

Euro wrap-up

Overview

- Bunds followed USTs lower while IP data from euro area member states were mixed and the latest ZEW investor survey appeared excessively downbeat as hopes for an effective coronavirus vaccine were maintained.
- Gilts also weakened despite a record level of UK redundancies and a drop in payrolls even ahead of the latest English lockdown.
- The coming two days will bring the ECB's Monetary Policy Forum, with UK Q3 GDP (on Thursday) the data highlight.

Chris Scicluna

+44 20 7597 8326

Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.725	+0.015
OBL 0 10/25	-0.705	+0.022
DBR 0 08/30	-0.486	+0.026
UKT 1½ 09/22	-0.010	+0.012
UKT 0% 06/25	0.039	+0.022
UKT 4% 12/30	0.397	+0.027

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

Euro area

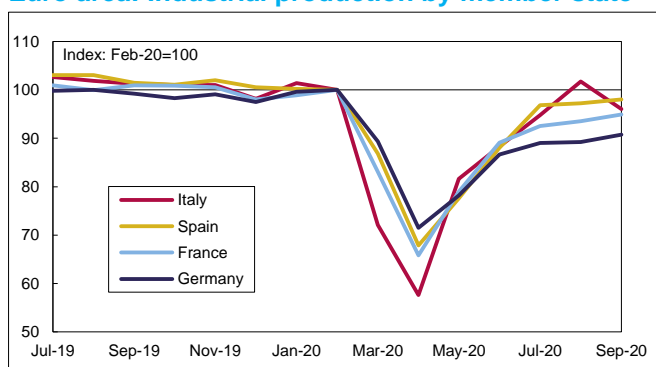
Manufacturing uptrend continued in France at the end of Q3

Conditions in the euro area economy continue to differ significantly between various sub-sectors, depending on the extent to which demand remains impacted by changes in behavior due to the coronavirus and government restrictions are impeding activity. As in the other major economies, manufacturers have generally seen a steady uptrend in output, albeit with growth not as vigorous as in the early stages of the rebound. Following Friday's report of moderate further expansion in [German industrial production](#) in September, today's equivalent data from France also confirmed a continuation of growth. In particular, French manufacturing output rose 2.2%M/M that month to be down 6.0%Y/Y and 5.5% below February's pre-pandemic level, thus reversing more than 85% of the initial peak-to-trough decline. Production of transport equipment accelerated 8.8%M/M, albeit remaining 12.1% below February's level. Within that category, autos output rose 5.9%M/M to be just 2.2% below the pre-pandemic level, but production of other transport items (including aerospace) was still down almost 20% from February despite growth of more than 11%M/M in September. Meanwhile, production of machinery and equipment rose 3.1%M/M to be down 6.7% from the pre-lockdown level. Beyond manufacturing, French construction fell a steep 8.4%M/M to be down 7.0% from February's level. Nevertheless, over Q3 as a whole, French construction activity leapt 40.1%Q/Q while manufacturing was up 22.7%Q/Q, with transport equipment output up a whopping 58.3%Q/Q and production of machinery and equipment up 24.3%Q/Q.

French deterioration in Q4 to be substantive, but less marked than during first wave

Of course, economic conditions in France have taken a turn for the worse in Q4, with the intensification of the pandemic followed by the re-imposition of restrictions on activity. Indeed, economic output still appears to have weakened somewhat in October before a more significant drop in November as the stringency of measures increased. Yesterday's Bank of France business survey and associated assessment gave insights into the extent of the deterioration. In particular, manufacturing production was judged to have been broadly unchanged in October from the prior month, but was forecast to fall about 2% in November. But the Bank of France reported a deterioration in services already last month. And with the closure of non-essential retailing and significant restrictions on other face-to-face services, not least much of hospitality activity, it predicts an accelerated drop in output in the sector in the current month. Overall, therefore, the level of activity in services is predicted by the Bank of France to be some 24% below normal this month, albeit with significant variation within the subsectors. And, overall, GDP in November is estimated to be roughly 12% below normal levels, compared to a shortfall of 4% last month and a whopping 31% in April.

