

# Euro wrap-up

## Overview

- Bunds followed the global trend lower even as German exports fell more than expected in May, reinforcing the likelihood that net trade was a drag on Q2 GDP.
- Longer-dated Gilts underperformed as the Office for Budgetary Responsibility flagged mounting risks to the UK fiscal outlook in the absence of substantive policy adjustments.
- The coming few days will bring the June inflation detail from Germany and France, as well as UK GDP figures for May.

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### Daily bond market movements

Bond	Yield	Change
BKO 1.7 06/27	1.859	+0.030
OBL 2.2 10/30	2.245	-
DBR 2.6 08/35	2.680	+0.039
UKT 3% 03/27	3.859	+0.005
UKT 4% 03/30	4.035	+0.028
UKT 4% 03/35	4.627	+0.044

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

Source: Bloomberg

## Euro area

### German exports decline for 2nd month as shipments to the US fall to 3-year low

While the German economy currently appears relatively resilient to higher US tariffs, today's goods trade data illustrated the inevitable pullback in shipments since the start of the Q2 after front-loading in Q1. In particular, the value of exports fell for a second successive month in May and by a larger-than-expected 1.4%M/M. So, having jumped more than 2½%Q/Q in Q1 – the most in ten quarters – exports are trending so far in Q2 some 0.9% lower. The pullback in shipments to the US of 7.7%M/M in May left them at the lowest level for more than three years, down 13.8%Y/Y and trending almost 10% below the Q1 average. Exports to China remained close to the near-7½-year low reached at the end of 2024. And exports to elsewhere in the euro area fell to a three-month low. This was offset in part by a rebound in shipments to the UK (+15.1%M/M) to a 13-month high. But the weakness was broad based across a range of industries, including machinery, autos, chemicals, plastics, and iron and steel. Perhaps surprisingly given the strength earlier in the year, however, pharmaceutical exports were still trending above the Q1 level.

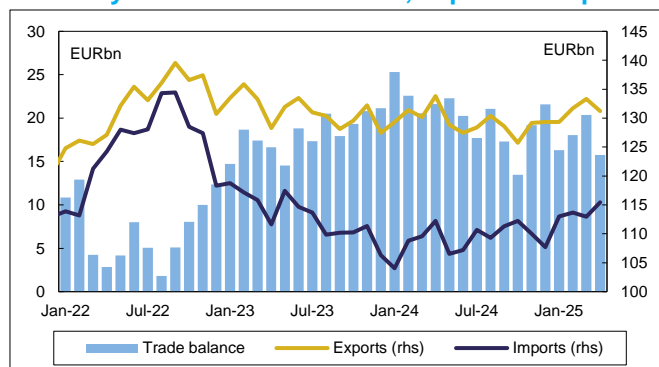
### Net trade on track to be a drag on GDP in Q2 despite decline in import values in May

Reflecting the steeper decline in imports of 3.8%M/M, the most in 12 months, Germany's goods trade balance widened to €18.4bn in May, still below March's surplus (€20.4bn) albeit broadly in line with the average of the past 12 months. And having risen sharply in April, the value of imports is trending broadly sideways so far in Q2. Moreover, growth in import volumes in April (5.9%M/M) was almost three times that of values, perhaps illustrating the impact of euro appreciation on import prices, which fell further in May and June too. We might expect import volumes to fall back over the remainder of the quarter. And overall, having boosted growth by a non-negligible 0.9ppt in Q1 – the most since Q320 and Q309 before that – net trade will almost certainly be a drag on German GDP in Q2.

### French exports drop to a 7-month low with notable declines in chemicals, spacecraft & food

Today's French trade figures also suggested that net trade weighed on GDP growth last quarter. Admittedly, the fall in export values in May was modest (-0.3%M/M). But this still took them to the lowest level since October to be trending almost 3½% below the Q1 level. Like in Germany, exports to the US fell more sharply (-3.7%M/M) to a six-month low to be trending so far in Q2 roughly 8% below the Q1 level. Shipments also declined to China and the UK to the lowest levels for 17 and seven months respectively. Within the sectoral detail, the weakness in May was led by chemicals, spacecraft, textiles and food. In contrast, auto shipments recovered further in, while exports continued to rise to elsewhere in the EU (4.8%M/M) to a six-month high. Overall, with import values down just 0.2%M/M in May, the French goods trade deficit widened slightly to €7.8bn, the largest since September.

