

Euro wrap-up

Overview

- Bunds made modest losses as data suggested that euro area construction activity appears on track to make a non-negligible contribution to Q2 GDP despite declining in May.
- Gilts also made losses on a quiet day for UK economic news.
- The ECB seems bound to leave rates unchanged on Thursday, with Lagarde remaining non-committal about future policy decisions, while the flash PMIs will provide insight into euro area and UK activity in July.

Emily Nicol
+44 20 7597 8331

Edward Maling
+44 20 7597 8030

Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	1.861	+0.006
OBL 2.2 10/30	2.235	+0.010
DBR 2.6 08/35	2.690	+0.018
UKT 3% 03/27	3.893	-0.004
UKT 4% 03/30	4.085	+0.002
UKT 4½ 03/35	4.670	+0.017

*Change from close as at 4:45pm BST.
Source: Bloomberg

Euro area

Euro area construction output fell sharply in May after substantial upwards revision in April

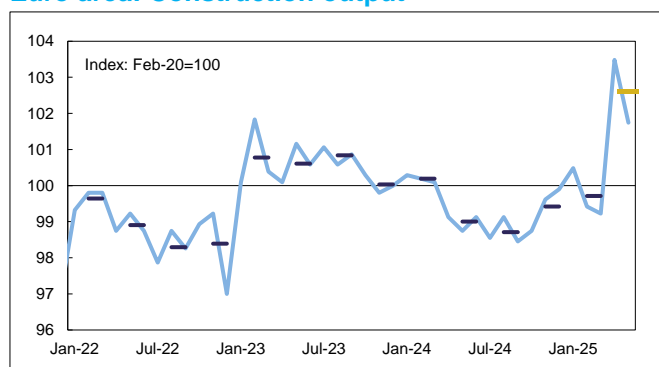
While euro area construction data have a tendency to be revised, today's release appears to warrant careful interpretation. As we expected, construction output in May weakened considerably, with a monthly decline of 1.7% M/M the sharpest since December 2022. This was precipitated by a marked drop in Germany (-3.9% M/M) to the lowest level since November 2015, to be trending some 2.4% below the Q1 average and therefore a likely drag on German GDP growth in the second quarter. Monthly declines also extended to other key member states, including France (-0.5% M/M), Italy (-1.4% M/M), the Netherlands (-1.8% M/M) and Belgium (-2.2% M/M), reversing much of the growth in April. This notwithstanding, euro area construction output is still trending some 2.9% above its level in Q1, after activity growth in April was revised up a substantial 2.6ppts to 4.3% M/M, the largest monthly increase in over four years and 2012 outside of the Covid-19 lockdown period. That boost came courtesy of a significant reassessment of Spanish building work, for which growth was revised up to an inexplicable 65% M/M, pushing up total construction growth to almost 40% M/M. While the ongoing outperformance of Spanish house price growth, recovery in residential building permits and relatively cheaper borrowing rates would all contribute towards a favourable outlook for Spanish housebuilders, we might expect to see a further readjustment in due course. That notwithstanding, for now at least, it does bode positively for euro area GDP in Q2. And while business surveys, such as the construction PMIs have so far flagged only a sputtering recovery in other member states, we maintain our expectation that less restrictive monetary policy and prospects for greater public investment will support a broader pickup in construction activity over coming quarters.

The week ahead in the euro area: ECB to keep rates unchanged, focus to be on Lagarde's signals

The main focus in the euro area in the coming week will be the conclusion on Thursday of the ECB's Governing Council meeting. But having cut interest rates in June for an eighth time this cycle and by a cumulative 200bps, the Governing Council is widely expected to leave the deposit rate unchanged at 2.00%. Certainly, President Lagarde repeatedly stated at the June post-meeting press conference that the end of the current policy rate cycle was approaching, and that policy was now in a 'good position' to navigate current and incoming uncertainties, a view that has since been echoed by several Governing Council members.

