Daiwa Capital Markets

Euro wrap-up

Overview

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- With limited market reaction to Friday's French sovereign credit rating downgrade, longer-dated Bunds made modest gains as data suggested that euro area goods exports stabilised in July but remained well below the Q2 average.
- Gilts followed the global trend higher on a quiet day for UK economic news.
- Tuesday will bring euro area industrial production and labour costs figures, a German investor survey and the UK's labour market data.

Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	2.011	-0.003
OBL 2.2 10/30	2.292	-0.013
DBR 2.6 08/35	2.695	-0.018
UKT 3¾ 03/27	3.948	-0.026
UKT 4⅜ 03/30	4.062	-0.027
UKT 4½ 03/35	4.636	-0.034

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

Euro area

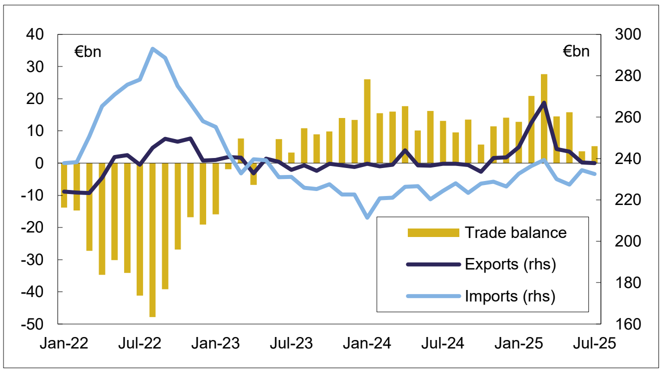
Euro area goods exports stabilise in July, but still well below Q2 average

Having provided a sizeable boost to euro area GDP growth in Q1, net trade was inevitably a significant drag on the economy in Q2 as shipments to the US fell sharply. And today's data suggest that net trade continued to subtract from euro area growth at the start of Q3 too. Admittedly, the seasonally adjusted goods trade surplus widened slightly in July to €5.3bn. But this still represented a narrowing of more than €10bn compared with the average in the first half of the year. Moreover, the improvement in July reflected a decline in the value of imports (-0.8%M/M). While the decline in the value of exports was very slight in July (-0.1%M/M) suggesting some stabilisation at the start of the summer, this still marked the fourth successive monthly drop. And it left exports at their lowest level in nine months, some 1.7% below the Q2 average. Surveys suggest that manufacturers were more upbeat in August, with the manufacturing PMI signalling the strongest production growth for almost three years. But while still up from levels in the first quarter new German factory orders from outside of the euro area fell sharply in July and surveys signal a further weakening in external demand in August. Containership data for departures from major European ports to the US flag the risks of continued weakness in shipments at the end of the quarter too. Meanwhile, given the strong end to Q2, import values in July were still trending some 0.8% above the Q2 average. If that trend is maintained and matched in volumes terms, net trade would provide a more substantial drag in Q3 than last quarter.

Trade surplus with the US narrows to 2½-year low, while deficit with China remains near recent high

