

# Euro wrap-up

## Overview

- Bunds followed USTs slightly higher while the ECB's Bank Lending Survey suggested that a further stabilisation in credit standards supported loan demand in Q2.
- Even as UK public sector net borrowing was higher than a year earlier, in part due to higher debt interest payments, Gilts also followed USTs higher.
- The ECB will leave interest rates on hold on Thursday, while the flash PMIs and Commission consumer confidence indicator will likely point to ongoing recovery at the start of Q3.

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### Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	1.805	-0.013
OBL 2.2 10/30	2.148	-0.018
DBR 2.6 08/35	2.588	-0.023
UKT 3½ 03/27	3.834	-0.028
UKT 4% 03/30	3.993	-0.038
UKT 4½ 03/35	4.568	-0.033

\*Change from close as at 5:00pm BST.

Source: Bloomberg

## Euro area

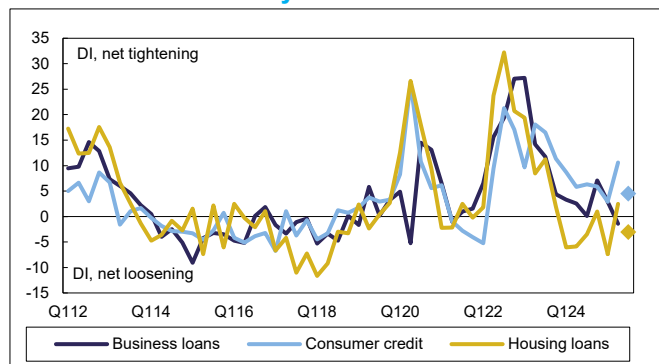
### Credit standards on business and mortgage loans stabilise, providing a boost to demand

The steady removal of policy restraint over the past year, with the deposit rate cut by a cumulative 200bps, has served as a key catalyst to the pickup in bank lending since the turn of the year. Indeed, despite headwinds from exceptional geopolitical and trade uncertainty on firms' fixed investment plans, the recent recovery in business lending has proved surprisingly resilient. This tallied with the results of the latest ECB Bank Lending Survey (BLS), which reported a further stabilization of banks' credit standards on loans to businesses last quarter. Indeed, in part reflecting increasing competition, on average, euro area lenders signalled a marginal easing (-1%) in lending standards in Q2 for the first time in four years. And with those standards expected to remain broadly neutral in Q3, lenders anticipated a further modest pickup in loan demand in Q3, from large firms and SMEs alike. Admittedly, after a notable loosening at the start of the year, standards on loans for house purchase were reportedly tightened slightly in Q2 as German banks' risk tolerances were hit by heightened economic uncertainties. But not least reflecting a marked improvement in housing market prospects, as well as the positive impact of falling mortgage rates, banks reported a further increase in demand for loans for house purchase, albeit at a softer pace than in Q1. In contrast, banks reported a further tightening on consumer credit standards in Q2. And with loan rates in nominal terms having come down from their peak relatively less than mortgage and business rates, demand for consumer credit was expected to remain broadly neutral in Q3. So, on balance, the results of the BLS appear to neither present an obstacle to, nor a compelling case for an additional rate cut. Certainly, the ECB will leave interest rates unchanged on Thursday. And whether the Governing Council decides to ease policy again will depend principally on the extent to which updated macroeconomic projections warrant further adjustment.

### The coming two days in the euro area

At the conclusion of the ECB's meeting on Thursday, the Governing Council is widely expected to leave its [Deposit Rate unchanged at 2.00%](#). While the risks of a undershoot of the 2% inflation target remain a material possibility, and the outcome of US trade negotiations are still unresolved, the surprising resilience of economic activity indicators in recent months and steady recovery in bank lending means that the ECB will continue to assess policy to be in a 'good position', allowing an opportunity to observe developments over the summer before calling time on the current monetary policy cycle. In her press conference after the June meeting, President Lagarde implied that that time was fast approaching. And while we expect Lagarde to remain non-committal this time around about the outlook for policy – reiterating that policy will follow a 'data-dependent and meeting-by-meeting approach' – her language will be closely scrutinised for any hints as to the likelihood of a further, and potentially final, rate cut in September.

