

Euro wrap-up

Overview

- Bunds made losses at the longer end of the curve despite some disappointing German retail sales and French car sales data.
- Gilts made further losses as a UK business survey suggested buoyant confidence amid improved labour market conditions and a further rise in price pressures.
- The coming two days will bring final manufacturing PMIs and unemployment figures from the euro area, along with final services PMIs from the UK.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.611	-0.014
OBL 0 10/26	-0.396	-0.002
DBR 0 08/31	-0.096	+0.037
UKT 0 ¹ / ₈ 01/24	0.689	-0.002
UKT 0 ³ / ₈ 10/26	0.842	+0.018
UKT 0 ¹ / ₄ 07/31	1.076	+0.047

*Change from close as at 4:00pm GMT.

Source: Bloomberg

Euro area

German retail sales take step down in September but remain above pre-pandemic level

After Destatis on Friday suggested that [German GDP](#) growth of 1.8% in Q3 was largely thanks to household consumption, today's retail sales numbers fell well short of expectations. In particular, sales (excluding autos) were down 2.5%M/M in September as spending on non-food items fell more than 5%M/M. Within that category, sales of textiles, clothing and footwear declined more than 9½%M/M to fall 7.8% below the pre-crisis level. Admittedly, total retail sales were still comfortably higher than the pre-pandemic level (+3.7%). And given the extremely volatile monthly profile this year and the high level reached at the end of Q2, growth in sales of goods over the third quarter as a whole was marginally positive (0.2%Q/Q). While this was considerably weaker than the 5%Q/Q growth in sales recorded in Q2, the marked slowdown likely reflects increased opportunities to spend on services as Covid-related restrictions relaxed. Meanwhile, significant price increases saw the retail sales deflator rise to 2.4%Y/Y, the highest for thirteen years. So, while retail sales in nominal terms fell a similarly steep 2.3%M/M in September, they were up a larger 0.9%Q/Q in Q3. Given still rising price pressures, and signs that retailers intend to increase prices – by the most since 2000 according to the latest Commission survey – the volume of retail sales might well stay subdued over coming months too even if sales maintain their uptrend in nominal terms.

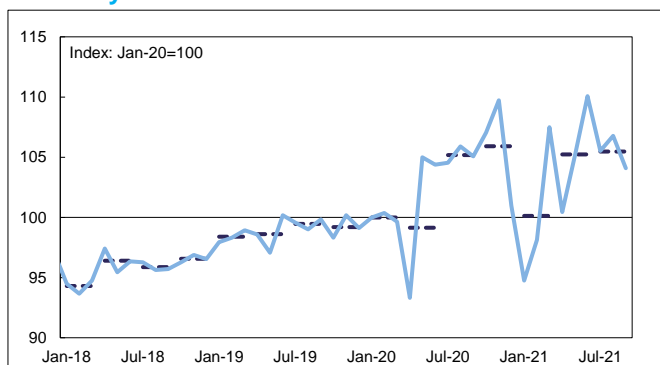
French new car registrations remain in reverse

Due not least to supply-side disruption, new car registrations data across the euro area have remained extremely weak over the summer. And figures published from France today showed an even steeper drop at the start of Q4, down 30.7%Y/Y in October, to leave sales in the year-to-date up just 3% compared with the equivalent period in 2020 despite the extremely low base last year. Indeed, registrations in October were down 37% compared with October 2019 and down by almost a quarter when comparing the equivalent year to date figures. The equivalent figures from Italy and Spain (due tomorrow) and Germany (Wednesday) are similarly expected to illustrate the persistent challenges facing the autos sector.

The coming two days in the euro area

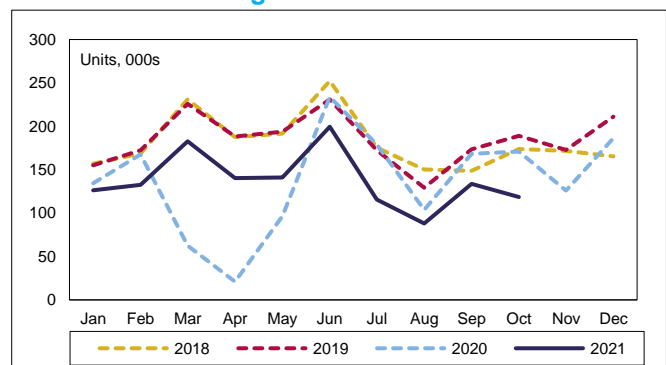
A relatively quiet day for euro area data tomorrow will bring the final manufacturing PMIs for October. The preliminary release showed the headline euro area PMI falling just 0.1pt to 58.5, nevertheless still an eight-month low. This was arithmetically flattered by a deterioration in the supply-side indices, with the flash output component declining a much steeper 2.4pts in October to 53.3, its lowest reading since June 2020. Focus on Wednesday will turn to the labour market, with euro area

Germany: Retail sales*



*Dark blue dashed line represents quarterly average.
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: New car registrations



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

joblessness likely to have fallen further in September – the unemployment rate is expected to drop by 0.1ppt to 7.4%. Spanish labour market data for October are also due.

