

# Euro wrap-up

## Overview

- Despite a softening in French industrial production in May, Bunds posted modest losses as the final euro area services activity PMI was revised higher.
- While the BoE's DMP survey pointed to a further easing in firms' near-term inflation expectations and the final UK composite PMI was revised lower, Gilts ended the day little changed.
- The coming week will bring May data for euro area retail sales and German industrial production, orders and trade, alongside the ECB's account of its June meeting and the start of the Labour Party leadership election.

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### Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.529	+0.038
OBL 2½ 04/31	2.645	+0.036
DBR 2.9 02/36	2.931	+0.029
UKT 4¾ 03/28	4.118	+0.003
UKT 4¾ 03/31	4.302	+0.005
UKT 4¾ 10/35	4.781	+0.008

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

## Euro area

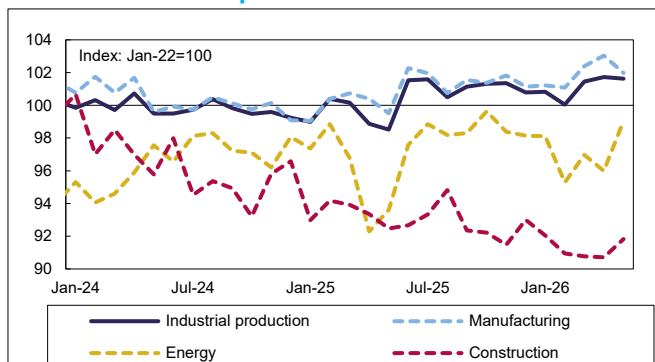
### French IP loses momentum in May, but on track to provide a welcome boost to GDP in Q2

While the French economy contracted slightly in Q1 as heightened uncertainty weighed on services and construction activity, manufacturing output expanded for a fourth quarter in five as firms sought to get ahead of rising costs and supply chain disruptions. At first glance, however, today's industrial production figures suggest that momentum softened in the middle of Q2. In particular, manufacturing output fell by the most in nine months in May (-1.0%/M/M), with weakness widespread across subsectors. Most notably, motor vehicle production dropped a further 4.7%/M/M, extending the recent downtrend and taking output to its lowest level since end-2024. Production of coke and petroleum products also declined sharply (-9.0%/M/M). But this partly reflected scheduled maintenance shutdowns. Elsewhere, falls in electrical and general machinery and non-auto transport equipment likely reflected payback for strong gains in previous months. Meanwhile, the decline in total industrial production was more modest in May (-0.1%/M/M), cushioned by strong growth in energy output (3.2%/M/M), as unusually cold weather early in the month and the late-May heatwave boosted demand. Construction activity also rose for the first time in five months (1.2%/M/M). And overall, looking through monthly volatility, industrial output in April and May was running almost 1% above the Q1 average, suggesting that the sector is still on course to make a meaningful positive contribution to French GDP growth in Q2.

### Final services PMIs point to Spanish outperformance & broader euro area stabilisation

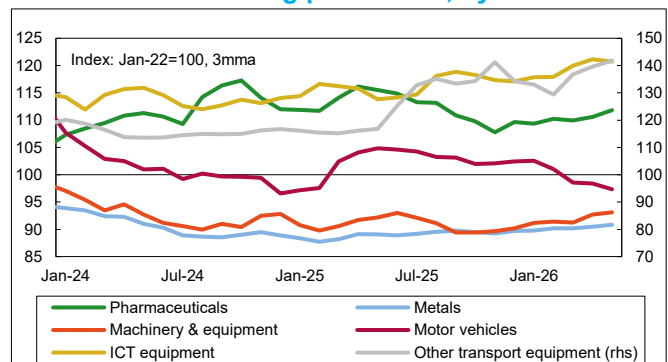
In contrast to France, today's Spanish industrial sector showed renewed strength in May, with output rising 1.2%/M/M on the back of a solid rebound in energy-intensive intermediate goods production, particularly chemicals and metals. This left industrial output so far in Q2 tracking some 2.0% above the Q1 average, which, if maintained into June would represent the strongest quarterly expansion in four years. Meanwhile, the final June PMIs pointed to a marked improvement in Spain's service-sector activity at the end of Q2 too. The respective activity PMI rose by more than 4pts to a six-month high of 54.2, signalling robust expansion. While this still implied a loss of momentum over the quarter as a whole, it was nevertheless consistent with Spain continuing to outperform its major euro area peers. Indeed, according to today's PMIs, the Italian services index was merely consistent with stagnation in June (50.2). Despite a marked upwards revision from the flash to a three-month high, the German services index (48.6) implied ongoing contraction. And while notoriously volatile, the downwards revision in the French PMI (46.8) highlights downside risks to that country's dominant services sector. On the whole, the broader euro area picture improved. The euro area services PMI rose almost 2pts to 49.4 in June, while the composite PMI rose to a three-month high (50.0). Overall, the survey offers tentative reassurance that improving services demand and easing costs pressures should have helped the euro area avoid a technical recession in the first half of 2026.

