

Euro wrap-up

Overview

- Bunds made gains at the short end of the curve but losses at the longer end while German exports remained subdued in May leaving net trade on track to subtract from GDP growth in Q2.
- Gilts made gains across the curve on a quiet day for economic news from the UK.
- Wednesday will bring updates on euro area consumer price expectations and producer prices, as well as French industrial production and the final June services PMIs.

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Daily bond market movements

Bond	Yield	Change
BKO 2.8 06/25	3.206	-0.031
OBL 2.4 10/28	2.599	-0.008
DBR 2.3 02/33	2.451	+0.019
UKT 0% 06/25	5.287	-0.021
UKT 1% 10/28	4.675	-0.026
UKT 3% 01/33	4.409	-0.022

*Change from close as at 4:30pm BST.
Source: Bloomberg

Euro area

Firmer imports and soft exports leave net trade on track to subtract from German GDP growth in Q2

German goods export values maintained their broad sideways trend in May, inching lower by just 0.1%M/M to be down 0.7%Y/Y. With the value of goods imports up 1.7%M/M, albeit down a sizeable 8.6%Y/Y, Germany's trade surplus narrowed €2.1bn to €14.4bn. That represented the smallest trade surplus so far this year, but was still more than €10bn above the average level from March to September 2022 when the shock to Germany's terms of trade was most potent. Indeed, the terms of trade shock continued to unwind in May, with producer import prices down for the ninth successive month, by 1.4%M/M. That left them down a hefty 9.1%Y/Y, the most since September 2009, with imported energy prices down almost 40%Y/Y. In contrast, German export prices fell 0.4%M/M to be little changed from a year ago (+0.1%Y/Y). So, taking account of the relative price shifts, export volumes were up just 0.3%M/M in May to be trending more than ½% below the Q1 average in the first two months of Q2. In contrast, import volumes rose 2.2%M/M in May to be trending more than 2½% above the Q1 average. So, while the strength of import volumes might point to some welcome resilience in domestic demand last quarter, today's data strongly suggest that net goods trade subtracted from German GDP growth in Q2.

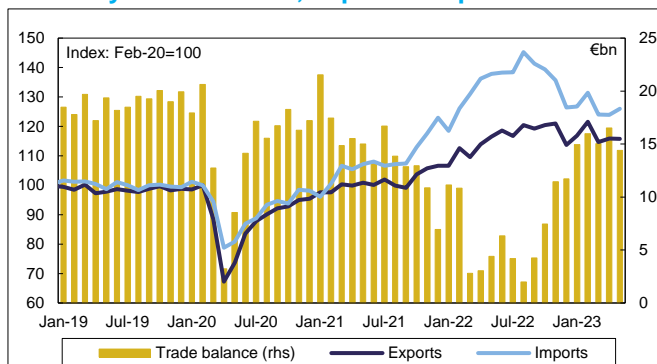
German exports trending sideways with significant variation between sub-sectors

The subdued performance of German export volumes in May also maintained a sideways trend, leaving them close to their level at end-2021 and almost 3% below the level in February 2020 ahead of the pandemic. On a three-month basis, export volumes were the lowest since January and no higher than the average of the prior two years. The overall sideways German export trend – which admittedly has been more favourable than the downtrend in the euro area in play since October – masks significant contrasts by sub-sector. With manufacturers making efforts to adjust production in the face of last year's energy shock, the value of exports of chemicals and related products (including pharmaceuticals) was down more than 13%Y/Y in April, having previously seen strong growth ahead of the Russian invasion of Ukraine. In marked contrast, benefiting from the repair of supply chains, shipments of motor vehicles were up almost 24%Y/Y that month, with machinery exports up more than 11%Y/Y on the same basis. Shipments of consumer and intermediate goods, meanwhile, were down 1.2%Y/Y and 5.0%Y/Y respectively. By destination, export values were up roughly 10%YTD/Y to the US, more than 5%YTD/Y to the UK and almost 4%YTD/Y to other euro area countries. In contrast, exports to China and Russia were down 12½%YTD/Y and 43%YTD/Y respectively.

