

Euro wrap-up

Overview

- Bunds made modest losses as the German ifo business survey pointed to ongoing resilience at the start of Q3 amid an improvement in manufacturing and construction sector conditions.
- Gilts also made losses despite a softer-than-expected increase in retail sales volumes in June.
- The coming week will bring flash estimates of Q2 GDP and July inflation from the euro area and member states, as well as UK bank lending figures.

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Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	1.941	+0.015
OBL 2.2 10/30	2.294	+0.016
DBR 2.6 08/35	2.713	+0.014
UKT 3½ 03/27	3.879	+0.024
UKT 4½ 03/30	4.054	+0.025
UKT 4½ 03/35	4.634	+0.014

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

Euro area

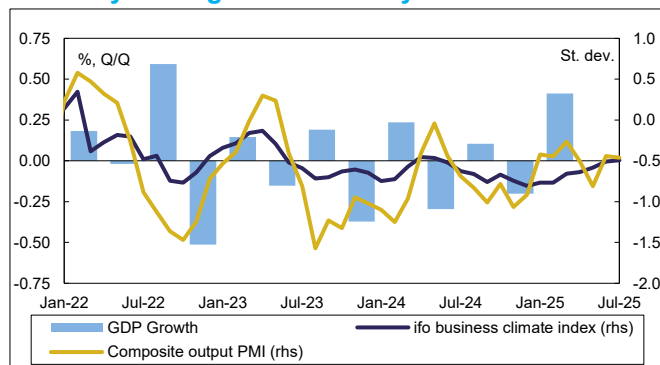
German ifo survey points to ongoing modest recovery, with manufacturing outlook more upbeat

While Germany's economy has been stuck in the slow lane since the pandemic, recent economic data point to relative resilience in the face of geopolitical and trade uncertainties. Despite a slightly deterioration, yesterday's flash PMIs were consistent with modest expansion at the start of Q3. And today's ifo survey signalled a further moderate improvement in business conditions in July. In particular, the headline business climate index edged higher for a sixth month out of the past seven, rising 0.2pt to 88.6, a 14-month high and 1pt above the Q2 average. The improvement principally reflected an ongoing recovery in manufacturing as firms in the sector judged the current situation to be 'noticeably better' in July. Expectations for the coming six months were also the highest for more than two years, with tax incentives and the prospects of higher public sector spending on defence and infrastructure offsetting persisting concerns about US tariffs. While current conditions in the services sector were considered somewhat less favourable – the respective index fell to a 12-month low, reportedly after IT services providers suffered a setback – expectations were still tracking considerably higher than over the past 12 months. Despite an ongoing absence of orders, constructors assessed current conditions to be the best in two years, with expectations for the coming six months the brightest since early 2022 as the steady transmission of lower interest rates was anticipated to boost demand. In contrast, however, retailers remained broadly downbeat, with sales expected to remain subdued amid a recent deterioration in consumer confidence.

Italian manufacturers and retailers more upbeat at start of Q2, but services sentiment deteriorates

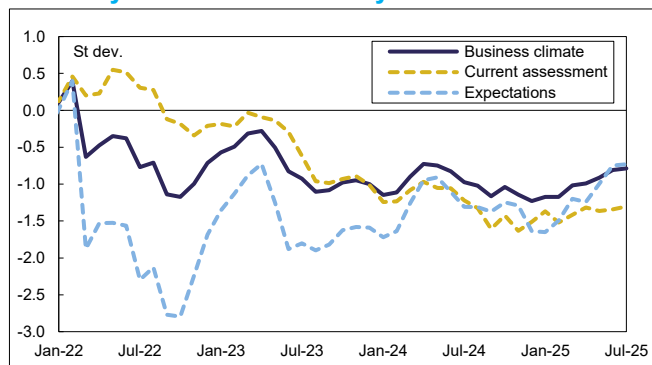
According to the latest ISTAT survey, Italian business sentiment moderated slightly at the start of Q3. But at 93.6, the headline index was still higher than the Q2 average and comfortably above the long-run average (92.2). Services and construction firms were less upbeat in July amid a perceived weakening in demand over the past three months. But construction orders were expected to increase sharply over the near term. And today's survey also reported a marked improvement in manufacturing confidence, to a 14-month high, amid a pickup in new orders. Retailers too were the most upbeat in six months, coinciding with the improvement in consumer confidence to a six-month high (97.2), up 1.1pts in July and well above the long-run average. Today's French consumer survey reported a more subtle recovery, with the respective index (89) still close to the bottom of the range of recent years and some 10% below the long-run average. But like elsewhere, the pickup principally reflected a rise in savings intentions, suggesting that spending on big-ticket items is likely to remain relatively subdued over the summer.

