

Euro wrap-up

Overview

Chris Scicluna

+44 20 7597 8326

- Bunds made gains as the latest ZEW survey suggested a deterioration in investor expectations of Germany's economic outlook.
- Gilts made more sizeable gains as the latest UK labour market data reported a jump in redundancies.
- Wednesday will bring data for euro area industrial production with figures for French retail sales and Italian industrial sales due the following day. ECB President Lagarde will speak publicly on both days while the latest EU Summit is set to start on Thursday.

Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.742	-0.005
OBL 0 10/25	-0.752	-0.007
DBR 0 08/30	-0.557	-0.011
UKT 1¼ 09/22	-0.051	-0.016
UKT 0% 06/25	-0.053	-0.016
UKT 4% 12/30	0.238	-0.032

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

Euro area

ZEW flags deterioration in expectations as pandemic worsens

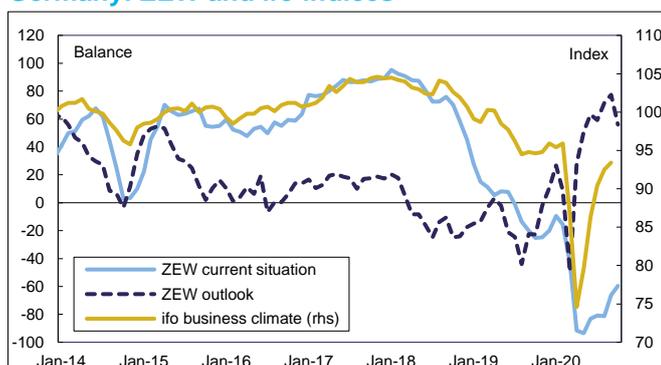
Given the significant increase in new coronavirus cases in Europe over recent weeks, as well as persistent uncertainty about the future trading relationship between the EU and UK, the German ZEW survey for October suggested that investors have become significantly more uneasy about the economic outlook. Indeed, the survey's index of German economic expectations fell by more than 21pts – significantly more than expected – to a five-month low of 56.1, with a similar decline recorded in the equivalent index for the euro area. That, however, remained consistent with expectations of ongoing economic recovery. And the survey measure of current conditions in Germany rose more than 5pts to -59.5, still admittedly at a historically low level, with the equivalent euro area index (up a little more than 4pts to -76.6) similarly extremely weak. We expect the deterioration in the German expectations index to be mirrored in the equivalent forward-looking ifo business index, due on 26 October. And, as winter approaches, the dynamic of the pandemic might be expected to worsen further, bringing with it a further weakening of economic activity and sentiment over coming months too.

The coming two days in the euro area

Tomorrow sees the release of euro area industrial production figures for August, which we expect to show growth of more than 1%M/M in output, marking the third successive monthly slowdown. Friday'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, after today's final September CPI figures from Germany confirmed the drop of 0.3ppt in the flash EU-harmonised measure to a more than five-year low of -0.4%Y/Y, the equivalent numbers from Spain are expected to confirm the preliminary estimates, which saw the EU measure move sideways at -0.6%Y/Y. In other news, ECB President Lagarde and Chief Economist Lane will take part in online conferences.

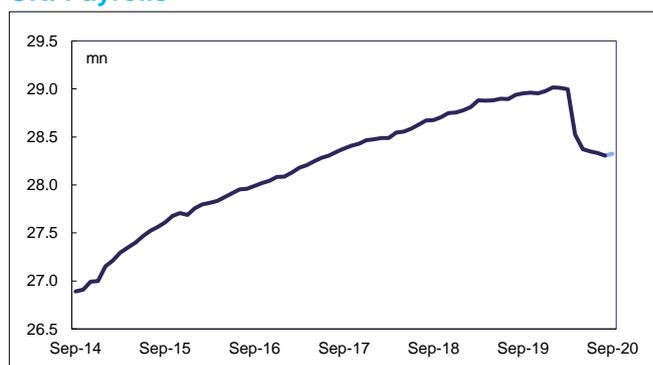
On Thursday, the Bank of France will publish its retail sales estimates for September, although these proved an unreliable guide to the strength of sales in August. We will also get final French CPI figures for September that day, which are expected to confirm the flash estimates, which saw the EU measure slow to 0.0%Y/Y. In Italy, meanwhile, industrial orders and sales data for August will be published and might suggest that manufacturers will see some scaling back in activity in coming months following surprisingly strong growth in August. Thursday will also see ECB President Lagarde participating in another online event on the global economy at the IMF/World Bank annual meetings.

Germany: ZEW and ifo indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Payrolls



*September figure is preliminary estimate. Source: ONS and Daiwa Capital Markets Europe Ltd.

