

Euro wrap-up

Overview

- While equity investors responded negatively to Deutsche Bank's restructuring plans, Bunds were little changed as Germany's latest industrial production and export data broadly met expectations.
- Gilts made gains on a quiet day for UK economic news.
- Tuesday will bring news on retail sales from Italy and the UK, while Wednesday will bring data on French and Italian IP and UK monthly GDP.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change*
BKO 0 06/21	-0.744	+0.006
OBL 0 04/24	-0.677	+0.002
DBR 0% 02/29	-0.374	-0.010
UKT 1½ 01/21	0.543	-0.015
UKT 1 04/24	0.516	-0.024
UKT 1½ 10/28	0.707	-0.031

*Change from close as at 4.00pm BST.
Source: Bloomberg

Euro area

German IP up (slightly) in May

After Friday's [dire factory orders](#) numbers, today's German industrial production and trade reports for May broadly met expectations, even if they were still consistent with a weak second quarter. In particular, having dropped 2.0%M/M in April, industrial production rose 0.3%M/M. Manufacturing output rose a firmer 0.7%M/M following a drop of 2.0% the previous month, with output of capital goods seeing the strongest growth, up 2.0%M/M albeit having fallen 2.7%M/M in April. Production of energy and construction, which were both down more than 2.0%M/M, weighed on overall output. Despite the improved showing in May, industrial production over the first two months of Q2 was still trending 1.5% below Q1, with manufacturing output similarly on average down 1.2% from the prior quarter. And while output of consumer goods was running slightly above its level in Q1, production of intermediate and capital goods was still trending more than 1.0% below the first-quarter level.

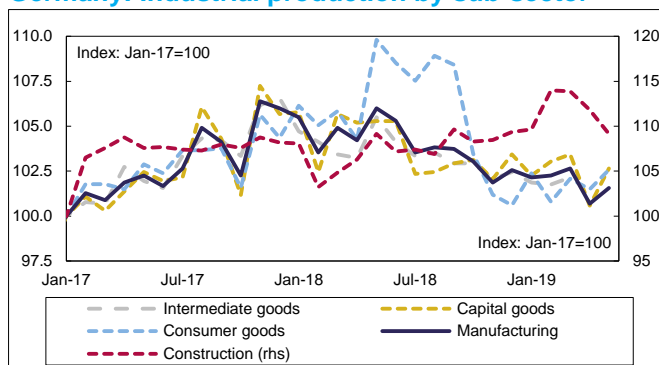
Exports tick higher too, but Q2 GDP looks weak

Consistent with the slight improvement in IP, today's German trade figures reported a pickup in the value of exports in May, rising more than 1%M/M after dropping 3.4%M/M. Compared to a year earlier, exports were up 4.5%Y/Y, supported by shipments beyond the EU (up more than 10%Y/Y), with those to the euro area up a little more than ½%Y/Y but those to non-euro area EU member states down almost 4½%Y/Y. With imports down ½%M/M, the seasonally adjusted trade surplus rose €1.7bn to €18.7bn, in line with the average of the previous six months. Adjusting also for price changes, export volumes rose 1.1%M/M while imports fell 0.4%M/M. But due to a particularly weak performance in April, when export volumes fell 3.3%M/M, on average in the first two months of Q2 exports were trending 2.2% below the average in Q1. And with imports down 1.6% on the same basis, net trade currently appears on track to have contracted from GDP growth in Q2. Added together with the weak showing for industrial production, today's data raise the risk of negative growth for GDP in the second quarter, although we currently maintain our forecast of +0.1%Q/Q.

Bank of France survey suggests softening in June

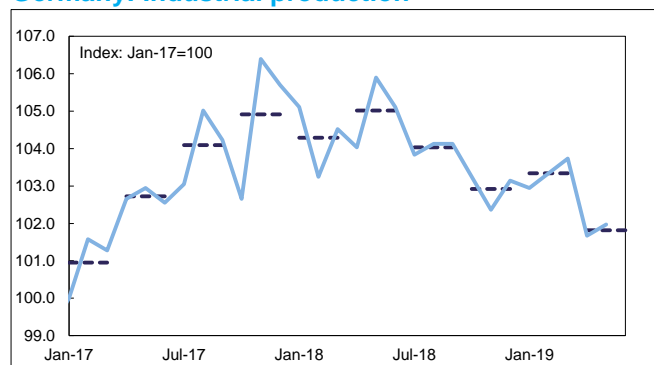
Having held up surprisingly well over recent months even as Germany's industrial sector woes deepened, the Bank of France's latest business sentiment survey suggested that conditions in the French manufacturing sector deteriorated significantly in June, with the headline index falling 4pts to 95, a more than six-year low. Judging from the survey, production declined significantly in the autos, IT and electronic equipment sectors in particular. Admittedly, these indices contrasted with the messages from the manufacturing sector given by the recent INSEE survey and PMIs, with the latter showing the headline

Germany: Industrial production by sub-sector



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: Industrial production*



*Dark blue dashed lines are quarterly averages.
Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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index rising to a nine-month high. In addition, the BoF's survey suggested that conditions were little changed in the services sector in June, with the relevant index moving sideways at the long-run average of 100. Meanwhile, conditions in the construction sector were reportedly impacted by last month's record-breaking heat-wave, with the equivalent index down 1pt to 104. Overall, the Bank of France assessed today's survey to be consistent with GDP growth of 0.2%Q/Q in Q2, down 0.1ppt from its previous forecast and bang in line with our own current forecast.

