industry, retail & households

The flash June PMIs released at the start of the week had suggested that economic conditions were broadly stable at the end of Q2, with the euro area composite activity index unchanged at 50.2, a level nevertheless consistent with only minimal GDP growth. Today's Commission survey results were somewhat more disappointing than that, suggesting that economic conditions deteriorated this month. In particular, the headline euro area Economic Sentiment Index (ESI) fell 0.8pt to 94.0, the second-lowest reading this year. Like the composite PMI, that left the ESI still some way below the long-run average. And perhaps inevitably, it was suggestive of a marked slowdown in euro area economic growth from 0.6%Q/Q in Q1 to only about 0.1%Q/Q in Q2. The deterioration in the Commission survey in June was relatively broad-based. Admittedly, the services sector reported somewhat greater satisfaction on the back of a pickup in recent demand. And construction firms were the most upbeat since end-2023. In contrast, amid continued uncertainty about US tariffs, industrial sentiment worsened to the lowest level since January as firms downgraded their assessment of order books, including demand from abroad, and expressed greater keenness to cut headcount. Retailers were also more downbeat, revising down their expectations of future sales and similarly looking to downsize staffing. And that likely reflected businesses' recognition of a worsening of consumer confidence to the second-lowest level this year, as households expressed greater determination to save and less inclination to make major purchases over the coming twelve months.

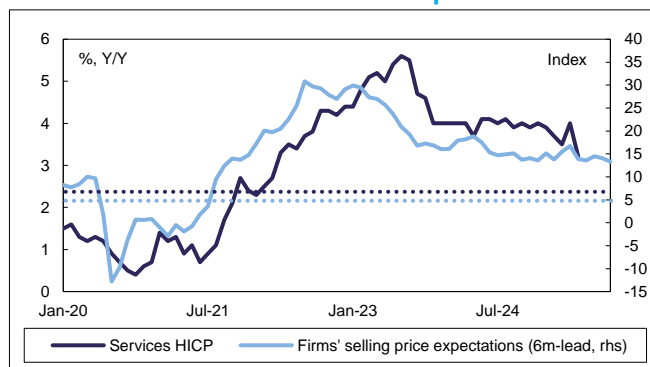
Sentiment likely clouded temporarily by Iran conflict, but French ESIs flag marked deterioration

Among the four largest member states, only conditions in Italy were judged to have improved in June according to the Commission survey. Most striking was a second successive monthly sharp deterioration in economic sentiment in France, where the ESI fell to the lowest level since 2020, more than 10% below the long-run average, to be the worst of all member states bar Russia-bordering Estonia. That deterioration in confidence in France might in part reflect increased political uncertainty, with the future of the Bayrou government beyond the autumn appearing increasingly in jeopardy. But it also flags the risk of a renewed drop in French GDP in Q2. Of course, sentiment across the euro area is likely also to have been affected by the conflict between Israel and Iran, and associated rise in energy prices, that will have clouded many survey responses. With those concerns having eased a good deal over the past week, we hope for an improvement in the July survey. And policymakers can still take comfort from the continued relatively elevated ESIs in Spain, Portugal and Greece, which point to continued firm growth momentum in much of Southern Europe in Q2. Despite a slight weakening in June, we also note the pickup in the quarterly average German ESI in Q2 to the highest level in three quarters, suggesting that conditions in the euro area's largest member state are also now turning gradually for the better despite continued unresolved concerns about US tariffs.