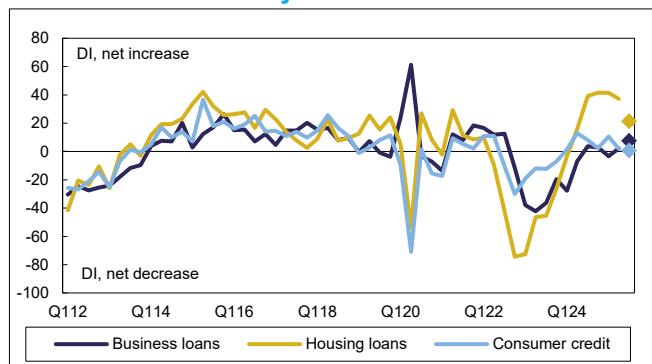
### Euro area: BLS survey – credit standards\*



\*Diamonds represent survey forecast for Q325.

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

### Euro area: BLS survey – loan demand\*

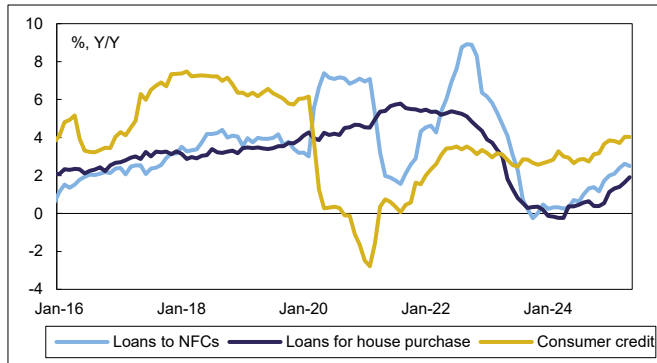


\*Diamonds represent survey forecast for Q325.

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

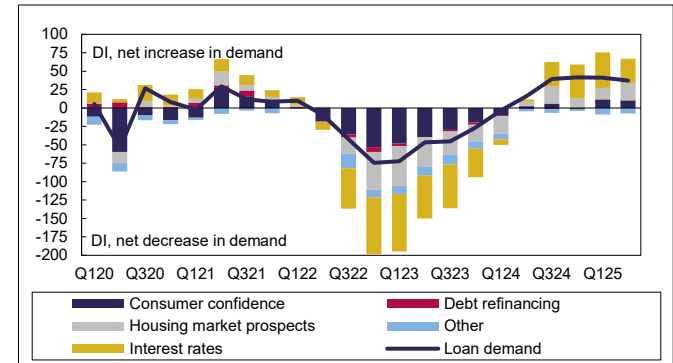
Thursday's flash PMIs for July are likely to illustrate relative resilience of euro area economic activity to persisting uncertainties. As in June, the euro area PMIs are expected to signal a further modest expansion at the start of Q3, with an uptick in the composite output index led by relatively better expectations for activity in Germany. By comparison, the composite output PMI for France is expected to remain in contractionary territory, but we will look also to INSEE's business survey to verify those assessments. Ahead of this will bring the Commission's flash consumer confidence indicator on Wednesday. Amid easing geopolitical tensions, we might expect at least some bounce back after June's reading slipped to its second-lowest reading this year (15.3). While the additional survey detail will only become available alongside the remainder of the ESIs, due on July 30, Thursday's release of the German GfK consumer survey will provide insights from the euro area's largest member state.

