

Euro area: The surplus in goods trade balance is well-entrenched

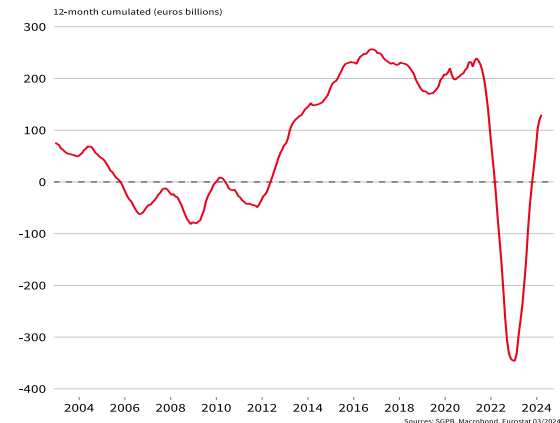
The euro area goods trade balance swung sharply into deficit during the energy crisis. Although it has now been back in positive territory for several months, euro area trade could continue to be hampered by the ongoing Chinese trade offensive.

The trade balance surplus is confirmed. The euro area posted a surplus of 57 billion euros in its trade in goods with the rest of the world in the first quarter of 2024. This figure confirms the return to positive territory of the trade balance observed since mid-2023, after two years of deficit caused by the energy crisis (see chart 1). The improvement largely reflects the effects of the fall in energy prices. But beyond this price effect, it can also be explained by a greater decline in import volumes than in exports, against a backdrop of soft domestic demand. Among the main countries in the euro area, and this time including intra-euro trade, Germany has returned to a high level of trade surplus, even higher than before Covid, as domestic demand has been particularly sluggish. Italy has returned to a trade surplus, while France and Spain are back to moderate deficits, following record deficits in 2022.

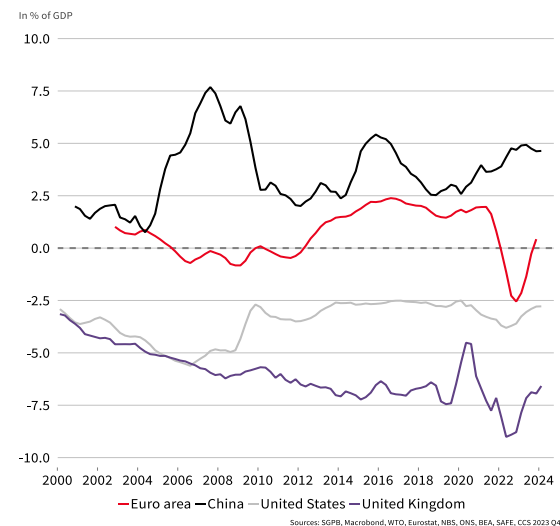
The Covid and energy crises have altered the trade balance with the world's main regions. The trade surplus with the United States and the United Kingdom has increased compared with before Covid. The energy crisis initially reduced these surpluses, as energy imports from Russia were transferred to these countries. More recently, however, these surpluses have increased again, as a result of stronger domestic demand – particularly for the United States. European exports may also have benefited from the increase in US tariffs on Chinese imports. The euro area trade surplus with the United States reached a record €44 billion in the first quarter, up 30% on the previous year. At the same time, the bilateral deficit with China appears to have moderated in recent months, but after a marked deterioration post-Covid. China remains the country with which the euro area has the largest trade deficit, and at \$47 billion this deficit is still much higher than it was before Covid and could widen further in view of China's current trade offensive.

Globalisation is not coming to a halt; on the contrary, Chinese exports are very dynamic. The pandemic, with the global supply chains disruptions, and the geopolitical tensions, with the strengthening of protectionist measures, led to fears that globalisation would come to a sudden halt. However, the data to date show a different picture, with trade levels still very high (see [Focus Strategy: Globalisation: recent trends and consequences](#)). In particular, China still appears to be very dynamic. Chinese net exports, which had already seen very high growth after the country's entry to the World Trade Organisation (WTO) in 2001, have once again seen strong momentum since Covid (see chart 2). This dynamism can be explained initially by the strong demand for goods in the developed economies, particularly in the United States, at the time of and after the lockdowns, then by sluggish Chinese domestic demand and finally by very proactive political support and subsidies (particularly in the car and renewable energy industries).

Eurozone trade balance (goods) with the rest of the world



Goods trade balance as % of GDP



Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg and Macrobond on the 24/05/2024, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.

Our Macro Comments

Events of the week



Inflation in the United Kingdom slowed significantly in April but was higher than expected, at 2.3% year-over-year compared to 2.1% expected and 3.2% the previous month. Core inflation remains high, at 3.9% year-over-year compared to 3.6% expected. While goods inflation has slowed down significantly, inflation in services has remained quasi-stable. These data show that inflation is approaching the central bank's objective, allowing it to cut its rates during the summer, if the trajectory is confirmed. However, markets have significantly lowered their rate cut expectations for the June meeting. Meanwhile, Prime Minister Rishi Sunak called the general elections for 4th July, elections for which the opposition Labour Party is the clear front-runner.



