

Euro wrap-up

Overview

- Bunds made further gains with 10Y yields touching new record lows, despite an upside surprise to today's German factory orders data.
- Gilts ended the day little changed despite a downbeat UK retail sector survey.
- Tomorrow will bring German industrial production figures for June, along with French trade data for the same month.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/21	-0.826	-0.003
OBL 0 10/24	-0.778	-0.012
DBR 0 08/29	-0.539	-0.021
UKT 1½ 01/21	0.422	+0.006
UKT 1 04/24	0.330	+0.018
UKT 1½ 10/28	0.516	+0.007

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

Euro area

German factory orders stronger in June...

Today's German factory orders figures provided a rare upside surprise from the euro area's manufacturing sector, reporting an increase of 2.5%M/M in June – the biggest rise since August 2017 – following a favourably revised decline of 2.0%M/M the previous month. The detail, however, was decidedly mixed. Domestic orders reversed the previous month's rise by falling 1.0%M/M in June, and new orders from the euro area fell for a third successive month (down 0.6%M/M) to suggest a notable weakening in demand conditions in other member states. In contrast, new orders from countries beyond the euro area were up a whopping 8.6%M/M, rebounding vigorously from a drop of more than 5.0%M/M the prior month. In terms of the sectoral detail, despite a second successive monthly decline in orders of autos, growth was led by new orders of capital goods, up 3.7%M/M. That, nevertheless, still left them well below the levels prevailing at the turn of the year. Orders of intermediate items were also higher, up 1.3%M/M, supported by increased demand for chemicals. But new orders of consumer goods, which have performed better than other categories over recent months, fell 0.4%M/M.

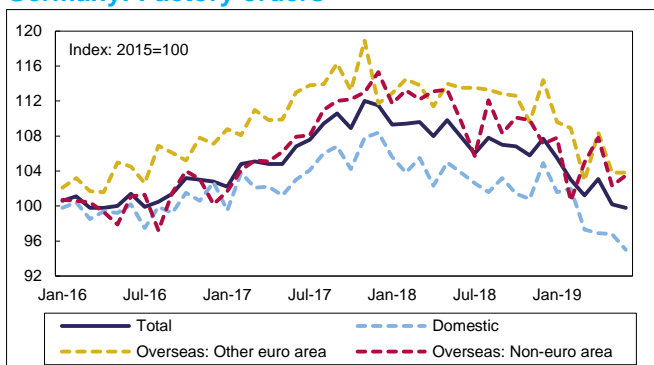
...but orders maintain downward trend

German factory orders data, however, are notoriously volatile, and often distorted by one-offs and bulk items. Indeed, despite the headline increase, orders excluding major items fell 0.4%M/M in June to the lowest level since April 2016. On this basis, domestic orders fell 1.9%M/M to the lowest level in more than six years, while orders from abroad posted a relatively muted increase of 0.7%M/M. And even including such volatile items, total orders were still down a hefty 3.6%Y/Y in June and down 1.0%Q/Q in Q2. Judging from the July surveys, orders look set for a weak third quarter too. Indeed, even before the escalation of the US-China trade war, Germany's manufacturing PMI last week showed the new export orders component plunging more than 5pts in July to 38.2, the lowest for more than a decade to signal a further sharp decline.

The day ahead in the euro area and US

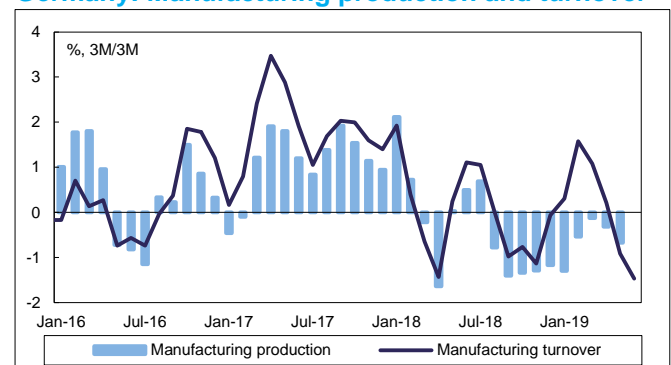
The main data focus on Wednesday will be Germany's industrial production release for June. Today's figures showed that German manufacturing turnover – which closely align with production – fell for the third consecutive month in June, albeit by a very modest 0.1%M/M. That, however, left it down a sizeable 1.5%Q/Q in Q2, and further suggests that tomorrow's IP release will be soft. Indeed, the consensus is for a drop of ½%M/M in June, which would leave IP down more than 1.0%Q/Q in Q2. Support to the total figure could, however, come from the construction and energy components, which have posted declines respectively in each of the prior three and four months. Wednesday will also bring French trade figures for June. In the markets, Germany will sell 5Y Bunds.