### Euro area: Loans to households & NFCs



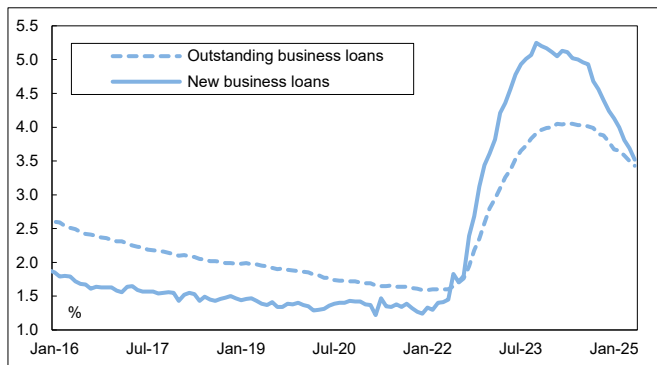
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: BLS survey – loans for house purchase



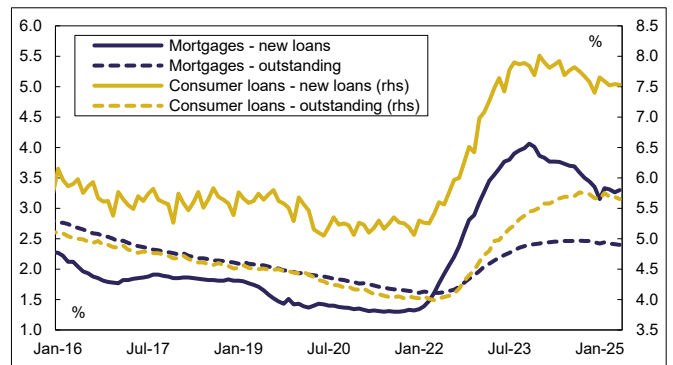
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Interest rate on loans to businesses



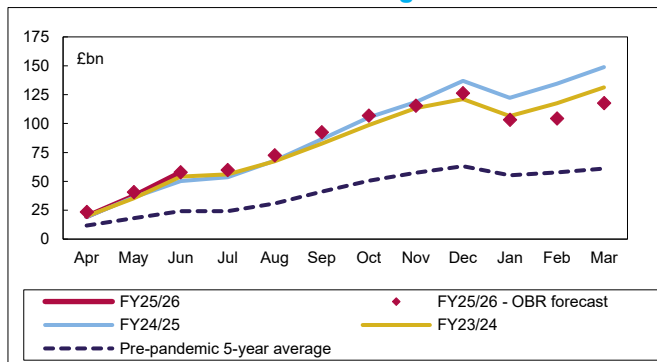
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Interest rates on loans to households



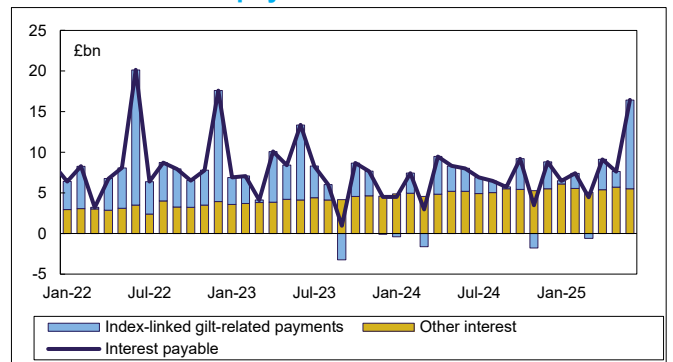
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Public sector net borrowing



