

Euro wrap-up

Overview

- After the escalation of conflict in the Middle East over the weekend, Bunds opened lower before paring losses over the day, while German new factory orders fell back at the start of Q2.
- Gilts also made losses, while a UK survey pointed to a further softening in labour demand and pay growth in May.
- Tuesday will bring German industrial production and goods trade data for April.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.693	+0.010
OBL 2½ 04/31	2.778	+0.012
DBR 2.9 02/36	3.052	+0.015
UKT 4¾ 03/28	4.361	+0.025
UKT 4¾ 03/31	4.487	+0.025
UKT 4¾ 10/35	4.931	+0.028

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

Euro area

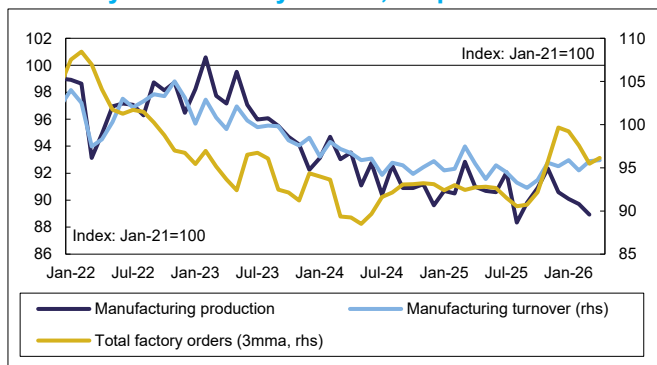
German factory orders fall back in April on broad-based weakening

While production has declined, German business surveys suggest that manufacturing conditions have remained relatively favourable despite the global energy shock. Firms appear to have accumulated inventories and boosted production to stockpile finished goods at the start of Q2 as a precaution ahead of potential supply shortages and sharp rises in costs. However, today's data point to a pullback in new demand as new factory orders fell in April by a larger-than-expected 3.8%M/M. Given typical volatility, this likely in part reflected payback for strength in March (4.5%M/M). Indeed, total orders in April were still tracking less than ½% below the Q1 average, while core orders (excluding bulk items) were unchanged on the same basis. Nevertheless, the decline at the start of Q2 was widespread across the subsectors. Having risen in the previous three months by a cumulative 14½%, new auto orders led the decline (-5.3%M/M) to be down more than 3% compared with the Q1 average. Orders for other transport equipment were trending some 16% below the average last quarter when they were inflated by a large shipping order. Meanwhile, orders for electrical and general machinery also partly reversed their jumps in March to be tracking 3-4½% lower compared with Q1.

Demand for ICT equipment offers some support, but supply constraints appear increasingly binding

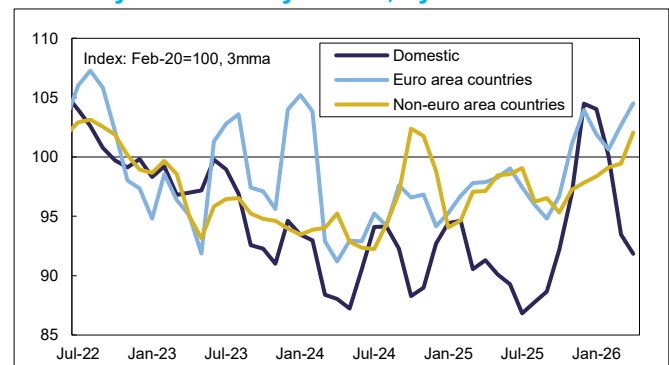
But today's data suggest that a few pockets of strength persist. Tallying with the ongoing uptrend in AI-related activity, demand for ICT equipment rose in April to the highest level in four years. Elevated prices and recent stockpiling likely weighed on orders of fertiliser and plastics. But broader demand for chemicals was stable, with new orders holding steady at the highest level since mid-2024 and domestic orders in the subsector the strongest in more than three years. The continued recovery in demand from outside of the euro area – for which total new orders rose to an 18-month high – was also encouraging. And despite falling sharply in April, orders from elsewhere in the euro area were still up 2½%3M/3M. But having previously benefitted from a government-led spike in demand for weapons in Q425, total domestic new orders moderated to a seven-month low. Meanwhile, although rising order backlogs might have been expected to give some support, today's release showed that manufacturing turnover stalled at the start of Q2. Firms report increasing difficulties in sourcing intermediate goods, not least of energy-intensive inputs. So, increasing supply constraints as well as waning demand seems likely to weigh on production this quarter and next. And while today's Sentix investor survey suggested that perceptions of the global economy brightened slightly at the end of Q2, assessments of the German economy continued to lag. Indeed, the survey's index of German current conditions fell in June to the lowest level since February 2025, flagging ongoing recession risks.

