

# Euro wrap-up

## Overview

- Bunds made gains as German factory orders and manufacturing turnover data disappointed and euro area manufacturing output prices declined as the strong euro weighed on import prices.
- Gilts made modest losses as the UK construction PMIs pointed to a further recovery in house-building but weakness in other subsectors.
- The coming week will bring May data for euro area retail sales, German IP and trade and UK GDP.

## Economic Research Team

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### Daily bond market movements

Bond	Yield	Change
BKO 1.7 06/27	1.805	-0.023
OBL 2.4 04/30	2.119	-0.022
DBR 2.6 08/35	2.596	-0.015
UKT 3¾ 03/27	3.839	+0.016
UKT 4% 03/30	3.988	+0.014
UKT 4½ 03/35	4.550	+0.011

\*Change from close as at 4:00pm BST.

Source: Bloomberg

## Euro area

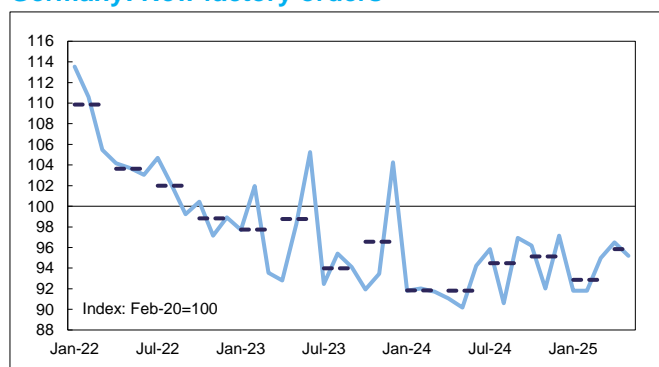
### German factory orders continue to trend higher despite May decline, but turnover notably weaker

Despite persisting uncertainty surrounding US trade policies and geopolitics, surveys point to gradual recovery in demand for German goods. But today's new factory orders data for May disappointed, reporting the first decline (-1.4%M/M) in three months. These data are notoriously volatile and subject to non-negligible revisions. Indeed, growth the previous month was revised up today by a full percentage point to 1.6%M/M, taking the rise in new orders between February and April above 5%. So, despite the pullback in May, total new orders were still up 5.3%Y/Y and trending more than 3% above the Q1 average. Admittedly, part of the strength in recent orders reflects a surge in bulk orders. In May, a large ship order pushed the 'other transport equipment' category up 9%M/M to a five-month high despite a pull-back in aerospace. Orders for fabricated metals (18%M/M) also rose sharply. But there was a sharp decline in computer, electronic and optical products (-18%M/M) after several large-scale orders in April. Excluding bulk items, 'core' orders fell 3.1%M/M in May, the most since June 2023. Given payback for earlier strength related to tariff front-running, intermediate goods orders fell to the lowest level since the series began in 2010 outside of the first wave of Covid-19. But core orders were still trending 1.2% above the Q1 average level, with foreign orders trending more than 3½% higher. Disappointingly, however, core domestic orders fell 4.0%M/M to a five-year low. And turnover fell 1.9%M/M, the most in ten months to be trending some 0.8% below Q1, raising the likelihood that industrial production – for which May data will be published on Monday – fell for a second successive month.

