

Euro wrap-up

Overview

- Ahead of President Lagarde's opening speech at the ECB central banking forum, Bunds made modest losses as Spanish inflation remained sticky in June but inflation expectations eased.
- As UK PM-in-waiting Burnham insisted that he would stick with the Starmer/Reeves fiscal rules, Gilts outperformed slightly while UK mortgage lending and approvals fell to their lowest since January 2024.
- Tuesday will bring flash June inflation estimates from Germany, France and Italy.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.533	+0.021
OBL 2½ 04/31	2.596	+0.012
DBR 2.9 02/36	2.857	+0.009
UKT 4¾ 03/28	4.121	+0.003
UKT 4¾ 03/31	4.265	-0.009
UKT 4¾ 10/35	4.719	-0.012

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

Euro area

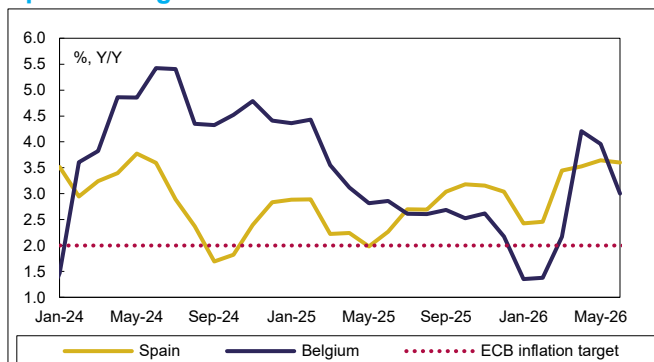
Spanish inflation remains sticky, but expectations are beginning to ease

Ahead of Wednesday's euro area flash HICP release, today's preliminary national inflation prints from Spain and Belgium were mixed. In Spain, inflation proved firmer than expected, with the headline HICP rate unchanged at 3.6%Y/Y, the joint-highest in two years. This largely reflected higher electricity and gas prices following the reversal of the government's temporary VAT cuts to households' energy bills, broadly offsetting declines in motor fuel prices. But the national core rate (excluding unprocessed food and energy) edged down just 0.1ppt to 2.9%Y/Y, suggesting underlying price pressures remained somewhat sticky. Elsewhere, the larger-than-expected fall in Belgium was more encouraging, with the headline HICP rate dropping a chunky 1ppt to 3.0%Y/Y, driven in part by lower oil prices feeding through to auto fuels and airfares. And while last week's ECB consumer survey pointed to still-elevated medium-term inflation expectations, today's European Commission survey indicated a more broad-based easing in near-term price pressures. The survey measure of consumer price expectations for the coming 12 months moderated to the lowest since February, well below the peak in early 2022 albeit still well above historical norms. And perhaps due to the softness of demand as much as the decline in fuel prices, selling-price expectations across the major sectors have retreated further from the multi-year highs hit in April. Notably, the services sector measure is now only marginally above its pre-war range, suggesting limited evidence of second-round effects from the energy shock. At the same time, a marked decline in firms' headcount expectations over the past quarter should help to contain wage pressures. Indeed, the survey's employment expectations index fell to the second-lowest level in more than five years.

Business & consumer sentiment stabilises further in June, but consistent with stagnation in Q2