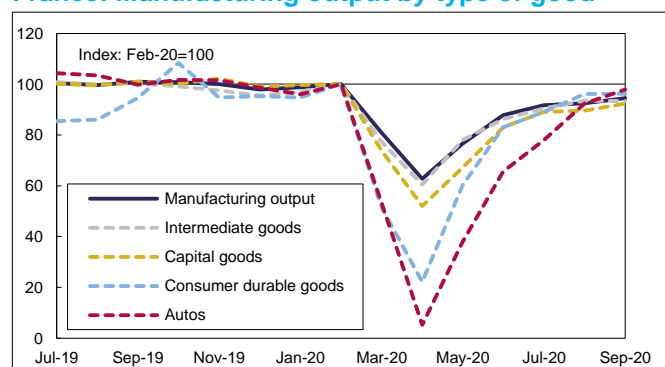
Euro area: Industrial production by member state*



*Excluding construction.

Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: Manufacturing output by type of good



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

French unemployment rate jumped in Q3 as laid-off workers started looking for work

Today's labour market data from France were discouraging, revealing a steeper-than-expected rise in unemployment in Q3. In particular, the number of people unemployed on the international-harmonised ILO measure rose a record 628k in Q3 to 2.69mn, the highest in two years. As a result, the equivalent unemployment rate leapt 1.9ppts from Q2 to 9.0%, to be 0.9ppt above the pre-Covid level in Q419, likewise matching the level in Q318. However, the increase in measured unemployment in Q320 followed a decline of 0.7ppt in Q2, which reflected the large number of workers out of a job but not looking for work due to the pandemic. Indeed, private payrolls rose by 1.8%Q/Q, or 344.4k, in Q3. Following net job losses of 491.6k in Q1 and a further 158.4k in Q2, however, the number of private payrolls was still down 214k (or 1.1%) from a year earlier, again at the level two years earlier. While the French government has already extended its 'partial unemployment' job support scheme, and also boosted its 'solidarity fund' to provide greater amounts of state aid to firms suffering from the new lockdown restrictions, additional fiscal support could well be announced shortly in an attempt to prevent the second wave in the pandemic provoking a second wave of job cuts.

Italian production took step down in September after vigorous rebound

Somewhat surprisingly, the initial rebound in manufacturing production in Italy had been more vigorous than in the other large member states, with the pre-pandemic level surpassed in August to return just 0.3% below the level a year earlier. However, there was significant payback in September for that early growth, with total industrial production down 5.6%M/M and 5.1%Y/Y, and output of consumer durables down 11.4%M/M. Total manufacturing output fell back 4.7% below February's level to be down 5.9%Y/Y, with clothing and textiles worst affected, dropping more than 20%Y/Y. Output of transport equipment was down a more moderate 4.1%Y/Y and that of domestic appliances fell a similar 3.9%Y/Y. But output of computer and electronic products continued to benefit from stronger post-pandemic demand declining just 0.8%Y/Y. Despite the pull-back in September, industrial production still rose an extremely strong 28.6%Q/Q in Q3. And survey indicators such as the manufacturing PMI – which last month rose to 53.8, the highest since March 2018 – point to a resumption of Italian production growth in October and expansion over Q4 as a whole.

