

# Euro wrap-up

## Overview

- Bunds followed the global trend lower as talks between the US and Iran were delayed, while German PPI inflation rose to a 3-year high.
- While there were no surprises to the Makerfield by-election, Gilts underperformed as UK public sector net borrowing and retail sales rose more than expected in May.
- The coming week's European data calendar will be focused on business and consumer surveys, including the flash June PMIs, while UK politics will also remain in focus.

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### Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.636	+0.034
OBL 2½ 04/31	2.715	+0.045
DBR 2.9 02/36	2.982	+0.056
UKT 4¾ 03/28	4.243	+0.063
UKT 4¾ 03/31	4.389	+0.080
UKT 4¾ 10/35	4.835	+0.080

\*Change from close as at 4:30pm BST.  
Source: Bloomberg

## Euro area

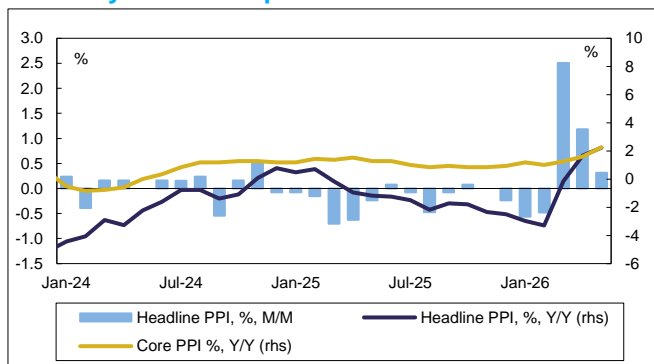
### German PPI inflation up to 3-year high but price pressures further along supply chain still contained

Consistent with survey signals of a further build-up of factory pipeline pressures in May, today's German producer price figures showed PPI inflation rising a further 0.6ppt to 2.2%Y/Y, the highest rate in three years. But this was softer than expected, with a more modest monthly increase in prices in May (0.3%M/M) reflecting a slight decline in energy prices. This nevertheless left energy prices up more than 7½% since the start of the year. Moreover, beyond energy, there were signs that underlying pressures are becoming more evident. Today's release reported a sixth successive increase in prices of non-energy goods (0.7%M/M) to push underlying producer price inflation to a near-three-year high (2.3%Y/Y). Admittedly, the detail suggested that pressures were still largely concentrated in the early stages of the production chain and in sectors most exposed to the direct impact of the global energy shock. In particular, the jump in prices of intermediate goods in May – by the most in four years (1.4%M/M) – was principally driven by chemicals (3.7%M/M), rubber (1.6%M/M) and basic metals (1.6%M/M). In contrast, prices of non-energy-intensive intermediates were still relatively well behaved. There was limited evidence of any meaningful upwards pressures on prices of capital and consumer durable goods, which were still up less than 1% since the start of the year. And not least due to the decline in food despite the spike in the price of fertilizers, prices of consumer non-durables were only marginally higher than at the start of the year. While surveys suggest that producers intend to raise prices in due course, subdued demand will likely continue to constrain pricing powers to some extent.