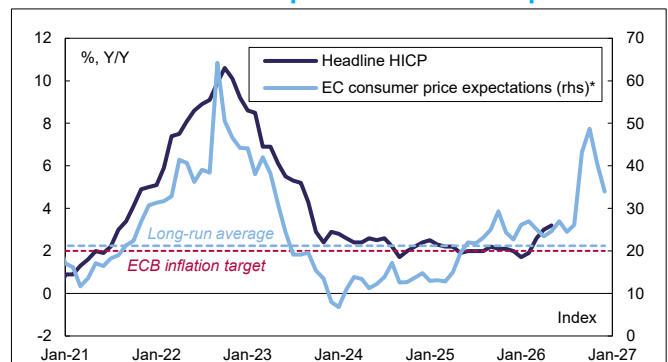
Likely supported by easing cost pressures, the European Commission's survey implied some further stabilisation in economic conditions at the end of Q2. The headline euro area Economic Sentiment Indicator (ESI) rose for a second successive month in June, by 1.3pts to 95.0, with most member states – aside from France and Austria – reporting improvements. However, the euro area's ESI still averaged almost 4pts lower in Q2 at a level consistent with broadly stagnant GDP growth. The latest rise was partly driven by the 1.3pt pickup in consumer confidence, flagged in the preliminary estimate, which was accompanied with a further improvement in major purchase intentions. Consistent with this, retailers were somewhat less pessimistic in June. Services firms also reported improved sentiment, supported by expectations of firmer summer demand, particularly in hospitality and information services. By contrast, firms in industry reported a marked decline in recent trends in factory production as earlier front-loading linked to supply concerns and higher operating costs seemingly faded. And notwithstanding continued strength in civil engineering, sentiment among construction firms fell to its lowest in almost two years, with higher borrowing costs and persisting uncertainty weighing on demand.

Spain & Belgium: Headline HICP inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer price inflation & expectations*

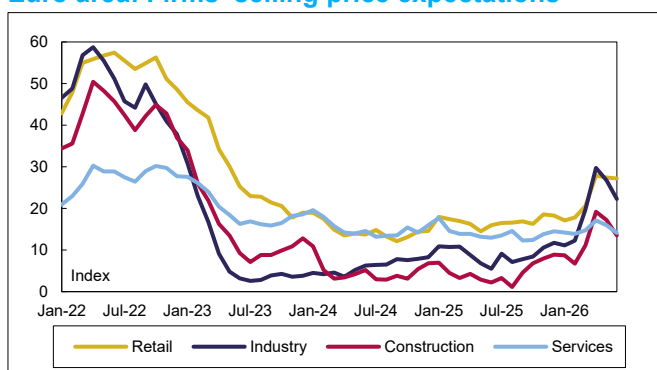


*12 months ahead, with a 6-month lead. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Bank lending continued to flow steadily despite tightening financial conditions

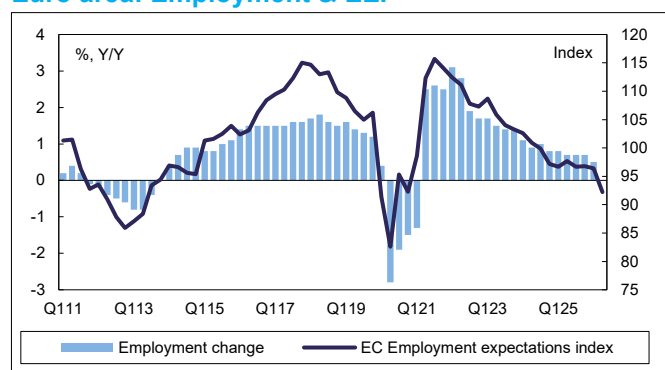
Despite tightening financial conditions and ongoing uncertainty, the ECB's latest monetary data suggest that credit continued to flow steadily to both households and businesses in May, which might support near-term economic growth. Certainly, the strength in new lending to non-financial corporations (NFCs) was surprising, with the strongest net flow in almost four years (€33.8bn). And while this strength was broad-based, around half of the increase related to loans with maturities of five years or longer, more typically associated with investment. As a result, annual growth in the stock of total NFCs loans accelerated to 4.0%Y/Y, a three-year high. At the country level, business loan growth in German turned positive for the first time in six months (0.6%Y/Y). Meanwhile, loan growth accelerated in France and Italy to multi-year highs, while in Spain it matched the strongest pace since 2007 excluding the extreme volatility during the global financial crisis and the Covid lockdown period. Net lending to households also remained firm at €17bn, supported in part by a pickup in mortgage lending to a five-month high (€15bn). While consumer credit moderated to a four-month low in May (€2.4bn) this likely reflected payback for April's strength, with the net flow in the three months to May remaining close to last year's highs. Nevertheless, with households budgets squeezed by higher inflation, consumption is likely to have weakened over the past quarter. The recent rise in mortgage rates alongside the ECB's June rate hike is likely to weigh on housing demand in the near term too. And until there is a more concrete resolution to the war in the Middle East, firms are highly likely to postpone non-essential work.

