

Euro wrap-up

Overview

- Bunds made further gains and BTPs rallied as coronavirus cases maintained their uptrend across the euro area and governments mulled new targeted restrictions on activity.
- Gilts made only modest gains and sterling reversed losses as UK PM Johnson failed to bring a halt to the negotiations with the EU on a new FTA.
- The coming week brings the flash October PMIs, updates on UK inflation and retail sales, and further public commentary from ECB and BoE officials.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.784	-0.006
OBL 0 10/25	-0.808	-0.012
DBR 0 08/30	-0.628	-0.016
UKT 1½ 09/22	-0.064	-0.010
UKT 0% 06/25	-0.083	-0.009
UKT 4% 12/30	0.173	-0.006

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

Euro area

Car registrations rise for the first time this year

Despite the surge in new coronavirus infections across the region during September, car registrations figures for that month reported the first annual rise in the EU (3.1%Y/Y) since December. Admittedly, the increase in the euro area was more modest (1.9%Y/Y) and both figures were flattered by soft readings last September due to the impact of a new regulation regarding emissions testing. Indeed, in the first nine months of the year, car registrations were still down 29.4%YTD/Y at just over 6mn units, the lowest equivalent reading since the series began in 1989. There were, however, notable differences between the performances of the various member states last month. Indeed, Germany and Italy appeared to be leading the race, with registrations rising 8.4%Y/Y and 9.5%Y/Y respectively, contrasting markedly with the losses recorded in France (-3.0%Y/Y) and Spain (-13.5%Y/Y) where the second wave of pandemic has been most severe. And so, with the number of new daily coronavirus cases having started to creep higher in Germany and Italy over recent days (albeit still remaining well below those seen in France and Spain), there are risks that this improvement in demand will be short-lived.

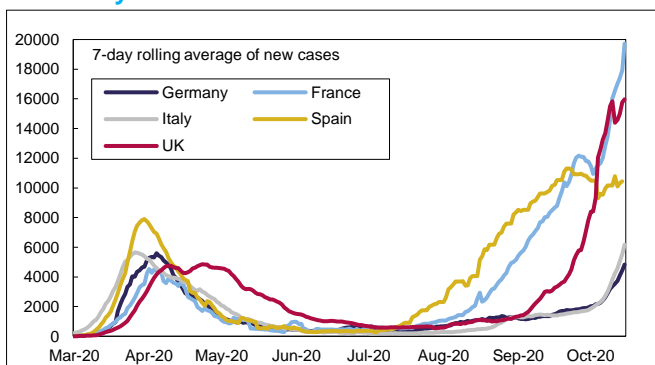
French retail sales subdued in September but surge in Q3

Today's Bank of France (BoF) retail survey suggested only modest growth in September, with sales up 0.1%M/M. But this pushed up the annual growth rate by 1.4ppts to 2.7%Y/Y. This in part reflected a return to positive territory for growth in food sales (up 2.1ppts to +0.4%Y/Y). Meanwhile, the annual increase in sales of industrial goods (+4.4%Y/Y) was underpinned by stronger growth in sales of DIY products, furniture and household appliances, while the decline in clothing sales moderated further. While the recent monthly profile has been subdued after the initial vigorous recovery seen in May and June, today's figures implied that sales rose a whopping 19%Q/Q in Q3, following declines of 9½%Q/Q in Q2 and 6½%Q/Q in Q1. And while spending on services will have been even more acutely impacted by the re-imposition of containment measures last quarter, today's figures do suggest that private consumption likely made a solid contribution to GDP growth in Q3, which will likely come in at around 16%Q/Q.

