

Euro wrap-up

Overview

- Bunds made gains as the flash euro area PMIs signalled an unexpected loss of growth momentum and softening of price pressures in June.
- While the UK PMIs also implied slowing momentum in June, Gilts made losses as the survey's price indices ticked higher and retail sales growth surprised on the upside in May.
- The coming week will bring the release of the Commission's economic surveys, ECB monetary data and flash June inflation estimates from France, Italy and Spain.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	2.784	-0.039
OBL 2.1 04/29	2.555	-0.050
DBR 2.2 02/34	2.407	-0.023
UKT 0% 01/26	4.154	+0.031
UKT 0½ 01/29	3.924	+0.025
UKT 4% 01/34	4.078	+0.023

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

Euro area

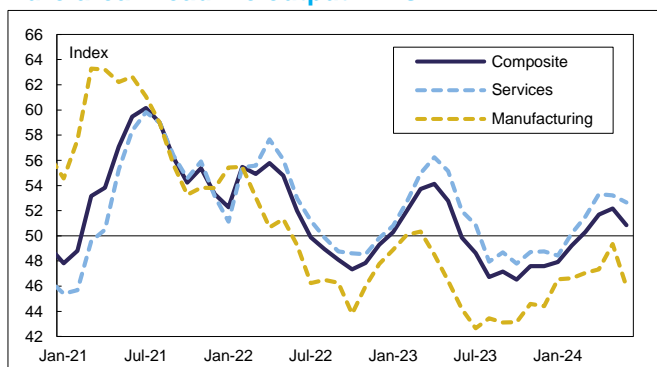
Flash June PMIs signal unexpected loss of momentum at end-Q2

The euro area flash PMIs for June were disappointingly soft, signalling an unexpected loss of euro area growth momentum at the end of Q2. Most notably, the headline composite PMI fell more than 1pt, the most since August, to a three-month low of 50.8. According to the survey, growth in services activity was also the weakest in three months (52.6) with manufacturing output contracting the most in six months (46.0). As a result, over Q2 as a whole, the average euro area composite PMI (51.6) was still the best in three quarters. But it was also arguably consistent with euro area GDP growth of just 0.2%Q/Q this quarter, half the rate projected by the ECB. Moreover, due to particular weakness in external demand, the composite new orders PMI fell more than 2pts and the most in almost two years to a four-month low (49.2). And so, with backlogs of work also reportedly falling significantly again, firms revised down their expectations for future output to the lowest since February and were also less inclined to increase headcount. At the country level, the flash PMIs suggest weakening in growth momentum in June in both Germany (down 1.8pts to 50.6) and France (down 0.7pt to 48.2), offset only in part by firm expansion in the rest of the euro area no doubt still led by Spain. But it remains to be seen whether the softening in the PMIs will be matched by hard data. Certainly, the PMIs significantly underestimated the strength of GDP growth in Q1. They have long been a less reliable guide to French economic activity than the national surveys. And in Germany, it seems difficult to rationalise the reported weakness in services activity with the big boost to the hospitality and recreation sectors from the hordes of visitors attending the Euro 2024 football championships.

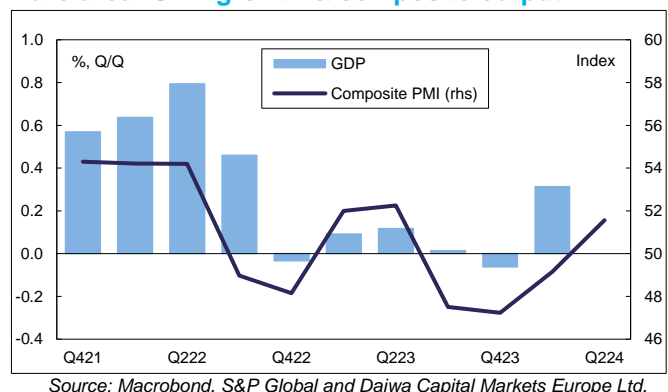
PMIs continue to point to softening of price pressures, except in German services

