Euro wrap-up

Overview

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- Bunds followed the global trend higher as oil prices fell sharply on renewed tentative optimism in the Middle East, while German retail sales disappointed in June.
- Gilts outperformed even as the final UK manufacturing PMI tentatively pointed towards a more favourable economic outlook.
- The coming two days will bring June data for euro area PPI, French IP and Italian retail sales, alongside the final July services PMIs.

Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/28	2.765	-0.049
OBL 2.9 10/31	2.881	-0.058
DBR 3 08/36	3.148	-0.057
UKT 4⅜ 03/28	4.301	-0.095
UKT 4⅛ 03/31	4.497	-0.097
UKT 4¾ 10/35	4.952	-0.097

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

Euro area

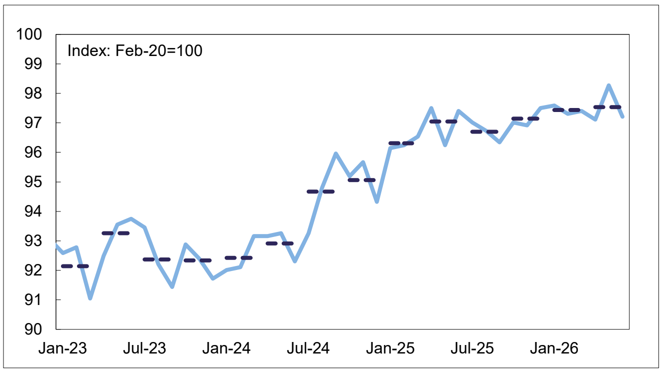
German retail sales fall back at end-Q2, but core sales maintained moderate uptrend over quarter

While German GDP growth in Q2 of 0.2%Q/Q pointed to resilience, it appears to have been largely attributed to net trade while domestic demand remained subdued. The softness of consumer spending was reflected in today's retail sales data, which reported a pullback at the end of the quarter. German retail sales volumes fell 1.1%M/M in June, the most in 13 months. That reversed almost fully the growth in the prior month, when they had risen to the highest level in more than four years. As a result, sales rose just 0.1%Q/Q in Q2, 0.2ppt weaker than in Q1. For a second successive month, sales were flattered by auto fuel, which rose 2.5%M/M in June as households filled up ahead of the end of the temporary VAT cut. But given their weakness at the start of the quarter, auto fuel sales dropped a steep 2.5%Q/Q over Q2 as a whole. In contrast, while food prices fell for a second successive month to be up just 0.4%Y/Y in June, their sales dropped 1.4%M/M to be down 0.1%Q/Q in Q2. And core sales (i.e. excluding fuel and food) fell 1.0%M/M in June, reversing in full their growth in May. That, however, left them up for a third successive quarter and by a respectable 0.4%Q/Q to provide encouragement that some positive underlying spending momentum remains intact despite the shock from the Middle East. Over the near term, total sales seem set to remain subdued, not least as spending on auto fuel likely fell back significantly in response to the rebound in prices at the pump. And the erosion of real incomes by inflation, job insecurity and ECB policy tightening will all weigh on consumption growth. Nevertheless, given a little less pessimism about the economic outlook, the GfK survey reported that consumer willingness to make big-ticket purchases rose in July to the highest level since February and back in line with the average of the prior 12 months. Likewise, the ifo business survey reported that retail sales expectations for the coming few months rose in July to the highest level since the outbreak of the conflict and similarly close to the average of the prior 12 months. So, we expect another quarter of moderate growth in retail sales of core items in Q3.

German surveys point to strongest manufacturing growth in 4½ years but headwinds persist

