

# Euro wrap-up

## Overview

- Bunds made gains and BTPs outperformed even as Italian IP posted extremely strong growth.
- Gilts also made gains as UK GDP fell well short of expectations in August, suggesting that the BoE's Q3 forecast will prove overly optimistic.
- The coming week will bring euro area IP, trade and final inflation, as well as the UK's latest labour market report.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.730	-0.013
OBL 0 10/25	-0.740	-0.016
DBR 0 08/30	-0.539	-0.013
UKT 1½ 09/22	-0.025	-0.003
UKT 0% 06/25	-0.033	-0.004
UKT 4% 12/30	0.272	-0.016

\*Change from close as at 4:00pm BST.  
Source: Bloomberg

## Euro area

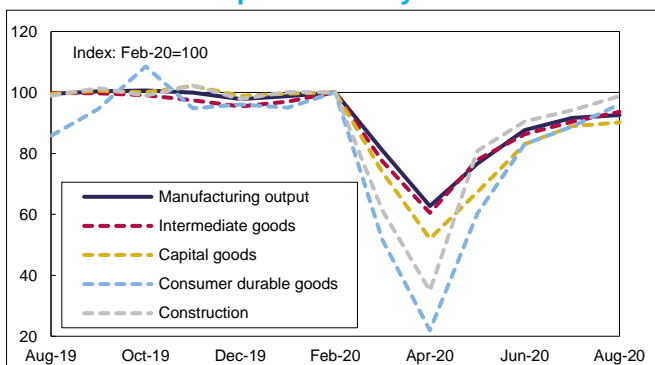
### French industrial production boosted by autos

Contrasting with the softer than expected outturn from Germany, today's French industrial production figures suggested that the manufacturing recovery was maintained in August. Admittedly, the increase in total industrial production (1.3%M/M) was softer than previous months, which had seen a cumulative rise of 40% in the three months to July. And while more than four-fifths of the initial post-lockdown slump had been recovered, output was still more than 6% below February's peak. The increase in manufacturing was somewhat more modest (1.0%M/M) to leave it still almost 7½% below the pre-pandemic level. And within the detail, growth was driven by transport equipment (+5.9%M/M), which was boosted by a further rise of more than 18%M/M in autos output (albeit leaving the level still 18½% lower than February's peak). In contrast, production of machinery and equipment fell back as did manufacturing of food products. But unlike in Germany, French construction growth was strong, up 4.9%M/M to leave the level just 1.2% below February's peak. Indeed, in the first two months of Q3, French construction activity was on average 40% higher than the Q2 average, while manufacturing was up almost 22% on the same basis, not least boosted by a near-68% rise in production of consumer durables. So, while the surge in coronavirus cases last month and renewed containment restrictions will no doubt weigh on activity in September – yesterday's Bank of France economic update suggested that overall output in September had moved broadly sideways with industrial production falling back slightly – we would expect to see exceptionally strong double-digit growth registered in both the manufacturing and construction sectors for Q3 as a whole.

### Italian production back above pre-pandemic levels

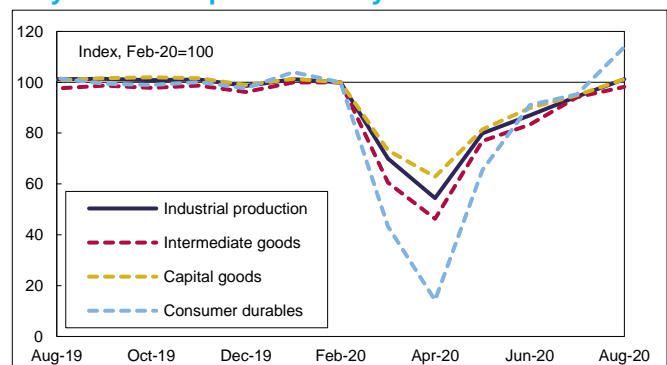
While the initial hit to Italy's manufacturing sector was by far the hardest of the major member states, the subsequent recovery has equally been the most impressive. This in part reflects another month of significant growth in August, with total industrial output up 7.7%M/M, taking the cumulative increase since April to 77%. And so, Italy is the first country of the largest four in the euro area to see the level of industrial output return back above the pre-pandemic peak – indeed, production in August was at its highest level for a year. Within the manufacturing detail, growth in August was driven by transport production (21%M/M) as well as clothing and textile output (36%M/M), both of which were now comfortably back above January's pre-lockdown peak. And the only subsector to report a decline in August was food production. So, on average in the first two months of Q3, manufacturing output was 33% higher than the Q2 average, underpinned by a near-84% rise in consumer durables. While we might see some payback in September, surveys on the whole suggest that manufacturing conditions in Italy remain broadly encouraging. And while new coronavirus infections have started to rise, Europe's second pandemic wave has so far been well contained in Italy.