While it might be tempted to take the evidence of a softening in growth momentum with a pinch of salt, the ECB ought to acknowledge the welcome signals from the flash PMIs of a further cooling of underlying inflationary pressures at the end of Q2. While costs in the manufacturing sector ticked up slightly, those in the all-important services sector reportedly rose the least in more than three years, albeit still at a pace above historical norms. As a result, on average in the euro area, selling prices in the services sector also reportedly rose the least in more than three years. But the respective German flash PMIs bucked that softening trend, however, a fact that we are tempted to attribute to the opportunities provided by Euro 2024. Finally, the survey suggested that factory output prices across the euro area remained under downward pressure for the fourteenth successive month, suggesting that core consumer core goods inflation should also remain subdued – probably close to ½%Y/Y or below – over coming months.

Euro area: Headline output PMIs



Euro area: GDP growth & composite output PMI



The coming week in the euro area

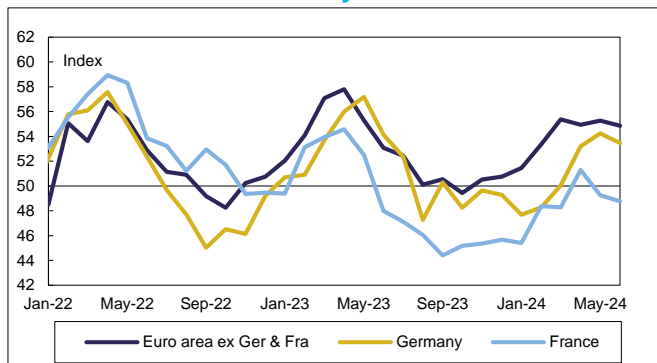
It will be a busy week ahead for top-tier economic releases, including the European Commission's June business and consumer surveys, ECB bank lending figures for May (both due Thursday) and the first of the flash June inflation estimates from the member states (Friday). Contrasting the upbeat PMIs in May, the Commission's economic sentiment indicator (ESI) edged only slightly higher to 96.0 to remain firmly within the range since the start of the year and still some 4% below the long-run average. It is expected to tick only modestly higher at the end of Q2, to leave the quarterly average broadly in line with Q1, although today's flash PMIs might suggest that the risks are skewed to the downside. The German ifo business indices (Monday) and German and French consumer confidence surveys (Wednesday) are also due. Meanwhile, the ECB's monetary data are likely to suggest that bank lending growth to businesses and for house purchase remains highly subdued amid restrictive monetary conditions. The main focus at the end of week will be the June inflation estimates from France, Italy and Spain. Having increased in May, headline HICP inflation in France and Spain are expected to have edged lower this month, by 0.1ppt to 2.5%Y/Y and 0.3ppt to 3.5%Y/Y respectively. And while the equivalent Italian HICP rate is forecast to have ticked slightly higher it is expected to remain extremely weak at 0.9%Y/Y. The ECB's latest consumer survey for May (also due Friday) will likely suggest that household inflation expectations three years ahead remain relatively well anchored at 2.4%Y/Y. In April, equivalent rates for Germany and France stood at 2.1%Y/Y, just above the ECB's 2% target.

UK

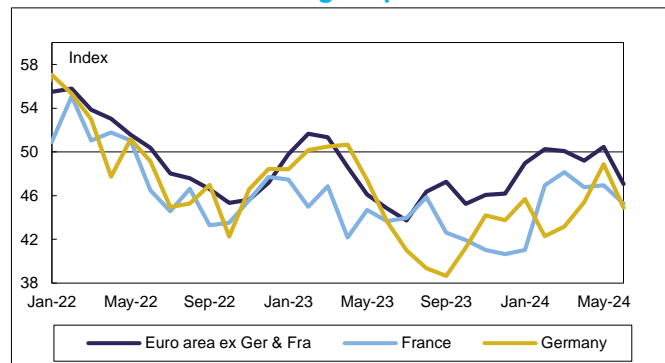
Retail sales bounce back as warmer weather boosts demand for furniture, clothing & food sales

