

# Euro wrap-up

## Overview

- Bunds were little changed even as euro area unemployment edged higher and car registrations in France and Spain remained in reverse.
- Gilts ended the day little changed, as initial reports suggesting EU and UK officials had made some progress in the FTA discussions were followed by reports that EU officials saw no increased optimism.
- Friday's release of the euro area's flash CPI estimate is expected to show that headline and core inflation fell to new series lows in September.

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**Daily bond market movements**

Bond	Yield	Change
BKO 0 09/22	-0.713	-0.004
OBL 0 10/25	-0.721	-0.005
DBR 0 08/30	-0.530	-0.005
UKT 1½ 09/22	-0.038	-0.015
UKT 0% 06/25	-0.058	-0.002
UKT 4% 12/30	0.242	+0.013

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

## Euro area

### Euro area unemployment continues gradual rise

The recent resurgence in new coronavirus cases – particularly in France and Spain, the latter of which has seen the government over recent days recommend stricter containment measures across larger cities – has further clouded an already murky labour market outlook in the euro area. And the latest figures for August today showed that the number of people unemployed in the euro area rose for the fifth successive month, by 251k to 13.2mn, a rise of 1.37mn since April and the highest reading for more than two years. As such, the unemployment rate increased 0.1ppt to 8.1%, the highest for two years. Perhaps unsurprisingly, the largest increases among member states were seen in France and Spain, with the respective rates up 0.4ppt to 7.5% and 0.3ppt to 16.2%, the latter the highest since early 2018. In contrast, Germany's unemployment rate moved sideways at 4.4%, while Italy's edged slightly lower to 9.7%. But the outturns in Italy in particular have been recently distorted by a significant number of workers leaving the labour force altogether rather than registering as jobless. And of course, the extent of the rise in joblessness has been restrained by government employment support schemes too. For example, Germany's ifo recently estimated that roughly 4.7mn workers were still registered on the short-time working 'kurzarbeit' scheme in August, with a still-sizeable 3.7mn estimated in September too. The last-minute extension this week in the Spanish ERTE furlough scheme – of which roughly 750k were still receiving benefits last month – through to the end of January will continue to limit the rise, as will the respective programmes in France and Italy. This notwithstanding, we still expect the euro area unemployment rate to continue to drift higher over coming months.

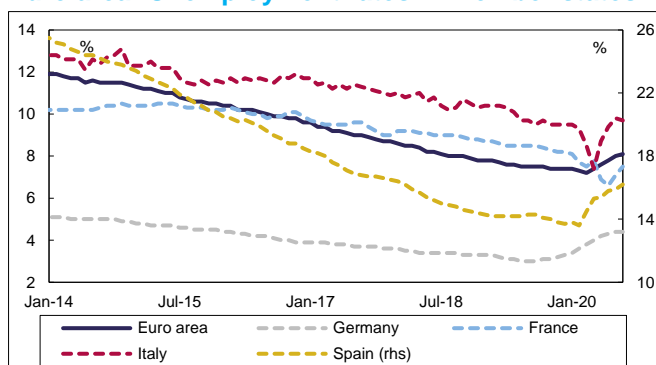
### Car registrations in France and Spain remain in reverse

Against this backdrop, it was perhaps not surprising to see that demand for big-ticket items remains subdued. This was the message from today's national car registrations figures, which continued to offer a relatively bleak assessment for the sector. In particular, new registrations in France fell a further 3%Y/Y in September; admittedly an improvement on the near-20%Y/Y drop recorded in August despite the recent spike in coronavirus cases across the country. Nevertheless, it left sales in the first nine months of the year at just 1.17mn, a drop of almost 30%Y/Y compared with the equivalent period in 2019 and the lowest number of units registered during that period since 1975. The decline in Spain was more acute, down 13½%Y/Y, marking the eighth drop out of the past nine months. This left the number of units registered in the first nine months of the year at less than 600k, a drop of 38% compared with the equivalent period in 2019. In marked contrast, Italian registrations fared much better, rising 9½%Y/Y in September, the first such increase since 2019. Nevertheless, this still left sales at less than 1mn for the year to-date, a decline of more than a third compared with a year earlier and the lowest number for that period since the series began in 1987.

