

Euro wrap-up

Overview

- Bunds made gains as the German ifo survey flagged ongoing concerns about supply bottlenecks and the Bundesbank suggested that GDP growth would be significantly weaker in Q4.
- Gilts made modest losses at the longer end even as BoE external member Tenreyro maintained a more dovish stance.
- The main focus in the euro area will be Thursday's ECB's Governing Council announcement, along with the Commission's latest sentiment survey. In the UK, the Chancellor will present the Budget on Wednesday.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.676	-0.027
OBL 0 10/26	-0.453	-0.027
DBR 0 08/31	-0.115	-0.006
UKT 0 ¹ / ₈ 01/24	0.644	-0.007
UKT 0 ³ / ₈ 10/26	0.823	+0.005
UKT 0 ¹ / ₄ 07/31	1.147	+0.012

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

Euro area

German ifo index falls to six-month, with outlook clouded by supply challenges

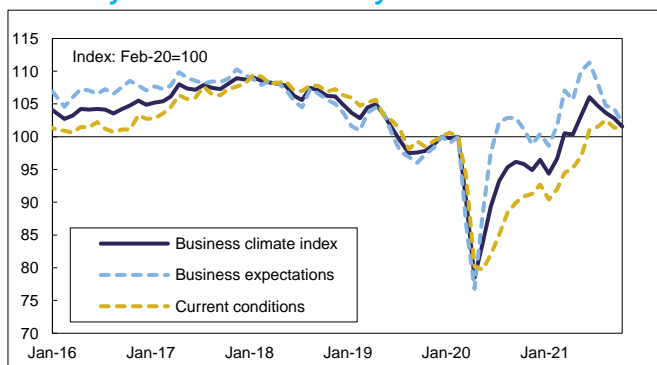
Tallying with last week's flash [PMIs](#) today's German ifo business survey signalled a further deterioration in confidence as supply bottlenecks continued to hamper the recovery in the euro area's largest member state. In particular, the headline business climate index fell for the fourth consecutive month in October, by 1.2pts to 97.7, a six-month low. Admittedly, the current conditions component held up relatively well, falling just 0.3pt to 100.1, to be merely 1.4pts lower than August's peak and its lowest since June. But the expectations balance fell a more substantial 2pts in October to 95.4, down more than 8½pts from the summer peak and the lowest reading since February. With supply constraints most acute in manufacturing, firms in this sector were again more skeptical about the current situation, and were their most downbeat about the outlook over the coming six months since June 2020 as supply challenges were unlikely to ease over the near term. Supply difficulties also weighed on sentiment in the retail sector too, with the outlook indicator at its weakest since April. Despite a modest improvement in the current business climate, services firms were also considerably less optimistic about the coming months. But in spite of persisting problems with supply of materials, construction firms were the least downbeat about the coming six months since before the pandemic.

Overall, the ifo judged that the recovery was being hampered by "sands in the wheels of the economy." And this tallied with the more downbeat message from the Bundesbank's latest monthly report today too, which suggested that due to ongoing disruption from supply bottlenecks as well as an expected slowdown in the services recovery as the number of Covid cases has taken a step up over recent weeks, GDP growth was expected to be significantly weaker in Q4 than in Q3. And therefore, consistent with our own view, the Bundesbank now expects output to return to its pre-crisis level in Spring 2022.

