

Euro wrap-up

Overview

- Bunds closed the day little changed, while euro area consumer confidence edged slightly lower amid heightened geopolitical tensions, but French business confidence remained broadly stable.
- Despite a larger-than-expected decline in UK retail sales in May, Gilts made modest losses as consumer confidence modestly improved.
- June business sentiment surveys will dominate the coming week's dataflow, including the flash PMIs and Commission indices, while flash inflation estimates are due from France and Spain.

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Daily bond market movements

Bond	Yield	Change
BKO 1.7 06/27	1.841	+0.008
OBL 2.4 04/30	2.116	-0.004
DBR 2½ 02/35	2.515	-0.004
UKT 3% 03/27	3.913	+0.011
UKT 4% 03/30	4.040	+0.014
UKT 4½ 03/35	4.536	+0.007

*Change from close as at 5.00pm BST.
Source: Bloomberg

Euro area

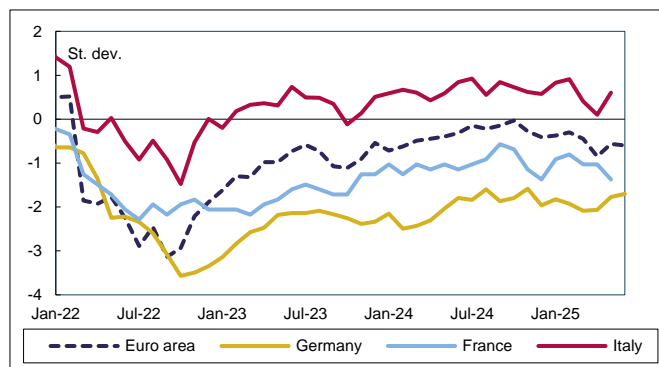
Euro area consumer confidence slips back in June as geopolitical tensions rise

Contrasting an expected further modest improvement, consumer confidence in the euro area edged slightly lower in June, as heightened geopolitical tensions and associated rise in the oil price likely offset the positive impact of an eighth ECB rate cut earlier this month and further moderation in inflation to below the 2% target. Admittedly, according to the Commission's flash survey results, the headline index fell just 0.2pt in June to -15.3, to be still some 1.3pts above April's low. But this still left it more than ½ standard deviation below the long-run average and the quarterly average more than 1½pts below the Q1 level. Today's release provided no additional detail. And the national surveys published from the Netherlands and Belgium signalled a modest improvement in sentiment this month, suggesting that the deterioration was perhaps led by the larger member states. Nevertheless, despite the improvement in overall confidence, the share of Dutch consumers considering it a good time to make major purchases remained weak. As such, we expect the detailed Commission survey results (to be published a week today) to signal an ongoing preference among consumers to save rather than spend. This notwithstanding, the Commission survey has provided a relatively poor guide to household consumption over recent quarters. So, as illustrated by ongoing resilience in retail sales at the start of the quarter, we expect household consumption to continue to provide modest support to GDP growth in Q2, albeit to a lesser extent than in Q1.

French manufacturing confidence wanes in June, but overall business climate broadly stable