The PMI business climate indices for the month of May confirmed that activity in the euro area was recovering but remained moderate and fragile. The manufacturing sector PMI index for the euro area rebounded in May but remains below the threshold of 50 separating contraction and expansion in the sector. The services index remained stable, allowing the composite index to return to its highest level in a year. The key statistic in the euro area, however, was the index of negotiated wages, which increased in May by 4.7% year-over-year compared to 4.5% previously. The ECB, however, considers that leading indicators argue for a moderation in future wage growth. Therefore, this should not prevent the ECB from lowering rates in June but is in line with our scenario of moderate rate cuts this year.

The week in data

Country	Data	Actual	Last	Forecast
Germany	HCOB Composite PMI Flash MAY	52,2	50,6	51
China	Loan Prime Rate 1Y	3,45%	3,45%	3,45%
China	Loan Prime Rate 5Y MAY	3,95%	3,95%	3,95%
United States	S&P Global Composite PMI Flash MAY	54,4	51,3	51,1
France	HCOB Composite PMI Flash MAY	49,1	50,5	51
Japan	Core Inflation Rate YoY APR	2,20%	2,60%	2,20%
United Kingdom	Inflation Rate YoY APR	2,30%	3,20%	2,10%
United Kingdom	Core Inflation Rate YoY APR	3,90%	4,20%	3,60%
United Kingdom	S&P Global Composite PMI Flash MAY	52,8	54,1	54
United Kingdom	Retail Sales YoY APR	-2,70%	0,40%	-0,20%
Euro Area	Balance of Trade MAR	€24,1B	€22,8B	€19,9B
Euro Area	HCOB Composite PMI Flash MAY	52,3	51,7	52

Source: Macrobond, the 24th May 2024

Colors in 'Actual' column represent the difference with previsions.

Key events next week

Monday	
Germany	Ifo Business Climate MAY
Wednesday	
Germany	Inflation Rate YoY Prel MAY
Thursday	
Switzerland	GDP Growth Rate Q1
Euro Area	Unemployment Rate APR
Friday	
Japan	Unemployment Rate APR
Japan	Industrial Production APR
Germany	Retail Sales APR
France	Inflation Rate MAY
Euro Area	Inflation Rate MAY
Italy	Inflation Rate MAY
United States	Personal Income APR
United States	Personal Spending APR

Market Performances

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,91	3,90	3,91	3,90	3,15
USD SOFR O/N	5,31	5,31	5,30	5,39	5,06
JPY TONAR O/N	0,08	0,08	-0,01	-0,04	-0,06
GBP SONIA O/N	5,20	5,20	5,19	5,19	4,43
CHF O/N	1,33	1,32	1,59	1,66	0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	3,09	2,93	2,90	2,56	3,06
10Y Bund	2,61	2,43	2,43	2,02	2,48
10Y BTP	3,90	3,73	3,90	3,70	4,33
10Y JGB	0,99	0,94	0,72	0,62	0,41
10Y Bonos	3,37	3,20	3,33	3,00	3,54
10Y Swiss	0,74	0,68	0,84	0,68	1,03
10Y Gilt	4,26	4,05	4,15	3,74	4,35
10Y USTnote	4,47	4,38	4,33	3,91	3,83

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,34	3,18	3,13	2,73	3,47
EUR Corporate Baa	4,06	3,93	4,02	3,78	4,66
GBP Corporate Baa	4,88	4,66	4,73	4,36	5,44
USD Corporate Aaa	5,02	4,92	4,84	4,54	4,61
USD Corporate Baa	5,74	5,64	5,62	5,38	5,85
USD EM aggregate	7,20	7,08	7,28	7,11	7,67

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	81,43	-2,3%	-1,4%	7,1%	7,0%
Or, USD/oz	2 329	-2,0%	15,0%	13,1%	20,0%
Copper, USD/metric ton	10 410	0,1%	21,4%	21,9%	30,9%
Platinum, USD/oz	1 027	-3,7%	15,1%	3,2%	-0,1%
Palladium, USD/oz	981	-2,5%	1,6%	-11,8%	-30,1%
Silver, USD/oz	30,54	2,9%	32,4%	27,5%	32,8%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	#N/A	#N/A	#N/A	#N/A	#N/A
EUR/CHF	0,99	0,7%	3,8%	6,5%	1,9%
USD/GBP	0,79	-0,3%	-0,6%	-0,7%	-2,9%
USD/JPY	157,07	1,2%	4,4%	10,6%	12,4%
USD/BRL	5,15	0,4%	4,2%	5,0%	3,0%
USD/CNY	7,25	0,4%	0,7%	2,1%	2,4%
USD/RUB	90,20	-0,6%	-2,0%	-1,1%	12,7%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	-1,4%	3,2%	6,4%	17,3%
Euro area	-0,7%	3,8%	13,3%	18,0%
Germany	-0,3%	7,6%	13,0%	18,3%
France	-1,1%	2,4%	9,3%	12,1%
United Kingdom	-1,2%	8,5%	8,6%	10,1%
Switzerland	0,1%	5,0%	7,1%	5,6%
United States	-0,6%	3,6%	12,0%	26,9%
Japan	0,6%	3,5%	16,4%	28,4%
Brazil	-2,8%	-4,2%	-6,1%	13,3%
Hong Kong	-2,6%	12,7%	13,4%	0,6%
India	2,4%	3,1%	5,7%	21,9%
China	0,0%	4,4%	7,8%	-5,4%

Source: Bloomberg, on 24 May 2024, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change. Equities; total return in local currency. Government bonds = 10 year returns. Figures are rounded..

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