UK

Welcome rise in UK payrolls and vacancies

Ahead of the termination of the government's Job Retention Scheme at the end of this month, and its replacement with a new Job Support Scheme that will be far less generous for employers, expectations for today's UK labour market report were downbeat. So, it was arguably a relief that the ONS reported an uptick in the number of payroll employees in September, up 20k on the month according to early estimates. That, however, left them still down a steep 673k since the initial phase of the pandemic in March. The latest vacancy data also improved – indeed having dropped to a record low of 343k in the second quarter, vacancies rose a record 144k in Q3 albeit remaining some 332k and a steep 40.5% below their level a year earlier. In addition, with the return of some workers from furlough, and an increase in average hours worked (up 2.3% in the three months to August), annual growth in employee pay also improved. Average weekly earnings in the three months to August were unchanged compared to a year earlier, having fallen 1.0%3M/Y the prior month. And, excluding bonuses, growth in earnings rose 0.6ppt to 0.8%3M/Y. Nevertheless, average weekly hours worked were still down a marked 13% from the first quarter.

Less generous Job Support Scheme to accelerate pace of redundancies?

Much of the other details in the labour market report were discouraging. Redundancies rose a record 114k in the three months to August to 227k, the highest level since the aftermath of the Global Financial Crisis in May-July 2009. The unemployment rate in the three months to August rose a steeper than expected 0.4ppt to 4.5%, with the employment rate down 0.3ppt. And the Claimant Count, which includes those working with low income or hours and those who are not working increased a further 1.0%M/M in September to 2.7mn, up 1.5mn from March, with the rate nudging up to 7.6%. With the ONS's special coronavirus business survey suggesting that 9% of workers – around 3 million workers – are still either fully or partially furloughed, and the revival in the pandemic leading to more stringent local lockdowns and likely to weigh more heavily on spending in face-to-face services, expectations remain for a significant further increase in redundancies and joblessness over coming months. Indeed, the government's forthcoming Job Support Scheme, which will make it more expensive for firms to retain employees on partial furlough than retain a smaller number of full-time workers, seems likely to accelerate the pace of redundancies.

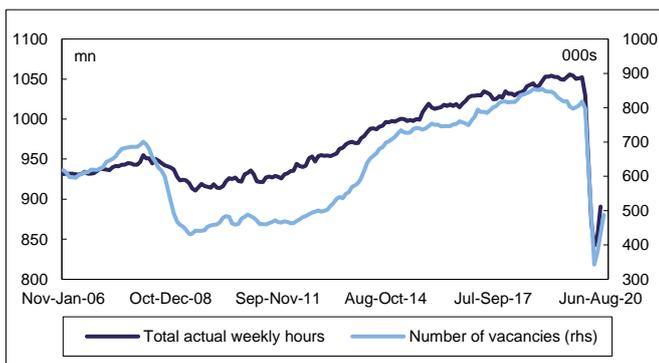
Retail sales get a boost from pandemic-related stockpiling

More happily perhaps, other data released today pointed to continued growth in consuming spending in September. In particular, the BRC's survey suggested a further acceleration in total retail sales volumes, up 1.7ppt to 5.6%Y/Y. On a three-month average basis, sales of food (up 5.6%3M/Y) outperformed those of non-food items (3.2%3M/Y). That tallies with evidence from Barclaycard that households resumed stockpiling of essentials, with spending on such items up 6.1%Y/Y, and total spending up 2.0%Y/Y, according to those credit card data. However, figures from Springboard suggest that retail footfall has also weakened in the face of the increased number of coronavirus cases, dropping more than 30%Y/Y in the week ending October 4, having peaked at -25%Y/Y in early September. Supported by online spending, we expect retail sales to remain above the pre-pandemic levels over coming months, as households maintain an increased level of spending on goods at the expense of spending on many face-to-face services. But rising joblessness will in due course take its toll on growth in spending.

The coming two days in the UK

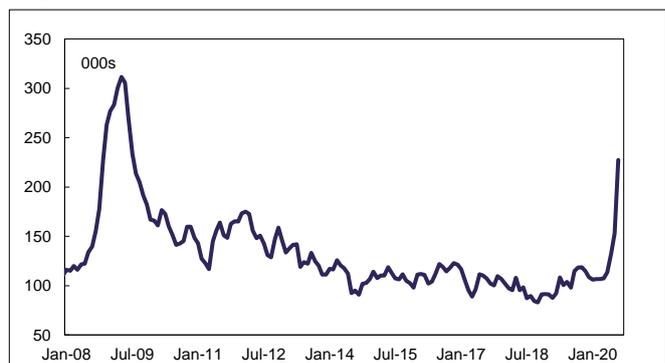
The rest of the week should be quiet on the UK economic data front with no key releases scheduled. Focus therefore will remain on the Government's response to the growing number of Covid-19 outbreaks as well as the ongoing negotiations with the EU on the post-transition Brexit arrangements. PM Johnson had previously threatened to walk away from the talks if there was no deal at the forthcoming EU Summit, which gets underway on Thursday. But there will be no agreement this

UK: Hours worked and vacancies



Source: ONS and Daiwa Capital Markets Europe Ltd.