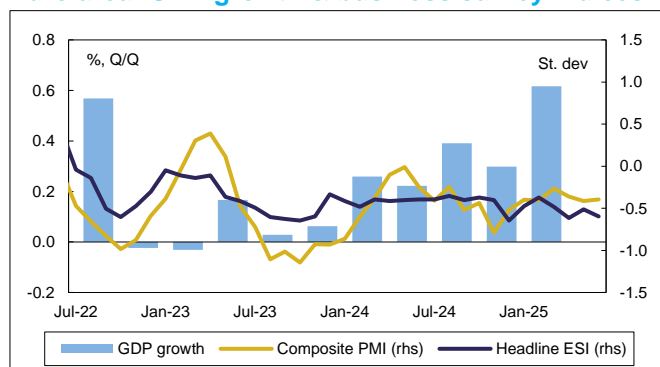
Spain: Headline & core CPI inflation



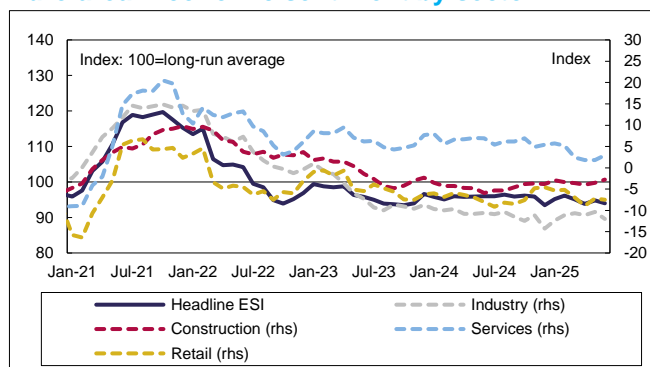
Euro area: Services inflation & expectations*



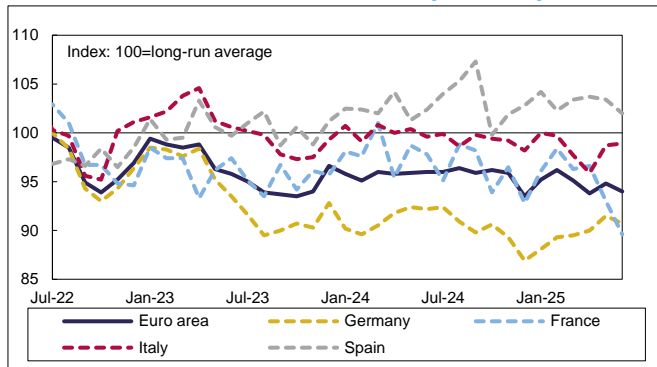
Euro area: GDP growth & business survey indices



Euro area: Economic sentiment by sector

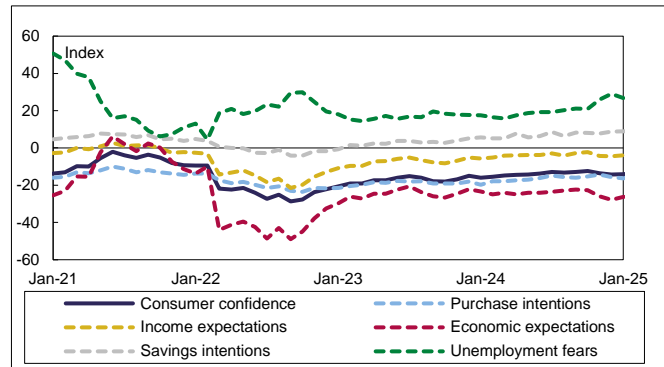


Euro area: Economic sentiment by country



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

Euro area: Consumer confidence indicators



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

The week ahead in the euro area

Notwithstanding the upside in today's national data, we still expect June's flash euro area inflation print to be relatively soft. Certainly, while headline inflation will benefit from less of a drag in energy categories, that should be offset somewhat by ongoing moderation in most services components. The absence of notable inflationary pressures in core goods and potential stabilisation in food prices should also dull potential upside risks. So, for the time being, we still expect headline HICP to undershoot the ECB's inflation target – moving sideways at 1.9%Y/Y for a second month – with core inflation easing a further 0.1pts to 2.2%Y/Y, which would be a 44-month low. The risks to that forecast might be slightly to the upside – Monday's flash German and Italian releases will provide additional insights – but we don't anticipate much reaction from the ECB in that instance, with a few policymakers stopping just short of a victory-lap from its fight against inflation last week.