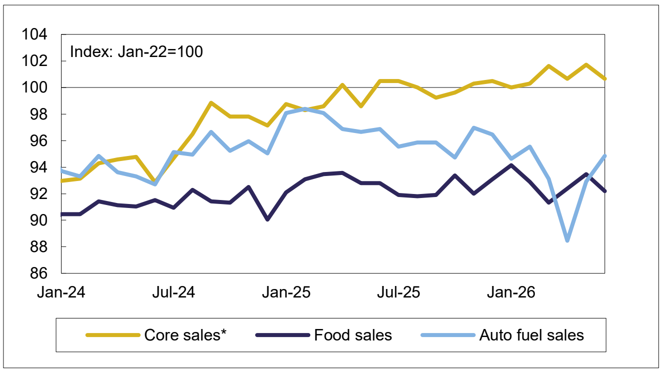
While the retail outlook remains fragile, surveys suggest that German manufacturers started Q3 on a relatively firm footing despite persistent headwinds from geopolitical uncertainty, cost pressures and global competition. Indeed, today's final manufacturing output PMI (54.7) was consistent with the strongest growth in 4½ years and tallied with last week's improvement in the ifo survey. The latter signalled broad-based gains in production across the subsectors, led by ICT and transport equipment. And while some of the recent strength in manufacturing reflects precautionary stock-building amid material shortages and rising operating costs, both surveys point to a further pickup in new orders, with external demand reportedly the strongest since early 2022. Of course, the extent to which German manufacturers can sustain output growth will depend in part on supply-side constraints. In this respect, the ifo survey provided a more encouraging signal for chemicals manufacturers, for which bottlenecks reportedly eased markedly in July. Nevertheless, record low Rhine water

Germany: Retail sales*



*Volumes terms. Dashed lines represent quarterly averages.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

Germany: Retail sales by type



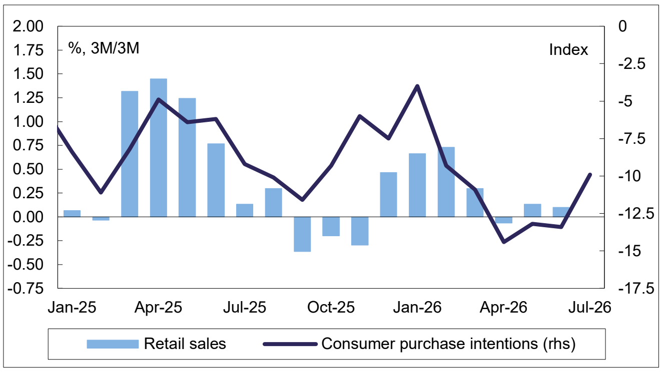
**Sales excluding food & auto fuel.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

levels have emerged as a renewed challenge for the subsector. Moreover, with material shortages more acute in the ICT, electrical equipment and auto sectors, output trends will likely remain uneven across the various subsectors.

Mixed manufacturing PMIs at odds with other upbeat survey evidence

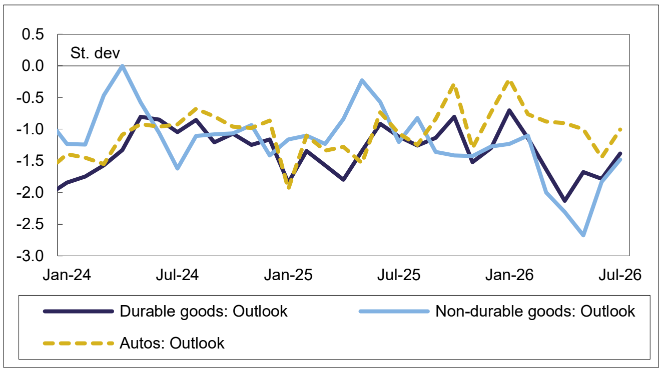
According to today's PMIs, only the Netherlands recorded stronger manufacturing growth than Germany in July (55.9), with that vigour likely at least in part reflecting continued growth at ASML amid robust global semiconductor demand. Elsewhere, while slightly softer than in June, the Italian manufacturing PMI (52.9) also remained consistent with ongoing expansion, broadly tallying with the ISTAT survey which pointed to the strongest momentum in three years. Indeed, while the Italian PMIs signalled a drop in new orders in July, the ISTAT indices – based on a sample roughly ten times larger – suggested the best new orders in three years and the most upbeat production expectations since mid-2023. And together with improved sentiment in services and retail, the headline business confidence index was consistent with a fifth consecutive quarter of Italian economic growth in Q3. Meanwhile, as we place greater weight on the INSEE survey than the French PMIs, we are not overly concerned by the downward revision to today's respective final manufacturing PMI, which slipped into marginal contractionary territory in July (49.8). Indeed, the respective INSEE index rose in July and has been at or above the long-run average in seven out of the past eight months. Likewise, although the Spanish manufacturing PMI fell to a four-month low