### French industrial production falls for a second successive month to a 2½-year low

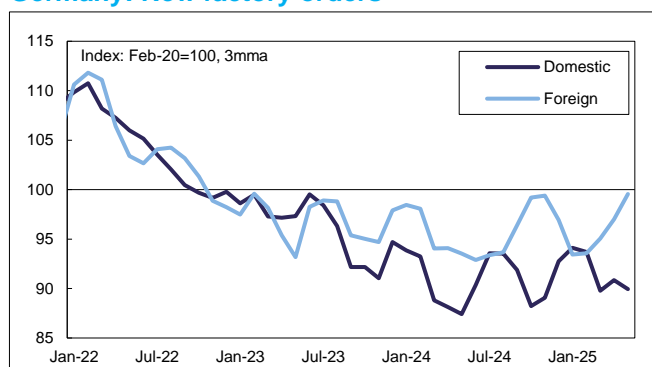
Elsewhere, French industrial production also disappointed expectations, unexpectedly declining in May for a second successive month (-0.5%M/M) to the lowest level since October 2022. While energy output (1.3%M/M) provided support, manufacturing production fell the most in a year (1.0%M/M), to a four-month low. Given earlier strength, in part related to front-running of tariffs, that still left it trending just 0.2% below the Q1 average, pointing to a relatively flat quarter. Weakness in May was reported in output of intermediate items such as chemicals and metals, and consumer goods such as pharmaceuticals, food and certain electronic items. But encouragingly, despite a decline in autos, capital goods output rose in May to be trending some ½% above the Q1 average thanks to growth in other transport items. The INSEE business survey suggested that manufacturers were a touch more downbeat in June due not least to reports of a sharp unplanned increase in inventories, which might point to a softening of demand at the end of Q2. In contrast to the signals from Germany and France, however, May was a better month for production in Spain. Indeed, Spanish manufacturing output rose 0.5%M/M to reverse the decline the prior month and be trending 0.3% above the Q1 average. As in Germany and France, production of intermediate items is on track for a quarterly decline in Spain. But capital and consumer goods should ensure that, unlike in Q1, Spanish manufacturing production contributes positively to GDP growth in Q2.

### Germany: New factory orders\*



\*Dashed dark blue lines represent quarterly average.  
 Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: New factory orders

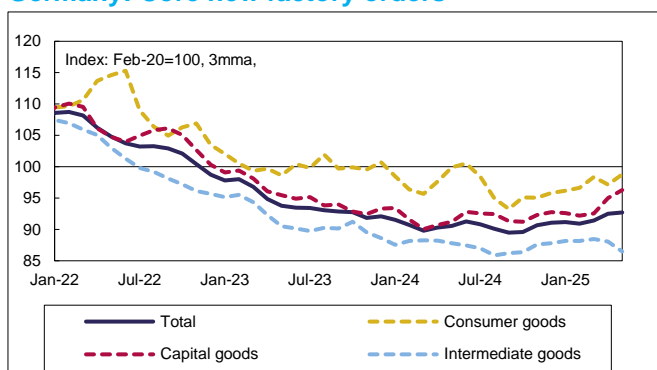


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## Manufacturing output prices down for 3rd month in a row as strong euro weighs on import prices

The factory sector remains a source of downwards pressure on consumer prices in the euro area. Industrial producer output prices fell for a third successive month in May and by 0.6% M/M to be up just 0.3% Y/Y, the softest rate since the end of 2024. The decline was principally due to a fall of 2.1% M/M in energy prices. However, manufacturing output prices were unchanged on the month. While factory-gate prices of durable and non-durable consumer goods were up slightly, those of capital goods were unchanged from April and prices of intermediate goods fell for a second month. The marked appreciation of the euro since the start of the year, as well as the continued influx of cheap goods from China, has played a role in containing prices of imported items. Indeed, prices of imported goods fell for a third successive month in May and by 0.4% M/M to be down 0.6% Y/Y, the steepest year-on-year fall since October. Given adverse supply shocks to various items such as coffee and chocolate, prices of imported food products were still up 7.0% Y/Y. But prices of a range of other items, from computers and electronic goods to textiles and furniture, were down on a year earlier. Energy prices will have added to inflation of imports and producer output goods in June. But we suspect that prices of imported manufactured items fell again, contributing to the softening in the core goods CPI rate to a five-month low of 0.5% Y/Y last month. And given the continued strength of the euro, we expect core CPI goods to fall over coming months close to zero or even back into negative territory.

