

# Euro wrap-up

## Overview

- Despite some weak German car production figures, Bunds made losses as euro area producer price inflation rose to a record high due to increasing energy prices and French IP continued to grow.
- Gilts made more sizable losses even as UK car registrations were the weakest in any September since 1998.
- Wednesday will bring euro area retail sales figures, as well as German factory orders and the construction PMIs from the euro area and UK.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.707	+0.006
OBL 0 10/26	-0.558	+0.020
DBR 0 08/31	-0.188	+0.029
UKT 0 <sup>1</sup> / <sub>8</sub> 01/24	0.448	+0.052
UKT 0 <sup>3</sup> / <sub>8</sub> 10/26	0.683	+0.058
UKT 0 <sup>1</sup> / <sub>4</sub> 07/31	1.086	+0.077

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

Source: Bloomberg

## Euro area

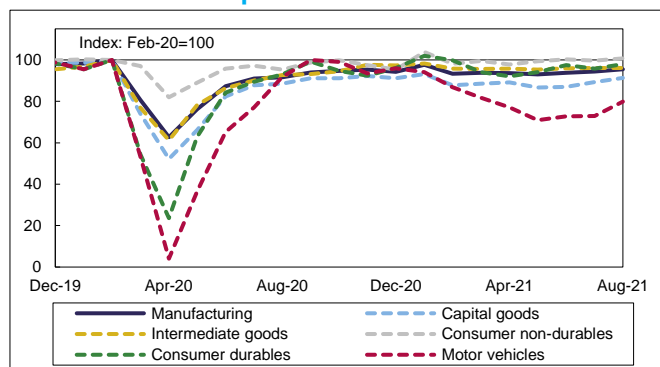
### French manufacturing output up for 3<sup>rd</sup> month despite supply-side restraints

Allaying fears that supply bottlenecks might be taking an ever-increasing toll on the euro area's economic recovery, today's French manufacturing data for August – which were the first to come from one of the large member states – reported a third successive month of growth in the sector and by the most since January. In particular, manufacturing production rose 1.1%M/M to be up 4.9%Y/Y, albeit still 4.5% below the pre-pandemic level in February 2020. And that left the average level of output in the sector in the first two months of Q3 some 1.6% above the average level in Q2. Perhaps surprisingly, one main source of growth in August was autos output, which rose almost 10%M/M to the highest level since March, albeit still a touch more than 20% below the pre-pandemic level. Weighed by a drop of more than 12%M/M in aerospace, however, total production of transport equipment fell 1.6%M/M. Nevertheless, output of both capital and consumer durable goods rose 2.3%M/M, with double-digit percentage growth rates in computers and electrical items as well as pharmaceuticals. Among other categories, output of intermediate items was broadly flat. And while energy production rose 0.5%M/M, construction activity dropped 1.8%M/M to a four-month low, likely still impeded by shortages of raw materials and other inputs. The INSEE survey and French PMIs pointed to some pullback in production in September particularly as supply constraints appeared to tighten a little further again and new orders slowed. Nevertheless, manufacturing production growth over the third quarter as a whole looks to have been relatively firm, albeit perhaps not sufficiently so to reverse fully the drop of 1.5%Q/Q in Q2.