UK

Lloyds business barometer suggest conditions remain buoyant

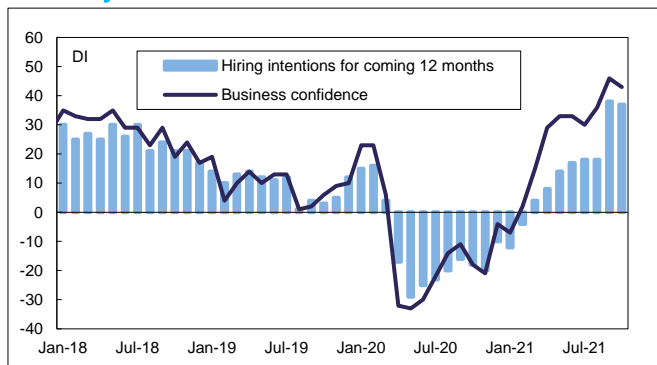
Ahead of the BoE's monetary policy announcements on Thursday, focus at the start of the week was on business sentiment. In particular, the Lloyd's business barometer suggested that, despite a modest deterioration on the month, the headline overall confidence indicator stood at its second highest level since the start of the pandemic. At 43%, this was just 3ppts lower than September, still 50ppts higher than at the start of the year and well above the long-run average (28%). Despite ongoing concerns about supply chains and rising input costs, the Lloyd's survey reported a modest improvement in manufacturing confidence in October to its highest since May. Admittedly, this contrasted with the findings of the manufacturing PMIs, which despite a notable upwards revision from the flash estimate (by 0.7pt), saw the output component down at its weakest since February. But also differing from the flash PMIs, the Lloyds survey reported a modest deterioration in services confidence, albeit from an extremely elevated level. The Lloyds survey was however more encouraging with respect to the labour market, with 60% of firms that had furloughed staff planning to bring them all back, and a further 30% expecting more than half to return. Moreover, the survey suggested that more than one third of firms still planned to increase employment levels over the coming twelve months. But while the share of those firms expecting to increase wages by at least 2% this year was little changed in October (43%), today's survey noted that almost half of respondent firms had found recruitment challenges had eased since the conclusion of the government's Jobs Retention Scheme, which may well reduce some upside pressures on wages over the near term. This notwithstanding, firms' pricing expectations continued to rise steadily, with a notable jump in the share of those expecting to increase prices charged (up 8ppts to 45%).

The coming two days in the UK

After a day bereft of UK releases tomorrow, Wednesday will bring the final October services and composite PMI surveys. The flash release signalled a pickup in services activity at the start of the fourth quarter, with the headline index increasing 2.6ppts to a three-month high of 58.0. Taken together with today's upwards revision to the manufacturing output component, we would expect to see an even stronger rebound in the final headline composite PMI than was implied by the flash release (up 1.9ppts to 56.8). Wednesday will also bring the Nationwide house price index for October, which is likely to report a slowdown in growth after the conclusion of the Stamp Duty holiday the previous month.

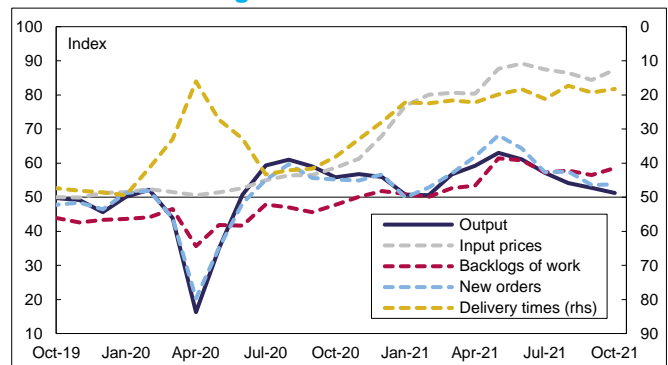
The next edition of the Euro wrap-up will be published on 3 November 2021

UK: Lloyds business barometer indicators



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.





UK: Manufacturing PMIs



Source: Refinitiv, Markit 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
Germany	 Retail sales M/M% (Y/Y%)	Sep	-2.5 (-0.7)	-2.5 (-0.9)	1.1 (0.4)	1.2 (0.9)
France	 New car registrations Y/Y%	Oct	-30.7	-	-20.5	
UK	 Lloyds business barometer	Oct	43	-	46	-
	 Final manufacturing PMI	Oct	57.8	57.7	57.1	-

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	
Euro area	 09.00	Final manufacturing PMI	Oct	58.5	58.6	
Germany	 08.55	Final manufacturing PMI	Oct	58.2	58.4	
France	 08.50	Final manufacturing PMI	Oct	53.5	55.0	
Italy	 08.45	Manufacturing PMI	Oct	59.5	59.7	
	 17.00	New car registrations* Y/Y%	Oct	-	-32.7	
Spain	 08.15	Manufacturing PMI	Oct	58.0	58.1	
	 -	New car registrations* Y/Y%	Oct	-	-15.7	

Auctions and events		
Germany	 10.30	Auction: €400mn of 2030 index-linked bonds
	 10.30	Auction: €400mn of 2033 index-linked bonds
UK	 10.00	Auction: £3.0bn of 0.25% 2025 bonds
	 11.00	Auction: £1.25bn of 1.625% 2017 bonds

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Euro area	 10.00	Unemployment rate %	Sep	7.4	7.5	
Germany	 -	New car registrations* Y/Y%	Oct	-	-25.7	
Italy	 09.00	Unemployment rate %	Sep	9.3	9.3	
Spain	 08.00	Unemployment change 000s	Oct	-	-76.1	
UK	 07.00	Nationwide house price index M/M% (Y/Y%)	Oct	0.3 (9.2)	0.1 (10.0)	
	 09.30	Final services (composite) PMI	Oct	58.0 (56.8)	55.4 (54.9)	

Auctions and events		
Euro area	 09.15	ECB President Lagarde speaks at event marking 175 th anniversary of the Bank of Portugal
Germany	 10.30	Auction: €4.0bn of 0% 2026 bonds
UK	 10.00	Auction: £2.5bn of 0.5% 2029 bonds

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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