### France: Industrial production



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### France: Manufacturing production, by sector



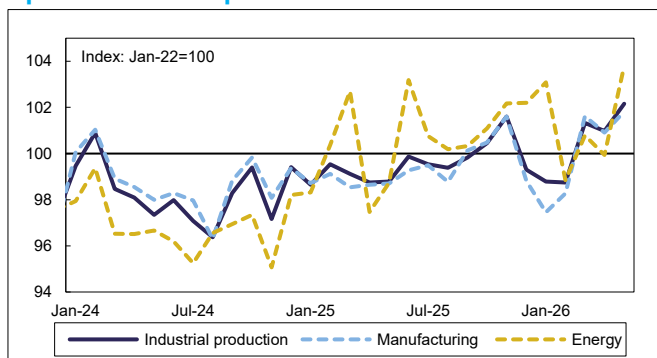
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## The week ahead in the euro area

The week ahead in the euro area will bring a handful of notable data releases, including aggregate retail sales (Monday), German factory orders (Monday), industrial production (Tuesday) and goods trade figures (Thursday), all for May. Despite a drag from fuel sales and soft consumer confidence, euro area retail sales fell only slightly in April (-0.4%M/M), leaving volumes broadly in line with the Q1 average. While [Germany](#) reported a tax cut-related boost to spending (1.1%M/M), national data point to only a modest rise in May, likely of around ¼%M/M. By contrast, the risks to German IP appear skewed to the downside. Although output rose in April (0.4%M/M) for just the first time in five months, both the PMI and ifo surveys suggest that manufacturing output lost momentum in May as elevated input costs weighed on energy-intensive producers. Those surveys also pointed to weaker demand, casting doubt about the prospects for a rebound in new orders and a further increase in exports.

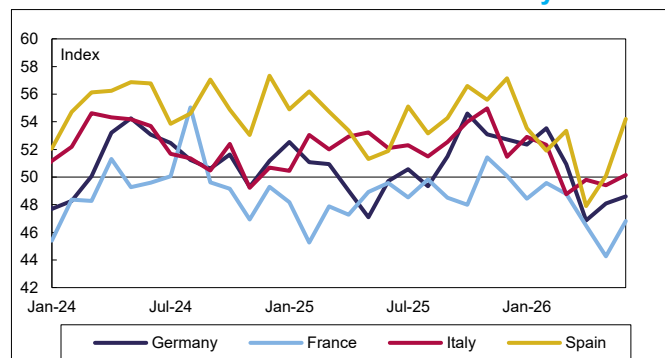
Beyond the activity data, the ECB's account of its June [Governing Council](#) meeting (Thursday) might also attract attention. At this meeting, the ECB raised rates for the first time since 2023 and the upwardly revised inflation forecast implied that further tightening was likely. However, the subsequent decline in energy prices has arguably reduced the relevance of its future policy debate at this meeting. Indeed, comments from policymakers at Sintra in the past week suggest little urgency to tighten again as soon as this month. Meanwhile, final June inflation data from Germany and France (both Friday) should confirm the larger-than-expected declines in the flash estimates, taking the respective headline HICP rates down 0.3ppt to 2.4%Y/Y and 0.8ppt to 2.0%Y/Y. The detail should confirm that lower fuel prices drove a sharp moderation in energy inflation, while providing little evidence so far of spillovers into food, services and core goods prices. Euro area PPI figures for May (Monday) should likewise show that pipeline price pressures remained relatively well contained to the early stages of the production chain, although cost pressures will likely remain acute in refining and energy-intensive sectors. Finally, lower energy prices and improving prospects for a resolution to tensions in the Middle East should provide support to July's Sentix investor survey (also Monday).

