

Euro wrap-up

Overview

- Bunds gained as German industrial output fell to a 13-month low and euro area retail sales also dropped, while Governing Council hawk Holzmann stated that a rate hike in 2022 would be inconsistent with ECB guidance.
- Despite a strong UK labour market survey, Gilts made further gains as BoE Chief Economist Pill said yesterday's rate decision was 'finely balanced' but MPC dove Tenreyro cautioned against an early hike.
- The coming week will bring further ECB- and BoE-speak along with new data on UK GDP, euro area industrial production, and economic sentiment.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.748	-0.020
OBL 0 10/26	-0.587	-0.023
DBR 0 08/31	-0.285	-0.056
UKT 0 ¹ / ₈ 01/24	0.383	-0.077
UKT 0 ³ / ₈ 10/26	0.544	-0.083
UKT 0 ¹ / ₂ 07/31	0.830	-0.100

*Change from close as at 4:15pm GMT.
Source: Bloomberg

Euro area

German IP drops to 13-month low as supply bottlenecks continue to bind

German industrial production continued to weaken at the end of Q3, dropping for the fifth month out of the past six as supply bottlenecks took an increased toll. Contrary to consensus expectations of a return to growth, and weaker even than suggested by the fall in turnover reported yesterday, total production declined 1.1%M/M to a thirteen-month low. That left production down 2.4%Q/Q over the third quarter as a whole and some 9.5% below the pre-pandemic level in February 2020. Having plunged almost 19%M/M in August, output of motor vehicles rose 2.1%M/M but was still about one third below the post-pandemic peak reached last November and more than 40% below the pre-pandemic level. And most other major categories reported declines in production, e.g. with machinery and equipment down 3.3%M/M, durable consumer goods down 2.0%M/M, and intermediate items down for a fourth successive month and by 1.1%M/M. Beyond the manufacturing sector, construction and energy output both rose about 1%M/M, but given earlier weakness both also fell 2.2%Q/Q in Q3.

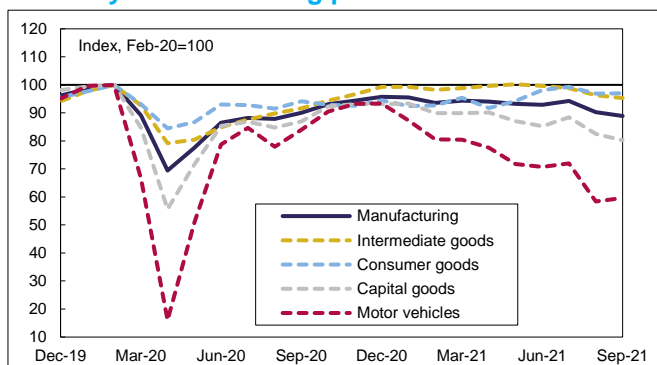
French production down in September and Spanish output subdued too

French manufacturers also had a more challenging end to the third quarter. Industrial production fell a steeper-than-expected 1.3%M/M in September, with a similar drop in manufacturing (-1.4%M/M). Contrasting with Germany, the decline was principally driven by a whopping 14.6% fall in autos production, more than reversing the 11.8%M/M increase in August, to leave output in that sector still more than 30% lower than the pre-pandemic level. And the shortfall in overall manufacturing output compared to before the pandemic was still hefty too at 5.9%. Nevertheless, despite the softer end to the quarter, manufacturing output was still up 1.3%Q/Q in Q3. In contrast, while construction activity rose in September (2.5%M/M), it was down 2.2%Q/Q in Q3. While Spanish production was boosted by a surge in output from the pharmaceutical subsector (36%M/M), a sharp plunge in autos production (-20%M/M) left manufacturing output unchanged in September having declined in the previous three months. So, over the third quarter as a whole, Spanish manufacturing production contracted 0.9%Q/Q, with a steeper drop (-1.4%Q/Q) in total industrial production.

