

Euro wrap-up

Overview

- Bunds followed the global trend higher while the flash euro area PMIs signalled a moderation in price pressures in June, while the activity indices recovered slightly despite a further weakening in Germany.
- Gilts outperformed as the flash UK PMIs flagged softer activity and price pressures.
- Wednesday will bring the German ifo business survey for June.

Emily Nicol
+44 20 7597 8331

Edward Maling
+44 20 7597 8030

Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.569	-0.027
OBL 2½ 04/31	2.645	-0.035
DBR 2.9 02/36	2.917	-0.032
UKT 4¾ 03/28	4.162	-0.043
UKT 4¾ 03/31	4.310	-0.047
UKT 4¾ 10/35	4.754	-0.054

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

Euro area

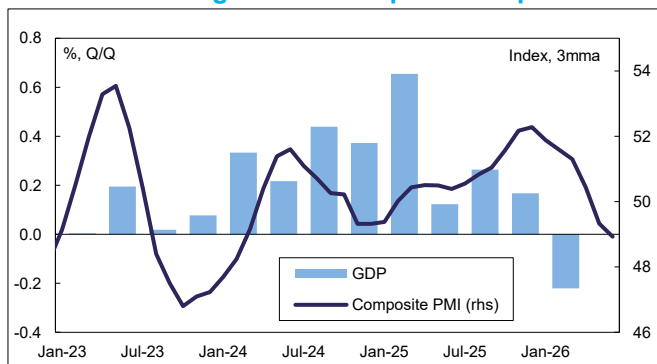
Euro area PMIs point to weak GDP growth in Q2 despite tentative stabilisation in June

Today's flash euro area PMIs for June came in a touch firmer than expected, pointing to some stabilisation in economic output at the end of Q2. In particular, the headline composite PMI rose by 1pt on the month to 49.5, a three-month high. However, this still marked the third successive sub-50 reading and left the quarterly index down almost 2½pts in Q2 at 48.9, a level that over the past decade (excluding lockdown distortions) was broadly consistent with stagnation. With most responses received before the signing of the memorandum of understanding between the US and Iran on 17 June, the final release might well bring an upside revision. But this is unlikely to change the overall message that underlying growth momentum slowed across the euro area – excluding Ireland – this quarter, broadly matching the ECB's baseline assessment. This weakness was partly driven by Germany, where the composite PMI fell to an 18-month low of 48.0, leaving the quarterly average down almost 4pts in Q2 and raising the risk of a modest contraction for just the second quarter in two years. France provided some modest offset in June, with the composite output index (47.6) reversing the 2.8pts drop in May. While the French PMIs can sometimes provide a flawed signal of activity, the more comprehensive INSEE business survey painted a similar picture – today's survey saw the headline index rise slightly in June (94) but remained some way below the long-run average and consistent with a lack of rebound following the modest contraction in Q1 (-0.1%Q/Q). In contrast, the headline index for elsewhere in the euro area rose 1.4pts to 52.1, a five-month high, suggesting ongoing outperformance in Spain and, to a lesser extent, Italy.

