

Euro wrap-up

Overview

- Bunds followed the global trend higher as the oil price maintained a downwards trend, while the German ifo survey pointed to soft GDP growth in Q2 despite further signs of stabilisation in June.
- Gilts also made gains on a quiet day for UK economic data.
- Thursday will bring June consumer confidence surveys from Germany and France, as well as a UK retail survey.

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Daily bond market movements

| Bond | Yield | Change |
|---------------|-------|--------|
| BKO 2½ 06/28 | 2.532 | -0.042 |
| OBL 2½ 04/31 | 2.597 | -0.050 |
| DBR 2.9 02/36 | 2.858 | -0.059 |
| UKT 4¾ 03/28 | 4.121 | -0.040 |
| UKT 4¾ 03/31 | 4.243 | -0.066 |
| UKT 4¾ 10/35 | 4.673 | -0.080 |

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

Euro area

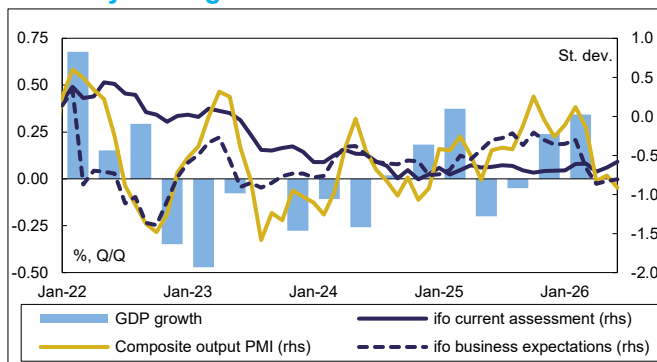
German ifo survey points to weak GDP in Q2 despite further tentative stabilisation in June

Germany's GDP surprised to the upside in Q1, with growth accelerating the most in a year (0.3%Q/Q), supported by expansionary fiscal policies and rebound in both services and goods exports. However, the onset of the war in the Middle East and associated energy shock have weighed on activity. While the recent peace agreement between the US and Iran is a positive development and should ease some cost pressures, the economic backdrop remains fragile. Survey evidence at the end of Q2 has also been mixed, with yesterday's flash PMIs pointing to a further deterioration in June but today's German ifo survey – which boasts a larger and more comprehensive sample than the PMIs – teasing some tentative stabilisation. In particular, the headline business climate index increased for a second successive month, by 0.6pt to 85.6, reflecting improvements in both current conditions and expectations for the coming six months. The current assessment index rose to a near-two-year high (87.0), albeit remaining a touch softer on a quarterly basis. But with expectations still well below pre-Iran war levels, the business climate index in Q2 declined 2.5pts from Q1, reinforcing our view that German GDP growth slowed sharply this quarter. Indeed, while today's release arguably reduces the risk of a significant contraction, we continue to expect no better than stagnation in Q2 – and potentially into Q3 – in line with the Bundesbank's subdued assessment.

Broad and modest improvement across subsectors, but from historically low levels

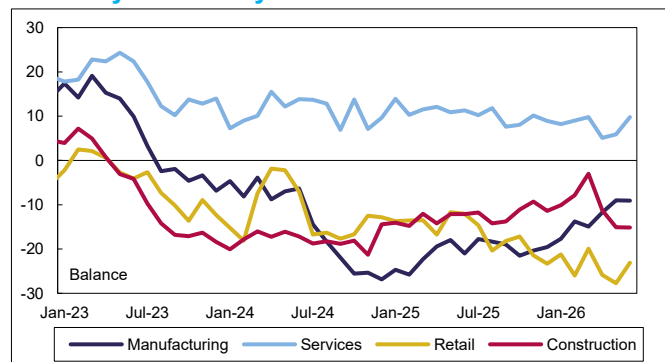
Within the ifo survey detail, manufacturers reported little change in current conditions from May, when they were judged the most favourable in almost two years, likely reflecting ongoing frontloading of production ahead of higher costs and potential supply disruption. Expectations for the next six months also improved from May's 15-month low. But, like the PMIs, firms continued to report declining new orders, pointing to a softer production outlook. In services, the ifo survey conditions improved from the significant energy-related hit to sentiment of logistics firms last month and were judged to be as favourable as in the six months preceding the outbreak of war. But despite an improvement in consumer confidence, firms overall remain sceptical of the outlook, with challenges in the tourism subsector particularly acute. And despite a recovery this month, retailer sentiment was still weak by historical standards. Meanwhile, although construction firms became slightly less pessimistic about the outlook, they continue to report weak order books, with higher material costs and elevated interest rates weighing on demand. Indeed, prices of petroleum-based bitumen, used in road construction and for sealing roofs, buildings, and foundations are up by more than 55% since the start of the year.