German exporters increasingly pessimistic about the outlook

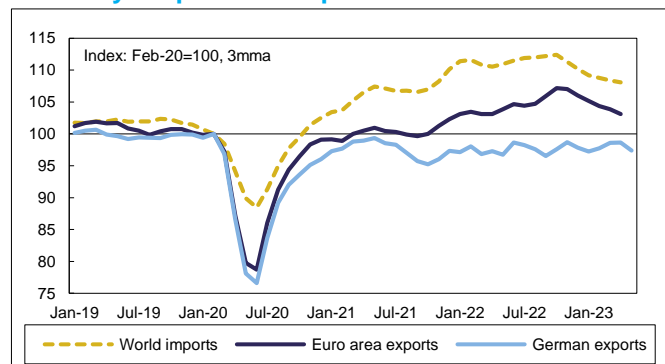
Unfortunately, looking ahead, surveys suggest that the outlook for German exports continues to darken. Yesterday's final manufacturing PMIs for June revised down the index for export orders to a highly contractionary 39.0, up just 0.1pt on the

Germany: Goods trade, export & import values



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Export and import volumes



Source: CPB, Refinitiv and Daiwa Capital Markets Europe Ltd.

month and one of the weakest readings since the first wave of pandemic. And the ifo index of export expectations for the coming three months fell in June to -5.6, the most downbeat since May 2020. A majority of subsectors were pessimistic about the outlook for their exports, with producers of metals and furniture, as well as chemicals and industrial machinery, among those taking a negative view of the outlook for external demand. While their supply challenges have eased, the view of autos firms was still little better than neutral. Manufacturers of clothing, beverages and IT and data processing machinery were among the few optimists.

The day ahead in the euro area

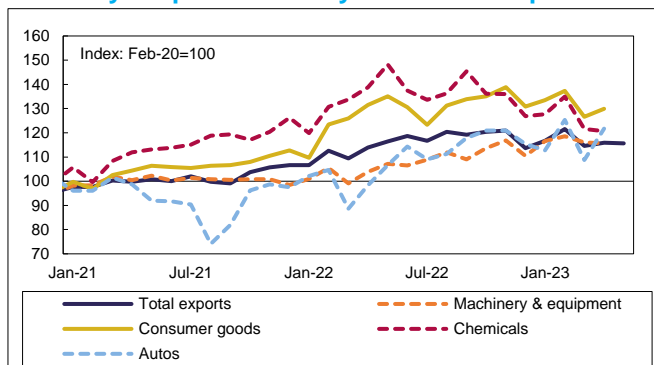
Wednesday will bring insights into the inflation outlook, with euro area PPI inflation data for May due alongside the ECB's Consumer Expectations Survey results for the same month. Due not least to softer wholesale gas and food prices, producer prices are expected to drop for the seventh month in eight. As a result, and given significant base effects, the headline annual PPI rate is expected to fall into negative territory for the first time December 2020. The focus of the Consumer Expectations Survey will be inflation expectations, which fell significantly in April on both a 12-months and 3-years ahead basis. In addition, the final euro area services PMIs for June are likely to reaffirm the moderation in input-cost and selling-price pressures flagged in the flash release, albeit with both indices remaining firmly above their respective long-run averages. The preliminary PMIs also indicated a slowdown in growth in activity in the sector to a five-month low, amid slowing new demand and lower backlogs of work. German car production and new registration data for June should also be released tomorrow along with French industrial production figures for May.

UK

The day ahead in the UK

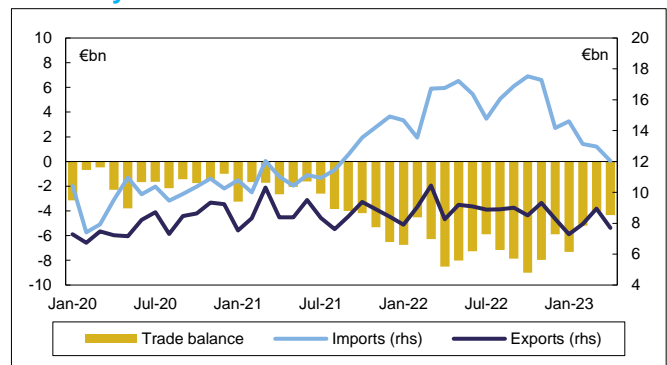
Another quiet day for economic data from the UK will bring new car registrations figures for June along with the final services PMIs for the same month. The flash services PMIs reported only a slight moderation in input-cost and selling-price pressures, with both indices remaining firmly above their respective long-run averages. The preliminary PMIs also indicated a slowdown in growth in services activity to a three-month low, amid slowing new demand from at home and abroad, and the sharpest drop in work backlogs in more than two years. However, employment growth in the sector reportedly picked up.

