

Euro wrap-up

Overview

- Bunds ended the day little changed as euro area retail sales remained subdued in May, but German factory orders pointed to gradual recovery in underlying demand.
- Gilts made very modest losses while the UK construction PMIs flagged ongoing weak demand, contrasting a pickup in new cars registrations.
- Tuesday will bring German industrial production data for May.

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Daily bond market movements

Bond	Yield	Change
BKO 2½ 06/28	2.536	+0.008
OBL 2½ 04/31	2.653	+0.006
DBR 2.9 02/36	2.944	+0.012
UKT 4% 03/28	4.125	+0.007
UKT 4% 03/31	4.306	+0.003
UKT 4% 10/35	4.793	+0.011

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

Source: Bloomberg

Euro area

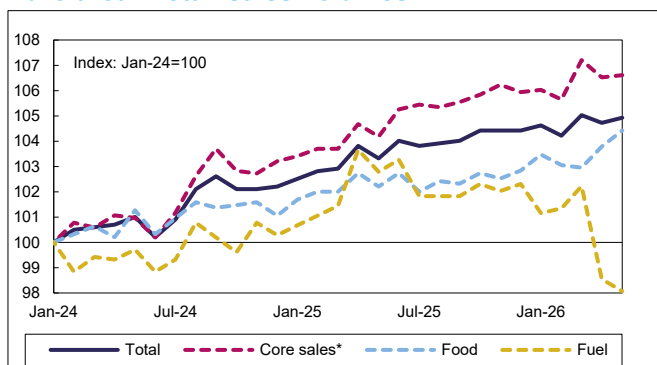
Euro retail sales remain subdued in May despite boost to spending in Germany

Despite solid sales in [Germany](#) in May, today's euro area retail figures suggest that households in the region remained cautious in their spending in the middle of Q2, as lingering economic uncertainty, erosion of purchasing power, and the recent rise in borrowing costs continued to weigh on demand. Euro area sales volumes rose just 0.2%M/M in May, only partially reversing April's decline. Moreover, the increase was driven largely by food sales, which rose for a second successive month (0.6%M/M) to their highest level since the onset of the Russian invasion of Ukraine. This perhaps reflects a shift in spending patterns as food price inflation has eased while restaurant prices have continued to rise. By contrast, auto fuel sales fell (-0.5%M/M) to the lowest level in 2½ years. And with households seemingly preferring to save than make large discretionary purchases, core sales (excluding food and fuel) rose just 0.1%M/M after declining 0.6%M/M in April. Thanks to a positive carryover from March, sales were nevertheless still tracking slightly above the Q1 average. The near-term consumption outlook remains mixed, however. While consumer confidence showed signs of tentative recovery towards the end of Q2, consumer credit growth slowed as loan rates rose to the highest since the start of 2025. The steady decline in oil prices should provide some relief to household budgets, but the withdrawal of government energy-support measures also poses a potential headwind. In Germany, for example, petrol prices rose more than 8%M/M in the week to 5 July as the temporary fuel-tax cut expired. So, overall, while household consumption is unlikely to pose a significant drag on euro area growth in Q2, neither does it appear strong enough to become a meaningful driver of GDP growth over the summer.

Despite autos weakness, German factory orders suggest a gradual recovery in underlying demand

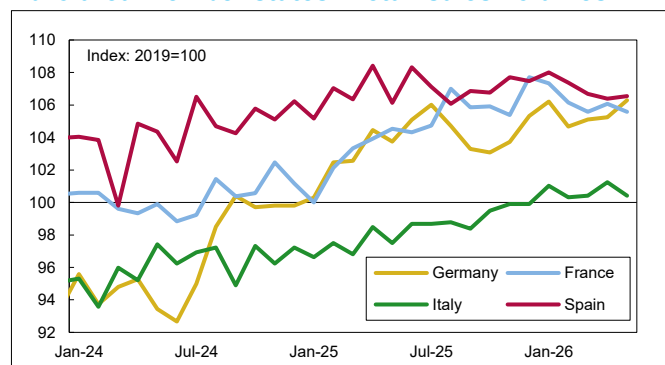
While business surveys continue to point to subdued demand for German goods amid persistent geopolitical uncertainty and competitiveness concerns, May's factory orders data offered cautious optimism that a more sustained recovery in manufacturing activity could emerge over coming quarters. Total new factory orders rose a firmer-than-expected 1.9%M/M, increasing for a third month out of four and leaving them up 6%Y/Y. Admittedly, the gain was boosted by large-scale aerospace and ship orders, which drove new orders for non-auto transport equipment up 85%M/M to their highest level in almost six years. New orders for basic metals also rose to a 2½-year high. And while orders for ICT equipment fell in May, they remained elevated by historical standards, tracking some 6½% above the Q1 average, supported by continued demand for AI-related activity. So, while only partially reversing the more than 4%Q/Q drop in Q1, total new orders were trending in April and May a little more than 1% above the Q1 average. More encouragingly, excluding volatile bulk orders, core orders rose to their second-highest level in three years, suggesting that underlying demand continues to recover. However, this improvement was driven primarily by overseas demand, with domestic orders remaining relatively weak. Moreover, the autos sector remained a notable drag, with new orders falling to a five-month low and tracking some 6½% below the Q1 average.