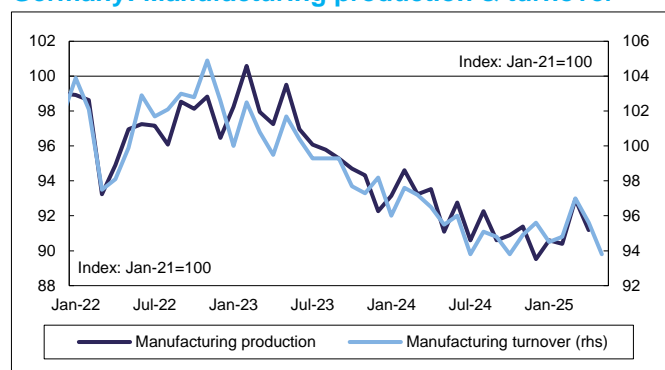
### Germany: Core new factory orders\*



\*Excluding major orders.

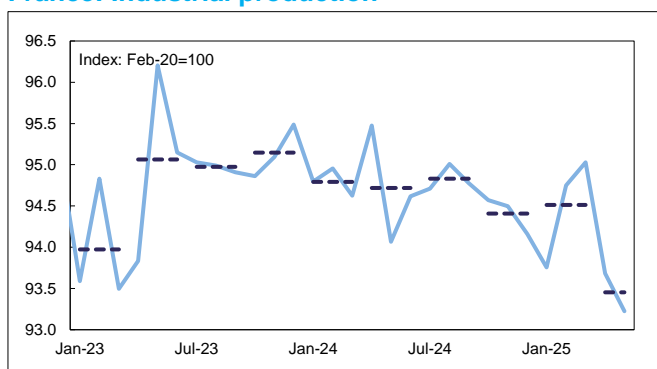
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Manufacturing production & turnover



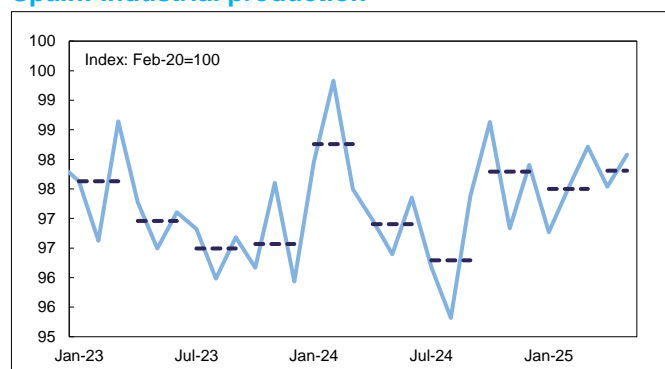
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### France: Industrial production\*



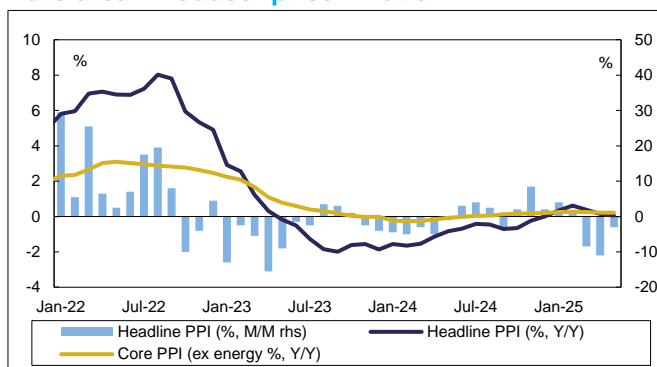
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Spain: Industrial production\*



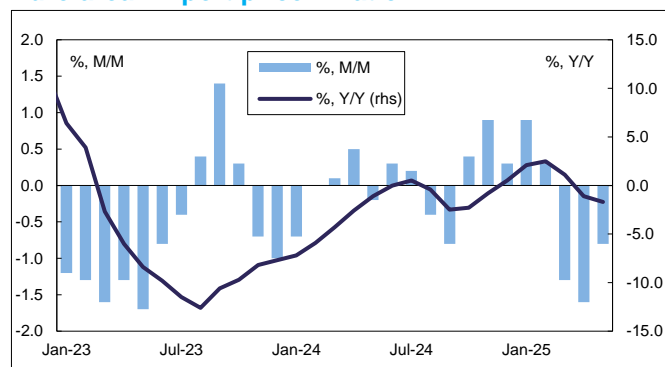
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Producer price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Import price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## Euro area housebuilding activity slows despite uptick in prices in Q125

