

Euro wrap-up

Overview

- Bunds made modest further gains while an ECB consumer survey suggested that near-term inflation expectations had moderated but medium-term forecasts remained elevated.
- Gilts made modest losses on a quiet day for UK economic news.
- The coming week will bring flash estimates of euro area inflation for June, BoE surveys of business expectations and credit conditions, and the ECB central bank forum in Sintra.

Emily Nicol
+44 20 7597 8331

Edward Maling
+44 20 7597 8030

Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.508	-0.014
OBL 2½ 04/31	2.582	-0.012
DBR 2.9 02/36	2.850	-0.005
UKT 4¾ 03/28	4.122	+0.012
UKT 4¾ 03/31	4.276	+0.027
UKT 4¾ 10/35	4.733	+0.035

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

Source: Bloomberg

Euro area

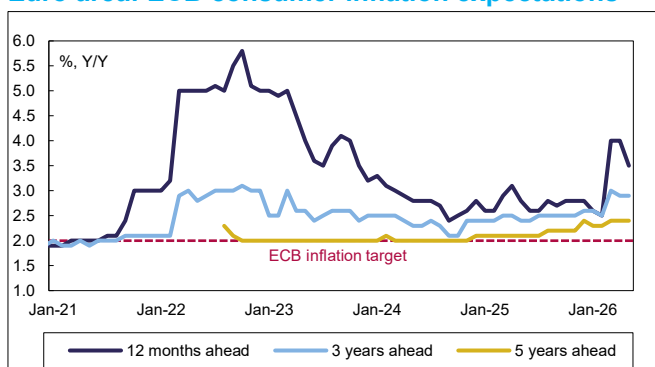
Near-term consumer inflation expectations fall, but medium-term forecasts still elevated

ECB policymakers are likely to retain a cautious near-term economic outlook, highlighting that, despite the peace agreement in the Middle East, conditions remain fragile. Certainly, the full impact of the war on medium-term inflation remains highly uncertain, hinging on the scale and persistence of the energy price shock – driven by infrastructure damage and shipping disruptions – as well as the extent indirect and second-round effects. Recent developments in wholesale energy markets point to headline inflation undershooting the [ECB's June baseline projection](#) over the near term. However, policymakers will remain alert to the risk of above-target inflation becoming entrenched. The findings of the ECB's own Consumer Expectations Survey (CES) are unlikely to have changed these views. Admittedly, even before the memorandum of understanding between the US and Iran, the CES measure of median year-ahead inflation expectations fell more than expected in May, by 0.5ppt to 3.5%Y/Y. But this remained a full percentage point above the pre-war level in February. Today's survey also showed that the median expectation for three years ahead – the measure that arguably matters most for policy-setting – merely moved sideways in May at 2.9%Y/Y, still close to its 2022 highs. And while the mean fell slightly, at 5.0%Y/Y it illustrates a rightward skew in the distribution since the outbreak of war. Moreover, the median expectation for five years ahead held steady at the series high, almost ½ppt above the ECB's 2% target. Overall, while the case for more aggressive tightening has weakened, we continue to expect that a majority of policymakers will favour a further rate increase to ensure inflation returns to target on a sustained basis.

Italian business and consumer surveys point to weaker GDP growth in Q2

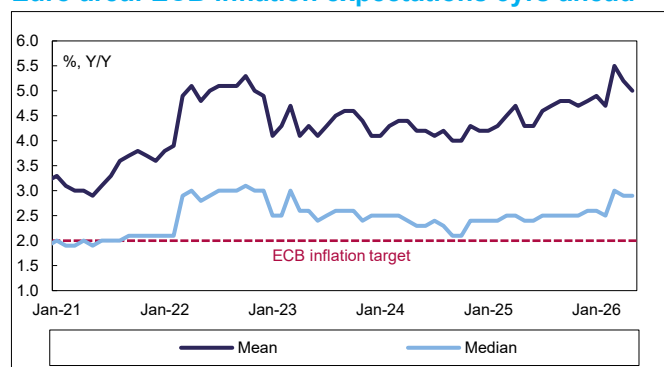
Like the equivalent national surveys in Germany and France, today's Istat indices pointed towards a stabilisation in Italian business sentiment as cost pressures began to subside. In particular, the headline business confidence index rose 1pt to 95.2, fully reversing the decline last month which had marked an eight-month low, albeit leaving the quarterly index some 2.5pts below its Q1 level. Improving sentiment was observed across each of the key subsectors. In manufacturing, confidence rose for the first month in three, by ½ppt to 88.4. Despite signs of shrinking factory order books, the recent decline in manufacturers stocks of finished goods – for which the balance was at its lowest in four-years – lent some support to output expectations over the coming three months. Firmer demand expectations and input price relief also gave support to firms in the construction and services sectors too, albeit the improvement in the latter was a fairly minimal and left the index still more than 5pts below the Q1 average. Meanwhile, retail sector sentiment rose sharply (4.2pt) to a six-month high (105.5). But recently firm activity was tempered by still-subdued expectations about future demand. Indeed, bucking the trend in the wider euro area, Italian consumers were supposedly more downbeat in June than they had been in May. And while they have been considerably more optimistic than their peers since the 2022 energy shock, the drop in Q2 a sizable

