

Euro wrap-up

Overview

- Bunds made modest gains, with 10Y yields briefly touching record lows, despite a strong German trade report.
- Gilts were little changed today, despite a more promising UK trade report.
- Tomorrow brings French and Italian industrial production data for April, alongside construction output figures from the UK.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/18	-0.549	-0.007
OBL 0 04/21	-0.422	-0.007
DBR 0½ 02/26	0.037	-0.018
UKT 1¼ 07/18	0.383	+0.004
UKT 1½ 01/21	0.757	+0.001
UKT 2 09/25	1.245	-0.009

*Change from close as at 4.30pm BST.

Source: Bloomberg

Euro area

Germany records a new record trade surplus

After data released earlier in the week showed that Germany's manufacturing output surprised on the upside at the start of Q2, the trade report for April also surpassed expectations, with exports in nominal terms unchanged on the month having been expected to fall by almost 1%M/M, to leave them almost 4% higher than a year earlier. And with imports having declined for the second successive month, by 0.2%M/M, the seasonally adjusted trade surplus rose to a new high of €24bn, while the headline unadjusted surplus of €25.6bn was only just below March's record. And so while there was a modest improvement in the services trade deficit, the unadjusted current account surplus was also just off its record high at €28.8bn, albeit still more than €7bn higher than a year earlier, to leave the cumulative twelve-month balance at a whopping €272bn, roughly 9% of GDP.

The day ahead in the euro area and US

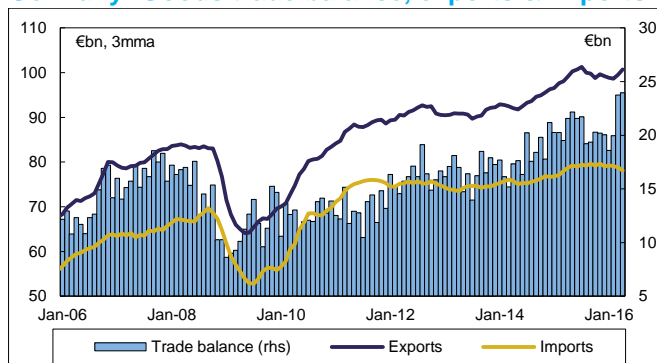
The week ends with April industrial production data from the second and third-largest member states. Like the German release earlier in the week, these are expected to report that French manufacturing output largely reversed the decline of 0.9%M/M seen at the end of Q1. Meanwhile, the increase in Italian industrial production is expected to be more modest (<½%M/M) following a flat reading in March. In addition, Friday brings the final reading for German CPI for May, which is expected to confirm the flash estimate of 0.0%Y/Y, up from -0.3%Y/Y in April. In the US, tomorrow brings the preliminary University of Michigan's consumer sentiment survey for June, alongside the latest monthly Federal budget statement.

UK

Exports and imports increase notably in April

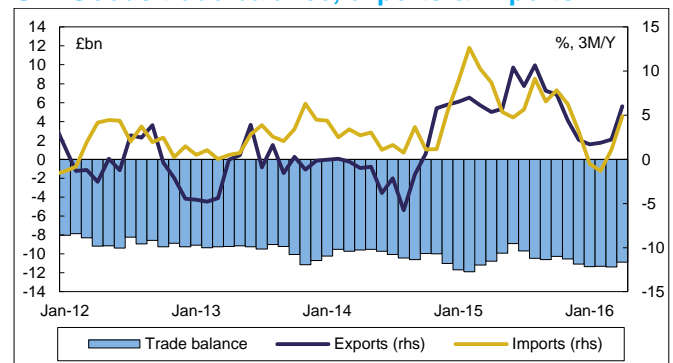
Consistent with yesterday's announcement of faster-than-expected industrial production growth at the start of Q2, more positive news arrived today in the form of the latest trade figures, which showed the headline trade deficit falling to £3.3bn, the lowest level in seven months, while the goods trade balance saw a small improvement as well. Looking at goods exports, they increased by 9.1%M/M in nominal terms, the strongest pace since January 2003, while in real terms growth of 11.2%M/M was the firmest since the series began in 1998. Meanwhile, imports growth was also strong, albeit slightly lower, at 5.9%M/M and 5.7%M/M (in real terms). So overall, today's figures bucked the trend of weak trade data in recent months. Of course, these data are particularly volatile, and it remains to be seen if strong trade flows will be maintained over the remainder of the quarter against the backdrop of weakening business sentiment and rising uncertainty ahead of the EU membership vote.