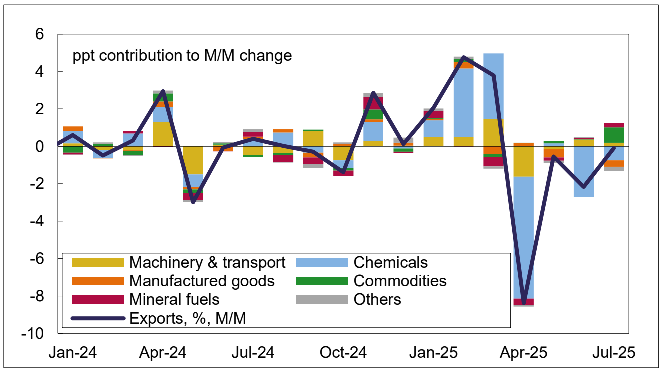
Having fallen in each of the three months to June (-22%3M/3M), euro area goods shipments to the US seemingly stabilised at the start of Q3. The modest pickup (0.5%M/M) was principally driven by a further recovery in exports of machinery and transport equipment (5.8%M/M) to a four-month high to be up 7.4%Y/Y. But this could in part reflect further precautionary behaviour by manufacturers amid heightened negativity surrounding the US-EU trade negotiations and the threat of higher tariffs on autos earlier in the summer. Indeed, shipments of other goods across the Atlantic maintained a downtrend in July, with exports of chemicals including pharmaceuticals down to a 17-month low, likely as payback for their marked front-loading at the start of the year. Overall, given the low level already reached in June, exports to the US in July were more than 8½% below the Q2 average and down 4½%Y/Y. And with euro area imports of American goods up in July, the region's bilateral trade surplus with the US narrowed to just €8.9bn, less than half the average monthly level in the first half of 2025 and the smallest since January 2023. Due to further weakness in shipments in machinery and transport goods, exports to China also fell for a fourth month out of five to the lowest level since the first Covid-19 lockdown. So, while imports from China fell for a third month out of the past four, the euro area's goods trade deficit with that country (€23bn) remained one of the largest of recent years. Somewhat more encouragingly, exports to elsewhere in Asia rose thanks to a boost in shipments to Japan, while exports to the UK were still a little more than 1% above the Q2 average despite edging slightly lower in July.

Euro area: Goods trade balance, exports & imports*



*Seasonally adjusted values.
Source: Eurostat, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Export values by good

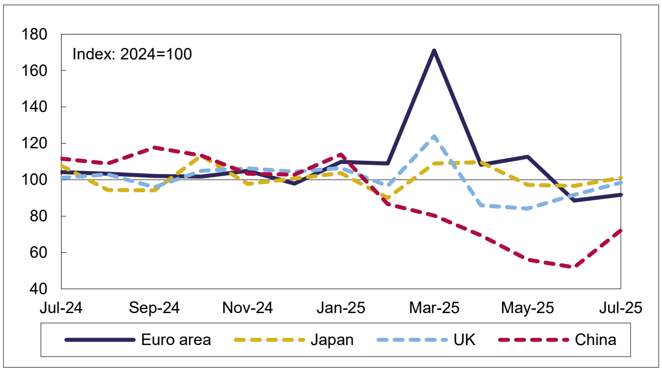


Source: Eurostat, Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

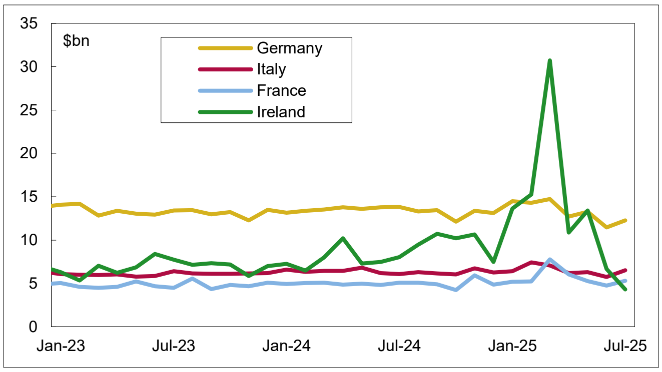
Tuesday's data releases will provide more insight into euro area economic growth momentum in Q3, with July figures for industrial production likely to bring only modest growth – up ½%M/M at most – despite a rebound in Germany and Ireland, where output increased 1.5%M/M in both countries. While this would leave output broadly flat compared with Q2, surveys point to a more marked recovery in the sector in August. Nevertheless, like last week's Sentix survey, the German ZEW investor survey might flag a deterioration in sentiment surrounding conditions and expectations in September, perhaps in part reflecting the weaker August US payrolls report. Separately, despite the further downtrend in the job vacancy rate in Q2 – down 0.2ppt to 2.2%, the softest since Q121 – final labour costs data for Q2 are expected to confirm a slight pick up in growth last quarter, by 0.3ppt to 3.7%Y/Y, still however some 1.8ppts below the peak in Q422.