Construction PMIs rises to its highest since the pandemic

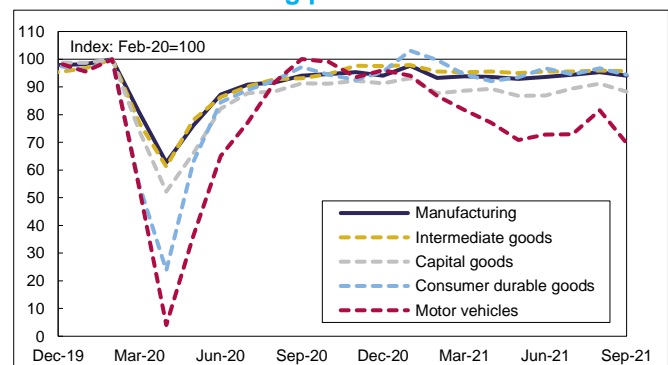
Like manufacturing, construction activity remains heavily hindered by supply constraints. But encouragingly, today's construction PMI survey suggested a pickup in recovery momentum in the sector at the start of Q4. In particular, the headline activity PMI rose 1.2pts in October to 51.2, the strongest reading since the onset of the pandemic and bang in line with the average in the year to February 2020. The improvement was reportedly led by commercial work while housing activity continued to rise albeit at the softest rate since March reflecting ongoing weakness in Germany and renewed contraction

Germany: Manufacturing production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: Manufacturing production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

in France. The survey also implied that civil engineering work remained firmly in contractionary territory. Order books reportedly remained ample thanks in part to government schemes, although the new business component eased slightly in October. But supply chain disruption remained widespread, with delivery times still rising near the sharpest pace on the series, while cost burdens rose just fractionally below July's record high and subcontractor rates hit a new series high.

Retail sales slip back in September but post respectable growth in Q3

Euro area retail sales ended the third quarter on a softer note than had been expected, dropping 0.3%M/M. That, however, followed upwardly-revised growth of 1.0%M/M in August. So, the level of sales was still some 3.9% above the pre-pandemic level. And over Q3 as a whole, sales rose a respectable 0.9%Q/Q. The softness in September was associated with core (i.e. non-food non-fuel) sales, which fell 1.5%M/M but were still more than 6% above the pre-pandemic level. In contrast, food (0.7%M/M) and fuel (1.1%M/M) rose on the month, the latter reaching its highest level since before the pandemic as mobility continued to recover. By country, moderate growth in France, Italy, Spain and the smaller member states helped to largely offset the sizeable drops in Germany (-2.5%M/M) and the Netherlands (-1.2%M/M). While growth in retail sales in Q3 marked a significant moderation from the pace in Q2 (3.9%Q/Q), overall household consumption growth likely accelerated in Q3 to more than fully account for 2.2%Q/Q growth in GDP. Indeed, retail sales account for less than half of all household spending. And while spending on new cars fell significantly, spending on services appears to have leapt in Q3 as pandemic restrictions were lifted and opportunities for travel, both domestic and foreign, increased.

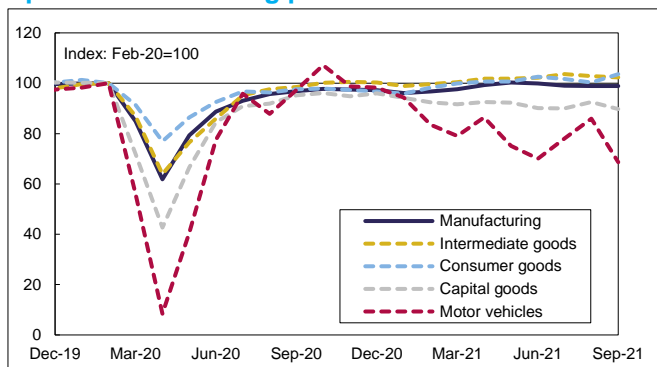
Spanish tourism continues to recover, but some way to go to normality

The greater opportunities for spending on services, and foreign travel in particular, were illustrated this week by Spain's September data on spending by international tourists, the importance and weakness of which has largely explained why that country's economy was harder hit by the pandemic than other member states. In particular, spending by international tourists in Spain rose more than 400%Y/Y in September to be up cumulatively in the year-to-date from the same period in 2020 for the first time this year. Spending by German and French tourists in Spain accounted for almost one third of the total, with the former up more than 900%Y/Y. The total tourist spend in Spain at the end of Q3 was still down some 39% from the equivalent month in 2019, however, highlighting the scope for further significant catch-up into 2022.