### The week ahead in the euro area

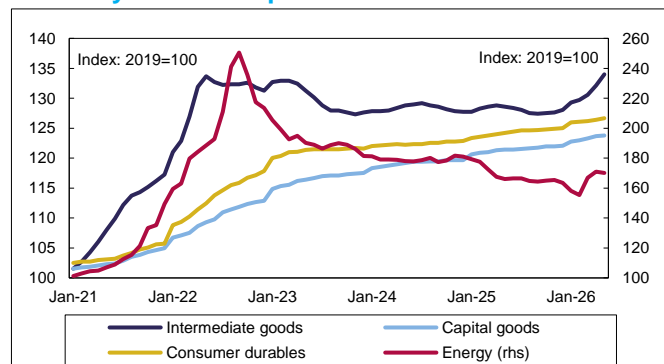
The European data calendar over the coming week will be dominated by June's business and consumer surveys. The flash euro area PMIs (Tuesday) should attract most headlines, albeit their propensity to be swayed by the odd aberration from individual member states means that significant weight should also be afforded to the German ifo indices (Wednesday) and French (also Tuesday) and Italian (Friday) national business surveys. While most member states' PMIs showed signs of stabilisation last month, a steeper pullback in France (44.9, down 2.7pts) pulled the euro area composite PMI deeper into contractionary territory (48.5), consistent with a decline in GDP of almost 0.2%Q/Q over Q2 so far. Assuming a rebound from France to better align with the signals of the INSEE survey, an improvement on that mark in the June survey seems probable. But whether material stockpiling and frontloading efforts by manufacturers will have been sustained remains a source of uncertainty. And the news of an agreement between the US and Iran might have come too late to lend support to new orders. So, we still expect the composite PMI to be subdued, likely staying just below the 50 threshold indicative of an increase in activity. And we expect the national surveys will further reinforce a view of weak growth momentum at the end of Q2.

### Germany: Producer price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Producer price levels



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

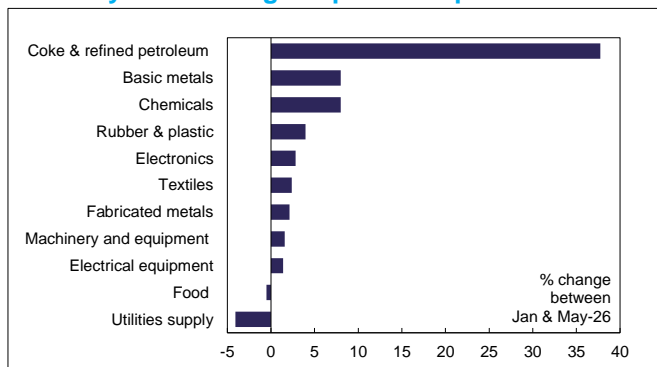
Inevitably, the euro area price PMIs will restate that input cost pressures remain elevated compared to their pre-war baseline. But with today's German PPI data having signalled that broader cost pressures have remained mostly nascent, the decline in oil prices this week could precipitate a welcome moderation in the price indices. Moreover, an improvement in consumers' expectations of inflation and broader economic activity should translate into some relief across consumer confidence indicators. We expect the Commission's flash consumer confidence reading to rise sharply from its subdued level in May (-19.0), albeit with uncertainty still weighing to prevent a full recovery to the pre-war mark (-12.4). The extent of that rebound should offer some clues as to how much relief we might see across the more detailed releases from Germany, France (Thursday) and Italy (Friday). The latter will coincide with the ECB's consumer expectations survey (Friday) which, pertaining to May, is unlikely to reflect a material improvement in short-term price expectations. And despite recent events, ECB policymakers will remain particularly sensitive to any signs of de-anchoring of inflation expectations across longer horizons.

