

Euro wrap-up

Overview

- Bunds made modest gains despite confirmation of a sharp plunge in euro area goods exports in Q2.
- On a quiet day for UK data, Gilts followed US Treasuries lower.
- Euro area balance of payments data for June will be released on Tuesday followed by euro area and UK inflation figures for July on Wednesday.

Chris Scicluna
+44 20 7597 8326

Edward Maling
+44 20 7597 8030

Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	1.962	-0.006
OBL 2.2 10/30	2.327	-0.011
DBR 2.6 08/35	2.773	-0.012
UKT 3½ 03/27	3.964	+0.043
UKT 4½ 03/30	4.127	+0.042
UKT 4½ 03/35	4.743	+0.049

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

Euro area

Goods exports fall in Q2 by most since first Covid lockdown

Having surged in Q1 by the most since 2020 as firms front-ran new US tariffs, and as suggested by the national data from [Germany](#), Ireland and other member states, euro area goods exports inevitably suffered significant payback in Q2. Today's data showed that the value of euro area goods exports fell in June for a third successive month and by 2.4% M/M to an 8-month low, still nevertheless slightly higher than a year earlier (0.4% Y/Y). While not nearly as big as the drop of 8.4% M/M in April, the fall in June left euro area goods export values down in Q2 by 5.9% Q/Q – a drop previously exceeded only during the first Covid lockdown in Q220 and the Global Financial Crisis in Q408 and Q109 – having grown a vigorous 7.7% Q/Q in Q1. Meanwhile, goods import values rose 3.1% M/M and 6.8% Y/Y in June to be down a modest 2.4% Q/Q last quarter. So, the euro area's goods trade surplus shrank by almost €13bn to just €2.8bn, just 10% the size in March and the smallest in almost two years. And while volume data for June are not yet available, there is no doubt that euro area goods trade subtracted significantly from GDP growth in Q2 after adding 0.2ppt in Q1.

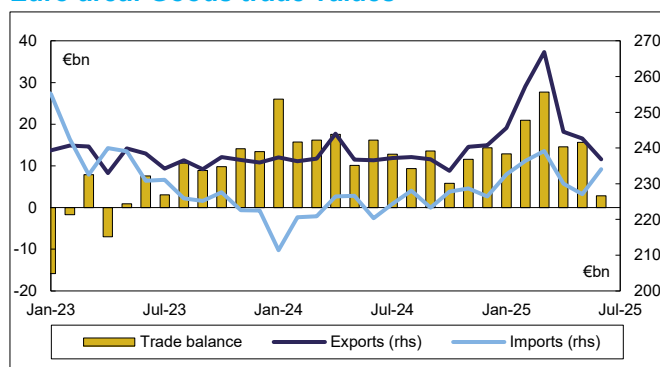
Shipments to the US plunge by more than one fifth while exports to China fall again too

Having accounted for more than 60% of euro area export growth in Q1, shipments to the US accounted for more than 75% of the drop in Q2. Indeed, after a leap of 27% Q/Q in Q1, goods exports to the US plunged more than 22% Q/Q in Q2. Three-quarters of the drop in shipments to the US last quarter was accounted for by chemicals, including pharmaceuticals, which plunged by more than 35% Q/Q having surged 64% Q/Q in Q1. In addition, shipments to the US of machinery and transport goods fell 14% Q/Q after growth of almost 7% Q/Q in Q1. With euro area imports from the US down a mere 4% Q/Q, the region's bilateral trade surplus with the US narrowed in June to just €8.7bn, just one quarter the level in March and the smallest since January 2023. Due to renewed weakness in shipments in machinery and transport goods, exports were also down sharply to China (-5.2% Q/Q). And with imports from China up again, the euro area's goods trade deficit with that country rose back above €25bn in June to exceed €71bn in Q2 for the first time since Q322. Among other major economic partners, shipments to Switzerland fell sharply to Switzerland and Türkiye but grew (albeit modestly) to the rest of the EU and UK. Overall, euro area exports of chemicals including pharmaceuticals were down 16.6% Q/Q in Q2 while shipments of machinery and transport goods were down 2.3% Q/Q.