Euro area: ECB consumer inflation expectations



Source: ECB CES, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: ECB inflation expectations 3yrs ahead



Source: ECB CES, Macrobond and Daiwa Capital Markets Europe Ltd.

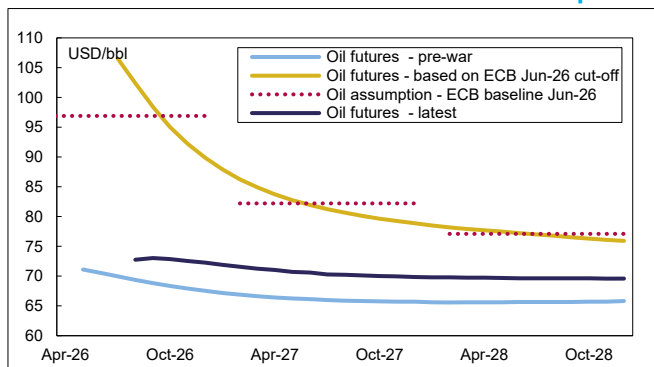
2½pts from the average in Q1 suggests much weaker consumer spending this quarter. So, having surprised to the upside in Q1, expanding 0.3%Q/Q with support from the Winter Olympic Games, GDP growth looks set to slow markedly in Q2.

The week ahead in the euro area

In terms of the coming week's dataflow, June's flash euro area inflation release on Wednesday will be the most noteworthy release. In May, headline inflation edged up to a 13-month high of 3.2%Y/Y. And contrasting the fuel-led increases in the prior two months, that rise was suggestive of some spillovers from the oil shock, with pressures clearest in transport and package holiday services, albeit perhaps exaggerated by seasonal distortions. Since then, however, the upside risks to inflation have softened. Oil fell below \$72/bbl in the past week, a post-shock low and down more than 20% from the end of May. While that decline will take some time to feed through fully to the pumps – not least given fading fiscal support in member states – petrol and diesel prices have already eased about 7½% over the past four weeks, pointing towards some immediate relief on inflation. Overall, we expect the euro area headline HICP rate to ease back to 3%Y/Y in June, reversing its prior rise. Core inflation, meanwhile, should be little changed, perhaps just rounding down to 2.5%Y/Y, as the indirect effects of the energy shock on services and other goods remains relatively contained at this stage. Releases from the largest member states – Germany, France, Italy (Tuesday) and Spain (Monday) – will provide some forewarning on those points.