### Final euro area manufacturing PMI unrevised

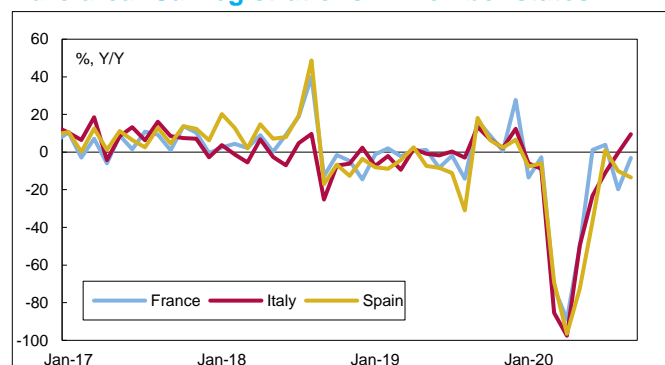
Despite tighter containment measures in several countries across the region, as well as subdued demand and a

#### Euro area: Unemployment rates in member states



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Euro area: Car registrations in member states



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

deteriorating labour market outlook, there were no major adjustments to the euro area's final manufacturing PMI survey. Indeed, the headline index was unrevised at 53.7 in September, leaving it 2pts higher than August and its strongest reading for more than two years. And there was a modest upwards revision to the output component, to leave it at 57.1, a 31-month high and consistent with ongoing solid recovery in the sector, with the survey also implying that new orders – from home and overseas – rose to their firmest since early 2018. This notwithstanding, manufacturers' profit margins remained squeezed as output prices continued to fall. And firms were still reportedly scaling back their workforces.

### German manufacturing sector leading the way

Among the country detail, Germany's manufacturing sector drove the rebound, with the output component jumping 4.6pts to an impressive 62.4, and the new orders and export orders indices similarly rising comfortably above 60, implying the strongest growth since 2017. Meanwhile, despite largely reversing the increase seen in August, the Italian output PMI (54.8) still recorded the second-strongest reading since early 2018, pointing to ongoing solid recovery in the sector as, like Germany, that country appears to have been less affected by a resurgence in coronavirus cases. This notwithstanding, even though France and Spain have seen new daily coronavirus cases surge over the past month, today's respective PMIs were still suggestive of modest manufacturing expansion too. For example, the final French manufacturing indices were revised a touch higher, with the headline PMI rising 1.4pts on the month to 51.2, and the Spanish PMI up 0.9pt to 50.8, both implying a return to modest expansion.

### The day ahead in the euro area

The main focus in the euro area tomorrow will be on the flash September inflation estimate. Following downside surprises in the equivalent [German, French and Italian](#) releases this week, aggregate euro area inflation is expected to have fallen further into negative territory last month, by 0.2ppt to -0.4%Y/Y. And while the national releases suggest that this in part reflected a steeper drop in energy prices, core inflation is also expected to have declined to a new-series low of 0.2%Y/Y or lower. Spanish labour market data for September are also due for release.

## UK

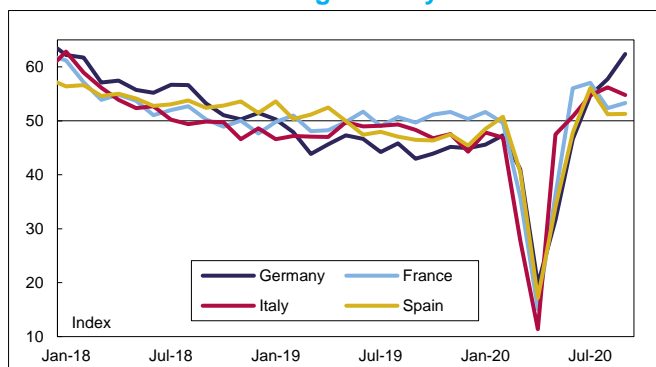
### Final UK manufacturing PMI implied a slight moderation in growth

While the UK government's recently announced containment measures on consumer-facing sectors seemed unlikely to have a material impact on the manufacturing sector, today's final PMI survey still implied a slight moderation in growth in September. Indeed, the drop in the headline and manufacturing output indices (-1.1pts and -2.0pts respectively) were a touch larger than reported in the flash release, although at 59.0 the output component was still the second-highest for almost six years. While there was a welcome improvement in demand from overseas, overall new business grew at a softer pace in September as businesses suggested a normalisation in demand following the initial pent-up demand after the easing of lockdown measures. This notwithstanding, production expectations for the year ahead remained steady in September, with roughly 60% of respondents forecasting a rise. But manufacturers continued to scale back their workforces for the eighth consecutive month as risks to the near-term outlook, associated not least with the forthcoming ending of the Brexit transition period and Covid-19, remaining skewed to the downside. Relatedly, today saw the EU launch legal action against the UK over Prime Minister Johnson's 'internal market bill', sending an initial letter of formal notice asking the UK to respond to Brussels within a month over its concerns that the draft bill breaches 'the obligation of good faith laid down in the withdrawal agreement' and 'if adopted...will be in full contradiction to the protocol on Ireland/Northern Ireland'. This response was entirely predictable and will have no impact one way or the other on the outcome of the negotiations on the FTA. Indeed, reports earlier today suggest that those discussions are progressing, with fisheries currently seemingly the most difficult outstanding stumbling block to resolve to secure a deal.

