

Euro wrap-up

Overview

- Bunds had a mixed performance, while euro area unemployment data pointed to ongoing resilience in the labour market in the middle of Q2.
- Shorter-dated gilts also made modest gains, even as MPC member Catherine Mann reiterated that an 'activist move' could bring inflation and expectations back to target.
- Friday will bring French and Spanish industrial production data for May, the BoE's latest DMP survey results and final June services PMIs.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.496	-0.009
OBL 2½ 04/31	2.613	+0.014
DBR 2.9 02/36	2.902	+0.025
UKT 4¾ 03/28	4.113	-0.010
UKT 4¾ 03/31	4.295	+0.006
UKT 4¾ 10/35	4.776	+0.020

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

Source: Bloomberg

Euro area

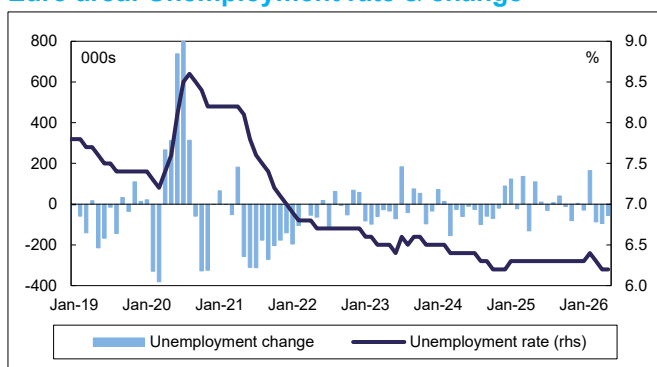
Euro area unemployment rate points to ongoing resilience (for now)

While the energy price shock sharply increased business costs, various indicators suggest that pressures are now easing. Surveys imply that firms' pricing power will remain constrained by subdued demand, while yesterday's flash [consumer price inflation](#) estimate for June was softer than the ECB had expected and showed little evidence of indirect price pressures. Moreover, surveys suggest that firms have scaled back their recruitment plans to the lowest in five years, with fewer willing to hoard labour in the near term too. So, the risk that stronger wage demands might cause greater services inflation persistence appears to have diminished, reinforcing our view that the ECB is unlikely to rush into another rate hike this month. This notwithstanding, some of the more hawkish policymakers might continue to cite ongoing resilience in the labour market. Today's euro area unemployment numbers showed the number of people out of work fell for a third successive month in May, by 55k to 10.99mn, a 12-month low. This left the jobless rate unchanged at 6.2% (downwardly revised from an initial 6.3% in April), matching the record low for the series. The improvement was again concentrated in Southern Europe. Italy's unemployment rate (5.0%) fell to a series low, while the Portuguese rate (5.5%) declined to a 25-year low. Greece saw the largest improvement, down 1ppt to a 17½-year low (8.1%). Meanwhile, labour market conditions continued to stabilise in Germany (3.8%). However, negotiated wage data showed little sign of mounting wage pressures at the end of last quarter. Indeed, total pay growth eased slightly in Q2 to 2.3%Y/Y, the softest in five quarters. When excluding one-off payments, underlying negotiated pay growth slowed sharply from 3.5%Y/Y to 1.8%Y/Y in Q2. In France, the unemployment rate was also unchanged (8.1%). However, the number of those unemployed rose for an 11th out of the past 13 months, highlighting a still-weak bargaining position for workers.

The day ahead in the euro area

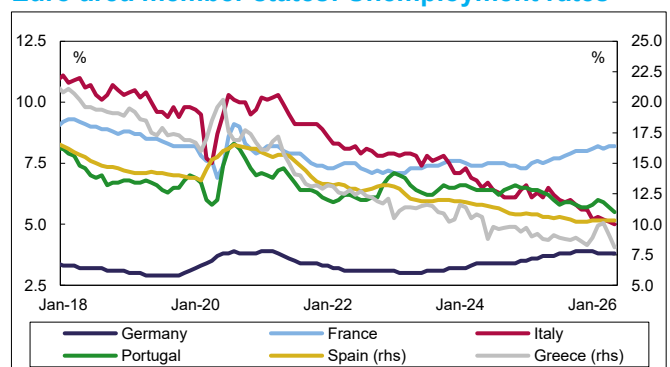
The end of the week will bring a handful of noteworthy activity releases from the member states. Italian retail sales data will further refine expectations ahead of next Monday's euro area release, while industrial production releases from France and Spain will provide an update midway through Q2. In France, despite only modest growth in IP in April, output was still some 0.8% above the Q1 average. But survey signals for May have been mixed. INSEE's national business surveys reported the firmest production balance in nearly four years, highlighting the potential for a boost to IP from transport and ICT equipment. But having flagged a similar rise in the month prior, the PMIs suggest that manufacturing output fell sharply in May, and at the sharpest rate for six months. Meanwhile, Friday will also bring the final services PMIs for June. Having seen a modest upwards revision the final euro area manufacturing output PMI, we might expect the final services PMIs to also benefit from survey responses submitted after the US-Iran peace agreement, reinforcing the view that business activity was starting to stabilise at the end of Q2 despite a further loss of momentum implied in the Germany services PMI.