Germany: GDP growth & survey indices



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

Germany: ifo business survey indices

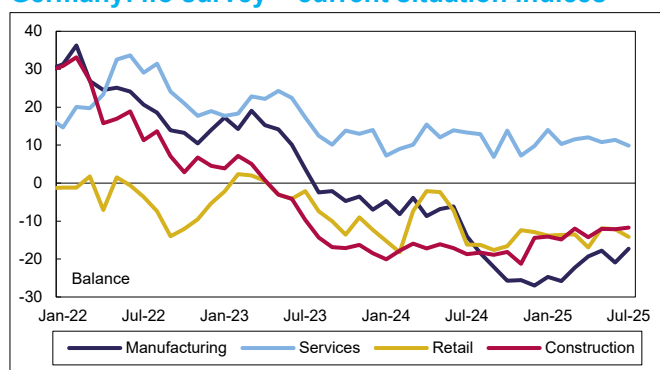


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Looser monetary policy continues to support recovery in business and mortgage lending

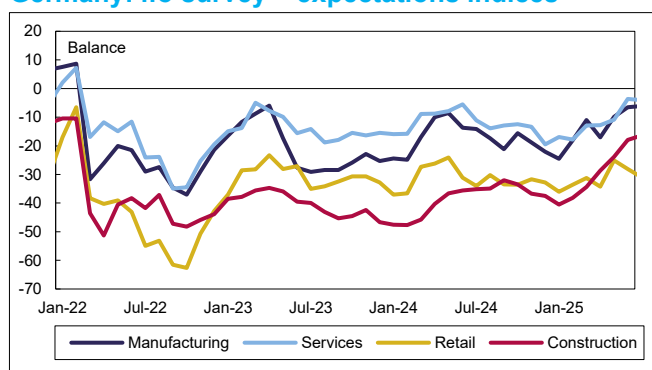
While the ECB yesterday kept interest rates unchanged for the first meeting in eight, the impact of the Governing Council's cumulative 200bps easing so far this cycle was clearly illustrated in today's euro area monetary statistics. Given a faster pass through of past interest rate cuts to new business loan rates – by almost 175bps since the peak in late 2023 – and following a modest decline in May, there was marked increase in new loans to non-financial corporations in June, by a net €25.8bn, the most since December and the second-strongest pace in more than 2½ years. We note, however, that unlike in December, the net flow of longer-term loans – which may arguably be more conducive to business investment – was the softest in nine months. Nevertheless, the outstanding stock of such loans was still up 2.2%Y/Y, the joint-strongest rate since mid-2023. Meanwhile, despite the apparent stagnation in new mortgage rates (courtesy of Germany and other core member states) over recent months, today's release also reported an ongoing recovery in mortgage lending, with the sixth monthly double-digit increase in new loans for house purchase out of seven (€13.3bn), to push growth in the stock of mortgage lending to a two-year high (2.2%Y/Y). But consistent with the ECB's Bank Lending Survey results that suggested still tightening lending standards for consumer credit in Q2, the monthly net inflow (€1.8bn) was the softest in seven months, albeit still leaving annual growth (4.5%Y/Y) the strongest since the pandemic. Overall, today's figures suggest that looser monetary policy is supporting the recovery of new lending, therefore reinforcing the Governing Council's 'wait-and-see' stance.

Germany: ifo survey – current situation indices



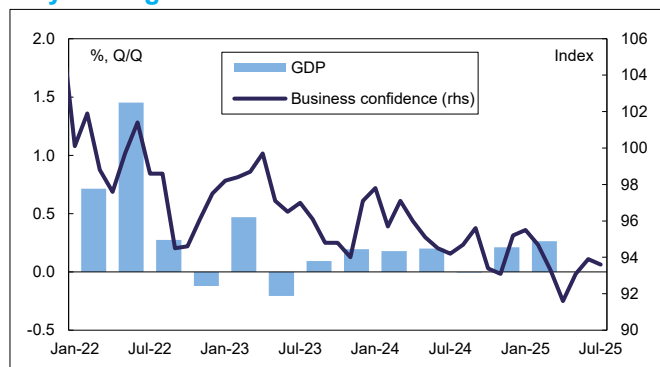
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo survey – expectations indices