Price pressures moderate as demand remains relatively subdued

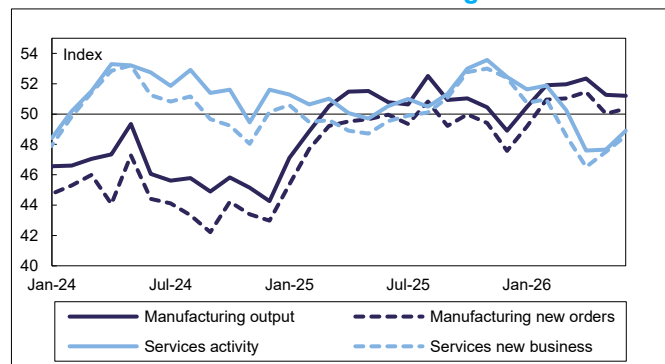
Today's survey points to tentative stabilisation in services where the activity (48.9) and new business indices (48.6) rose more than 1pt in June, with anecdotal evidence of a pickup in tourism and leisure demand. However, the divergence across member states remains pronounced, with the weakest German index in 3½ years (46.8) and continued contraction in France (47.4) contrasting a return to growth elsewhere in the region (52.0). Meanwhile, in manufacturing, the output PMI (51.2) continued to signal modest growth. However, the broader survey backdrop was softer, pointing to an absence of new factory orders and diminishing backlogs in June, while the recent run of rising purchasing activity to front-run supply bottlenecks and higher costs came to an end. As such, firms in the sector continued to signal reductions in headcount. And with no reported jobs growth in services too, wage pressures should remain contained. Price dynamics also appear to be easing with the drop in wholesale energy prices. Indeed, the services input price index fell almost 5pts in June to 61.8, just 2½pts above the pre-war level, while the respective output price PMI (53.7) was just 0.6pt higher than the average in the 12 months to February. While cost pressures in manufacturing remain relatively elevated, they too eased notably in June, with firms still absorbing a significant share of input cost increase amid weak demand.

Euro area: GDP growth & composite output PMI



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

Euro area: Services & manufacturing PMIs



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

Recovery in consumer confidence continued in June but remains historically soft

Moderating price pressures seemingly gave a boost to consumer confidence in June too. Yesterday's preliminary Commission survey showed the headline sentiment index rising for a second successive month, by 1.3pts to -17.7. But this left the index more than 4pts below the average in the 12 months before the outbreak of war in Iran and the weakest on a quarterly basis since Q422 when household consumption fell 0.9%Q/Q. While no survey detail was published by the Commission, the national Dutch and Belgian surveys – which both reported an improvement in June – offered some mild encouragement. Indeed, consumer confidence in Belgium and the Netherlands improved on more positive expectations for the economic outlook. And while Dutch households were still extremely cautious about spending on big-ticket items, households' spending intentions improved on the whole – indeed, the willingness to buy index recorded the biggest monthly increase since the start of the series. Admittedly, the quarterly index was still more than 12½pts lower than the Q1 average and well below the long-run average, suggesting a non-negligible pull-back in household expenditure.

The day ahead in the euro area

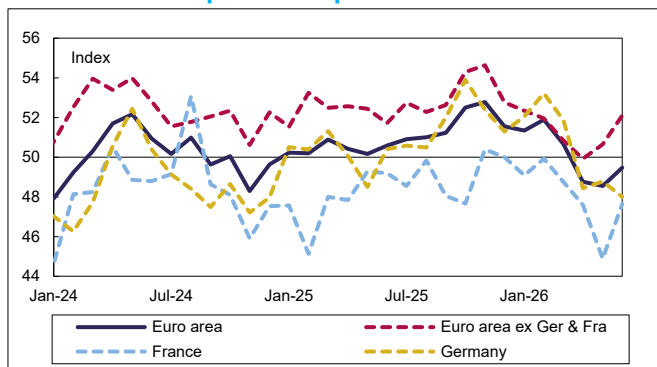
Tomorrow's release of the German ifo business survey will provide a cross check to the assertions of a further deterioration in activity in June flagged by the flash PMIs, with additional detail on the construction and retail sectors. Ultimately, it would not be surprising if the ifo was less downbeat than the flash PMIs, in part due to a likely partial rebound in business expectations. But with conditions having deteriorated sharply since March, the survey will no doubt also affirm a picture of weaker growth momentum in Q2.

UK

Flash PMIs remain in contractionary territory, confirming a loss of growth momentum in Q2

