

Euro wrap-up

Overview

- Bunds rallied as the flash euro area PMIs for June signalled a significant loss of economic growth momentum.
- While the flash UK PMIs also missed expectations, Gilts made losses at the short end of the curve but gains further out as retail sales rose for a second successive month and consumer confidence improved.
- The data focus in the coming week will be the flash estimates of euro area inflation in June while the ECB will hold its annual Sintra Forum on Central Banking.

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Daily bond market movements

Bond	Yield	Change
BKO 2.8 06/25	3.091	-0.104
OBL 2.2 04/28	2.488	-0.143
DBR 2.3 02/33	2.354	-0.135
UKT 0% 06/25	5.122	+0.077
UKT 1% 10/28	4.527	-0.020
UKT 3¼ 01/33	4.461	-0.069

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

Euro area

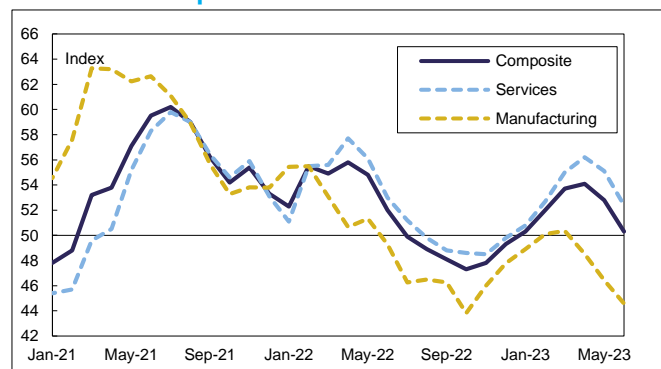
Flash PMIs surprise on the downside to suggest loss of recovery momentum at end-Q2

Having been surprisingly strong at the start of Q2, the flash PMIs weakened for the second successive month in June and by much more than expected to suggest a significant loss of recovery momentum and raise question marks over the near-term outlook. Indeed, the euro area composite output PMI fell 2.5pts this month – the most in a year – to 50.3, a level consistent with stagnation rather than expansion. That still left the Q2 average up almost ½pt from Q1 at 52.4, a level that before the pandemic would have been consistent with GDP growth of between 0.2-0.3%Q/Q, although we caution that the PMIs exaggerated the strength of economic activity in Q1. The further deterioration in the manufacturing sector in June ought not to have been a big surprise, with the respective output PMI falling 1.8pts to an eight-month low of 44.6 to suggest contraction for a third successive month. Perhaps related to a weakening in business-to-business activity, the services survey reported a notable loss of steam, with the euro area activity PMI down 2.7pts – also the most in twelve months – to a five-month low of 52.4. With growth in new business in services slowing, and new demand in manufacturing falling sharply, the respective composite PMI suggested that new orders declined in June for the first time since January. Nevertheless, while job growth was reportedly the softest in four months, the respective PMI remained firmly above 50, sustaining the tightness in the labour market.

Output slowdown reported across the region while French services slip into reverse

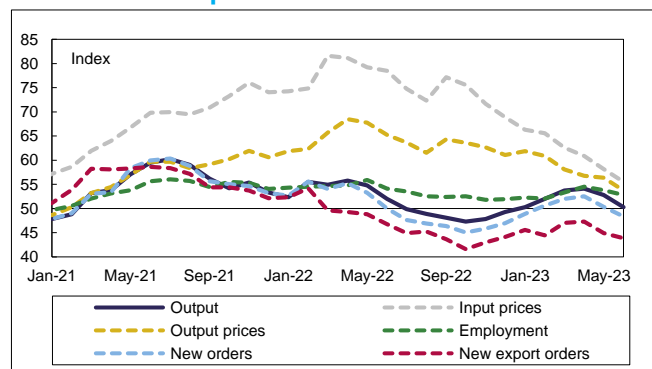
At the country level, the June flash PMIs were similarly all softer than expected. However, the weakness was led by France, where the composite PMI plunged almost 4pts to 47.3, the lowest since February 2021 and a level consistent with contraction for the first time since January. Most notably, the French survey suggested that activity in services as well as manufacturing had gone into reverse, perhaps due to the multi-sector strikes earlier in the month. We note, however, that yesterday's [INSEE survey](#) results – which often tally more closely with French GDP – pointed to broadly stable activity in June and overall growth of 0.1%Q/Q over Q2 as a whole. Elsewhere, the German composite PMI dropped 3.1pts to 50.8, the lowest since February, albeit consistent with modest expansion. Growth in German services reportedly moderated to a three-month low while factory output fell the most in eight months. And with a similar combination of slowing services and falling factory output, S&P Global reported that the rest of the euro area reported the slowest growth in overall economic output for five months.

