

Euro wrap-up

Overview

- Bunds made gains as an ECB survey signalled a moderation in firms' selling-price and wage expectations in Q2, and euro area industrial production fell in May.
- Gilts made modest gains on a quiet day for UK economic news.
- Tuesday will bring the latest results for euro area goods trade, German ZEW investor sentiment and ECB bank lending survey.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	2.783	-0.027
OBL 2.1 04/29	2.437	-0.033
DBR 2.2 02/34	2.467	-0.025
UKT 0% 01/26	4.029	-0.021
UKT 0½ 01/29	3.934	-0.009
UKT 4% 01/34	4.099	-0.008

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

Euro area

ECB survey signals moderation in firms' expectations for wages, other costs & selling prices

With the ECB's June rate cut having been signalled well in advance, its latest Survey on Access to Finance of Enterprises (SAFE) suggested that firms had already felt some benefit last quarter from the prospect of easier monetary policy. In particular, firms reported a slight rise in the availability of bank loans and an increased willingness of banks to lend, with fewer firms reporting a net tightening of financing conditions whether via higher interest rates or other costs. An improved economic outlook was also judged to have contributed to the greater availability of credit. At the same time, with internal funds often judged ample, firms' need for loans reportedly stabilised as did, at a low level, the share of firms applying for loans. Enterprises nevertheless reported a further pickup in investment in Q2, and signalled another increase in capex this quarter as downwards pressure on profitability appeared to ease. Indeed, firms also reported a further welcome softening of 12-month expectations for growth in costs related to both wages and non-labour inputs, with the median relatively moderate at 3.0%Y/Y. As such, and arguably most notable for the Governing Council as it gauges risks of inflation persistence, median and mean 12-month selling price expectations also eased to 3.0%Y/Y, albeit with expectations in services (3.6%Y/Y) still on average stronger than those for other sectors (2.4%Y/Y).

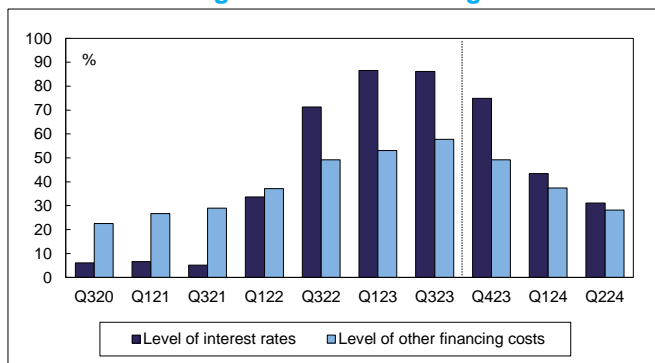
Euro area IP declines in May but on track to move broadly sideways in Q2

With respect to hard economic data, contrasting with the improvement in certain survey indicators for the factory sector, euro area industrial production fell back in the middle of Q2 to suggest that it will provide little support to GDP growth in Q2. In particular, IP fell 0.6%M/M in May to be down some 3.0%Y/Y and at the lowest level since October 2020. Given the recent monthly profile – an increase in March and flat April – production in the first two months of Q2 was trending in line with the Q1 average. Output fell in half of the member states in May, with notable declines in Germany (-2.4%M/M), France (-2.1%M/M) and Austria (-2.1%M/M) partially offset by a sharp jump in Ireland (+6.7%M/M). The weakness was more acute in manufacturing, where output dropped for a second successive month and by 0.8%M/M. However, it was still on average up 0.1%M/M so far in Q2 relative to Q1.

Production detail tallies with expectations of consumption-led GDP growth ahead

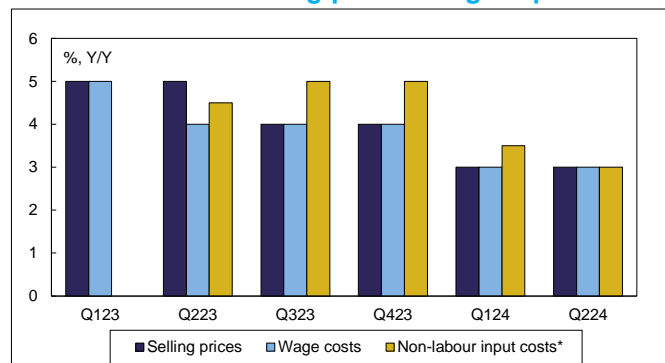
Within the manufacturing category, production of intermediate goods fell for a third consecutive month (-1.0%M/M) to the second-lowest level since the first Covid-19 lockdown to be on track to reverse the near-1%Q/Q increase in Q1. However,

Euro area: Change in firms' financing conditions*



*Difference between the share of firms reporting an increase and the share reporting a reduction with respect to the respective variable. Semi-annual data through to Q423. Source: ECB SAFE survey and Daiwa Capital Markets Europe Ltd.