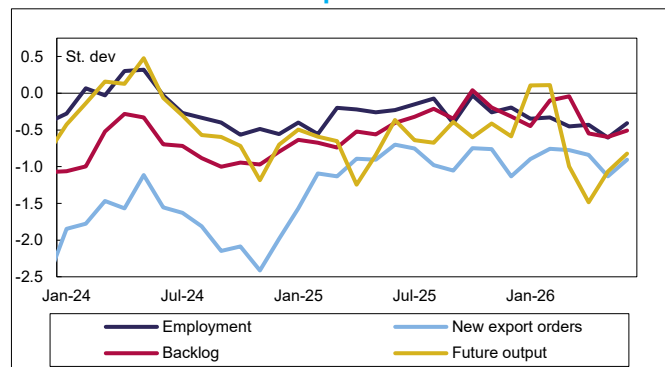
While not decisive, recent political uncertainty (see below) seems likely to have hindered business conditions. Contrasting expectations for a modest improvement, the flash composite output PMI slipped a touch further into contractionary territory (down 0.3pt to 49.4). Given the temporary acceleration in April, that still left the quarterly index at a firmer 50.6 in Q2, but nevertheless a full 2pts below the Q1 average, pointing to a stark loss of growth momentum. Based on the trend in the past 15 years, the PMIs imply that private sector business output was virtually flat this quarter. The survey also suggested that services remained the principal source of that weakness, with consumer-facing services particularly affected by the hit to consumer confidence. The headline business activity index fell back further to 48.7, to match the lowest level since January 2023, while the new business component fell a more striking 2.5pts to 46.9, the weakest since January 2021.

Euro area: Composite output PMIs



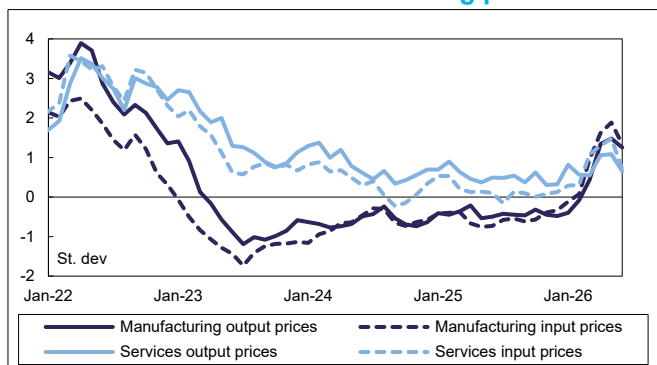
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Selected composite PMIs



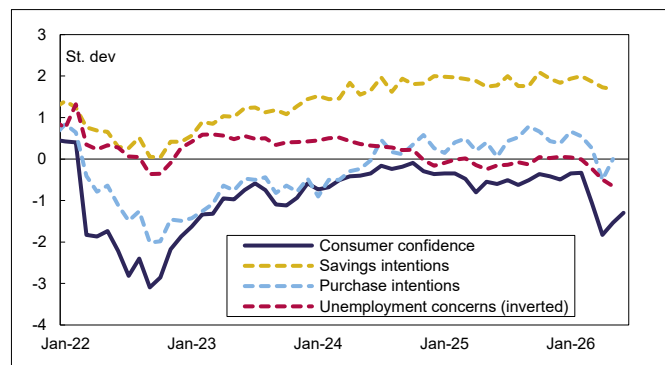
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Services & manufacturing price PMIs



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

Euro area: Consumer confidence indices



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

Support from the manufacturing sector unlikely to be sustained over the coming months

On the other hand, today's survey suggested that manufacturing continued to offer support. The output index (53.6) implied growth for a third consecutive month and by the most since September 2024. As a result, headcount reportedly also grew for a third month in succession, contrasting the persistent cuts across the services sector. But to the extent that production has been boosted recently by frontloading efforts, that performance is unlikely to be sustainable. Indeed, while still rising, new factory orders (51.2) were reportedly the softest for six months in June. And the CBI's equivalent survey was more downcast, with the share of manufacturers reporting underfilled order books at their highest in 5½ years. The CBI's account also contradicts the strength of the PMIs, with almost half of firms reporting output in the three months to June to be down compared with a year earlier. And with just 14% reporting higher output, the net balance was the worst in almost six years. While deescalation in the Middle East provides some clarity and resumption to commercial freight via the Strait of Hormuz marks a positive step, uncertainty is likely to remain a feature over the coming months. And with price pressures enduring and support from manufacturing likely to reverse in due course, growth momentum is likely to remain subdued into Q3.