Euro area: Firms' selling price expectations*



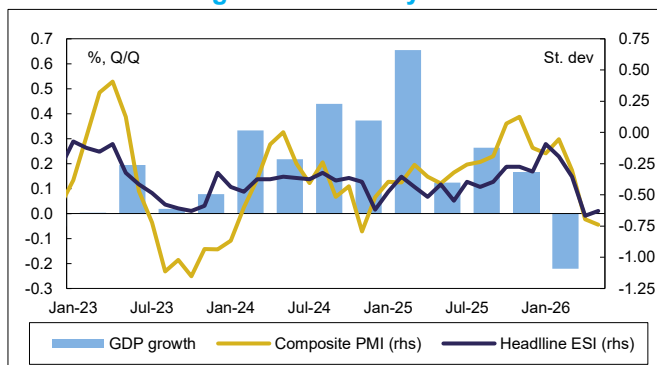
*3 months ahead. Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Employment & EEI



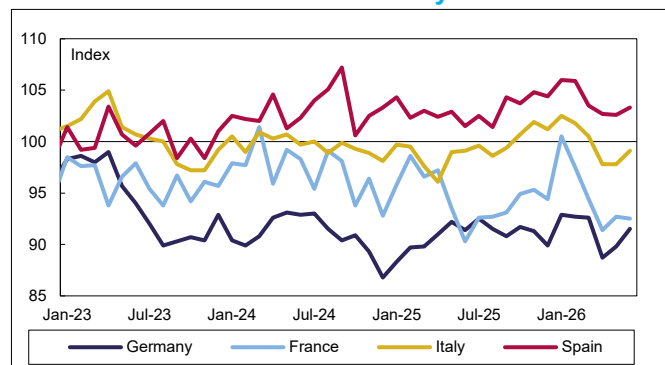
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: GDP growth & survey indicators



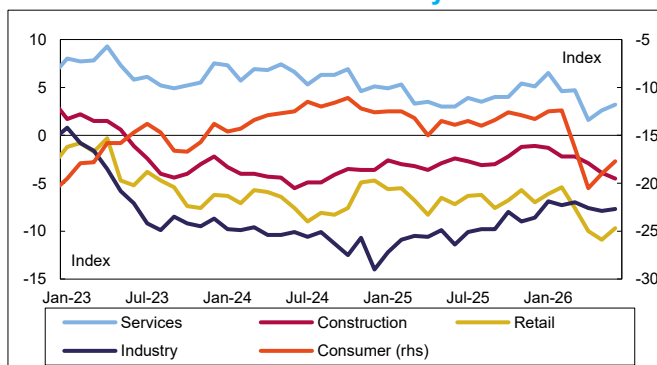
Source: EC, S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Economic sentiment by member state



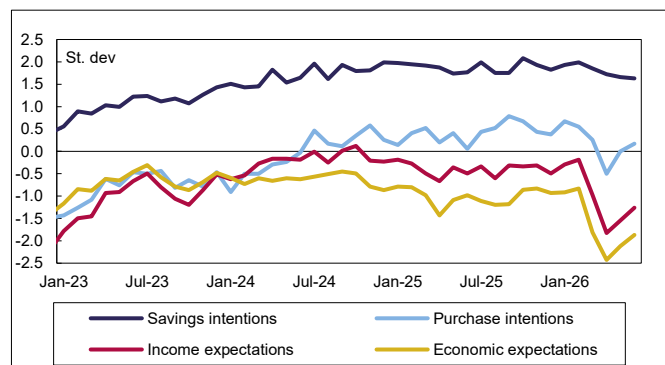
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Economic sentiment by sector



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

Euro area: Consumer confidence indices



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

The day ahead in the euro area

While ECB policymakers are likely to be giving comments on the sidelines of its annual Central Banking Forum in Sintra throughout the day, Tuesday will be a particularly busy day for economic data too. Following on from today's Spanish and Belgian readings, the flash inflation estimates from Germany, France and Italy will help to refine expectations ahead of Wednesday's euro area release. Broadly speaking, lower fuel prices are expected to have brought some relief to headline rates this month. In terms of pipeline inflation, French and Italian PPI data for May will likely show the extent to which rising costs might have been broadening beyond producers in energy-intensive and refining industries, while foreign trade prices from Germany will provide an update on imported pressures. The erosion of real incomes and hit to consumer confidence from higher prices have already posed a headwind to consumer spending in both Germany and France. However, warmer weather last month is likely to have supported some modest payback, while the temporary energy tax cut in Germany (which expires on Wednesday) might have offered a boost to fuel sales. German unemployment data for June are also due.