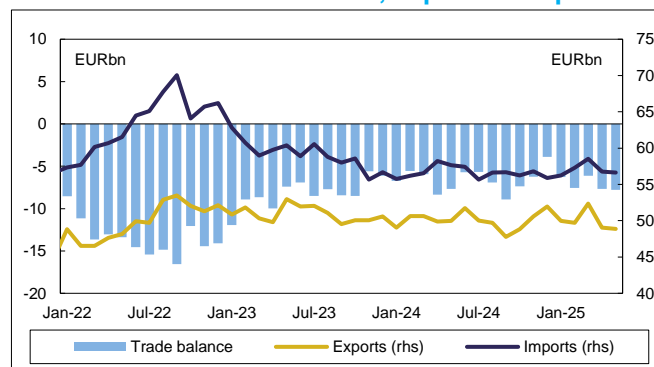
#### Germany: Goods trade balance, exports & imports\*



\*Seasonally adjusted values.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: Goods trade balance, exports & imports\*



\*Seasonally adjusted values.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

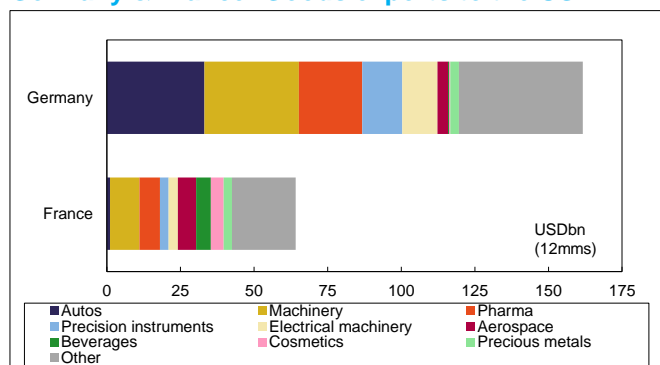
## The coming few days in the euro area

Notwithstanding the high likelihood of fresh news about Europe's future trading relationship with the US over coming days, it will be a relatively quiet period for euro area data. The highlight on that front will be June's final German (Thursday) and French (Friday) inflation releases, which will provide greater detail as to how price pressures evolved last month. Contrasting with an upside surprise in France (up 0.2ppt to 0.8%Y/Y), and despite upwards pressure from energy prices, the German flash estimate showed that inflation edged back down to target (down 0.1ppt to 2.0%Y/Y). Limited national CPI data flagged moderation in underlying core pressures and softer food inflation. Thursday will also bring May industrial production data from Italy and Ireland.

## The coming few days in the UK

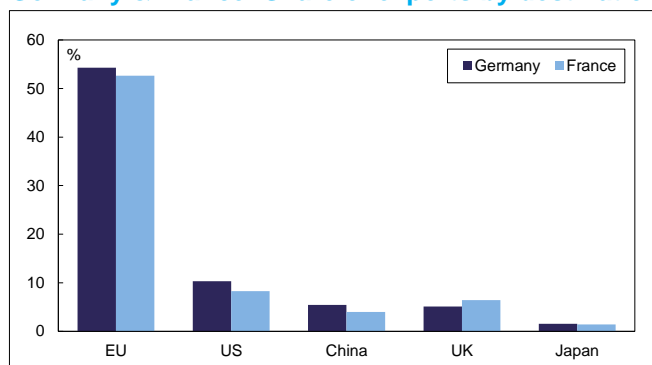
While Thursday's RICS survey will provide an update on housing market activity in June, Friday's monthly GDP figures for May will be the key economic data release over the coming few days. Considering the strength of Q1 growth (0.7%Q/Q), April's decline in monthly GDP (-0.3%M/M) marked an unsurprising, albeit disappointing, outturn for the start of Q2. Indeed, peak trade uncertainty and payback for the boost in March from warm weather and a stamp duty induced surge in housing

### Germany & France: Goods exports to the US



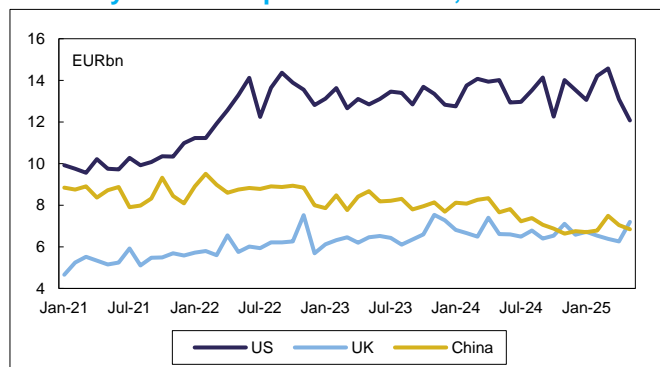
Source: US Census Bureau, Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany & France: Share of exports by destination



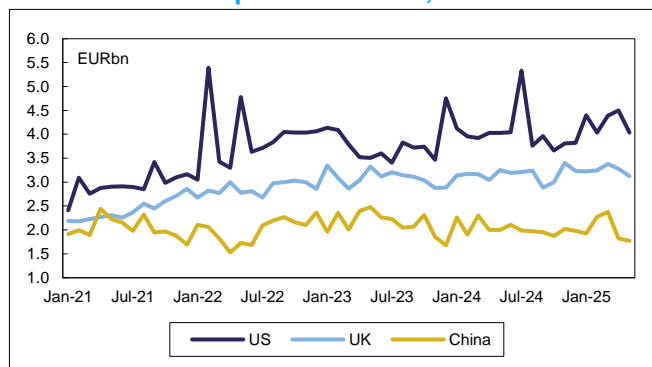
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Goods exports to the US, UK & China