### France: Industrial production by sector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Italy: Industrial production by sector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Admittedly, August's industrial production outturns have seen significant variation across the member states. Like in Italy, production in Portugal jumped 10%M/M in August, leaving it 2½% higher than the pre-pandemic level. In contrast, however, output in Ireland (which is notoriously volatile) slumped 13.7%M/M. As such, there are greater uncertainties to the coming week's aggregate euro area figure – as things currently stand, however, we expect to see growth of around 1½%M/M.

## The coming week in the euro area

Looking ahead, the coming week's euro area economic data calendar sees the release of the aforementioned euro area industrial production figures for August on Wednesday, which we expect to show growth of about 1½%M/M in output, marking the third successive monthly slowdown. Today's surprisingly strong increase in Italian industrial output more than offset an unexpected fall in German IP, but manufacturing output across certain other member states acted as a drag. Meanwhile, euro area trade figures (due Friday) are expected to reflect improving demand at home and abroad. But momentum has recently slowed in the face of the renewed pandemic and euro area new car registrations numbers for September (due the same day) will show that auto sales remained extremely subdued. Final inflation figures for September are also out in the coming week with Friday's final euro area CPI figures preceded by the equivalent German, Spanish and French numbers on Tuesday, Wednesday and Thursday respectively. Friday also sees the release of Italian CPI data. According to the preliminary estimate, euro area inflation fell 0.1ppt to -0.3%Y/Y, the weakest reading since early 2015. While that in part reflect a steeper pace of decline in energy inflation, core inflation fell 0.2ppt to a series low of 0.2%Y/Y. Finally, at the country level, Germany's ZEW investor confidence survey for October will be released on Tuesday. Given concerns about a the leveling off in the recent recovery, uncertainty about the EU-UK trade discussions and the rise in coronavirus cases across Europe, the survey might suggest little further improvement in investor optimism about current and future economic conditions. Thursday will bring the Bank of France's latest retail sales estimates for September, although these ultimately proved an unreliable guide to the strength of sales in August. Beyond the data, the coming week will bring further commentary from various ECB Governing Council members, with Christine Lagarde set to speak publicly on Monday, Wednesday and Thursday.

## UK

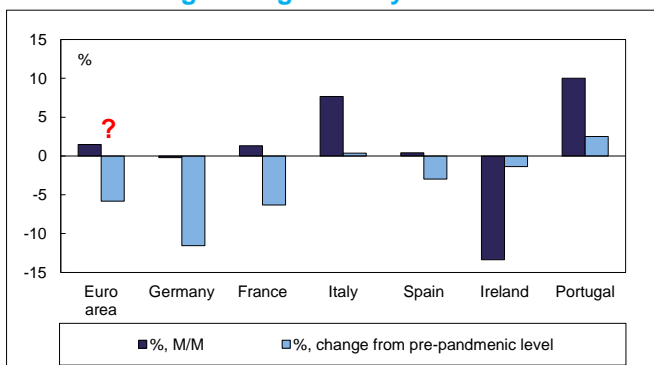
### UK GDP falls well short of expectations...