Germany: Factory orders*



*Excluding major items. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing production and turnover



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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In the US, another quiet day for top-tier figures will bring just consumer credit figures for June. In addition, the Fed's Charles Evans will speak on the economy, while the US Treasury will sell 10Y notes.

UK

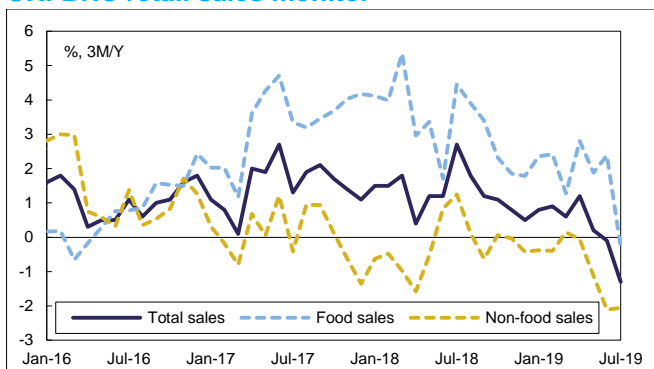
A bad start to Q3 for retail sales

While yesterday's [services PMI](#) signalled a modest improvement in conditions at the start of Q3, today's BRC retail sales monitor for July remained extremely downbeat, despite the record temperatures recorded last month. In particular, the survey's measure of total retail sales was up just 0.3%Y/Y, the weakest growth recorded for a July since the series began in 1995. And this followed the worst June on record, when the survey's measure showed sales declining 1.3%Y/Y. Like-for-like sales were even softer, with the 0.1%Y/Y rise in July following a 1.6%Y/Y decline in June. Moreover, smoothing out monthly volatility, like-for-like sales on a three-month basis took a notable step down, with the 1½%3M/Y decline the steepest since the start 2009. While the weakness in the BRC's survey in June contrasted with the jump in the official retail sales figures that month, it was consistent with the softer growth seen over the second quarter as a whole. And against the backdrop of ongoing political uncertainty, today's survey perhaps predictably suggests a further marked slowdown in the underlying spending trend in the current quarter too.

The day ahead in the UK

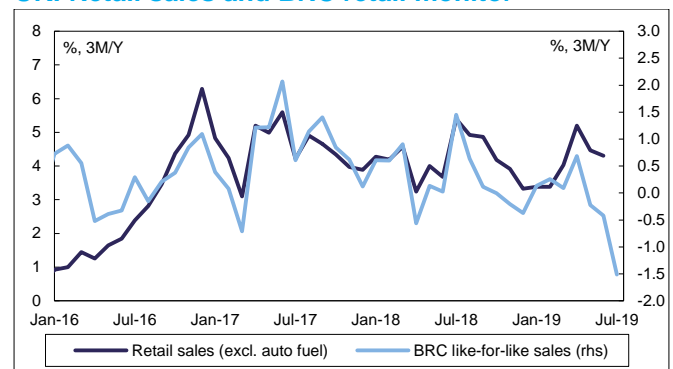
It should be a relatively quiet day for economic news from the UK tomorrow with just the Halifax house price survey for July due for release.

UK: BRC retail sales monitor



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



UK: Retail sales and BRC retail monitor



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	 Factory orders M/M% (Y/Y%)	Jun	2.5 (-3.6)	0.5 (-5.2)	-2.2 (-8.6)	-2.0 (-8.4)
UK	 BRC retail sales monitor, like-for-like sales Y/Y%	Jul	0.1	0.7	-1.6	-

Auctions


Country	Auction
UK sold	 £3.0bn of 0.625% 2025 Gilts at an average yield of 0.367%

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	Industrial production M/M% (Y/Y%)	Jun	-0.5 (-3.1)	0.3 (-3.7)	
France	 07.45	Trade (current account) balance €bn	Jun	-4.1 (-)	-3.3 (0.3)	
UK	 08.30	Halifax house price index M/M% (3M/Y%)	Jul	0.3 (4.4)	-0.3 (5.7)	

Auctions and events

Country	BST	Auction / Event
Germany	 10.30	Auction: to sell €4bn of 0% 2024 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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