

Euro wrap-up

Overview

- Bunds followed the global trend higher, as the dire run for German industrial production continued.
- Longer-dated Gilts also made notable gains on a quiet day for UK economic news.
- Tomorrow will bring the latest Bank of France business sentiment survey, Spanish IP data and UK RICS house price survey.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/21	-0.868	-0.038
OBL 0 10/24	-0.825	-0.046
DBR 0 08/29	-0.589	-0.059
UKT 1½ 01/21	0.435	+0.015
UKT 1 04/24	0.324	-0.001
UKT 1½ 10/28	0.477	-0.035

*Change from close as at 4.15pm BST.
Source: Bloomberg

Euro area

German IP disappoints again

Contrasting with yesterday's somewhat stronger than expected [factory orders](#) data, today's German industrial production report for June surprised on the downside, with a decline in total output (including construction) of 1.5%/M/M. That left it down 5.2%Y/Y, the steepest annual reverse since 2009. Within the detail, manufacturing and mining production fell 1.8%/M/M, with output in all key sub-sectors – capital, intermediate and consumer goods – down by significantly more than 1.0%/M/M. Energy production fell for the fifth successive month, down 1.6%/M/M. And although it had declined in each of the prior three months, construction output could only muster a rise of 0.3%/M/M.

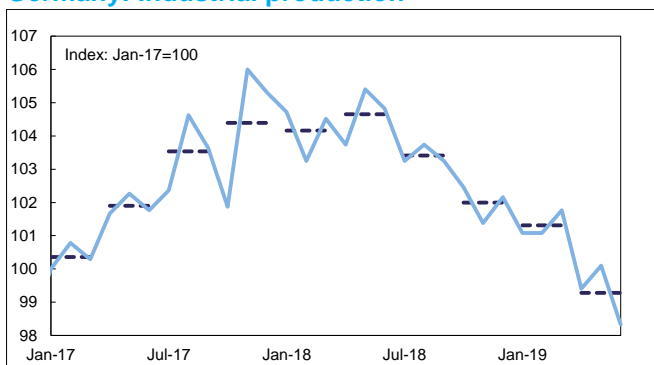
Manufacturing output down four quarters in a row

The weak data for June concluded a dire performance for the German industrial sector over Q2 as a whole. Manufacturing and mining output fell 1.7%/Q/Q, the fourth consecutive quarterly decline and the worst since the euro crisis in 2012. Production of autos was down 2.4%/Q/Q, with output of capital goods falling 1.7%/Q/Q, consumer durables dropping at the same rate, and intermediate goods falling 2.3%/Q/Q. In addition, construction was down 1.1%/Q/Q and energy production fell almost 6% on the same basis. That suggests that German GDP might well have fallen in Q2. And with the trend in new orders still down, and survey indicators for July weaker still (e.g. the manufacturing PMI fell to a six-year low of 43.2), the third quarter might prove to be little better for German industrial production, or indeed for GDP overall.

French exports fall sharply

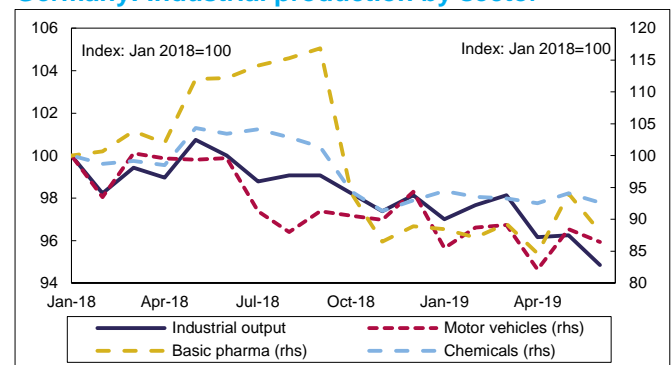
The latest French trade data were barely more inspiring. There was a notable deterioration in the trade deficit in June, which widened €1.9bn to €5.2bn, the second largest for nine months. This principally reflected a marked weakening in the value of exports, down 4.9%/M/M, the steepest drop since the start of 2018. And the weakness was widespread, with shipments down to China (-7.7%/M/M), Japan (-16.5%/M/M) and the US (-2.9%/M/M). In contrast, exports to the UK rose for the first month in three, although this still left them down more than 20% over the second quarter as a whole. Admittedly, French exports have been particularly volatile over recent months – shipments fell more than 2%/M/M in April but rose almost 4½%/M/M in May. And, over the second quarter as a whole, the value of shipments was up, albeit by just 0.1%/Q/Q. With the value of imports down 0.2%/Q/Q, today's figures tallied with last week's French GDP report suggesting that net trade provided no contribution to the 0.2%/Q/Q rate of economic growth in Q2.