Euro area: Output PMIs



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

Euro area: Composite PMIs



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

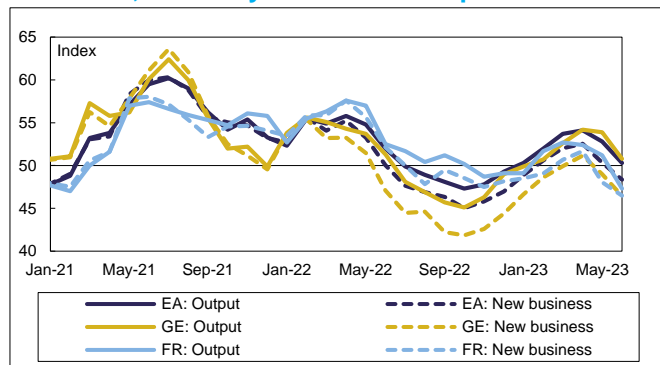
Price PMIs continue to ease, but pressures remain elevated in services

As far as the ECB is concerned, of course, the pricing PMIs will be considered as significant as the indices for economic activity. In that respect, all of the indices were down on recent months, with the survey suggesting that average prices charged for goods and services rose at the slowest rate in 27 months. Indeed, falling new orders, work backlogs and delivery times in the manufacturing sector reportedly resulted in the steepest declines in output prices for three years and the sharpest declines in input costs since 2009. However, in services, where labour costs are proportionately far more important, the flash PMIs suggested that prices charged and, in particular, input costs continue to rise at rates that remain well above their long-run averages. And while those PMIs were the lowest since 2021, suggesting some gradual moderation in cost pressures in the sector, the ECB will remain concerned about second-round price effects and press ahead with another rate hike next month.

The week ahead in the euro area

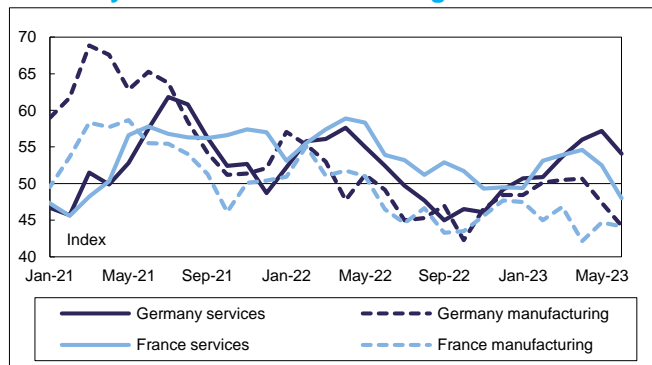
In a busy week ahead for euro area economic events, the key focus will be the flash inflation estimates for June, to be published on Friday. Headline inflation is expected to have fallen sharply further this month, due not least to base effects related to energy and food. Indeed, our forecast is for a drop of 0.7ppt to 5.4%Y/Y, which would be the lowest rate since January 2022. But while core goods inflation is also expected to have moderated, services inflation is expected to have accelerated due not least to base effects associated with last year's highly discounted German travel pass. As such, we forecast core inflation to edge slightly higher in June, by 0.2ppt to 5.5%Y/Y, albeit remaining below March's peak (5.7%Y/Y). Flash releases from Italy (Wednesday), Germany and Spain (Thursday) and France (Friday) are also due. The Commission's business and consumer survey results (Thursday) will provide further insight into households' and firms' price expectations, as well as an update on economic growth at the end of the second quarter. While today's flash PMIs suggested a marked slowing in economic momentum, the Commission's headline economic sentiment index had already taken a notable step down in May and so might be more stable in June. Other key releases in the coming week include euro area bank lending (Wednesday) and unemployment numbers (Friday). Beyond the economic data, the ECB's central bank forum in Sintra (Wednesday and Thursday) will also be closely watched for any further insights into the near-term path for policy. ECB President Lagarde will kick off the event with a keynote speech on Wednesday morning, while her central bank governor peers Powell, Ueda and Bailey will join her for a panel discussion on Thursday afternoon.