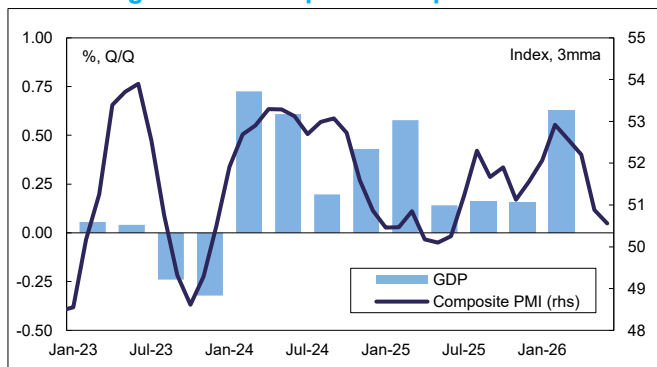
Price indices remain elevated, but receive some relief from decline in oil prices

Since the agreement also precipitated a steep decline in global energy prices, the impact has been most apparent in the price PMIs. Input price pressures are still clearly acute, and particularly so in manufacturing, reflecting not only the direct effects of higher energy prices to this point, but also their indirect effects on other energy-intensive inputs such as chemicals and metals, transport costs and rising AI-related demand. Overall, the composite input price PMI moderated to a three-month low (70.6), which led to a modest softening in selling prices too (60.1). Both of those series still sit more than 1.5 standard deviations above the respective long-run average and will keep the BoE alert to signals elsewhere of potential second-round inflation effects. However, in this regard, today's services survey still suggested that the output price index (59.1) remained well below the peak in 2022 (67.9). And weak underlying demand, we see the initial signs of disinflation as broadly supportive of our call for a prolonged monetary policy pause by the BoE.

Starmer's resignation paves the way for Burnham to appointed as PM by mid-July

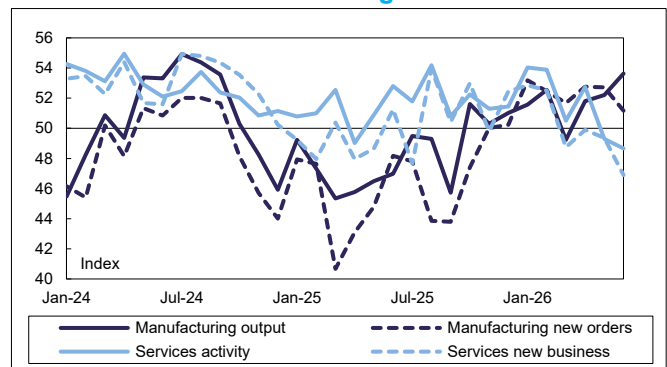
As was [expected](#) following Andy Burnham's decisive victory in the Makerfield by-election, Keir Starmer resigned as Labour leader on Monday. While paving the way for the appointment of a seventh Prime Minister in the past decade, the market reaction was relatively muted. Starmer will remain in post until a successor is chosen by the Labour Party, with nominations opening for one week from 9 July. At present, Burnham is the only MP to state his intention to run. While some Labour MPs are reportedly exploring a potential challenge, key contenders such as former Health Secretary Wes Streeting have already backed Burnham. As such, we see a strong likelihood that he will be appointed unopposed and installed as Prime Minister by

UK: GDP growth & composite output PMI



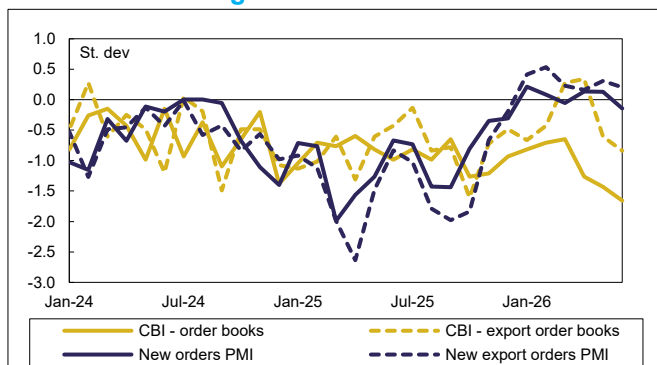
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Services & manufacturing PMIs



