

Euro wrap-up

Overview

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- Bunds and other euro area government bonds made gains while data reported a rebound in the region's employment in Q3 and an acceleration in export growth in September.
- Gilts were little changed as the EU-UK negotiations ended the week with little evidence of progress.
- The EU-UK negotiations will remain a key focus ahead of the EU leaders' teleconference on Thursday, while new data on euro area and UK inflation, euro area consumer confidence, and UK retail sales are due.

Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.739	-0.004
OBL 0 10/25	-0.741	-0.007
DBR 0 08/30	-0.549	-0.011
UKT 1½ 09/22	-0.044	+0.004
UKT 0% 06/25	0.011	-
UKT 4% 12/30	0.337	-0.009

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

Euro area

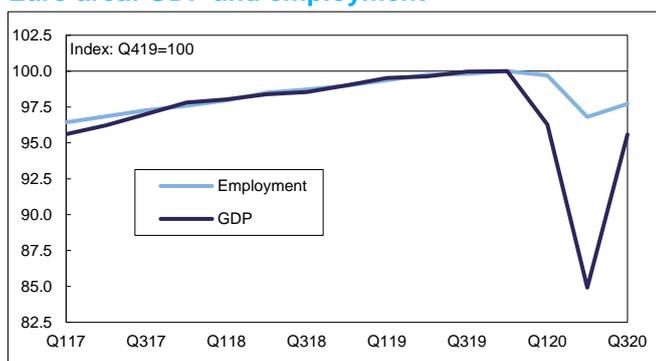
Employment rebounds in Q3, but remains more than 3.6mn below the pre-Covid peak

With GDP rebounding a revised 12.6%Q/Q in Q3 (just 0.1ppt softer than previously thought) following the record drop of 11.8%Q/Q in Q2, euro area employment also leapt last quarter following the record fall of 2.9%Q/Q (4.65mn) in Q2. However, employment growth of 0.9%Q/Q (1.45mn workers) in Q3 left the number of people in work still down a marked 2.3% and 3.67mn from the peak in Q419. Measured on an equivalent basis, Spain is the only one of the large member states to have published Q3 employment data on the same basis so far. And there, employment rebounded an even stronger 3.1%Q/Q and 584k. However, that followed a fall of 7.5%Q/Q and 1.51mn in Q2 – the steepest decline of all member states reflecting the sharper drop in GDP and very high share of workers on temporary contracts – and left the level of Spanish employment still more than 5.5% and 1.1mn below the pre-covid 19 peak. Looking at alternative measures, employment in most other member states also appears to have risen in Q3. For example, German employment on a narrower measure rose 0.2%Q/Q having dropped 1.3%Q/Q in Q2 to be down 0.4%Y/Y. And French private sector payrolls rose 1.8%Q/Q but remained down 1.1%Y/Y. Of course, government labour support programmes, such as those subsidizing short-term working, helped cushion the blow to employment from the shock of the pandemic, ensuring that the loss of jobs was far smaller than the hit to output. The European Commission estimates that such programmes were still supporting the incomes of some 8mn workers last quarter. And as that support predominantly benefited workers on permanent contracts, more than 80% of job losses in Q2 affected workers on temporary contracts, particularly those from the services sector.

