

Euro wrap-up

Overview

- Bunds followed US10s lower while euro area trade figures reported an increase in exports in May, albeit maintaining a downwards trend.
- Gilts also made modest losses on a quiet day for top-tier UK economic data.
- All eyes in the coming week will be on euro area and UK inflation results on Wednesday. Updates on euro area and UK consumer confidence, as well as UK retail sales data are also due.

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Daily bond market movements

Bond	Yield	Change
BKO 2.8 06/25	3.182	+0.051
OBL 2.4 10/28	2.594	+0.039
DBR 2.6 08/33	2.501	+0.032
UKT 0% 06/25	5.198	+0.060
UKT 1% 10/28	4.581	+0.019
UKT 3% 01/33	4.435	+0.015

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

Source: Bloomberg

Euro area

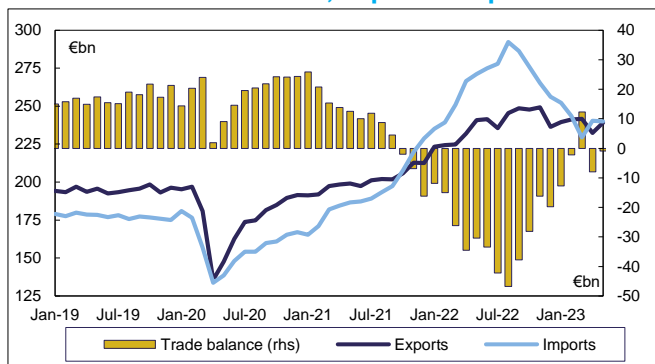
Euro area trade balance improves in May but exports trending lower so far in Q2

Contrasting with a narrowing in Germany's trade balance, but consistent with the pickup in euro area manufacturing production in May, today's euro area goods trade report saw a notable improvement, with the trade deficit narrowing a sizeable €7.1bn in May, to a small deficit of €0.9bn. Admittedly, the trade figures have been particularly volatile over recent months. But even when smoothing on a three-month basis, the trade balance recorded a modest goods trade surplus (€1.2bn), some €43bn above the trough in September and the largest reading for nineteen months. The improvement in the trade balance reflected a rebound in the value of exports (2.9%M/M), amid a widespread bounce back in shipments to the UK, Switzerland, Japan and China. However, with the exception of the UK and Switzerland, this still left exports below their level a year ago and in aggregate down 0.7%Y/Y. Moreover, given the marked weakness at the start of Q2, export values were trending a little more than 2% below the Q1 average. So, having fallen to an eighteen-month low in April, euro area export volumes seem likely to have remained a drag on GDP growth in the middle of Q2. And while the value of imports was little changed in May and trending so far in Q2 some ½% below the Q1 average, there was a further decline in import prices (-1.1%M/M) to suggest that an increase in import volumes might well exacerbate the drag on GDP growth from net trade in Q2. Surveys suggest a further deterioration in new export orders, flagging downside risks to export volumes over coming quarters too.

The week ahead in the euro area

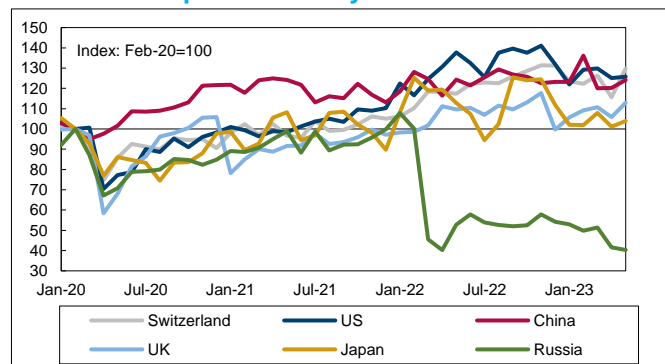
The coming week will bring the release of final euro area inflation estimates for June. The flash release saw the headline HICP rate fall for a second successive month, by 0.6ppt to 5.5%YY, more than 5ppts below October's peak and the lowest since January 2022. But core inflation ticked higher, by 0.1ppt to 5.4%Y/Y, due to a jump in services inflation – to a series high of 5.4%Y/Y. The release of the more granular breakdown in the coming week will likely confirm that this principally reflected base effects associated with Germany's super-discounted public transport fares last summer. This publication will also provide other measures of underlying inflation, including the trimmed mean and persistent and common component of inflation (PCCI), closely watched by the ECB. German producer price figures for June (Thursday) will offer insight into the outlook for consumer goods inflation. Thursday also brings an update on economic sentiment at the start of the third quarter, with the European Commission's flash consumer confidence index for July expected to record a ninth monthly improvement out of the past ten, albeit remaining well below the long-run average. The French INSEE business sentiment survey is also due for release that day. In addition, euro area construction output data for May and new car registrations figures for June will be published on Wednesday.