Euro area, Germany & France: Composite PMIs



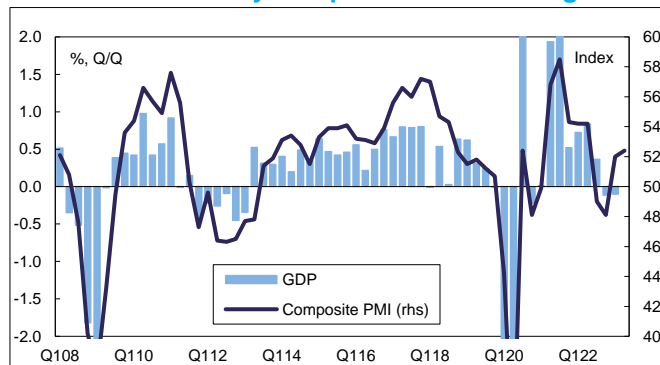
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

Germany & France: Manufacturing & services PMIs



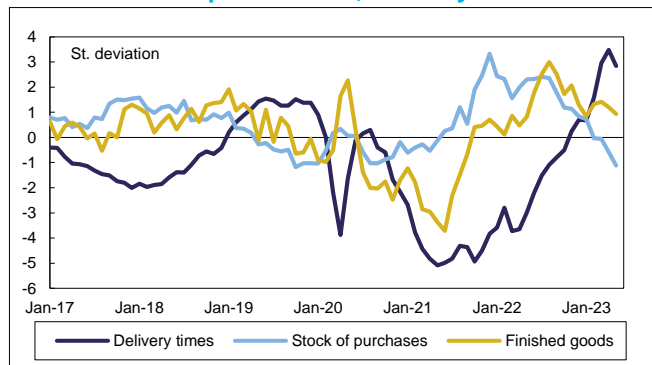
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Quarterly composite PMI & GDP growth



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

Euro area: Composite PMIs, delivery times & stocks



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

UK

Retail sales on track for modest growth in Q2

UK retail sales volumes in May were a touch stronger than expected, rising for a second successive month and by 0.3% M/M. That left them still down some 2.1% Y/Y and a touch more than 1.0% below the pre-pandemic level in February 2020. But sales in April and May were trending 0.2% above the Q1 average, pointing to the likelihood of subdued albeit positive growth in Q2 for a second successive quarter. Last month's figures were flattered a little by sales at petrol stations (up 1.7% M/M, perhaps as households took advantage of the extra national holiday to travel), excluding which sales rose just 0.1% M/M. Sales in department stores and household goods stores fared well. And online sales were boosted by sales of outdoor-related goods and summer clothing, seemingly benefiting from much-improved weather later in the month. But sales from food stores fell 0.5% M/M, broadly reversing growth the prior month. While that might in part reflect higher food prices, the ONS reported anecdotal evidence that consumers spent more on take-aways over the holiday period. Certainly, higher prices continue to erode real-terms purchasing power – in value terms, retail sales rose 0.6% M/M to be up 1.1% 3M/3M and a hefty 4.8% Y/Y.

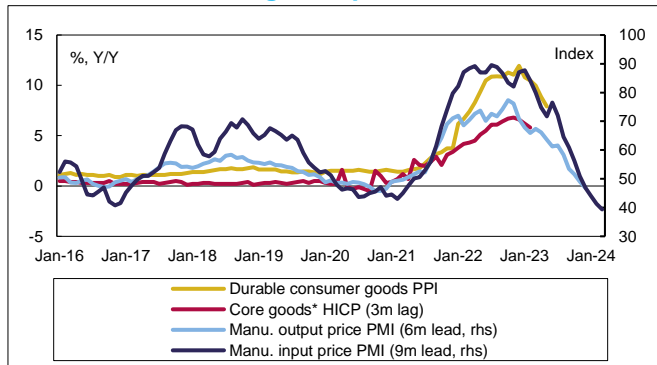
Consumer confidence up to 17-month high before yesterday's 50bps rate hike

If the GfK survey is to be believed, consumer confidence in the UK continues to improve, with the survey's headline index up 3pts in June to -24, the highest level since before the Russian invasion of Ukraine in January 2022 and 25pts above last autumn's low. Improvement came from forward-looking indicators such as expectations for personal finances – which were similarly judged to be the best since end 2021 – and the economic outlook. But the climate for making major purchases was judged to have deteriorated slightly and remained historically low. And following yesterday's 50bps hike from the [BoE](#), which was greeted with some dismay in some parts of the media, and given the likelihood of additional tightening to come, we expect consumer confidence to weaken over coming months and retail sales to soften in the second half of the year too.