Euro area: Unemployment rate & change



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Unemployment rates



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK

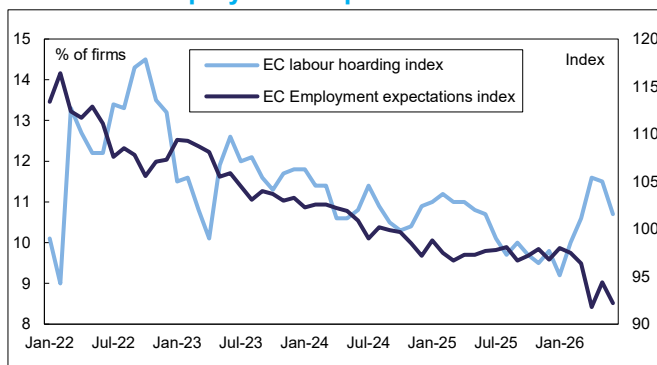
Demand for mortgage and corporate borrowing expected to remain subdued over the summer

The BoE's quarterly Credit Conditions Survey painted a mixed picture of borrowing conditions in the three months to end-May. Broadly consistent with recent bank lending data, lenders reported stronger demand for mortgage loans, with the net balance rising to +14.9%, its highest in four quarters, as borrowers sought to lock in rates ahead of anticipated further increases. However, against the backdrop of a weaker economic outlook, softer house price expectations and tighter wholesale funding conditions, lenders reported the sharpest decline in mortgage availability in two years. Indeed, the survey's net balance for approved applications fell for just the third quarter since the start of 2023. While lenders expected mortgage availability to improve in the three months to end-August, demand was projected to fall the most in three years, consistent with the sharp drop in new mortgage approvals in May. Of course, the survey was conducted before the tentative peace deal in the Middle East and modest easing in interest rate expectations, which might provide support to housing demand. By contrast, the availability of unsecured credit improved markedly, posting the strongest increase in more than four years. However, demand for consumer credit was broadly unchanged and expected to remain subdued despite ongoing pressures on household finances, reinforcing our expectation that household consumption softened in Q2 and is likely to remain sluggish over the summer. Elsewhere, corporate borrowing demand remained weak, stagnating among large businesses and falling sharply among SMEs. Perhaps inevitably, a decline in demand for investment-related borrowing points to subdued business capex and a lack of momentum in broader economic activity.

The day ahead in the UK

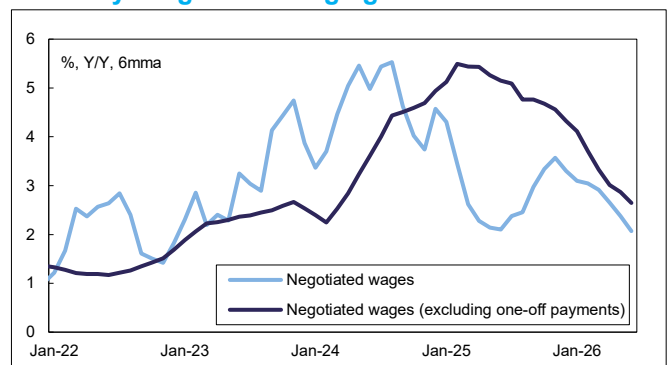
The BoE's monthly DMP survey will provide the highlight of the UK data on Friday, providing an update on businesses' expectations for inflation, own selling prices and wages setting over the coming months and years. Ordinarily, we would expect the recent softening of global energy prices to have had a depressing effect on the former. But given that much of the sampling is likely to have been conducted predominantly prior the US-Iran memorandum of understanding was signed, and so before the meaningful easing in prices, it would not be surprising if inflation expectations received little relief at all. Nonetheless, subdued demand should limit firms' intentions to pass along higher costs to selling prices, while labour market slack should help to contain wage pressures and thus concerns of potential second-round effects. Indeed, June's final services PMIs should confirm price pressures moderated last month, albeit remaining elevated, against a backdrop of weakening activity shown by the [flash release](#). Against this backdrop, we expect BoE Governor Bailey to reiterate that the real economy is soft in his panel appearance alongside Bundesbank President Nagel.