Euro area: Retail sales volumes



*Non-food and non-fuel. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Retail sales volumes

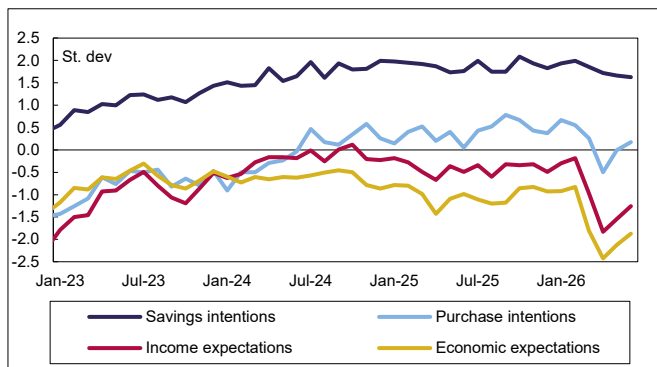


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Surveys send mixed signals on the near-term outlook across member states

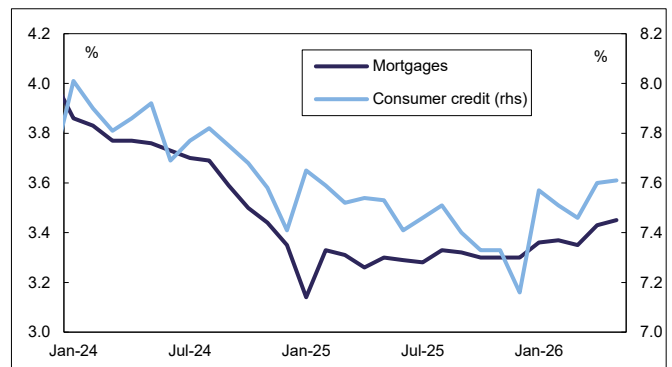
The June construction PMIs and Sentix investor survey suggested that the euro area's economic outlook remains on an uneven recovery path. The construction survey pointed to renewed deterioration at the end of Q2, with activity weakening across much of the region. In France, commercial construction contracted at the fastest pace since the first Covid lockdown in May 2020, while in Italy civil engineering work was the weakest in 16 months and housebuilding the softest in five. As a result, the euro area construction activity index fell 0.9pt to 42.8, its second-lowest reading since mid-2024 and well below the long-run average. However, the survey was not entirely downbeat. Firms reported shorter supplier delivery times, easing input price pressures and a slower pace of decline in new orders. Moreover, there was a broad-based improvement in German construction activity in June, with commercial work reportedly the strongest in 11 months. Likewise, the Sentix investor survey signalled a notable improvement in sentiment towards Germany at the start of Q3. The expectations index surged 16.8pts in July – the most in 14 months – to an above-average 3.5, perhaps reflecting optimism surrounding the German government's latest reform package, which includes tax relief measures alongside broader labour market and pension reforms. Nevertheless, the benefits of those measures are likely to materialise only gradually over the medium term. Indeed, the current conditions indices for both Germany and the euro area remained close to the bottom of their recent ranges. As such, today's survey arguably points more to stabilisation than to any marked acceleration in growth over the near term.

Euro area: Consumer confidence indices



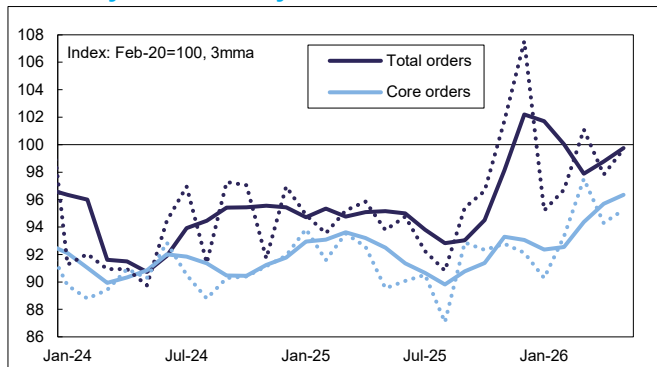
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Interest rates on new household loans