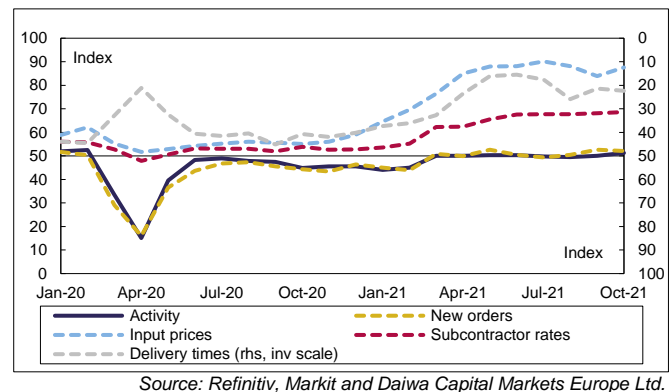
The week ahead in the euro area

A relatively quiet week ahead for top-tier euro area data will conclude with the September industrial production release on Friday. Based on today's figures, aggregate output will fall around 1%M/M to leave it similarly down a little more than 1%

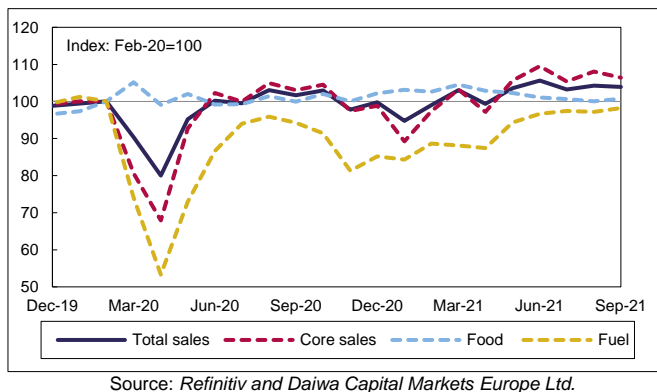
Spain: Manufacturing production



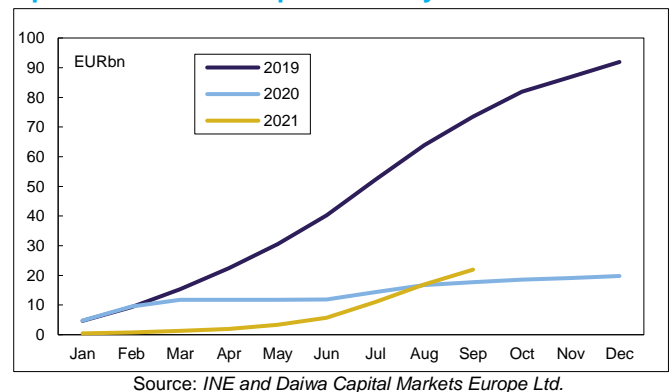
Euro area: Construction PMIs



Euro area: Retail sales



Spain: Cumulated expenditure by overseas visitors



over the third quarter as a whole. We will have more insight after the release of the (typically volatile) Irish numbers on Monday and Italian figures on Wednesday. Survey measures due in the coming week will include the euro area's latest Sentix indices (Monday), German ZEW investor expectations (Tuesday) and BoF business indicators (Wednesday). Among other national releases, German and French goods trade data (Tuesday) are likely to report that exports remain subdued amid ongoing supply bottlenecks. Meanwhile, final German and Spanish inflation numbers for October (Wednesday and Friday respectively) are expected to align with the flash estimates that showed the headline harmonised rates jumping on the back of higher energy prices by 0.5ppt to 4.6%Y/Y and 1.5ppts to 5.5%Y/Y respectively. Elsewhere, ECB President Lagarde will give opening remarks at the ECB forum on banking supervision (Tuesday), while ECB Chief Economist Lane will speak at several events (Monday and Friday), with Executive Board member Schnabel also due to speak (Tuesday and Thursday).

UK

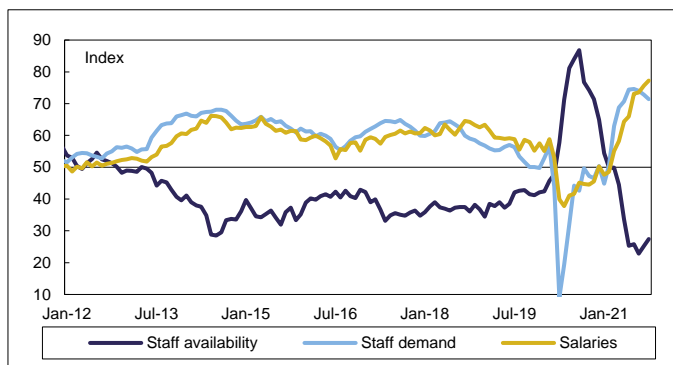
UK surveys suggest that labour shortages persist despite end of furlough scheme

