

# Euro wrap-up

## Overview

- Bunds made modest gains as the latest German trade and French IP data disappointed.
- Gilts made gains after a UK consumer confidence survey signalled a marked deterioration in the immediate aftermath of the referendum vote.
- The coming week will continue to be dominated by uncertainty surrounding Italian banks and Brexit, with the BoE set to cut rates for the first time since 2009.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 06/18	-0.691	-0.009
OBL 0 04/21	-0.620	-0.014
DBR 0½ 02/26	-0.185	-0.015
UKT 1¼ 07/18	0.125	-0.014
UKT 1½ 01/21	0.331	-0.024
UKT 2 09/25	0.741	-0.039

\*Change from close as at 4.30pm BST.  
Source: Bloomberg

## Euro area

### French IP flat in May

Following the disappointing May industrial production figures from Germany (-1.3%/M/M) and Spain (-0.5%/M/M) released earlier this week, the equivalent numbers from France released today broadly aligned with the relatively downbeat expectations, showing that output declined 0.5%/M/M following a gain of more than 1%/M/M in April. Within the detail, manufacturing output was flat to leave it down almost 1% on a three-month basis. In addition, construction activity appeared to have re-established its recent downward trend, falling almost ½%/M/M to a level 3% below last year's average, while energy output fell more than 5%/M/M. With Dutch output also dropping almost ½%/M/M, although the Italian numbers are yet to be released, figures due next week are likely to show that overall euro area IP fell about ¼%/M/M in May. And, in due course, we might well discover that it declined over Q2 as a whole too following a 1%/Q/Q gain in Q1.

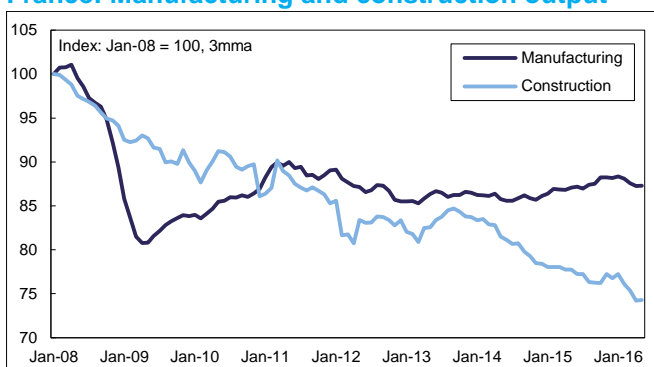
### German exports weaken too

Germany's preliminary trade data for May were also disappointing, reporting a 1.8%/M/M decline in the value of exports with falls in shipments to countries within and beyond the euro area alike, while imports were broadly flat on the month. That left the trade surplus down by almost €2bn from the previous month's series high at €22.2bn on an adjusted basis. And due to a notable deterioration in the services and income balances, the current account surplus fell sharply on the same basis, down from more than €28bn in April to a touch below €12bn. Nevertheless, the value of German goods exports on average in the first two months of Q2 was still almost 1% higher compared with Q1, while the value of goods imports was down almost 2% on the same basis, suggesting that – while services trade might well have acted as a drag – net trade overall appears to have provided modest support to GDP growth in Q2 for the first time in fourth quarters.

### The week ahead in the euro area and US

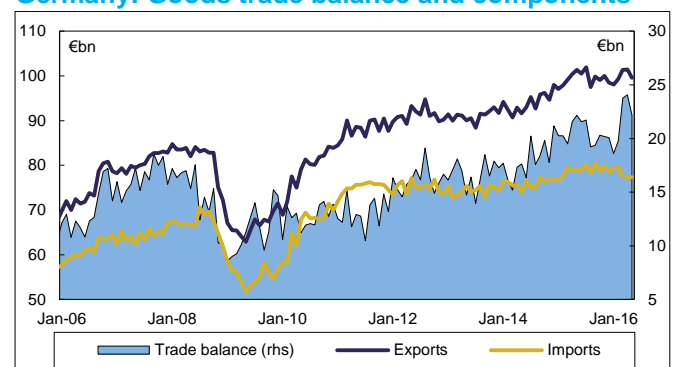
In the coming week, concerns about Italian banks will continue to dominate investors' attention in the euro area, with important questions yet to be answered about the nature of support that might be offered by the authorities to replenish capital and address persistent problems of excessive NPLs and low profitability without breaching EU state aid rules and/or triggering losses for creditors. But from the perspective of economic data the coming week in the euro area is likely to be relatively uneventful, with further industrial production numbers for May and the final inflation figures for June probably most notable. In particular, the Italian IP figures due Monday are expected to show that output was broadly flat in May. If that is confirmed, the euro area number, due on Wednesday, would likely show a drop of about 0.8%/M/M, leaving the average for Q2 so far down

### France: Manufacturing and construction output



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Germany: Goods trade balance and components\*



\*Seasonally adjusted basis.

Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



on Q1. Meanwhile, the final June CPI figures are due from Germany on Tuesday, France, Italy and Spain on Wednesday and the euro area on Friday. In particular, the headline euro area CPI figure is expected to be confirmed at the flash estimate of 0.1%Y/Y, the highest rate since January. Other data of note set for release in the coming week include the Bank of France's June business sentiment survey (due Monday), and the euro area's May trade report and June car sales numbers (due Friday). In the bond markets, on Wednesday Germany is scheduled to sell 10Y Bunds and Italy is scheduled to sell 3Y BTPs.

In the US, the coming week looks set to get off to a quiet start with just the May JOLTS report and wholesale trade figures due Tuesday, followed on Wednesday by June import price data, the Federal monthly budget statement and the Fed's latest Beige Book. Of greater interest will be the numerous top-tier releases due Friday, including June inflation, retail sales and industrial production data. Headline CPI is expected to have edged slightly higher at the end of Q2, rising 0.2% on the month and taking the year-on-year rate up to 1.1%Y/Y. Meanwhile, a similar 0.2%M/M increase in prices excluding food and energy would leave the annual core CPI rate unchanged at 2.2%Y/Y. In addition, retail sales and manufacturing output are both expected to have posted modest increases at the end of Q2. Also noteworthy on Friday will be the preliminary University of Michigan consumer sentiment survey for July and May business inventories data. In the UST market, a 3Y note auction will be conducted on Monday, followed by a 10Y note and 30Y bond auction on Tuesday and Wednesday respectively.

## UK

### Consumer sentiment takes massive hit from Brexit vote

Evidence that Brexit-related uncertainty is providing a massive hit to the UK economy is now starting to stack up fast. After the first post-referendum UK business sentiment survey published yesterday suggested that confidence among firms plummeted at the second fastest rate in the series, and to its lowest level since the euro crisis, the first survey of consumer confidence conducted since the vote – a special one-off by GfK released overnight – reported the biggest drop in consumer sentiment in twenty-one years to its lowest level since 2013. Consumers' assessment of the future outlook for the UK economy was even more pessimistic than that headline measure, with the relevant index falling to -29, a level not seen since late 2012 when GDP growth was negative. All of the other major survey components posted significant declines too with a striking fall (the most since the start of 2011) in the measure related to willingness to make major purchases.

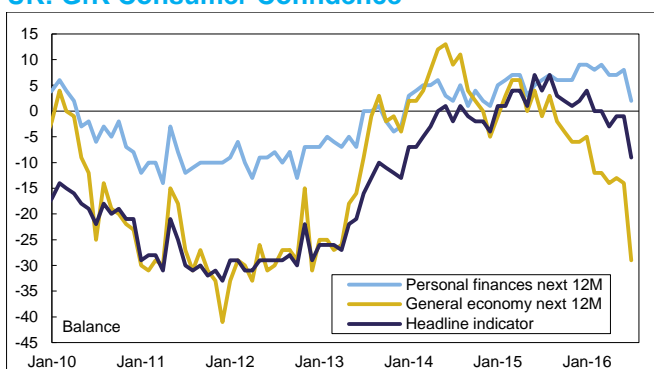
### Trade deficit lower than previously thought

Meanwhile, the hard economic data continue to cover the pre-referendum period and are, to a large degree, irrelevant given the shock to the economy the result delivered. But the data do show that the UK economy was in a good shape before the referendum. The trade figures released today showed that the trade deficit increased only slightly in May, to £2.3bn. More notably, perhaps, the previous month's deficit saw a big downward revision. Thanks to a sharp reduction in goods imports from the EU, the total April deficit was revised down by £1.3, to £2.0bn, the lowest level in almost a year. And although the ONS did not publish volume indices this time, the latest data appear to be consistent with a positive trade contribution to GDP growth in Q2.

### The week ahead in the UK

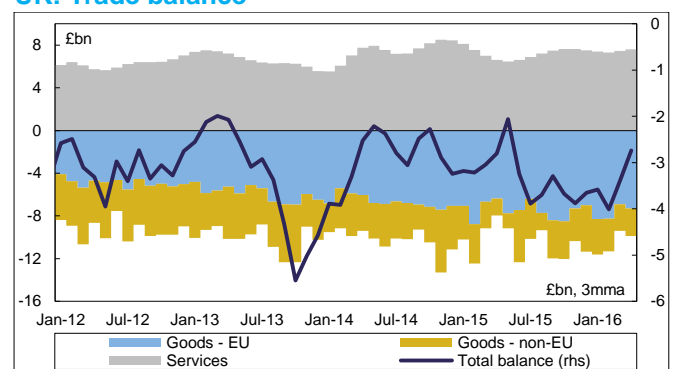
All eyes in the coming week will be on the BoE, where on Thursday monetary policy makers look certain to announce a cut to Bank Rate in response to the post-referendum tightening in financial market conditions and growing evidence of a sharp slowdown in the UK economy. Market consensus is that the move, which would be the first policy rate change since early 2009, will take Bank Rate to 0.25%. However, we think that a larger cut, perhaps of 40bps, is more likely. Ahead of that on