The coming few days in the euro area

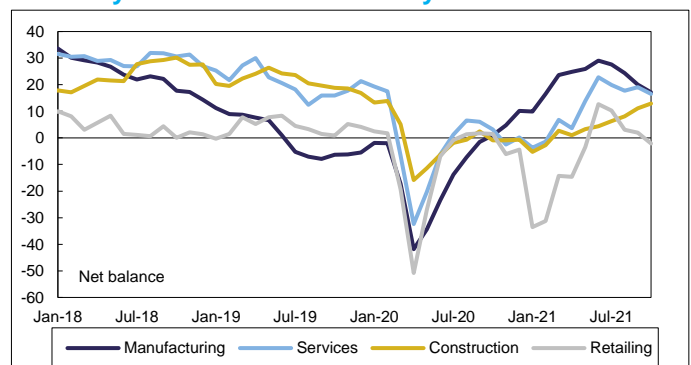
The coming few days will be relatively quiet for top-tier euro area releases, with tomorrow's ECB bank lending survey for Q3 to be followed on Wednesday by the latest monthly bank lending figures for September. Wednesday will also bring the German GfK and French INSEE consumer sentiment surveys, ahead of the Commission's comprehensive economic indicators on Thursday. These are expected to indicate a further moderation in recovery momentum at the start of Q4, with the headline ESI forecast to fall to a five-month low. But the survey is also likely to flag ongoing price pressures, which will be also illustrated in the German and Spanish flash CPI estimates for October (also due Thursday).

Germany: ifo business survey indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: ifo business climate by sector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Of course, most focus on Thursday will be on the ECB's Governing Council announcement. We expect no change to the ECB's main policy framework, in terms of interest rates or asset purchases. And with no official update on the Bank's macroeconomic projections, the Governing Council might well stick with its previous assessment that risks to the outlook remain broadly balanced. But there is growing evidence that risks to demand are becoming skewed to the downside, while the ECB's near-term inflation outlook is also too low. And so the hawks on the Governing Council, whose concerns about upside risks from current pressures were already aired at the September meeting, are bound to be enlivened at this week's meeting. This notwithstanding, the majority of the Governing Council will likely still expect inflation to fall back over the course of 2022 to below 2.0%Y/Y by year-end. And they will also be concerned about the downside risks to demand posed by the current shock to energy prices.

Of course, financial conditions are also a key determinant of current ECB policy, particularly the pace of net asset purchases. And over recent weeks, conditions in bond markets have tightened significantly. So, in her press conference, President Lagarde will be asked about the future pace of net asset purchases from Q1 on, and the nature of purchases following the end of the PEPP programme. However, she seems highly likely to deflect questions on such issues, not least as they are unlikely to be discussed thoroughly, let alone agreed, by the Governing Council until the December meeting. If the Governing Council is concerned about the recent jump in yields, however, it is possible that – despite resistance from the hawks – she might flag the possibility of an accelerated pace of net purchases if the bond market sell-off continues.

