

Euro wrap-up

Overview

- Bunds followed US Treasuries lower despite a slightly weaker than expected German industrial production report.
- Gilts also made losses on a quiet end to the week for UK economic news.
- The coming week will bring the first estimate of UK Q3 GDP, September data for euro area IP, German trade and the UK labour market, the ECB's Monetary Policy Forum, and further negotiations on an EU-UK FTA.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.806	+0.009
OBL 0 10/25	-0.823	+0.013
DBR 0 08/30	-0.627	+0.013
UKT 1½ 09/22	-0.044	+0.015
UKT 0% 06/25	-0.037	+0.019
UKT 4% 12/30	0.271	+0.040

*Change from close as at 4:30pm GMT.

Source: Bloomberg

Euro area

German IP growth softer than expected at the end of Q3

Like yesterday's [factory orders](#) report, the rise in German industrial production in September was somewhat disappointing, at 1.6%M/M. And although growth in August was revised up by 0.7ppt to 0.5%M/M, production in September was still down more than expected at 7.3%Y/Y to be 8.6% below February's pre-pandemic level. Within the detail, production in manufacturing and mining increased a somewhat firmer 2.0%M/M, with growth led by a 3.0%M/M rebound in production of consumer goods – now above year-earlier levels for the first time since January. But while production of capital goods increased 2.2%M/M, that was insufficient to fully unwind the decline in August and left it still down more than 15%Y/Y. Within that component, output of machinery and equipment rose 2.7% but was still down 13.5%Y/Y. And production of autos jumped 10.0%M/M albeit still down 18.0%Y/Y. Among other detail, construction output rose for a second successive month and by 1.5%M/M. But given weakness at the start of the quarter, that left it still below June's level. And the energy sector weighed on output in September, falling 2.5%M/M.

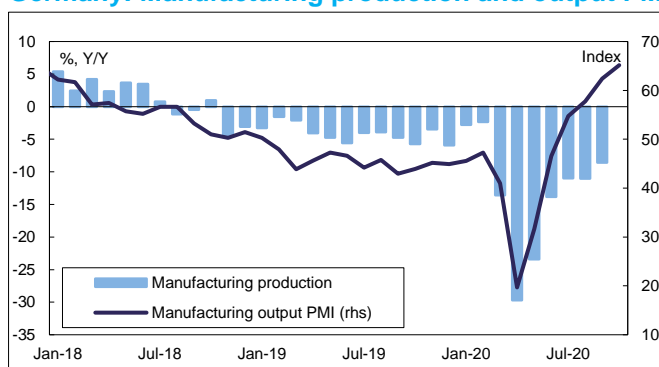
But production should accelerate again in early Q4

Having grown for five straight months, total German industrial production grew a record 10.7%Q/Q in Q3. And the positive carry-over effect and leading indicators point to further expansion in Q4. Indeed, the manufacturing output PMI leapt above 65pts in October to the highest level since early 2011 to mark the third-best reading on the series. While it slipped back slightly last month, the ifo manufacturing production expectations index was still the second-highest since early 2018. Production backlogs appear elevated, perhaps reflecting delays in receiving input components. And after a softer start to the month, truck toll mileage leapt at the end of October to match its highest level since June 2019. So, we continue to expect production in the current quarter to offset some of the weakness in services that will result from the closure of the hospitality sector this month. In contrast, however, construction output fell 2.2%Q/Q over the third quarter as a whole. And surveys, including the PMIs, point to a further decline in Q4 for that sector too.

The week ahead in the euro area

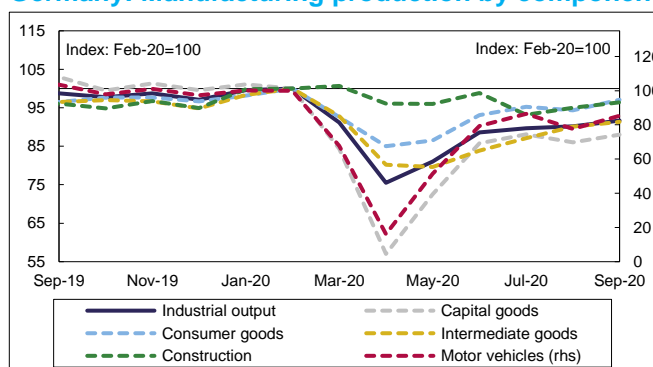
In the coming week, the euro area data focus remains on the manufacturing sector with September IP figures for France and Italy to be published on Tuesday, followed by aggregate euro area industrial production numbers on Thursday. As reported today in Germany and Spain, euro area IP should maintain its uptrend, with growth of about 1.0% M/M leaving it still almost 5% below February's pre-lockdown level. September goods trade figures are also due, with the German numbers out Monday and the euro area data out on Friday, with exports probably continuing to outpace imports. Among the new survey indicators, the November Sentix and ZEW investor survey results will be released on Monday and Tuesday, with the Bank of

Germany: Manufacturing production and output PMI



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

Germany: Manufacturing production by component



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France business survey results also due on Monday. Other releases scheduled include the preliminary estimate of Q3 employment in the euro area on Friday along with an updated estimate of GDP growth for last quarter, as well as final estimates of October inflation from Germany (Thursday), France and Spain (Friday). Separately, the ECB's annual Monetary Policy Forum will take place on Wednesday and Thursday. Most notable will be the policy panel, on Thursday afternoon, featuring ECB President Lagarde as well as BoE Governor Bailey and Fed Chair Powell.