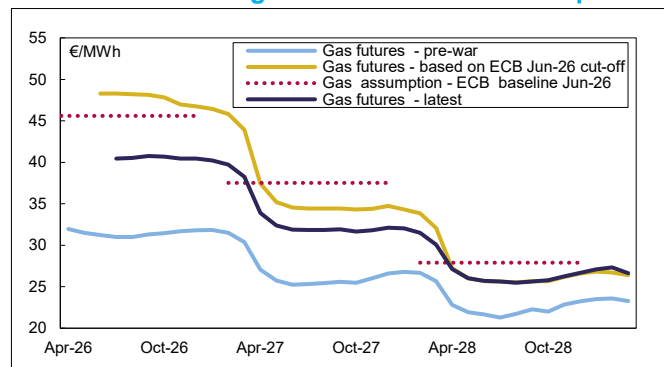
Despite the improving outlook and lack of entrenched inflationary pressures, policymakers will be reluctant to let their guard down just yet. Indeed, influential ECB Executive Board member Schnabel asserted in the past week that “more hiking” by the ECB was still necessary to counter the risks of potential second-round effects. And we expect similar commentary in the first half of the week as policymakers converge on Sintra for the ECB's annual forum). In terms of the coming week's remaining data, policymakers will surely cite the historically-low unemployment rate (Thursday) as a potential source of such pressures, with continued jobs growth in Spain suggesting resilience in Southern Europe. But labour market data from Germany (Tuesday) should reaffirm that jobs growth in the core member states remains subdued, which alongside the weak hiring outlook flagged by the flash PMIs will help to contain wage pressures. The PMIs also flagged further tentative signs of [stabilising activity](#) this month as cost pressures became less acute. Given most responses in the flash release were submitted prior to the US-Iran memorandum, the indices could be revised higher upon their final releases (Wednesday and Friday). The more comprehensive Commission ESIs (Monday) will provide a further update on activity and price expectations. We expect they will convey a similar message to the PMIs, of stabilizing conditions in June but also confirming a marked loss of growth momentum in Q2. Evidence of such a slowdown might be apparent in the sporadic activity data due in the week ahead, including the May figures for euro area bank lending (Monday) and retail sales data from the member states. Surveys suggest that French and Spanish IP (Friday) might have continued to benefit from frontloaded demand, however.

Euro area: Brent crude futures & ECB assumption



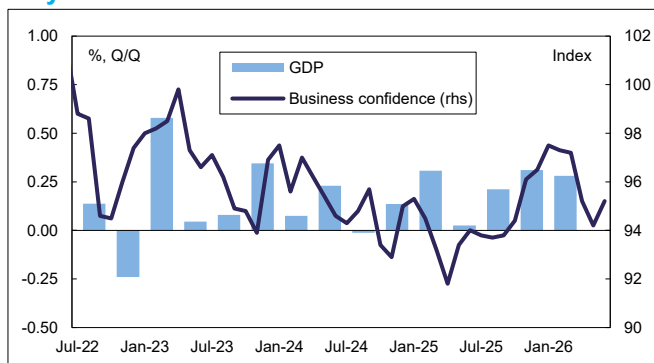
Source: ECB, Bloomberg and Daiwa Capital Markets Europe Ltd.

Euro area: Natural gas futures & ECB assumption



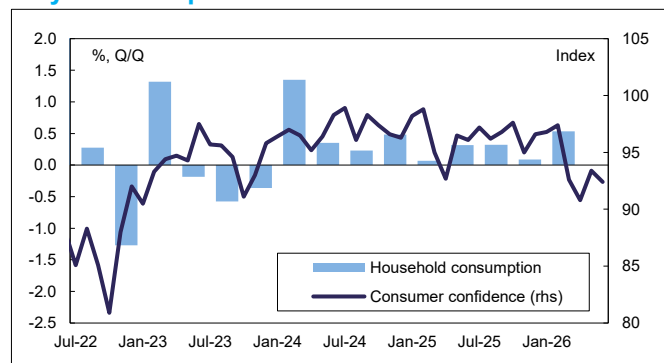
Source: ECB, Bloomberg and Daiwa Capital Markets Europe Ltd.

Italy: GDP & business confidence



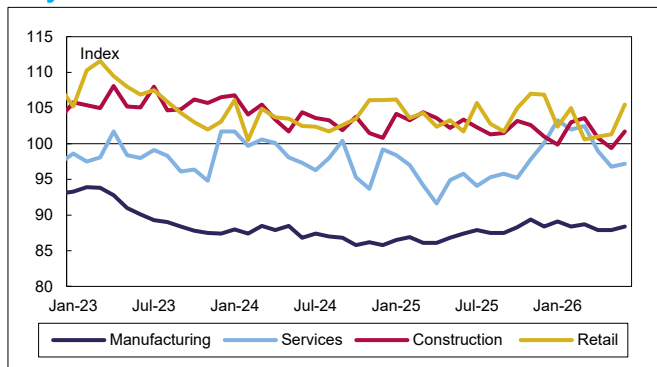
Source: Istat, Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: Consumption & consumer confidence



