

# Euro wrap-up

## Overview

- Bunds weakened today after French industrial production recorded its best monthly growth for two years.
- Gilts also made losses as UK GDP almost reversed the steep decline seen in April.
- Focus tomorrow will be on the ECB's account from its June Governing Council meeting for any insights into the likelihood of near-term policy action. Final inflation figures for June are due from Germany and France.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 06/21	-0.732	+0.010
OBL 0 04/24	-0.644	+0.022
DBR 0¼ 02/29	-0.306	+0.050
UKT 1½ 01/21	0.569	+0.024
UKT 1 04/24	0.562	+0.033
UKT 1½ 10/28	0.755	+0.035

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

## Euro area

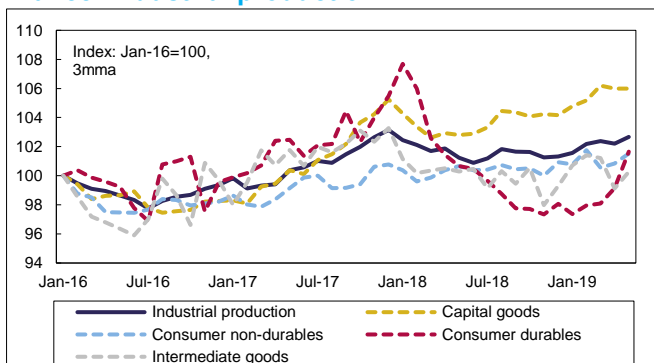
### French IP surges in May

Similar to Monday's [German release](#), today's French industrial production figures indicated a pickup in May. But unlike Germany, the French industrial sector appears to have been on fire that month, with output rising 2.1%M/M, much stronger than expected and the best monthly performance in two years. This left IP up an impressive 4.0%Y/Y, also the strongest annual rate since 2017. While energy production posted another sizeable increase in May (5.2%M/M), construction output was also firmer, rising for the first month in three and by 1.9%M/M. Most encouragingly, manufacturing output also rose for the first time since February and by a strong 1.6%M/M, supported not least by a rebound in autos and transport equipment. Indeed, production of consumer durable goods rose for the third consecutive month and by a healthy 3.6%M/M, leaving it on average so far in Q2 a whopping 4.7% higher than the average in Q1. And production of consumer non-durables rose to a record high level in May, leaving it trending so far in Q2 almost 2½% higher than in Q1. But we won't get too carried away. Despite a better showing in May, production of intermediate and capital goods continued to trend below the Q1 average. And, overall, French manufacturing output in the first two months of Q2 was just 0.2% higher than the average in Q1. We also expect production to drop back again in June. Nevertheless, while construction was also down around 2% on the same basis, the surge in energy production left total IP so far in Q2 0.8% higher than the average in Q1, consistent with continued moderate, if not vigorous, GDP growth last quarter.

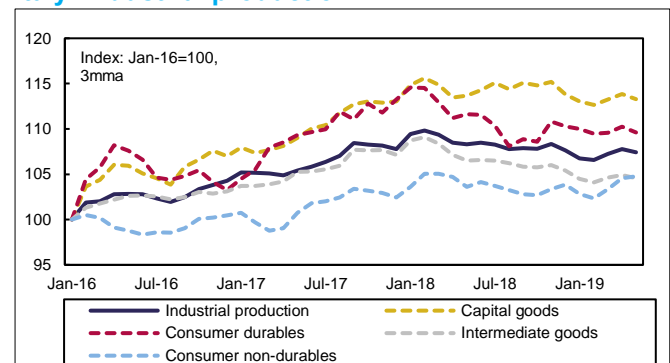
### Italian IP rebounds in May

Italian industrial production numbers for May also exceeded expectations, albeit not to the same extent as in France, with total output rising for the first month in three and by 0.9%M/M. And the improvement was fully accounted for by the manufacturing sector, with improved performances from the general machinery, electrical and transport equipment subsectors. Indeed, output of consumer durables jumped (3.4%M/M), while increases in production of intermediate and capital goods (0.6%M/M and 3.4%M/M) were not enough to offset the weakness in April. So, overall, manufacturing output in April and May was on average 0.8% below the level in Q1, suggesting that the positive contribution to GDP growth from the sector seen in the first quarter might well be fully reversed in Q2. Certainly, the manufacturing PMI signalled ongoing contraction in June. And surveys suggest limited support from the services sector too. So, we continue to forecast that Italy's economy moved no better than sideways last quarter. Meanwhile, taken together with modest IP growth in Germany and Spain (0.3%M/M), today's data suggest that, when the euro area's May data are published on Friday, they will report the first monthly increase in industrial production in four months with growth around 0.8%M/M. But this would still leave output down ½%Y/Y and on average in the first two months of Q2 0.2% below the average in Q1.