At its September policy meeting, the BoE's MPC judged that recent data had been stronger than it had anticipated when it published its most recent economic forecasts in the August Monetary Policy Report. However, today's GDP data for August suggest that the opposite is the case, with a significant downside surprise to growth suggesting that the BoE will need to revise down its profile for economic output when it produces new projections next month. In particular, while it rose for the fourth successive month in August, GDP increased only 2.1%M/M, the weakest rate since the ending of national lockdown restrictions and less than half the median forecast on the Bloomberg survey. While that meant that economic output had reversed about two-thirds of its drop through to April's trough, it was still a hefty 9.2% below the pre-lockdown February level. And following slightly downwardly revised growth of 6.4%M/M in July, the BoE's central projection of growth of 18%Q/Q in Q3 would now require a marked acceleration to about 7%M/M in September. Given the termination of the government's Eat Out to Help Out scheme at end-August, and the revival of the pandemic over recent weeks that has seen a softening in high-frequency data, that would seem completely unfeasible. A growth rate similar to that of August – which would leave GDP up about 16%Q/Q in Q3 – might even seem a stretch too.

### ...despite government subsidies in August

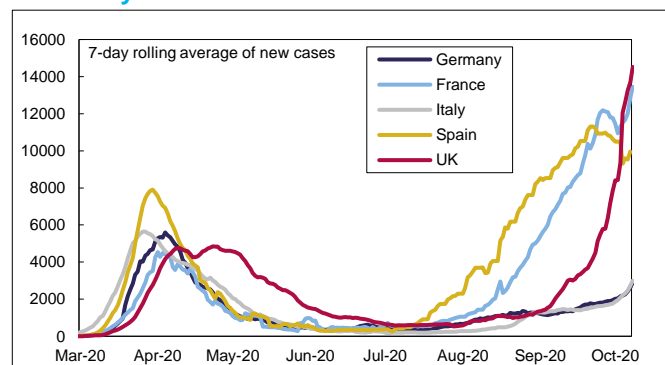
Indeed, the government's temporary subsidies for the hospitality sector, coupled with increased "staycation" summer holidays due to international travel restrictions, were clearly the main driver of GDP growth in August. Output from the food service and accommodation sector rose an extraordinary 71.4%M/M to account for 1.25ppts of the increase in overall output. Among other sub-sectors, education also chalked up strong growth of 6.5%M/M, although that reflected the technical

### Euro area: August IP growth by member state\*



\*Euro area figures are Daiwa forecast. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### New daily coronavirus cases



Source: ECDC and Daiwa Capital Markets Europe Ltd.

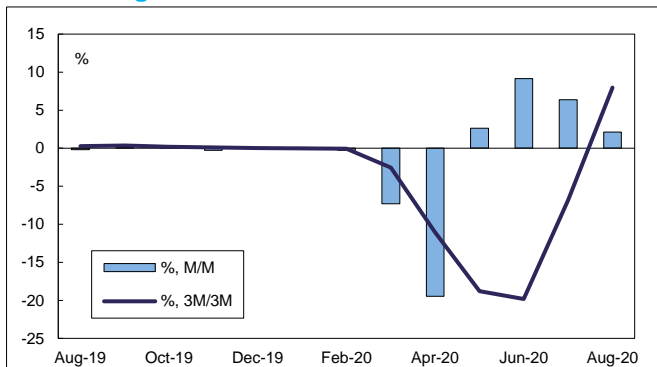
assumption of the ONS which smoothed the profile of activity from July, when most pupils were still unable to attend classes, to September, when schools fully reopened following the summer holidays. With many other sub-sectors subdued (e.g. activity in wholesale, retail and motor trades fell 0.2%M/M), total services output rose just 2.4%M/M in August, to be 9.6% below the February level. Meanwhile, manufacturing output slowed to just 0.7%M/M, from upwardly revised growth of 6.9%M/M in July, to be still 8.5% below its pre-lockdown level. Auto production was up 3.8%M/M but was still down more than 26% from February. And while construction output rose 3.0%M/M, it was still 10.8% below the pre-lockdown level. Strikingly, in only 3 of the 20 main sub-sectors of the economy – energy, water and public administration/defence – was output above its February level.