The coming week will bring more central bank speak as the ECB convenes for its annual forum in Sintra (Monday to Wednesday). President Lagarde will give opening remarks (Monday) and appear on a panel with BoE Governor Bailey, Fed Chair Powell and BoJ Governor Ueda (Tuesday). We expect cautious optimism regarding the outlook to be reflected in Lagarde's remarks as well as the ECB's account of June's Governing Council policy meeting (Thursday). But as she signalled after that meeting that the ECB is approaching the end of its easing cycle, more crucial will be discussion of the necessary conditions to permit a further rate cut in Q3. The recent turmoil in global energy markets had at one stage appeared to jeopardise such a move, but prices have since normalised close to the ECB's projection assumptions. And while the impacts of that shock will certainly show in Tuesday's inflation print, they won't be evident in May's consumer inflation expectations (Tuesday), and energy prices likely continued to dampen headline industrial prices (Friday) in that month too.










With regards to economic activity, we expect German retail sales in May (Monday) to resume their uptrend in May, not least supported by the recovery in consumer confidence following April's tariff shock and payback for the weakness in sales that month (-0.9%M/M). We also expect another uptick in German factory orders in May – potentially marking a third consecutive monthly rise for the first time since January 2022. Indeed, that would be consistent with the firm domestic and external demand implied by the manufacturing PMIs throughout Q2, potentially reflecting an element of continued front-loading from overseas and in anticipation of a pickup in domestic defence orders. June's final euro area PMIs (Tuesday and Thursday) should confirm the findings of the flash release which implied that, despite improvement in Germany, conditions in the bloc overall were flat (50.2) as activity elsewhere, most likely in France and Spain, slowed. But we might expect upside to industrial output data from both those countries in May (Friday) given their steeper declines in April. Meanwhile, euro area bank lending data (Monday) should maintain the recent uptrend in May, still supported by the unwinding of ECB policy restrictiveness. Rate cuts may also offer some upside to June's construction PMIs (Friday).

The week ahead in the UK

The most consequential release of the coming week's UK dataflow is likely to be June's Decision Maker Panel survey (Thursday). Indeed, with services inflation still elevated (4.7%Y/Y) and question marks undermining trust in LFS wage data, the DMP has been a key source of reassurance for the MPC as it gradually loosens policy. We expect June's survey to continue to flag gradual moderation in wage- and price-setting behaviour over coming months, consistent with the "significant decline in pay growth" cited by Governor Bailey on Thursday. Softening CPI expectations, having edged up since October, would also be of comfort to those on the MPC with concerns about the potential second-round effects following the recent inflation pickup. Among other data, the BRC's shop price index (Tuesday) will provide a preview as to price developments in food and select goods categories in June, little over two weeks out from the official CPI release. And with respect to services inflation, we note that this month's flash services PMIs encouragingly flagged further moderation in price indices, with output prices reportedly rising at their slowest rate since February 2021. The coming week's final PMIs (Tuesday & Thursday) should confirm that reading, as well as a modest uptick in the activity measures at the end of Q2 to suggest that output growth over the quarter was probably positive, if not softer than in Q1. Incidentally, final estimates for Q1 GDP (Monday) will be expected to confirm that outsized growth of 0.7%Q/Q in Q1 was driven principally by net trade and fixed investment, with
















private consumption also adding a smaller contribution. Meanwhile, we expect May's bank lending release (Monday) to continue to bear distortions as a consequence of March's mortgage lending boost, but the BoE's quarterly credit conditions survey (Thursday) will provide another perspective including a view towards Q3. And finally, following his appearance on a panel in Sintra (Wednesday), BoE MPC external member Taylor is also due to give a speech on the equilibrium interest rate (Friday). His estimate of r^* (around 2.75-3.00% for the nominal rate) is among the more dovish on the MPC.

Daiwa economic forecast

		2025				2026		2025	2026	2027
		Q1	Q2	Q3	Q4	Q1	Q2			
GDP		%, Q/Q						%, Y/Y		
Euro area		0.6	0.1	0.1	0.2	0.2	0.3	1.3	0.9	1.3
UK		0.7	0.1	0.2	0.3	0.3	0.3	1.1	1.1	1.4
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.3	2.0	1.8	2.0	1.6	1.6	2.0	1.7	1.8
Core HICP		2.6	2.4	2.1	2.1	1.9	1.4	2.2	1.7	1.6
UK										
Headline CPI		2.8	3.4	3.5	3.3	2.9	1.9	3.3	2.2	2.0
Core CPI		3.6	3.6	3.4	3.2	2.8	1.8	3.4	2.0	1.8
Monetary policy, %										
ECB										
Deposit Rate		2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	2.00
Refi Rate		2.65	2.15	1.90	1.90	1.90	1.90	1.90	1.90	2.15
BoE										
Bank Rate		4.50	4.25	4.00	3.75	3.50	3.25	3.75	3.25	3.00