Euro area: Employment expectations indices



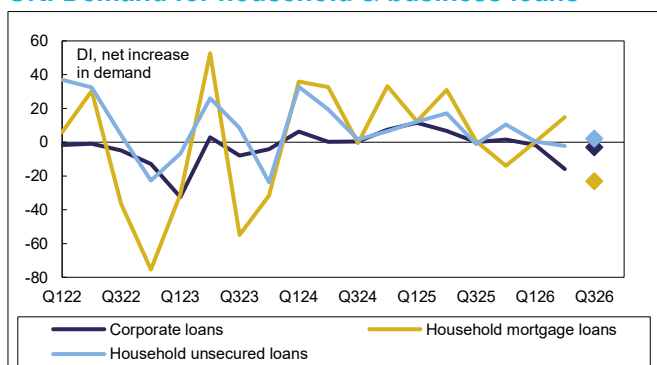
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Negotiated wage growth



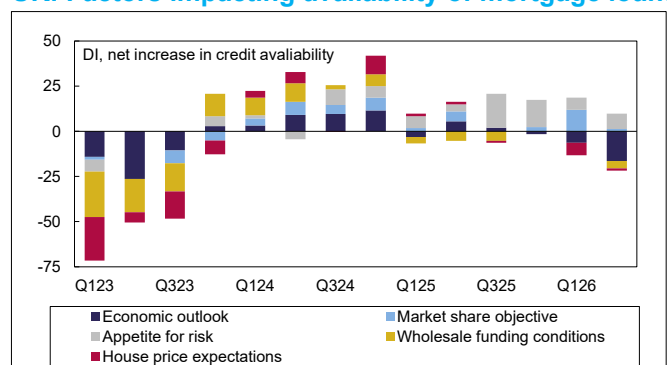
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Demand for household & business loans*



*Diamonds represent forecast for Q326. Source: BoE Credit Conditions Survey, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Factors impacting availability of mortgage loans





Source: BoE Credit Conditions Survey, Macrobond 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	 Unemployment rate %	May	6.2	6.3	6.3	6.2
Spain	 Unemployment (net employment) change 000s	Jun	-28.7 (92.5)	-	-36.3 (63.7)	-

Auctions

Country	Auction
France	 sold €2.7bn of 1.25% 2036 bonds at an average yield of 3.68%
	 sold €7.03bn of 3.7% 2036 bonds at an average yield of 3.73%
	 sold €2.1bn of 4.5% 2041 bonds at an average yield of 4.03%
	 sold €2.18bn of 4.1% 2046 bonds at an average yield of 4.27%
Spain	 sold €1.99bn of 2.6% 2031 bonds at an average yield of 2.835%
	 sold €1.76bn of 3.25% 2034 bonds at an average yield of 3.157%
	 sold €2.21bn of 3.4% 2036 bonds at an average yield of 3.395%
	 sold €695mn of 1.15% 2036 inflation-linked bonds at an average yield of 1.425%
UK	 sold £3.25bn of 4.625% 2037 green bonds at an average yield of 4.934%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	09.00	Final composite (services) PMI	Jun	49.5 (48.9)	48.5 (47.7)
Germany	08.55	Final composite (services) PMI	Jun	48.0 (46.8)	48.8 (48.1)
France	07.45	Industrial production M/M% (Y/Y%)	May	-0.4 (2.9)	0.1 (2.8)
	08.50	Final composite (services) PMI	Jun	47.6 (47.4)	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	0.2 (1.7)	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 (50.9)	50.2 (50.1)
UK	09.30	DMP – 3M output price (1Y CPI) expectations Y/Y%	Jun	4.1 (3.6)	4.0 (3.7)
	09.30	Final composite (services) PMI	Jun	49.5 (48.9)	49.7 (49.3)

Auctions and events

Germany/UK	16.00	BoE's Bailey and Bundesbank's Nagel participate in policy panel at Les Recontres Economiques in Aix-en-Provence
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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