### German car production and sales remain in reverse

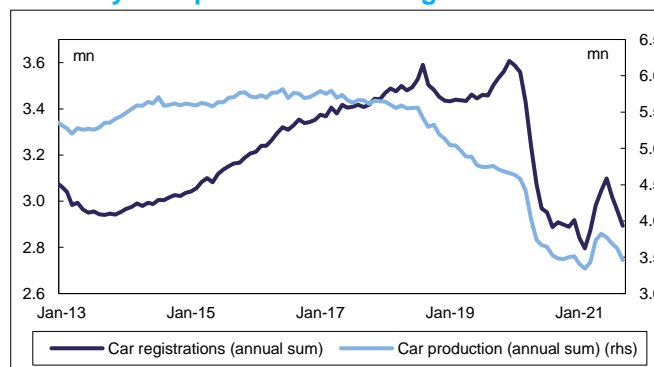
Contrasting with the French figures for August, today's German car production numbers for September, published by the VDA auto industry association, suggested that supply-chain challenges associated with the global semiconductor shortage remained particularly acute in the largest member state at the end of the third quarter. In particular, manufacturers produced just 208k units in September, a drop of 44%Y/Y and the fourth consecutive annual drop despite the relative low base this time last year. Indeed, compared with the average outturn in the decade before the pandemic, car production last month was down by almost 60%. So, over the first nine months of the year, manufacturers in Germany produced just 2.3mn autos, down 3% from the equivalent period in 2020 and 44% below the pre-pandemic ten-year average. Against this backdrop, and despite a 37%Y/Y increase in the number of electric vehicle registrations, the total number of new cars sold last month was down 26%Y/Y and more than a quarter lower than in September 2019. And over the first nine months of 2021, registrations were even lower than the pandemic-hit level in the corresponding period in 2020, a marked contrast with equivalent increases reported in France (8%YTD/Y), Italy (21%YTD/Y) and Spain (9%YTD/Y).

### France: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: Car production and registrations



Source: Bloomberg, VDA and Daiwa Capital Markets Europe Ltd.

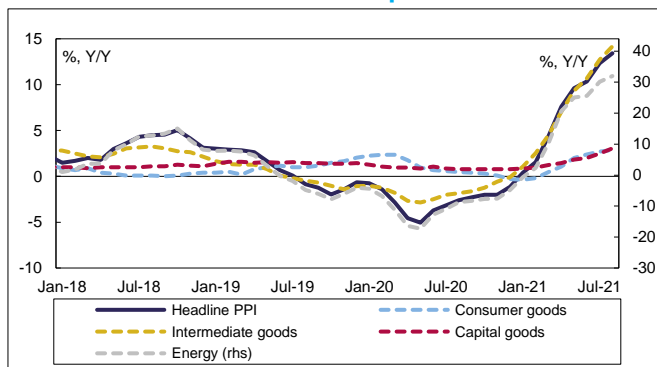
## Euro area producer price inflation up to new high

Further illustrating the impact of supply-side challenges, euro area industrial producer prices rose a further 1.1%M/M in August, the sixth monthly rise of more than 1.0%M/M this year to be up 13.4%Y/Y, a new series high. Perhaps inevitably, given the increase in pressures in wholesale power markets, energy remained the main driver, with prices up 2.0%M/M to push the annual growth rate up almost 2ppts to a new high of 32.0%Y/Y. Electric power producer prices were up 26.4%Y/Y while prices of gas production and distribution rose more than 51%Y/Y. And prices of extraction of natural gas rose more than 180%Y/Y with extraction of crude up almost 70%Y/Y. Inflation of intermediate items rose again too, with prices rising 1.4%M/M to push the annual rate up 1.5ppts to a euro-era high of 14.2%Y/Y, with prices of chemicals up more than 20%Y/Y and metals up almost 19%Y/Y. And there was evidence of increased pass-through of inflation to other categories, with producer inflation of capital goods and consumer durables up to new highs of 3.1%Y/Y and 3.0%Y/Y respectively. Given ongoing pressures in oil and gas markets, energy inflation looks set to remain exceptionally high for some time, with the likelihood of further pass-through to other categories of factory prices – and final consumer prices – over the coming six to twelve months too. Indeed, with significant supply strains, depleted inventories and strong demand, power prices would seem at risk of additional increases should the northern hemisphere winter prove much colder than usual.