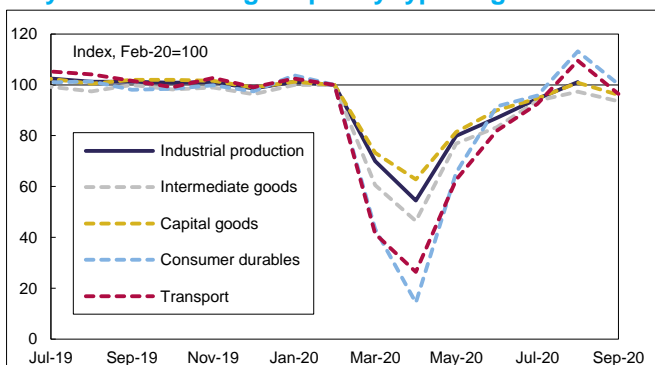
Deterioration in ZEW expectations indices likely to be reversed on vaccine news

The latest ZEW investor sentiment indices pointed to a deterioration in confidence this month following the re-imposition of restrictions on services activity over recent weeks. In particular, the ZEW index of German current conditions dropped almost 5pts in November to -64.3, still the second-best reading since March. But the German expectations index fell more than 17pts to 39.0, the lowest since April, with the equivalent index for the euro area down almost 20pts. The deterioration in investor sentiment might be replicated in the November ifo business survey results due later this month. However, if the initial hopes raised yesterday by the Pfizer and BioNTech vaccine trial are reinforced by subsequent results and validation by regulators, then confidence among investors, firms, and households should all see a significant near-term boost. And once current restrictions are lifted, if a third wave of pandemic can be avoided, the rebound in economic activity should be sustained over coming quarters if and when the vaccine is gradually rolled out across sections of the population.

The coming two days in the euro area

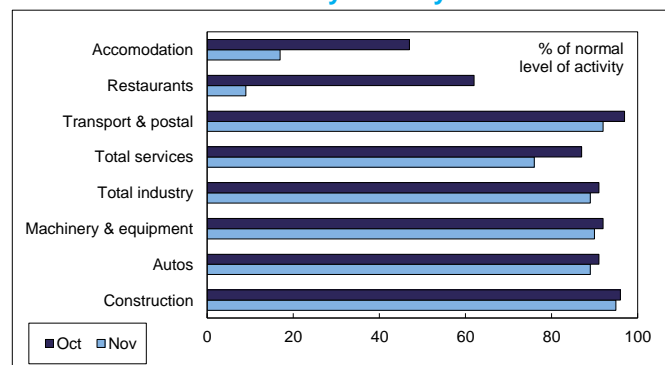
The main focus of the coming two days will be the ECB's Monetary Policy Forum, which gets underway tomorrow with an introductory speech from President Lagarde, to be followed by panels led by Vice President de Guindos and Chief Economist Lane. Most notable will be the policy panel on Thursday afternoon featuring Lagarde, Fed Chair Powell and BoE Governor Bailey. After a quiet day for economic data tomorrow (which is a public holiday in France and Belgium), Thursday brings September IP figures for the euro area as a whole. Given the drop reported today in Italy, as well as weaker data from some of the smaller member states, this is now likely to report a decline in production despite the positive growth in Germany, France and Spain. Final German inflation numbers for October, for which the flash estimate on the EU measure fell 0.1ppt to a five-year low of -0.5%Y/Y, are also due.

Italy: Manufacturing output by type of good



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: Estimated activity level by selected sectors



Source: Bank of France and Daiwa Capital Markets Europe Ltd.

UK

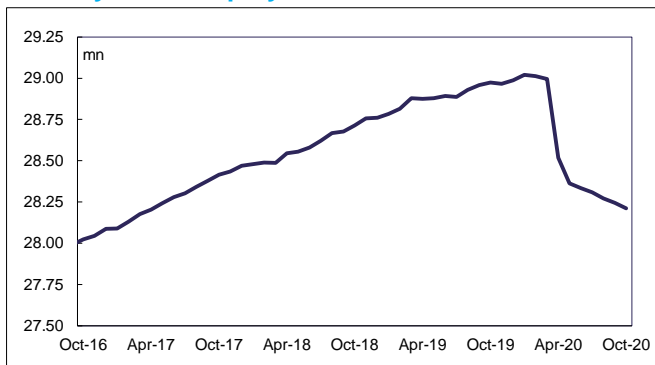
Redundancies at record high ahead of Government U-turn and English lockdown