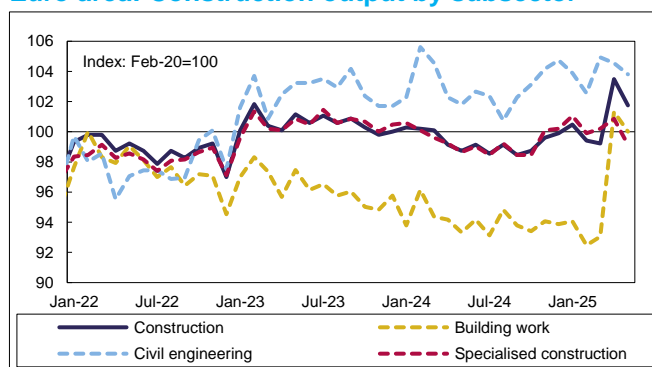
Since that meeting, euro area Q1 GDP growth was revised substantially higher (from 0.3% Q/Q to 0.6% Q/Q). And despite some inevitable pull-back following front-loading earlier in the year and persisting uncertainties surrounding US trade policies, the euro area economy has proved relatively resilient in Q2. Indeed, despite a likely drag from net trade, recent economic data – including May [industrial](#) and construction output, as well as [retail sales](#) – suggest that GDP grew modestly

Euro area: Construction output*



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Construction output by subsector

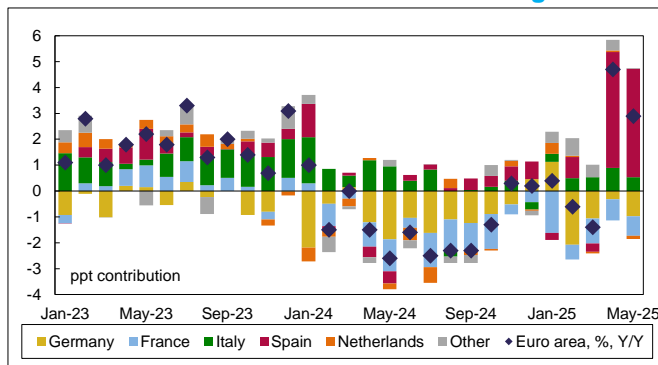


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

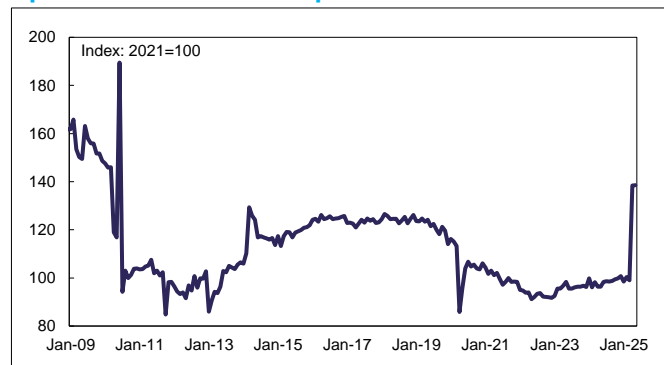
last quarter. An array of sentiment surveys due in the coming week, including the flash July PMIs on Thursday, are also likely to signal further modest recovery at the start of Q3. In particular, the composite output PMI is expected to rise again this month (50.8), supported by a further pickup in services activity. And the preliminary July Commission consumer confidence indicator (due Wednesday) might also reverse the decline recorded in June, amid an easing of geopolitical tensions. Furthermore, the results from the ECB's bank lending survey (Tuesday) and monetary figures (Friday) should also illustrate the ongoing impact of previous policy loosening in supporting the recovery in lending to households and businesses.

Yesterday's [inflation](#) data also confirmed headline inflation at the 2% target in June, with underlying inflation the softest since early 2022. While the euro appreciated to a more than 3½-year high at the end of June (\$1.18), some 6% above the assumption used in the ECB's macroeconomic projections in June, it has subsequently fallen back slightly to reduce somewhat the risk of a material undershooting of the ECB's inflation target over coming years. So, the Governing Council appears well placed to wait and take stock of economic developments, including the outcome of EU-US trade negotiations. As such, we wouldn't expect to see any meaningful amendments to the Governing Council's forward guidance in the coming week, maintaining that future policy decisions will remain 'data-dependent' and taken on a 'meeting-by-meeting approach'. And while we expect Lagarde to remain non-committal in the press conference, to reflect a likely range of views on the Governing Council, her comments will be closely scrutinized for any hints of whether the ECB might still cut the deposit rate further to 1.75% in due course, or whether 2.00% will be the terminal rate for this cycle.