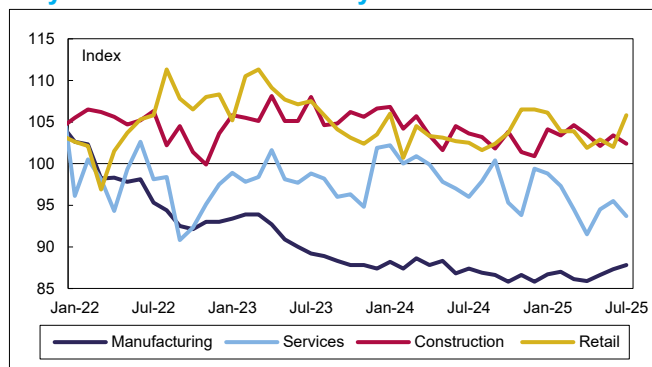
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: GDP growth & ISTAT business confidence



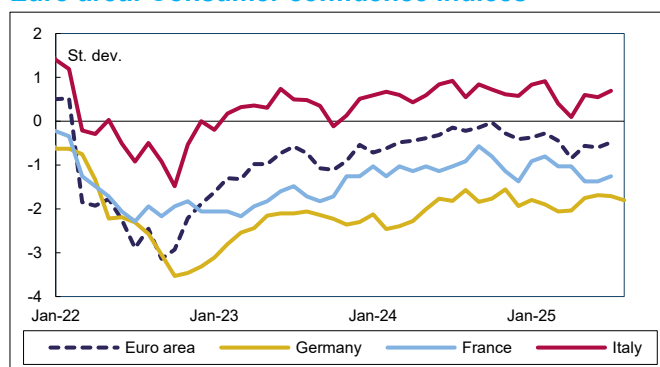
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: ISTAT business survey indices



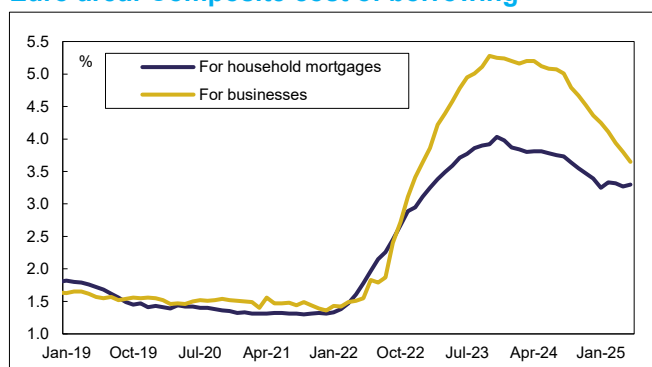
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Composite cost of borrowing



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

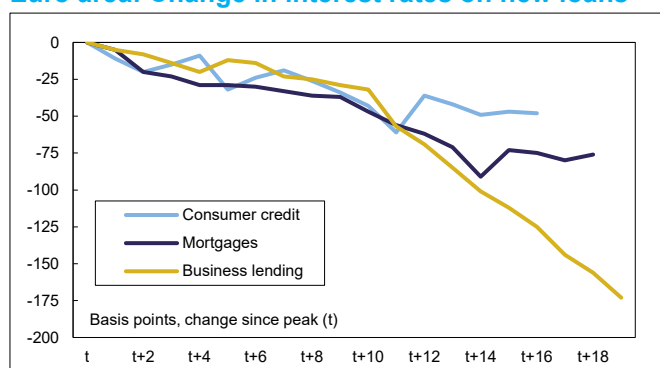
The week ahead in the euro area: First estimates of Q2 GDP & July inflation in focus

The coming week will bring several top-tier economic data releases from across the euro area, including most notably the first estimates of Q225 GDP (Wednesday) and flash July estimates of inflation (Friday). With the acceleration in GDP growth in Q1 (0.6%Q/Q) driven in large part by the front-loading of production and shipments ahead of higher US tariffs, GDP growth is widely expected to have slowed sharply in Q2. But, as ECB President Lagarde emphasised yesterday, economic activity has proved relatively resilient. And monthly activity figures through to May - including industrial production, construction output and retail sales - were trending above their respective average levels in Q1. So, notwithstanding a likely sizeable drag from net trade, we still expect positive growth last quarter, albeit at a relatively tepid 0.1%Q/Q.