### The coming week in the UK

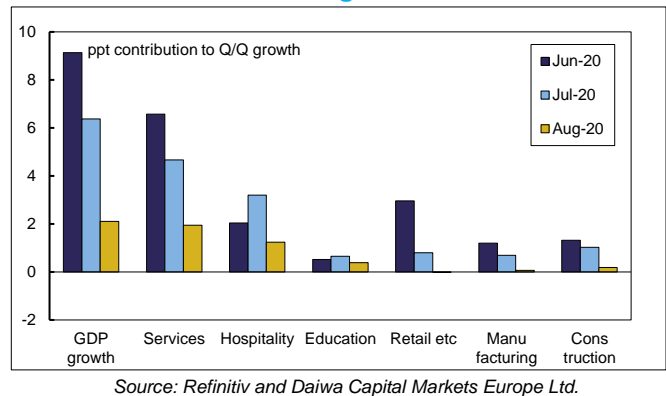
Although the coming week's UK economic data calendar is thin on the ground, Tuesday's labour market data will be of interest. With the conclusion of the Government's Jobs Retention Scheme fast approaching, these will likely show a worsening of conditions in the jobs market. The ILO unemployment rate is expected to jump to 4.3% in August, from 4.1% previously, the highest rate since January 2018. But being a three-month average as well as a lagging indicator, that will not provide an adequate reflection of current conditions, so the more timely payroll data should be watched more closely. Meanwhile, although it will be supported by workers returning from furlough, wage growth is likely to remain extremely weak. Unfortunately, with numerous large employees having recently announced plans to shed workers and new local Covid-19 restrictions coming into force, labour market conditions are set to deteriorate significantly further over the near term. Separately, Tuesday will also bring the BRC's retail sales monitor for September, while the BoE's credit conditions survey for Q3 will be published on Thursday. BoE Governor Andrew Bailey will speak publicly on Monday, with MPC members Haskel (also Monday), Haldane (Wednesday) and Cunliffe (Thursday) also scheduled to make speeches.

