

# Euro wrap-up

## Overview

- Bunds made modest losses at the longer end of the curve as data confirmed the best performance for euro area IP in four months.
- Gilts made modest gains at the short end of the curve on a quiet day for economic news from the UK.
- The coming week brings new data related to the UK labour market, inflation and retail sales, as well as final euro area inflation figures.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 06/21	-0.728	+0.002
OBL 0 04/24	-0.615	+0.007
DBR 0¼ 02/29	-0.251	+0.016
UKT 1½ 01/21	0.594	-0.012
UKT 1 04/24	0.625	-0.007
UKT 1½ 10/28	0.834	-0.002

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

## Euro area

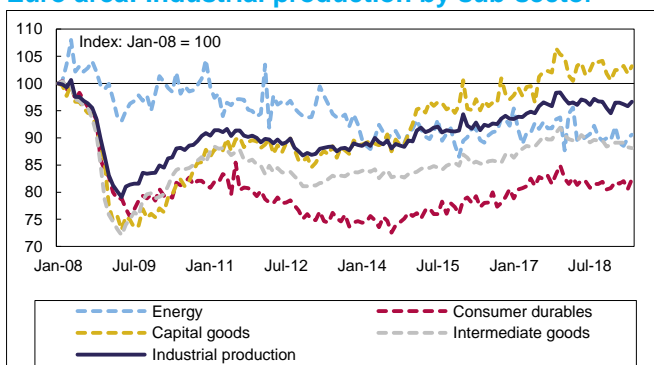
### Best month for industrial production since January

Industrial production in the euro area rose in May by 0.9%M/M, the most since January, to its highest level since October. While growth beat initial expectations, it was not a major surprise given the positive readings already released for each of the four large member states. Indeed, most notably, French manufacturing output was up 1.6%M/M, the most in two years. Compared to a year earlier, euro area industrial production was still down 0.5%Y/Y, the steepest drop since December albeit relatively modest compared to the decline of 4.2%Y/Y in December. Within the detail, manufacturing output was also up 0.9%M/M, likewise the best reading since January, led by production of consumer goods (up 2.6%M/M). Capital goods output was also firmer, although the gain of 1.3%M/M was insufficient to reverse the drop the prior month. Indeed, while car production rebounded 8.7%M/M, it was still 6.0% lower than a year earlier. And production of intermediate goods, which is particularly sensitive to global trade, declined 0.2%M/M to mark the fourth successive month without growth. Meanwhile, energy production rose for the second successive month and by 0.7%M/M. Growth in May meant that the level of manufacturing production in the first two months of Q2 averaged 0.3% lower than in Q1. Survey indicators such as the manufacturing output PMI (down 0.4pt to a contractionary 48.5) point to renewed weakness in June. So, we continue to forecast a drop in production over the second quarter as a whole, which would represent the third decline in the past four quarters. And with new orders still trending lower, we anticipate a subdued third quarter too.

### The week ahead in the euro area and US

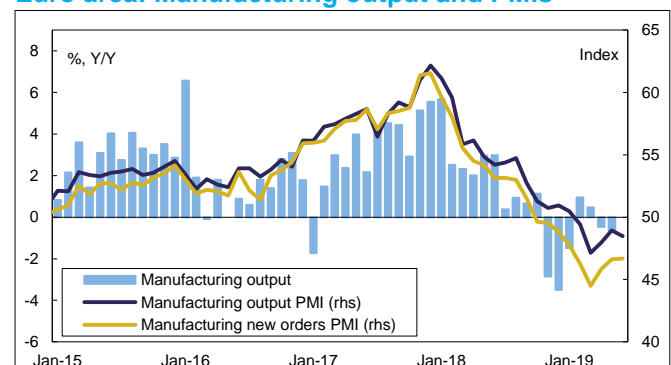
Ahead of the forthcoming ECB meeting on 25 July, the coming week brings a few releases of note including final euro area inflation figures for June on Wednesday. Like the French number (1.4%Y/Y), today's final estimate of Spanish inflation on the EU measure was left unrevised from the flash (0.6%Y/Y, down 0.3ppt principally due to a sharp drop in the transportation component). Given the upside revision to Germany's final figure yesterday (up 0.2ppt from the flash to 1.5%Y/Y), we expect the euro area's headline CPI rate to be revised higher from the flash estimate of 1.2%Y/Y, which was unchanged from May. Risks to the preliminary core inflation rate – which increased 0.3ppt to 1.1%Y/Y – are also skewed to the upside. Wednesday will also see the release of new car registrations figures for June, as well as construction output numbers for May. Ahead of this, the euro area's goods trade report for May is due on Tuesday. In addition, the ECB's balance of payments figures for the same month will be published on Friday. At the national level, the most noteworthy releases will come on Tuesday, with Germany's ZEW survey of financial professionals for July and final Italian CPI figures for June. Supply-wise, Germany will sell longer-dated bonds on Wednesday, while France and Spain will sell bonds with various maturities on Thursday.