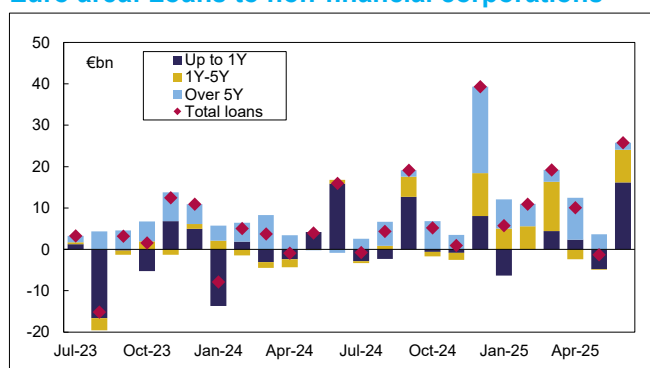
Among the larger member states, we expect payback in Germany after exports provided a non-negligible boost to GDP growth in Q1 (0.4%Q/Q). And with retail sales and construction activity in May currently tracking below the Q1 average, we expect the euro area's largest economy to report a modest contraction in Q2 (-0.1%Q/Q). The dampening effects of broader uncertainty seem set to weigh on France (0.0%Q/Q) and Italy (0.1%Q/Q), while Spain's outperformance (0.6%Q/Q) is likely to have been largely uninterrupted. But the extent of the slowdown in euro area GDP will be largely driven by the pullback in Ireland - data due on Monday - after the economy surged 7.4%Q/Q in Q1 to account for roughly half of the euro area's growth. Looking to the current quarter, July's Commission economic sentiment indicators (also Wednesday) will provide a cross-check to the moderate uptick flagged in this week's flash euro area PMIs.

Turning to inflation, having risen back to the ECB's 2% target in June, we expect headline inflation to fall 0.2ppt to 1.8%Y/Y in July, amid some stabilisation in food and energy prices. That softness should also extend to the core components, led by seasonal trends in core goods prices and ongoing gradual services disinflation. As a result, we also expect core inflation to edge down 0.1ppt to 2.2%Y/Y, which would mark the lowest rate since October 2021. Attention will be paid to national releases throughout the week, including Germany, France and Italy (Thursday) and Spain (Wednesday). Meanwhile, despite signs of loosening in Germany's labour market, the euro area's unemployment rate is expected to hold steady in June (6.3%). The ECB's post-meeting update to its wage tracker tool (Wednesday) should also be little changed, pointing towards a steady deceleration in wage growth towards the end of the year.

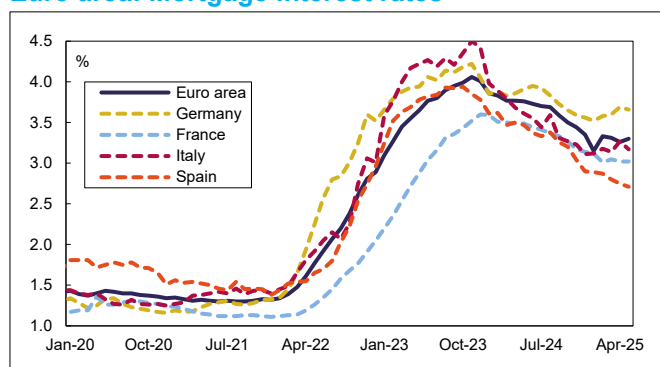
Euro area: Change in interest rates on new loans



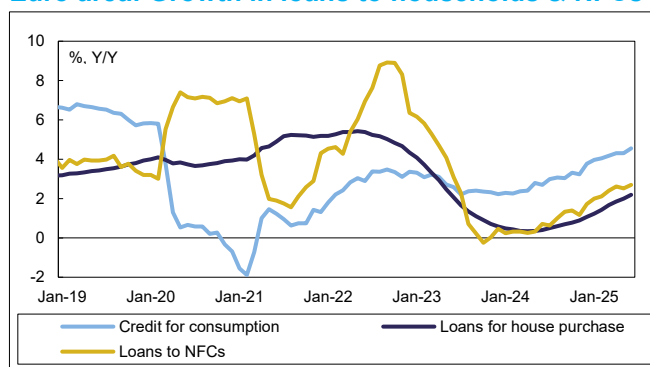
Euro area: Loans to non-financial corporations



