

Euro wrap-up

Overview

- Bunds made losses as German IP data missed expectations while euro area household inflation expectations remained stable but firmly above-target.
- Gilts also made losses despite a survey suggesting a softening of UK labour market conditions.
- The coming week will bring new data for the UK labour market and GDP as well as euro area industrial production and goods trade, while Lagarde and Bailey will be among the central bankers set to speak publicly.

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Daily bond market movements

Bond	Yield	Change
BKO 0.4 09/24	1.838	+0.082
OBL 1.3 10/27	2.027	+0.089
DBR 1.7 08/32	2.180	+0.101
UKT 1 04/24	4.054	+0.026
UKT 1½ 07/27	4.377	+0.052
UKT 4¼ 06/32	4.218	+0.064

*Change from close as at 4:45pm BST.
Source: Bloomberg

Euro area

German IP falls short of expectations, recording first drop since March

While yesterday's factory [turnover](#) data pointed to a solid rebound in German manufacturing output over the summer, today's figures underwhelmed, with industrial production falling a steeper-than-expected 0.8%M/M in August. With the decline previously recorded in July revised away, however, this marked the first drop in output since March to leave it up more than 2%Y/Y, nevertheless still more than 1½% lower than the level at the end of last year and 6% below the pre-pandemic level in February 2020. The weakness in output in August was in part due to a renewed fall in construction, which fell 2.1%M/M, taking the cumulative decline since the start of the year to more than 3½%. In addition, energy generation dropped 6.1%M/M. In manufacturing, production in energy-intensive subsectors continued to retreat, falling 2.1%M/M, to be down more than 9% so far this year as concerns over energy supply persist. Admittedly, Destatis noted that the weakness in certain subsectors – in particular chemicals and refined petroleum products – was likely exacerbated by supply constraints associated with record-low water levels in the Rhine. In part as a result, production of intermediate goods fell 2.4%M/M to its lowest level for almost two years. But this was largely offset by a pickup in capital goods output (1.2%M/M), as production of cars and machinery rose, while output of consumer goods (1.8%M/M) was boosted by the pharmaceuticals sector. So, overall, manufacturing production fell a modest 0.1%M/M in August, to leave it trending almost ½% higher than the Q2 average.

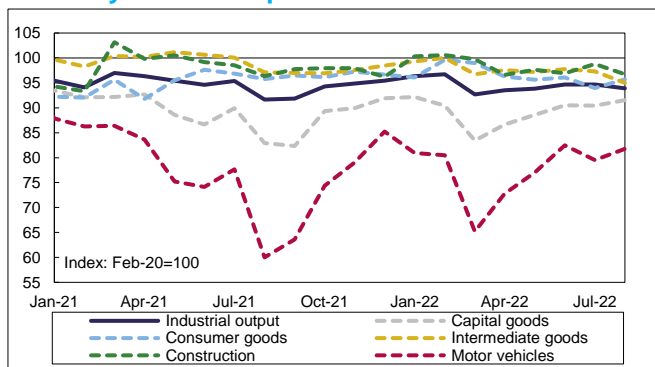
IP on track for growth in Q3 but energy shock likely to weigh more heavily in Q4

While the Rhine levels have subsequently risen, industrial energy consumption remains well below levels over recent years suggesting that production in energy-intensive subsectors will have maintained a downwards trend at the end of the third quarter. But with autos output likely to have risen sharply as supply bottlenecks eased somewhat, the manufacturing sector might well have contributed positively to GDP growth in Q3 for the first quarter this year. However, with supply constraints still binding in certain sectors, domestic orders maintaining a steep downwards trend, and production expectations for the coming six-to-twelve months extremely downbeat not least due to fears of winter energy rationing and global recession, this seems likely to be a temporary pause in what will remain an extremely challenging period for Germany's manufacturers.

Consumer inflation expectations stable but still too high for comfort

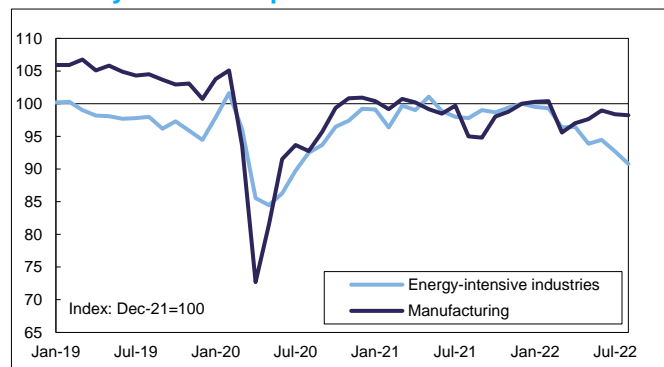
With persisting concerns about second-round effects from high inflation and the repeated upside surprises in the price data, the ECB might be relieved that its latest consumer survey results suggested that household inflation expectations failed to

Germany: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Industrial production



Source: Destatis and Daiwa Capital Markets Europe Ltd.

