

# Euro wrap-up

## Overview

- Bunds were little changed despite some firm euro area construction data and a significant narrowing in the euro area current account surplus.
- Gilts were little changed on a quiet day for UK economic data.
- Tuesday should be quiet for euro area and UK economic news, while Wednesday's limited European dataflow will obviously be overshadowed by the Fed and BoJ announcements the same day.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.651	+0.003
OBL 0 10/21	-0.496	+0.006
DBR 0 08/26	0.016	+0.009
UKT 1¼ 07/18	0.140	-0.010
UKT 3¼ 09/21	0.288	-0.004
UKT 1½ 07/26	0.877	+0.001

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

## Euro area

### A strong start to Q3 for construction

Following a weak second quarter, the euro area's construction sector had an exceptionally strong start to Q3, with output in the sector up 1.8%M/M, the strongest rise since January. Growth in the latest month was driven by new building work (up more than 2%M/M) while civil engineering activity also provided moderate support. At the country level, growth was relatively widely shared, with Italy the only one of the four largest member states to post a drop in activity in July. But while the solid gain in Germany (almost 2%M/M) was consistent with the expected resumption of a steady upwards trend – underpinned by rising house prices, easy monetary conditions, the surge in immigration and strong sentiment in the sector – the huge jump in France (almost 5%M/M, the most in more than three years) is difficult to reconcile with either economic fundamentals or confidence surveys and seems likely to be followed by a notable retreat in subsequent months. Indeed, we expect to see output in the euro area construction sector shrink again over the near term. However, having declined in Q2 by more than 1%Q/Q, construction output now looks highly likely to make a positive contribution to euro area GDP growth in Q3 as a whole.

### Current account surplus shrinks, but remains too high for comfort

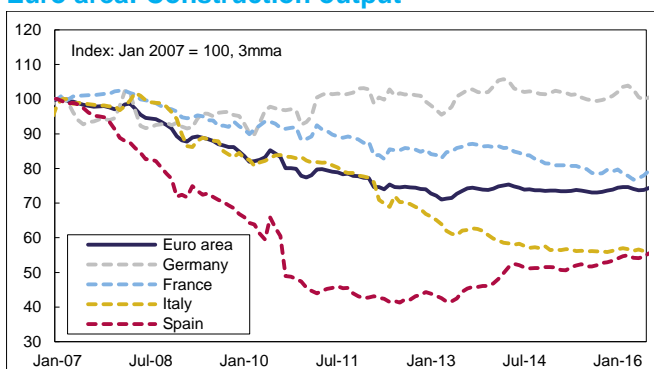
For the third consecutive month, in July the euro area current account surplus fell significantly, down more than €8bn to a near-two-year low of €21bn, and more than 40% lower than April's record high. The narrowing in the headline balance principally reflected a drop of almost €6bn in the goods trade surplus to a sixteen-month low just shy of €26.5bn, while the services and income balances declined too. We think that the weakening in the goods trade balance – seen most notably in Germany – reflects temporary volatility, and anticipate a rebound in the euro area current account surplus in August. Indeed, the cumulative 12-month surplus remained huge at €343bn (3.2% of GDP), more than 10% higher than a year earlier. And so, as in 2015, the euro area current account surplus remains on track to remain the world's largest in nominal terms this year, reflecting the persistent low level of investment relative to domestic savings and contributing significantly to the region's ultra-low interest-rate environment.

### The coming two days in Europe and US

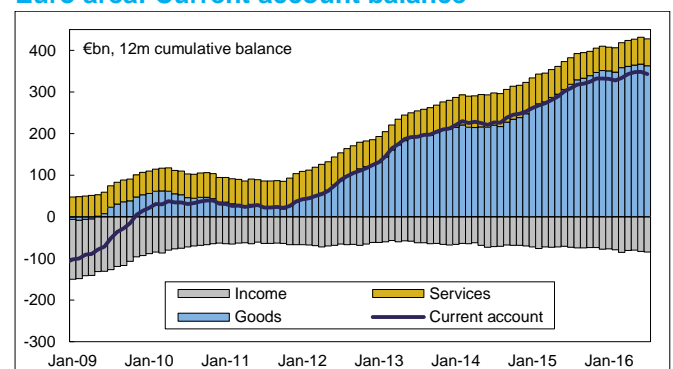
The coming two days should be extremely quiet for economic news from the euro area with no top-tier data due. In the bond markets, however, Germany will sell 5Y Bunds on Wednesday. In the UK, meanwhile, after a quiet day tomorrow, the week's dataflow at least gets going on Wednesday with the BoE Agents' Summary of Business Conditions for Q3. But the quarterly survey will merely summarise the monthly results already published between late May and late August. So perhaps more noteworthy will be the latest public finance figures. The budget surplus in July was lower than in the same month last year, while the August figures are expected to show that borrowing was about £10bn at the end of the summer, about £1bn lower than in August 2015.

In the US, Tuesday will bring housing starts and building permits data. All eyes on Wednesday will obviously be on the Fed. In light of the weakness of certain recent data, and with inflation seemingly still relatively subdued, the strong consensus is for the FOMC to keep its target range for the Fed Funds Rate unchanged at 0.25-0.50%. However, not least given recent relatively hawkish speeches by certain Committee members (e.g. Rosengren), a surprise can't completely be ruled out. And the Fed's updated economic forecasts and Yellen's post-meeting press conference will certainly be scrutinised closely for insight into the near-term policy outlook.

### Euro area: Construction output








### Euro area: Current account balance




## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Current account balance €bn	Jul	21.0	-	28.2	29.5
	 Construction output M/M% (Y/Y%)	Jul	1.8 (3.1)	-	0.0 (0.6)	0.3 (-)
	 ECB public sector asset purchases €bn	Weekly	16.0	16.0	16.4	-
Italy	 Current account balance €bn	Jul	9.4	-	7.2	-
UK	 Rightmove house price index M/M% (Y/Y%)	Sep	0.7 (4.0)	-	-1.2 (4.1)	-

#### Auctions

Country	Auction
UK	 BoE APF operation: £1.17bn of 3-7Y Gilts purchased (4.20 cover ratio)



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
- Nothing scheduled -					


#### Auctions and events

Country	BST	Auction / Event
UK	 10:30	Auction: To sell £2.5bn of 1.5% 2047 bonds (22-Jul-2047)
	 14:50	BoE APF operation: To purchase 15Y+ Gilts




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Wednesday's data releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
UK	 09:30	Public sector net borrowing excluding interventions £bn	Aug	10.2	-1.0

#### Auctions and events

Country	BST	Auction / Event
Germany	 10:30	Auction: To sell €4bn of 2021 zero-coupon bonds (08-Oct-2021)
UK	 09:30	BoE publishes Agents' Summary of Business Conditions Q3 2016
	 14:50	BoE APF operation: To purchase 7-15Y Gilts

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

**The next edition of Euro wrap-up will be published on 21 September 2016.**

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