Euro area: Mortgage interest rates



Euro area: Growth in loans to households & NFCs



UK

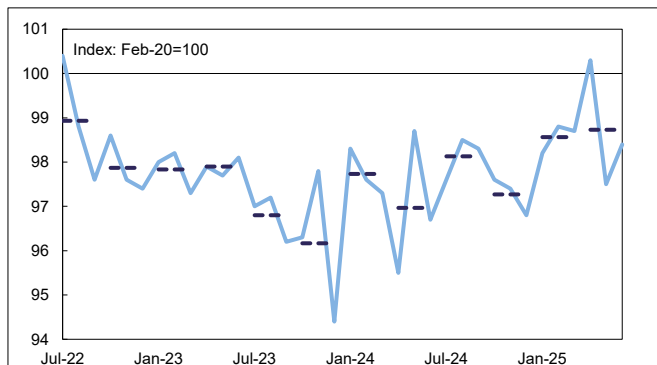
Softer-than-expected growth in June leave retail sales broadly flat in Q2

UK retail sales were widely expected to bounce back at the end of Q2 after the slump in May, supported by a return of the warmer weather and recovery in consumer confidence. But today's figures showed that the bounce back was softer-than-anticipated, with sales volumes rising 0.9%M/M in June reversing only one-third of the decline in May. Reportedly supported by increased travel during the improved weather, auto fuel sales rose to a 15-month high in June, accounting for 0.3ppt of monthly sales growth. Food store sales also increased (0.7%M/M) but remained down over the Q2 as a whole (-0.7%Q/Q). And spending on 'core' items (i.e. non-food and fuel) was mixed. While summer promotions seemingly gave a boost to clothing store sales for the first month in three (1.0%M/M), demand for household goods such as furniture remained lacklustre and spending at other non-food stores such as second-hand retailers and auction houses fell to a 14-month low. So, over the second quarter as a whole, spending at non-food stores fell 0.2%Q/Q. Admittedly, this was offset by a jump in non-store retailing (1.7%M/M, 3.6%Q/Q) to a more than three-year high. As such, total sales volumes moved broadly sideways in Q2 (0.2%Q/Q), albeit a marked slowdown from growth of 1¼%Q/Q in Q1. And while spending on certain services also likely received a weather-assisted boost in June, we expect household consumption to have provided only limited support to GDP growth last quarter. Moreover, in the face of rising inflation and a weakening labour market, today's GfK consumer survey suggested a rising preference to save at the start of Q3. Indeed, while headline consumer confidence was little changed in July – slipping 1pt to -19 – and the climate to make major purchases was judged to the 'best' in over three years, households' savings intentions jumped to the highest since late 2007.

The week ahead in the UK: Bank lending and shop price inflation figures due

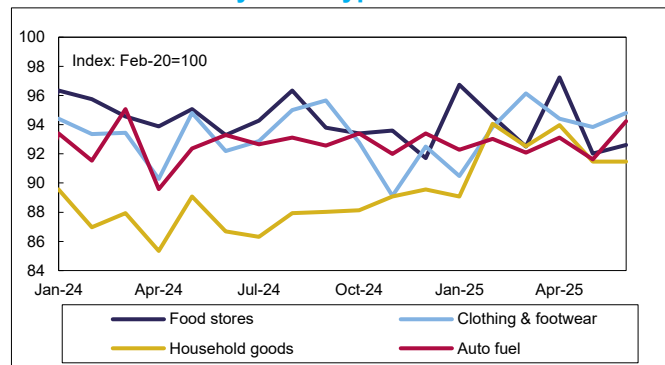
With a relatively scant economic data schedule in the lead up to August's monetary policy meeting, the coming week's UK economic news flow should be relatively quiet. The release of June's bank lending figures (Tuesday) is expected to confirm the slowdown in mortgage lending over Q2; a widely anticipated consequence of the rise in completions ahead of the change to stamp duty thresholds in April. But the latest figures should nonetheless also be more consistent with stabilization at the end of the quarter. We also expect larger reductions in interest rates for firms to have offered comparably more support to the recovery in demand for business loans. Meanwhile, the Nationwide house price indicator (Wednesday) may still reflect that recent softness in new residential buyer enquiries. Indeed, while a rebound would be unsurprising following the steepest monthly price drop in June since February 2023 (-0.8%M/M), we are mindful of this week's Rightmove survey, which highlighted the largest decline in asking prices (-1.2%M/M) in any July since the series started in 2002. Meanwhile, the BRC's measure of shop price inflation (Tuesday) will also be of interest for a view towards inflation in July, particularly with