## UK

### Burnham's comprehensive victory opens the door to Labour Party leadership challenge

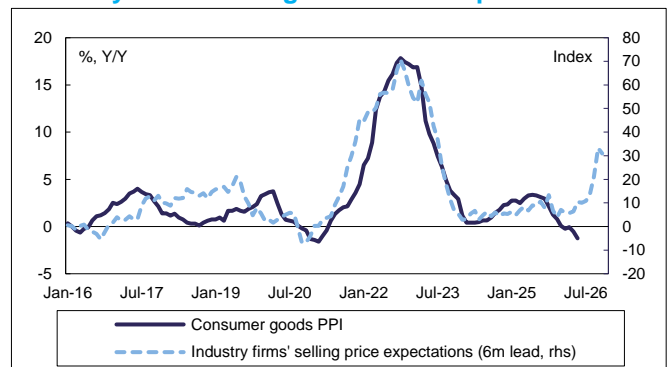
Thursday's Makerfield by-election delivered a resounding victory for the Labour Party's Greater Manchester Mayor Andy Burnham, who secured 54.8% of the vote, comfortably ahead of nationalist populist challengers from Reform (34.5%) and Restore (6.8%) in second and a distant third respectively. In his victory speech on Friday morning, Burnham stated that "this is our last chance for change, and we are going to take that opportunity", reinforcing expectations that he could leverage his strong support among both party members and the wider electorate to mount a challenge to Kier Starmer's leadership. The timing of any such move remains uncertain. For now, Starmer has insisted repeatedly that he will contest any formal challenge. However, Burnham may seek to capitalise on momentum in the coming days, with the possibility of an amicable transition still in play. In a best-case scenario, Starmer could step down voluntarily and set a timetable that would allow Burnham to assume the premiership ahead of the Labour Party conference (27–30 September). Indeed, there have been reports on Friday that some Cabinet ministers would urge Starmer to do just that. And mounting resignations would significantly weaken Starmer's position, reducing the likelihood of him fighting on. While there is an outside chance of a rival contender emerging – most likely former Health Secretary Wes Streeting – we expect Burnham would ultimately prevail.

#### Germany: YTD change in producer price levels



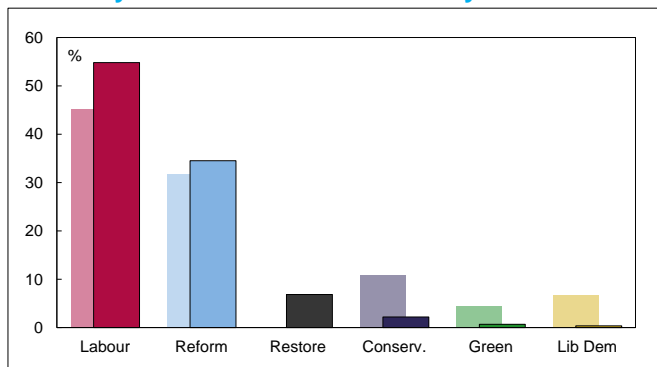
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Consumer goods PPI & expectations



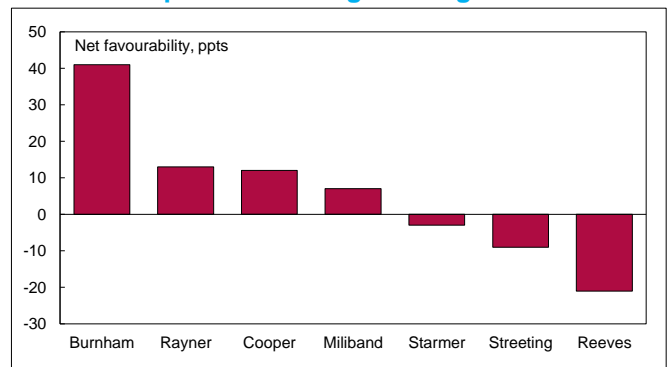
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Party vote shares - Makerfield by-election\*



\*Shaded bars show results from 2024 General Election. Excludes minor parties. Source: UK Parliament and Daiwa Capital Markets Europe Ltd.

#### UK: Labour politician ratings among Labour voters



Source: YouGov (May 2026) and Daiwa Capital Markets Europe Ltd.

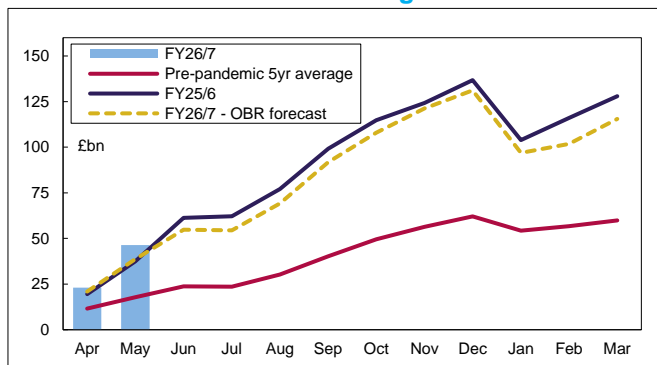
## Higher-than-expected public borrowing underscores limited scope for fiscal loosening