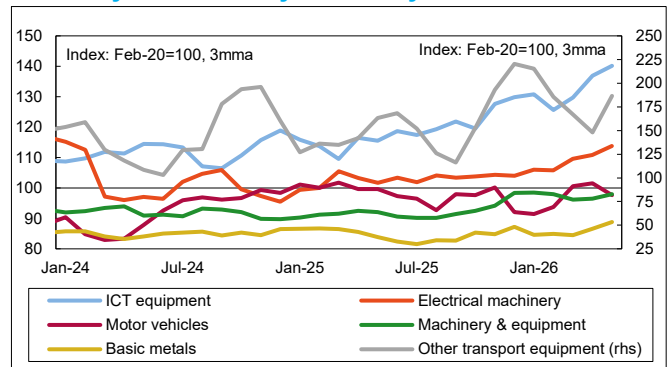
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders*



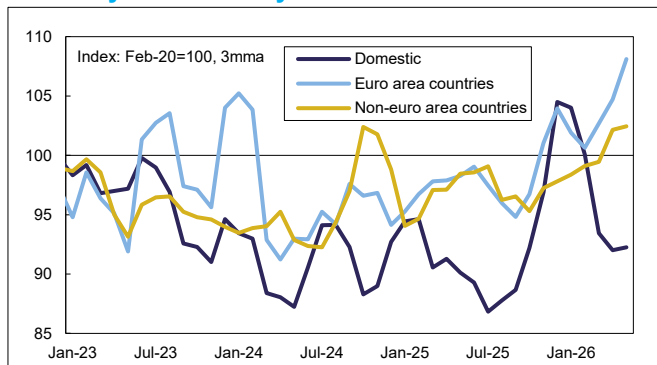
*Core orders excluding major orders.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders by subsector



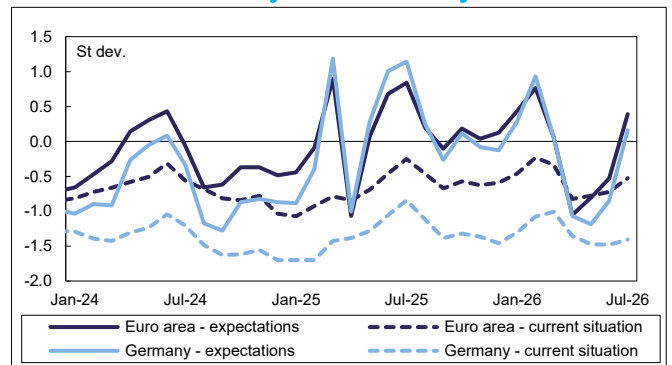
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area & Germany: Sentix survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

Tuesday's euro area data highlight will be German industrial production figures for May. Survey evidence for that month was mixed, with the ifo institute index for current production falling sharply after modest gains in March and April, while the manufacturing PMIs continued to signal growth, albeit at the weakest pace in five months. More encouragingly, today's manufacturing turnover data reported the strongest monthly increase since November (1.7%M/M), in line with the pickup in truck toll mileage, which often provides a useful guide to manufacturing output. But construction activity is likely to provide some offset after two consecutive months of strong growth. On balance, the Bloomberg survey consensus is for industrial output to edge up 0.1%M/M in May. Meanwhile, French trade numbers for May are also due for release. Aside from the economic data, a Paris appeals court is due to rule in Marine Le Pen's embezzlement case, a decision that will determine whether the far-right leader is eligible to stand in the 2027 Presidential election.

UK

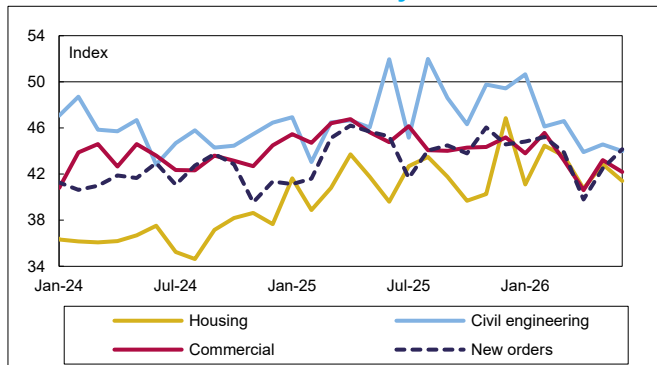
New car sales continue to recover, but construction PMI points to ongoing contraction