Had the UK government not signalled to firms that its Job Retention Scheme was to be brought to an end last month – a policy that was subsequently reversed in the face of the all-too-predictable second wave of pandemic and renewed English lockdown – today’s labour market report might not have been quite so grim. But for many firms, the repeated government messages that the wage subsidies would be replaced with a less generous scheme encouraged them to press ahead with job cuts. Redundancies rose a record 181k in the three months to September to a series high of 314k, thus beating the previous high recorded in the aftermath of the Global Financial Crisis in 2009. As a result, the unemployment rate in the three months to September rose a steeper-than-expected 0.7ppt from the prior quarter to 4.8%, 0.9ppt above the level a year earlier. The employment rate fell 0.6ppt in the three months to September from the previous quarter to 75.3%, 0.8ppt below the level a year earlier, with the drop in the number of people in employment over the past four quarters more than fully accounted for by workers without UK nationality. And more timely data suggest that the number of people in work continued to decline last month, with 33k fewer people on payrolls than in September leaving the number down more than 808k from January and at the lowest level since April 2017.

Pay growth rebounded as workers returned from furlough

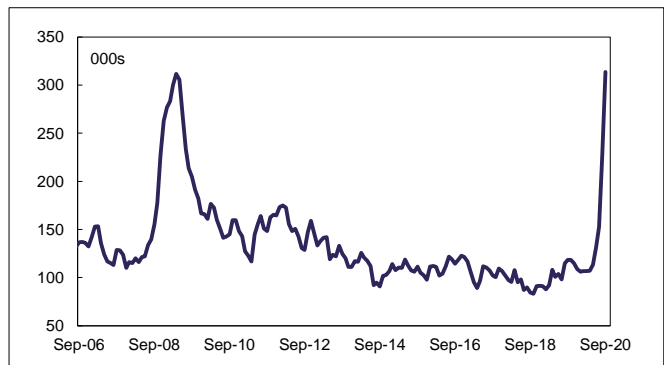
More positively, at least the claimant count – which includes those working on low incomes or hours as well as those who are not working – dropped slightly in October to 2.6mn, with the equivalent rate down 0.1ppt to 7.3%. The latest vacancy data also continued to improve, with the total of 525k in the three months to October up 146km from the previous quarter but still down 278k from a year earlier. In addition, with the return of some workers from furlough leading to an increase in total hours worked (up a record 9.9% in the three months to September), annual growth in employee pay also improved. Growth in average weekly earnings in the three months to September rose 1.2ppt to 1.3%Y/Y to be up 0.5%3M/Y in real terms. And, excluding bonuses, growth in earnings rose 1.0ppt to 1.9%3M/Y. Of course, pay growth continued to vary significantly by sector. The public sector saw strong growth in total pay, up 3.7%3M/Y. In contrast, negative growth continued to be registered in construction, wholesaling, retailing, hospitality and manufacturing. The recent extension of the Job Retention Scheme to end-March, with 80% of wages for hours not worked to be paid at least to end January, should at least slow the pace of job cuts over the near term. But with hours worked set to fall sharply in many sectors due to the new English lockdown, which took effect from last week and will last at least until 2 December, renewed downwards pressure on pay growth will emerge over the near term.

UK: Payrolled employees



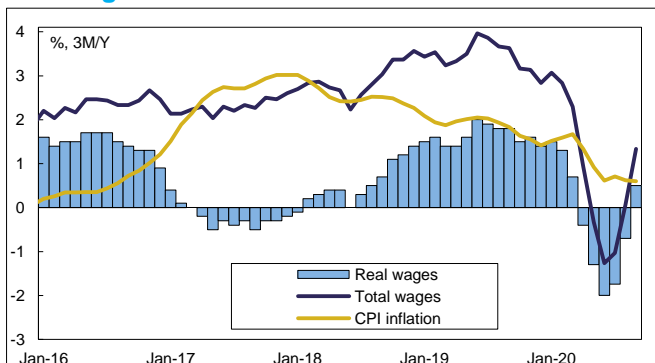
Source: ONS and Daiwa Capital Markets Europe Ltd.