Despite today's underperformance in the Gilt market, the Makerfield by-election result is unlikely to have been a key driver. Burnham has broadly endorsed the Stamer-Reeves fiscal framework, and reports that the former Chair of the Office for Budgetary Responsibility (OBR) is advising him should bolster his fiscal credibility. Rather, gilt yields appear to have followed global moves higher on reports of delays in US-Iran talks. And the latest UK public finance figures also illustrated the constrained fiscal backdrop that Burnham would inherit. These showed public sector net borrowing rising a stronger-than-expected £23.3bn in May. And while this followed a slight downwards revision in April, this left net borrowing in the first two months of the financial year at £46.3bn, £8.9bn above the equivalent period last year and £7.7bn higher than the OBR's forecast in March. While receipts fell slightly below the OBR's forecast on lower VAT and fuel duty intake, the overshoot principally reflected higher central government spending, with more than half attributable to increased debt interest costs on higher inflation. Overall, today's data reinforce the limited near-term scope for a material fiscal expansion, even if Burnham were to become Prime Minister. That said, any push to increase public control — if not outright ownership — of struggling utilities would likely necessitate additional spending and, in turn, higher taxes. And over time, there is also a risk that some borrowing by certain public bodies could be shifted off balance sheet.

## Retail sales surprise to the upside in May as heatwave and promotions provide a boost

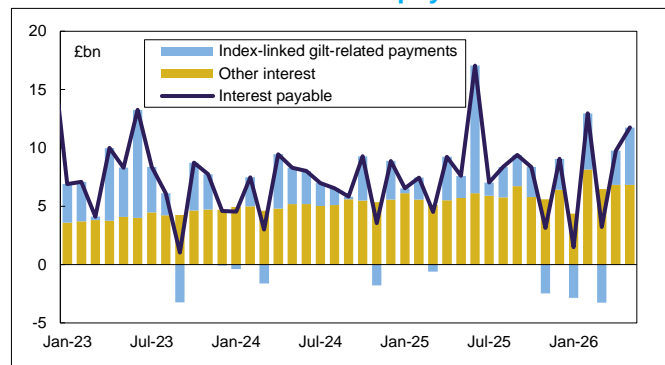
Today's May retail sales figures were also firmer than expected. Sales volumes that month rose at their fastest pace since January (1.2%M/M), to more than fully reverse the drop in April (revised slightly smaller by 0.3ppt to -1.0%M/M). This left momentum on a three-month basis stable at 0.4%3M/3M suggesting that the retail sector might provide a broadly neutral or possibly positive contribution to GDP in Q2 compared with a contraction initially feared. Promotions by some retailers and especially the warmer weather — the late-May heatwave lifting temperatures in England to the second hottest on record for the month — were credited for the boost to core sales. Sales volumes in department stores (2.5%M/M) and 'non-store' retailers (6.1%M/M) were purportedly supported by spending on outdoor furniture and electric fans. The ONS also highlighted that computer and telecoms retailers were continuing to bolster sales volumes, currently up more than 50%Y/Y following a series of product releases in March. Auto fuel sales, however, remained a source of weakness, which should be unsurprising given the near-20% increase in average petrol prices between February and May, as well as the extent of consumers' frontloaded purchases in March. Spending at petrol stations edged slightly higher (0.4%M/M) but continued to track almost 6% below their Q1 average. Meanwhile, food stores — which contributes to around 40% of sales — also subtracted modestly (-0.4%M/M).