Germany: Industrial production*



*Excluding construction. Dashed dark blue lines represent quarterly averages.
Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: Industrial production by sector



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area and US

Tomorrow will bring June industrial production figures from Spain, which, like Germany, are expected to show that output declined sharply in June (consensus is for a 1%M/M drop). But given strength earlier in the quarter, this would still leave IP up around ½%Q/Q in Q2. Tomorrow will also bring the Bank of France's business sentiment survey for July, which will provide the Bank's first forecast for GDP growth in Q3. In June, the headline industry index fell to a near-six-year low (95), while sentiment in the services (100) and construction (104) sectors remained more stable.

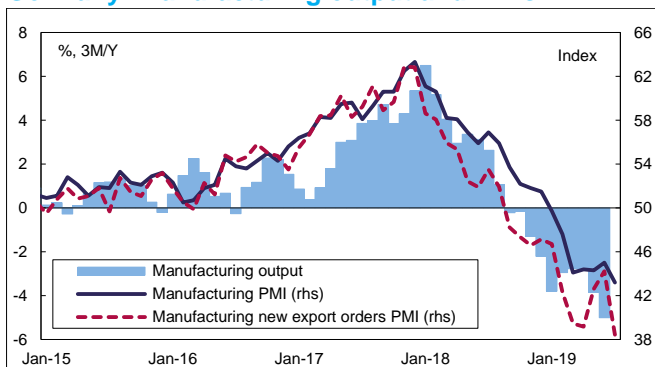
In the US, tomorrow will bring wholesale trade and inventories figures for June, alongside the weekly jobless claims figures. In the markets, the US Treasury will sell 30Y bonds.

UK

The day ahead in the UK

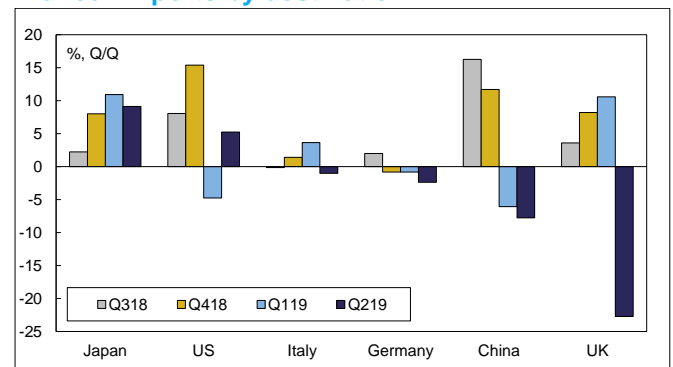
A relatively quiet day for economic news in the UK saw just the July Halifax house price survey released, which showed house prices falling for the second successive month to leave the annual growth rate moderating 1.6ppts to 4.1%3M/Y. But this series has provided an unreliable guide to the official data, with a stronger headline rate of price growth. And so, tomorrow's RICS house price survey will likely offer a better gauge of the housing market at the start of Q3. Thursday will also bring the KPMG/REC report on UK jobs for July.

Germany: Manufacturing output and PMIs



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




France: Exports by destination




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	 Industrial production M/M% (Y/Y%)	Jun	-1.5 (-5.2)	-0.5 (-3.1)	0.3 (-3.7)	0.1 (-)
France	 Trade (current account) balance €bn	Jun	-5.2 (-0.8)	-4.1 (-)	-3.3 (0.3)	-
UK	 Halifax house price index M/M% (3M/Y%)	Jul	-0.2 (4.1)	0.3 (4.4)	-0.3 (5.7)	-

Auctions	
Country	Auction
Germany sold	 €2.6bn of 0.0% 2024 bonds at an average yield of -0.79%

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	
France	 07.30	Bank of France industrial sentiment indicator	Jul	96	95	
Spain	 08.00	Industrial production M/M% (Y/Y%)	Jun	-1.0 (1.1)	0.3 (1.4)	
UK	 00.01	RICS house price balance %	Jul	-1	-1	

Auctions and events		
Country	BST	Auction / Event
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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