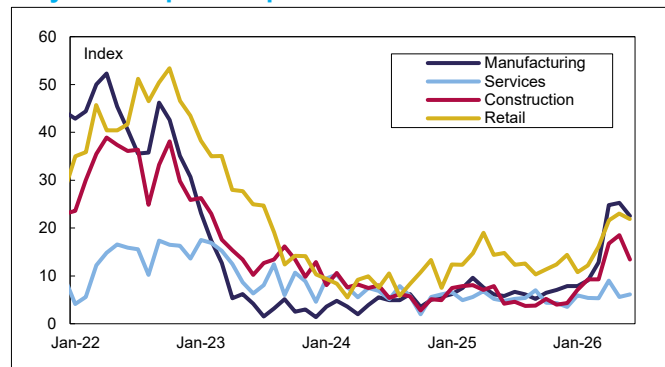
Source: Istat, Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: ISTAT business confidence indices



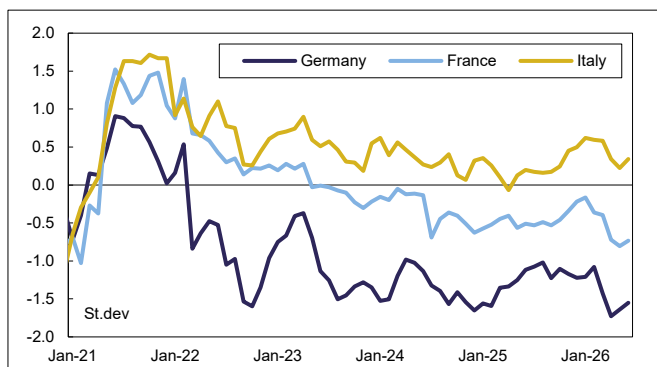
Source: Istat, Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: ISTAT price expectations indices



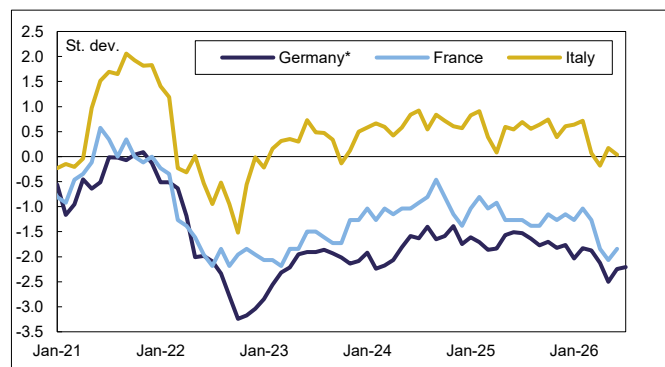
Source: Istat, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Business confidence



Source: ifo, INSEE, Istat and Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Consumer confidence



*Presented as a forecast for one-month ahead. Source: GfK, INSEE, Istat and Macrobond and Daiwa Capital Markets Europe Ltd.










UK

The week ahead in the UK

There is still the best part of two weeks until the ballot for Labour Party leadership candidates finally opens on 9 July, but political noise will likely continue to dominate the news flow in the coming week, with a reported speech by Andy Burnham – the only candidate to state his intention to run – to be scrutinized for insights into his plans to support economic growth plans, potential structural reforms within government and the BoE's mandate. In terms of near-term monetary policy, some BoE policymakers will be in action at the ECB's annual conference in Sintra, including participation from Governor Bailey in the flagship policy panel alongside ECB President Lagarde, new-Fed Chair Warsh, and BoC Governor Macklem (Wednesday). But we expect Bailey to broadly maintain the narrative from last week's MPC meeting, that upside risks to energy prices had diminished and so he was content with the current policy stance for now.