Euro area: Firms' selling-price & wage expectations



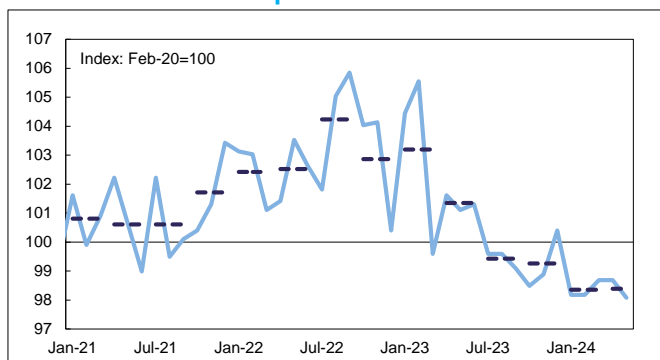
*No non-labour costs figure for Q123. Source: ECB SAFE survey and Daiwa Capital Markets Europe Ltd.

with wholesale gas prices still well down from their recent highs, output of energy-intensive items – including chemicals and metals – was stable, edging up 0.1%M/M and thus remaining well above the range of the second half of last year. Meanwhile, capital goods output fell for the first month in four (-1.2%M/M), led by big declines in autos (-4.4%M/M), electrical equipment (-3.8%M/M) and machinery (-3.5%M/M). Nevertheless, given the strength of recent months not least in motor vehicles, it was still trending some 1.2% above the Q1 average. And production of consumer goods rose in May to the highest level for 14 months to leave it on average in April and May some 2.3% above the Q1 level to tally with expectations that consumer spending will drive economic growth in the sector half of the year. However, the near-term manufacturing outlook remains uncertain. Surveys on the whole pointed to a softening in sentiment in the sector in June, with the manufacturing output PMI down to a six-month low (46.1) as new orders continued to decline. Other leading indicators such as the German truck-toll mileage index also point to a relatively lacklustre June.

The day ahead in the euro area

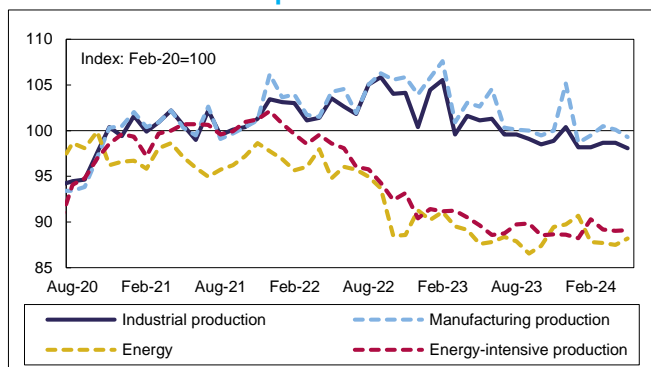
Tomorrow will bring euro area goods trade figures for May. Tallying with the weakness in manufacturing output and the decline in German shipments that month, euro area exports might well report some payback for the increase of more than 3%M/M in April. While German imports fell sharply in May, the euro area trade surplus is expected to narrow slightly from €19.4bn in April, which was the second-largest since February 2021. Meanwhile, as suggested by last week's [Sentix indices](#), the German ZEW investor sentiment indicators will likely signal a deterioration in confidence at the start of July due not least

Euro area: Industrial production*



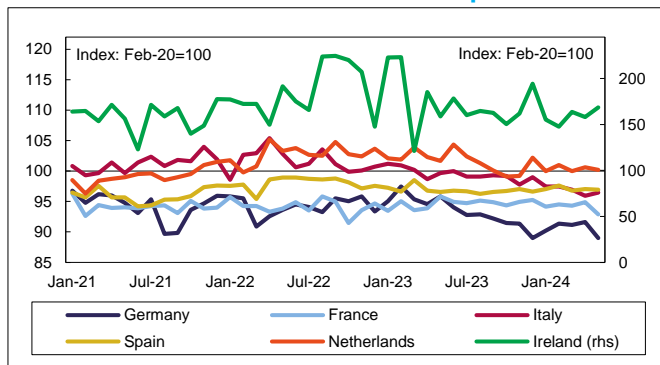
*Dashed dark blue line represents quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Industrial production