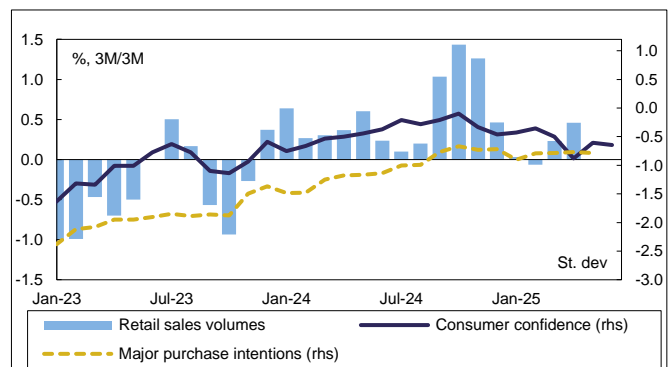
French business surveys have displayed signs of resilience to heightened trade uncertainties over recent months. And today's headline INSEE business climate index edged slightly higher in June (up 0.5pt to 95.9). Admittedly, having risen to a 12-month high in April, the manufacturing business climate index fell for a second-successive month, down 1.2pts to 95.9. This principally reflected a decline in production, particularly among auto makers, pharmaceutical, clothing and computing businesses, as inventories of finished goods rose sharply amid still-subdued demand. Recent services activity was also reportedly the weakest in four years. But there were signs of improvement in the hospitality sector. And given also a recovery in expectations for near-term demand and job growth, the services business climate index edged slightly higher (up 0.6pt to 95.6). There were also reportedly improvements in activity in the retail and construction subsectors too, with the headline index for the latter bang in line with the long-run average, supported in part by the ongoing decline in borrowing costs and recovery in house prices. Over the second quarter as a whole, the overall business climate was broadly stable compared to Q1, just 0.3pt higher, consistent with continued subdued, albeit modestly positive, GDP growth in Q2.

Euro area: Consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales & consumer confidence



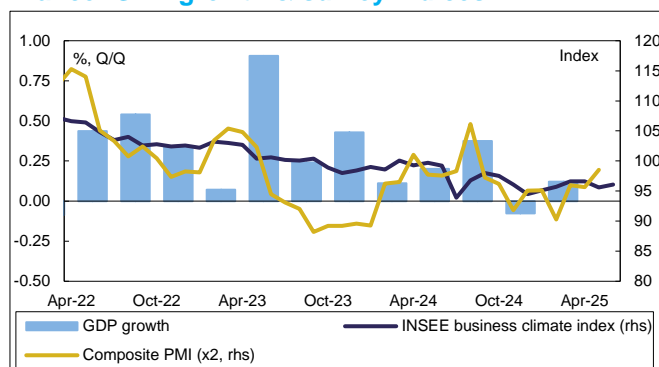
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the euro area

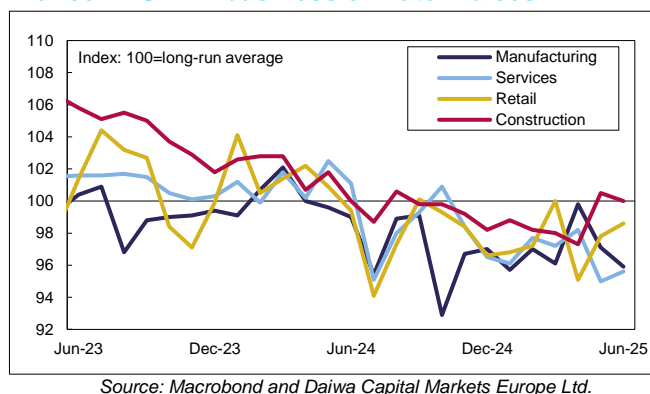
The coming week in the euro area is likely to be dominated by June business sentiment surveys, including the release of the flash PMIs (Monday), German ifo (Tuesday), and Commission ESIs (Friday). After efforts to front run higher US tariffs led the euro composite PMI to a seven-month high in March (51.0), the survey has gradually weakened over the course of Q2 consistent with slowing private sector activity. Indeed, May's reading of 50.2 was largely consistent with stagnation, with the dominant services sector (49.7) recording a 'contractionary' reading for the first time in six months and trending some 1.1pts below its Q1 average. While geopolitical events remain a risk, we expect a less hardline approach to US trade policy and an additional ECB rate cut to contribute to a moderate improvement in sentiment this month. Given the recent weakness, we expect the recovery to be predominantly services-led, while the manufacturing output component might ease for the first month since December. The Commission and ifo surveys will provide a cross-check to the PMIs. An uplift in the ifo's headline business climate index is anticipated, with business expectations likely to be boosted in part by the government's tax reform proposals. The new German government's draft 2025 budget is due to be adopted in cabinet on Wednesday ahead of discussion in parliament early next month. With regards to consumer confidence, German (Thursday) and French (Wednesday) national surveys will provide a more detailed breakdown ahead of the Commission's updated consumer confidence survey on Friday.