The coming two days in the euro area and US

Tuesday should be relatively uneventful for new economic data from the euro area with Italian retail sales figures for May the most notable new release. The following day brings industrial production figures from France and Italy, which like today's German figures are expected to report modest growth (circa 0.3%M/M) in May. But while this would leave output up 1½%Y/Y in France, it would also leave output down by a similar magnitude in Italy. Supply-wise, Germany will sell 5Y and 10Y index-linked Bunds tomorrow and 10Y fixed-rate Bunds on Wednesday.

In the US, the main focus over the coming two days will be on monetary policy, with Fed Chair Powell due to testify to the House Financial Services Panel on Wednesday. That day will also bring the minutes from the Fed's June policy meeting, when the FOMC became significantly more dovish. FOMC members Bullard (voting) and Bostic (non-voting) are also due to speak publicly. Data-wise, tomorrow will bring JOLTS job opening figures for May, while wholesale inventories and trade numbers for the same month will be published on Wednesday. In the markets, the US Treasury will sell 3Y notes tomorrow and 10Y notes on Wednesday.

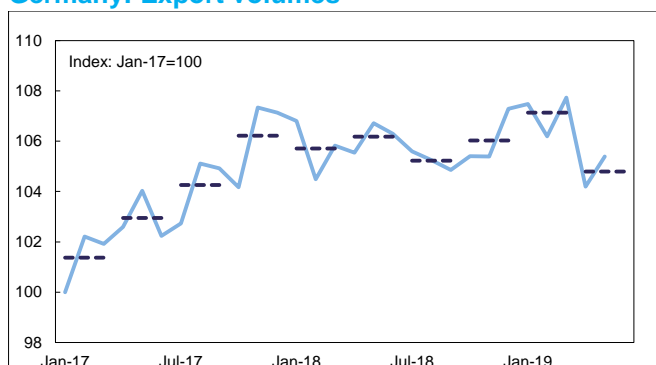
UK

The coming two days in the UK

After a quiet start to the week for UK economic data, tomorrow will bring just the BRC's retail sales monitor for June, which seems highly likely to add to evidence of a weak quarter for retail sales in Q2. Wednesday will bring a deluge of top-tier releases including the monthly GDP figures for May, as well as the monthly activity and trade reports for the same month. Following the drop of 0.4%M/M in April, GDP is expected to have risen 0.3%M/M in May. Growth will have been led by a rise in manufacturing output, probably above 2.0%M/M, driven by a rebound in auto production as car plants returned to normal following Brexit-related closures the previous month. Growth in services, however, is expected to have been subdued, at just 0.1%M/M. And having narrowed the prior month, the trade deficit is expected to have widened once again on stronger imports.

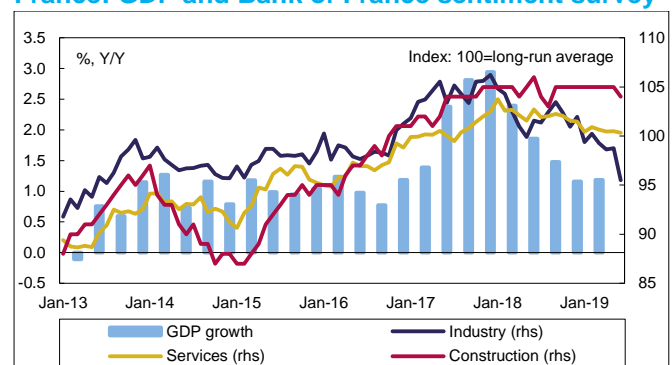
In the absence of significant news, the next edition of the Euro wrap-up will be published on 10 July 2019

Germany: Export volumes*



*Dark blue dashed lines are quarterly averages.. Source: Bundesbank, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

France: GDP and Bank of France sentiment survey







Source: Thomson Reuters, Bloomberg 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	 Industrial production M/M% (Y/Y%)	May	0.3 (-3.7)	0.4 (-3.2)	-1.9 (-1.8)	-2.0 (-2.3)
	 Trade balance (current account) €bn	May	20.6 (16.5)	20.6 (16.5)	17.9 (22.6)	- (22.9)
	 Exports (imports) M/M%	May	1.1 (-0.5)	0.9 (0.3)	-3.7 (-1.3)	-3.4 (-0.9)
France	 Bank of France sentiment survey – industrial indicator	Jun	95	99	99	-



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
Italy	 09.00	Retail sales M/M% (Y/Y%)	May	-	0.0 (4.2)
UK	 00.01	BRC retail monitor, like-for-like sales Y/Y%	Jun	-	-3.0









Auctions and events

Country	BST	Auction / Event
Germany	 10.30	Auction: to sell €500mn of 0.1% 2023 index-linked bonds
	 10.30	Auction: to sell €250mn of 0.5% 2030 index-linked bonds



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
France	 07.45	Industrial production M/M% (Y/Y%)	May	0.3 (1.6)	0.4 (1.1)
Italy	 09.00	Industrial production M/M% (Y/Y%)	May	0.1 (-1.2)	-0.7 (-1.5)
UK	 09.30	GDP M/M% (3M/3M%)	May	0.3 (0.1)	-0.4 (0.3)
	 09.30	Services output M/M% (3M/3M%)	May	0.1 (0.1)	0.0 (0.2)
	 09.30	Industrial output M/M% (Y/Y%)	May	1.4 (1.0)	-2.7 (-1.0)
	 09.30	Manufacturing output M/M% (Y/Y%)	May	2.3 (1.1)	-3.9 (-0.8)
	 09.30	Construction output M/M% (Y/Y%)	May	0.2 (0.2)	-0.4 (2.4)
	 09.30	Trade balance (goods trade) £bn	May	-3.2 (-12.6)	-2.7 (-12.1)

Auctions and events

Country	BST	Auction / Event
UK	 18.10	BoE MPC member Tenreyro to speak in London
Germany	 10.30	Auction: to sell €4bn of 0% 2029 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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