US: Imports from selected country/region



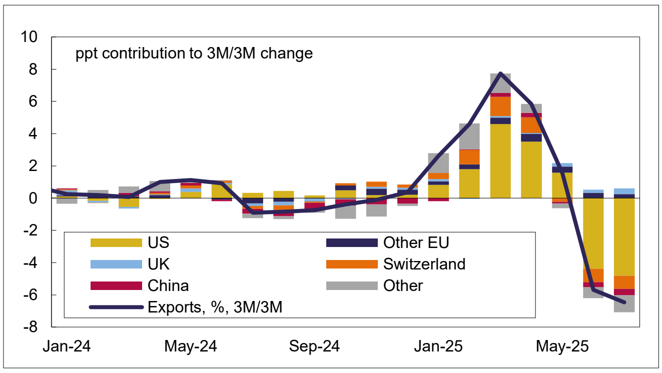
Source: US Census Bureau, Macrobond and Daiwa Capital Markets Europe Ltd.

US: Imports from selected euro area member states



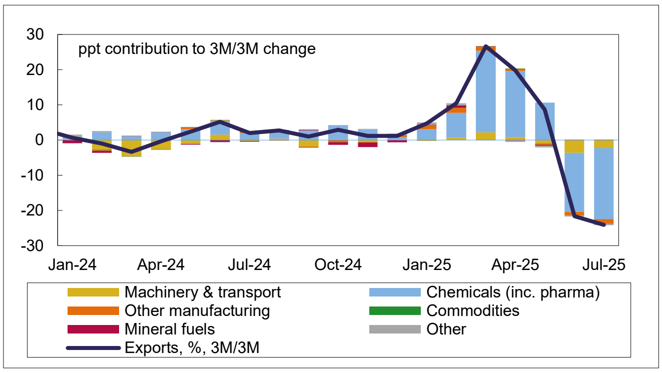
Source: US Census Bureau, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Goods exports by destination



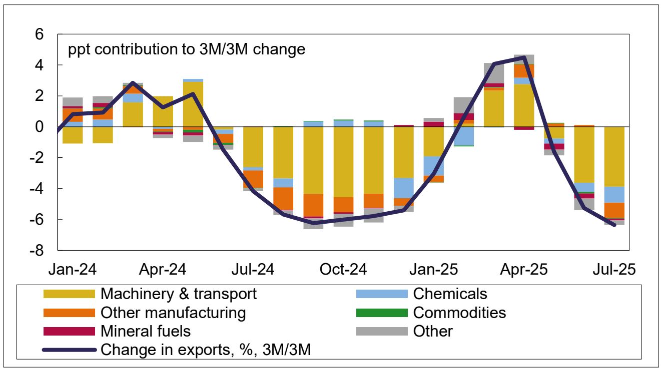
Source: Eurostat, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Goods exports to the US



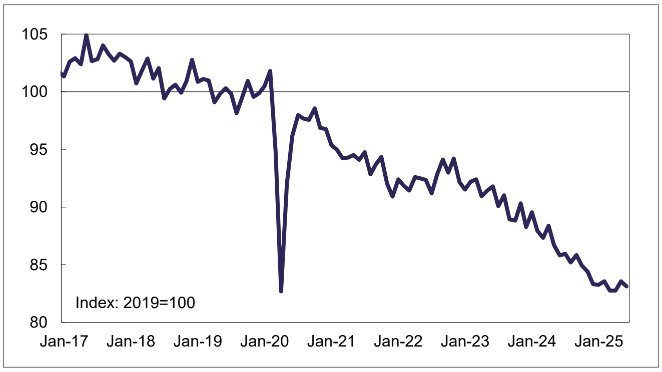
Source: Eurostat, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Goods exports to China



Source: Eurostat, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Export share of global goods imports