After a weak start to the second quarter as heavy rainfall dampened demand in April, UK retail sales significantly beat expectations in May, with the jump in total sales volumes of 2.9%M/M the strongest since January and the second-firmest for more than three years. The pickup was broad based. Growth in non-food store sales (3.5%M/M) was the strongest since April 2021 and more than reversed the drop in April to leave the level at a 13-month high. The improvement reflected a notable rebound in sales at furniture and clothing retailers, and sports equipment and toy stores, amid increased promotions and improved footfall thanks to the warmest weather for the month since records began in 1884. Food sales (1.2%M/M) also rose for the first month in four, while growth in non-store retailing volumes (5.9%M/M) was the largest since April 2022. Auto fuel sales (2.8%M/M) also benefitted from a decline in petrol prices that month, although failed to fully reverse the slump in April. Overall, although retail sales were still up 1.0%3M/3M, the average volume in the first two months of Q2 was still some ½% below the Q1 level. Meanwhile, the GfK consumer confidence index surprised on the upside in June, rising 3pts to -14 its highest since November 2021. However, households' major purchase intentions were merely the strongest since January,

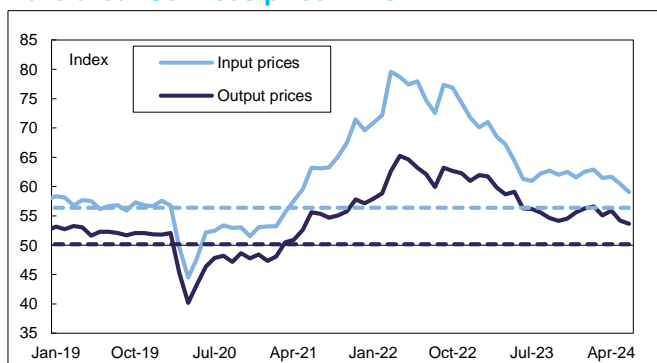
Euro area: Services activity PMIs



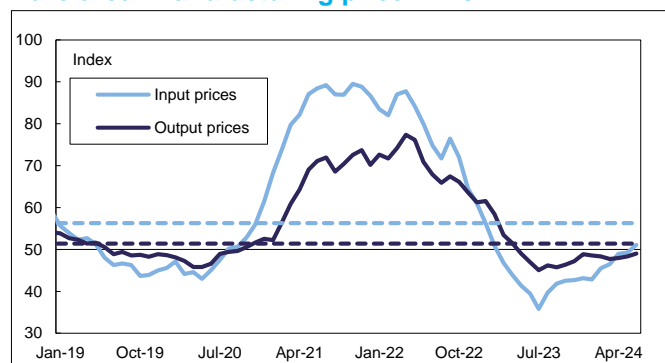
Euro area: Manufacturing output PMIs



Euro area: Services price PMIs*



Euro area: Manufacturing price PMIs*



with the respective index on average in Q2 still a touch below the Q1 level. As such, with spending in June also likely to have been affected negatively by bad weather during the first half of the month, we continue to expect retail sales to provide a modest drag on GDP growth this quarter following the bumper growth (1.9%Q/Q) in Q1.

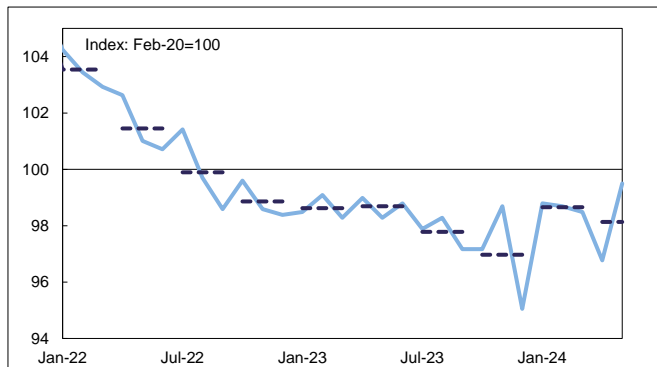
PMIs signal slowing recovery momentum in services, but a pickup in manufacturing at end-Q2