Today's UK economic data sent mixed signals. According to SMMT, new car registrations accelerated further in June, rising a robust 11.4%Y/Y, the strongest growth and highest level for the month since 2019. Demand from private buyers continued to recover, taking registrations in the year to date up some 12½%Y/Y. And sales of battery electric vehicle (BEVs) remained a key support, with registrations rising 54%Y/Y in June, and 27% in the year to date to lift the market share to one quarter. Strong demand for plug-ins and hybrid EVs also helped drive the combined share of petrol and diesel cars further below 50%. However, consistent with last week's services PMIs, today's construction survey suggested that underlying demand conditions remained subdued at the end of Q2, as persistent economic uncertainty, elevated input costs and tighter financial conditions continue to weigh on activity. Although the headline construction index edged up 0.2pt from May's six-year low, at 38.2 it remained some 1½ standard deviations below its long-run average. While firms reported some stabilisation in commercial work, housebuilding fell to the weakest level in six months. Most strikingly, the civil engineering index plunged 14.1pts to 22.1, signalling the sharpest contraction since the first Covid lockdown, with respondents citing delays to infrastructure projects and a lack of public sector tender opportunities. New orders continued to decline, albeit at a slightly softer pace than in the previous two months. With cost pressures still elevated and order books under strain, today's survey highlighted ongoing downside risks to construction activity, and the broader economic outlook, over the near term.

The day ahead in the UK

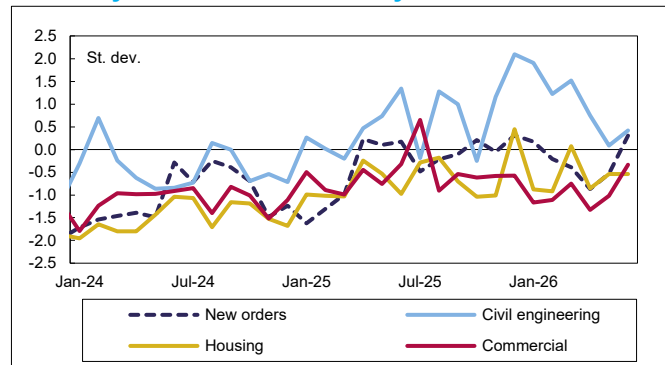
It should be a relatively quiet day for UK economic news, with just the BoE's latest Financial Stability Report due.

Euro area: Construction activity & orders PMIs



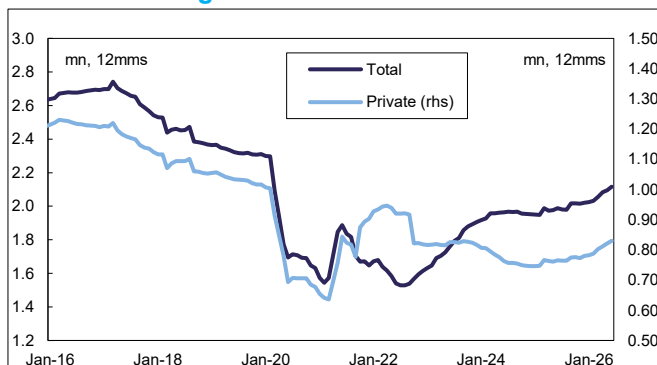
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Construction activity & orders PMIs



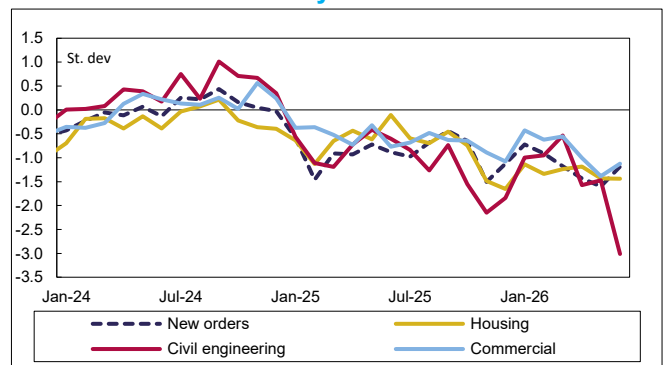
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: New car registrations



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Construction activity & orders PMIs













Source: S&P Global, 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	 Construction PMI	Jun	42.8	-	43.7	-
	 Sentix investor confidence indicator	Jul	-3.1	-9.0	-13.4	-
	 Retail sales M/M% (Y/Y%)	May	0.2 (1.6)	0.3 (1.6)	-0.4 (1.0)	-0.3 (0.9)
	 PPI Y/Y%	May	5.9	5.8	4.9	5.0
Germany	 Factory orders M/M% (Y/Y%)	May	1.9 (6.2)	1.2 (5.2)	-3.8 (1.6)	-3.2 (2.1)
	 Construction PMI	Jun	44.8	-	42.4	-
France	 Construction PMI	Jun	38.2	-	39.6	-
Italy	 Construction PMI	Jun	45.4	-	49.4	-
UK	 New car registrations Y/Y%	Jun	11.4	-	7.1	-
	 Construction PMI	Jun	38.4	40.0	38.2	-



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	 07.00	Industrial production M/M% (Y/Y%)	May	0.1 (-0.6)	0.4 (-0.5)
France	 07.45	Trade balance €bn	May	-	-5.6

Auctions and events

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			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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