Germany: New factory orders, output & turnover



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders, by destination



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

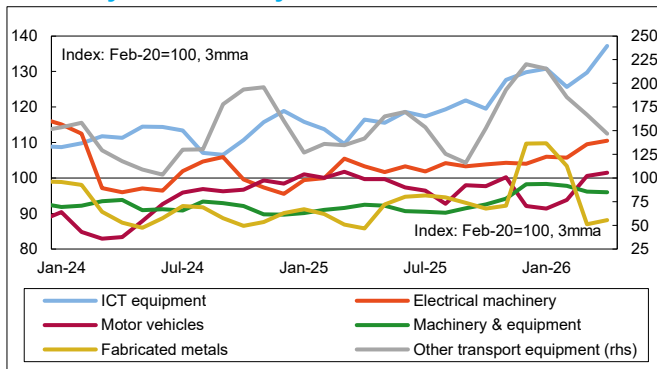
The day ahead in the euro area

Sadly, April's factory orders and turnover data did little to boost expectations for Tuesday's German IP release. But manufacturing output contracted in March for a fourth successive month and, owing to softness in pharmaceuticals and autos production in particular, dropped a hefty 1.4%Q/Q over Q1 as a whole. So, we might expect to see some modest payback in April. Indeed, while supply-side disruption inevitably raises downside-risks to production over the coming months, the German ifo and PMI surveys suggest that stockpiling and front-loading efforts by some manufacturers is likely to have provided some short-term support. And the PPI data suggest that, at least through April, cost pressures remained relatively limited in sectors without direct exposure to higher oil prices. So, we still see a modest increase in output in April as most likely, albeit insufficient to raise hopes of a full rebound in its contribution to GDP growth this quarter. German goods trade data for April – also due on Tuesday – will provide an indication about the prospect of a second successive positive quarterly contribution to net trade in Q2.

The day ahead in the UK

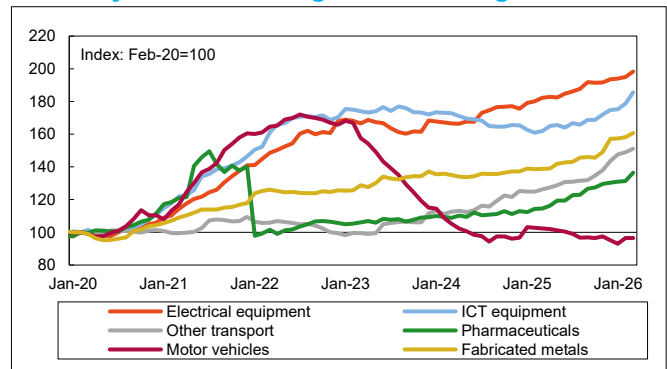
Following a quiet start to the week, Tuesday will at least bring an update on UK retail sector activity in May, courtesy of a BRC survey. At least over the past few years, the BRC survey has served as a decent guide to the ONS' official retail sales series. But it has been beset by calendar distortions over the past few months, most recently related to the timing of Easter. Indeed, having supported sales in March, the BRC measure of like-for-like sales growth contracted sharply in April, by 6½ppts, to a 17-month low of -3.4%Y/Y. Certainly, that figure will have likely stabilised last month. But consistent with the weak signals of other consumption indicators, we expect it to normalise at a subdued level, likely no higher than 1%Y/Y and consistent with merely soft momentum in retail sales this quarter at best.

Germany: New factory orders



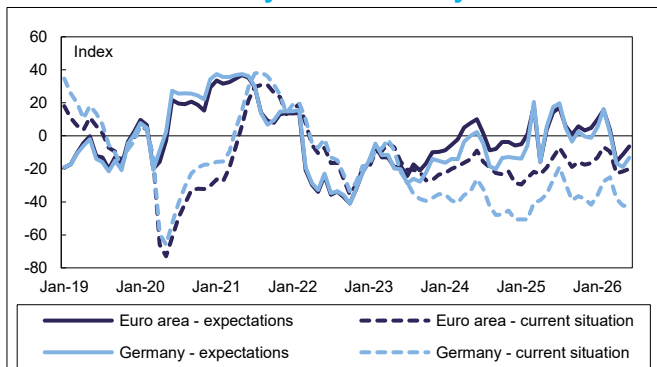
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing order backlogs



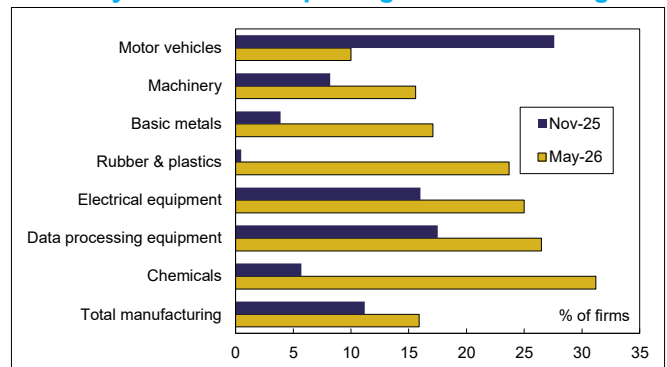
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area & Germany: Sentix survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo – firms reporting material shortages






Source: ifo 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	 Sentix investor confidence indicator	Jun	-13.4	-14.0	-16.4	-
Germany	 Factory orders M/M% (Y/Y%)	Apr	-3.8 (1.6)	-2.0 (4.3)	5.0 (6.3)	4.5 (6.1)
Spain	 INE house price index Q/Q% (Y/Y%)	Q1	3.5 (12.9)	-	1.8 (12.9)	-




Auctions

Country	Auction
- Nothing to report -	




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	 07.00	Industrial production M/M% (Y/Y%)	Apr	0.4 (-1.1)	-0.7 (-2.8)
	 07.00	Trade balance €bn	Apr	15.9	14.1
UK	 00.01	BRC retail monitor – like-for-like sales Y/Y%	May	0.8	-3.4

Auctions and events

Germany	 10.30	Auction: to sell up to €500mn of 2.3% 2033 green bonds
	 10.30	Auction: to sell up to €500mn of 2.5% 2035 green bonds
	 10.30	Auction: to sell up to €1bn of 1.8% 2053 green bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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