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.












































European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Euro Area	 Commission economic sentiment indicator	Jun	94.0	94.8	94.8	-	
	 Commission services (industrial) confidence indicator	Jun	2.9 (-12.0)	1.6 (-10.0)	1.5 (-10.3)	1.8 (-10.4)	
	 Final Commission consumer confidence indicator	Jun	-15.3	-15.3	-15.1	-	
France	 Preliminary HICP (CPI) Y/Y%	Jun	0.8 (0.9)	0.7 (0.8)	0.6 (0.7)	-	
	 PPI Y/Y%	May	0.2	-	-0.8	-0.7	
	 Consumer spending M/M% (Y/Y%)	May	0.2 (-0.5)	-	0.3 (-0.1)	0.5 (0.2)	
Italy	 ISTAT consumer confidence indicator	Jun	96.1	97.0	96.5	-	
	 ISTAT business (manufacturing) confidence indicator	Jun	93.9 (87.3)	- (87.0)	93.1 (86.5)	- (86.6)	
	 PPI Y/Y%	May	2.8	-	3.8	-	
Spain	 Preliminary HICP (CPI) Y/Y%	Jun	2.2 (2.2)	2.2 (2.1)	2.0 (2.0)	-	
	 Retail sales Y/Y%	May	4.8	4.2	4.0	4.1	
Auctions							
Country	Auction						
Italy	 sold €1.5bn of 2.7% 2030 bonds at an average yield of 2.74%						
	 sold €1.5bn of 2.95% 2030 bonds at an average yield of 2.68%						
	 sold €2bn of 2034 floating bonds at an average yield of 3.16%						
	 sold €3.5bn of 3.6% 2035 bonds at an average yield of 3.48%						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.