### Spain: Industrial production



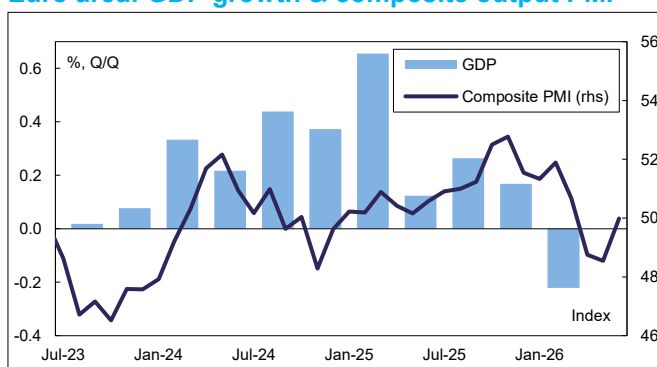
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area member states: Services activity PMIs



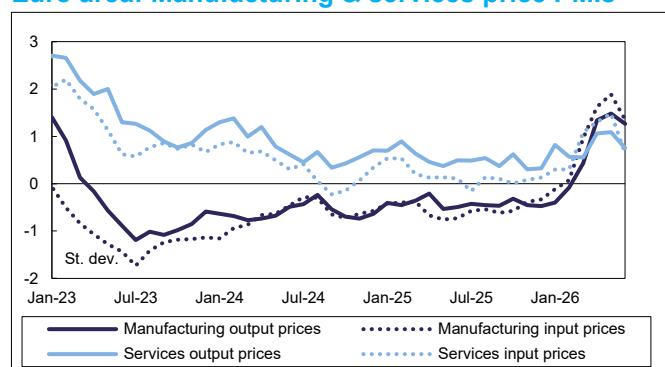
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: GDP growth & composite output PMI



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

### Euro area: Manufacturing & services price PMIs



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

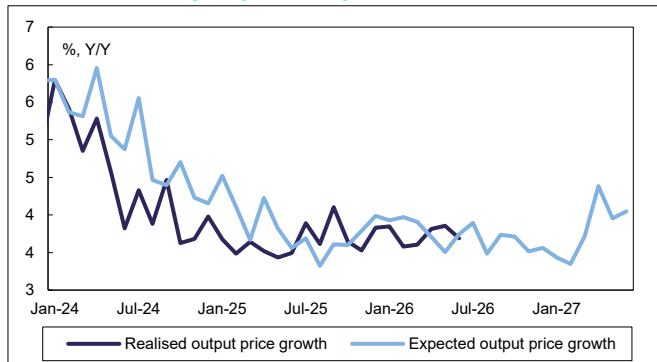
## UK

### Moderating inflation expectations support our view that Bank Rate will remain unchanged

When the MPC left [Bank Rate](#) unchanged at 3.75% in June, two members voted for a 25bps rate hike and one further member (Catherine Mann) signalled that she shared many of the hawks' concerns about upside risks to inflation. Since then, oil prices have fallen a further 10%, survey-based inflation expectations have eased, and signs of cooling labour market conditions have become more evident. With wage growth and labour demand softening, the risk of significant second-round inflation effects appears to be diminishing. Admittedly, the BoE's Decision Maker Panel (DMP) survey results showed that

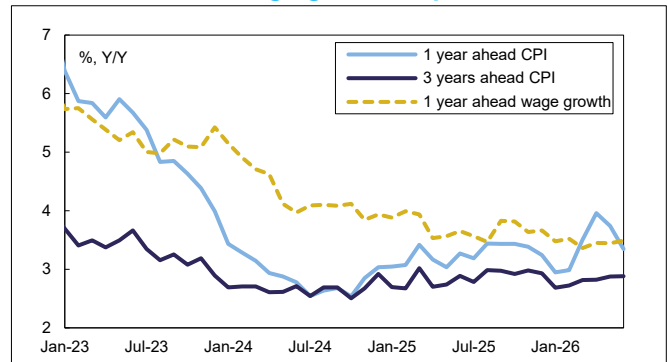
firms' own output price expectations remained elevated in June, at 4.0%Y/Y, some 0.6ppt above the pre-war level. But this was nevertheless 0.4ppt below April's peak, while the share of firms planning to raise prices fell back close to 55%. Rather than passing on higher costs in full, roughly two thirds were expecting the impact of the oil shock to lower profit margins. Meanwhile, firms' expectations for CPI inflation one-year ahead also moderated for a second successive month (3.3%Y/Y). And medium-term inflation expectations remained relatively stable (2.9%Y/Y), just 0.2ppt higher than in February, still consistent with levels seen late last year. Today's survey also pointed to increasing labour slack, which is likely to continue restraining workers' bargaining power. Firms expect only a modest impact of higher energy prices on wages, with expected pay growth over the coming year at 3.5%3M/Y, just 0.1ppt above April's four-year low. Overall, the latest survey evidence reinforces our view that domestic inflation pressures are gradually easing. As a result, we expect the MPC to leave Bank Rate unchanged through early 2027, with the next move in rates likely to be a cut rather than a hike.