### Euro area: Industrial production by sub-sector



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: Manufacturing output and PMIs



Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.



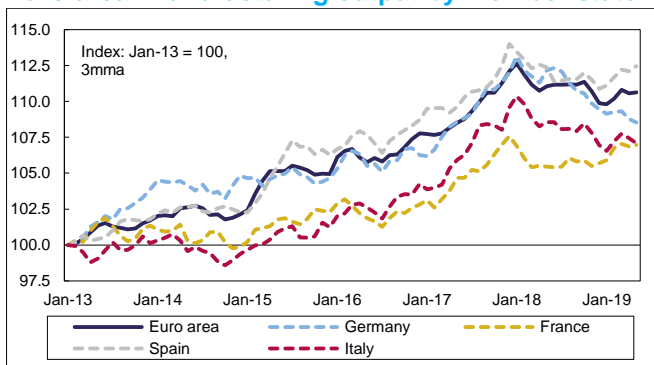
In the US, Tuesday will be a busy day for key economic releases, including industrial production and retail sales figures for June. Expectations are for retail sales growth to have slowed at the end of the second quarter. Meanwhile, manufacturing output is likely to have posted a modest increase for the second successive month, following marked weakness in the first four months of the year. That day will also bring business inventories figures for May, import and export price indices for June and the NAHB housing index for July. Housing starts numbers for June will follow on Wednesday, alongside the Fed's latest Beige Book. Sentiment indicators due in the coming week include the Empire manufacturing index (Monday), Philly Fed index and Conference Board's leading indicators (Thursday) and the preliminary July University of Michigan consumer confidence survey (Friday). In the markets, a 10Y TIPS auction is scheduled on Thursday.

## UK

### The week ahead in the UK

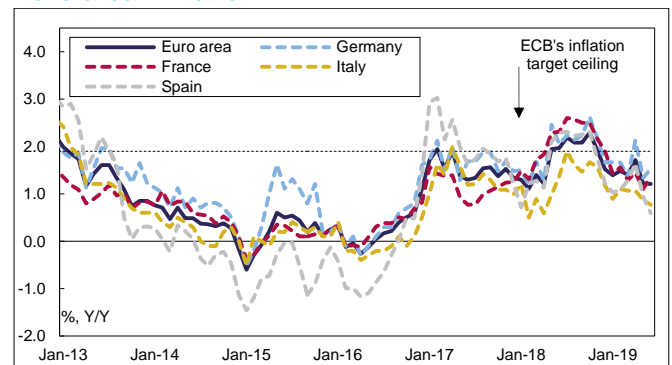
After a quiet end to the week for UK economic news, the coming week will bring a number of top-tier releases, kicking off on Tuesday with the latest employment and wage figures for May. The labour market has remained a 'good news' story in the UK, with employment having rebounded in April to a record high. But not least with firms more downbeat about the near-term outlook in light of persistent Brexit uncertainty, we would expect some payback in May although the three-month jobs growth is likely to have remained positive. Having slowed to a seven-month low in April, wage growth will also be closely watched. Wednesday's inflation release is expected to show the headline and core CPI rates moving sideways in June at 2.0%Y/Y and 1.7%Y/Y respectively. That day will also bring the ONS's latest house price index for May, as well as the BoE's latest quarterly credit conditions survey. Focus on Thursday, meanwhile, will be on June's retail sales figures, which will provide further insight into household consumption in the second quarter. A third consecutive monthly decline is expected to conclude a weak performance on the High Street in Q2. Finally, Friday will bring the latest public finance figures for May. In the markets, the DMO will sell 2037 Gilts on Tuesday.

### Euro area: Manufacturing output by member state



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.
















### Euro area: Inflation\*



\*EU-harmonised measure. Flash estimates for June 2019 for euro area and Italy. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