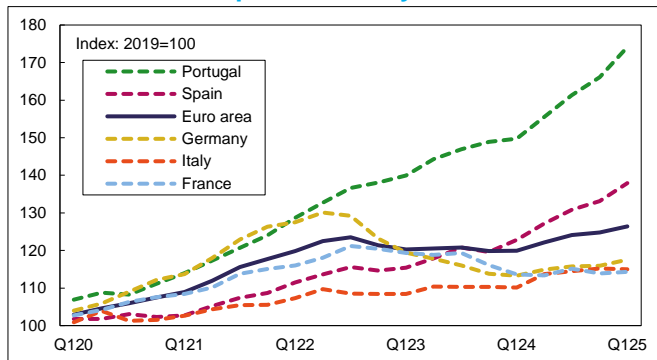
Among today's other French data, construction output fell for a third successive month in May, by 0.5% M/M to be trending almost 1% below the Q1 level. And today's construction PMIs for France and the euro area were also soft, flagging a possible further weakening in building activity at the end of Q2. Admittedly, the construction PMIs were not a reliable guide to construction sector output in Q1, which was broadly flat over the quarter. And they suggest that underlying activity in the region in Q2 contracted at a slower pace than in Q1 (45.6 vs 44.3). But the indices for building activity and new orders fell moderately in June, respectively to three-month lows of 45.2 and 45.3, as a first expansionary reading in civil engineering activity for more than three years (up 5.9pts to 52.0) failed to compensate for a further fallback among commercial and housebuilders. The weakness in the latter, down 2.2pts to 39.6, was precipitated by marked drops in both Germany (down 3.8pts to 36.1) and France (down 2.9pts to 34.6). But while the supply-side of the equation remains hesitant to pick up, declining interest rates appear to be supporting the ongoing recovery in mortgage lending in a signal of firmer demand. Correspondingly, euro area house prices accelerated 1.3% Q/Q in Q1 to be up 5.4% Y/Y, with all but one member state (Finland at -1.9% Y/Y) experiencing an upturn. Of course, significant differences persist between the various member states. House price growth in Germany (3.8% Y/Y) and particularly France (0.6% Y/Y) continues to lag the average rate in the region. And residential prices in Portugal (16.3% Y/Y) and Spain (12.3% Y/Y) continue to rise sharply, consistent with continued firm growth in incomes. Nonetheless, we expect the recovery in mortgage lending to be maintained, supporting catch-up in housing market activity in the euro area's core member states in due course.

## The week ahead in the euro area

The coming week's euro area dataflow will bring a handful of key activity releases for May, including aggregate euro retail sales figures (Monday), German (Monday) and Italian (Thursday) IP, and goods trade data from Germany and France (Tuesday). Having advanced 0.1% M/M in April, the effects of heightened economic and geopolitical uncertainties are expected to take a toll on May's retail sales. Indeed, after [German sales](#) fell the most in more than 2½ years (-1.7% M/M), and weakness also evident in France (-0.2% M/M) and the Netherlands (-0.6% M/M), a decline in euro area retail sales seems inevitable. We expect a drop of a little more than ½% M/M, which would leave retail sales in Q2 trending only at the same level as in Q1. But while uncertainty and higher petrol prices may weigh on consumer spending in June, with at-target inflation and falling interest rates offering ongoing support we still see the prospects of a seventh consecutive, albeit modest, quarterly increase in retail sales as most probable.

