

# Euro wrap-up

## Overview

- Bunds made losses as reports suggested Germany's government might be willing to loosen fiscal policy in the event of a recession.
- Gilts also made losses as UK opposition leaders sought to find a way to stop a no-deal Brexit.
- The coming week will bring euro area final CPI for July and flash PMIs for August, along with the ECB account from July's meeting. Politics-wise, Italy's PM will face a no-confidence vote, while UK PM Johnson will attend his first G7 leaders' summit.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 06/21	-0.922	+0.003
OBL 0 10/24	-0.964	+0.014
DBR 0 08/29	-0.679	+0.038
UKT 1½ 01/21	0.518	+0.051
UKT 1 04/24	0.400	+0.063
UKT 1 % 10/28	0.470	+0.060

\*Change from close as at 4:15pm BST.  
Source: Bloomberg

## Euro area

### Euro area exports decline at a faster pace than imports in Q2

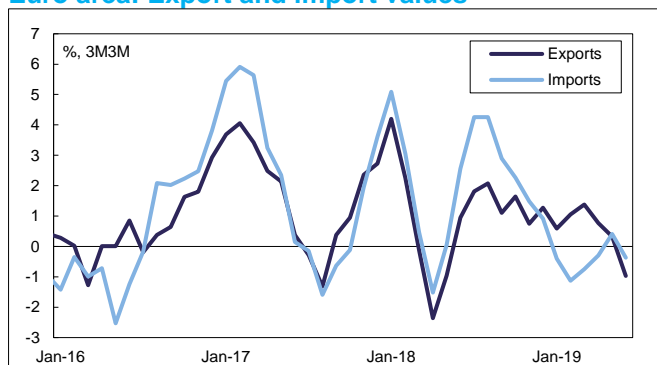
While the moderation in [euro area GDP](#) growth in Q2 was confirmed earlier this week, with the rate halving from Q1 to 0.2%Q/Q, we will have to wait until the final release on 6 September for the official expenditure breakdown. However, today's release of June's trade figures suggest that net exports provided a drag on growth in Q2, for the first quarter in three. While the trade surplus stood at a still-healthy €53bn in the second quarter, this was down from €56bn in Q1 as the drop in the value of exports (1.0%Q/Q) – the steepest for more than three years – outpaced that of imports (0.4%Q/Q). And although this weakness in part reflected a sharp decline in exports in April (-2½%M/M), they also slipped in June (-0.6%M/M). So, this left exports down a sizeable 4.7%Y/Y in June, the largest annual decline for almost three years.

On an adjusted basis, exports were still up compared with a year earlier, by 1½%Y/Y, although this was the softest pace since December and down considerably from the near-6%Y/Y increase at the end of Q1. On this basis, exports to Japan maintained steady growth in June (10½%Y/Y), although shipments to elsewhere in Asia weakened – e.g. export growth to China was the weakest since December (down 3.7ppts to 4.7%Y/Y), while there were notable declines in exports to Hong Kong (-17.6%Y/Y) and India (-8.5%Y/Y). And as exports to other euro area countries fell at their steepest annual rate for six years (-2.1%Y/Y), there was also a sizeable drop in exports to Norway (down 17.7%Y/Y, the most in a decade). The downward trend in shipments to the US and UK was also maintained in the middle of the year. Furthermore, with global uncertainty having intensified over recent months, and surveys suggesting that new export orders lost further momentum at the start of the third quarter, we expect export growth to remain very subdued this quarter.

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

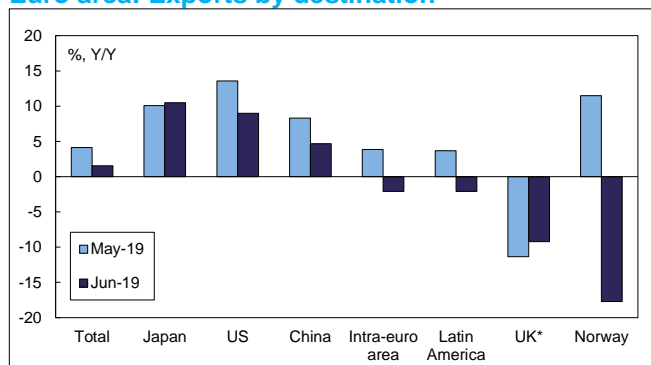
The coming week will bring a number of noteworthy euro area releases, kicking off on Monday with final euro area CPI figures for July. While core inflation is expected to be confirmed at the flash estimate of 0.9%Y/Y, down 0.2ppt from June, headline inflation is likely to be revised lower from the flash estimate to 1.0%Y/Y, 0.3ppt lower than June and the lowest for 2½ years. Monday will also bring euro area balance of payments data for June, followed on Tuesday by euro area construction output figures for the same month. But Thursday will see the most significant releases of the week, with the flash PMIs and Commission's consumer confidence indicator for August. While consumer confidence improved slightly in July, there was a further deterioration in business confidence, particularly in the manufacturing sector. Indeed, the euro area's manufacturing PMI fell 1.1pts to 46.5, the lowest since December 2012. And with geopolitical tensions having risen over recent weeks, we would expect to see a further worsening of conditions this month too. Service sector sentiment was

### Euro area: Export and import values



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: Exports by destination



\*UK figures are for April and May 2019. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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more stable in July – with the headline activity index down 0.4pt to 53.2 – to leave the composite PMI in expansionary territory (51.5). But while this should remain above the key-50 level in August it is likely to signal a further moderation in economic growth. Also of interest on Thursday will be the ECB's account from its July Governing Council meeting, at which President Draghi hinted that a multi-faceted easing package will be forthcoming, for any further insight into the policy adjustments likely to be preferred by Governing Council members. In addition, Italian Prime Minister Conte faces a vote of [no confidence](#) in Italy's Senate on Tuesday, where rejection of his coalition government seems a formality. Supply-wise, Germany will sell 30Y bonds on Wednesday.