#### UK: GfK Consumer Confidence



Source: GfK, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

#### UK: Trade balance











Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Tuesday, BoE Governor Mark Carney and other FPC members are scheduled to appear before a Parliamentary Committee to discuss the Financial Stability Report, an appearance that may prove quite feisty given the enmity that developed during the referendum campaign between Carney and at least one high-profile member of that Committee. With regard to new economic data, the BRC will release the Retail Sales Monitor on Tuesday and the RICS Residential Market survey is out on Thursday. However, both surveys are for June and, therefore, are unlikely to provide much if any insight into the post-referendum mood on the High Street and in the housing market. Meanwhile, the release of the construction output figures for May is worth keeping an eye on as a guide to the extent to which the pre-referendum uncertainty had hit activity in that sector.


















**The next edition of Euro wrap-up will be published on 12 July 2016.**

## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Trade balance €bn	May	<b>21.0</b>	23.5	25.6	<b>25.7</b>
	 Imports (exports) M/M%	May	<b>0.1 (-1.8)</b>	0.7 (0.4)	-0.2 (0.0)	<b>-0.3 (0.1)</b>
	 Current account balance €bn	May	<b>17.5</b>	24.6	28.8	<b>28.4</b>
France	 Industrial production M/M% (Y/Y%)	May	<b>-0.5 (0.5)</b>	-0.5 (0.9)	1.2 (1.9)	<b>- (1.8)</b>
UK	 GfK Consumer confidence indicator	Jun/Jul	<b>-9</b>	-	-1	<b>-</b>
	 Visible trade balance £bn	May	<b>-9.9</b>	-10.7	-10.5	<b>-9.4</b>
	 Total trade balance £bn	May	<b>2.3</b>	-3.6	-3.3	<b>-2.0</b>
	 Unit labour costs Y/Y%	Q1	<b>1.9</b>	1.6	1.3	<b>1.5</b>
Auctions						
Country	Auction					
- Nothing to report -						










*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

## Coming week's data calendar

Key data releases					
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 11 July 2016</b>					
EMU		14:45 ECB QE net purchases €bn	Weekly	<u>18.5</u>	9.7
France		07:00 Bank of France manufacturing sentiment indicator	Jun	97	97
Italy		09:00 Industrial Production M/M% (Y/Y%)	May	0.0 (1.2)	0.5 (1.8)
<b>Tuesday 12 July 2016</b>					
Germany		07:00 Final EU-harmonised CPI Y/Y%	Jun	0.2	0.0
UK		00:01 BRC Sales like-for-like Y/Y%	Jun	-	0.5
<b>Wednesday 13 July 2016</b>					
EMU		10:00 Industrial Production M/M% (Y/Y%)	May	-0.8 (1.4)	1.1 (2.0)
France		07:45 Final EU-harmonised CPI M/M% (Y/Y%)	Jun	0.3	0.1
Italy		09:00 Final EU-harmonised CPI Y/Y%	Jun	-0.3	-0.3
Spain		08:00 Final EU-harmonised CPI M/M% (Y/Y%)	Jun	-0.9	-1.1
<b>Thursday 14 July 2016</b>					
UK		00:01 RICS house price balance %	June	9	19
		12:00 BoE bank rate %	Jul	<u>0.1</u>	0.5
		12:00 BoE asset purchase target £bn	Jul	<u>375</u>	375
<b>Friday 15 July 2016</b>					
EMU		07:00 EU27 New Car Registrations Y/Y%	Jun	-	16.0
		10:00 Trade balance €bn	May	25.0	28.0
		10:00 Final CPI (core) Y/Y%	Jun	<u>0.1 (0.9)</u>	-0.1 (0.8)
Italy		09:00 Trade balance total €bn	May	-	4.5
UK		09:30 Construction Output M/M% (Y/Y%)	May	-1.3 (-3.6)	2.5 (-3.7)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Coming week's events/auctions calendar

Key events & auctions		
Country	BST	Event / Auction
<b>Monday 11 July 2016</b>		
- Nothing scheduled -		
<b>Tuesday 12 July 2016</b>		
UK		09:30 BoE publishes record of FPC meeting held on 28 June 2016
		10:00 BoE's Carney scheduled to speak on Financial Stability in Parliament in London
		10:30 Auction: To sell £0.5bn of 4% 2060 bonds (22-Jan-2060)
		10:40 BoE announces Indexed long-term repo operations results
<b>Wednesday 13 July 2016</b>		
Germany		10:30 Auction: To sell €5bn of 2026 bonds (15-Aug-2026)
Italy		10:00 Auction: To sell bonds
UK		09:30 BoE Q2 credit conditions survey
		10:30 Auction: To sell £1.25bn of 0.125% 2026 index-linked bonds (22-Mar-2026)
<b>Thursday 14 July 2016</b>		
UK		12:00 Monetary policy announcement and MPC minutes
<b>Friday 15 July 2016</b>		
- Nothing scheduled -		

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

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