### UK: Firms' output price expectations



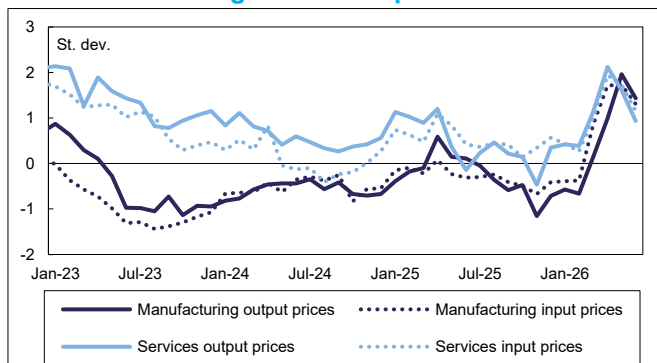
Source: BoE's DMP survey, Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Firms' CPI & wage growth expectations



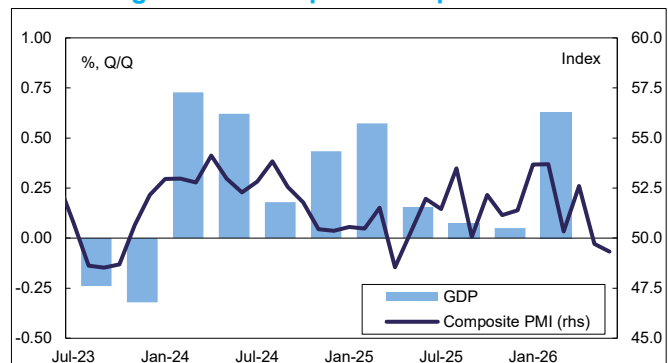
Source: BoE's DMP survey, Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Manufacturing & services price PMIs



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

### UK: GDP growth & composite output PMI












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

## The week ahead in the UK







The coming week for the UK should be relatively quiet, with only a smattering of economic data. The calendar gets underway with June's construction PMIs (Monday), which will provide an indication as to whether the decline in oil prices supported an easing in builders' input costs. A modest softening akin to that observed in today's services PMIs might lend some support to the weak activity indices, which deteriorated further in [May](#) to imply the steepest contraction since the first pandemic lockdown. Extreme heat in June, however, might have further disrupted workplans. And with financial conditions remaining tight and supply bottlenecks persisting, cost pressures are bound to remain elevated, suggesting ongoing subdued momentum at the end of the quarter. Higher mortgage rates are also likely to have kept a lid on surveyors' expectations for the housing market. Indeed, while uncertainty has somewhat receded, June's RICS survey (Thursday) should continue to convey downbeat expectations for house price growth and sales over the coming three months. New car registrations data (Monday) and a jobs survey for June (Wednesday) are also due. Data aside, Thursday will also formally kick off the Labour Party leadership contest. At present, Andy Burnham remains the only candidate to have announced his intention to enter the ballot. And given his popularity among party members and the general electorate, we think it unlikely that any other MP will garner the necessary support to put their name forward. If Burnham is unopposed, he will be sworn in as Prime Minister on 17 July.

## 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 	0.1	0.6	0.2	0.1	0.2	0.4	0.9	1.1	1.4
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline HICP 	2.1	2.0	3.0	2.8	2.9	2.8	2.7	2.4	2.0
Core HICP 	2.4	2.3	2.4	2.5	2.7	2.9	2.5	2.7	2.2
UK									
Headline CPI 	3.4	3.1	2.7	3.0	3.0	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.


