In the US, there are several events of note in the coming week, with focus on Wednesday on the FOMC minutes from the end-July meeting, when the Fed cut its FFR target rate by 25bps to 2.00-2.25% but offered a less dovish policy statement than had been expected. But the Fed's Jackson Hole Symposium – focussing on 'The challenges for monetary policy' – kicking off Thursday evening will also be watched closely for any further up-to-date insights into policy-makers' thinking of the growing concerns about the global economic outlook, heightened geopolitical risks and recent moves in financial markets. Data-wise, following a quiet start to the week, Wednesday will bring existing home sales figures for July, while new home sales data will be published on Friday. Meanwhile, Thursday will see the weekly jobless claims numbers released alongside the flash Markit PMIs and Kansas Fed activity index for August and the Conference Board's leading indices for July. In the markets, the US Treasury will sell 30Y TIPS on Thursday.

## UK

### The week ahead in the UK

After a day bereft of UK economic data, the coming week is also quieter for top-tier economic releases, with the CBI's industrial trends (Tuesday) and distributive trades (Thursday) surveys the most notable new economic data. Given ongoing political uncertainty surrounding Brexit and the weaker global outlook, manufacturers and retailers alike are likely to signal that conditions remained challenging in August. Indeed, in July, manufacturers suggested that orders were at their weakest for more than nine years, while retailers indicated that sales were down compared with a year earlier for the third consecutive month. Other releases include the Rightmove house price survey for August on Monday and the public finance figures for July on Wednesday. Perhaps the most important event, however, will be the G7 Summit in Biarritz, which kicks off on Friday. In the margins, UK PM Johnson will likely have the first informal discussions on Brexit with German Chancellor Merkel and French President Macron, as well as Commission President Juncker and European Council President Tusk.

## 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	1.9	1.1	0.8
Germany 	0.4	-0.1	0.2	0.2	0.2	0.3	0.2	0.1	1.5	0.7	0.9
France 	0.3	0.2	0.3	0.3	0.3	0.3	0.2	0.2	1.7	1.2	1.1
Italy 	0.1	0.0	0.0	0.0	0.0	0.1	-0.1	-0.1	0.7	0.0	0.1
Spain 	0.7	0.5	0.4	0.4	0.4	0.4	0.4	0.3	2.6	2.2	1.6
UK 	0.5	-0.2	0.3	0.0	0.2	0.2	0.2	0.1	1.4	1.1	0.6
<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	0.9	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>											
ECB											
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	50	50	50	0	0	15	50	0
BoE											
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 	Trade balance €bn	Jun	17.9	18.5	20.2	19.6


















#### Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.






## Coming week's data calendar

### The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 19 August 2019</b>					
EMU		09.00 Current account balance €bn	Jun	-	29.7
EMU		10.00 Final CPI (core CPI) Y/Y%	Jul	<u>1.0 (0.9)</u>	1.3 (1.1)
Italy		09.00 Current account balance €bn	Jun	-	2.6
UK		00.01 Rightmove house prices M/M% (Y/Y%)	Aug	-	-0.2 (-0.2)
<b>Tuesday 20 August 2019</b>					
EMU		10.00 Construction output M/M% (Y/Y%)	Jun	-	-0.3 (2.0)
Germany		07.00 PPI M/M% (Y/Y%)	Jul	0.0 (1.0)	-0.4 (1.2)
UK		11.00 CBI industrial trends survey - total orders (selling prices)	Aug	-25 (-)	-34 (12)
<b>Wednesday 21 August 2019</b>					
Spain		09.00 Trade balance €bn	Jun	-	-2.1
UK		09.30 Public sector net borrowing £bn	Jul	-2.7	7.2
<b>Thursday 22 August 2019</b>					
EMU		09.00 Preliminary composite PMI	Aug	51.2	51.5
		09.00 Preliminary manufacturing PMI (services PMI)	Aug	46.3 (53.0)	46.5 (53.2)
		15.00 Preliminary consumer confidence	Aug	-7.0	-6.6
Germany		08.30 Preliminary composite PMI	Aug	50.6	50.9
		08.30 Preliminary manufacturing PMI (services PMI)	Aug	43.0 (54.0)	43.2 (54.5)
France		08.15 Preliminary composite PMI	Aug	51.8	51.9
		08.15 Preliminary manufacturing PMI (services PMI)	Aug	49.5 (52.5)	49.7 (52.6)
UK		11.00 CBI distributive trades survey – reported retail sales	Aug	-13	-16
<b>Friday 23 August 2019</b>					
- Nothing scheduled -					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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

Country	BST	Event / Auction
<b>Monday 19 August 2019</b>		
- Nothing scheduled -		
<b>Tuesday 20 August</b>		
Italy		- Italian Prime Minister Conte faces vote of no confidence
UK		10.30 Auction: to sell 0.125% index-linked 2028 bonds
<b>Wednesday 21 August 2019</b>		
Germany		10.30 Auction: to sell €2bn of 0.3% 2050 bonds
<b>Thursday 22 August 2019</b>		
EMU		12.30 ECB publishes account of July Governing Council meeting
<b>Friday 23 August 2019</b>		
France		- G7 Summit in Biarritz

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



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