UK: Redundancies



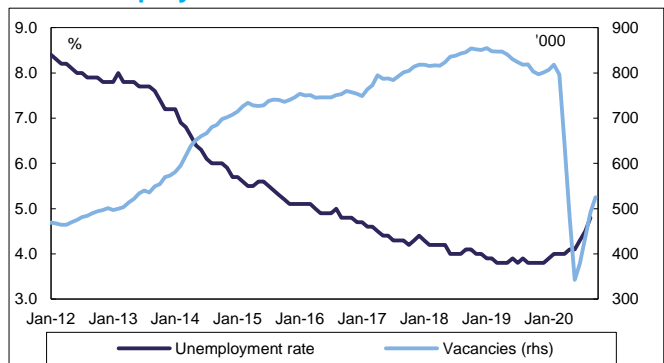
Source: ONS and Daiwa Capital Markets Europe Ltd.

UK: Wages and inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Unemployment rate and vacancies













Source: Refinitiv and Daiwa Capital Markets Europe Ltd.




The coming two days in the UK

After what should be a quiet day for economic news from the UK tomorrow, Thursday brings the most notable new data of the week in the shape 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. Our forecast of growth of about 15½%Q/Q is weaker than the BoE's latest projection and would leave GDP 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 for that month are likely to show the weakest monthly pace of growth since the recovery started in May.

The next edition of the Euro wrap-up will be published on 12 November 2020

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 ZEW current situation (expectations)	Nov	-64.3 (39.0)	-65.0 (45.0)	-59.5 (56.1)	-
France	 ILO Unemployment rate %	Q3	9.0	7.5	7.1	-
	 Industrial production M/M% (Y/Y%)	Sep	1.4 (-6.0)	0.3 (-6.2)	1.3 (-6.2)	1.1 (-6.4)
	 Manufacturing production M/M% (Y/Y%)	Sep	2.2 (-6.3)	-	1.0 (-7.0)	0.8 (-7.2)
Italy	 Industrial production M/M% (Y/Y%)	Sep	-5.6 (-5.1)	-1.0 (-)	7.7 (-0.3)	7.4 (-0.3)
UK	 BRC retail sales monitor like-for-like Y/Y%	Oct	5.2	-	6.1	-
	 Unemployment claimant count rate % (change '000s)	Oct	7.3 (-29.8)	-	7.6 (28.1)	7.4
	 Average earnings including bonuses (excluding bonuses) 3M/Y	Sep	1.3 (1.9)	1.1 (1.5)	0.0 (0.8)	0.1 (0.9)
	 ILO unemployment rate 3M%	Sep	4.8	4.8	4.5	-
	 Employment change '000s	Sep	-164	-150	-153	-
Auctions						
Country	Auction					
- Nothing to report -						

Yesterday's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Sentix investor confidence	Nov	-10.0	-15.0	-8.3	-
Germany	 Trade balance €bn	Sep	20.8	16.0	12.8	11.9
France	 Bank of France industrial sentiment survey	Oct	97	90	101	-
Auctions						
Country	Auction					
- Nothing to report -						





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
- Nothing due -					











Auctions and events

EMU		13.00	ECB's Lagarde gives introductory speech to ECB Monetary Policy Forum		
		13.30	ECB's de Guindos and Lane chair sessions at ECB Monetary Policy Forum		
Germany		10.30	Auction: €1bn of 0% 2050 bonds		
UK		10.00	Auction: £800mn of 0.125% 2036 index-linked bonds		










Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
EMU		10.00	Industrial production M/M% (Y/Y%)	Sep	-0.5 (-7.0)	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

Auctions and events

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 at the Financial Times Global Conference		
		11.30	Auction: £1.25bn of 1.625% 2054 bonds		

Access our research blog at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.