The coming week will also bring the first of the flash June HICP estimates from France and Spain (Friday). Rising oil and gas prices over recent weeks are expected to reduce the drag from the energy components in those countries. Nonetheless, we expect ongoing moderation in services categories and still-weak core goods inflation to counter that effect on the respective headline rates, which in May fell to just 0.6%Y/Y in France and 2.0%Y/Y in Spain. Like today's German PPI figures, energy prices are likely to have continued to weigh on French, Italian (Friday) and Spanish (Wednesday) industrial prices in May. And while those releases could signal a further uptick in food costs, we expect broader goods pipeline price pressures to have remained subdued.

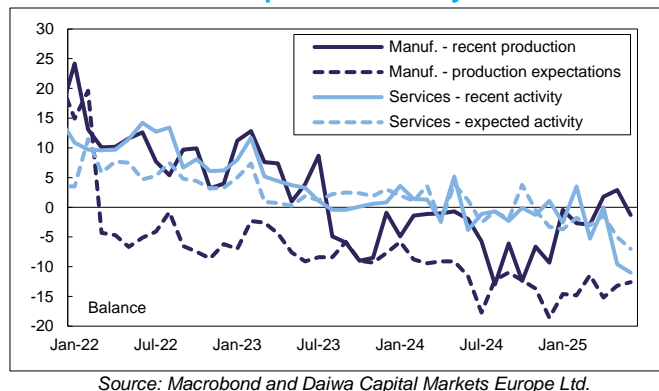
France: GDP growth & survey indices



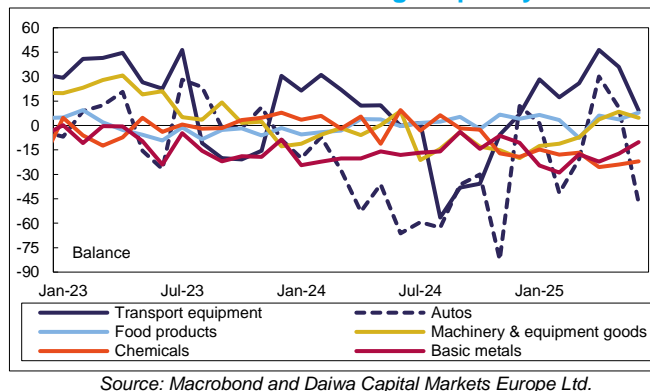
France: INSEE – business climate indices



France: INSEE – output balances by sector



France: INSEE – manufacturing output by subsector



UK

Retail sales declined sharply in May, with higher prices hitting spending on food

After solid growth in Q1 and the weather-boosted strength in April, UK retail sales were widely expected to fall back in May. But the pull back was significantly larger than expected, with sales volumes down (-2.7%M/M) the most since December 2023 and almost fully reversing the increase since the start of the year. As such, notwithstanding still solid growth on a three-month basis (0.8%3M/3M), sales volumes were trending in April and May only marginally above the Q1 average suggesting that the sector will provide limited support to GDP growth this quarter. The weakness in May was broad based but led by food sales, which fell sharply (-5.0%M/M) after the weather- and Easter-attributed rise in April (4.7%M/M). Retailers flagged the recent rise in food inflation as a likely drag on supermarket spending too. But non-food store sales also fell for a second successive month in May (-1.4%M/M), as spending on clothing dropped to a four-month low and sales of hardware, paints and glass fell back after strong growth previously, which retailers attributed the better weather in April to the early completion of home projects this year.