## European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Euro area 	Final composite (services) PMI	Jun	<b>50.0 (49.4)</b>	<u>49.5 (48.9)</u>	48.5 (47.7)	-	
Germany 	Final composite (services) PMI	Jun	<b>49.5 (48.6)</b>	<u>48.0 (56.8)</u>	48.8 (48.1)	-	
France 	Industrial production M/M% (Y/Y%)	May	<b>-0.1 (3.2)</b>	-0.4 (2.8)	0.1 (2.8)	0.3 (2.9)	
	Final composite (services) PMI	Jun	<b>47.2 (46.8)</b>	<u>47.6 (47.4)</u>	44.9 (44.3)	-	
Italy 	Composite (services) PMI	Jun	<b>50.8 (50.2)</b>	50.9 (50.2)	50.4 (49.4)	-	
	Retail sales M/M% (Y/Y%)	May	<b>0.2 (2.2)</b>	-	0.0 (1.6)	-(1.7)	
Spain 	Industrial production M/M% (Y/Y%)	May	<b>1.2 (3.4)</b>	0.4 (1.6)	-0.4 (2.0)	-0.3 (2.3)	
	Composite (services) PMI	Jun	<b>53.3 (54.2)</b>	50.9 (50.8)	50.2 (50.1)	-	
UK 	DMP – 3M output price (1Y CPI) expectations Y/Y%	Jun	<b>4.1 (3.3)</b>	-	4.0 (3.7)	-	
	Final composite (services) PMI	Jun	<b>49.3 (48.8)</b>	<u>49.5 (48.9)</u>	49.7 (49.3)	-	
Auctions							
Country	Auction						
- Nothing to report -							

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	
<b>Monday 6 July 2026</b>						
Euro area		08.30	Construction PMI	Jun	-	43.7
		09.30	Sentix investor confidence indicator	Jul	-9.0	-13.4
		10.00	Retail sales M/M% (Y/Y%)	May	0.3 (1.6)	-0.4 (1.0)
		10.00	PPI Y/Y%	May	5.8	4.9
Germany		07.00	Factory orders M/M% (Y/Y%)	May	1.2 (5.2)	-3.8 (1.6)
		08.30	Construction PMI	Jun	-	42.4
France		08.30	Construction PMI	Jun	-	39.6
Italy		08.30	Construction PMI	Jun	-	49.4
UK		09.00	New car registrations Y/Y%	Jun	-	7.1
		09.30	Construction PMI	Jun	40.0	38.2
<b>Tuesday 7 July 2026</b>						
Germany		07.00	Industrial production M/M% (Y/Y%)	May	0.2 (-0.5)	0.4 (-0.5)
France		07.45	Trade balance €bn	May	-	-5.6
<b>Wednesday 8 July 2026</b>						
- Nothing scheduled -						
<b>Thursday 9 July 2026</b>						
Germany		07.00	Trade balance €bn	May	14.8	14.5
UK		00.01	RICS house price balance %	Jun	-32	-35
<b>Friday 10 July 2026</b>						
Germany		07.00	Final HICP (CPI) Y/Y%	Jun	<u>2.4 (2.3)</u>	2.7 (2.6)
France		07.45	Final HICP (CPI) Y/Y%	Jun	<u>2.0 (1.8)</u>	2.8 (2.4)
Italy		09.00	Industrial production M/M% (Y/Y%)	May	-0.2 (1.3)	0.5 (1.3)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 6 July 2026</b>		
UK		17.45 External MPC member Mann chairs panel discussion on economic data at a Royal Economic Society conference, Newcastle
<b>Tuesday 7 July 2026</b>		
Germany		10.30 Auction: to sell up to €500mn of 1.3% 2027 green bonds
		10.30 Auction: to sell up to €1.0bn of 2.6% 2041 green bonds
UK		10.00 Auction: to sell £4.0bn of 4.125% 2033 bonds
		10.30 BoE to publish Financial Stability Report
<b>Wednesday 8 July 2026</b>		
Germany		10.30 Auction: to sell up to €6bn of 2036 bonds
UK		00.01 REC, KPMG and S&P Global UK Report on Jobs for June
		10.00 Auction: to sell £750mn of 0.125% 2028 bonds
		10.00 Auction: to sell £750mn of 4.75% 2030 bonds
<b>Thursday 9 July 2026</b>		
Euro area		12.30 ECB to publish monetary policy account of 10-11 June Governing Council meeting
UK		20.30 BoE Deputy Governor Breeden joins panel discussion on monetary policy implementation and market functioning, New York
<b>Friday 10 July 2026</b>		
Italy		10.00 Auction: to sell bonds*

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

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