UK PMIs consistent with positive GDP growth in Q2, but point to a loss of momentum in June

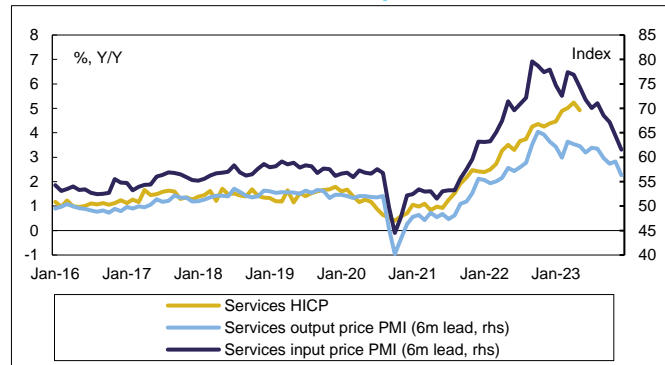
Contrasting with the improvement in consumer confidence reported in the GfK survey, today's flash PMIs signalled a further slowing in UK economic recovery momentum at the end of Q2 amid signs of a weakening in demand. Admittedly, the survey remains consistent with ongoing modest expansion, with the quarterly composite output index in Q2 (53.9) some 2.6pts higher than in Q1 and a level that before the pandemic would have been indicative of GDP growth of about 0.2-0.3% Q/Q. But the index nevertheless fell a steeper-than-expected 1.2pts in June to a three-month low of 52.8, with the new business

Euro area: Selected goods price indices



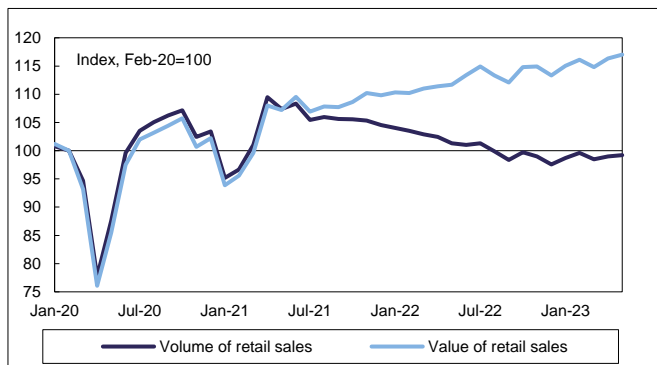
*Non-energy industrial goods. Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Selected services price indices



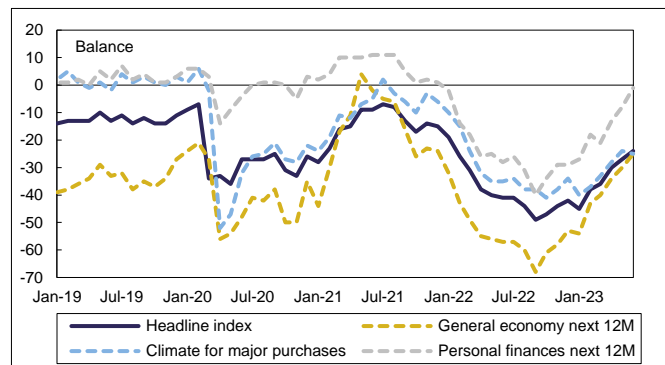
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence



Source: GfK, Refinitiv and Daiwa Capital Markets Europe Ltd.

component down a more striking 2.3pts to 51.7, the softest in five months. Like in the euro area, the services sector underpinned the recovery in the second quarter, with the index (54.9) more than 3pts higher than in Q1 and the strongest since Q222, despite falling to a three-month low in June (53.7). But demand for new business in the sector slowed in June, to a five-month low. And despite easing supply constraints, today's survey again illustrated the ongoing challenges in manufacturing, with the output component averaging just 48.2 in Q2 and the new orders component falling to a five-month low (44.9) in June.