Trade growth picks up at end-Q3, with exports still outpacing imports

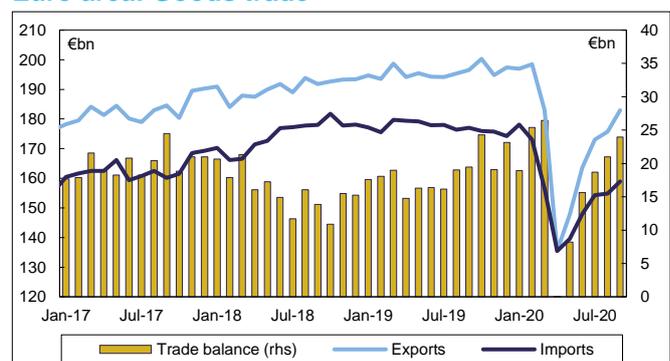
The September goods trade report confirmed a fifth consecutive increase in shipments of exports and imports, and at an accelerated pace. In particular, the value of exports rose 4.1%M/M from a downwardly revised 1.6%M/M in August to be 7.8% below February's level, suggesting that about three-quarters of the initial peak-to-trough decline in shipments had been reversed. Following a negligible rise of 0.3%M/M previously, the value of imports rose 2.7%M/M to be 8.2% below the pre-lockdown level, meaning that about two-thirds of the initial peak-to-trough had been reversed. The weaker pace of import growth saw the trade surplus increase for a fifth successive month to €24.0bn, the largest since March. And that left the average monthly trade surplus in Q3 at €21.2bn, more than 2.5 times the average surplus in Q2, with the 19.0%Q/Q rate of growth in exports last quarter almost twice as strong as the rise in imports. So, net trade certainly made a very large positive contribution to euro area GDP growth in Q3, having subtracted more than 1ppt in Q2. Exports to China continued to lead the way, up 5.2%Y/Y in September. And exports to South Korea, India, Norway and Turkey rose above their levels a year earlier for the first time since the pandemic struck. But while there was a slowing in the annual pace of decline in exports to other

Euro area: GDP and employment



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Goods trade*



*In nominal terms. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

major economies, the shortfalls to the US (-8.3%Y/Y), Japan (-17.9%Y/Y) and the UK (-9.4%Y/Y) remained marked. Nevertheless, surveys point to ongoing firm goods export growth in Q4 – for example, the euro area new manufacturing export orders PMI rose last month to 56.3, the highest since early 2018 and a level well above the series average.

The week ahead in the euro area

The coming week will bring plenty more communication from the ECB, with President Lagarde set to speak publicly on Monday, Tuesday, Thursday and Friday, and several other members of the Governing Council in action too. But it will be a relatively quiet one for top-tier economic data from the euro area. Perhaps the most notable will come at the end of the week, with the Commission's flash estimate of consumer confidence in November. Due to the rising second wave of the pandemic, this indicator fell in October to its lowest level since May. But while the spread of Covid-19 has continued to intensify, placing significant pressure on health services, and many member states have increased the stringency of restrictions on activity to try to control the spread, news of progress towards the development of an effective vaccine might give some support to sentiment.

Ahead of the final estimate of euro area inflation in October, due Wednesday, the Italian figures will be released on Monday. The flash Italian estimate on the EU-harmonised measure rose 0.4ppt to -0.6%Y/Y, partly reflecting prices of food and energy. But higher prices of clothing and footwear due to the end of the summer sales pushed up core inflation too. Given today's upwards revisions of 0.1ppt to the EU-harmonised measures from France (0.1%Y/Y) and Spain (-0.9%Y/Y), there is a risk of a similar upwards revision to the headline euro area figure from the preliminary estimate, which was unchanged from September at a four-year low of -0.3%Y/Y. The core rate, however, should be unchanged at the series low of 0.2%Y/Y. Other new data due in the coming week include October new car registrations for the region on Wednesday and euro area construction output data for the same month on Thursday – following four successive months of growth, construction output will likely post a sizeable decline due not least to a plunge of 8.4%M/M in France. Finally, the ECB's balance of payments data for September, which should report a further increase in the current account surplus thanks to the firm rebound in goods exports, are also due on Thursday.

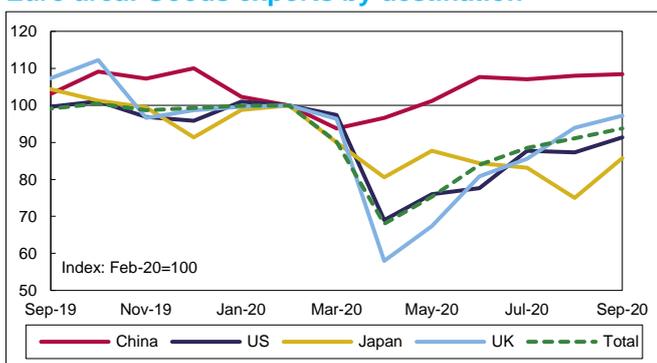
UK

The week ahead in the UK

With no top-tier data due in the first half of the week, attention seems likely to remain on the negotiations between the EU and UK on post-transition arrangements. There appeared to have been no further meaningful progress made today. But after a break for the weekend, the talks are scheduled to resume in Brussels at the start of the week. It remains to be seen whether any breakthroughs can be made before EU leaders hold a teleconference on Thursday. We suspect that they will not, and so the teleconference could act as the trigger for a new bout of drama, which might only be resolved by a compromise deal – settling issues related to the level playing field (including state aid policy), governance and fish – reached at the highest political level.