Germany: GDP growth & business sentiment



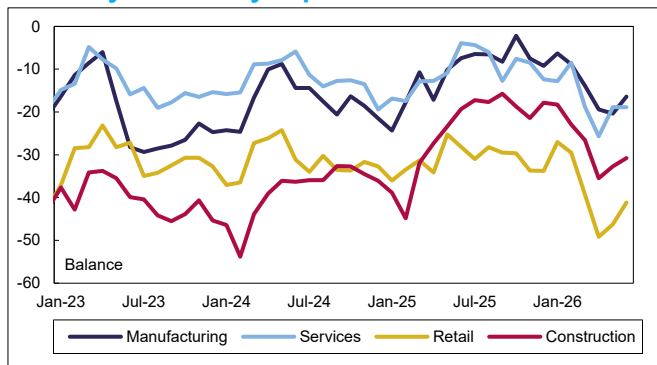
Source: S&P Global, ifo, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo survey current assessment indices



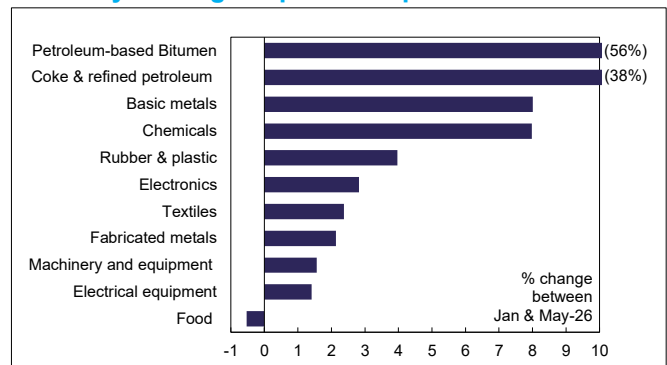
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo survey expectations indices*



*Coming six months.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Change in producer prices since Jan-26



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

A German and French consumer confidence survey will provide the highlight of the euro area dataflow on Thursday. Both seem likely to emulate the further modest improvement reported by the [Commission's](#) flash euro area indicator, which signalled a second consecutive monthly uptick in June (up 1.3pts to -17.7) but remained comfortably below levels before the energy shock. Progress should be most in evident households' financial and economic expectations following the peace agreement in the Middle East, although major purchase intentions are likely to remain subdued. Producer price data from Spain will continue to stress the effects of higher energy costs. [Like Germany](#), however, we expect pressures to be still concentrated in the earlier stages of the production chain.




The day ahead in the UK

Provided that political news stays off the docket, it should be another relatively quiet day ahead for UK economic news. The CBI's distributive trades survey will provide an early insight into conditions in the retail sector this month. Consumer surveys suggest that higher inflation and uncertainty continue to depress spending intentions, but the hotter weather, easing tensions in the Middle East, as well as potential for a World Cup boost implies that the risks to sales at certain retailers are skewed to the upside.






European calendar

Today's results

Economic data

| Country | Release | Period | Actual | Market consensus/ <i>Daiwa forecast</i> | Previous | Revised |
|---------|---|--------|--------------------|--|-------------|---------|
| Germany |  ifo current assessment (expectations) indicator | Jun | 87.0 (84.1) | 86.3 (84.8) | 86.1 (83.8) | -(83.9) |
| |  ifo business climate indicator | Jun | 85.6 | 85.5 | 84.9 | 85.0 |
| France |  Retail sales Y/Y% | May | -0.3 | - | 0.3 | 0.2 |






Auctions

| Country | Auction |
|---------|---|
| Germany |  sold €886mn of 4% 2037 bonds at an average yield of 2.96% |
| |  sold €896mn of 3.4% 2047 bonds at an average yield of 3.38% |
| Italy |  sold €2.5bn of 2.2% 2028 bonds at an average yield of 2.74% |
| |  sold €1.75bn of 2.4% 2039 inflation-linked bonds at an average yield of 2.03% |
| UK |  sold £4.25bn of 4.125% 2031 bonds at an average yield of 4.284% |



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 | GfK consumer confidence indicator | Jul | -28.0 | -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 |

Auctions and events

| | | |
|-----------|---|--|
| 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 |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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