**The next edition of the Euro wrap-up will be published on 13 October 2020**

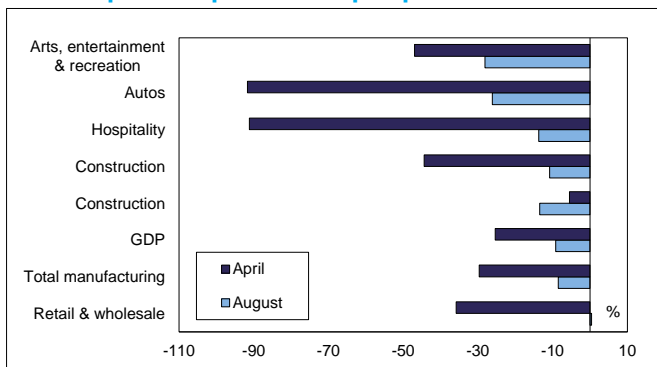
### UK: GDP growth



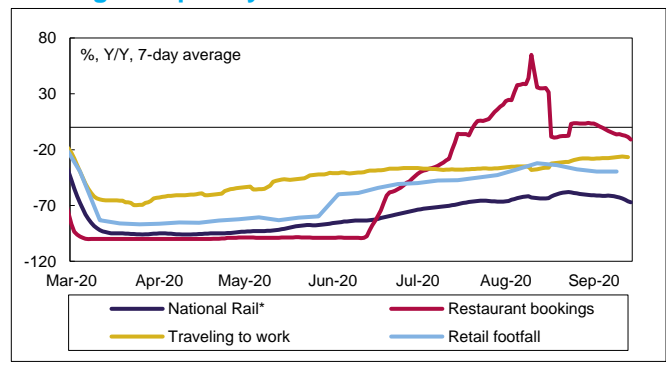
### UK: Contribution to GDP growth


















### UK: Output compared with pre-pandemic level



### UK: High-frequency data






## Daiwa economic forecasts

	2020				2021		2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2			
<b>GDP growth, %, Q/Q</b>									
Euro area 	-3.7	-11.8	10.0	0.8	0.8	1.5	-7.6	4.8	3.6
Germany 	-2.0	-9.7	7.5	1.5	1.0	1.0	-5.5	4.6	2.4
France 	-5.9	-13.8	16.0	0.0	0.5	1.0	-9.1	5.9	3.5
Italy 	-5.5	-12.8	10.0	0.8	1.0	2.0	-10.4	5.7	4.2
Spain 	-5.2	-17.8	15.0	0.5	0.5	2.0	-11.4	6.0	5.1
UK 	-2.2	-19.8	15.5	0.5	1.0	2.0	-10.6	5.4	4.6
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline CPI 	1.1	0.2	0.0	-0.3	0.1	0.7	0.3	0.7	1.1
Core CPI 	1.1	0.9	0.6	0.3	0.6	0.5	0.7	0.7	0.8
UK									
Headline CPI 	1.7	0.6	0.7	0.4	0.5	1.6	0.8	1.4	1.6
Core CPI 	1.6	1.4	1.2	0.7	0.8	1.5	1.2	1.3	1.4
<b>Monetary policy</b>									
<b>ECB</b>									
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate % 	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Net asset purchases* 	20	140	100	100	100	70	140	20	20
<b>BoE</b>									
Bank Rate % 	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Net asset purchases** 	36	40	17	17	17	17	17	0	0

\*Monthly target €bn, end of period. \*\*Monthly target £bn, end of period.  
Source: Bloomberg, ECB, BoE 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	
France 	Industrial production M/M% (Y/Y%)	Aug	<b>1.3 (-6.2)</b>	1.7 (-5.7)	3.8 (-8.3)	-	<b>(-8.4)</b>
	Manufacturing production M/M% (Y/Y%)	Aug	<b>1.0 (-7.0)</b>	2.4 (-5.5)	4.5 (-8.5)	-	<b>(-8.7)</b>
Italy 	Industrial production M/M% (Y/Y%)	Aug	<b>7.7 (-0.3)</b>	1.4 (-6.4)	7.4 (-8.0)	<b>7.0</b>	<b>(-8.3)</b>
UK 	Monthly GDP M/M% (3M/3M%)	Aug	<b>2.1 (8.0)</b>	4.6 (8.2)	6.6 (-7.6)	<b>6.4</b>	<b>(-6.8)</b>
	Industrial production M/M% (Y/Y%)	Aug	<b>0.3 (-6.4)</b>	2.5 (-4.7)	5.2 (-7.8)	-	<b>(-7.4)</b>
	Manufacturing production M/M% (Y/Y%)	Aug	<b>0.7 (-8.4)</b>	3.0 (-5.9)	6.3 (-9.4)	<b>6.9</b>	<b>(-10.1)</b>
	Construction output M/M% (Y/Y%)	Aug	<b>3.0 (-13.0)</b>	5.0 (-9.2)	17.6 (-12.7)	<b>17.2</b>	<b>(-15.6)</b>
	Index of services M/M% (3M/3M%)	Aug	<b>2.4 (7.1)</b>	5.0 (7.0)	6.1 (-8.1)	<b>5.9</b>	<b>(-7.1)</b>
	Total trade (goods trade) balance £bn	Aug	<b>1.4 (-9.0)</b>	0.0 (-9.1)	1.1 (-8.6)	<b>1.7</b>	<b>(-7.9)</b>
<b>Auctions</b>							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Coming week's data calendar