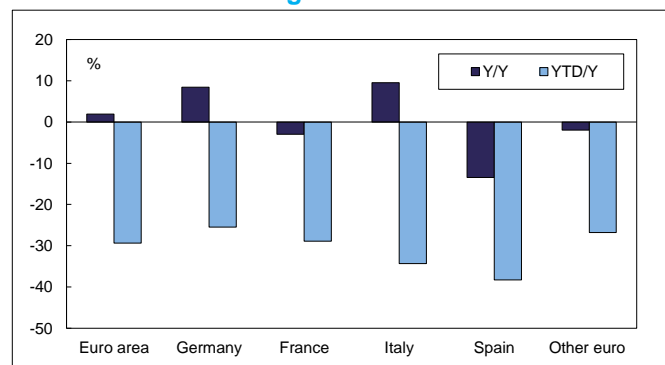
Euro area inflation confirmed at 4½-year low

There were no surprises whatsoever from the final euro area CPI readings in September, which today confirmed that headline inflation fell 0.1ppt to -0.3%Y/Y, the lowest since April 2016. And the detail was little changed from the preliminary estimate too, with the downwards revision in part reflecting a steeper pace of decline in energy prices (-8.2%Y/Y). The drop in non-energy industrial goods inflation (down 0.2ppt to -0.3%Y/Y) was principally caused by a further decline in clothing prices as the impact of delayed and extended summer discounting due to Covid-19 was evident in a number of member

New daily coronavirus cases



Euro area: New car registrations



states. But services inflation also fell to a record-low 0.5%Y/Y in September, with costs related to accommodation and package holidays down compared with a year earlier by the most since this series began in the mid-1990s. So core inflation eased 0.2ppt to just 0.2%Y/Y, similarly a series low.

Of course, aside from the aforementioned impact of summer sales, some of this recent softness will also reflect Germany's six-month VAT rate cut by 3ppt from July. So, we would expect to see a modest rebound in non-energy industrial goods inflation in October and again in the New Year. But ongoing weak demand coupled with a strong euro is likely to remain a drag on prices. Certainly, the recent resurgence in coronavirus cases will maintain significant downwards price pressures on many services sub-sectors, with substantive spare capacity in the labour market also set to weaken wage growth. Indeed, we forecast headline inflation to remain in negative territory through to February before edging only slightly higher thereafter, with our full-year projection for 2021 at 0.7%Y/Y, and only a modest further rise above 1%Y/Y anticipated in 2022 too.

Trade growth slows, but exports still outpace imports

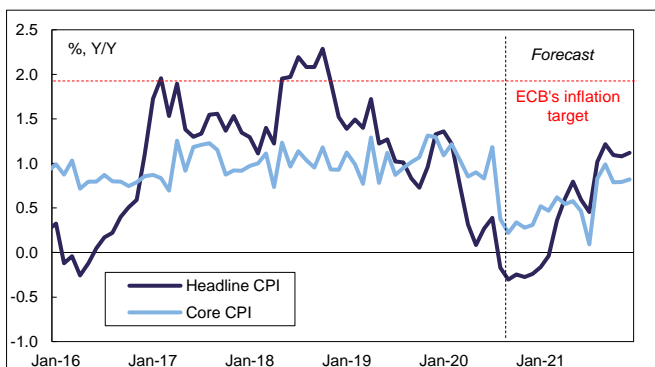
The August goods trade report confirmed a fourth consecutive increase in shipments of exports and imports, albeit at a markedly softer pace than over prior months. In particular, the value of exports rose 2.0%M/M to be still 11.0% below February's level, suggesting that only about two-thirds of the initial peak-to-trough decline in shipments had been reversed. And the increase in the value of imports was negligible, up just 0.5%M/M. While that left imports down a similar 10.7% from February's level, it meant that little more than half of the initial drop had been reversed. Moreover, the weaker pace of import growth saw the trade surplus increase for a fourth successive month to €21.9bn, the largest since March, contrary to a consensus expectation of a decline. That meant that the average trade surplus over the first two months of Q3 was almost 2.5 times the average surplus in Q2. So, net trade will certainly have made a very large positive contribution to euro area GDP growth in Q3, having subtracted more than 1ppt in Q2. China remained the only major economy to which euro area exports were up from a year earlier in August, rising 5.0%Y/Y. And while the pace of decline in exports to the UK moderated by about 5ppts to leave them down 10.2%Y/Y, the pace of decline to most other major markets failed to improve. Thanks not least to a further acceleration already registered in Chinese imports from several member states in September, however, we expect to see a somewhat stronger increase in total euro area exports at the end of Q3.