Germany: Retail sales & purchase intentions



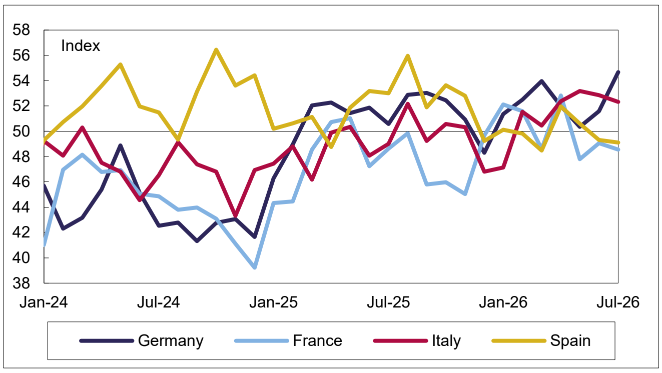
Source: GfK, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Retailers' sales expectations



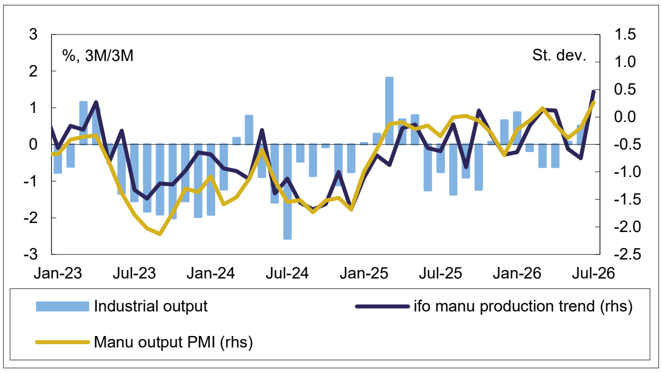
Source: ifo, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output PMIs



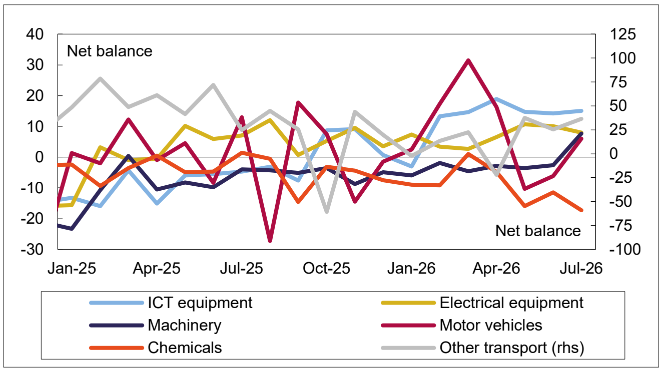
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: IP & survey indices



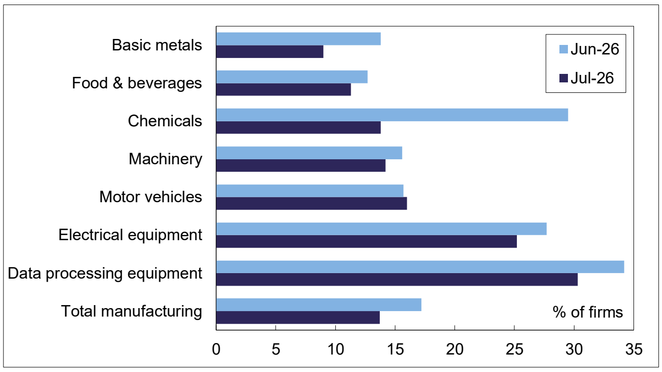
Source: S&P Global, ifo, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Production expectations by sector



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

Germany: Share of firms reporting supply shortages



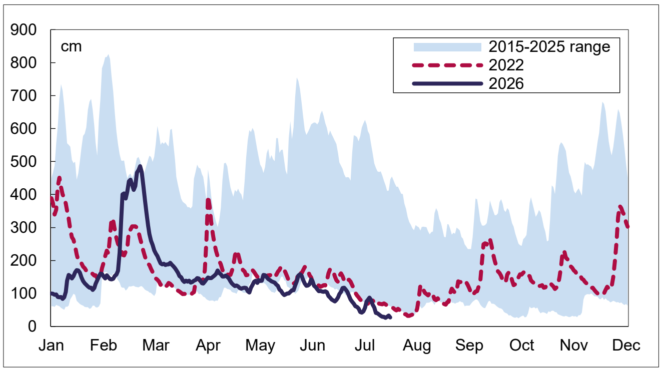
Source: ifo and Daiwa Capital Markets Europe Ltd.