### The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 12 October 2020</b>					
- Nothing scheduled -					
<b>Tuesday 13 October 2020</b>					
Germany		07.00 Final CPI (EU-harmonised CPI) Y/Y%	Sep	-0.2 (-0.4)	0.0 (-0.1)
		10.00 ZEW current assessment (expectations)	Oct	-63.0 (71.0)	-66.2 (77.4)
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	Sep	-	4.7
		07.00 Unemployment claimant count rate % (change '000s)	Sep	-	7.6 (73.7)
		07.00 Average earnings including bonuses (excluding bonuses) 3M/Y%	Aug	-0.6 (0.6)	-1.0 (0.2)
		07.00 ILO unemployment rate 3M%	Aug	4.3	4.1
		07.00 Employment change 3M/3M '000s	Aug	-33	-12
<b>Wednesday 14 October 2020</b>					
EMU		10.00 Industrial production M/M% (Y/Y%)	Aug	0.6 (-7.2)	4.1 (-7.7)
Spain		08.00 Final CPI (EU-harmonised CPI) Y/Y%	Sep	-0.4 (-0.6)	-0.5 (-0.6)
<b>Thursday 15 October 2020</b>					
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	Sep	0.1 (0.0)	0.2 (0.2)
		- Bank of France retail sales M/M% (Y/Y%)	Sep	-	-0.4 (1.4)
Italy		09.00 Industrial sales M/M% (Y/Y%)	Aug	-	8.1 (-8.1)
		09.00 Industrial orders M/M% (Y/Y%)	Aug	-	3.7 (-7.2)
<b>Friday 16 October 2020</b>					
EMU		07.00 EU27 new car registrations Y/Y%	Sep	-	-18.9
		10.00 Final CPI (core CPI) Y/Y%	Sep	-0.3 (0.2)	-0.2 (0.4)
		10.00 Trade balance €bn	Aug	-	20.3
Italy		09.00 Final CPI (EU-harmonised CPI) Y/Y%	Sep	-0.5 (-0.9)	-0.5 (-0.5)
		10.00 Trade balance €bn	Aug	-	9.7

\*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 12 October 2020</b>		
EMU	-	ECB President Lagarde and Panetta to attend IMF/World Bank annual meetings (12-18 October)
	09.45	ECB's Schnabel to participate in a panel discussion on 'Stability, Economic Coordination and Governance in the EU'
	12.00	ECB President Lagarde talks with IMF Governor
UK	15.00	BoE's Haskel scheduled to speak at a Webinar on 'The Economic Impact of Covid-19'
	17.00	BoE Governor Bailey scheduled to speak at the Citizens' Panel Open Forum
<b>Tuesday 13 October 2020</b>		
Italy	10.00	Auction: €3.75bn of 0% 2024 bonds
	10.00	Auction: €2.25bn of 0.95% 2027 bonds
	10.00	Auction: €1.5bn of 2.45% 2050 bonds
UK	10.00	Auction: £3bn of 0.125% 2026 bonds
	11.30	Auction: £1.25bn of 1.75% 2057 bonds
<b>Wednesday 14 October 2020</b>		
EMU	-	ECB President Lagarde participates in the G20 Finance Ministers and Central Bank Governors' annual meeting
	09.00	ECB President Lagarde speaks at a United Nations event
	13:00	ECB's Lane takes part in a conference on 'How to spend it? How to pay it back? EU and US perspectives'
Germany	10.30	Auction: €1bn of 0% 2050 bonds
UK	10.00	Auction: £2.5bn of 0.875% 2029 bonds
	14.00	BoE's Haldane scheduled to speak at an 'Engaging Business Summit'
<b>Thursday 15 October 2020</b>		
EMU	17.00	ECB President Lagarde participates in an online CNBC debate on the global economy
France	09.50	Auction: 0.5% 2025 bonds
	09.50	Auction: 0% 2026 bonds
	09.50	Auction: 2.75% 2027 bonds
	10.50	Auction: 0.7% 2030 index-linked bonds
	10.50	Auction: 0.1% 2036 index-linked bonds
UK	09.30	BoE publishes its Credit Conditions Survey Q320
	14.00	BoE's Cunliffe scheduled to speak
<b>Friday 16 October 2020</b>		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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