The incoming data should also be broadly supportive of the BoE's cautious wait-and-see stance. June's DMP survey (Friday) – perhaps the most consequential data for policy in the coming week – is unlikely to grant much relief to firms' elevated inflation expectations, given that the survey will have been conducted predominantly before the most recent step down in oil prices. But subdued demand and slack in the labour market should continue to contain their price- and wage-setting expectations, suggesting that broader inflation risks remain relatively nascent. The shop price survey from the BRC (Tuesday) will also provide an indication as to whether higher costs of energy and other inputs were being passed through to selling prices of food and other goods on the high street this month too. Meanwhile, the BoE's quarterly credit conditions survey (Thursday) will highlight the meaningful tightening in financial conditions since the war which has helped to facilitate the BoE's 'active hold'. Given that defacto tightening, as well as high political and economic uncertainty, the survey may also suggest that banks are more downbeat about the prospects for lending in Q3. So far, monthly bank lending data have been surprisingly resilient to higher borrowing rates. But May data (due Monday) might report first signs of slowing mortgage demand as house prices have fallen in the face of heightened uncertainty. Nationwide's house price indicator fell sharply in May and a further decline in June is also expected (Wednesday). Meanwhile, updated national accounts figures for Q1 (Tuesday) should confirm that GDP growth accelerated at the start of the year to a four-quarter high (0.6%Q/Q), while the final June PMIs – manufacturing on Wednesday and services on Friday – will likely point to a marked deceleration in growth momentum this quarter.

Daiwa economic forecast

	2025		2026			2027	2026	2027	2028
	Q4	Q1	Q2	Q3	Q4	Q1			
GDP	%, Q/Q						%, Y/Y		
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
Inflation, %, Y/Y									
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
Monetary policy, %									
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.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Euro area 	ECB consumer expectations survey – 1Y- (3Y-) ahead CPI Y/Y%	May	3.5 (2.9)	3.9 (2.8)	4.0 (2.9)	-	
Italy 	Istat economic (manufacturing) sentiment indicator	Jun	95.2 (88.4)	-	94.1 (87.9)	94.2 (-)	
	Istat consumer confidence indicator	Jun	92.4	94.4	93.4	-	
Auctions							
Country	Auction						
Italy 	sold €3bn of 3.15% 2031 bonds at an average yield of 3.03%						
	sold €1.5bn of 3.45% 2036 bonds at an average yield of 3.58%						
	sold €2.5bn of 3.8% 2036 bonds at an average yield of 3.63%						
	sold €2bn of floating-rate 2036 bonds at an average yield of 3.25%						