### UK: Public sector net borrowing



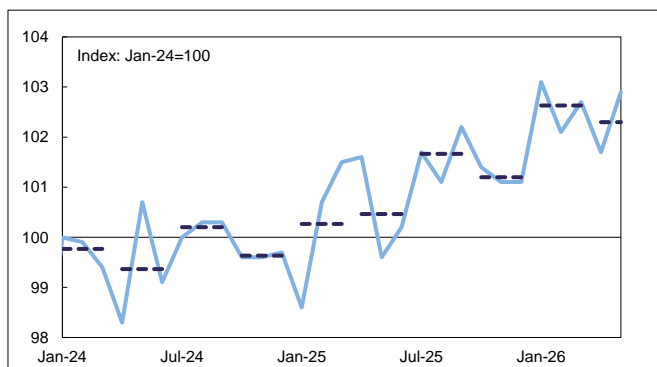
Source: OBR, Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Government debt interest payments



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

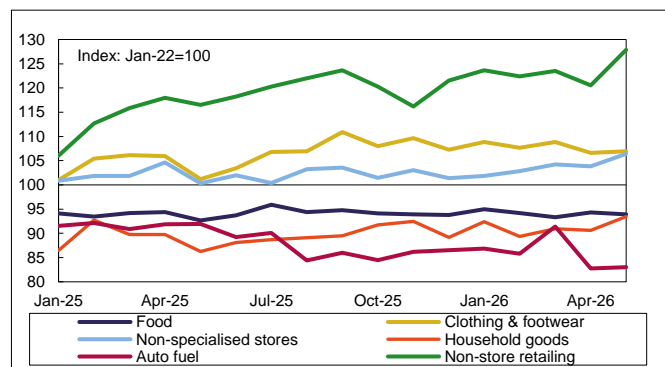
### UK: Retail sales volumes\*



\*Dashed lines represent quarterly average.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Retail sales volumes in selected sectors



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

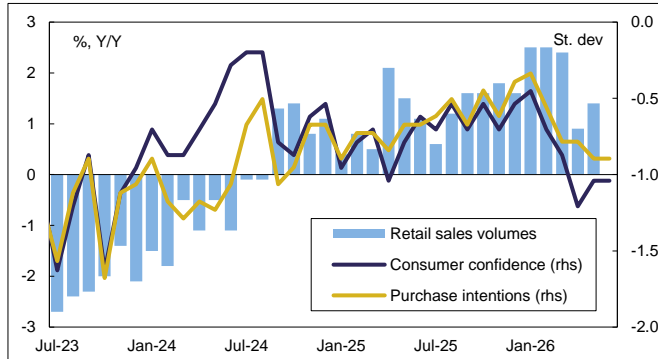
## Consumer confidence remains subdued, implying weak outlook for household spending

Assuming that the agreement between the US-Iran holds, this week's decline in global oil prices should be broadly sustained. And the subsequent relief to fuel prices over the coming months should encourage a relatively faster normalisation in sales volumes. Moreover, the start of the Football World Cup might give a welcome boost to sales of televisions this month too. Overall, however, today's GfK consumer survey suggested that sentiment in June remained just as downbeat as in May, with the headline index holding steady at -23 and consumers' willingness to spend the joint-weakest in 17 months. As the survey closed on 10 June – prior to the announcement that a tentative deal between the US and Iran had been reached – we could see some bounce back over the coming months. Of course, renewed political uncertainty in a UK leadership challenge might provide some offset in the near term. And with real wage growth having fallen sharply and higher inflation to squeeze purchasing power further through to year-end household expenditure seems set to remain relatively subdued.