The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 30 June 2025					
Euro Area		09.00 M3 money supply Y/Y%	May	4.0	3.9
Germany		07.00 Retail sales M/M% (Y/Y%)	May	0.5 (3.6)	-0.9 (4.4)
		13.00 Preliminary HICP (CPI) Y/Y%	Jun	2.2 (2.2)	2.1 (2.1)
Italy		10.00 Preliminary HICP (CPI) Y/Y%	Jun	1.8 (1.7)	1.7 (1.6)
UK		00.01 Lloyd's business barometer (own price expectations)	Jun	-	50 (63)
		07.00 GDP – final estimate Q/Q% (Y/Y%)	Q1	<u>0.7 (1.3)</u>	0.1 (1.5)
		07.00 GDP – private consumption Q/Q%	Q1	<u>0.2</u>	0.1
		07.00 GDP – government spending Q/Q%	Q1	<u>-0.5</u>	0.5
		07.00 GDP – fixed investment Q/Q%	Q1	<u>2.9</u>	-0.6
		07.00 Current account balance £bn	Q1	-19.8	-21.0
		09.30 Net consumer credit £bn (Y/Y%)	May	1.1 (-)	1.6 (6.7)
		09.30 Net mortgage lending £bn (mortgage approvals 000s)	May	2.5 (60.8)	-0.8 (60.5)
Tuesday 1 July 2025					
Euro Area		09.00 Final manufacturing PMI	Jun	<u>49.4</u>	49.4
		09.00 ECB consumer expectations survey – 1Y (3Y) CPI Y/Y%	May	-	3.1 (2.5)
		10.00 Preliminary headline (core) HICP Y/Y%	Jun	<u>1.9 (2.2)</u>	1.9 (2.3)
Germany		08.55 Final manufacturing PMI	Jun	<u>49.0</u>	48.3
		08.55 Unemployment claims rate % (change 000s)	Jun	6.4 (16.5)	6.3 (34)
France		08.50 Final manufacturing PMI	Jun	<u>47.8</u>	49.8
Italy		08.45 Manufacturing PMI	Jun	49.5	49.2
Spain		08.15 Manufacturing PMI	Jun	50.5	50.5
UK		00.01 BRC shop price index Y/Y%	Jun	0.2	-0.1
		07.00 Nationwide house price index M/M% (Y/Y%)	Jun	-0.1 (3.1)	0.5 (3.5)
		09.30 Final manufacturing PMI	Jun	<u>47.7</u>	46.4
Wednesday 2 July 2025					
Euro Area		10.00 Unemployment rate %	May	6.2	6.2
Spain		08.00 Unemployment change (employment net change) 000s	Jun	-	-57.8 (20.8)
Thursday 3 July 2025					
Euro Area		09.00 Final composite (services) PMI	Jun	<u>50.2 (50.0)</u>	50.2 (49.7)
Germany		08.55 Final composite (services) PMI	Jun	<u>50.4 (49.4)</u>	48.5 (47.1)
France		08.50 Final composite (services) PMI	Jun	<u>48.5 (48.7)</u>	49.3 (48.9)
Italy		08.45 Composite (services) PMI	Jun	51.6 (52.9)	52.5 (53.2)
Spain		08.15 Composite (services) PMI	Jun	51.2 (51.0)	51.4 (51.3)
UK		09.30 Final composite (services) PMI	Jun	<u>50.7 (51.3)</u>	50.3 (50.9)
		09.30 DMP 3M output price (1Y CPI) expectations Y/Y%	Jun	3.5 (3.0)	3.7 (3.0)
Friday 4 July 2025					
Euro Area		08.30 Construction PMI	Jun	-	45.6
		10.00 PPI Y/Y%	May	0.3	0.7
Germany		07.00 Factory orders M/M% (Y/Y%)	May	-0.2 (5.7)	0.6 (4.8)
		08.30 Construction PMI	Jun	-	44.4
France		07.45 Industrial production M/M% (Y/Y%)	May	0.3 (-0.6)	-1.4 (-2.1)
		08.30 Construction PMI	Jun	-	43.1
Italy		08.30 Construction PMI	Jun	-	50.5
		09.00 Retail sales M/M% (Y/Y%)	May	-	0.7 (3.7)
Spain		08.00 Industrial production M/M% (Y/Y%)	May	0.5 (1.3)	-0.8 (0.6)
UK		09.00 New car registrations Y/Y%	Jun	-	1.6
		09.30 Construction PMI	Jun	48.5	47.9

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 30 June 2025		
Euro Area 	20.00	ECB President Lagarde introduces the annual ECB Forum on Central Banking (30 June – 2 July) in Sintra
Tuesday 1 July 2025		
Euro Area/UK 	14.30	ECB President Lagarde, BoE Governor Bailey, Fed Chair Powell & BoJ Governor Ueda participate in policy panel in Sintra
UK 	10.00	Auction: to sell £2bn of 1.5% 2053 green bonds
Wednesday 2 July 2025		
Euro Area/UK 	11.30	ECB Chief Economist Lane chairs panel featuring BoE MPC external member Taylor on central bank communications, Sintra
Germany 	10.30	Auction: to sell €6bn of 2035 bonds
UK 	10.00	Auction: to sell £5bn of 4.375% 2028 bonds
Thursday 3 July 2025		
Euro Area 	11.30	ECB to publish monetary policy account of June 4-5 Governing Council meeting
France 	09.50	Auction: to sell up €12bn of 3.2% 2035, 3.6% 2042 & 3.75% 2056 bonds
Spain 	09.30	Auction: to sell 1.15% 2026, 2.4% 2028, 3.15% 2035 & 3.5% 2041 bonds
UK 	09.30	BoE to publish quarterly Bank Liabilities and Credit Conditions surveys for Q225
Friday 4 July 2025		
Euro Area 	13.15	BdF Governor & ECB Governing Council member Villeroy speaks on panel at Les Recontres Economiques, Aix-en-Provence
UK 	18.30	BoE MPC external member Taylor to give speech on the natural rate of interest (published 16:00) at LSE, London.

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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