Euro area: Trade balance, export & import values



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Euro area: Export values by destination



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

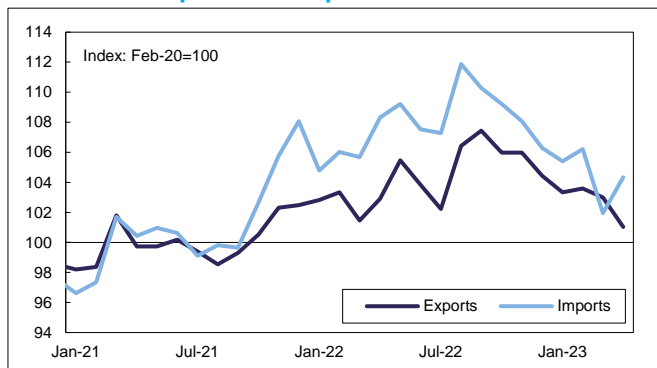
UK

The week ahead in the UK

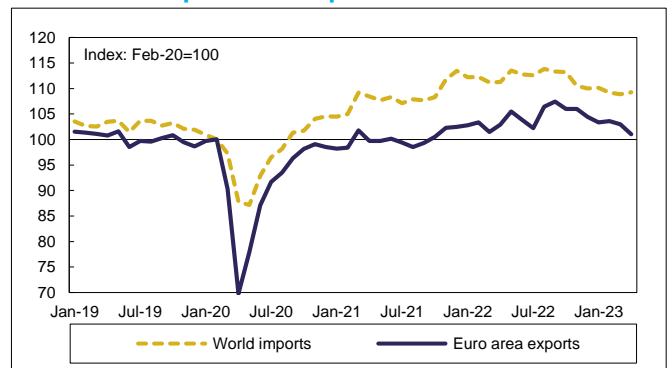
Ahead of the BoE's forthcoming policy-setting meeting in early August, all eyes in the UK in the coming week will be on the June CPI release on Wednesday. Having moved sideways in May, headline inflation is expected to have resumed a downwards trend last month, easing a little more than ½ppt to 8.1%Y/Y. This would leave the headline CPI rate down around 3ppts from October's peak to average 8.5%Y/Y in Q2, a touch firmer than forecast by the BoE in its May Monetary Policy Report (8.2%Y/Y). The drop will, in part, reflect base effects associated with last year's spike in energy prices, with the annual rate of that component likely to fall to the lowest in more than two years. Food inflation is also expected to have moderated for a second-successive month. But of most importance for the BoE will be price developments in core items and specifically the services component. Indeed, in May, services inflation jumped ½ppt to a 31-year high of 7.4%Y/Y, while non-energy industrial goods inflation also unexpectedly rose to an eight-month high (6.8%Y/Y). In line with the Bloomberg consensus, we expect core inflation to have moderated only slightly in June, down 0.1ppt to 7.0%Y/Y, although, given the persisting strength in [private sector wage growth](#), risks to the forecast appear skewed to the upside. Friday, meanwhile, will bring June results for retail sales, which are likely to suggest that household spending on goods remained subdued at the end of the second quarter amid an ongoing squeeze on disposable incomes. The latest GfK consumer confidence survey (also Friday) is also expected to show that household purchase intentions remain historically low as concerns surrounding the economic outlook remain.