Scope for further payback from tariff front-running in Q3 but surveys give cause for some optimism

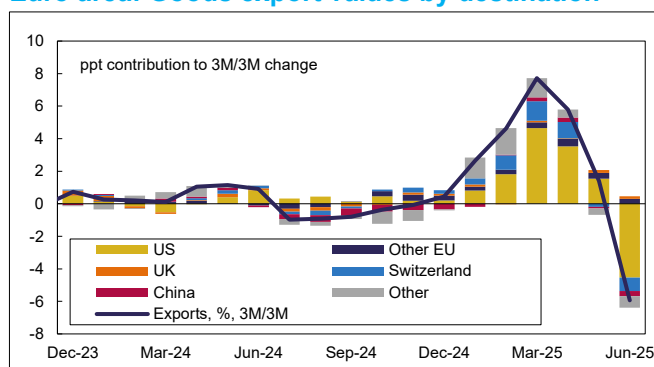
Despite the weakness in Q2, US imports from the euro area were still up almost 14% in the first half of 2025 compared to the second half of 2024. In contrast, US imports from other major economies, including Japan, China and the UK, were all down

Euro area: Goods trade values



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Goods export values by destination



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

in H125 on the same basis. That might suggest scope for further negative payback in euro area exports to the US in Q3 and Q4 for the extreme frontrunning of tariffs at the start of the year, particularly as the new 15% 'all-inclusive tariff ceiling' to apply to most US imports of euro area goods following last month's trade deal is well above the average rate (around 1.5%) prevailing at the end of 2024. Container ship data for departures from major European ports – particularly in the Netherlands and Belgium – to the US flag the risks of continued weakness in shipments in the current quarter. Exports to China are also at risk of further weakness not least due to greater competition as well as still-subdued demand. And while euro area domestic demand might provide some offset, [factory output](#) might do little better than track sideways in Q3 having dropped 0.4%Q/Q in Q2. However, surveys provide cause for optimism that euro area IP and exports will remain broadly resilient throughout the second half of the year. For example, the manufacturing new orders PMI in the three months to July (an average of 49.6) marked the best three-month period since Q122 to be consistent with broad stability, while the factory output PMI remained above the key-50 level in July. But Thursday's flash August PMIs will provide updated insights.

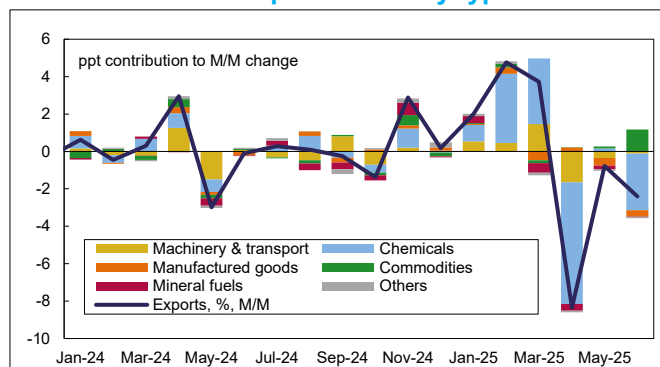
The coming two days in the euro area

With no revisions made to July's inflation data from the member states, Wednesday's final euro area print seems bound to confirm sidesteps in both the headline (2.0%Y/Y) and core (2.3%Y/Y) HICP rates, in line with their flash estimates. The accompanying details should also show that stability came despite slightly firmer prices of food and core goods, with ongoing moderation in services inflation providing sufficient offset, albeit perhaps in part due to temporary softness in volatile holiday-related items. Wednesday will also bring flash euro area labour cost and job vacancy data for Q2 which should signal further gradual loosening in labour market conditions, consistent with further moderation in services inflation ahead.