Germany: Goods trade balance, exports & imports



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Goods trade balance, exports & imports



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.


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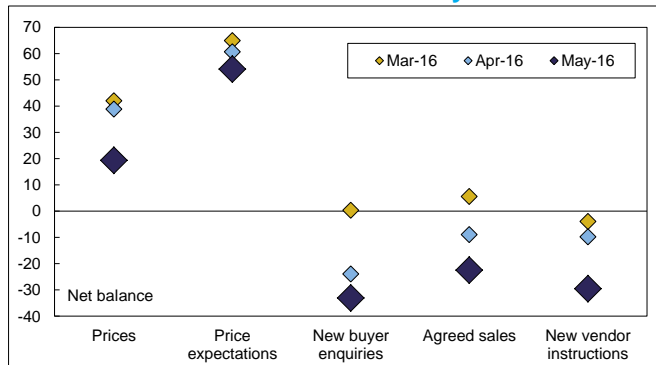
House price growth to moderate

The release of the RICS residential market survey confirmed that the upward pressure on house prices continued to ease, with the relevant index falling sharply from 39% to 19% in May, the lowest level in fifteen months. The survey also assessed that demand in the housing market continued to decline, however, in May it was broadly matched by an equivalent change in supply. The weakness reflected some payback for the surge in activity ahead of April's increase in Stamp Duty on second properties, while uncertainty ahead of the EU referendum also played a significant role. Nevertheless, the medium-term outlook remained relatively firm, with a net balance of 54% of survey contributors expecting prices to rise over the coming twelve months. Meanwhile, with respect to current price growth, London continued to lag behind and remained the only major region signaling a decline in prices. Arguably, the impact from the tax change and the referendum is greater in the capital, while ongoing concerns about stretched affordability in certain London areas are also significant.

The day ahead in the UK

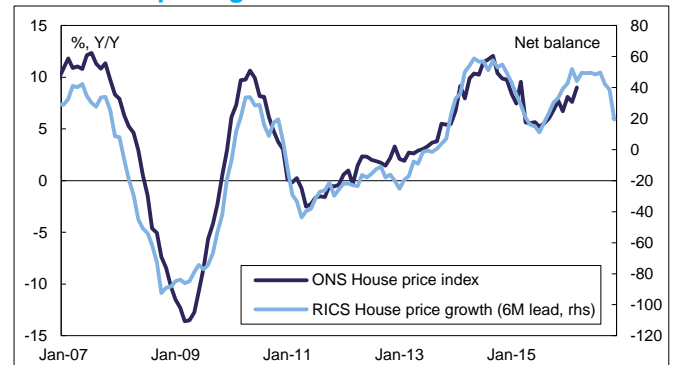
The latest output figures from the construction sector are out tomorrow. Output is expected to have risen in April, although the forecast increase of 1½%M/M would not fully reverse the decline in March. And so, having plummeted to -4.5%Y/Y in March, the year-on-year rate of decline is expected to have steepened.

UK: RICS Residential Market Survey











Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: House price growth









Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Trade balance €bn	Apr	25.6	22.8	26.0	26.2
	 Imports (exports) M/M%	Apr	-0.2 (0.0)	1.3 (-0.8)	-2.3 (1.9)	-
	 Current account balance €bn	Apr	28.8	21.0	30.4	29.9
	 Labour costs Y/Y%	Q1	3.1	-	2.1	2.0
UK	 RICS house price balance %	May	19	35	41	39
	 Visible trade balance £bn	Apr	-10.5	-11.1	-11.2	-10.6
	 Total trade balance £bn	Apr	-3.3	-3.7	-3.8	-3.5
Auctions						
Country	Auction					
UK sold		£0.9bn of 0.125% 2036 index-linked bonds (22-Nov-2036) at an average yield of -0.974%				

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	Final EU-harmonised CPI Y/Y%	May	0.0	-0.3
France		07.45	Industrial production M/M% (Y/Y%)	Apr	0.4 (1.0)	-0.3 (-0.8)
Italy		09.00	Industrial production M/M% (Y/Y%)	Apr	0.3 (1.1)	0.0 (0.5)
UK		09.30	Construction output M/M% (Y/Y%)	Apr	1.4 (-4.8)	-3.6 (-4.5)
Auctions and events						
Country	BST	Auction / Event				
EMU		08.00	ECB's Weidmann scheduled to speak in Germany			
		13.15	ECB's Constâncio scheduled to speak in Germany			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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