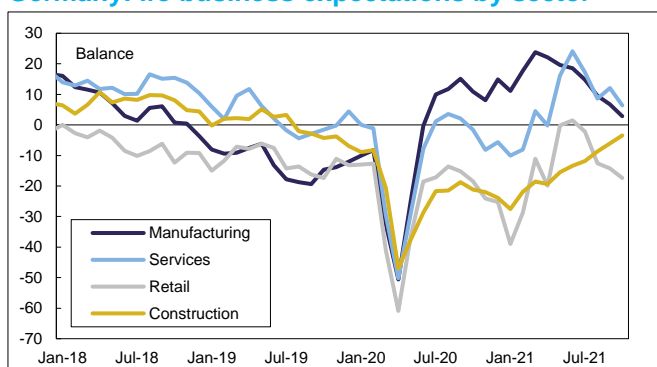
UK

The coming few days in the UK

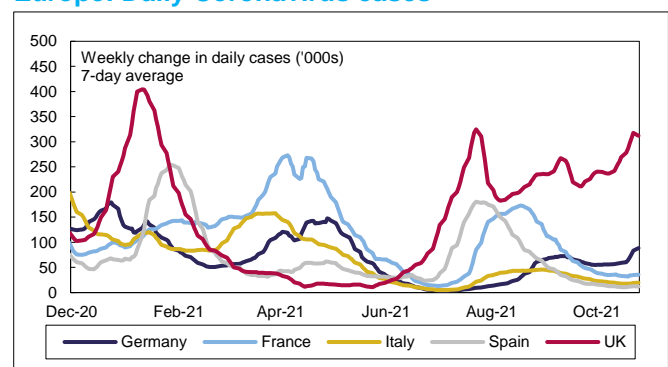
After a quiet start to the week for UK economic news, tomorrow will bring the CBI's latest distributive trades survey, which will be watched for any signs of improvement for UK retailers at the start of the fourth quarter after Friday's official retail sales figures reported the fifth consecutive monthly decline – the longest losing streak since the series began. Tomorrow's survey will also likely flag ongoing challenges facing the distribution sector. Meanwhile, Wednesday's BRC shop price index for October will reveal how supply chain issues are also affecting shop prices. But of most interest on Wednesday will be the Chancellor's Budget and Spending Review. While last week's [public finance](#) figures suggested greater scope for fiscal giveaways, the OBR's updated economic forecasts will be based on national accounts numbers that were published before the recent significant upwards revisions and therefore suggest more limited opportunity for fiscal loosening. Nevertheless, there will be additional government spending on public services affected by the continuing pandemic and we would expect some government support for lower-income households to cope with increased household energy bills. Finally, Thursday will bring the SMMT car production numbers for September.

The next edition of the Euro wrap-up will be published on 28 October 2021

Germany: ifo business expectations by sector





Europe: Daily Coronavirus cases



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Ifo business climate index	Oct	97.7	96.5	98.8	-
	 Ifo current assessment (expectations)	Oct	100.1 (95.4)	99.4 (98.0)	100.4 (97.3)	-(97.4)

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
Spain		08.00 PPI Y/Y%	Sep	-	18.0
UK		11.00 CBI distributive trades survey, reported retail sales	Oct	13	11







Auctions and events

Germany		10.30 Auction: €3bn of 0% 2028 bonds
Italy		10.00 Auction: €2.25bn of 0% 2024 bonds
		10.00 Auction: €750mn of 0.15% 2051 inflation-linked bonds
UK		10.00 Auction: £2.75bn of 0.375% 2026 bonds



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data















Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area		09.00 M3 money supply Y/Y%	Sep	7.5	7.9
Germany		07.00 GfK consumer confidence	Nov	-0.5	0.3
France		07.45 INSEE consumer confidence	Oct	101	102
		07.45 PPI Y/Y%	Sep	-	10.0
		11.00 Jobseekers, mn	Q3	-	3.5
UK		00.01 BRC shop price index Y/Y%	Oct	-	-0.5

Auctions and events



Germany		10.30 Auction: €2bn of 0% 2036 bonds
UK		12.30 Chancellor Sunak presents UK Budget and Spending Review

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases
Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Euro area		10.00	European Commission's economic sentiment index	Oct	116.6	117.8
		10.00	European Commission's final consumer confidence	Oct	-4.8	-4.0
		10.00	European Commission's industrial (services) confidence	Oct	13.0 (14.6)	14.1 (15.1)
		12.45	ECB refinancing rate %	Oct	<u>0.00</u>	0.00
		12.45	ECB marginal lending facility rate %	Oct	<u>0.25</u>	0.25
		12.45	ECB deposit rate %	Oct	<u>-0.50</u>	-0.50
Germany		08.55	Unemployment rate % (change '000s)	Oct	5.4 (-20.0)	5.5 (-30.0)
		13.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Oct	4.4 (4.5)	4.1 (4.1)
Italy		09.00	ISTAT consumer (manufacturing) confidence index	Oct	118.5 (112.3)	119.6 (113.0)
		09.00	ISTAT economic sentiment indicator	Oct	-	113.8
		10.00	Hourly wages Y/Y%	Sep	-	0.6
		11.00	PPI Y/Y%	Sep	-	13.8
Spain		08.00	Preliminary CPI (EU-harmonised CPI)	Oct	4.4 (4.6)	4.0 (4.0)
UK		00.01	SMMT car production Y/Y%	Sep	-	-27.0

Auctions and events

Euro area		12.45	ECB monetary policy announcement
		13.30	ECB President Lagarde speaks at post-Governing Council press conference

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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