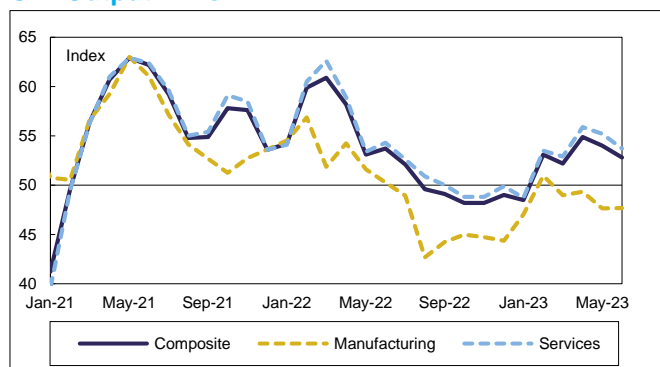
PMIs suggest factory output prices fall, but services prices still sticky

Given the weakness in demand and a steeper drop in cost burdens, today's survey implied the first decline in manufacturers' output prices since April 2016. Indeed, the respective PMI dropped 4.5pts in June to 49.7, 29pts below last year's peak and almost 4pts below the long-run average. But while the pace of increase in input costs in the services sector also moderated in June, to the slowest in more than two years, it remained historically elevated, with almost 40% of firms reporting higher business expenses, related overwhelmingly to rising wages. And so, tallying with the MPC's concerns about the stickiness of services inflation, today's survey reported only a modest easing in the pace of increase in prices charged in the sector, with the respective index (60.1) still well above the long-run average (52.6). With firms also reporting solid jobs growth in the sector – the employment PMI jumped to a nine-month high (53.9) – the survey might also suggest little moderation in private sector pay growth over the near term too.

The week ahead in the UK

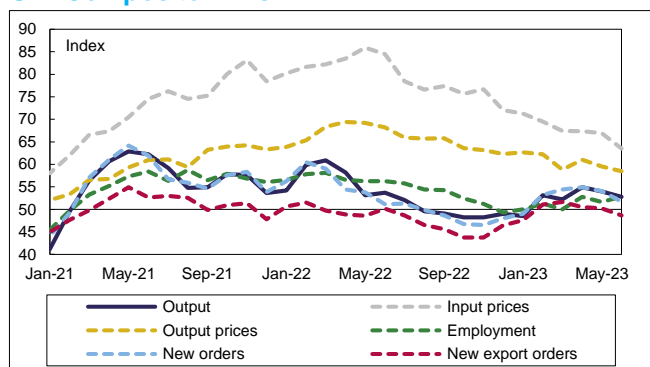
The coming week in the UK will bring the BoE's bank lending figures for May on Thursday. These might well show a (likely temporary) modest pickup in mortgage approvals last month. But households are expected to have made a third successive net repayment of mortgage debt for the first time since the series began in 1990. Ahead of this, the week will bring the release of the CBI's distributive trades survey (Monday) and BRC shop price index (Tuesday), which are likely to illustrate that high inflation on the High Street continues to dampen consumer spending on goods. Finally, revised Q1 GDP figures (Friday) are expected to confirm modest growth of 0.1%Q/Q, as stronger private investment offset a decline in government consumption and lacklustre household consumption. This release will be accompanied by the latest balance of payments numbers, which are expected to report a widening in the current account deficit (by around £5bn to £7.5bn), albeit remaining well below the record high a year ago (£50.5bn).

UK: Output PMIs



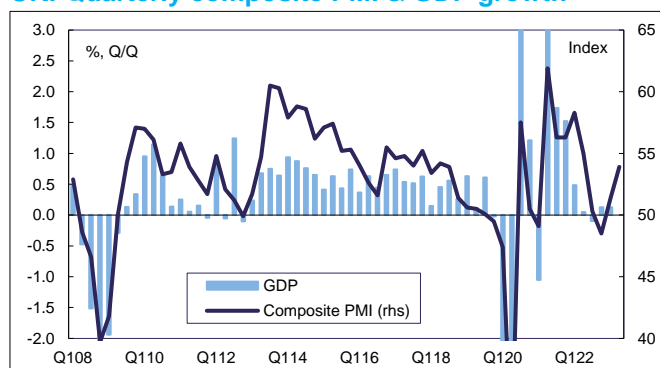
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Composite PMIs