After the [BoE](#) yesterday unexpectedly left monetary policy unchanged, wishing in particular to wait for greater insight into labour market developments following the end of the government's furlough scheme at the end of September, today's REC/KPMG report on UK jobs from recruitment agencies suggested that skill and labour shortages and mismatches remain a challenge for many firms. Among other things, the survey reported a shortage of candidates – reflecting fewer foreign workers and seemingly also a reluctance to switch to new roles against the uncertain economic backdrop – which continued to hinder recruitment for both permanent and temporary placements. Indeed, according to this survey, payrolls growth slowed to the lowest in six months in October, albeit remaining strong. But with demand for labour still extremely firm, recruitment consultants reported a further sharp increase in starting salaries, by the most in the series 24-year history. Today's survey therefore suggests limited impact on labour supply from the conclusion of the Jobs Retention Scheme. And this broadly tallies with yesterday's ONS survey results that estimated that 87% of furloughed staff had returned to work last month, with only 3% made permanently redundant and just 3% voluntarily leaving their roles. So, about 14% of businesses cited a shortage of workers in late October, with the hospitality sector still most acutely affected (38%). And not least due to rising wage competition, this sector also reported the highest staff turnover.

The week ahead in the UK

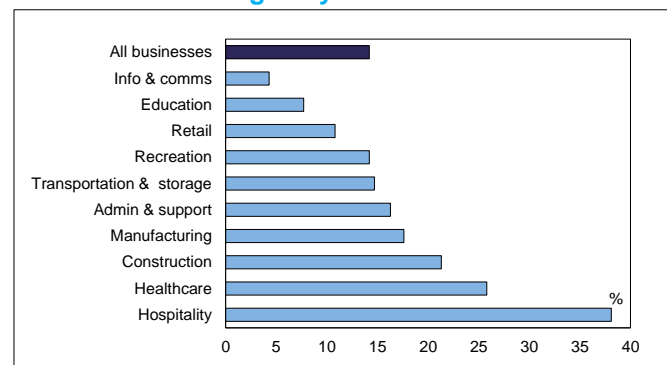
With some MPC members seemingly concerned about the recent loss of economic recovery momentum, the UK's data calendar will be noteworthy in the coming week, with Thursday bringing the release of the Q3 GDP estimate alongside the monthly deluge of output and trade numbers for September. After it surged by 5½%Q/Q in Q2, GDP growth looks set to have slowed amid enduring supply constraints and a rise in coronavirus infections. In particular, we expect growth of 1.8%Q/Q in Q3, a touch above the Bloomberg consensus. A strong rebound in services in Q3 thanks to the further easing of restrictions will be offset to some extent by weaker manufacturing and construction output, as activity remained hampered by supply bottlenecks. This notwithstanding, September's data are expected to report modest improvements in manufacturing and construction, but a softer recovery in services. Beyond the GDP data, Tuesday will bring the BRC's latest retail sales monitor, while Thursday will bring the RICS house price survey for October. BoE members due to appear publicly in the coming week include Governor Bailey at a joint Fed, ECB, BoE and BoC conference on diversity (Tuesday), and external MPC members Tenreiro (Wednesday) and Haskel (Friday).

UK: REC-KPMG labour market indicators



Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.












UK: Worker shortages by sector



Source: ONS and Daiwa Capital Markets Europe Ltd.










The next edition of the Euro wrap-up will be published on 9 November 2021

Daiwa economic forecasts

	2021		2022				2021	2022	2023
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q									
Euro area 	2.2	1.0	0.8	0.7	0.7	0.6	5.0	4.1	2.1
UK 	1.8	0.5	0.4	0.4	0.4	0.7	7.0	3.7	1.9
Inflation forecasts %, Y/Y									
Euro area									
Headline CPI 	2.8	4.2	3.4	3.6	2.8	1.8	2.5	2.9	1.4
Core CPI 	1.4	1.9	1.6	2.3	1.9	1.5	1.4	1.8	1.3
UK									
Headline CPI 	2.8	4.3	4.6	4.3	3.7	2.4	2.4	3.7	1.8
Core CPI 	2.6	3.3	3.7	3.2	2.6	2.0	2.2	2.9	2.0
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) 	1850	1850	1850	1850	1850	1850	1850	1850	1850
BoE									
Bank Rate % 	0.10	0.10	0.25	0.25	0.50	0.50	0.10	0.50	0.75
Gilt purchases* (£bn) 	875	875	875	875	866	866	875	866	833