UK: Redundancies



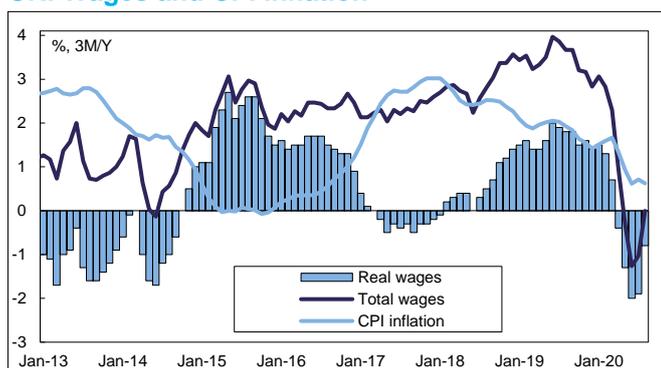
Source: ONS and Daiwa Capital Markets Europe Ltd.

week – instead, the EU leaders will simply commit to continue intensive negotiations to keep open the possibility of a deal, most likely next month.

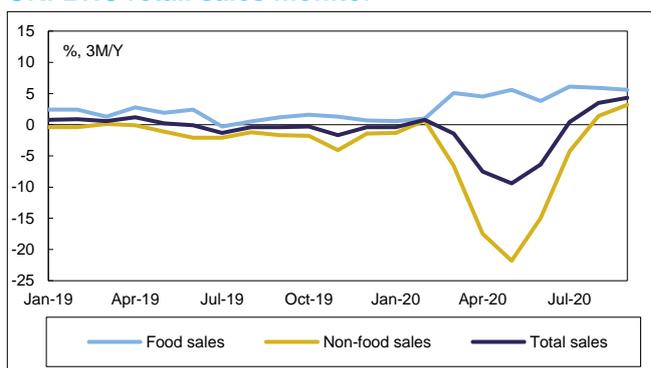
Separately, BoE Chief Economist Haldane – who has recently been the most bullish of all MPC members about the strength of the UK economic recovery and was the sole member to vote against increasing asset purchases in June – is due to speak tomorrow at an Engaging Business Summit, while Deputy Governor Cunliffe will speak on ‘Early Covid-19 lessons for macro-prudential policy’ at a Peterson Institute event on Thursday. The same day, the BoE will publish its Credit Conditions survey for Q3, which will provide details of projected lending conditions for the next three months.

The next edition of the Euro wrap-up will be published on 15 October 2020

UK: Wages and CPI inflation



UK: BRC retail sales monitor



European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	Final CPI (EU-harmonised CPI) Y/Y%	Sep	-0.2 (-0.4)	-0.2 (-0.4)	0.0 (-0.1)	-
	ZEW current assessment (expectations)	Oct	-59.5 (56.1)	-63.0 (71.0)	-66.2 (77.4)	-
UK	BRC retail sales monitor, like-for-like sales Y/Y%	Sep	6.1	-	4.7	-
	Unemployment claimant count rate % (change '000s)	Sep	7.6 (28.1)	-	7.6 (73.7)	7.5 (39.5)
	Average earnings including bonuses (excluding bonuses) 3M/Y%	Aug	0.0 (0.8)	-0.6 (0.6)	-1.0 (0.2)	-
	ILO unemployment rate 3M%	Aug	4.5	4.3	4.1	-
	Employment change 3M/3M '000s	Aug	-153	-30	-12	-
Auctions						
Country	Auction					
Italy	sold €3.75bn of 0% 2024 bonds at an average yield of -0.14%					
	sold €2.25bn of 0.95% 2027 bonds at an average yield of 0.34%					
	sold €1.5bn of 2.45% 2050 bonds at an average yield of 1.48%					
UK	sold £3bn of 0.125% 2026 bonds at an average yield of 0.013%					
	sold £1.25bn of 1.75% 2057 bonds at an average yield of 0.796%					

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 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)

Auctions and events

Country	BST	Auction / Event
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
		12.00 ECB's Mersch scheduled to speak at a webinar hosted by the Institute of International and European Affairs
		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'

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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)

Auctions and events

Country	BST	Auction / Event
EMU	-	EU leaders summit
		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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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