

Euro wrap-up

Overview

- Bunds followed USTs lower while Germany registered its smallest goods trade surplus since 1992 and the euro area services PMIs pointed to a significant slowdown since the early summer.
- Gilts also made losses while the UK's services PMIs signalled stagnation amid rising price pressures.
- Thursday will bring the ECB account from the 8 September Governing Council meeting, as well as new data for euro area retail sales, German factory orders and the construction PMIs.

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Daily bond market movements

Bond	Yield	Change
BKO 0.4 09/24	1.636	+0.119
OBL 1.3 10/27	1.839	+0.147
DBR 1.7 08/32	2.013	+0.151
UKT 1 04/24	4.015	+0.042
UKT 1½ 07/27	4.223	+0.112
UKT 4¼ 06/32	4.008	+0.132

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

Source: Bloomberg

Euro area

German goods trade surplus narrows to its lowest since 1992

Today's German goods trade report was even weaker than expected, with the surplus maintaining its worsening trend and falling a further €2.2bn in August to just €1.2bn, its smallest since 1992. The deterioration reflected a jump of 3.4%M/M in the value of imports to a new series high, boosted not least by prices of energy and food. The value of exports also rose in August, albeit by just 1.6%M/M. While there was a surge in shipments to the US (12.0%M/M), and increases to the UK (7.9%M/M) and China (2.9%M/M) too, shipments to elsewhere in the euro area fell (0.6%M/M), with a steeper drop to other EU member states too (-1.3%M/M). And overall, in the first two months of Q3 compared to Q2, the average increase in the value of exports (1.4%) continued to lag well behind the equivalent rise in imports (2.9%). So, while this will to some extent have reflected relative price movements, net goods trade looks likely to have been a drag German GDP growth in the past quarter.

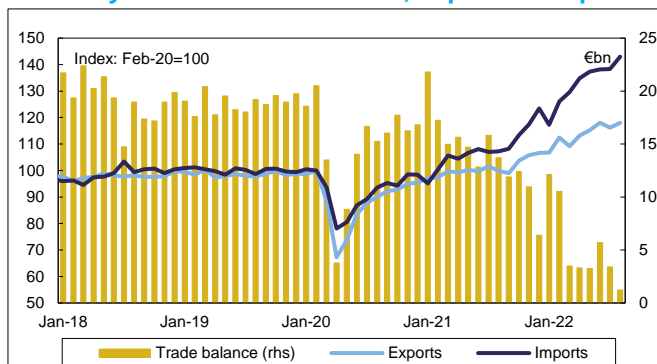
French manufacturing output accelerates as easing supply bottlenecks boost autos production

Contrasting markedly with expectations, today's French industrial production numbers suggested a strong rebound in August, with growth of 2.4%M/M the fastest since January 2021, albeit leaving output still almost 3% below the pre-pandemic level in February 2020. The bounce-back in August was driven by manufacturing (2.7%M/M), with autos production accelerating 15.6%M/M, to leave it so far in Q3 up more than 13% compared with the Q2 average as supply constraints eased. But growth across the manufacturing sector was broad based, with other notable sizeable increases reported in machinery (4.2%M/M) and chemicals (5.5%M/M). Energy supply also reversed the near-1½%M/M drop in July. But construction maintained a downwards trend, with activity down 1%M/M to its lowest level since December. Overall, French industrial production was trending in the first two months of Q3 some 0.6% higher than the Q2 average, suggesting ongoing modest support from the sector to GDP growth last quarter.