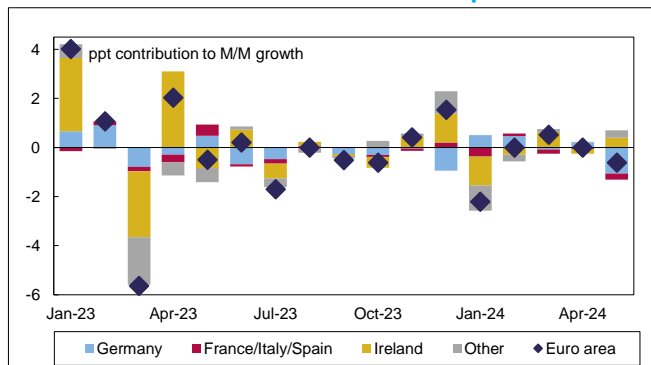
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Industrial production



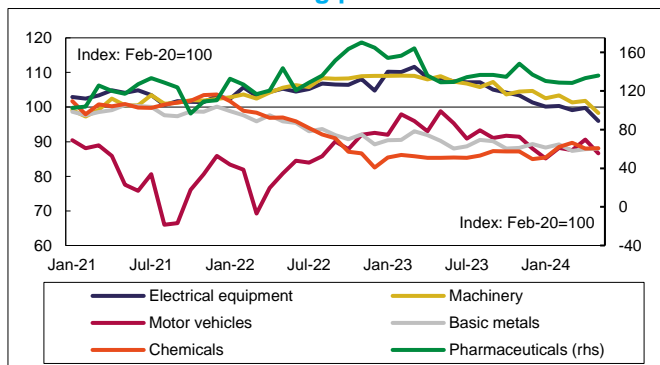
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Industrial production



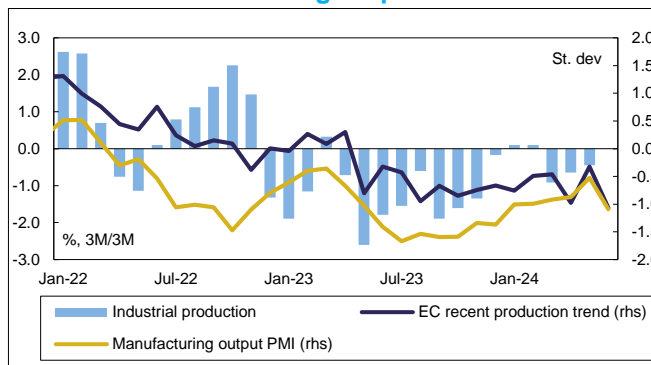
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing production



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output & sentiment



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

to concerns about French politics. In addition, the ECB's bank lending survey for Q2, which should tally with today's SAFE survey to suggest an easing of financial conditions ahead, is also due.

UK



The day ahead in the UK

It should be another quiet day for UK economic releases on Tuesday.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area 	Industrial production M/M% (Y/Y%)	May	-0.6 (-2.9)	-0.7 (-3.6)	-0.1 (-3.0)	0.0 (-3.1)
UK 	Rightmove house prices M/M% (Y/Y%)	Jul	-0.4 (0.4)	-	0.0 (0.6)	--





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
Euro Area 	10.00	Trade balance €bn	May	18.1	19.4
Germany 	10.00	ZEW investor survey – current situations (expectations) balance %	Jul	-74.8 (41.0)	-73.8 (47.5)
Italy 	09.00	Final HICP (CPI) Y/Y%	Jun	<u>0.9 (0.8)</u>	0.8 (0.8)
	10.00	Trade balance €bn	May	-	4.8

Auctions and events

Euro Area 	09.00	ECB to publish quarterly Bank Lending Survey
Germany 	10.30	Auction: To sell €4.0bn of 2.5% 2029 bonds
UK 	10.00	Auction: To sell £2.25bn of 4.75% 2043 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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