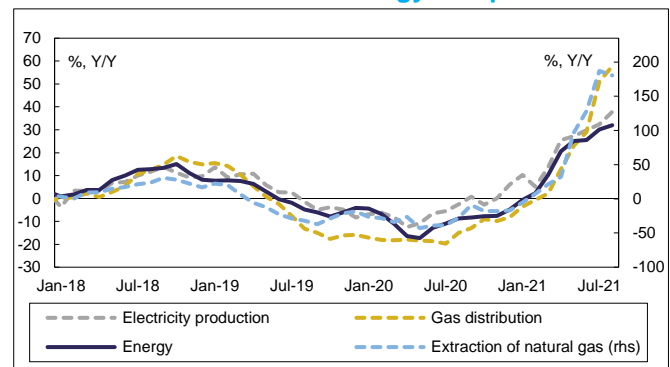
## Services PMIs points to softer pace of expansion at end-Q3

The final services PMIs for September underscored the message of the flash estimates that supply chain disruption has become an increasing constraint on growth beyond the manufacturing sector. The euro area business activity index was revised only a touch higher from the flash estimate, to leave it still down 2.6pts from August, the most since November. At 56.4, the index was also the lowest since April, albeit still consistent with expansion and above the manufacturing output PMI for the first time since the onset of the pandemic. And over the third quarter as a whole, the services PMI was 3.7pts higher than the Q2 average. Within the detail, the new business component fell a similar 2.6pts to 53.4 in September, also a five-month low, with demand for export services having also moderated, while firms were the least optimistic about business expectations since February. Amid moderating demand, services firms were also facing increasingly elevated price pressures, with the input price PMI (65.2) at its joint-highest on record, while output price inflation (55.1) remained among the highest in 20 years. Among the country detail, Germany's activity index dropped most, by more than 4½pts to a four-month low of 56.2, while France's dropped the least, by 0.1pt to 56.2, still a five-month low. And today's Italian and Spanish survey results, published for the first time, suggested the softest growth rates since May, albeit Spain's index was still above the two largest member states. New orders slowed in each of the large southern member states, while the price pressure gauges for all member states remained highly elevated too. Overall, while the composite PMIs slipped back across the member states

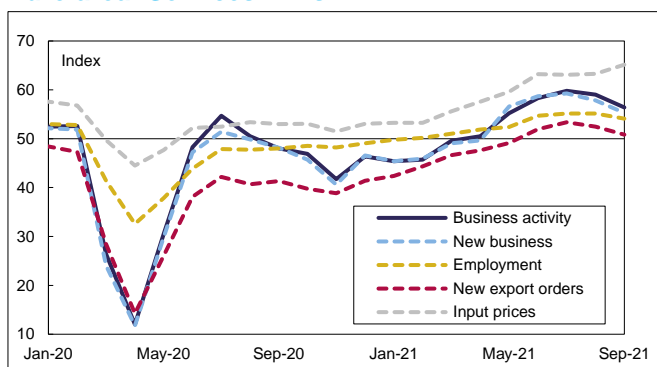
### Euro area: PPI – selected components



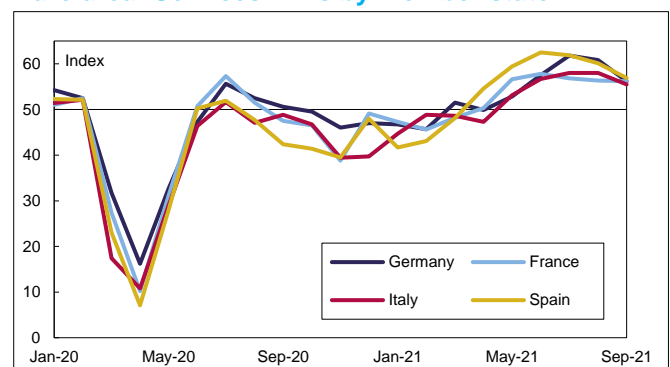
### Euro area: PPI – selected energy components



### Euro area: Services PMIs



### Euro area: Services PMIs by member state



they remained consistent with ongoing expansion and were all considerably higher in Q3 than in Q2 – indeed, the quarterly euro area PMI rose 1.7pts in Q3 to 58.5, the highest since Q206.