Euro area services PMIs signal significant summer slowdown

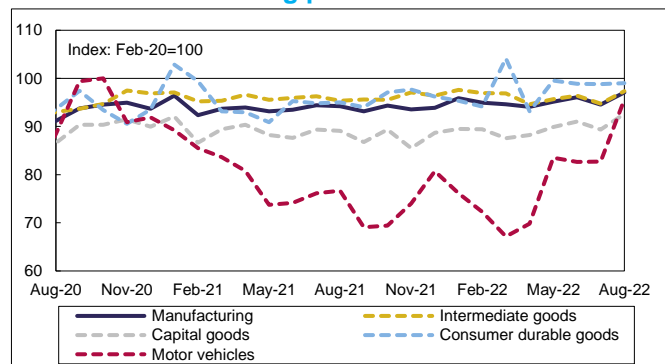
There were no surprises from the final services PMIs today, with a marginal downwards revision to the euro area's headline index reinforcing the impression of a significant slowing in activity in the sector since the early summer. Indeed, September recorded the fifth consecutive monthly drop in the activity index, falling by 1.0pt to 48.8, the lowest since February 2021. Strikingly, that left the quarterly average more than 5½pts lower than in Q2. While unchanged from August, the new business component (48.2) was consistent with a third consecutive month of contraction, not least reflecting diminishing household purchasing power amid higher prices, as well as markedly weaker demand from overseas visitors as the holiday season

Germany: Goods trade balance, exports & imports*



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

France: Manufacturing production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

wound down. While the French services PMI (up 1.8pts to 53.0) implied a modest improvement in conditions in September, the index was the second-weakest for seventeen months. As such, although the composite French PMI (51.2) was consistent with modest expansion, the quarterly index was still some 4½pts lower than the Q2 average. Moreover, with the PMIs suggesting that services and manufacturing output in Germany, Italy and Spain is now in reverse, the euro area's composite PMI (down 0.8pt to 48.1) similarly pointed to a steeper pace of decline in economic activity in September. And with the quarterly average more than 5pts lower, today's survey suggests an increasing risk of a negative GDP print in the euro area last quarter.

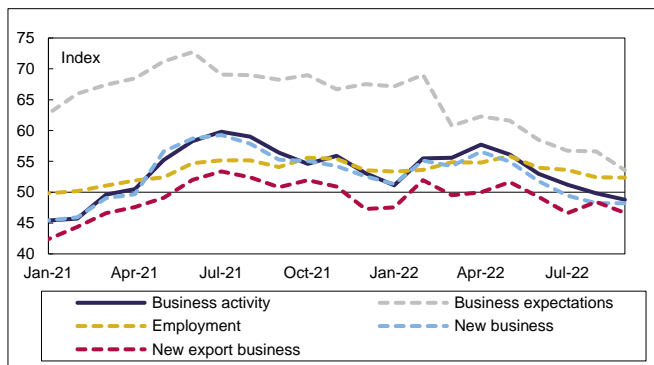
Producer prices soar on higher energy costs

The latest PMIs flagged an intensification of price pressures at the end of Q3 too, with the composite output price index rising 2.8pts to a three-month high of 64.3, as firms endeavored to pass on some of their rising cost burdens associated with the ongoing energy crisis. Certainly, yesterday's euro area PPI release reported a notable jump in producer prices in August, by 5.0%M/M, led by a near-12%M/M surge in energy prices. This left prices up a record 43.3%Y/Y, with energy prices up 116%Y/Y. Admittedly, when excluding energy, core producer price inflation eased back again, by 0.6ppt to 14.5%Y/Y, although the lagged effects of recent pressures are still likely to be felt on consumer price inflation over the coming couple of quarters.

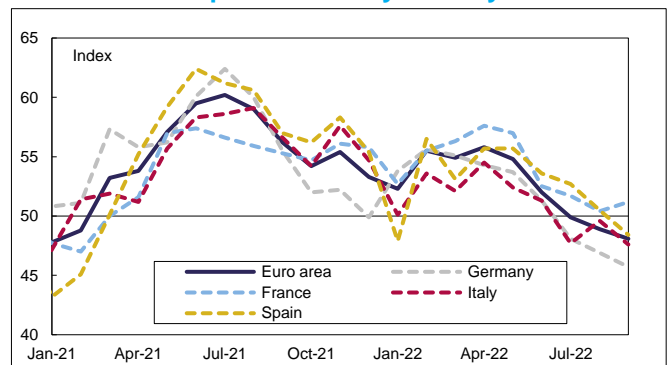
The day ahead in the euro area

The main focus in the euro area on Thursday will be the ECB account from its 8 September monetary policy meeting, where the Governing Council raised interest rates by 75bps and signalled further tightening over the next several meetings. The account will be watched for insights into the debate between the hawks and doves, any further discussion on the likely pace of hikes going forward, as well as any debate about QT and/or a possible reverse-tiering system to reduce interest payments on banks' excess reserves. In terms of economic data, euro area retail sales will offer an update on the sector in the middle of the summer, with expenditure on non-essential goods likely to have been hampered by rising prices and increased spending on services. Meanwhile, German factory orders are expected to have declined for the seventh consecutive month in August, illustrating persisting and significant challenges in the country's manufacturing sector. The latest construction PMIs from the larger member states are also likely to be consistent with another month of contraction at the end of the third quarter.