The coming week in the euro area

The most notable new data due in the coming week will be the preliminary October PMIs, due Friday. Given the revival in the pandemic, the services PMIs weakened significantly last month. And as a result of the further intensification over recent weeks, we expect to see ongoing deterioration in October, particularly in France, where additional restrictions on activity in the sector have recently been imposed. With a slight softening of momentum in manufacturing also possible, we expect the euro area composite PMI to slip back from 50.4 in September, and fall below the key 50 level for the first time since June. Ahead of the PMIs, Thursday sees the publication of the latest German and flash euro area consumer confidence surveys, as well as the French INSEE business confidence indices for October. We expect all of these survey indicators to suggest a deterioration in sentiment, albeit with Germany weathering the storm better than its neighbours. In terms of hard economic data, meanwhile, the week will be quiet with only euro area construction output figures for August scheduled for release on Monday. While the equivalent German figures remained weak, French construction activity surged that month, so we would expect to see positive growth in the euro area figures overall. But with the exception of Italy, the construction PMIs signalled sluggish output in the sector in September. And the resurgence in coronavirus cases represents further downside risks for commercial and residential real estate, which could weigh on activity in the sector over coming months.

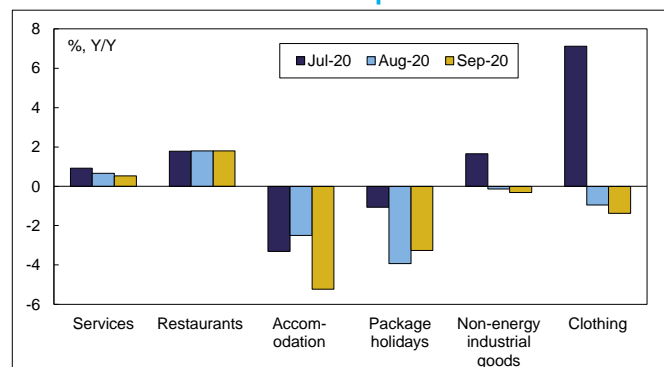
Beyond the economic data, on Monday Christine Lagarde will give the opening remarks at the ECB's annual two-day Conference on Monetary Policy. This conference, which is of an academic flavour, will incorporate sessions on climate change and monetary policy; monetary policy objectives and transmission; and policy instruments and interactions. The substance of the debate at the conference will feed into the ECB's review of its monetary policy strategy as will any insights from a further "ECB Listens" event on Wednesday at which Lagarde and Chief Economist Lane will speak.

Euro area: Headline and core inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Selected CPI components



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK

FTA negotiations still alive despite political theatre

Yesterday's statement by EU leaders about the negotiations on the post-transition Brexit arrangements produced no surprises. In particular, the EU expressed concern about the lack of progress, but also stated that the bloc was willing to continue negotiating. The leaders also called for the UK to make the next move in the negotiations to make an agreement possible, and committed to increase their own preparations for no deal, calling on the European Commission to make concrete proposals for contingency measures. Today, it was UK PM Johnson's turn to respond. And, in many ways, his position mirrored that of the EU. He too bemoaned the lack of progress. And suggesting that the EU was not prepared to offer the Canada-style FTA that he had sought, he also said that preparations for no deal should be stepped up. Most importantly, despite a relatively combative tone, and even though he had originally set this week as a deadline for agreeing a deal, he conspicuously did not state that he would terminate the talks with the EU. So, the chief EU and UK negotiators appeared set to discuss the way forward today, and a further round of negotiations is likely still to go ahead in London next week. Despite the tedious political posturing, therefore, little appears to have changed since the start of the week. On balance, we continue to expect an FTA to be agreed, most likely in early November, providing just about enough time for it to be ratified by year-end and implemented from 1 January.

