

Euro wrap-up

Overview

- Bunds made gains as French industrial production data surprised on the downside.
- Gilts also ended the day higher despite losing some ground later in the day as the BoE attracted plenty of offers for its Gilt purchase operation.
- The back end of the week brings Q2 GDP figures from the euro area, Germany and Italy. In the UK, the latest RICS house price survey is due tomorrow, followed by construction output figures on Friday.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.637	-0.013
OBL 0 10/21	-0.551	-0.023
DBR 0 08/26	-0.107	-0.031
UKT 1¼ 07/18	0.102	-0.007
UKT 1½ 01/21	0.136	-0.024
UKT 2 09/25	0.534	-0.049

*Change from close as at 4.30pm BST.

Source: Bloomberg

Euro area

French IP surprises on the downside

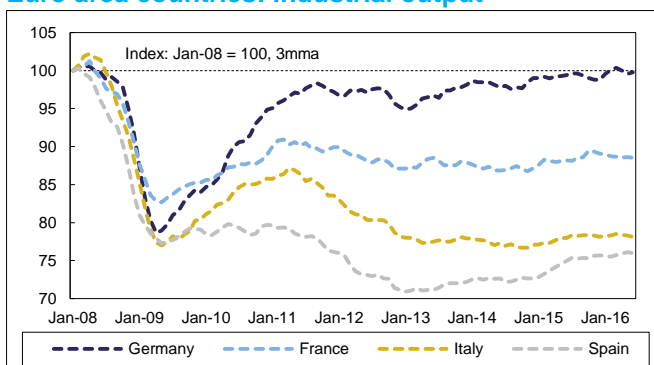
Contrasting with the modest upwards surprise with the German IP earlier this week, the French IP release today aligned more closely with the disappointment of the equivalent Italian and Spanish releases last week. Industrial output fell for the second successive month in June and by a steeper-than-expected 0.8%M/M. And it was only thanks to a near-1½%M/M increase in production in the energy sector that the decline wasn't sharper. Indeed, manufacturing output dropped 1.2%M/M, the steepest in almost a year, to leave it down 1½% compared with a year earlier, with large declines in production of capital and consumer durable goods, down 2.7%M/M and 4.6%M/M respectively, particularly discouraging for the near-term recovery. Taken together with results in other major member states, Friday's release of aggregate euro area industrial production figures looks set to fall short of expectations – indeed, while market consensus is for a rise of 0.5%M/M, we would expect to see a much smaller increase, perhaps of 0.1-0.2%M/M, which would leave industrial output down almost ½%Q/Q. Indeed, in the absence of growth of 1%M/M or more, the sector will have been a drag on GDP growth in Q2.

The coming two days in the euro area and US

Tomorrow brings final inflation figures from France and Italy, which are expected to confirm that the EU-harmonised measures of CPI rose 0.1ppt in July to 0.4%Y/Y and -0.1%Y/Y respectively, the former the highest since November 2014 and the latter the highest for six months. Thursday also brings Italian trade figures for June. Meanwhile, Friday brings the most noteworthy releases of the week, with the second estimate of euro area Q2 GDP on Friday, which is expected to confirm that growth halved to 0.3%Q/Q, broadly in line with the average of the recovery to-date. While we will have to wait until 6 September for the expenditure breakdown, this release will be accompanied by the first readings of German and Italian GDP in Q2. German growth is expected to have moderated from 0.7%Q/Q in Q1 to 0.3%Q/Q to match the rates in the third and fourth quarters of last year, while Italian growth is forecast to slow to just 0.1%Q/Q.

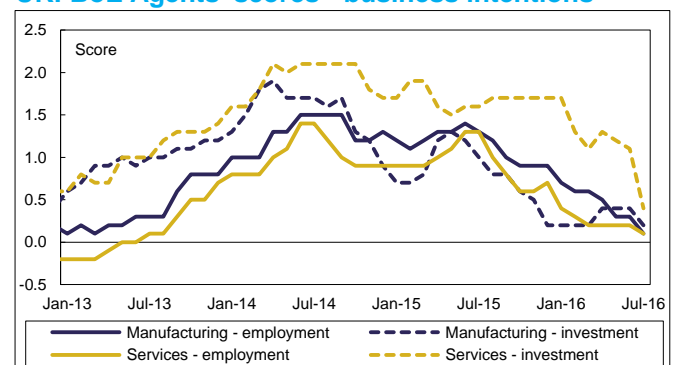
In the US, aside from the usual weekly jobless claims figures, tomorrow brings import and export price indices for July, while the Treasury will sell 30Y bonds. Like in the euro area, Friday arguably brings this week's most notable data, with July retail sales figures and the preliminary University of Michigan consumer sentiment survey for August.