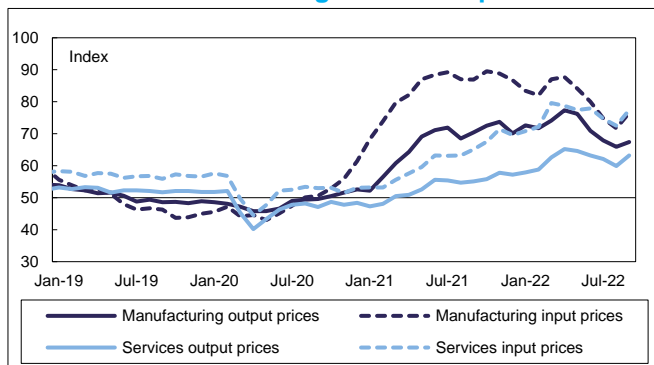
Euro area: Services PMIs



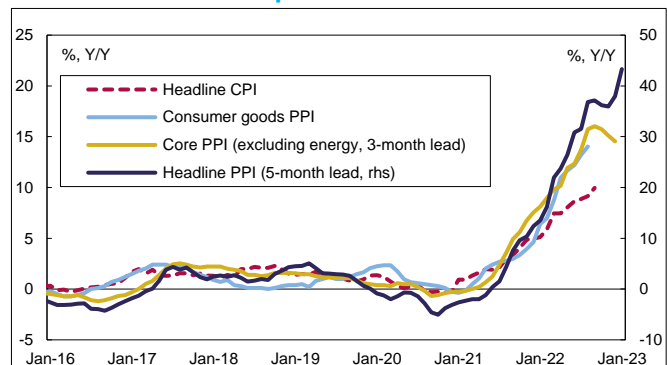
Euro area: Composite PMIs by country



Euro area: Manufacturing & services price PMIs



Euro area: Producer price inflation



UK

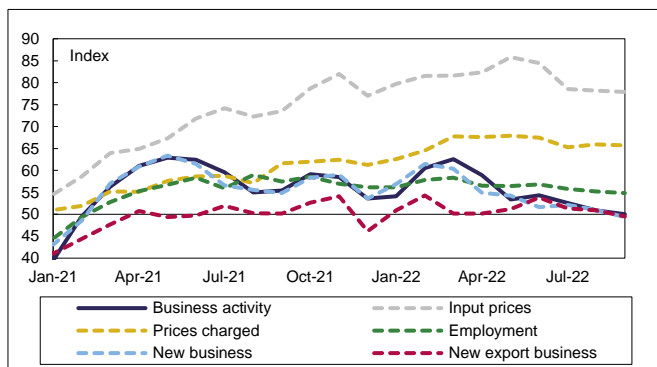
UK services PMIs points to slowing demand amid still significant price pressures

Despite a sizeable upwards revision to today's final UK services PMI survey, the business activity index was merely consistent with stagnation in the sector at the end of the summer as the rising cost of living took its toll on demand. Indeed, at 50.0, the headline PMI in September was the lowest since February 2021, down some 4.3pts from the end of Q2 and a whopping 12½pts below the end-Q1 peak. Firms continued to cite weakening demand, particularly related to hospitality and leisure. And while some respondents acknowledged a boost from sterling depreciation in US markets, the survey suggested that overseas business fell for the first time in eight months. Given concerns about the impact of the energy crisis, global recession and rising interest rates on demand and cost burdens, firms in the sector were the most downbeat about expectations for the year ahead since May 2020. Taken together with manufacturing weakness, the composite PMI (down 0.8pt to 49.1) fell further into contractionary territory in September. And while the quarterly composite PMI (50.2) was arguably consistent with a stable economy in Q3, the index was more than 4½pts below the Q2 average. But despite weaker demand, firms continued to report passing on higher cost burdens to consumers, with the output price PMI up 0.1pt to 65.8, admittedly down from the peak in April (69.2) but nevertheless still well above the long-run average (52.2) and signaling still significant inflationary pressures.