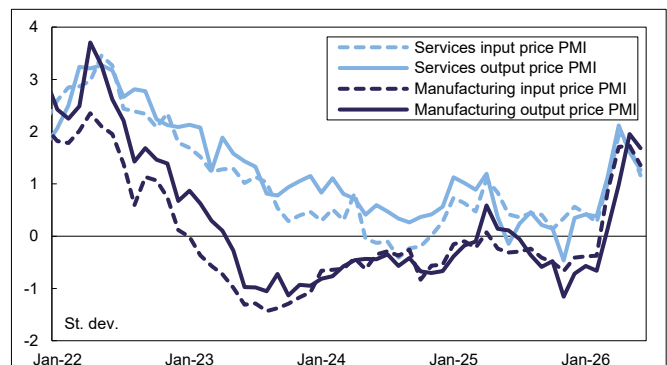
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing PMIs & CBI industrial trends



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

UK: Price PMIs
















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

mid-July. Even if a challenger secures the required 81 nominations from Labour MPs, Burnham remains the clear frontrunner and should be in office by the time parliament reconvenes from summer recess (1 September) and in plenty of time for the Labour Party conference (27-30 September). We expect Burnham's policy agenda to remain broadly aligned with Labour's 2024 manifesto commitments, though his choice of Chancellor could well influence market sentiment. A left-leaning appointment (e.g. Ed Miliband) would likely be received less favourably than a more centrist candidate. That said, Burnham has signalled continuity in the fiscal framework, and recent public finance figures highlight the limited scope to loosen meaningfully fiscal policy. Meanwhile, with the party's polling momentum still subdued, the likelihood of an early general election appears low.


The day ahead in the UK

Following on from her participation in a panel discussion on this evening, external MPC rate setter Dhingra – who typically finds herself on the more dovish side of the MPC's decisions, and was among the majority who voted to maintain Bank Rate at 3.75% last week – is slated to join another discussion on energy shocks at London Climate Action Week. Meanwhile, there are no economic data releases scheduled for the UK, so barring any further political news it should be a relatively quiet day ahead.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
Euro area	 Preliminary services (manufacturing) PMI	Jun	48.9 (51.3)	48.6 (51.6)	47.7 (51.6)	-	
	 Preliminary composite PMI	Jun	49.5	49.2	48.5	-	
	 New car registrations Y/Y%	May	3.3	-	5.3	-	
Germany	 Preliminary services (manufacturing) PMI	Jun	46.8 (50.0)	49.0 (50.2)	48.1 (50.1)	-	
	 Preliminary composite PMI	Jun	48.0	49.7	48.8	-	
France	 Preliminary services (manufacturing) PMI	Jun	47.4 (50.7)	46.0 (50.1)	44.3 (49.7)	-	
	 Preliminary composite PMI	Jun	47.6	46.0	44.9	-	
	 INSEE business (manufacturing) confidence indicator	Jun	94 (100)	95 (102)	94 (102)	93 (-)	
UK	 INSEE production outlook (own-company) indicator	Jun	-15 (2)	-	-17 (4)	-	
	 Preliminary services (manufacturing) PMI	Jun	48.7 (53.1)	50.1 (53.5)	49.3 (53.9)	-	
	 Preliminary composite PMI	Jun	49.4	50.5	49.7	-	
	 CBI industrial trends – total orders (selling prices) net balance %	Jun	-45 (22)	-33 (35)	-41 (38)	-	
Auctions							
Country	Auction						
Germany	 sold €3.807bn of 2.5% 2028 bonds at an average yield of 2.57%						


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	
Euro area	 Preliminary Commission consumer confidence indicator	Jun	-17.7	-18.0	-19.0	-	
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 	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

Auctions and events

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 up to €2.5bn of 2.2% 2028 bonds			
	10.00	Auction: to sell up to €1.75bn of 2.4% 2039 inflation-linked bonds			
UK 	10.00	Auction: to sell up to £4.25bn of 4.125% 2031 bonds			
	16.00	External MPC member Dhingra to speak on panel at London Climate Action Week			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research reports at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.