Contrasting the more upbeat retail conditions last month, the UK PMIs suggested a notable slowing in economic momentum at the end of the second quarter. In particular, the composite output index fell for a second-successive month in June, by 1.3pts to 51.7, a seven-month low. The weakening recovery momentum was led by services, for which the headline activity index fell 1.7pts to 51.2, similarly a seven-month low, down more than 3½pts from April’s peak and taking the quarterly average some 0.7pt below the Q1 level. Anecdotal evidence cited by S&P Global suggested that some customers had paused spending decisions ahead of the general election on 4 July, with services firms also somewhat less upbeat about the outlook for the coming twelve months. In contrast, however, the manufacturing PMI signalled the strongest production growth for more than two years – the output index rose a further 0.8pt to 54.2, leaving the quarterly average in Q2 some 4pts higher than in Q1 – as firms caught up on backlogs amid a gradual increase in new orders and expectations that demand will continue to improve. Overall, despite the slowdown in services, the composite PMI in Q2 (52.9) was unchanged from Q1 and therefore still suggestive of another quarter of relatively solid GDP growth. Indeed, despite the lack of support for retail, we maintain our view that economic output likely expanded by 0.4%Q/Q in Q2, just 0.1ppt less than the BoE staff’s latest view.

Price pressures increase in June amid higher shipping costs and persisting pay pressures

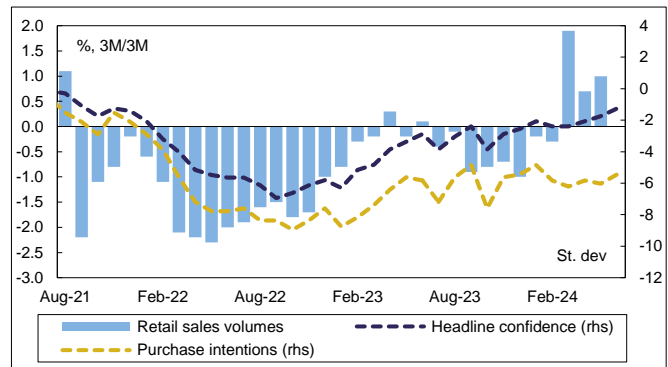
BoE policy makers might be disappointed to see a notable pickup in the input cost PMIs for both the manufacturing and services sectors in June. This was particularly evident in the manufacturing sector, for which the input price PMI (57.2) jumped to a 17-month high, at least in part reflecting the recent increase in global shipping costs. Persisting pay pressures remained the key driver behind higher services costs, for which the relevant PMI ticked higher for the first month since February. As such, the PMIs suggested that firms in both sectors raised selling prices to a greater extent than in May, with the respective services index (57.0) in particular remaining well above the long-run average (52.6). Nevertheless, this was still a touch below the average of the past six months and well below the peak in May 2022 (67.9), suggesting that the disinflationary trend has been maintained despite recent upside surprises to inflation and wage growth.

UK: Retail sales



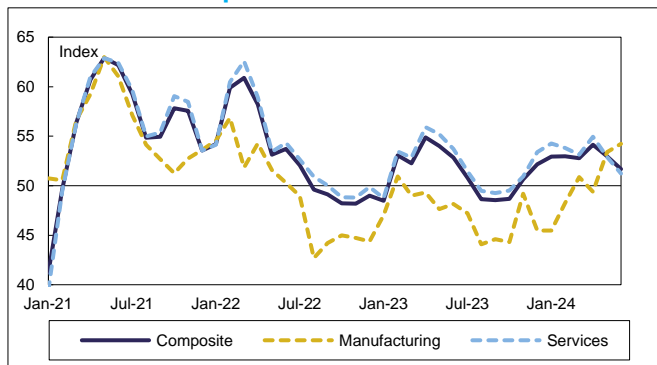
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales & consumer confidence indices