**In the absence of significant news, the next edition of the Euro wrap-up will be published on 16 July 2019**

## Daiwa economic forecasts

		2019				2020				2018	2019	2020
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP forecasts %, Q/Q</b>												
Euro area		0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.1	1.8	1.0	0.8
Germany		0.4	0.1	0.2	0.2	0.2	0.3	0.2	0.1	1.4	0.7	0.9
France		0.3	0.2	0.3	0.3	0.3	0.3	0.2	0.2	1.6	1.1	1.1
Italy		0.1	0.0	0.0	0.0	0.0	0.1	-0.1	-0.1	0.7	0.1	0.1
Spain		0.7	0.5	0.4	0.4	0.4	0.4	0.4	0.3	2.6	2.3	1.6
UK		0.5	-0.1	0.2	0.2	0.2	0.2	0.2	0.1	1.4	1.2	0.7
<b>Inflation forecasts %, Y/Y</b>												
Euro area												
Headline CPI		1.4	1.4	1.0	1.0	1.4	1.3	1.4	1.5	1.8	1.2	1.4
Core CPI		1.0	1.0	1.0	1.0	1.1	1.2	1.3	1.4	1.0	1.0	1.2
UK												
Headline CPI		1.9	2.0	1.8	1.6	1.9	1.6	1.5	1.7	2.5	1.8	1.8
Core CPI		1.9	1.7	1.7	1.7	1.8	1.9	1.8	1.7	2.1	1.7	1.8
<b>Monetary policy</b>												
<b>ECB</b>												
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.40	-0.40	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.40	-0.60	-0.60
Net asset purchases*		0	0	0	0	0	0	0	0	15	0	0
<b>BoE</b>												
Bank Rate %		0.75	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.75	0.50	0.50
Net asset purchases**		0	0	0	0	0	0	0	0	0	0	0





















\*Monthly target €bn, end of period. \*\*Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE 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
EMU	 Industrial production M/M% (Y/Y%)	May	<b>0.9 (-0.5)</b>	0.2 (-1.5)	-0.5 (-0.4)	<b>-0.4 (-0.4)</b>
Spain	 Final CPI (EU-harmonised CPI) Y/Y%	Jun	<b>0.4 (0.6)</b>	0.4 (0.6)	0.8 (0.9)	-
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 15 July 2019</b>					
UK		00.01 Rightmove house prices M/M% (Y/Y%)	Jul	-	0.3 (0.0)
<b>Tuesday 16 July 2019</b>					
EMU		10:00 Trade balance €bn	May	17.0	15.3
		10:00 ZEW expectations indicator	Jul	-	-20.2
Germany		10:00 ZEW current situation (expectations) indicator	Jul	5.0 (-22.0)	7.8 (-21.1)
Italy		10:00 Final CPI (EU-harmonised CPI) Y/Y%	Jun	0.8 (0.8)	0.8 (0.9)
UK		09:30 Claimant count rate % (change '000s)	Jun	-	3.1 (23.2)
		09:30 Average weekly earnings (excl. bonuses) 3M/Y%	May	3.1 (3.5)	3.1 (3.4)
		09:30 ILO unemployment rate 3M%	May	3.8	3.8
		09:30 Employment change 3M/3M '000s	May	45	32
<b>Wednesday 17 July 2019</b>					
EMU		07.00 EU new car registrations Y/Y%	Jun	-	0.1
		10.00 Final CPI (core CPI) Y/Y%	Jun	<u>1.3 (1.2)</u>	1.2 (0.8)
		10.00 Construction output M/M% (Y/Y%)	May	-	-0.8 (3.9)
Italy		09.00 Industrial sales M/M% (Y/Y%)	May	-	-1.0 (-0.7)
		09.00 Industrial orders M/M% (Y/Y%)	May	-	-2.4 (-0.2)
UK		09.30 Headline CPI (core CPI) Y/Y%	Jun	<u>2.0 (1.7)</u>	2.0 (1.7)
		09.30 House price index Y/Y%	May	1.2	1.4
<b>Thursday 18 July 2019</b>					
UK		09.30 Retail sales including fuel M/M% (Y/Y%)	Jun	-0.3 (2.6)	-0.5 (2.3)
		09.30 Retail sales excluding fuel M/M% (Y/Y%)	Jun	-0.3 (2.7)	-0.3 (2.2)
<b>Friday 19 July 2019</b>					
EMU		09.00 Euro area current account balance €bn	May	-	20.9
UK		09.30 Public sector net borrowing £bn	Jun	3.9	5.1

## The coming week's key events &amp; auctions

Country	BST	Event / Auction
<b>Monday 15 July 2019</b>		
- Nothing scheduled -		
<b>Tuesday 16 July 2019</b>		
UK		13.00 BoE Governor Carney speaks on a panel in Paris
		10.30 Auction: to sell £2.25bn of 1.75% 2037 bonds
<b>Wednesday 17 July 2019</b>		
Germany		10:30 Auction: to sell €1bn of 1.25% 2048 bonds (15-Aug-2048)
<b>Thursday 18 July 2019</b>		
France		09.50 Auction: to sell 0% 2022 bonds
		09.50 Auction: to sell 2.25% 2022 bonds
		09.50 Auction: to sell 0% 2025 bonds
		10:50 Auction: to sell 2028, 2029 and 2036 index-linked bonds
Spain		09.45 Auction: to sell 0.05% 2021 bonds
		09.45 Auction: to sell 0.25% 2024 bonds
		09.45 Auction: to sell 1.95% 2030 bonds
UK		09.30 BoE quarterly credit conditions survey to be published
<b>Friday 19 July 2019</b>		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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