UK: Retail sales volumes*



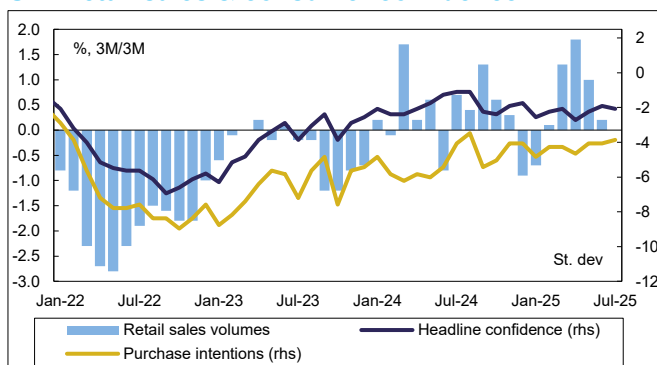
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales by store-type



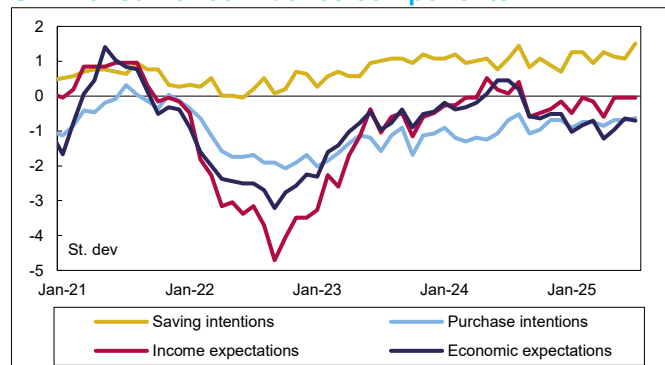
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales & consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence components












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

regards to the recent increase in food prices – the BRC metric (3.7%Y/Y) was a relatively good guide to the upwards pressure on food CPI (4.4%Y/Y). The CBI's distributive trades survey (Monday) will also provide a first insight into retail and wholesale activity in July. And finally, the final manufacturing PMI (Friday) is expected to align with the past week's flash estimate, that pointed to only a modest contraction at the start of Q3.