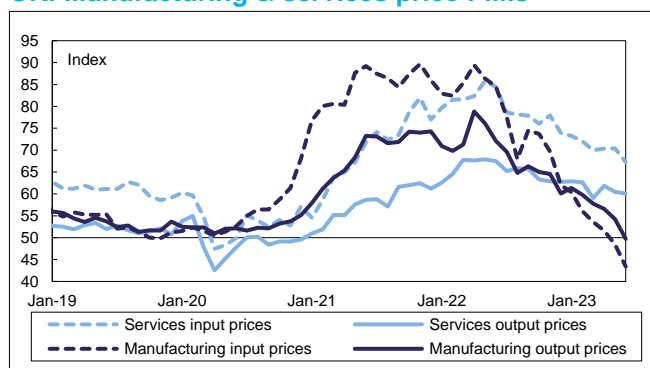
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Quarterly composite PMI & GDP growth












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

UK: Manufacturing & services price PMIs















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

Daiwa economic forecasts

	2022	2023				2024	2023	2024	2025
	Q4	Q1	Q2	Q3	Q4	Q1			
GDP		%, Q/Q					%, Y/Y		
Euro area 	-0.1	-0.1	0.1	0.2	0.2	0.2	0.5	1.1	1.5
UK 	0.1	0.1	0.0	0.2	0.2	0.2	0.3	0.5	0.8
Inflation, %, Y/Y									
Euro area									
Headline HICP 	10.0	8.0	6.2	4.5	2.8	2.8	5.3	2.3	1.7
Core HICP 	5.1	5.5	5.5	5.1	4.3	3.6	5.1	2.7	1.8
UK									
Headline CPI 	10.7	10.2	8.4	6.6	4.5	4.1	7.4	2.8	1.6
Core CPI 	6.4	6.1	6.9	6.3	5.6	5.1	6.2	3.3	1.8
Monetary policy, %									
ECB									
Refi Rate 	2.50	3.50	4.00	4.25	4.25	4.25	4.25	3.75	3.00
Deposit Rate 	2.00	3.00	3.50	3.75	3.75	3.75	3.75	3.25	2.50
BoE									
Bank Rate 	3.50	4.25	5.00	5.50	5.50	5.50	5.50	5.00	4.00

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 	Preliminary manufacturing (services) PMI	Jun	43.6 (52.4)	44.8 (54.5)	44.8 (55.1)	-	
	Preliminary composite PMI	Jun	50.3	52.5	52.8	-	
Germany 	Preliminary manufacturing (services) PMI	Jun	41.0 (54.1)	43.5 (56.3)	43.2 (57.2)	-	
	Preliminary composite PMI	Jun	50.8	53.3	53.9	-	
France 	Preliminary manufacturing (services) PMI	Jun	45.5 (48.0)	45.3 (52.1)	45.7 (52.5)	-	
	Preliminary composite PMI	Jun	47.3	51.0	51.2	-	
Spain 	GDP – second estimate Q/Q (Y/Y%)	Q1	0.6 (4.2)	<u>0.5 (3.8)</u>	0.4 (2.9)	-	
UK 	GfK consumer confidence	Jun	-24	-26	-27	-	
	Retail sales including auto fuel M/M% (Y/Y%)	May	0.3 (-2.1)	-0.2 (-2.5)	0.5 (-3.0)	- (-3.4)	
	Retail sales excluding auto fuel M/M% (Y/Y%)	May	0.1 (-1.7)	-0.3 (-2.0)	0.8 (-2.6)	0.7 (-3.0)	
	Preliminary manufacturing (services) PMI	Jun	46.2 (53.7)	46.8 (54.8)	47.1 (55.2)	-	
	Preliminary composite PMI	Jun	52.8	53.6	54.0	-	
Auctions							
Country	Auction						
- Nothing to report -							