## The day ahead in the euro area

Looking ahead to tomorrow's releases, euro area retail sales figures for August are likely to mirror the trend in last week's [German](#) data, reporting a modest rebound that month following a marked decline in July. The market consensus is for an increase of less than 1%M/M, following the drop of 2.3%M/M in July, which would leave sales around 3½% higher compared to the pre-pandemic level. Tomorrow's economic data calendar also features releases from the manufacturing sector, with most notably German factory orders for August. Following two strong consecutive monthly increases in factory orders, the latest data are expected to see orders fall back on the month, by 2.1%M/M. Spanish IP figures are also due, as well as September construction PMIs for the euro area and various member states.

## UK

### UK new car registrations the weakest for the month of September since 1998

Like elsewhere in Europe, with the semiconductor shortage hitting production, new car registrations in the UK dropped sharply in September compared to a year ago. Indeed, with production having dropped 27%Y/Y according to the SMMT, new car registrations fell a steeper 34.4%Y/Y to 215k, representing the weakest sales for the month since 1998. Sales were down 37% from September 2019 and around 45% below the pre-pandemic ten-year average. Despite the declines of recent months, new registrations were still up about 6%YTD/Y, but – with the first half of the year in 2020 hit by the pandemic – the drop of 29% over the first nine months of the year from the same period of 2019 provides a better indication of the performance so far this year. Nevertheless, more encouragingly, sales of electric vehicles maintained their recent strength, registering their best month on record in September. Indeed, the number of units sold (37.7k) was just over 5k shy of the total number registered in the whole of 2019.

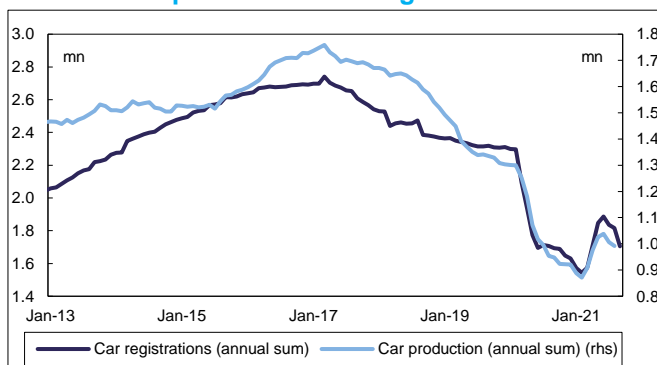
### Final services PMI revised higher, but still impacted by supply chain disruption

While there was a sizeable upwards revision (0.8pt) to the UK's final services activity PMI in September, the underlying message from the flash survey – that the sector continues to face challenges from staff shortages and higher costs – was little changed. Contrasting with the decline recorded in the preliminary release, the headline index (55.4) was now estimated to have risen 0.4pt from August's four-month low. But it was still markedly softer than May's peak (62.9), while only one third of survey respondents indicated an increase in activity. Indeed, firms indicating a drop in activity cited ongoing supply-chain disruption and staff shortages, particularly in hospitality. Moreover, despite being upwardly revised, the survey's new business component (54.8) fell for a fourth consecutive month, to its lowest level since March. Amid lengthy supplier delivery times and labour shortages, the services PMI signaled a further rise in backlogs in September for the seventh consecutive month. And price pressures remained extremely elevated, with the input price PMI only just off July's record high, while the prices charged PMI rose to its highest since the series began in 1996. Overall, with the manufacturing output PMI having fallen to a seven-month low, the improvement in the equivalent composite index was less marked, up just 0.1pt at 54.9, consistent with a more moderate pace of expansion to that seen earlier in the summer. Indeed, contrasting markedly with the euro area, the quarterly composite PMI in Q3 was 5.6pts lower the average in Q2.