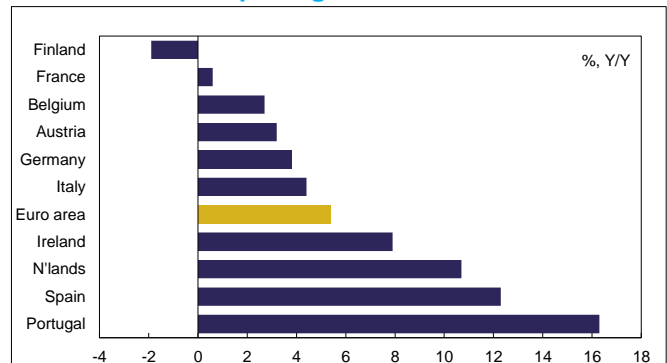
Meanwhile, May German IP data will provide a clearer picture as to the impact of still-in-place US baseline tariffs on the euro area's manufacturing sector. Production in April fell back after tariff front-running in Q1. German IP fell by 1.4% M/M, but that

### Euro area: House price index by member state



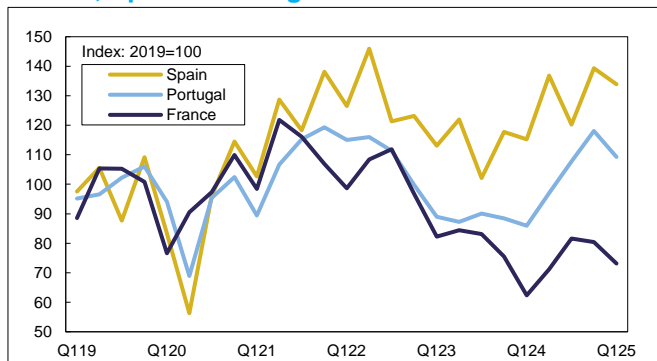
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: House price growth in Q125



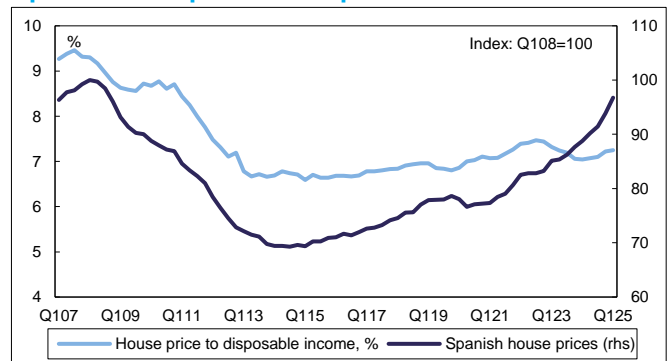
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### France, Spain & Portugal: House sales index



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Spain: House prices & disposable income



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

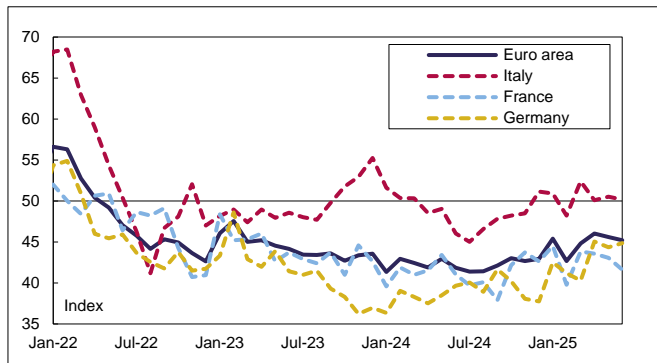
only partially reversed March's gain (2.3%M/M), and left output just 0.2ppt below its Q1 level. Business surveys, most notably the PMIs, have continued to signal decent expansion in Germany in Q2 – the manufacturing output PMI in Q2 (52.1) some 3pts better off than in Q1 and matching March's level – hinting to the possibility of some upside in May's IP report. The PMIs have also suggested that overseas demand has remained particularly resilient, with potential upside for German exports. Further front-loading to the US ahead of the supposed deadline for a deal to avoid new 'reciprocal' tariffs also may have contributed. And US data this week showed a modest uptick in imports from Germany in May. Finally, the back end of the week will also bring final estimates for German (Thursday) and French inflation (Friday) in June. Contrasting with the upside surprise in France (up 0.2ppt to 0.8%Y/Y), and despite upwards pressure in energy prices, the flash estimate showed that German inflation fell back to target (2.0%Y/Y), with limited national CPI data flagging moderation in underlying pressures and softer food prices.