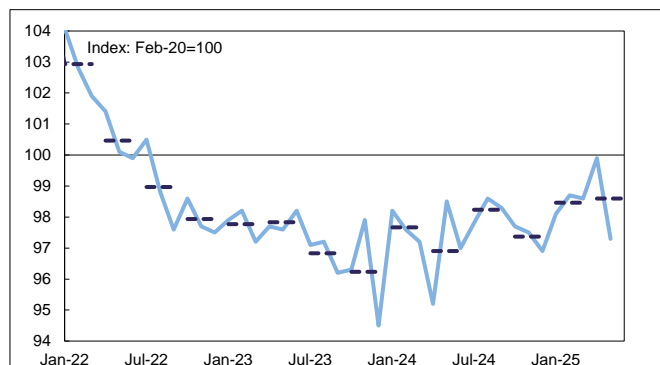
Consumer confidence rises to a six-month high in June

Today's GfK survey results encouragingly reported a further uptick in household sentiment in June, with the headline index rising 2pts to a six-month high (-18), to leave the quarterly index bang in line with the average in Q1. Consumers were reportedly less downbeat about the economic outlook this month, while income expectations were broadly in line with the long-run average, perhaps buoyed in part by the forthcoming 7% cut in the household energy tariff in July. Furthermore, conditions for making significant purchases were judged to be little changed from May, at their joint-most favourable since December. Of course, as illustrated by today's retail sales data, sentiment indicators have not provided a particularly reliable guide to consumer spending so far this year. And while the above-average temperatures this month seem bound to give a boost to sales of certain outdoor-related goods, we expect overall retail sales growth to slow markedly in Q2. Looking further ahead, the recent pickup in the oil price will also likely weigh on auto fuel sales in due course. And the decline in payrolls and job vacancies and slowing pay growth might dampen consumer demand for big-ticket purchases over coming quarters too.

The week ahead in the UK

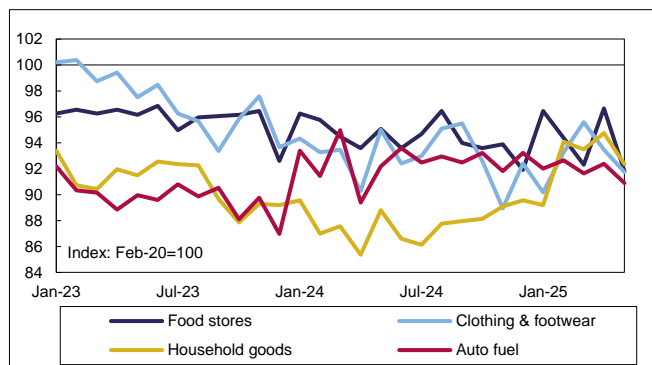
Like in the euro area, June's flash PMIs on Monday will be the UK's data highlight in the coming week. BoE staff recently nudged up their forecast for Q2 GDP growth to ¼%Q/Q. But the MPC continues to place significant weight on business surveys, which on the whole point to tepid underlying growth. Certainly, May's composite PMI reading (50.3), despite partially

UK: Retail sales volumes*



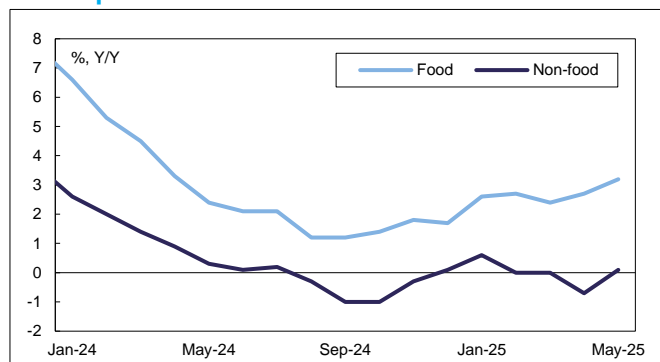
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes



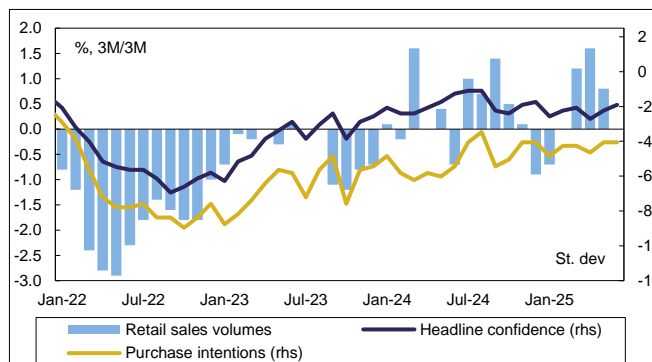
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Implied retail sales deflators