The next Euro wrap-up will be published on Tuesday 29 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	 M3 money supply Y/Y%	Jun	3.3	3.7	3.9	-
Germany	 ifo business climate indicator	Jul	88.6	89.1	88.4	-
	 ifo current assessment (expectations) indicator	Jul	86.5 (90.7)	86.7 (91.1)	86.2 (90.7)	- (90.6)
France	 INSEE consumer confidence indicator	Jul	89	88	88	-
Italy	 ISTAT consumer confidence indicator	Jul	97.2	95.9	96.1	-
	 ISTAT business (manufacturing) confidence indicator	Jul	93.6 (87.8)	- (87.6)	93.9 (87.3)	-
UK	 Retail sales – incl. auto fuel M/M% (Y/Y%)	Jun	0.9 (1.7)	1.1 (1.8)	-2.7 (-1.3)	-2.8 (-1.1)
	 Retail sales – excl. auto fuel M/M% (Y/Y%)	Jun	0.6 (1.8)	1.2 (2.0)	-2.8 (-1.3)	-2.9 (-1.2)
	 GfK consumer confidence indicator	Jul	-19	-20	-18	-
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 28 July 2025					
UK		11.00 CBI distributive trades survey – reported retail sales balance %	Jul	-	-46
Tuesday 29 July 2025					
Euro area		09.00 ECB consumer expectations survey – 1Y (3Y) CPI Y/Y%	Jun	2.8 (2.4)	2.8 (2.4)
France		11.00 Total jobseekers mn	Q2	-	3.19
Spain		08.00 GDP – first estimate Q/Q% (Y/Y%)	Q2	<u>0.6 (2.6)</u>	0.6 (2.8)
		08.00 Retail sales Y/Y%	Jun	-	4.8
UK		00.01 BRC shop price index Y/Y%	Jul	-	0.4
		09.30 Net consumer credit £bn (Y/Y%)	Jun	1.1 (-)	0.9 (6.5)
		09.30 Net mortgage lending £bn (mortgage approvals 000s)	Jun	2.5 (62.8)	2.1 (63.0)
Wednesday 30 July 2025					
Euro area		10.00 GDP – first estimate Q/Q% (Y/Y%)	Q2	<u>0.1 (1.4)</u>	0.6 (1.5)
		10.00 Commission economic sentiment indicator	Jul	94.5	94.0
		10.00 Commission services (industrial) confidence indicator	Jul	3.2 (-11.1)	2.9 (-12.0)
		10.00 Final Commission consumer confidence indicator	Jul	<u>-14.7</u>	15.3
Germany		07.00 Retail sales M/M% (Y/Y%)	Jun	-	-0.9 (4.5)
		09.00 GDP – first estimate Q/Q% (Y/Y%)	Q2	<u>-0.1 (0.2)</u>	0.4 (-0.2)
France		06.30 GDP – first estimate Q/Q% (Y/Y%)	Q2	<u>0.0 (0.4)</u>	0.1 (0.6)
		06.30 Consumer spending M/M% (Y/Y%)	Jun	-0.3 (0.0)	0.2 (-0.5)
Italy		09.00 GDP – first estimate Q/Q% (Y/Y%)	Q2	<u>0.1 (0.5)</u>	0.3 (0.7)
		10.00 Hourly wages M/M% (Y/Y%)	Q2	-	0.4 (4.0)
Spain		08.00 Preliminary HICP (CPI) Y/Y%	Jul	2.6 (2.3)	2.3 (2.3)
Thursday 31 July 2025					
Euro area		10.00 Unemployment rate %	Jun	6.3	6.3
Germany		07.00 Import prices M/M% (Y/Y%)	Jun	-0.2 (-1.6)	-0.7 (-1.1)
		08.55 Unemployment claims rate % (change 000s)	Jul	6.4 (15)	6.3 (11)
		13.00 Preliminary HICP (CPI) Y/Y%	Jul	1.9 (2.0)	2.0 (2.0)
France		07.45 Preliminary HICP (CPI) Y/Y%	Jul	0.8 (1.1)	0.9 (1.0)
		07.45 PPI Y/Y%	Jun	-	0.2
Italy		10.00 Preliminary HICP (CPI) Y/Y%	Jul	1.6 (1.5)	1.8 (1.7)
		10.00 PPI Y/Y%	Jun	-	2.8
UK		00.01 Lloyd's business barometer (own price expectations) % balance	Jul	-	51 (61)
Friday 1 August 2025					
Euro area		09.00 Final manufacturing PMI	Jul	<u>49.8</u>	49.5
		10.00 Preliminary headline (core) HICP Y/Y%	Jul	<u>1.8 (2.2)</u>	2.0 (2.3)
Germany		08.55 Final manufacturing PMI	Jul	<u>49.2</u>	49.0
France		08.50 Final manufacturing PMI	Jul	<u>48.4</u>	48.1
Italy		08.45 Manufacturing PMI	Jul	48.7	48.4
		09.00 Retail sales M/M% (Y/Y%)	Jun	-	-0.4 (1.3)
Spain		08.15 Manufacturing PMI	Jul	51.7	51.4
UK		00.01 Nationwide house price index M/M% (Y/Y%)	Jun	0.3 (2.1)	-0.8 (2.1)
		09.30 Final manufacturing PMI	Jul	<u>48.2</u>	47.7

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 28 July 2025		
- Nothing scheduled -		
Tuesday 29 July 2025		
Germany 	10.30	Auction: to sell €4.5bn of 2.2% 2030 bonds
UK 	10.00	Auction: to sell £5bn of 4.375% 2028 bonds
Wednesday 30 July 2025		
Euro area 	09.00	ECB to publish updated wage tracker indicators
Italy 	10.00	Auction: to sell bonds*
UK 	10.00	Auction: to sell £300m of 3.75% 2052 bonds
Thursday 31 July 2025		
- Nothing scheduled -		
Friday 1 August 2025		
- Nothing scheduled -		

*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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