UK

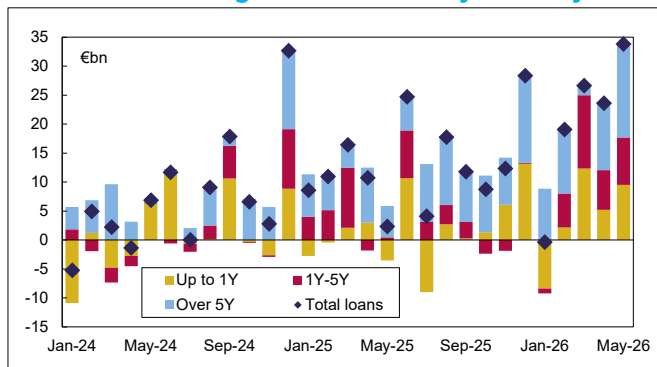
Mortgage lending & approvals the softest since January 2024

Contrasting the euro area, today's UK bank lending data were much weaker in May. In particular, the net flow of new mortgage lending of just £2.9bn was the softest since January 2024 when excluding the end of the Stamp Duty holiday in April 2025. Admittedly, this followed surprisingly firm growth since the outbreak of war in the Middle East and associated jump in borrowing costs. Indeed, mortgage lending in the three months to May (£14.2bn) remained above the average in 2025 (£13.6bn). But the most striking aspect of today's release was the slump in mortgage approvals last month. Indeed, having accelerated in April to 66k despite the spike in interest rates on new mortgage deals, new mortgage approvals fell to 56.2k, similarly the lowest since the start of 2024, pointing to markedly softer lending growth over the near term. While annual growth in consumer credit remained solid at close to 9%Y/Y, the net flow of new credit slowed to a five-month low in May, with lending on credit cards down to a 12-month low. Business lending also softened, with the increase to large firms the softest in five months, while SMEs made a net repayment for the first time since March 2025.

The day ahead in the UK

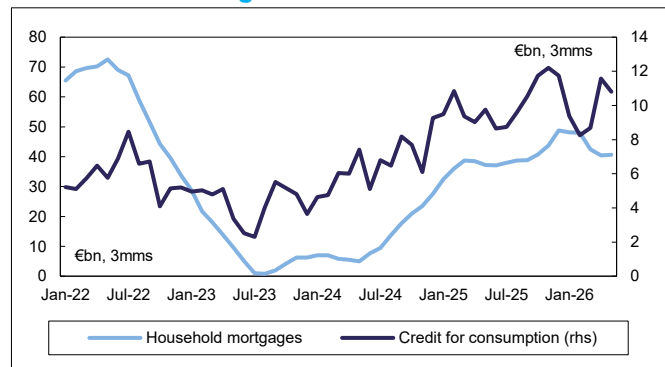
The highlight of Tuesday's UK dataflow will come from the BRC's shop price survey for June, which will provide an indication as to whether higher input costs are being passed through to final selling prices of food and selected goods categories on the high street. Meanwhile, final national accounts data for Q1 will be expected to confirm that UK GDP growth accelerated at the start of the year to a four-quarter high (0.6%Q/Q), led by stronger domestic consumption.