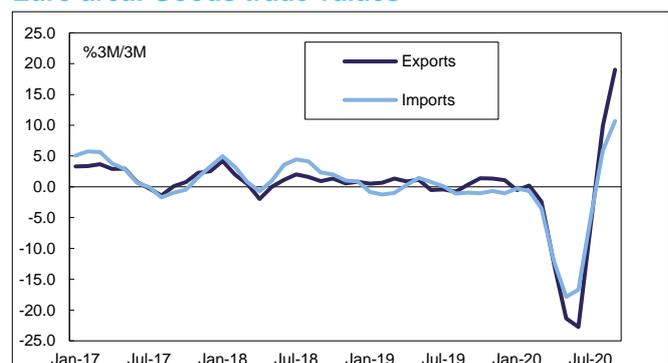
Data-wise, the UK highlights of the coming week will be the October reports for inflation (on Wednesday) and retail sales (Friday). Headline inflation in September rose 0.3ppt to 0.5%Y/Y, with the core measure rising 0.4ppt to 1.3%Y/Y, reflecting the increase in restaurant prices at the end of the government's Eat Out to Help Out scheme. We expect headline inflation to edge up a little further, to 0.6%Y/Y, principally reflecting base effects related to the drop in oil prices a year earlier. Indeed, we expect core inflation to slip back, as the second wave of pandemic last month weighed on demand for some goods and services, some of which were increasingly subject to localized restrictions as the month wore on. Meanwhile, surveys from the CBI and BRC point to a softer month for retail sales in October following five successive increases, which left the level of sales more than 5% above February's pre-pandemic level. Nevertheless, sales in October seem likely to benefit from renewed pandemic-related stock-building as well as the persisting shift in spending from services to goods. Other data due in the coming week include October public finance figures, which will also be released on Friday.

Euro area: Goods exports by destination



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Goods trade values



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	12.6	-3.0	3.4	1.5	-7.4	5.8	3.0
Germany		-1.9	-9.8	8.2	-1.0	1.5	1.2	-5.7	3.8	2.7
France		-5.9	-13.7	18.2	-6.0	6.5	1.2	-9.7	8.0	2.8
Italy		-5.5	-13.0	16.1	-2.0	2.1	1.5	-8.7	6.5	2.9
Spain		-5.2	-17.8	16.7	-4.0	4.5	2.5	-11.8	7.5	4.8
UK		-2.5	-19.8	15.5	-3.0	3.5	3.5	-11.4	7.3	5.4
Inflation, %, Y/Y										
Euro area										
Headline CPI		1.1	0.2	0.0	-0.3	0.0	0.6	0.2	0.6	1.1
Core CPI		1.1	0.9	0.6	0.2	0.4	0.4	0.7	0.5	0.8
UK										
Headline CPI		1.7	0.6	0.6	0.5	0.8	1.8	0.8	1.6	1.6
Core CPI		1.6	1.4	1.3	1.0	1.3	1.8	1.3	1.6	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
PEPP envelope (€bn)		750	1350	1350	1850	1850	1850	1850	1850	1850
BoE										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases (£bn)		645	745	745	895	895	895	895	895	895

*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	 Preliminary GDP Q/Q% (Y/Y%)	Q3	12.6 (-4.4)	12.7 (-4.3)	-11.8 (-14.8)	-	
	 Preliminary employment Q/Q% (Y/Y%)	Q3	0.9 (-2.0)	-	-2.9 (-3.1)	-	
	 Trade balance €bn	Sep	24.0	22.5	21.9	21.0	
France	 Final CPI (EU-harmonised CPI) Y/Y%	Oct	0.0 (0.1)	0.0 (0.0)	0.0 (0.0)	-	
Spain	 Final CPI (EU-harmonised CPI) Y/Y%	Oct	-0.8 (-0.9)	-0.9 (-1.0)	-0.4 (-0.6)	-	
Auctions							
Country	Auction	- Nothing to report -					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 17 November 2020

Coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 16 November 2020					
Italy		09.00 Final CPI (EU-harmonised CPI) Y/Y%	Oct	-0.3 (-0.6)	-0.6 (-1.0)
UK		00.01 Rightmove house price index M/M% (Y/Y%)	Nov	-	1.1 (5.5)
Tuesday 17 November 2020					
France		- Bank of France retail sales M/M% (Y/Y%)	Oct	-	0.1 (2.7)
Italy		09.00 Total trade balance €bn	Sep	-	3.9
Wednesday 18 November 2020					
EMU		07.00 EU27 new car registrations Y/Y%	Oct	-	3.1
		10.00 Final CPI (Core CPI) Y/Y%	Oct	-0.3 (0.2)	-0.3 (0.2)
UK		07.00 CPI (Core CPI) Y/Y%	Oct	0.5 (1.3)	0.5 (1.3)
		07.00 PPI input prices (output prices) Y/Y%	Oct	-2.6 (-0.7)	-3.7 (-0.9)
		09.30 House price index Y/Y%	Sep	3.2	2.5
Thursday 19 November 2020					
EMU		09.00 ECB current account balance €bn	Sep	-	19.9
		10.00 Construction output M/M% (Y/Y%)	Sep	-	2.6 (-0.9)
Spain		09.00 Total trade balance €bn	Sep	-	-1.7
UK		11.00 CBI industrial trends survey, total orders	Nov	-40	-34
Friday 20 November 2020					
EMU		15.00 European Commission's preliminary consumer confidence index	Nov	-17.7	-15.5
Germany		07.00 PPI Y/Y%	Oct	-0.9	-1.0
Italy		09.00 Industrial orders M/M% (Y/Y%)	Sep	-	15.1 (6.1)
		09.00 Industrial sales M/M% (Y/Y%)	Sep	-	5.9 (-3.8)
UK		00.01 GfK consumer confidence survey	Nov	-34	-31
		07.00 Retail sales including fuel M/M% (Y/Y%)	Oct	-0.5 (4.0)	1.5 (4.7)
		07.00 Retail sales excluding fuel M/M% (Y/Y%)	Oct	0.0 (5.9)	1.6 (6.4)
		07.00 Public sector net borrowing £bn	Oct	29.3	35.4

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 16 November 2020		
EMU		09.00 ECB's de Guindos scheduled to speak
		13.00 ECB President Lagarde scheduled to speak
		13.30 ECB's Mersch scheduled to speak
UK		17.30 BoE's Haskel scheduled to speak
Tuesday 17 November 2020		
EMU		13.00 ECB's de Guindos scheduled to speak
		16.00 ECB President Lagarde participates in online Q&A forum
Germany		10.30 Auction: €5bn of 2022 bonds
UK		10.00 Auction: £3.25bn of 0.125% 2024 bonds
		11.30 Auction: £2bn of 0.625% 2050 bonds
		14.00 BoE Governor Bailey scheduled to speak
		17.00 BoE's Ramsden scheduled to speak
Wednesday 18 November 2020		
Germany		11.30 Auction: €3bn of 0% 2030 bonds
UK		10.00 Auction: £2.5bn of 0.625% 2035 bonds
		10.30 BoE Chief Economist Haldane scheduled to speak
Thursday 19 November 2020		
EMU		08.00 ECB President Lagarde gives introductory statement at European Parliament Hearing
		15.15 ECB President Lagarde scheduled to speak
		16.00 ECB's Schnabel scheduled to speak
France		09.50 Auction: 1.75% 2023 bonds
		09.50 Auction: 0% 2026 bonds
		09.50 Auction: 2.75% 2027 bonds
		09.50 Auction: 0.1% 2036 index-linked bonds
		09.50 Auction: 0.1% 2026 index-linked bonds
Friday 20 November 2020		
EMU		08.15 ECB President Lagarde scheduled to speak
		09.45 ECB's de Guindos scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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