(49.1), this appears at odds with broader survey evidence, e.g. the ESI rose to a five-month high in July and signalled continued outperformance among the larger euro area member states. Overall, despite the weakening in France and Spain, the euro area factory output PMI rose to the highest level in more than four years, bang in line with the long-run average (52.9). And with firms seemingly unfazed by the renewed spike in wholesale prices – the final input price PMI fell to a five-month low – they were the most optimistic about the production outlook for the year ahead since February.

The coming two days ahead in the euro area

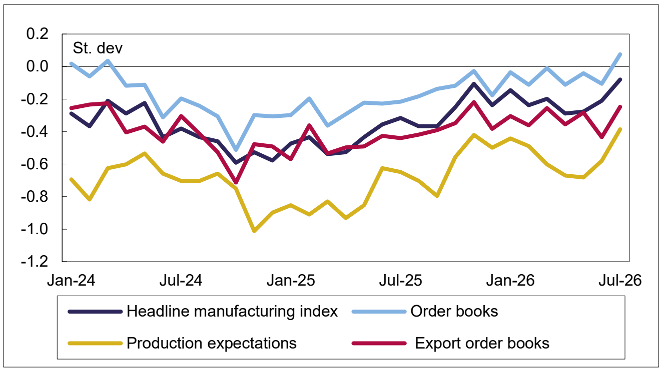
The coming two days will bring a handful of data releases from the euro area including the final services and composite PMIs on Wednesday. As for manufacturing, the flash services release was indicative of stronger activity at the start of Q3, with the euro area activity index (51.6) consistent with expansion for the first month since March and at its fastest rate since February. Not least given the minimal revisions to the manufacturing surveys, we expect the final services indices to affirm that momentum, while readings from Italy and Spain will corroborate whether that improvement extended beyond the core member states. Meanwhile, commensurate with the softening input price pressures reported by the PMIs, euro area producer price inflation is expected to moderate in June from May's three-year high of 5.9%Y/Y, with the detail again likely to show only limited evidence of underlying price pressures beyond the energy-intensive sectors. In terms of the member states, French IP data – also due Wednesday – should affirm expectations of solid manufacturing growth. Indeed, through April and May, manufacturing output in France was trending close to 1% above its Q1 average. On Tuesday, Italian retail sales figures for June will provide a final steer ahead of Thursday's aggregate euro area release which, on the basis of today's German data, seems bound to signal only minimal growth in Q2, perhaps amounting to just 0.1%3M/3M. And despite the destruction from forest fires last month, the eight-year high clocked by the Spanish employment expectations index suggests that July's labour market data will continue to flag solid employment growth.

Germany: Rhine water levels



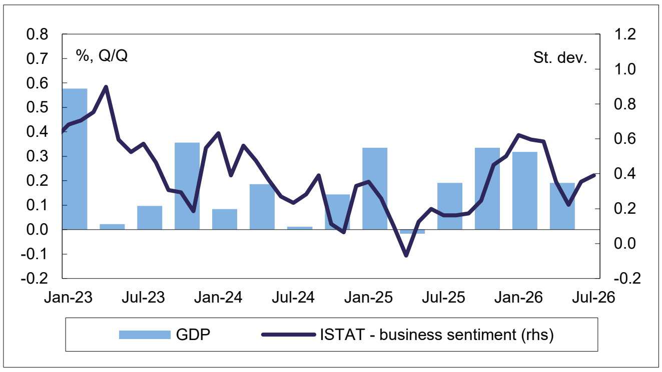
Source: Bloomberg, Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: Manufacturing survey indices



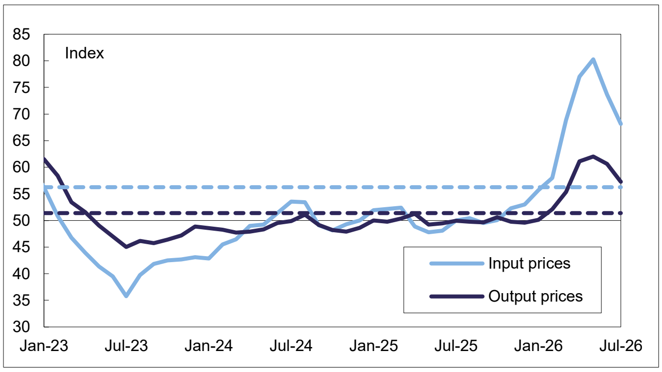
Source: istat, Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: GDP growth & business survey index