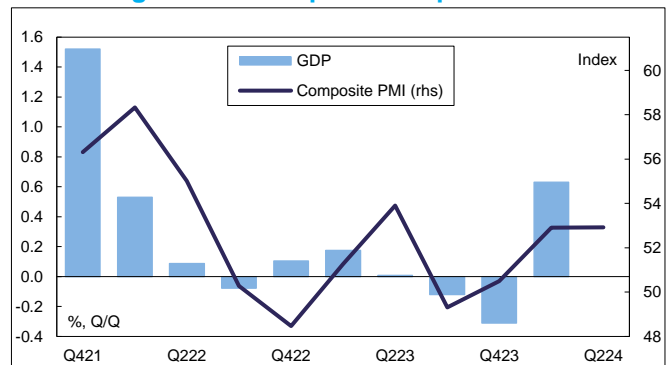
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Headline output PMIs



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

UK: GDP growth & composite output PMIs

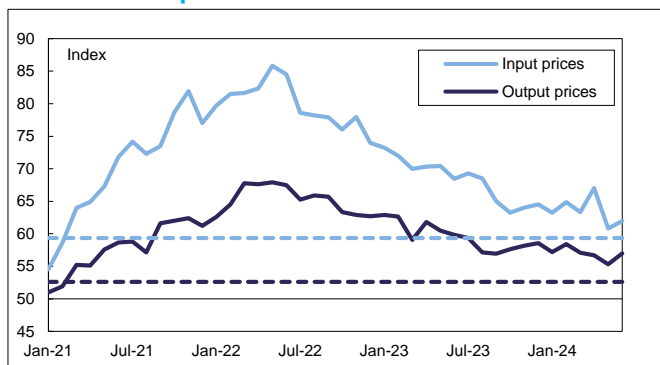


Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

The coming week in the UK

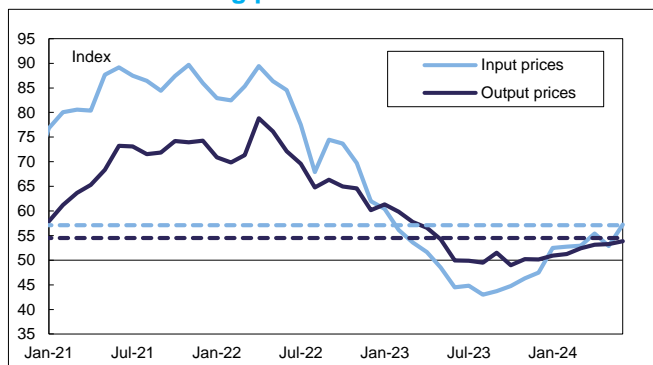
It should be a relatively quiet week ahead for top-tier releases. The first half will remain focussed on sentiment surveys, with the CBI's industrial trends survey (Monday) to provide further insight into manufacturing conditions and the distributive trades survey (Wednesday) to offer a first insight into retail conditions in June. Last month, retailers expected sales volumes in June to be broadly in line with the norm for the time of year. The only other release of note comes on Friday, with updated national accounts figures for Q1. The preliminary release brought an upside surprise to GDP, which accelerated 0.6%Q/Q following the technical recession in the second half of last year, to mark the fastest quarterly expansion since Q421. Growth was principally led by domestic demand, of which the rise in fixed investment was the strongest for four quarters and accounted for half of GDP growth. But net trade also provided a boost as the decline in imports outpaced exports. As such, the current account deficit is expected to have narrowed slightly in Q1 from £21.2bn in Q4.