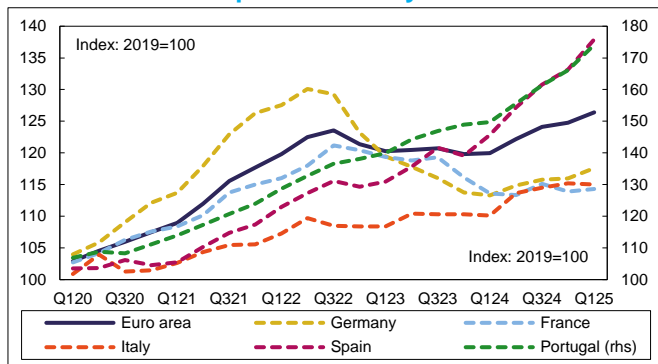
Euro area: Contributions to construction growth



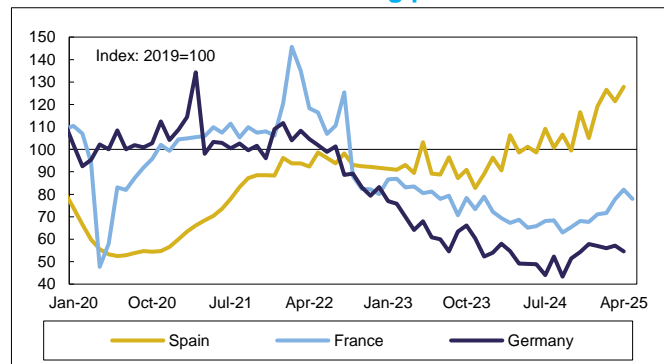
Spain: Construction output



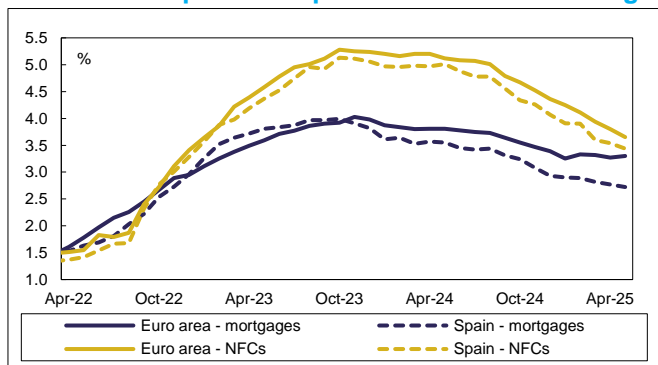
Euro area: House price levels by member state