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

Euro area: Manufacturing price PMIs*



**Dashed lines represent long-run average.*
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK

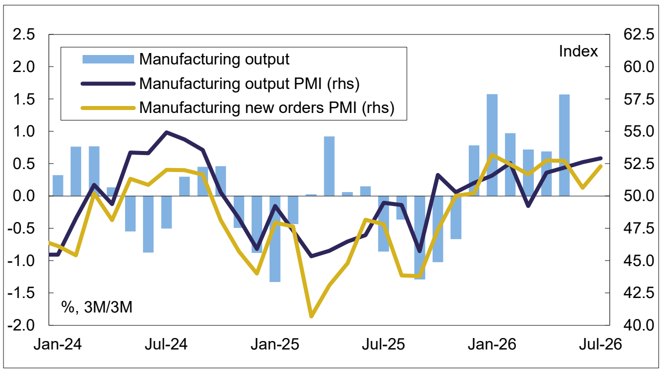
Final UK manufacturing PMIs tentatively point towards a more favourable outlook

Contrasting the unrevised final euro area survey, the final UK manufacturing PMI for July was revised down from its flash release, by 0.9pt to 51.9, to deliver its weakest reading since March. But that softer headline reading merely reflected a sudden decline in firms' inventory purchases (down 5.1pts to 44.6), which had previously lent support to the sector during the months immediately after the escalation of the conflict in the Middle East and associated oil shock. And their decline now is perhaps reflective of manufacturers' assessments that current inventory levels are sufficient to meet demand over the coming months. Despite a modest downward revision to the manufacturing output index from the initial estimate, at 52.9 it was still indicative of the fastest expansion in almost two years. Encouragingly, order books also regathered momentum in July, to push manufacturing backlogs of work to the highest level for more than four years. Moreover, while still away from their pre-war levels, the shortening of supplier delivery times and steep drop in input costs (down 10.7pts to 65.9) – the latter indicative of both weaker demand for inputs and lower energy prices – suggest that supply pressures have become less pressing. Of course, with geopolitical uncertainty still extremely high, business expectations were little improved in July and continued to trend some 5pts below their level in February. And against this backdrop, manufacturers remained reluctant to add to headcount, adding to evidence of ongoing weakness in the labour market more generally.

The coming two days in the UK

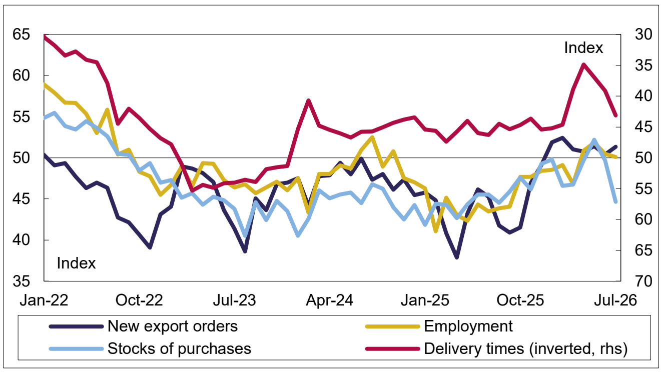
While the BoE will publish a quarterly update of its most recent Asset Purchase Facility operations, Tuesday will be an otherwise relatively quiet day for the UK data. So, focus will be given to Wednesday's final services and composite PMIs. Although the downwards revision today to the manufacturing output PMI imparts a slight downside to the final composite activity index – which had been seen at a three-month high of 52.1 – the final estimate will still be expected to reach a less downbeat assessment about the strength of activity at the start of Q3. Indeed, while broader indicators of demand were quite placid, and hiring intentions weak, the flash services reading did at least imply that consumer-facing firms had received some boost from the hot weather and England's World Cup run. As a result, the services index rose 3pts, the largest monthly change in more than three years, to 51.8. The flash survey also suggested that cost pressures had receded slightly. And while the subsequent reescalation in the Middle East could pose risks to the final survey, those downsides were notably absent from today's final manufacturing indices. Otherwise, new car registrations figures for July are also due on Wednesday and should continue to point towards solid uptake of EVs.