UK: Services price PMIs*



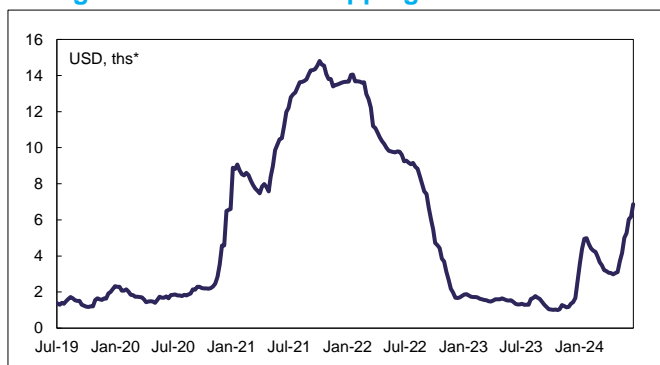
*Dashed lines represent long-run averages. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing price PMIs*



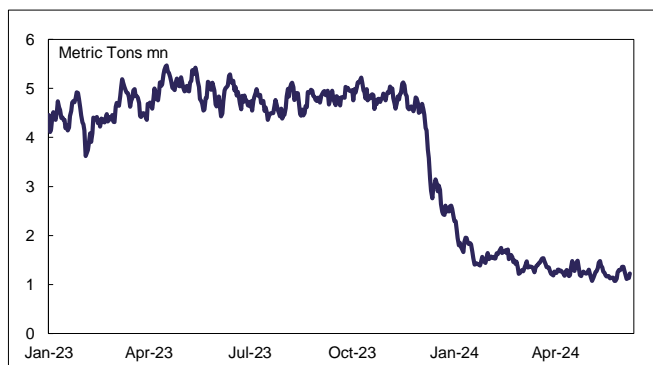
*Dashed lines represent long-run averages. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Shanghai to Rotterdam shipping cost index












*Rate per 40ft box. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Bab el-Mandeb Strait: Transit trade volumes
















Source: IMF Portwatch and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

	2024				2025		2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.3	0.3	0.3	0.3	0.3	0.4	0.6	0.7	1.4
UK 	0.6	0.4	0.3	0.2	0.2	0.3	0.1	0.8	1.1
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.6	2.5	2.2	2.5	2.1	1.7	5.4	2.4	1.7
Core HICP 	3.1	2.8	2.7	2.9	2.5	1.7	4.9	2.9	1.7
UK									
Headline CPI 	3.5	2.1	2.1	2.7	2.4	2.0	7.3	2.6	2.1
Core CPI 	4.6	3.6	3.3	3.3	2.8	1.7	6.2	3.7	1.9
Monetary policy, %									
ECB									
Deposit Rate 	4.00	3.75	3.50	3.25	3.00	2.75	4.00	3.25	2.25
Refi Rate 	4.50	4.25	3.65	3.40	3.15	2.90	4.50	3.40	2.40
BoE									
Bank Rate 	5.25	5.25	5.00	4.75	4.50	4.25	5.25	4.75	3.75

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


























European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa</i> forecast	Previous	Revised	
Euro area 	Preliminary manufacturing (services) PMI	Jun	45.6 (52.6)	47.9 (53.4)	47.3 (53.2)	-	
	Preliminary composite PMI	Jun	50.8	52.5	52.2	-	
Germany 	Preliminary manufacturing (services) PMI	Jun	43.4 (53.5)	46.4 (54.4)	45.4 (54.2)	-	
	Preliminary composite PMI	Jun	50.6	52.7	52.4	-	
France 	Preliminary manufacturing (services) PMI	Jun	45.3 (48.8)	46.8 (49.9)	46.4 (49.3)	-	
	Preliminary composite PMI	Jun	48.2	49.4	48.9	-	
	INSEE business (manufacturing) confidence indicator	Jun	98.8 (98.6)	99.0 (99.0)	98.8 (99.0)	-	
UK 	GfK consumer confidence indicator	Jun	-14	-16	-17	-	
	Retail sales, including auto fuel M/M% (Y/Y%)	May	2.9 (1.3)	1.8 (-0.6)	-2.3 (-2.7)	-1.8 (-2.3)	
	Retail sales, excluding auto fuel M/M% (Y/Y%)	May	2.9 (1.2)	1.8 (-0.7)	-2.0 (-3.0)	-1.4 (-2.5)	
	Public sector net borrowing £bn	May	14.1	14.5	19.6	17.5	
	Preliminary manufacturing (services) PMI	Jun	51.4 (51.2)	51.1 (53.0)	51.2 (52.9)	-	
	Preliminary composite PMI	Jun	51.7	53.0	53.0	-	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.