Euro area: Lending flows to NFCs by maturity



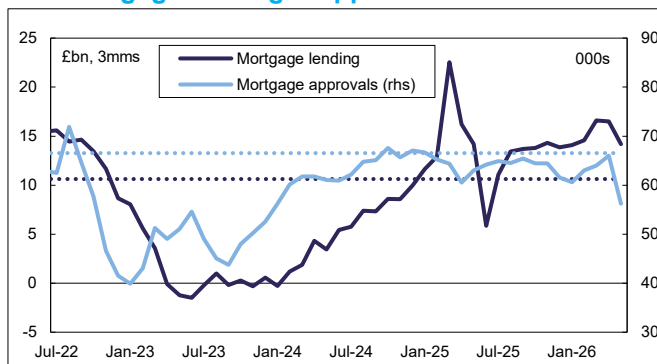
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Lending flows to households



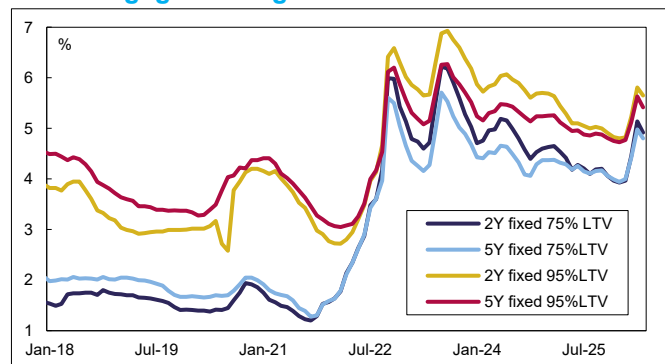
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Mortgage lending & approvals*



*Dotted lines represent long-run average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Mortgage lending rates











Source: Bloomberg 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
Euro area	 Commission economic sentiment indicator	Jun	95.0	94.3	93.5	93.7
	 Commission services (industrial) confidence indicator	Jun	3.2 (-7.7)	2.9 (-7.1)	2.2 (-8.0)	2.6 (-7.9)
	 Final Commission consumer confidence indicator	Jun	-17.7	-17.7	-19.0	-
	 M3 money supply Y/Y%	May	3.2	2.7	2.7	-
Spain	 Preliminary HICP (CPI) Y/Y%	Jun	3.6 (3.2)	3.4 (3.0)	3.6 (3.2)	-
	 Retail sales Y/Y%	May	1.3	-	0.8	0.6
UK	 Net consumer credit £bn (Y/Y%)	May	1.7 (8.9)	-	1.9 (8.8)	1.7 (8.7)
	 Net mortgage lending £bn (mortgage approvals 000s)	May	2.9 (56.2)	4.2 (63.0)	4.4 (65.9)	- (66.0)

















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
Germany	 07.00	Retail sales M/M% (Y/Y%)	May	-	0.0 (-2.3)
	 07.00	Import prices M/M% (Y/Y%)	May	0.4 (6.5)	1.2 (5.3)
	 08.55	Unemployment claims rate % (change 000s)	Jun	6.3 (5)	6.3 (-12)
	 13.00	Preliminary HICP (CPI) Y/Y%	Jun	2.5 (2.6)	2.7 (2.6)
France	 07.45	Preliminary HICP (CPI) Y/Y%	Jun	2.3 (2.0)	2.8 (2.4)
	 07.45	PPI Y/Y%	May	-	2.1
	 07.45	Consumer spending M/M% (Y/Y%)	May	0.3 (0.1)	-0.5 (-0.4)
Italy	 09.00	PPI Y/Y%	May	-	8.8
	 10.00	Preliminary HICP (CPI) Y/Y%	Jun	3.2 (3.2)	3.2 (3.2)
UK	 00.01	BRC shop price index Y/Y%	Jun	1.3	1.2
	 07.00	GDP – final estimate Q/Q% (Y/Y%)	Q1	0.6 (1.1)	0.2 (1.0)
	 07.00	GDP – private consumption Q/Q%	Q1	0.6	0.1
	 07.00	GDP – government spending Q/Q%	Q1	0.4	0.1
	 07.00	GDP – gross fixed capital formation Q/Q%	Q1	-0.6	-0.1
	 07.00	GDP – exports (imports) Q/Q%	Q1	0.1 (0.6)	-0.3 (0.6)
	 07.00	Current account balance £bn	Q1	-21.3	-18.4

Auctions and events

Euro area	 11.40	ECB's Schnabel chairs panel featuring BoE Deputy Governor Breeden on 'AI and financial stability' in Sintra
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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