UK: Manufacturing output & PMIs



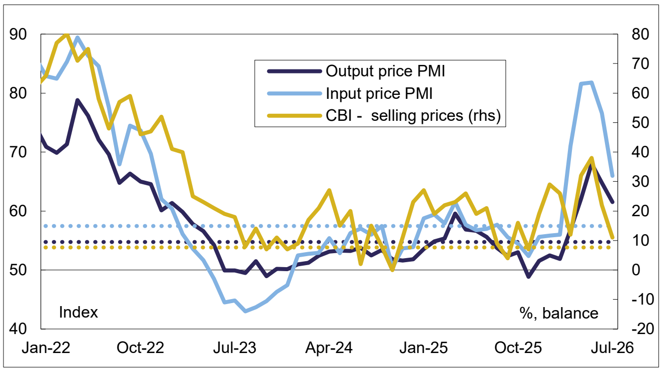
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Selected manufacturing PMIs



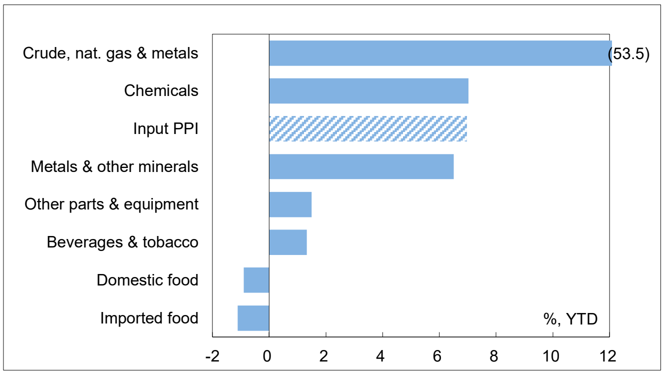
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing price PMIs & CBI selling prices*



**Dotted lines show long-run averages. Source: S&P Global, CBI ITS, Macrobond and Daiwa Capital Markets Europe Ltd.*

UK: Selected input PPI categories, June 2026



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The next Euro wrap-up will be published on Wednesday 05 August 2026

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area	Final manufacturing PMI	Jul	**51.9**	*52.0*	51.4	-
Germany	Retail sales M/M% (Y/Y%)	Jun	**-1.1 (4.6)**	-0.3 (3.1)	1.1 (1.8)	1.2 (-2.8)
	Final manufacturing PMI	Jul	**52.2**	*52.2*	50.3	-
France	Final manufacturing PMI	Jul	**49.8**	*50.0*	51.2	-
Italy	Manufacturing PMI	Jul	**51.3**	52.5	52.2	-
Spain	Manufacturing PMI	Jul	**50.2**	50.6	49.7	-
UK	Final manufacturing PMI	Jul	**51.9**	*52.8*	52.5	-

Auctions

Country	Auction
	- Nothing to report -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tuesday's releases

Economic data

Country	BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Italy	09.00	Retail sales M/M% (Y/Y%)	Jun	-	0.2 (2.2)
Spain	08.00	Unemployment change (employment net change) 000s	Jul	-	-28.7 (92.5)

Auctions and events

Country	BST	Event
Germany	10.30	Auction: to sell up to €6bn of 2.7% 2028 bonds
UK	10.00	Auction: to sell £4.25bn of 4.625% 2032 bonds
	12.00	BoE to publish quarterly Asset Purchase Facility Report for Q226

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Euro area	09.00	Final composite (services) PMI	Jul	*51.9 (51.6)*	50.0 (49.4)
	10.00	PPI Y/Y%	Jun	4.6	5.9
Germany	08.55	Final composite (services) PMI	Jul	*51.2 (49.6)*	49.5 (48.6)
France	07.45	Industrial production M/M% (Y/Y%)	Jun	0.2 (0.6)	-0.1 (3.2)
	08.50	Final composite (services) PMI	Jul	*49.6 (49.8)*	47.2 (46.8)
Italy	08.45	Composite (services) PMI	Jul	51.5 (51.0)	50.8 (50.2)
Spain	08.15	Composite (services) PMI	Jul	53.5 (54.8)	53.3 (54.2)
UK	09.00	New car registrations Y/Y%	Jul	-	11.4
	09.30	Final composite (services) PMI	Jul	*52.1 (51.8)*	49.3 (48.8)

Auctions and events

Country	BST	Event
Germany	10.30	Auction: to sell up to €500mn of 2.1% 2029 green bonds
	10.30	Auction: to sell up to €500mn of 2.5% 2035 green bonds
	10.30	Auction: to sell up to €500mn of 1.8% 2053 green bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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