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Debt interest payments



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## UK

### Public sector net borrowing higher than a year ago, but in line with OBR's forecast (for now)






While today's UK figures suggested that net public sector borrowing was broadly in line with the Office for Budgetary Responsibility's (OBR) expectations in the first quarter of the financial year, they further illustrated the challenges facing Chancellor Reeves and the likelihood of further policy adjustments in the autumn budget to ensure that public borrowing falls steadily as a share of GDP over the coming three years. Indeed, public sector net borrowing of £20.7bn in June was a touch stronger than the OBR expected for the month, £6.6bn more than borrowing in June 2024 and the second-highest in any June since monthly records began in 1993. This reflected higher central government spending in June (£97.1bn compared with £84.7bn a year ago) in large part due to higher debt interest payments – the second-highest for any June since that series began in 1997 – amid a spike in Gilt yields in April. Departmental spending was also pushed higher by pay rises and 'inflation increased running costs', while net social benefits were boosted by inflation- and earnings-linked increases in state pension payments. Overall, these more than offset the increase in current receipts, despite being bolstered by income, VAT and corporation tax revenues and the hike in firms' National insurance contributions. While public finances figures are subject to revisions, so far in the financial year public sector net borrowing was £57.8bn, some £7.5bn above the same period in 2024-25, but bang in line with the OBR's forecast. More disappointingly, the cumulative current budget deficit was £44.5bn, some £6.5bn more than the equivalent period last year, and £5bn above the OBR's forecast.

### The coming two days in the UK

Following what looks set to be a quiet Wednesday for economic news in the UK, our attention will be firmly focused on July's flash PMIs on Thursday. Admittedly, the survey proved to be a poor guide to GDP in Q1, signalling broad stagnation and therefore understating outsized growth of 0.7%Q/Q. But after plunging in April, the PMIs over the remainder of Q2 showed more resilience. Indeed, led by a recovery in the services sector, June's composite output PMI reported its strongest expansion in 10 months (up 1.7pts to 52.0), and a first expansionary reading in order books since November (up 2.7pts to 50.9). July's survey will be expected to signal an extension of that improvement at the start of Q3, underpinned by outperformance in the dominant services sector. The manufacturers index, by comparison, is expected to remain relatively downbeat, for which Thursday's CBI survey will provide a cross-check. Nonetheless, while the latest output PMIs were consistent with a healthier expansion, they remained below their pre-pandemic levels, and the MPC will continue to note firms' intentions to cut headcount. Additionally, with August's monetary policy meeting on the horizon, the MPC should also be keeping a close eye on the price PMIs. Having initially spiked in April to a near-two-year high, June's survey continued to signal a marked moderation in output price growth (52.9) to its weakest rate since February 2021 and matching the series historical average.

*The next edition of the Euro wrap-up will be published on 24 July 2025*


## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France	 BdF retail sales Y/Y%	Jun	-1.1	-	0.2	-
UK	 Public sector net borrowing £bn	Jun	20.7	17.5	17.7	17.4
Auctions						
Country	Auction					
Germany	 sold €422m of 2.3% 2033 green bonds at an average yield of 2.39%					
	 sold €931m of 2.5% 2035 green bonds at an average yield of 2.58%					
UK	 sold £1.7bn of 1.125% 2035 inflation-linked bonds at an average yield of 1.588%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Monday's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 Rightmove house prices M/M% (Y/Y%)	Jul	-1.2 (0.1)	-	-0.3 (0.8)	-


### Auctions

Country	Auction
- Nothing to report -	



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Wednesday's releases

### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro Area		15.00 Preliminary Commission consumer confidence indicator	Jul	-15.0	-15.3

















### Auctions and events

Germany		10.30 Auction: to sell €5bn of 2.6% 2035 bonds
UK		10.00 Auction: to sell £3bn of 4.375% 2040 bonds





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Thursday's releases

### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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	-19.3	-20.3
		08.30 Preliminary services (manufacturing) PMI	Jul	50.0 (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 (48.5)	49.6 (48.1)
		08.15 Preliminary composite PMI	Jul	49.1	49.2
Spain		08.00 Unemployment rate %	Q2	10.6	11.4
		08.00 PPI Y/Y%	Jun	-	0.0
UK		09.30 Preliminary services (manufacturing) PMI	Jul	52.9 (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	-28 (20)	-33 (19)
		11.00 CBI industrial trends survey – business optimism %	Jul	-25	-33

### Auctions and events

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 €2.75bn of 2.1% 2027 bonds
		10.00 Auction: to sell €1.5bn of 1.1% 2031 inflation-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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