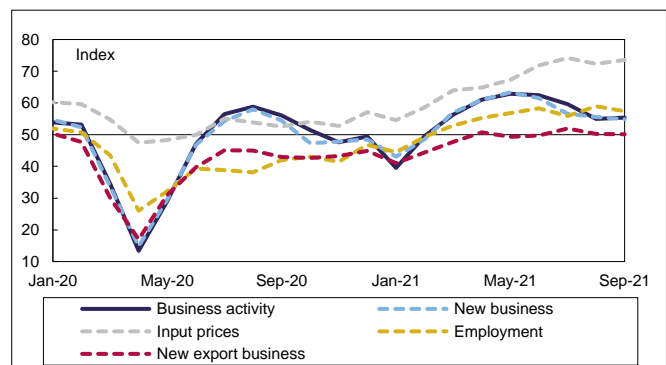
## The day ahead in the UK

Tomorrow will be quiet on the UK economic data front, with only the construction PMI survey for September due. This expected to point to a slowdown in activity in the sector, as the impacts of delivery delays, a shortage of materials and labour, and higher costs continue to be felt.

### UK: New car production and registrations














### UK: Services PMIs







# European calendar

## Today's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Final services (composite) PMI	Sep	<b>56.4 (56.2)</b>	56.3 (56.1)	59.0 (59.0)	-
	 PPI Y/Y%	Aug	<b>13.4</b>	13.5	12.1	<b>12.4</b>
Germany	 Final services (composite) PMI	Sep	<b>56.2 (55.5)</b>	56.0 (55.3)	60.8 (60.0)	-
	 New car registrations (production) Y/Y%	Sep	<b>-26.0 (-44.0)</b>	-	-23.0 (-32)	-
France	 Industrial production M/M% (Y/Y%)	Aug	<b>1.0 (3.9)</b>	0.4 (3.3)	0.3 (4.0)	<b>0.5 (3.9)</b>
	 Manufacturing production M/M% (Y/Y%)	Aug	<b>1.1 (4.3)</b>	-	0.6 (4.0)	<b>0.7 (3.8)</b>
	 Final services (composite) PMI	Sep	<b>56.2 (55.3)</b>	56.0 (55.1)	56.3 (55.9)	-
Italy	 Services (composite) PMI	Sep	<b>55.5 (56.6)</b>	56.5 (57.7)	58.0 (59.1)	-
Spain	 Services (composite) PMI	Sep	<b>56.9 (57.0)</b>	58.3 (58.5)	60.1 (60.6)	-
UK	 New car registrations Y/Y%	Sep	<b>-34.4</b>	-	-22.0	-
	 Final services (composite) PMI	Sep	<b>55.4 (54.9)</b>	54.6 (54.1)	55.0 (54.8)	-



### Auctions

Country	Auction
Germany	 sold €405mn of 0.1% 2033 index-linked bonds at an average yield of -1.91%
	 sold €95mn of 0.1% 2046 index-linked bonds at an average yield of -1.70%
UK	 sold £3bn of 0.25% 2025 bonds at an average yield of 0.491%
	 sold £2.25bn of 1.125% 2039 bonds at an average yield of 1.359%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Yesterday's results

### Economic data









Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Sentix investor confidence	Oct	<b>16.9</b>	18.8	19.6	-
Spain	 Unemployment change '000s	Sep	<b>-76.1</b>	-	-82.6	-

### Auctions



Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

**Tomorrow's releases**
**Economic data**

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area		08.30 Construction PMI	Sep	-	49.5
		10.00 Retail sales M/M% (Y/Y%)	Aug	0.8 (0.4)	-2.3 (3.1)
Germany		07.00 Factory orders M/M% (Y/Y%)	Aug	-1.9 (16.5)	3.4 (24.4)
		08.30 Construction PMI	Sep	-	44.6
France		08.30 Construction PMI	Sep	-	44.9
Italy		08.30 Construction PMI	Sep	-	65.2
Spain		08.00 Industrial production M/M% (Y/Y%)	Aug	1.1 (3.5)	-1.1 (3.4)
UK		09.30 Construction PMI	Sep	54.0	55.2

**Auctions and events**

Germany		10.30 Auction: €4bn of 0% 2026 bonds
UK		10.00 Auction: £2.5bn of 0.5% 2029 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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