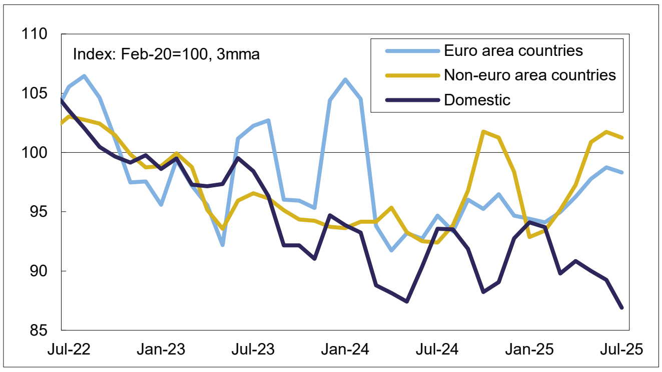


Source: CPB, Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the UK

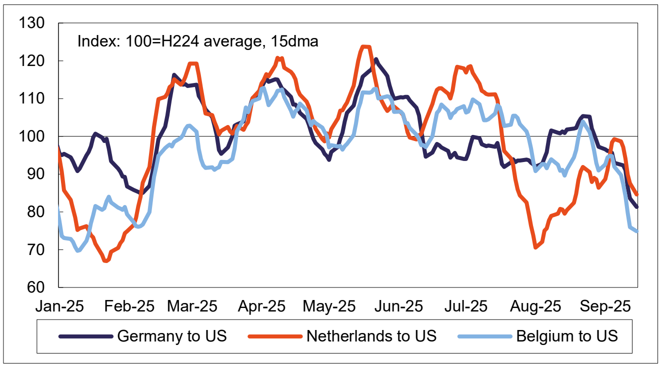
After a quiet start to the week for UK news flow, tomorrow's data will provide an update on labour market conditions over the summer. Consistent with the downbeat message from various surveys – including the PMIs and REC jobs report – these are likely to report a seventh consecutive monthly decline in payrolled employees in August. Certainly, like the BoE, we wouldn't read too much into the likely further solid increase in the Labour Force Survey measure of employment, which in the three months to June reported an increase of 238k. Most important for future decisions on monetary policy, the LFS measure of private sector pay growth – the BoE's preferred metric – seems highly likely to decelerate further in July, which should allow the MPC this week to restate that ongoing wage moderation remains consistent with underlying disinflation.

Germany: New factory orders



Source: Destatis, Macrobond and Daiwa Capital Markets Europe Ltd.

Container ship tonnage: Departures to the US



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country		Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area		Trade balance €bn	Jul	**5.3**	12.0	2.8	3.7
		Final job vacancy rate %	Q2	**2.2**	*2.3*	2.4	-
UK		Rightmove house prices M/M% (Y/Y%)	Sep	**0.4 (-0.1)**	-	-1.3 (0.3)	-

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/ *Daiwa forecast*	Previous
Euro area		10.00	Industrial production M/M% (Y/Y%)	Jul	*0.3 (1.7)*	-1.3 (0.2)
		10.00	Final labour costs Y/Y%	Q2	*3.7*	3.4
Germany		10.00	ZEW current situation (expectations) balance	Sep	-73.0 (25.0)	-68.6 (34.7)
Italy		09.00	Final HICP (CPI) Y/Y%	Aug	*1.7 (1.6)*	1.7 (1.7)
UK		07.00	Average wages (excluding bonuses) 3M/Y%	Jul	4.7 (4.8)	4.6 (5.0)
		07.00	Private sector regular wages 3M/Y%	Jul	4.7	4.8
		07.00	Unemployment rate 3M%	Jul	4.7	4.7
		07.00	Employment 3M/3M change 000s	Jul	223	238
		07.00	Payrolled employees M/M change 000s	Aug	-11	-8
		07.00	Claimant count rate % (change 000s)	Aug	-	4.4 (-6.2)

Auctions and events

Germany		10.30	Auction: to sell up to €4.5bn of 2.2% 2030 bonds
UK		10.00	Auction: to sell £3.0bn of 4.375% 2040 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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