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</i> <i>forecast/actual</i>	Previous
Monday 26 June 2023					
Germany 	09.00	ifo business climate index	Jun	90.9	91.7
	09.00	ifo current assessment (expectations) index	Jun	90.9 (93.2)	94.8 (88.6)
UK 	11.00	CBI distributive trades survey, reported sales	Jun	-	-10
Tuesday 27 June 2023					
Italy 	10.00	ISTAT business (manufacturing) confidence	Jun	-	108.7 (101.4)
	10.00	ISTAT consumer confidence	Jun	-	105.1
UK 	00.01	BRC shop price index Y/Y%	Jun	-	9.0
Wednesday 28 June 2023					
Euro area 	09.00	M3 money supply Y/Y%	May	1.5	1.9
Germany 	07.00	GfK consumer confidence	Jul	-23.0	-24.2
France 	07.45	INSEE consumer confidence	Jun	84	83
Italy 	10.00	Preliminary HICP (CPI) Y/Y%	Jun	6.8 (6.0)	8.0 (7.6)
Spain 	08.00	Retail sales Y/Y%	May	5.0	5.5
UK 	-	Nationwide house price index* M/M% (Y/Y%)	Jun	-0.3 (-4.0)	-0.1 (-3.4)
Thursday 29 June 2023					
Euro area 	10.00	EC Economic Sentiment Index	Jun	96.0	96.5
	10.00	EC industry (services) confidence	Jun	-5.3 (5.8)	-5.2 (7.0)
Euro area 	10.00	EC final consumer confidence	Jun	-16.1	-17.4
Germany 	13.00	Preliminary HICP (CPI) Y/Y%	Jun	6.8 (6.2)	6.3 (6.1)
Spain 	08.00	Preliminary HICP (CPI) Y/Y%	Jun	1.4 (1.7)	2.9 (3.2)
UK 	09.30	Consumer credit £bn (Y/Y%)	May	1.5 (-)	1.6 (7.7)
	09.30	Mortgage lending £bn (approvals, 000s)	May	-0.7 (49.5)	-1.4 (48.7)
Friday 30 June 2023					
Euro area 	10.00	Preliminary HICP (core HICP) Y/Y%	Jun	<u>5.4 (5.5)</u>	6.1 (5.3)
	10.00	Unemployment rate %	May	6.5	6.5
Germany 	07.00	Retail sales M/M% (Y/Y%)	May	0.0 (-6.1)	0.5 (-8.7)
	08.55	Unemployment change 000s (rate %)	Jun	15.0 (5.6)	9.0 (5.6)
France 	07.45	Preliminary HICP (CPI) Y/Y%	Jun	5.4 (4.5)	6.0 (5.1)
	07.45	Consumer spending M/M% (Y/Y%)	May	0.6 (-)	-1.0 (-4.3)
	07.45	PPI Y/Y%	May	-	7.0
UK 	00.01	Lloyds business barometer	Jun	-	28
	07.00	GDP – 3rd estimate Q/Q% (Y/Y%)	Q1	0.1 (0.2)	0.1 (0.6)
	07.00	Current account balance £bn	Q1	-7.5	-2.5

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 26 June 2023		
- Nothing scheduled -		
Tuesday 27 June 2023		
Euro area	 -	ECB Forum on Central Banking in Sintra (27-28 June)
	 09.00	ECB President Lagarde gives opening remarks at ECB Forum in Sintra
	 09.30	ECB's Panetta chairs session on 'Monetary policy in the face of multiple shocks'
	 13.00	ECB's Schnabel chairs session on 'Structural change in energy markets and implications for inflation'
Italy	 10.00	Auction: €2.50bn of 3.4% 2025 bonds
	 10.00	Auction: €1.75bn of 1.5% 2029 bonds
UK	 10.00	Auction: £1.5bn of 0.75% 2033 index-linked bonds
Wednesday 28 June 2023		
Euro area	 09.00	ECB's de Guindos chairs session on 'Monetary policy normalisation'
	 10.00	ECB's de Guindos chairs session on 'The optimal mix of fiscal and monetary policy in the context of high inflation'
	 11.30	ECB Chief Economist Lane chairs session on 'Lessons from recent experiences in macroeconomic forecasting'
	 13.30	Fed's Powell, ECB's Lagarde, BoJ's Ueda & BoE's Bailey to participate in policy panel at ECB Forum in Sintra
UK	 10.00	Auction: £2.75bn of 3.75% 2038 bonds
Thursday 29 June 2023		
Euro area	 09.00	ECB publishes Economic Bulletin
Friday 30 June 2023		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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