Euro area countries: Industrial output



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: BoE Agents' scores - business intentions



Source: BoE and Daiwa Capital Markets Europe Ltd.



UK

BoE Agents' report adds to evidence that the economy is slowing




As the BoE's Inflation Report last week highlighted, an update of its Agents of business conditions following the EU referendum showed that, perhaps unsurprisingly, companies overwhelmingly suggested that this decision would have a negative effect on their hiring, capital spending and turnover over the coming year. But the Agents' summary also highlighted some differences among key sectors. For example, firms reported that manufacturing output had continued to increase gently compared with a year earlier, with export volumes supported by the sharp depreciation in sterling. Indeed, the relevant export volume score rose back above zero for the first time in eleven months. But construction firms suggested that output growth had eased and was expected to weaken further over coming months. And there was a notable deterioration in turnover in the services sector, with the relevant indicator falling to its lowest level in three years. Against this backdrop, it was perhaps inevitable that the weakening in investment and employment intentions was most evident in the services sector – indeed, the relevant scores fell to their lowest levels since October 2012 and March 2013 respectively. Meanwhile, the survey results for retail sales were also noteworthy. Contrasting with this week's BRC survey, which suggested a very limited Brexit impact on High Street sales in July, the relevant score from BoE Agents' declined to a multi-year low. Admittedly, Agents acknowledged that unseasonal weather was likely a significant factor behind the weakness, although heightened uncertainty since the referendum had reduced demand for big-ticket items. And overall, today's survey adds to the increasing evidence that the outlook in the UK economy, and in particular in the services sector which accounts for nearly 80% of all output, has deteriorated sharply after the referendum vote.

The coming two days in the UK

The RICS Residential Market survey for July is coming out tomorrow. The survey of the previous month was conducted in the wake of the EU referendum, and it showed that the upward pressure on house prices continued to ease in June, with the relevant index falling to the lowest level since the start of 2015. Tomorrow's release is expected to confirm that the index fell further, to levels not seen since the first half of 2013. Meanwhile, Friday brings the latest construction output figures, which will most likely show a second consecutive month-on-month decline in June to leave output down by around 0.4%Q/Q in Q2.

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





European calendar


Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
France	 Industrial production M/M% (Y/Y%)	Jun	-0.8 (-1.3)	-0.1 (-0.4)	-0.5 (0.5)	-	
	 Manufacturing production M/M% (Y/Y%)	Jun	-1.2 (-1.5)	0.2 (0.1)	0.0 (0.6)	0.1 (0.7)	
Auctions							
Country	Auction						
Germany sold 	€4bn of 2026 zero-coupon bonds (15-Aug-2026) at an average yield of -0.09%						

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
France	 07:45	Final EU-harmonised CPI Y/Y%	Jul	<u>0.4</u>	0.3
Italy	 09:00	Final EU-harmonised CPI Y/Y%	Jul	<u>-0.1</u>	-0.2
	 10:00	Trade balance total €bn	Jun	-	5.0
UK	 00:01	RICS house price balance %	Jul	6	16

Country	BST	Auction / Event
UK	 10:30	Auction: To sell £850mn of 0.125% 2036 index-linked bonds (22-Nov-2036)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's data releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	 10:00	Industrial production M/M% (Y/Y%)	Jun	0.5 (0.7)	-1.2 (0.5)
	 10:00	GDP – second release Q/Q% (Y/Y%)	Q2	<u>0.3 (1.6)</u>	0.6 (1.7)
Germany	 07:00	Final EU-harmonised CPI Y/Y%	Jul	<u>0.4</u>	0.2
	 07:00	GDP – preliminary release Q/Q% (Y/Y%)	Q2	<u>0.3 (1.5)</u>	0.7 (1.6)
Italy	 09:00	GDP – preliminary release Q/Q% (Y/Y%)	Q2	<u>0.1 (0.7)</u>	0.3 (1.0)
Spain	 08:00	Final EU-harmonised CPI Y/Y%	Jul	<u>-0.6</u>	-0.9
UK	 09:30	Construction output M/M% (Y/Y%)	Jun	-1.0 (-2.1)	-2.1 (-1.9)

Country	BST	Auction / Event
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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