The day ahead in the UK

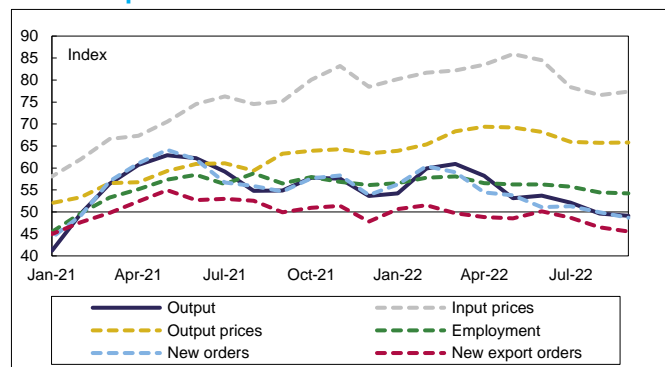
A quiet day ahead for UK top-tier releases brings the construction PMIs for September, which, similar to the euro area surveys, are expected to signal another fall in activity last month.

UK: Services PMIs



Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Composite PMIs



Source: Refinitiv, S&P Global 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	Final services (composite) PMI	Sep	48.8 (48.1)	48.9 (48.2)	49.8 (48.9)	-
Germany	Trade balance €bn	Aug	1.2	4.7	5.4	3.4
	Final services (composite) PMI	Sep	45.0 (45.7)	45.4 (45.9)	47.7 (46.9)	-
France	Industrial production M/M% (Y/Y%)	Aug	2.4 (1.2)	0.0 (-1.5)	-1.6 (-1.2)	-
	Manufacturing production M/M% (Y/Y%)	Aug	2.7 (3.1)	-	-1.6 (0.2)	-
	Final services (composite) PMI	Sep	52.9 (51.2)	53.0 (51.2)	51.2 (50.4)	-
Italy	Services (composite) PMI	Sep	48.8 (47.6)	49.3 (48.3)	50.5 (49.6)	-
Spain	Services (composite) PMI	Sep	48.5 (48.4)	50.3 (49.9)	50.6 (50.5)	-
UK	New car registrations Y/Y%	Sep	4.6	-	1.2	-
	Final services (composite) PMI	Sep	50.0 (49.1)	49.2 (48.4)	50.9 (49.6)	-



Auctions

Country	Auction
UK	BoE accepted no bids in its special long-term gilt tender


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	 PPI M/M% (Y/Y%)	Aug	5.0 (43.3)	5.0 (43.2)	4.0 (37.9)	- (38.0)
Spain	 Unemployment change '000s	Sep	17.7	-	40.4	-









Auctions

Country	Auction
UK	 BoE accepted no bids in its special long-term gilt tender






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	-	44.2
		10.00 Retail sales M/M% (Y/Y%)	Aug	-0.4 (-1.7)	0.3 (-0.9)
Germany		07.00 Factory orders M/M% (Y/Y%)	Aug	-0.7 (-5.5)	-1.1 (-13.6)
		08.30 Construction PMI	Sep	-	42.6
France		08.30 Construction PMI	Sep	-	48.2
Italy		08.30 Construction PMI	Sep	-	41.2
Spain		08.00 Industrial production M/M% (Y/Y%)	Aug	-0.3 (4.3)	-1.1 (5.3)
UK		09.30 Construction PMI	Sep	48.0	49.2

Auctions and events

Euro area		12.30 ECB publishes account of September Governing Council meeting
France		09.50 Auction: 2.00% 2032 bonds
		09.50 Auction: 0.75% 2053 bonds
		09.50 Auction: 1.75% 2066 bonds
UK		09.30 BoE publishes Decision Maker Panel data

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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