UK

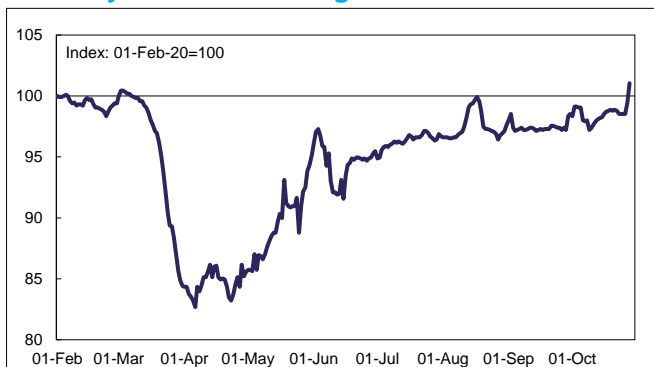
The week ahead in the UK

After a quiet Friday for UK economic news, the coming week should see the negotiations between the EU and UK on a new FTA move closer to a climax. However, interventions at the political level – perhaps accompanied by more brinkmanship and drama risking collapse and no deal – will eventually be required to reach a deal that resolves all key sticking points (including governance, the level playing field, and fish). Meanwhile, the week ahead will also bring more noteworthy data, with plenty of attention to be on Thursday's release of the first estimate of Q3 GDP, as well as monthly output and trade figures for September. With the spring lockdown measures having been relaxed, output rebounded vigorously in Q3, albeit not sufficiently to fully reverse the substantive drop posted in the first half of the year. A touch weaker than the BoE's latest projection (16.1%Q/Q), we expect GDP to have risen about 15.5%Q/Q in Q3 to leave it still down almost 10% from the peak in Q419. Certainly, as the boost to hospitality from the government's Eat Out to Help Out scheme faded, and coronavirus cases began to pick up steadily in September resulting in the imposition of tougher localized restrictions, the figures are likely to show the weakest monthly pace of growth since the recovery started in May. And with England now entering a second lockdown, GDP looks set to decline in Q4, and probably by several percentage points.

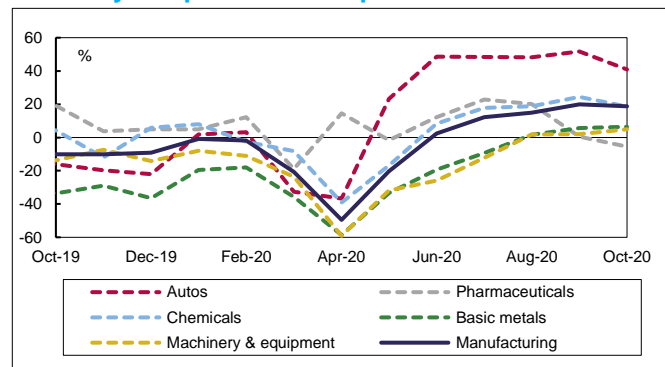
Ahead of that release, the latest UK labour market figures (Tuesday) are likely to show an accelerated drop in the number of people in employment in the three months to September. And with firms having increased redundancies in expectation of the termination of the government's Job Retention Scheme – which has now belatedly been reactivated due to the new English lockdown – the unemployment rate is likely to have risen further too, despite a further pickup in the number of vacancies. With the average number of hours worked up again, however, wage growth is also likely to have picked up further. The BRC's retail sales survey for October is also out on Tuesday. If the CBI's [distributive trades survey](#) is anything to go by, this will suggest a drop in sales last month. In terms of BoE commentary, Governor Bailey's contribution to the ECB Monetary Policy Forum on Thursday afternoon will be most significant.

The next edition of the Euro wrap-up will be published on 10 November 2020

Germany: Truck toll mileage index



Germany: ifo production expectations indices



European calendar

Today's results





























Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Germany	Industrial production M/M% (Y/Y%)	Sep	1.6 (-7.3)	2.5 (-6.5)	-0.2 (-9.6)	0.5 (-8.7)
France	Trade balance €bn	Sep	-5.7	-6.8	-7.7	-
	Private sector payrolls Q/Q%	Q3	1.8	0.2	-0.8	-
Italy	Retail sales M/M% (Y/Y%)	Sep	-0.8 (1.3)	-1.5 (1.2)	8.2 (0.8)	- (1.0)
Spain	Industrial production M/M% (Y/Y%)	Sep	0.8 (-3.4)	1.3 (-3.8)	0.4 (-5.7)	-

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.






















Coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 9 November 2020					
EMU		09.30 Sentix investor confidence	Nov	-15.0	-8.3
Germany		07.00 Trade balance €bn	Sep	13.5	11.9
France		- Bank of France industrial sentiment survey	Oct	-	101
Tuesday 10 November 2020					
Germany		10.00 ZEW current situation (expectations)	Nov	-65.0 (45.0)	-59.5 (56.1)
France		00.01 ILO Unemployment rate %	Q3	7.5	7.1
		07.45 Industrial production M/M% (Y/Y%)	Sep	0.3 (-6.2)	1.3 (-6.2)
		07.45 Manufacturing production M/M% (Y/Y%)	Sep	-	1.0 (-7.0)
Italy		09.00 Industrial production M/M% (Y/Y%)	Sep	-1.0 (-)	7.7 (-0.3)
UK		00.01 BRC retail sales monitor like-for-like Y/Y%	Oct	-	6.1
		07.00 Unemployment claimant count rate % (change '000s)	Oct	-	7.6 (28.1)
		07.00 Average earnings including bonuses (excluding bonuses) 3M/Y	Sep	1.1 (1.5)	0.0 (0.8)
		07.00 ILO unemployment rate 3M%	Sep	4.8	4.5
		07.00 Employment change '000s	Sep	-164	-153
Wednesday 11 November 2020					
- Nothing scheduled -					
Thursday 12 November 2020					
EMU		10.00 Industrial production M/M% (Y/Y%)	Sep	1.0 (-5.6)	0.7 (-7.2)
Germany		07.00 Final CPI (EU-harmonised CPI) Y/Y%	Oct	-0.2 (-0.5)	-0.2 (-0.4)
UK		00.01 RICS house price balance %	Oct	55	61
		07.00 Preliminary GDP Q/Q% (Y/Y%)	Q3	15.6 (-9.5)	-19.8 (-21.5)
		07.00 Monthly GDP M/M%	Sep	0.9	2.1
		07.00 Industrial production M/M% (Y/Y%)	Sep	0.5 (-6.0)	0.3 (-6.4)
		07.00 Manufacturing production M/M% (Y/Y%)	Sep	0.6 (-7.7)	0.7 (-8.4)
		07.00 Construction output M/M% (Y/Y%)	Sep	3.1 (-10.9)	3.0 (-13.0)
		07.00 Index of services M/M% (3M/3M%)	Sep	1.0 (14.4)	2.4 (7.1)
		07.00 Total trade balance (goods trade balance) £bn	Sep	1.6	1.3
Friday 13 November 2020					
EMU		10.00 Preliminary GDP Q/Q% (Y/Y%)	Q3	12.7	-11.8
		10.00 Preliminary employment Q/Q% (Y/Y%)	Q3	-	-2.9 (-3.1)
		10.00 Trade balance €bn	Sep	-	21.9
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	Oct	0.0 (0.0)	0.0 (0.0)
Spain		08.00 Final CPI (EU-harmonised CPI) Y/Y%	Oct	-0.9 (-1.0)	-0.4 (-0.6)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 9 November 2020		
EMU	 12.00	ECB's Mersch scheduled to speak
UK	 10.30	BoE Governor Bailey scheduled to speak
	 14.00	BoE Chief Economist Haldane scheduled to speak
Tuesday 10 November 2020		
EMU	 09.00	Economic Bulletin pre-release
	 14.00	ECB's Knot scheduled to speak
Wednesday 11 November 2020		
EMU	 13.00	ECB President Lagarde gives introductory speech at ECB Forum
	 13.30	ECB's de Guindos scheduled to speak
	 16:00	ECB's Chief Economist Lane scheduled to speak
Germany	 10.30	Auction: €1bn of 0% 2050 bonds
UK	 10.00	Auction: £800mn of 0.125% 2036 index-linked bonds
Thursday 12 November 2020		
EMU	 09.00	ECB publishes its Economic Bulletin
	 09.50	ECB's de Guindos scheduled to speak
	 13.00	ECB's Panetta scheduled to speak
	 14.15	ECB's Mersch scheduled to speak
	 15.30	ECB's Schnabel scheduled to speak
	 16.45	ECB President Lagarde, BoE Governor Bailey and Fed Chairman Powell speak on policy panel at ECB Forum
Italy	 10.00	Auction: 3Y and 7Y bonds
UK	 08.00	BoE Governor Bailey scheduled to speak
	 11.30	Auction: £1.25bn of 1.625% 2054 bonds
Friday 13 November 2020		
EMU	 10.00	ECB's Weidmann scheduled to speak
France	 -	French sovereign debt rated by Fitch

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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