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

UK: Retail sales & consumer confidence












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

rebounding from April's tariff-led slump, merely pointed to stagnation, still some 0.6pt below the Q1 average and 3.3pts below its historical mean. Notwithstanding escalating geopolitical tensions in the Middle East, we expect June's flash reading to show a further moderate services-led improvement, not least due to a likely weather-assisted boost to consumer-facing businesses this month. Beyond the headline numbers, the employment PMI indices will be watched for further weakening in jobs growth, while the services price indices should point to a further moderation in pressures this month. Meanwhile, the CBI's industrial trends survey (Tuesday) will provide a cross check on manufacturing sentiment in June, with both surveys likely to show that activity remains subdued amid weak demand. Another CBI survey on retailers' sentiment in June is due Thursday.

Beyond the data, the coming week's Bank speak will also be of particular interest. While the MPC predictably left Bank Rate unchanged on Thursday, the distribution of votes (six voting to hold vs three for a 25bps cut) was a touch more dovish than expected. In particular, Governor Bailey – one of the six to vote for the status quo in June – is due to appear in front of the House of Lords Economic Affairs Committee on Tuesday, before later delivering a speech about growth (Thursday) to the BCC. Coinciding with those will be speeches by Deputy Governors Breeden (Thursday) and Ramsden (Tuesday), the latter of whom may offer more context to his dissenting vote. Meanwhile, ahead of the BoE's impending review of its APF gilt holdings, external MPC member Greene is set to wade into the debate on central bank balance sheets (Tuesday). Her comments might well echo those of external member Mann, who recently cautioned about the potential conflict between Bank Rate cuts and quantitative tightening on gilt yields and its consequences for monetary policy calibration.

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	1.9	1.5	1.6	2.0	1.6	1.8
Core HICP		2.6	2.4	2.1	2.0	1.8	1.4	2.2	1.6	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	1.75
Refi Rate		2.65	2.15	1.90	1.90	1.90	1.90	1.90	1.90	1.90
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/ <i>Daiwa forecast</i>	Previous	Revised
Euro Area	 Preliminary Commission consumer confidence indicator	Jun	-15.3	-14.9	-15.2	-15.1
Germany	 PPI Y/Y%	May	-1.2	-1.2	-0.9	-
France	 INSEE business (manufacturing) confidence indicator	Jun	96 (96)	96 (98)	96 (97)	-
	 BdF retail sales Y/Y%	May	0.2	-	0.4	0.1
	 Final wages Q/Q%	Q1	0.7	<u>0.7</u>	0.4	-
UK	 Retail sales – including auto fuel M/M% (Y/Y%)	May	-2.7 (-1.3)	-0.5 (1.7)	1.2 (5.0)	1.3 (-)
	 Retail sales – excluding auto fuel M/M% (Y/Y%)	May	-2.8 (-1.3)	-0.7 (1.8)	1.3 (5.3)	1.4 (5.4)
	 GfK consumer confidence indicator	Jun	-18	-20	-20	-
	 Public sector net borrowing £bn	May	17.7	18.0	20.2	20.1

