### France: Industrial production



### Italy: Industrial production



## The day ahead in the euro area and US

All eyes tomorrow will be on the ECB account from its early-June meeting – when the Governing Council amended its forward guidance to state that rates are expected to remain at their present levels at least through the first half of 2020 – for any further insights into whether a rate cut is likely to be forthcoming at its meeting in two weeks' time. Data-wise, tomorrow will bring just final June inflation figures from Germany and France. These are likely to align with the flash estimates that showed the headline EU-harmonised rates moving sideways at 1.3%Y/Y in the former and increasing 0.3ppt to 1.4%Y/Y in the latter. In the markets, Italy will sell 3Y and 7Y bonds.

In the US, tomorrow will see Fed Chair Powell repeat his semi-annual monetary policy testimony before the Senate, while the latest CPI figures for June will also attract attention. Downward pressure on energy prices is likely to see the headline CPI rate ease 0.2ppt to 1.6%Y/Y, while the core rate is expected to have moved sideways at 2.0%Y/Y. Thursday will also bring weekly jobless claims figures and the Federal monthly budget statement. Supply-wise, the Treasury will sell 30Y bonds.

## UK

### GDP rebound in May to be short lived

There were no major surprises from today's UK monthly output data for May. In particular, having dropped 0.4%M/M in April GDP rebounded 0.3%M/M the following month. Growth in May was led by manufacturing, although the rise in production in that sector of 1.4%M/M was relatively paltry compared to the prior month's (revised) plunge of 4.2%M/M, which was the steepest in seventeen years. Just as the decline in April had been driven by the auto sector, as several plants were closed temporarily to cope with no-deal Brexit risks, car production led the rebound in May with a double-digit percentage gain as operations returned broadly to normal. Elsewhere, construction output rose a moderate 0.6%M/M, barely sufficient to reverse April's drop. And output in the all-important services sector was unchanged, the weakest performance since December, weighed in particular by a decline in transport and communication. With GDP growth in March revised up 0.2ppt to 0.1%M/M, the three-month growth rate in May was firmer than expected at 0.3%3M/3M down 0.1ppt from an upwardly rate in April. Nevertheless, on average over the first two months of Q2 the level of GDP was 0.1% down from the Q1 average. And given the weakness of a range of survey indicators – e.g. the all-sector PMI fell 1.5pts in June to 49.2, the lowest in almost three years – we maintain our Q2 forecast of a decline in GDP of 0.1%Q/Q.

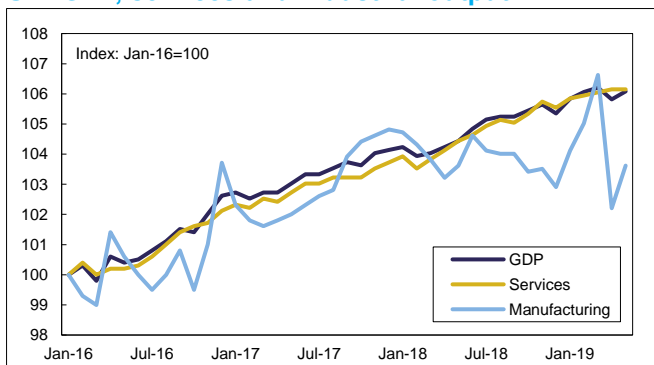
### Net trade boosted by declining imports

This notwithstanding, today's trade report provided some cause for cautious optimism that net exports provided some support in the second quarter. Certainly, the figures showed the headline trade deficit narrowing in May by £1.4bn to £2.3bn, while the goods trade balance improved by £1.2bn to -£11.5bn, both the smallest deficits since September. With imports broadly unchanged in May, the improvement reflected a near-2½%M/M increase in the value of exports. When stripping out price effects, export volumes were still up a sizeable 2.3%M/M in May, with goods exports up more than 3%M/M. This, however, followed a marked contraction in April, when total exports fell 6.4%M/M and goods exports were down 12.4%M/M. So, on average so far in Q2, goods exports were still a whopping 7½% lower than the average in Q1, principally reflecting a 12½% drop in exports to the EU representing payback for the surge in Q1 related to stockpiling ahead of the initial Brexit deadline. When including services, the decline in exports on the same basis was not quite so steep, at 3½%. Moreover, with total import volumes trending more than 9½% below the average in Q1, today's report suggests that net trade is on track to provide a notable boost to GDP growth in Q2. Of course, by the same token, inventories are likely to subtract significantly.