Germany: Export values by selected component



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Goods trade values with China



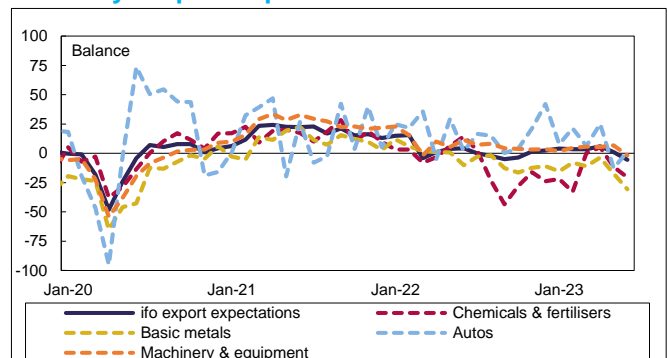
Source: Destatis and Daiwa Capital Markets Europe Ltd.

Germany: Export orders and expectations indices*



*3-months ahead. Source: Refinitiv, ifo institute, S&P Global and Daiwa Capital Markets Europe Ltd.

Germany: Export expectations indices*





*3-months ahead. Source: Refinitiv, ifo institute 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 	Trade balance €bn	May	14.4	17.5	18.4	16.5
Spain 	Unemployment change '000s	Jun	-50.3	-	-49.3	-







Auctions

Country	Auction
Germany 	sold €390mn of 0.10% 2033 index-linked bonds at an average yield of 0.1%
UK 	sold £2.0bn of 1.50% 2053 bonds at an average yield of 4.387%

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
Euro area 	Final manufacturing PMI	Jun	43.4	43.6	44.8	-
Germany 	Final manufacturing PMI	Jun	40.6	41.0	43.2	-
France 	Final manufacturing PMI	Jun	46.0	45.5	45.7	-
	New car registrations Y/Y%	Jun	11.6	-	14.8	-
Italy 	Manufacturing PMI	Jun	43.8	45.4	45.9	-
	New car registrations Y/Y%	Jun	9.2	-	23.1	-
Spain 	Manufacturing PMI	Jun	48.0	48.0	48.4	-
	New car registrations Y/Y%	Jun	13.3	-	8.3	-
UK 	Final manufacturing PMI	Jun	46.5	46.2	47.1	-

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases						
Economic data						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Euro area		09.00	Final services (composite) PMI	Jun	<u>52.4 (50.3)</u>	55.1 (52.8)
		10.00	PPI Y/Y%	May	-1.4	1.0
Germany		08.55	Final services (composite) PMI	Jun	<u>54.1 (50.8)</u>	57.2 (53.9)
		-	New car registrations* Y/Y%	Jun	-	19.2
France		07.45	Industrial production M/M% (Y/Y%)	May	-0.2 (0.6)	0.8 (1.3)
		08.50	Final services (composite) PMI	Jun	<u>48.0 (47.3)</u>	52.5 (51.2)
Italy		08.45	Services (composite) PMI	Jun	53.3 (51.1)	54.0 (52.0)
		08.00	Industrial production M/M% (Y/Y%)	May	0.1 (-0.4)	-1.8 (-0.9)
Spain		08.15	Services (composite) PMI	Jun	55.7 (54.1)	56.7 (55.2)
		09.00	New car registrations Y/Y%	Jun	-	16.7
UK		09.30	Final services (composite) PMI	Jun	<u>53.7 (52.8)</u>	55.2 (54.0)
						
Auctions and events						
Euro area		09.00	ECB publishes Consumer Expectations Survey			
Germany		10.30	Auction: 2.3% 2033 bonds			
UK		10.00	Auction: 3.5% 2025 bonds			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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