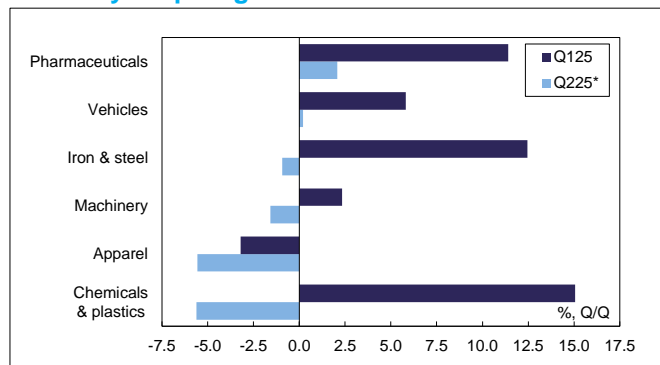
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### France: Goods exports to the US, UK & China



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

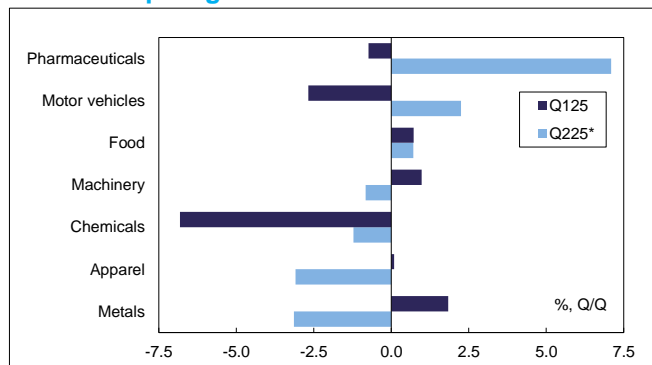
### Germany: Export growth in selected industries



\*Q225 figure based on April & May data.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### France: Export growth in selected industries



\*Q225 figure based on April & May data.



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

market activity cumulatively contributed to some of that weakness. Nonetheless, GDP growth on a three-month basis merely moved sideways (0.7%3M/3M). We note that, after April's PMIs flagged a deterioration in private sector activity (48.5) that month, they subsequently recovered in May (50.2) and June (52.0) to be consistent with marginal expansion in Q2. So, we expect May's GDP report to be less downbeat. While activity in the housing market will take a while to recover fully, realtors and professional services are likely to have bounced back somewhat following April's drop. And consumer-facing services may have once again benefitted from an upturn in the weather, contrasting the surprisingly sharp fall in retail sales volumes reported that month (-2.7%M/M). With that in mind, we expect monthly GDP growth in May to be a relatively muted 0.1%M/M, consistent with growth on a three-month basis of a lesser 0.4%3M/3M.



**The next Euro wrap-up will be published on Friday 11 July 2025**

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany 	Trade balance €bn	May	<b>18.4</b>	15.5	14.6	15.7
France 	Trade balance €bn	May	<b>-7.8</b>	-	-8.0	-7.7

#### Auctions

Country	Auction
Germany 	sold €3.754bn of 2.2% 2030 bonds at an average yield of 2.26%
UK 	sold €900m of 1.875% 2049 inflation-linked bonds at an average yield of 2.36%



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Wednesday's releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
- Nothing scheduled -					




#### Auctions and events

Germany 	10.30	Auction: to sell €1.5bn of 2.6% 2041 bonds			
	10.30	Auction: to sell €1bn of 2.5% 2041 bonds			
UK 	10.00	Auction: to sell £4.5bn of 4.5% 2035 bonds			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Thursday's releases

#### Economic data



Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany 	07.00	Final HICP (CPI) Y/Y%	Jun	<u>2.0 (2.0)</u>	2.1 (2.1)
Italy 	09.00	Industrial production M/M% (Y/Y%)	May	-0.2 (0.4)	1.0 (0.3)
UK 	00.01	RICS house price balance %	Jun	-9	-8

#### Auctions and events


- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

**Friday's releases**
**Economic data**

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
France 	07.45	Final HICP (CPI) Y/Y%	Jun	<u>0.8 (0.9)</u>	0.6 (0.7)
UK 	07.00	Monthly GDP M/M% (3M/3M%)	May	<u>0.1 (0.4)</u>	-0.3 (0.7)
	07.00	Services output M/M% (3M/3M%)	May	0.1 (0.4)	-0.4 (0.6)
	07.00	Industrial output M/M% (Y/Y%)	May	-0.1 (0.2)	-0.6 (-0.3)
	07.00	Construction output M/M% (Y/Y%)	May	0.2 (1.6)	0.9 (3.3)
	07.00	Trade (goods trade) balance £bn	May	-4.6 (-21.0)	-7.0 (-23.2)

**Auctions and events**

Italy 	10.00	Auction: to sell bonds			
	14.00	Banca d'Italia to publish quarterly economic bulletin			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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