*Target 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
Euro area 	Construction PMI	Oct	51.2	-	50.0	-
	Retail sales M/M% (Y/Y%)	Sep	-0.3 (2.5)	0.3 (1.6)	0.3 (0.0)	1.0 (1.5)
Germany 	Industrial production M/M% (Y/Y%)	Sep	-1.1 (-1.0)	-0.8 (-0.9)	-4.0 (1.7)	-3.5 (2.2)
	Construction PMI	Oct	47.7	-	47.1	-
France 	Industrial production M/M% (Y/Y%)	Sep	-1.3 (0.8)	-0.1 (2.2)	1.0 (3.9)	-
	Wages Q/Q%	Q3	0.3	0.5	0.3	-
	Construction PMI	Oct	50.3	-	48.9	-
Italy 	Construction PMI	Oct	58.6	-	56.6	-
Spain 	Industrial production M/M% (Y/Y%)	Sep	0.3 (1.2)	0.3 (1.5)	-0.3 (1.8)	-0.2 (-)
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.














The coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 8 November 2021					
Euro area		09.30 Sentix investor confidence	Nov	15.0	16.9
Tuesday 9 November 2021					
Germany		07.00 Trade balance €bn	Sep	16.0	11.7
		10.00 ZEW current situations (expectations)	Nov	19.0 (18.7)	21.6 (22.3)
France		07.45 Trade balance €bn	Sep	-	-6.7
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	Oct	-	-0.6
Wednesday 10 November 2021					
Germany		07.00 Final CPI (EU harmonised CPI) Y/Y%	Oct	4.5 (4.6)	4.1 (4.1)
France		- BoF industrial sentiment*	Oct	-	100
Italy		09.00 Industrial production M/M% (Y/Y%)	Sep	0.2 (3.9)	-0.2 (0.0)
Thursday 11 November 2021					
UK		00.01 RICS house price balance %	Oct	65	68
		07.00 Preliminary GDP Q/Q% (Y/Y%)	Q3	<u>1.8 (7.2)</u>	5.5 (23.6)
		07.00 Monthly GDP M/M%	Sep	0.5	0.4
		07.00 Services output M/M% (3M/3M%)	Sep	0.6 (3.7)	0.3 (3.7)
		07.00 Industrial production M/M% (Y/Y%)	Sep	0.3 (3.1)	0.8 (3.7)
		07.00 Manufacturing production M/M% (Y/Y%)	Sep	0.3 (3.1)	0.5 (4.1)
		07.00 Construction output M/M% (Y/Y%)	Sep	0.5 (7.2)	-0.2 (10.1)
		07.00 Goods trade balance £bn	Sep	-14.3	-14.9
Friday 12 November 2021					
Euro area		10.00 Industrial production M/M% (Y/Y%)	Sep	-0.2 (4.1)	-1.6 (5.1)
Spain		08.00 Final CPI (EU harmonised CPI) Y/Y%	Oct	5.5 (5.5)	4.0 (4.0)

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

The coming week's key events & auctions

Country		GMT	Event / Auction
Monday 8 November 2021			
Euro area		13.10	ECB Chief Economist Lane delivers opening remarks at ECB conference on money markets
		14.00	ECB Chief Economist Lane speaks at a Brookings event on the Fed and ECB monetary policy frameworks
Tuesday 9 November 2021			
Euro area		13.00	ECB President Lagarde gives opening remarks at ECB forum on banking supervision
		16.00	BoE's Governor Bailey and ECB's Schnabel speak at a joint ECB/BoE/BoC conference on central banks and inequality
Germany		10.30	Auction: €6.0bn of 0% 2023 bonds
Wednesday 10 November 2021			
Germany		10.30	Auction: €3.0bn of 0% 2031 bonds
UK		10.00	Auction: 0.125% 2031 index-linked bonds
		14.00	BoE's Tenreyo to hold a fireside chat with Lawrence Summers on 'Secular stagnation after Covid-19'
Thursday 11 November 2021			
Euro area		09.00	ECB to publish its Economic Bulletin
		14.15	ECB's Chief Economist Lane to speak at a joint ECB-NY Fed conference
		16.00	ECB's Schnabel speaks at an event organised by Women in Economics
Italy		10.00	Auction: to sell 3Y and 7Y bonds
Friday 12 November 2021			
Euro area		13.50	ECB Chief Economist Lane speaks at European Commission event on the future of the EU's fiscal governance frameworks
UK		14.00	BoE's Haskel to speak on 'Measuring Intangible Assets and their contributions to growth'

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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. 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 MiFID 2 Professional (or equivalent) Clients and should not therefore be distributed to such Retail Clients. 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>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at <https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>