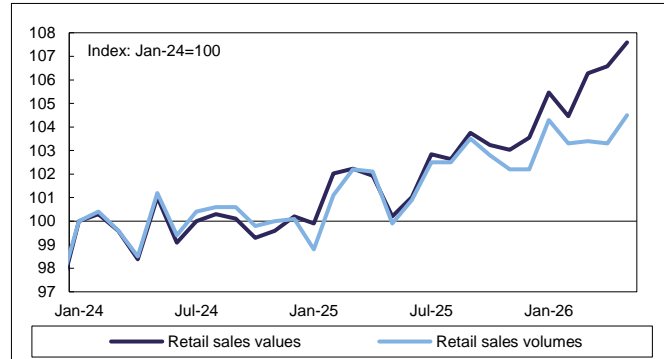
## The week ahead in the UK

UK politics and a potential leadership challenge will remain a key focus in the coming week. Data-wise, attention will turn to the flash June PMIs on Tuesday for an update on economic growth momentum at the end of Q2. After the headline composite PMI fell to a 13-month low in May (49.7), to imply a slight contraction in the middle of the quarter, business sentiment ought to have been given a modest boost this month by the tentative US-Iran agreement and decline in energy prices. Nevertheless, the headline output index is still likely to point to only marginal expansion in June, to leave the quarterly index perhaps as much as 1½pts below the Q1 average, reinforcing our expectation that GDP growth slowed sharply in Q2. Subdued activity will be felt more keenly by the services sector as household purchasing power remains squeezed. Indeed, we expect the headline services index to point to little better than stagnation in June. In contrast, the manufacturing survey might signal continued production growth, although the boost from recent inventory building might have faded in the face of supply bottlenecks. The CBI's industrial trends survey (also Wednesday) will provide additional insight into manufacturing conditions. And its distributive trades survey (Friday) will offer a guide to conditions in the retail sector, with sales this month likely given a boost by the start of the Football World Cup. In terms of inflation, despite wholesale energy prices have fallen sharply, firms – manufacturers, services and retailers alike – are likely to flag still elevated cost pressures but only limited pass-through to output prices due to subdued demand.

### UK: Retail sales & consumer confidence indices












### UK: Retail sales values & volumes
















**The next Euro wrap-up will be published on Tuesday 23 June 2026**

## Daiwa economic forecast

	2025		2026			2027	2026	2027	2028
	Q4	Q1	Q2	Q3	Q4	Q1			
<b>GDP</b>	<b>%, Q/Q</b>						<b>%, Y/Y</b>		
Euro area 	0.2	-0.2	0.1	0.1	0.2	0.3	0.2	1.0	1.4
UK 	0.2	0.6	0.2	0.0	0.2	0.4	1.0	1.1	1.4
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline HICP 	2.1	2.0	3.1	3.0	3.0	2.9	2.8	2.4	2.0
Core HICP 	2.4	2.3	2.4	2.6	2.7	2.8	2.5	2.6	2.2
UK									
Headline CPI 	3.4	3.1	2.7	3.1	3.1	2.9	3.0	2.5	2.1
Core CPI 	3.3	3.2	2.5	2.7	2.9	3.0	2.8	3.0	2.3
<b>Monetary policy, %</b>									
ECB									
Deposit Rate 	2.00	2.00	2.25	2.50	2.50	2.50	2.50	2.25	2.25
Refi Rate 	2.15	2.15	2.40	2.65	2.65	2.65	2.65	2.40	2.40
BoE									
Bank Rate 	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.25	3.25
























Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

## The coming week's data calendar

The coming week's key events & auctions			
Country	BST	Event / Auction	
<b>Monday 22 June 2026</b>			
Euro area 	14.00	ECB President Lagarde delivers statement to the EU Parliament's Committee on Economic and Monetary Affairs, Brussels	
<b>Tuesday 23 June 2026</b>			
Euro area 	09.30	ECB Chief Economist Lane delivers statement on the macroeconomic outlook to EU Parliamentary Committee, Brussels	
Euro area/UK 	14.15	ECB Vice President Vujcic & external MPC member Taylor to give remarks and participate in panel discussion (15.15), London	
Germany 	10.30	Auction: to sell up to €5bn of 2.5% 2028 bonds	
	18.30	External MPC member Dhingra to speak on panel discussing Brexit at Kings College London	
<b>Wednesday 24 June 2026</b>			
Germany 	10.30	Auction: to sell up to €1bn of 4.0% 2037 bonds	
	10.30	Auction: to sell up to €1bn of 3.4% 2047 bonds	
Italy 	10.00	Auction: to sell inflation-linked bonds*	
UK 	10.00	Auction: to sell up to £4.25bn of 4.125% 2031 bonds	
	18.30	External MPC member Dhingra to speak on panel at London Climate Action Week	
<b>Thursday 25 June 2026</b>			
Euro area 	09.00	ECB to publish Economic Bulletin 4/2026	
UK 	10.00	Auction: to sell up to £1.5bn of 0.5% 2029 bonds	
<b>Friday 26 June 2026</b>			
Italy 	10.00	Auction: to sell bonds*	