## UK

### Construction PMIs point to improvement in housebuilding but strife in other subsectors

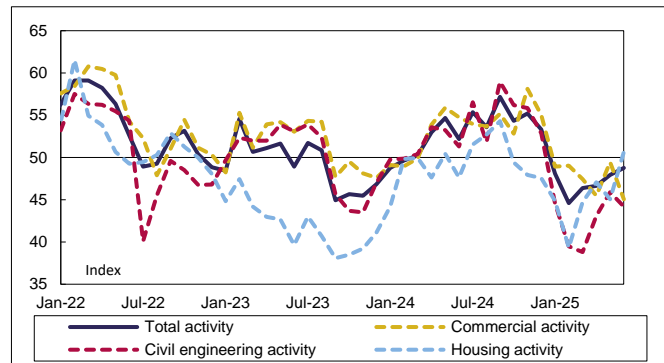
As in the euro area, the UK construction PMIs suggested underlying improvement in the sector over the course of Q2 (47.8 vs 46.4), despite implying contraction in June (48.8). Indeed, that marked the highest reading so far this year, with residential housebuilders' activity (up 5.6pts to 50.7) improving sharply to a nine-month high. Some firms also reported an upturn in new projects, potentially an endorsement of recent government support and associated planning reforms. So, after private residential output rose to its highest level in 22 months in April, and with underlying demand reported to be firm, the outlook for housebuilders may have turned a corner for the better. But that improvement contrasts with the deeper contractions in the commercial (45.1) and civil engineering (44.2) subsectors implied by the PMIs, the former of which was the worst since May 2020. New order books also reportedly continued to shrink (44.5), likely contributing to firms' decisions to cut headcount for a sixth-straight month (46.6) and hold back on purchases (46.8). Consequently, firms were also the most downbeat about the outlook for 2½ years, underscoring that construction sentiment remains downbeat despite the more encouraging developments in housebuilding. Nevertheless, we expect the government's pipeline of public investment projects to provide support to civil engineering activity over coming quarters, while commercial building work should benefit from the further cuts to Bank Rate that we expect each quarter through to mid-2026.

#### Euro area: Construction PMI & member states



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

#### UK: Construction PMIs & subsectors












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

### The week ahead in the UK












Though it will be a quiet start for UK economic news, the coming week will bring May's monthly GDP release (Friday). April's larger-than-expected drop (-0.3%M/M) marked a disappointing outturn for the start of Q2. But a decline was largely expected owing not least to the strength of growth in Q1 (0.7%Q/Q) due to temporary special factors. So, GDP growth on a three-monthly basis merely trended sideways (0.7%3M/3M). April's elevated trade uncertainty and payback following the warm weather and stamp-duty-induced boost to housing market activity in March will also have been responsible for some of that weakness. We also note that, after April's PMIs correctly flagged a sharp contraction (48.5) in activity that month, they notably recovered in May (50.2) and June (52.0) to be consistent with marginal expansion in Q2. So, we expect May's GDP report to be less downbeat. Certainly, despite still-weak activity in the housing market, realtors and professional services are likely to have experienced some payback for April's weakness. Consumer-facing services may have also (once again) benefitted from an upturn in the weather contrasting the surprisingly sharp drop in retail sales volumes reported that month (-2.7%M/M). With that in mind, we expect monthly GDP growth in May to be a relatively muted 0.1%M/M. That would also lead growth on a three-monthly basis lower (down 0.3ppt to 0.4%3M/3M). Elsewhere, the RICS residential market survey (Thursday) will provide an update on housing market activity in June.