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 29 June 2026					
Euro area	09.00	M3 money supply Y/Y%	May	2.7	2.7
	10.00	Commission economic sentiment indicator	Jun	94.2	93.5
	10.00	Commission services (industrial) confidence indicator	Jun	2.8 (-7.0)	2.2 (-8.0)
	10.00	Final Commission consumer confidence indicator	Jun	<u>-17.7</u>	-19.0
Spain	08.00	Preliminary HICP (CPI) Y/Y%	Jun	3.4 (3.1)	3.6 (3.2)
	08.00	Retail sales Y/Y%	May	-	0.8
UK	09.30	Net consumer credit £bn (Y/Y%)	May	-	1.9 (8.8)
	09.30	Net mortgage lending £bn (mortgage approvals 000s)	May	4.9 (63.0)	4.4 (65.9)
Tuesday 30 June 2026					
Germany	07.00	Retail sales M/M% (Y/Y%)	May	-0.2 (-2.5)	0.0 (-2.3)
	07.00	Import prices M/M% (Y/Y%)	May	0.4 (6.5)	1.2 (5.3)
	08.55	Unemployment claims rate % (change 000s)	Jun	6.3 (10)	6.3 (-12)
	13.00	Preliminary HICP (CPI) Y/Y%	Jun	2.5 (2.6)	2.7 (2.6)
France	07.45	Preliminary HICP (CPI) Y/Y%	Jun	2.3 (2.0)	2.8 (2.4)
	07.45	PPI Y/Y%	May	-	2.1
	07.45	Consumer spending M/M% (Y/Y%)	May	0.3 (0.1)	-0.5 (-0.4)
Italy	09.00	PPI Y/Y%	May	-	8.8
	10.00	Preliminary HICP (CPI) Y/Y%	Jun	3.2 (3.1)	3.2 (3.2)
UK	00.01	BRC shop price index Y/Y%	Jun	-	1.2
	07.00	GDP – final estimate Q/Q% (Y/Y%)	Q1	<u>0.6 (1.1)</u>	0.2 (1.0)
	07.00	GDP – private consumption Q/Q%	Q1	<u>0.6</u>	0.1
	07.00	GDP – government spending Q/Q%	Q1	<u>0.4</u>	0.1
	07.00	GDP – gross fixed capital formation Q/Q%	Q1	<u>-0.6</u>	-0.1
	07.00	GDP – exports (imports) Q/Q%	Q1	<u>0.1 (0.6)</u>	-0.3 (0.6)
	07.00	Current account balance £bn	Q1	-21.3	-18.4
Wednesday 1 July 2026					
Euro area	09.00	Final manufacturing PMI	Jun	<u>51.3</u>	51.6
	10.00	Preliminary headline (core) HICP Y/Y%	Jun	<u>3.0 (2.5)</u>	3.2 (2.6)
Germany	08.55	Final manufacturing PMI	Jun	<u>50.0</u>	50.1
France	08.50	Final manufacturing PMI	Jun	<u>50.7</u>	49.7
Italy	08.45	Manufacturing PMI	Jun	52.5	52.9
Spain	08.15	Manufacturing PMI	Jun	51.3	51.2
UK	07.00	Nationwide house prices M/M% (Y/Y%)	Jun	-0.1 (2.4)	-0.6 (1.7)
	09.30	Final manufacturing PMI	Jun	<u>53.1</u>	53.9
Thursday 2 July 2026					
Euro area	10.00	Unemployment rate %	May	6.3	6.3
Spain	08.00	Unemployment (net employment) change 000s	Jun	-	-36.3 (63.7)
Friday 3 July 2026					
Euro area	09.00	Final composite (services) PMI	Jun	<u>49.5 (48.9)</u>	48.5 (47.7)
Germany	08.55	Final composite (services) PMI	Jun	<u>48.0 (56.8)</u>	48.8 (48.1)
France	07.45	Industrial production M/M% (Y/Y%)	May	-0.4 (2.8)	0.1 (2.8)
	08.50	Final composite (services) PMI	Jun	<u>47.6 (47.4)</u>	44.9 (44.3)
Italy	08.45	Composite (services) PMI	Jun	50.9 (50.2)	50.4 (49.4)
	09.00	Retail sales M/M% (Y/Y%)	May	-	0.0 (1.6)
Spain	08.00	Industrial production M/M% (Y/Y%)	May	0.4 (1.6)	-0.4 (2.0)
	08.15	Composite (services) PMI	Jun	50.9 (50.8)	50.2 (50.1)
UK	09.30	DMP – 3M output price (1Y CPI) expectations Y/Y%	Jun	-	4.0 (3.7)
	09.30	Final composite (services) PMI	Jun	<u>49.5 (48.9)</u>	49.7 (49.3)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 29 June 2026		
Euro area	 20.00	ECB President Lagarde gives keynote introductory speech to the ECB's Forum on Central Banking in Sintra
UK	 06.00	BoE Chief Economist Pill scheduled to speak on a panel at Central Bank of Uzbekistan
Tuesday 30 June 2026		
Euro area	 11.40	ECB's Schnabel chairs panel featuring BoE Deputy Governor Breeden on 'AI and financial stability' in Sintra
Wednesday 1 July 2026		
Euro area	 11.30	ECB Chief Economist Lane chairs panel on 'Europe's role in the new global trade landscape' in Sintra
Euro area/UK	 14.30	ECB President Lagarde, BoE Governor Bailey, Fed Chair Warsh & BoC Governor Macklem participate in policy panel in Sintra
Germany	 10.30	Auction: to sell up to €3.5bn of 2.5% 2032 bonds
UK	 10.00	Auction: to sell £1.25bn of 0.125% 2031 inflation-linked bonds
Thursday 2 July 2026		
France	 09.50	Auction: to sell 3.7% 2036, 1.25% 2036, 4.5% 2041 & 4.1% 2046 bonds
Spain	 09.30	Auction: to sell 2.6% 2031, 3.25% 2034 & 3.4% 2036 bonds & 1.15% index-linked 2036 bonds
UK	 09.30	BoE to publish quarterly Bank Liabilities and Credit Conditions surveys for Q226
	 10.00	Auction: to sell £3.25bn of 4.625% 2037 green bonds
	 16.45	BoE external MPC member Mann to participate in fireside chat in London
Friday 3 July 2026		
Germany/UK	 16.00	BoE's Bailey and Bundesbank's Nagel participate in policy panel at Les Recontres Economiques in Aix-en-Provence

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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