The coming week's data calendar

The coming few week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 24 June 2024					
Germany		09.00 Ifo business climate indicator	Jun	89.6	89.3
		09.00 Ifo current assessment (expectations) indicator	Jun	88.5 (90.8)	88.3 (90.4)
UK		11.00 CBI industrial trends survey – total orders (selling price) balance %	Jun	-25 (-)	-33 (15)
Tuesday 25 June 2024					
Spain		08.00 GDP – final estimate Q/Q% (Y/Y%)	Q1	<u>0.7 (2.4)</u>	0.7 (2.1)
Wednesday 26 June 2024					
Germany		07.00 GfK consumer confidence indicator	Jul	-19.8	-20.9
France		07:45 INSEE consumer confidence indicator	Jun	89	90
UK		11.00 CBI distributive trades survey – reported retail sales balance %	Jun	-	8
Thursday 27 June 2024					
Euro area		09.00 M3 money supply Y/Y%	May	1.6	1.3
		10.00 Commission's Economic Sentiment Indicator	Jun	96.2	96.0
		10.00 Commission's industrial (services) confidence indicator	Jun	-9.5 (6.3)	-9.9 (6.5)
		10.00 Commission's final consumer confidence indicator	Jun	<u>-14.0</u>	-14.3
Spain		08.00 Retail sales Y/Y%	May	-	0.3
Italy		09.00 ISTAT consumer confidence indicator	Jun	97.0	96.4
		09.00 ISTAT business (manufacturing) confidence indicator	Jun	- (88.6)	95.1 (88.4)
		10.00 PPI Y/Y%	May	-	-8.1
Friday 28 June 2024					
Euro area		09.00 ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	May	- (2.4)	2.9 (2.4)
France		07.45 Preliminary HICP (CPI) Y/Y%	Jun	2.5 (2.2)	2.6 (2.3)
		07.45 PPI Y/Y%	May	-	-6.8
		07.45 Consumer spending M/M% (Y/Y%)	May	-	-0.8 (0.2)
Germany		08.55 Unemployment rate % (change 000's)	Jun	6.0 (15)	5.9 (25)
Italy		09.00 Preliminary HICP (CPI) Y/Y%	Jun	0.9 (0.9)	0.8 (0.8)
Spain		08.00 Preliminary HICP (CPI) Y/Y%	Jun	3.5 (3.3)	3.8 (3.6)
UK		00.01 Lloyds business barometer (own price expectations)	Jun	-	50 (61)
		07.00 GDP - final estimate Q/Q% (Y/Y%)	Q1	0.6 (0.2)	0.6 (0.2)
		07.00 Current account balance £bn	Q1	-17.7	-21.2

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 24 June 2024		
- Nothing Scheduled -		
Tuesday 25 June 2024		
Germany 	10.30	Auction: €4.5bn of 2.9% 2026 bonds
UK 	10.00	Auction: £1.5bn of 0.75% 2033 inflation-linked bonds
Wednesday 26 June 2024		
Euro area 	11.00	ECB Executive Board member Panetta (11.00) and Chief Economist Lane (11.40) to deliver keynote speeches at Bank of Finland's 3 rd International Monetary Policy Conference on Monetary Policy in Low and High Inflation Environments
UK 	10.00	Auction: £3bn of 3.75% 2038 bonds
Thursday 27 June 2024		
UK 	10.30	BoE to publish Financial Stability Report
Friday 28 June 2024		
- Nothing Scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.