deteriorate in August. However, they will have remained too high for comfort for many of the hawks on the Governing Council. The median inflation expectation for twelve months ahead was unchanged at 5.0%Y/Y, with the highest in Italy and (no doubt reflecting the country's energy-price interventions) lowest in France. And the median inflation expectation for three years ahead was also unchanged, at 3.0%Y/Y, 1ppt above the ECB's target to which it had been broadly well-anchored throughout the first eighteen months of the pandemic. Once again, expectations in France were lowest, albeit creeping up to 2.5%Y/Y, with expectations in the Netherlands, Italy and Spain above 3.0%Y/Y. There remains an upside skew to the distribution of inflation expectations too. While it fell back on the month, the mean inflation expectation for the coming twelve months was still elevated at 6.9%Y/Y while the equivalent measure for three years ahead was unchanged at 4.7%Y/Y.

The week ahead in the euro area

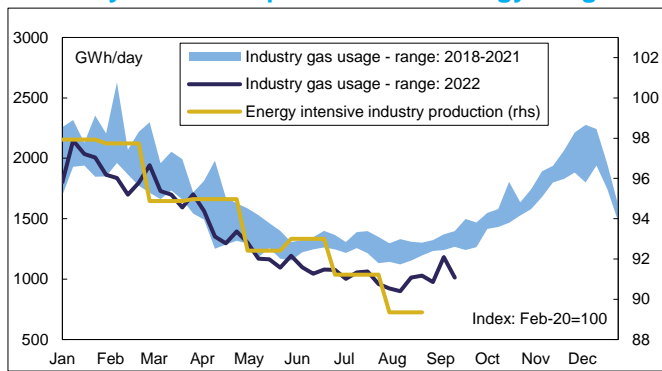
It should be a relatively quiet week ahead for top-tier euro area economic data, with highlights being aggregate euro area industrial production figures for August (Wednesday) and goods trade data for the same month (Friday). Based on figures already published by the member states, including today's drop in Germany and surge in (typically volatile) Ireland (16.5%M/M), as well as the rebound in France (2.4%M/M), euro area IP is forecast to have risen by a little more than ½%M/M in August. Italian IP figures (due Tuesday) will provide some further guidance. Meanwhile, with the German trade surplus having narrowed to its smallest since 1992, euro area goods trade figures for August are likely to report a widening in the deficit from July's record high (€40.3bn) due not least to elevated prices of imported energy. Ahead of these data, Monday brings the latest Sentix investor confidence survey, which is likely to flag the increasing recession risks across the euro area. Updated September inflation figures, including for the first time detailed breakdowns, are due from Germany (Thursday), France and Spain (Friday). These are expected to confirm the jump in the headline German HICP rate (up 2.1ppts to 10.9%Y/Y), as well as the drop in the equivalent inflation rates in France (down 0.4ppt to 6.6%Y/Y) and Spain (down 1.2ppts to 9.3%Y/Y). Separately, there will be plenty of ECB-speak in the coming week, including a Q&A with President Lagarde on Wednesday and a "fireside chat" with dovish Chief Economist Lane on Tuesday.

UK

Jobs survey suggests further softening of labour market in September

On a relatively quiet end to the week for new economic data from the UK, the September job survey results from the REC/KPMG suggested a further softening of labour market conditions. In particular, the survey of recruitment agencies suggested that growth in permanent and temporary staff appointments slowed at the end of Q3 to the softest rates in

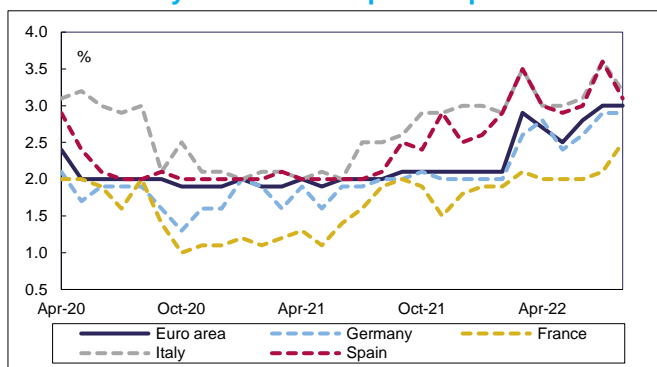
Germany: Industrial production & energy usage



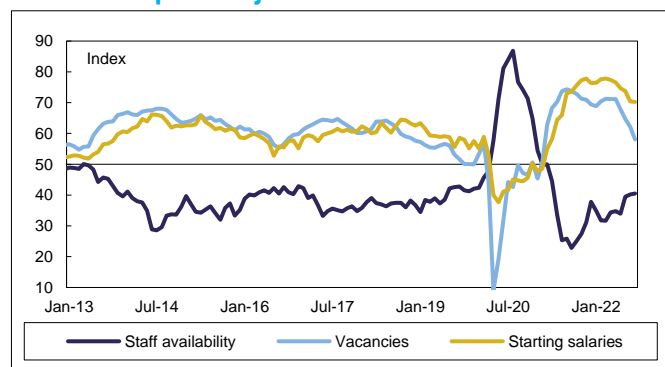
Germany: ifo orders and expectations indices



Euro area: 3-year consumer price expectations



UK: REC report on jobs – selected indices












nineteen months. Vacancy growth similarly continued to ease, with demand for permanent and temporary staff similarly growing at the slowest rates since February 2021. While still low, staff availability improved to its best level in seventeen months. And although it remained high by historical standards, starting salaries for permanent staff and temp pay growth slowed to the softest rates since June 2021. Looking ahead, the shock to rates and confidence from the government's botched fiscal announcement seems likely to cause a more marked softening of labour market conditions from October on.