### The day ahead in the UK

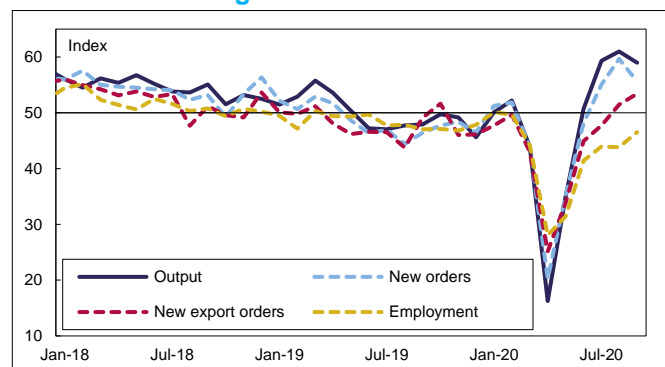
It should be a quiet end to the week for UK economic news, with no top-tier data due for release.

#### Euro area: Manufacturing PMIs by member state\*



\*Output components. Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

#### UK: Manufacturing PMIs










Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

# European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
EMU	Final manufacturing PMI	Sep	<b>53.7</b>	53.7	51.7	-	
	Unemployment rate %	Aug	<b>8.1</b>	8.1	7.9	<b>8.0</b>	
	PPI Y/Y%	Aug	<b>-2.5</b>	-2.7	-3.3	<b>-3.1</b>	
Germany	Final manufacturing PMI	Sep	<b>56.4</b>	56.6	52.2	-	
France	Final manufacturing PMI	Sep	<b>51.2</b>	50.9	49.8	-	
	New car registrations Y/Y%	Sep	<b>-3.0</b>	-	-19.8	-	
Italy	Manufacturing PMI	Sep	<b>53.2</b>	53.5	53.1	-	
	Unemployment rate %	Aug	<b>9.7</b>	10.2	9.7	<b>9.8</b>	
	New car registrations Y/Y%	Sep	<b>9.5</b>	-	-0.4	-	
Spain	Manufacturing PMI	Sep	<b>50.8</b>	50.5	49.9	-	
	New car registrations Y/Y%	Sep	<b>-13.5</b>	-	-10.1	-	
UK	Final manufacturing PMI	Sep	<b>54.1</b>	54.3	55.2	-	
Auctions							
Country	Auction						
France		sold €5.51bn of 0% 2030 bonds at an average yield of -0.25%					
		sold €2.07bn of 0.75% 2052 bonds at an average yield of 0.43%					
		sold €1.68bn of 1.25% 2034 bond at an average yield of -0.09%					
		sold €2.25bn of 0.5% 2040 bonds at an average yield of 0.17%					
Spain		sold €1.19bn of 0% 2025 bonds at an average yield of -0.322%					
		sold €896mn of 1.25% 2030 bonds at an average yield of 0.224%					
		sold €480mn of 0.7% 2033 index-linked bonds at an average yield of -0.392%					
		sold €1.27bn of 3.45% 2066 bonds at an average yield of 1.307%					
UK		sold £3.25bn of 0.125% 2023 bonds at an average yield of -0.051%					
		sold £2bn of 1.25% 2041 bonds at an average yield of 0.75%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases						
Economic data						
Country		BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU		10.00	CPI estimate (core CPI) Y/Y%	Sep	<u>-0.4 (0.2)</u>	-0.2 (0.4)
Germany		-	New car registrations* Y/Y%	Sep	-	-20.0
Spain		08.00	Unemployment change '000s	Sep	60.0	29.8
Auctions and events						
Country		BST	Auction / Event			
EMU		11.00	ECB's Vice President de Guindos scheduled to speak at an online event			
		16.00	ECB's Hernandez de Cos scheduled to speak			
Germany		-	German sovereign debt rating update by S&P			
France		-	French sovereign debt rating update by S&P			

\*Approximate date of release. 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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