\*Details to be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key data releases






Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 22 June 2026</b>					
Euro area		15.00 Preliminary Commission consumer confidence indicator	Jun	-18.0	-19.0
<b>Tuesday 23 June 2026</b>					
Euro area		05.00 New car registrations Y/Y%	May	-	5.3
		09.00 Preliminary services (manufacturing) PMI	Jun	48.6 (51.6)	47.7 (51.6)
		09.00 Preliminary composite PMI	Jun	49.1	48.5
Germany		08.30 Preliminary services (manufacturing) PMI	Jun	49.0 (50.2)	48.1 (50.1)
		08.30 Preliminary composite PMI	Jun	49.7	48.8
France		07.45 INSEE business (manufacturing) confidence indicator	Jun	95 (101)	94 (102)
		07.45 INSEE production outlook (own-company) indicator	Jun	-	-17 (4)
		08.15 Preliminary services (manufacturing) PMI	Jun	45.8 (50.0)	44.3 (49.7)
		08.15 Preliminary composite PMI	Jun	46.0	44.9
	-	Retail sales Y/Y%	May	-	0.3
UK		09.30 Preliminary services (manufacturing) PMI	Jun	50.0 (53.0)	49.3 (53.9)
		09.30 Preliminary composite PMI	Jun	50.5	49.7
		11.00 CBI industrial trends – total orders (selling prices) net balance %	Jun	-33 (-35)	-41 (38)
<b>Wednesday 24 June 2026</b>					
Germany		09.00 ifo current assessment (expectations) indicator	Jun	86.3 (84.8)	86.1 (83.8)
		09.00 ifo business climate indicator	Jun	85.5	84.9
<b>Thursday 25 June 2026</b>					
Germany		07.00 GfK consumer confidence indicator	Jul	-27.7	-29.8
France		07.45 INSEE consumer confidence indicator	Jun	83	82
Spain		08.00 GDP – final estimate Q/Q% (Y/Y%)	Q1	<u>0.6 (2.7)</u>	0.8 (2.6)
		08.00 PPI Y/Y%	May	-	8.3
UK		11.00 CBI distributive trades – reported retail sales % net balance	Jun	-40	-46
<b>Friday 26 June 2026</b>					
Euro area		09.00 ECB consumer expectations survey – 1Y- (3Y-) ahead CPI Y/Y%	May	3.9 (2.8)	4.0 (2.9)
Italy		10.00 Istat economic (manufacturing) sentiment indicator	Jun	-	94.1 (87.9)
		10.00 Istat consumer confidence indicator	Jun	94.4	93.4

Source: Bloomberg 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
Germany	 PPI Y/Y%	May	<b>2.2</b>	2.5	1.7	-
UK	 Retail sales – incl. auto fuel M/M% (Y/Y%)	May	<b>1.2 (3.2)</b>	0.5 (1.8)	-1.3 (0.0)	-1.0 (0.1)
	 Retail sales – excl. auto fuel M/M% (Y/Y%)	May	<b>1.2 (4.6)</b>	0.3 (3.1)	-0.4 (1.1)	-0.1 (-)
	 GfK consumer confidence indicator	Jun	<b>-23</b>	-23	-23	-
	 Public sector net borrowing £bn	May	<b>23.3</b>	18.9	24.3	23.0

**Auctions**

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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