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 events & auctions

Country	BST	Event / Auction
Monday 23 June 2025		
Euro Area	 14.00	ECB President Lagarde speaks at the Committee on Economic and Monetary Affairs at the European Parliament, Brussels
Tuesday 24 June 2025		
Euro Area	 14.55	ECB Chief Economist Lane to give speech at Barclays/CEPR conference followed by panel discussion, London
Germany	 10.30	Auction: to sell up to €4bn of 1.7% 2027 bonds
UK	 10.00	Auction: to sell £1.7bn of 1.125% 2035 inflation-linked bonds
	 10.30	MPC external member Greene gives lecture on monetary policy & central bank balance sheets at NIESR, London
	 14.35	BoE Deputy Governor Ramsden to give speech at Barclays/CEPR conference followed by panel discussion, London
	 15.00	BoE Governor Bailey gives evidence to the House of Lords Economic Affairs Committee
Wednesday 25 June 2025		
Italy	 10.00	Auction: to sell bonds*
	 10.00	Auction: to sell inflation-linked bonds*
UK	 10.00	Auction: to sell £3.25bn of 4.375% 2040 bonds
Thursday 26 June 2025		
Euro Area	 12.00	ECB Executive Board member Schnabel to give presentation at a business association conference, Frankfurt
	 19.30	ECB President Lagarde to give speech at opening of an Opera festival, Munich
UK	 09.30	BoE Deputy Governor Breeden on panel at the CityUK annual conference, London
	 10.00	Auction: to sell £1bn of 4.25% 2046 bonds
	 12.00	BoE Governor Bailey speaks at the British Chambers of Commerce annual conference, London
Friday 27 June 2025		
Italy	 10.00	Auction: to sell bonds*

*Provisional. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 23 June 2025					
Euro Area		09.00 Preliminary services (manufacturing) PMI	Jun	<u>50.5 (50.5)</u>	49.7 (49.4)
		09.00 Preliminary composite PMI	Jun	<u>50.5</u>	50.2
Germany		08.30 Preliminary services (manufacturing) PMI	Jun	47.8 (49.0)	47.1 (48.3)
		08.30 Preliminary composite PMI	Jun	49.0	48.5
France		08.15 Preliminary services (manufacturing) PMI	Jun	49.1 (49.9)	48.9 (49.8)
		08.15 Preliminary composite PMI	Jun	49.4	49.3
UK		09.30 Preliminary services (manufacturing) PMI	Jun	51.3 (46.9)	50.9 (46.4)
		09.30 Preliminary composite PMI	Jun	50.5	50.3
Tuesday 24 June 2025					
Germany		09.00 ifo business climate indicator	Jun	88.1	87.5
		09.00 ifo current assessment (expectations) indicator	Jun	86.5 (89.6)	86.1 (88.9)
UK		11.00 CBI industrial trends survey – total orders (selling prices) balance %	Jun	-28 (23)	-30 (26)
Wednesday 25 June 2025					
Euro Area		05.00 New car registrations Y/Y%	May	-	1.1
France		07.45 INSEE consumer confidence indicator	Jun	89	88
Spain		08.00 GDP – final estimate Q/Q% (Y/Y%)	Q1	<u>0.6 (2.8)</u>	0.7 (3.3)
		08.00 PPI Y/Y%	May	-	1.9
Thursday 26 June 2025					
Germany		07.00 GfK consumer confidence indicator	Jul	-19.0	-19.9
UK		11.00 CBI distributive trades survey – reported retail sales balance %	Jun	-25	-27
Friday 27 June 2025					
Euro Area		10.00 Commission economic sentiment indicator	Jun	95.0	94.8
		10.00 Commission services (industrial) confidence indicator	Jun	1.6 (-9.9)	1.5 (-10.3)
		10.00 Final Commission consumer confidence indicator	Jun	<u>-15.3</u>	-15.1
France		07.45 Preliminary HICP (CPI) Y/Y%	Jun	0.6 (0.8)	0.6 (0.7)
		07.45 PPI Y/Y%	May	-	-0.8
		07.45 Consumer spending M/M% (Y/Y%)	May	-	0.3 (-0.1)
Italy		09.00 ISTAT consumer confidence indicator	Jun	97.0	96.5
		09.00 ISTAT business (manufacturing) confidence indicator	Jun	-	93.1 (86.5)
		11.00 PPI Y/Y%	May	-	3.8
Spain		08.00 Preliminary HICP (CPI) Y/Y%	Jun	2.2 (2.0)	2.0 (2.0)
		08.00 Retail sales Y/Y%	May	4.2	4.0

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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