## 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	1.9	2.1	1.6	1.7	2.1	1.7	1.8
Core HICP		2.6	2.4	2.2	2.2	2.1	1.5	2.3	1.7	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	2.00
Refi Rate		2.65	2.15	1.90	1.90	1.90	1.90	1.90	1.90	2.15
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	 PPI Y/Y%	May	0.3	0.3	0.7	-
	 Construction PMI	Jun	45.2	-	45.6	-
Germany	 Factory orders M/M% (Y/Y%)	May	-1.4 (5.3)	-0.2 (5.7)	0.6 (4.8)	1.6 (5.8)
	 Construction PMI	Jun	44.8	-	44.4	-
France	 Industrial production M/M% (Y/Y%)	May	-0.5 (-0.9)	0.3 (0.1)	-1.4 (-2.1)	- (-1.9)
	 Construction PMI	Jun	41.6	-	43.1	-
Italy	 Retail sales M/M% (Y/Y%)	May	-0.4 (1.3)	-	0.7 (3.7)	- (3.8)
	 Construction PMI	Jun	50.2	-	50.5	-
Spain	 Industrial production M/M% (Y/Y%)	May	0.6 (1.7)	0.4 (1.3)	-0.8 (0.6)	-0.7 (-)
UK	 Construction PMI	Jun	48.8	48.5	47.9	-
	 New car registrations Y/Y%	Jun	6.7	-	1.6	-
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 forecast</i>	Previous
<b>Monday 7 July 2025</b>					
Euro Area		09.30 Sentix investor confidence indicator	Jul	1.0	0.2
		10.00 Retail sales M/M% (Y/Y%)	May	-0.8 (1.4)	0.1 (2.3)
Germany		07.00 Industrial production M/M% (Y/Y%)	May	-0.5 (0.7)	-1.4 (-1.8)
<b>Tuesday 8 July 2025</b>					
Germany		07.00 Trade balance €bn	May	18.0	14.5
France		07.45 Trade balance €bn	May	-	-8.0
<b>Wednesday 9 July 2025</b>					
- Nothing scheduled -					
<b>Thursday 10 July 2025</b>					
Germany		07.00 Final HICP (CPI) Y/Y%	Jun	<u>2.0 (2.0)</u>	2.1 (2.1)
Italy		09.00 Industrial production M/M% (Y/Y%)	May	-0.1 (0.3)	1.0 (0.3)
UK		00.01 RICS house price balance %	Jun	-7	-8
<b>Friday 11 July 2025</b>					
France		07.45 Final HICP (CPI) Y/Y%	Jun	<u>0.8 (0.9)</u>	0.6 (0.7)
UK		07.00 Monthly GDP M/M% (3M/3M%)	May	<u>0.1 (0.4)</u>	-0.3 (0.7)
		07.00 Services output M/M% (3M/3M%)	May	0.0 (0.2)	-0.4 (0.6)
		07.00 Industrial output M/M% (Y/Y%)	May	0.1 (0.3)	-0.6 (-0.3)
		07.00 Construction output M/M% (Y/Y%)	May	0.4 (1.7)	0.9 (3.3)
		07.00 Trade (goods trade) balance £bn	May	-4.7 (-20.9)	-7.0 (-23.2)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 7 July 2025</b>		
Germany		09.00 Bundesbank President & ECB Governing Council's Nagel to give a lecture on the German economy at Eesti Panki
<b>Tuesday 8 July 2025</b>		
Germany		10.30 Auction: to sell €5bn of 2030 bonds
		15.00 Bundesbank President & ECB Governing Council's Nagel to speak alongside former BoJ Deputy Governor Nakaso, Frankfurt
UK		10.00 Auction: to sell £900m of 1.875% 2049 inflation-linked bonds
<b>Wednesday 9 July 2025</b>		
Germany		10.30 Auction: to sell €1.5bn of 2.6% 2041 bonds
		10.30 Auction: to sell €1bn of 2.5% 2041 bonds
UK		10.00 Auction: to sell £4.5bn of 4.5% 2035 bonds
<b>Thursday 10 July 2025</b>		
- Nothing scheduled -		
<b>Friday 11 July 2025</b>		
Italy		10.00 Auction: to sell bonds*
		14.00 Banca d'Italia to publish quarterly economic bulletin

\*Details forthcoming. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



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

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