The coming week in the UK

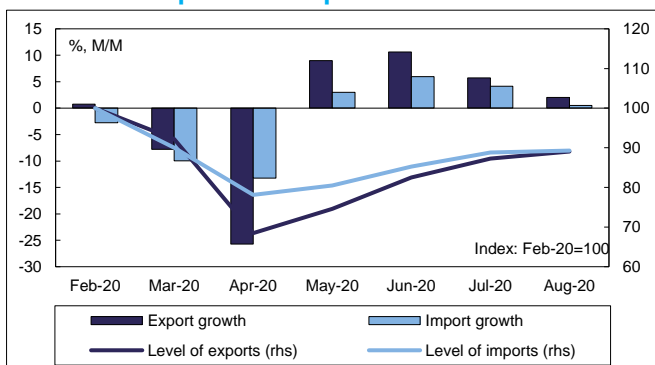
On a busy end to the week, as in the euro area, Friday will bring the flash UK PMIs for October. And, like in France, we expect to see some softening in the UK services indices in response to the revival in the pandemic. Nevertheless, with activity in the manufacturing sector seemingly holding up, the UK's composite PMI is likely to remain above the key 50 mark, albeit likely falling to a four-month low from 56.5 in September. Retail sales data for September are also due on Friday. Surveys suggest a further increase in sales last month as consumers stock-piled essentials fearing more stringent lockdown measures ahead. If so, retail sales will have risen by more than 17%Q/Q in Q3, probably a touch firmer than the rate of growth in GDP. Whilst 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, rising joblessness will in due course take a toll on spending. The latest GfK consumer confidence survey, also due Friday, will provide clues on that front.

The other notable day for UK data in the coming week will be Wednesday, when inflation and public finances figures for September will be published. With the Government's "Eat out to help out" scheme having concluded at the end of August, inflation is likely to tick a little higher in September after previously dropping 0.8ppt to 0.2%Y/Y, the lowest level since December 2015. We currently expect a rise of 0.2ppt in the headline CPI rate to 0.4%Y/Y, with the core measure also rising 0.2ppt to 1.1%Y/Y. The ONS's official house price data for August are also scheduled for release on Wednesday. And other releases due in the coming week include the CBI's industrial trends survey for October on Thursday, and the Rightmove house price index for the same month on Monday.

Bank of England policymakers due to speak publicly in the coming week include Governor Andrew Bailey, who will address the G30 International Banking seminar on Sunday. MPC members Cunliffe (Monday), Vlieghe (Tuesday) and Ramsden (Wednesday) will also speak publicly, with the latter two possibly giving clues as to whether or not they will support extra stimulus at the November monetary policy meeting.

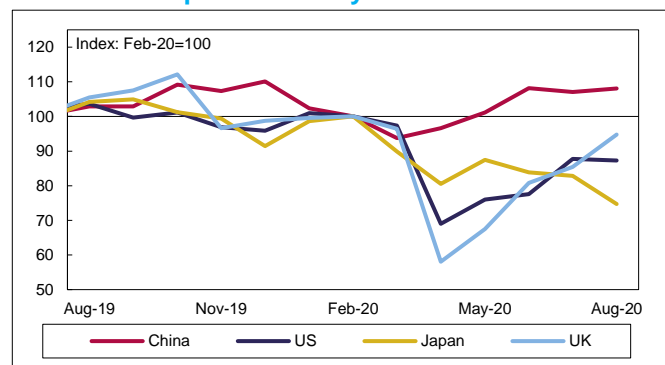
The next edition of the Euro wrap-up will be published on 21 October 2020

Euro area: Export and import values


















Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Export values by destination









Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

		2020				2021		2020	2021	2022
		Q1	Q2	Q3	Q4	Q1	Q2			
GDP growth, %, Q/Q										
Euro area		-3.7	-11.8	10.5	0.8	0.8	1.0	-7.4	4.9	3.7
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	11.5	0.5	1.0	1.0	-9.8	5.1	3.7
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
Inflation, %, Y/Y										
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
Monetary policy										
ECB										
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
BoE										
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	
EMU	 EU27 new car registrations Y/Y%	Sep	3.1	-	-18.9	-	
	 Final CPI (core CPI) Y/Y%	Sep	-0.3 (0.2)	-0.3 (0.2)	-0.2 (0.4)	-	
	 Trade balance €bn	Aug	21.9	18.0	20.3	19.3	
France	 Bank of France retail sales M/M% (Y/Y%)	Sep	1.3 (2.7)	-	-0.4 (1.4)	-0.7 (1.3)	
Italy	 Final CPI (EU-harmonised CPI) Y/Y%	Sep	-0.6 (-1.0)	-0.5 (-0.9)	-0.5 (-0.5)	-	
	 Trade balance €bn	Aug	3.9	-	9.7	-	
Auctions							
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
Monday 19 October 2020					
EMU		10.00 Construction output M/M% (Y/Y%)	Aug	-	0.2 (-3.8)
UK		00.01 Rightmove house price index M/M% (Y/Y%)	Oct	-	0.2 (5.0)
Tuesday 20 October 2020					
EMU		09.00 ECB current account balance €bn	Aug	-	16.6
Germany		07.00 PPI Y/Y%	Sep	-1.3	-1.2
Wednesday 21 October 2020					
UK		07.00 CPI (core CPI) Y/Y%	Sep	<u>0.4 (1.1)</u>	0.2 (0.9)
		07.00 PPI input prices (output prices) Y/Y%	Sep	-5.7 (-)	-5.8 (-0.9)
		07.00 Public sector net borrowing £bn	Sep	32.4	35.2
		09.30 House price index Y/Y%	Aug	-	2.3
Thursday 22 October 2020					
EMU		15.00 Preliminary consumer confidence	Oct	-15.0	-13.9
Germany		07.00 GfK consumer confidence	Nov	-3.0	-1.6
France		07.45 INSEE business confidence	Oct	91	92
		07.45 INSEE manufacturing confidence (production outlook)	Oct	96 (-)	96 (-2)
UK		11.00 CBI industrial trends, total orders (business optimism)	Oct	-	-48 (-1)
Friday 23 October 2020					
EMU		09.00 Preliminary manufacturing (services) PMI	Oct	53.0 (47.0)	53.7 (48.0)
		09.00 Preliminary composite PMI	Oct	49.5	50.4
Germany		08.30 Preliminary manufacturing (services) PMI	Oct	55.0 (49.5)	56.4 (50.6)
		08.30 Preliminary composite PMI	Oct	53.5	54.7
France		08.15 Preliminary manufacturing (services) PMI	Oct	51.3 (47.0)	51.2 (47.5)
		08.15 Preliminary composite PMI	Oct	48.1	48.5
UK		00.01 GfK consumer confidence	Oct	-28	-25
		07.00 Retail sales including fuel M/M% (Y/Y%)	Sep	0.0 (3.8)	0.8 (2.8)
		07.00 Retail sales excluding fuel M/M% (Y/Y%)	Sep	0.5 (4.9)	0.6 (4.3)
		09.30 Preliminary manufacturing (services) PMI	Oct	53.1 (53.3)	54.1 (56.1)
		09.30 Preliminary composite PMI	Oct	53.4	56.5

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 19 October 2020		
EMU		08.15 ECB's de Guindos scheduled to speak
		11.00 ECB's Mersch scheduled to speak
		13.40 ECB President Lagarde scheduled to speak
		13.40 ECB's Chief Economist Lane scheduled to speak
		13:45 ECB President Lagarde's pre-recorded remarks released at online ECB conference on monetary policy
		16.40 ECB's Fernandez-Bollo scheduled to speak
UK		- BoE Deputy Governor Cunliffe scheduled to speak
Tuesday 20 October 2020		
Germany		10.30 Auction: €4bn of 0% 2022 bonds
UK		10.30 BoE's Vlieghe scheduled to speak
		10.00 Auction: £600mn of 1.25% 2032 index-linked bonds
Wednesday 21 October 2020		
EMU		08.30 ECB President Lagarde scheduled to speak at an ECB listens event
		08.45 ECB Chief Economist Lane scheduled to speak at an ECB listens event
		11.00 ECB's de Guindos scheduled to speak
		14:55 ECB Chief Economist Lane scheduled to speak
		17.00 ECB's de Guindos scheduled to speak
UK		13.10 BoE's Deputy Governor Ramsden scheduled to speak
Thursday 22 October 2020		
EMU		08.00 ECB's Panetta scheduled to speak
UK		09.30 BoE's Chief Economist Haldane scheduled to speak
		10.00 Auction: £2.25bn of 0.625% 2035 bonds
		10.20 BoE Governor Bailey scheduled to speak
		11.30 Auction: £1.75bn of 0.625% 2050 bonds
Friday 23 October 2020		
Italy		- Italy's sovereign debt rating update by S&P
UK		- UK's sovereign debt rating update by S&P

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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