

Euro wrap-up

Overview

- Bunds were little changed as German IP figures came out broadly in line with expectations.
- Gilts made gains as BoE restarted its asset purchases.
- The focus in the euro area tomorrow is on German trade figures. Most notable in the UK will be the BRC retail sales survey and the NIESR GDP estimate, both for the month of July.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.626	-0.010
OBL 0 10/21	-0.527	-0.009
DBR 0 08/26	-0.064	+0.002
UKT 1¼ 07/18	0.101	-0.045
UKT 1½ 01/21	0.159	-0.056
UKT 2 09/25	0.605	-0.066

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

Euro area

German IP subtracted from GDP growth in Q2

Consistent with last week's weaker-than-expected Italian and Spanish industrial production figures for June, the release of the equivalent German numbers today was relatively downbeat as well. Although industrial output increased by 0.8%M/M, offsetting a drop of a similar magnitude in May, looking through the monthly volatility production was down by 1.0%3M/3M, representing the steepest fall in two years. And the details of the release were hardly encouraging. For example, manufacturing output decreased by 0.7%3M/3M, while a drop in the production of capital goods of 0.9%3M/3M, the steepest since the end of 2012, suggested weaker capex spending in the months ahead. Against this backdrop, when the German Q2 GDP number is released on Friday, we expect it to show that growth slowed from 0.7%Q/Q to 0.3%Q/Q, matching the pace recorded in Q415. By the same token, the aggregate euro area industrial production figure, also out at the end of the week, is likely to show that this sector was a drag on growth in Q2.

French business sentiment inched higher in July

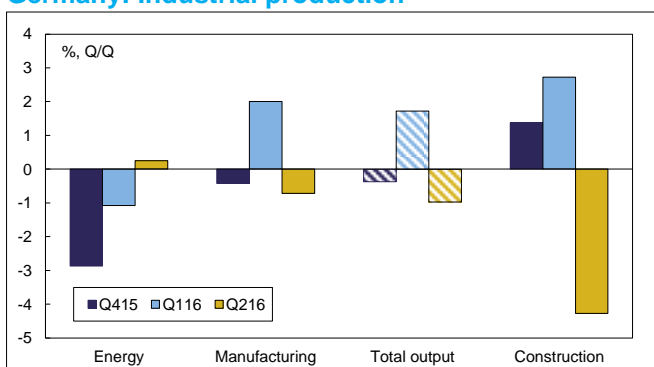
The Bank of France business sentiment survey, also released today, signaled a more positive start for French manufacturers in Q3, with the business confidence indicator rising by 1pt to a three-month high of 98. However, this was offset by a fall of the same size in services sentiment to 96, the lowest since the start of Q2. And taking into account the index for construction, which remained unchanged at 97, the survey was consistent with 0.3%Q/Q growth in Q3, 0.3ppt higher than in Q2.

The day ahead week in the euro area and US

In the euro area, the flow of major German economic data continues tomorrow with the release of the latest trade figures for June. Not least given an increase in output that month, exports seem likely to have recovered as well, having fallen by 1.9%M/M in May. Import growth is expected to have been lower, at 0.6%M/M and, as a result, the trade surplus is expected to have risen from a three-month low of €21bn in May.

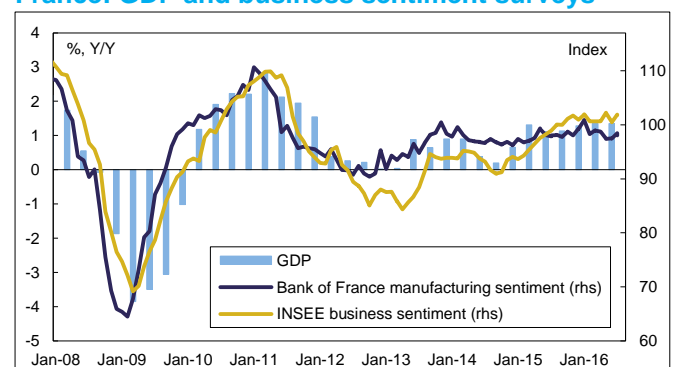
In the US, tomorrow brings wholesale trade data for June and Q2 labour productivity figures, which are expected to show a small increase in output per hour worked after two consecutive quarters of negative growth.

Germany: Industrial production



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

France: GDP and business sentiment surveys



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.






UK










The day ahead in the UK

After a day bereft of new economic data in the UK, tomorrow brings June data for industrial production and trade. While these will provide little new information about how the UK economy is performing after the referendum, they will feed into the second estimate of Q2 GDP (due 26 August). The initial GDP release, which reported surprisingly strong growth of 0.6%Q/Q, assumed a 0.2%M/M increase in industrial output in June, and a slower pace would raise the likelihood of a downward revision to the GDP number. Meanwhile, July releases of the BRC Retail Sales Monitor and the NIESR monthly GDP estimate are also due tomorrow and will provide more up-to-date information about the post-referendum economic conditions in the UK.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 ECB QE net purchases €bn	Weekly	12.4	16.0	16.5	-
Germany	 Industrial production M/M% (Y/Y%)	Jun	0.8 (0.5)	0.7 (0.5)	-1.3 (-0.4)	-0.9 (-)
France	 Bank of France manufacturing sentiment indicator	Jul	98	97	97	-
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases						
Economic data						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Germany		07:00 Trade balance €bn	Jun	23.0	21.0	
		07:00 Current account balance €bn	Jun	23.0	17.5	
		07:00 Imports (exports) M/M%	Jun	0.6 (1.1)	0.1 (-1.9)	
UK		00:01 BRC Sales like-for-like Y/Y%	Jul	-0.7	-0.5	
		09:30 Industrial production M/M% (Y/Y%)	Jun	0.1 (1.6)	-0.5 (1.4)	
		09:30 Manufacturing production M/M% (Y/Y%)	Jun	-0.2 (1.3)	-0.5 (1.7)	
		09:30 Visible trade balance £bn	Jun	-10.0	-9.9	
		09:30 Total trade balance £bn	Jun	-2.6	-2.3	
		15:00 NIESR GDP 3M/3M%	Jul	0.4	0.6	
Auctions and events						
Country	BST	Auction / Event				
- Nothing scheduled -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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