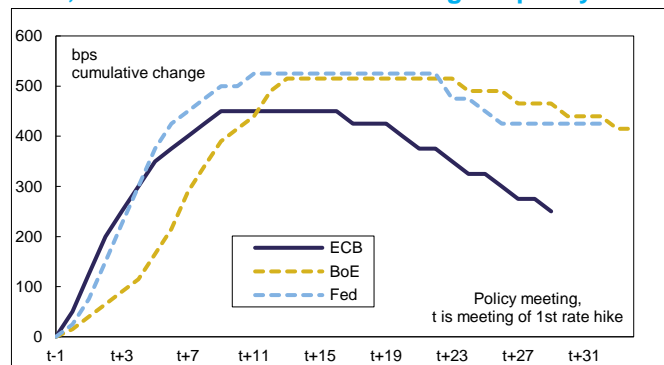
Euro area: Residential building permits



Euro area & Spain: Composite costs of borrowing



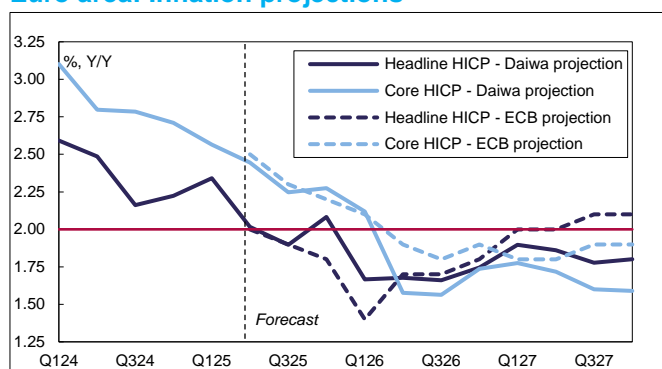
ECB, BoE & Fed: Cumulative change in policy rates



The week ahead in the UK: Flash July PMIs in focus, while June retail sales to bounce back

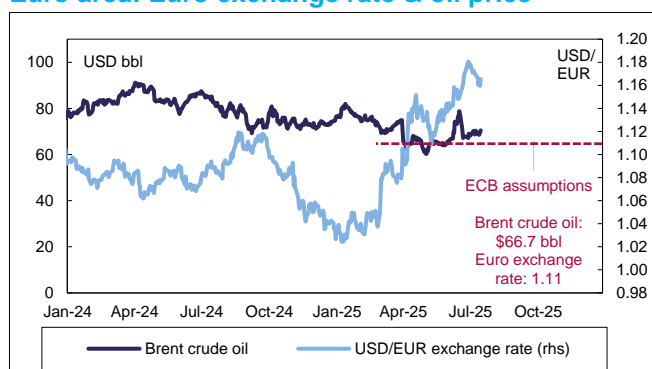
The flash July PMIs on Thursday are likely to be the highlight among the coming week's UK dataflow. While the survey was a poor guide to GDP growth in the first quarter of the year, signalling broad stagnation and therefore understating the solid growth of 0.7%Q/Q in Q1 – June's composite output PMI reported its best reading in 10 months (up 1.7pts to 52.0), as well as a first expansion in new orders since November (up 2.7pts to 50.9). We expect the July survey to signal ongoing recovery at the start of Q3, underpinned by the services sector. Manufacturers are likely to remain more downbeat, for which the CBI's industrial trends survey (also Thursday) will provide a cross-check. Despite implying ongoing economic expansion, the PMIs have pointed to firms' intentions to cut headcount (46.6). Also of interest to the MPC ahead of its August policy deliberations will be developments in the price PMIs, which in June signalled continued moderation in output price growth (52.9) to the weakest rate since February 2021 and matching the long-run average. Meanwhile, June's retail sales figures (Friday) will surely be expected to record an uptick at the end of Q2 following the surprisingly sharp downturn in volumes in May – that drop (-2.7%M/M) being the most dramatic since December 2023. Indeed, we expect the improvement in consumer confidence and warmer weather to have boosted consumption last month, consistent with the evidence from this week's [BRC retail survey](#). An update on GfK's consumer confidence indicator for July is also due on Friday.

Euro area: Inflation projections



Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.










Euro area: Euro exchange rate & oil price



Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

The next Euro wrap-up will be published on Tuesday 22 July 2025

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	1.2	1.1	1.4
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.3	2.0	1.9	2.1	1.7	1.7	2.1	1.7	1.8
Core HICP		2.6	2.4	2.2	2.3	2.1	1.6	2.4	1.7	1.6
UK										
Headline CPI		2.8	3.5	3.8	3.4	2.9	1.9	3.4	2.1	2.0
Core CPI		3.6	3.7	3.7	3.4	3.1	1.9	3.6	2.1	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	 Construction output M/M% (Y/Y%)	May	-1.7 (2.9)	-	1.7 (3.0)	4.3 (4.7)
	 ECB current account €bn	May	32.3	-	19.8	18.6
Germany	 PPI Y/Y%	Jun	-1.3	-1.3	-1.2	-




