The next edition of the Euro wrap-up will be published on 19th July 2023

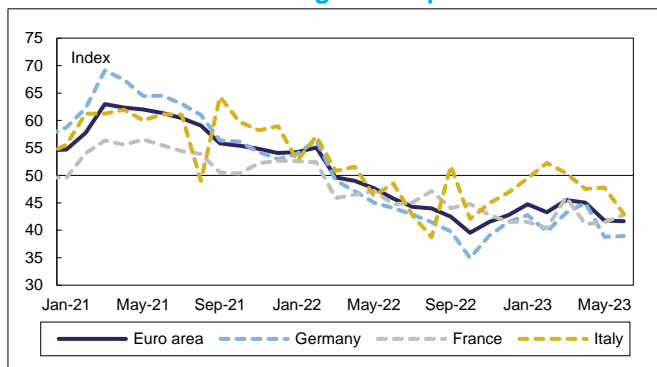
Euro area: Export and import volumes



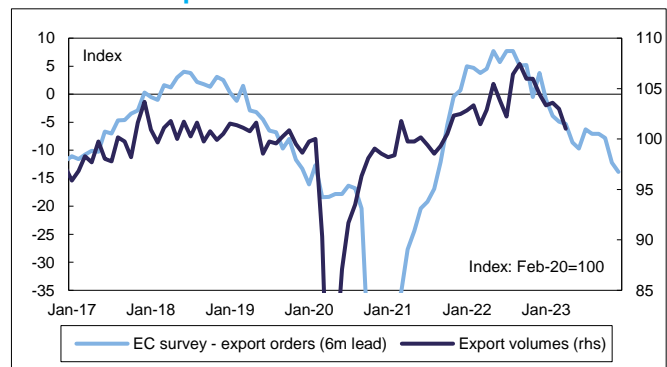
Euro area: Export and import volumes












Euro area: Manufacturing new export orders PMIs



Euro area: Export volumes and orders





















Daiwa economic forecasts

	2023				2024		2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	%, Y/Y								
Euro area 	-0.1	0.1	0.2	0.1	0.1	0.2	0.4	0.7	1.1
UK 	0.1	0.0	0.1	0.0	-0.2	-0.2	0.3	-0.3	0.3
Inflation, %, Y/Y									
Euro area									
Headline HICP 	8.0	6.2	4.3	2.6	2.6	2.2	5.2	2.3	1.7
Core HICP 	5.5	5.5	5.0	4.2	3.5	2.7	5.0	2.6	1.8
UK									
Headline CPI 	10.2	8.5	6.7	4.5	4.2	2.6	7.4	2.9	1.6
Core CPI 	6.1	7.0	6.4	5.7	5.2	3.4	6.3	3.4	1.8
Monetary policy, %									
ECB									
Refi Rate 	3.50	4.00	4.50	4.50	4.50	4.50	4.50	4.25	3.50
Deposit Rate 	3.00	3.50	4.00	4.00	4.00	4.00	4.00	3.75	3.00
BoE									
Bank Rate 	4.25	5.00	5.50	6.00	6.00	6.00	6.00	5.75	4.75

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

















The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 17 July 2023					
Italy 	09.00	Final HICP (CPI) Y/Y%	Jun	<u>6.7 (6.4)</u>	8.0 (7.6)
UK 	00.01	Rightmove house price index M/M% (Y/Y%)	Jul	-	0.0 (1.1)
Tuesday 18 July 2023					
- Nothing scheduled -					
Wednesday 19 July 2023					
Euro area 	07.00	EU27 new car registrations	Jun	-	18.5
	10.00	Final (core) HICP Y/Y%	Jun	<u>5.5 (5.4)</u>	6.1 (5.3)
	10.00	Construction output M/M% (Y/Y%)	May	-	-0.4 (0.2)
UK 	07.00	CPI (core) Y/Y%	Jun	<u>8.1 (7.0)</u>	8.7 (7.1)
	07.00	PPI output (input) prices Y/Y%	Jun	0.4 (-1.6)	2.9 (0.5)
	09.30	House price index Y/Y%	May	-	3.5
Thursday 20 July 2023					
Euro area 	09.00	ECB current account €bn	May	-	3.6
	15.00	European Commission's preliminary consumer confidence	Jul	-15.8	-16.1
Germany 	07.00	PPI Y/Y%	Jun	0.0	1.0
France 	07.45	INSEE business confidence	Jul	100	100
	07.45	INSEE manufacturing (production outlook) confidence	Jul	100 (-)	101 (-9)
Friday 21 July 2023					
France 	-	Bank of France retail sales* Y/Y%	Jun	-	-5.2
UK 	00.01	GfK consumer confidence	Jul	-26	-24
	07.00	Retail sales including autos fuel M/M% (Y/Y%)	Jun	0.2 (-1.6)	0.3 (-2.1)
	07.00	Retail sales excluding autos fuel M/M% (Y/Y%)	Jun	0.1 (-1.7)	0.1 (-1.7)
	07.00	Public sector net borrowing (excluding banks) £bn	Jun	20.0 (22.0)	19.2 (20.0)



*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 17 July 2023		
Euro area	 09.15	ECB President Lagarde and Chief Economist Lane scheduled to speak – 'Changing geopolitical landscape'
Tuesday 18 July 2023		
Euro area	 11.00	G20 Finance Ministers and Central Bank Governors meet
Germany	 10.30	Auction: €6.0bn of zero-coupon 2025 bonds
UK	 10.00	Auction: £2.5bn of 3.75% 2053 bonds
Wednesday 19 July 2023		
Germany	 10.30	Auction: €1.50bn of 1.8% 2053 bonds
	 10.30	Auction: €1.00bn of 0.0% 2052 bonds
UK	 10.00	Auction: £3.75bn of 4.5% 2028 bonds
	 17.00	BoE's Deputy Governor Ramsden scheduled to speak – 'Quantitative tightening'
Thursday 20 July 2023		
France	 09.50	Auction: 2.50% 2026 bonds
	 09.50	Auction: 0.75% 2028 bonds
	 09.50	Auction: 2.75% 2029 bonds
	 10.50	Auction: 0.60% 2034 index-linked bonds
Spain	 09.30	Auction: 2.80% 2026 bonds
	 09.30	Auction: 1.40% 2028 bonds
	 09.30	Auction: 3.90% 2039 bonds
	 09.30	Auction: 1.00% 2050 bonds
Friday 21 July 2023		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Today's results

Economic data						
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Euro area	 Trade balance €bn	May	-0.9	-	-7.1	-8.0
Italy	 Trade balance €bn	May	4.7	-	0.3	0.4
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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