## The day ahead in the UK

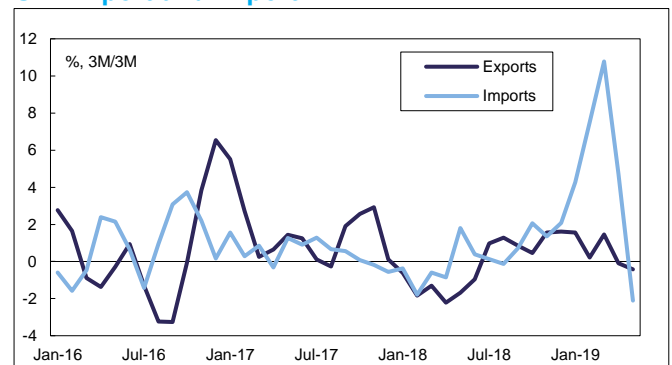
It should be a relatively quiet day for UK economic news tomorrow with the latest RICS survey for June expected to show ongoing weakness in the housing market.

### UK: GDP, services and industrial output



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### UK: Export and import












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
France	 Industrial production M/M% (Y/Y%)	May	<b>2.1 (4.0)</b>	0.3 (1.6)	0.4 (1.1)	<b>0.5 (-)</b>
	 Manufacturing production M/M% (Y/Y%)	May	<b>1.6 (3.4)</b>	0.3 (-)	0.0 (0.5)	<b>-0.1 (0.4)</b>
Italy	 Industrial production M/M% (Y/Y%)	May	<b>0.9 (-0.7)</b>	0.2 (-1.5)	-0.7 (-1.5)	<b>-0.8 (-)</b>
UK	 GDP M/M% (3M/3M%)	May	<b>0.3 (0.3)</b>	0.3 (0.1)	-0.4 (0.3)	<b>- (0.4)</b>
	 Industrial output M/M% (Y/Y%)	May	<b>1.4 (0.9)</b>	1.5 (1.2)	-2.7 (-1.0)	<b>-2.9 (-1.1)</b>
	 Manufacturing output M/M% (Y/Y%)	May	<b>1.4 (0.0)</b>	2.2 (1.1)	-3.9 (-0.8)	<b>-4.2 (-1.0)</b>
	 Construction output M/M% (Y/Y%)	May	<b>0.6 (1.7)</b>	0.1 (0.9)	-0.4 (2.4)	<b>-0.5 (3.1)</b>
	 Services output M/M% (3M/3M%)	May	<b>0.0 (0.3)</b>	0.1 (0.1)	0.0 (0.2)	<b>0.1 (0.3)</b>
	 Trade balance (goods trade) £bn	May	<b>-2.3 (1.2)</b>	-3.2 (-1.3)	-2.7 (-1.2)	<b>-3.7 (-1.3)</b>



#### Auctions



Country	Auction
Germany	 sold €3.16bn of 0% 2029 bonds at an average yield of -0.26%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Yesterday's results

#### Economic data




Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Italy	 Retail sales M/M% (Y/Y%)	May	<b>-0.7 (-1.8)</b>	-	0.0 (4.2)	-
UK	 BRC retail monitor, like-for-like sales Y/Y%	Jun	<b>-1.6</b>	-	-3.0	-

Germany	 sold €385mn of 0.1% 2023 index-linked bonds at an average yield of -1.29%
	 sold €184mn of 0.5% 2030 index-linked bonds at an average yield of -1.22%




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 CPI (EU-harmonised CPI) Y/Y%	Jun	1.6(1.3)	1.4 (1.3)
France	 07.45	Final CPI (EU-harmonised CPI) Y/Y%	Jun	(1.2 (1.4)	0.9 (1.1)
UK	 00.01	RICS house price balance %	Jun	-12	-10

#### Auctions and events

Country	BST	Auction / Event
EMU	 12.30	ECB account from the 06 June Governing Council meeting
Italy	 10.00	Auction: to sell €3bn of 1% 2022 bonds
	 10.00	Auction: to sell €2.5bn of 2.1% 2026 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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