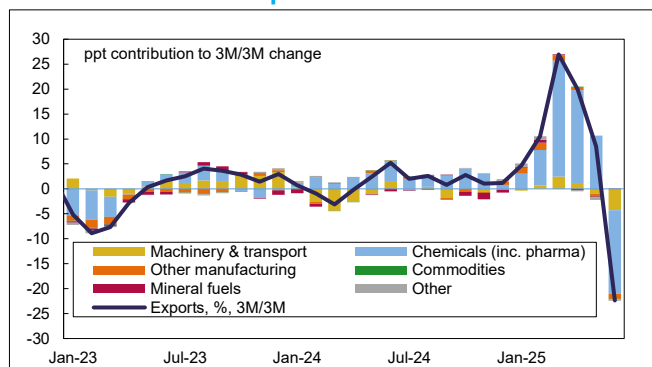
The coming two days in the UK

Tuesday should be a quiet day for UK economic news. So, as in the euro area, focus in the UK turns to Wednesday's all-important inflation data for July. Following the hotter-than-expected reading for June – when headline inflation rose to 3.6%Y/Y, 0.2ppt above its previous projection – the BoE revised up its forecast, principally reflecting larger increases across food, energy and services components. As such, the MPC now expects CPI inflation to rise a further 0.2ppt in July, to an 18-month high of 3.8%Y/Y before peaking at 4.0%Y/Y in September. While we also expect inflation to edge up a touch further in July, our projection remains slightly more dovish than the BoE. In line with the consensus on the Bloomberg survey, we expect headline inflation to nudge up 0.1ppt to 3.7%Y/Y, with core inflation unmoved at the same rate. For the most part, that reflects our assumption for a rise in services inflation of 0.1ppt to 4.8%Y/Y, again in line with the market consensus but below the BoE's forecast.

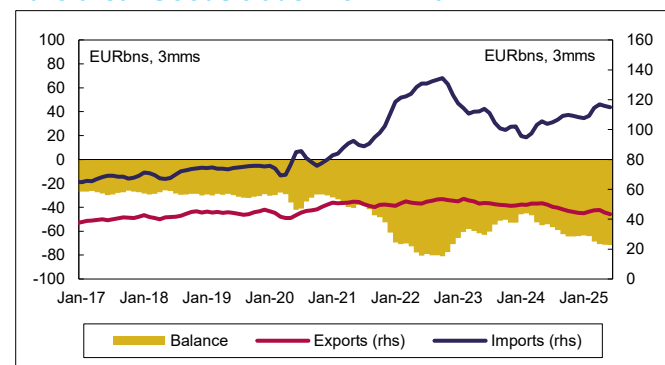
Euro area: Goods export values by type



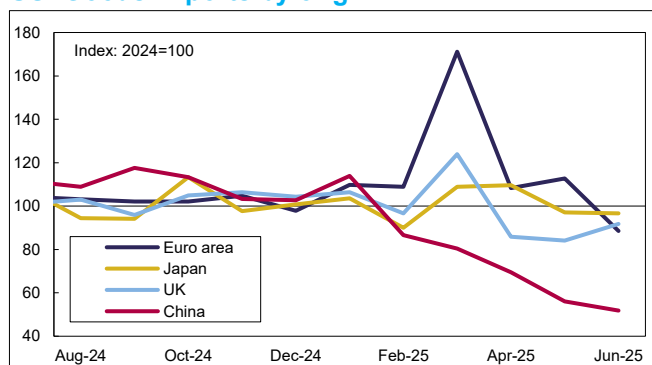
Euro area: Goods export values to the US



Euro area: Goods trade with China



US: Goods imports by origin



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Trade balance €bn	Jun	2.8	-	16.2	15.6
UK	Rightmove house prices M/M% (Y/Y%)	Aug	-1.3 (0.3)	-	-1.2 (0.1)	-

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tuesday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	09.00	ECB current account €bn	Jun	-	32.3

Auctions and events

Germany	10.30	Auction: to sell €4.5bn of 2.2% 2030 bonds
UK	10.00	Auction: to sell £1.6bn of 1.125% 2035 inflation-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	10.00	Final headline (core) HICP Y/Y%	Jul	2.0 (2.3)	2.0 (2.3)
	10.00	Preliminary labour costs Y/Y%	Q2	-	3.4
	10.00	Preliminary job vacancy rate %	Q2	-	2.4
Germany	07.00	PPI Y/Y%	Jul	-	-1.3
UK	07.00	Headline (core) CPI Y/Y%	Jul	3.7 (3.7)	3.6 (3.7)
	09.30	House price index Y/Y%	Jun	-	3.9

Auctions and events

Germany	10.30	Auction: to sell €1bn of 2.5% 2046 bonds
	10.30	Auction: to sell €1.5bn of 2.5% 2054 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The next Euro wrap-up will be published on Wednesday 20 August 2025

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.