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
Monday 21 July 2025					
UK		00.01 Rightmove house prices M/M% (Y/Y%)	Jul	-	-0.3 (0.8)
Tuesday 22 July 2025					
France		- BdF retail sales Y/Y%	Jun	-	0.2
UK		07.00 Public sector net borrowing £bn	Jun	17.6	17.7
Wednesday 23 July 2025					
Euro area		15.00 Preliminary Commission consumer confidence indicator	Jul	-15.0	-15.3
Thursday 24 July 2025					
Euro area		05.00 New car registrations Y/Y%	Jun	-	1.5
		09.00 Preliminary services (manufacturing) PMI	Jul	50.6 (49.8)	50.5 (49.5)
		09.00 Preliminary composite PMI	Jul	50.7	50.6
		13.15 ECB Deposit (Refinancing) Rate %	Jul	<u>2.00 (2.15)</u>	2.00 (2.15)
Germany		07.00 GfK consumer confidence indicator	Aug	-19.1	-20.3
		08.30 Preliminary services (manufacturing) PMI	Jul	50.1 (49.5)	49.7 (49.0)
		08.30 Preliminary composite PMI	Jul	50.7	50.4
France		07.45 INSEE business (manufacturing) confidence indicator	Jul	96 (97)	96 (96)
		08.15 Preliminary services (manufacturing) PMI	Jul	49.6 (48.6)	49.6 (48.1)
		08.15 Preliminary composite PMI	Jul	49.4	49.2
UK		09.30 Preliminary services (manufacturing) PMI	Jul	53.0 (48.0)	52.8 (47.7)
		09.30 Preliminary composite PMI	Jul	51.8	52.0
		11.00 CBI industrial trends survey – total orders (selling prices) % balance	Jul	-27 (20)	-33 (19)
		11.00 CBI industrial trends survey – business optimism % balance	Jul	-25	-33
Friday 25 July 2025					
Euro area		09.00 M3 money supply Y/Y%	Jun	3.7	3.9
Germany		09.00 ifo business climate indicator	Jul	89.1	88.4
		09.00 ifo current assessment (expectations) indicator	Jul	86.8 (91.4)	86.2 (90.7)
France		07.45 INSEE consumer confidence indicator	Jul	88	88
Italy		09.00 ISTAT consumer confidence indicator	Jul	96.0	96.1
		09.00 ISTAT business (manufacturing) confidence indicator	Jul	- (87.6)	93.9 (87.3)
UK		00.01 GfK consumer confidence indicator	Jul	-20	-18
		07.00 Retail sales – incl. auto fuel M/M% (Y/Y%)	Jun	1.1 (1.8)	-2.7 (-1.3)
		07.00 Retail sales – excl. auto fuel M/M% (Y/Y%)	Jun	1.2 (2.0)	-2.8 (-1.3)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 21 July 2025		
- Nothing scheduled -		
Tuesday 22 July 2025		
Euro area		09.00 ECB to publish quarterly Bank Lending Survey for Q2/Q325
Germany		10.30 Auction: to sell €500mn of 2.3% 2033 green bonds
		10.30 Auction: to sell €1.0bn of 2.5% 2035 green bonds
UK		10.00 Auction: to sell £1.7bn of 1.125% 2035 inflation-linked bonds
		10.15 BoE Governor Bailey & external FPC members to testify on Financial Stability Report before Treasury Select Committee
Wednesday 23 July 2025		
Germany		10.30 Auction: to sell €5.0bn of 2.6% 2035 bonds
UK		10.00 Auction: to sell £3.0bn of 4.375% 2040 bonds
Thursday 24 July 2025		
Euro area		13.15 ECB monetary policy announcement
		13.45 ECB President Lagarde holds post-Governing Council meeting press conference
Italy		10.00 Auction: to sell fixed-rate & inflation-linked bonds*
Friday 25 July 2025		
Euro area		09.00 ECB to publish quarterly Survey of Professional Forecasters for Q325

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

Access our research blog at:

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

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