The week ahead in the UK

There are a couple of interesting UK economic data releases due in the coming week, including the latest official labour market figures (Tuesday) and GDP numbers for August (Wednesday). Despite a faltering economic recovery and a likely further easing in job vacancies over the summer, the labour market is expected to have remained very tight due not least to subdued supply. Indeed, after previously declining to a 48-year low, the unemployment rate is expected to be unchanged at 3.6% in the three months to August. And having accelerated in the three months to July, growth in nominal average weekly labour earnings is expected to rise 0.4ppt to 5.9%3M/Y including bonuses, and by 0.1ppt to 5.3%3M/Y excluding bonuses, to remain well above the BoE's comfort zone. But given high inflation, real wage growth is likely to have remained firmly in negative territory. With respect to GDP, after rising by a smaller-than-expected 0.2%M/M in July, high-frequency data suggest that private sector services activity stalled in August. Indeed, retail sales fell by a sizeable 1.6%M/M that month, while the service sector PMIs suggested that activity moved broadly sideways. Admittedly, with car production having picked up amid easing supply constraints, manufacturing output may well edge higher. But overall, GDP is expected to have risen just 0.1%M/M in August, to leave it down 0.2%3M/3M. Finally, several BoE MPC members will speak publicly, including Governor Bailey and Deputy Governor Cunliffe (Tuesday) and Chief Economist Pill and (hawkish) external members Haskel and Mann (all Wednesday).

Daiwa economic forecasts
























	2022				2023		2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.7	0.8	0.0	-0.2	-0.3	-0.1	3.2	-0.2	0.8
UK 	0.7	0.2	-0.1	-0.3	-0.5	-0.2	4.4	-0.9	0.3
Inflation, %, Y/Y									
Euro area									
Headline HICP 	6.1	8.0	9.3	9.8	8.4	6.6	8.3	5.7	2.0
Core HICP 	2.7	3.7	4.4	5.0	4.8	4.0	3.9	3.6	2.1
UK									
Headline CPI 	6.2	9.2	10.0	10.9	10.4	6.9	9.1	6.8	3.5
Core CPI 	5.1	6.0	6.3	6.6	6.2	5.1	6.0	5.0	3.9
Monetary policy, %									
ECB									
Refi Rate 	0.00	0.00	1.25	2.50	3.00	3.00	2.50	3.00	2.75
Deposit Rate 	-0.50	-0.50	0.75	2.00	2.50	2.50	2.00	2.50	2.25
BoE									
Bank Rate 	0.75	1.25	2.25	4.00	4.75	5.25	4.00	5.25	3.75

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 11 October 2022


















The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> forecast/actual	Previous	
Monday 10 October 2022						
Euro area		09.30	Sentix investor confidence	Oct	-33.0	-31.8
Tuesday 11 October 2022						
Italy		09.00	Industrial production M/M% (Y/Y%)	Aug	0.1 (0.5)	0.4 (-1.4)
UK		00.01	BRC retail sales monitor, like-for-like Y/Y%	Sep	-	0.5
		07.00	Payrolled employees monthly change, '000s	Sep	-	71
		07.00	Unemployment claimant count rate % (change '000s)	Sep	-	3.9 (6.3)
		07.00	Average earnings including (excluding) bonuses 3M/Y%	Aug	5.9 (5.3)	5.5 (5.2)
		07.00	ILO unemployment rate 3M%	Aug	3.6	3.6
		07.00	Employment change 3M/3M, '000s	Aug	-196	40
Wednesday 12 October 2022						
Euro area		10.00	Industrial production M/M% (Y/Y%)	Aug	0.6 (1.2)	-2.3 (-2.4)
UK		07.00	GDP M/M% (3M/3M%)	Aug	0.1 (-0.2)	0.2 (0.0)
		07.00	Industrial production M/M% (Y/Y%)	Aug	-0.3 (-0.1)	-0.3 (1.1)
		07.00	Index of services M/M% (3M/3M%)	Aug	0.1 (0.1)	0.4 (-0.2)
		07.00	Construction output M/M% (Y/Y%)	Aug	0.6 (5.6)	-0.8 (4.3)
		07.00	Goods trade (excluding precious metals) balance £bn	Aug	-20.5 (-)	-19.4 (-19.5)
Thursday 13 October 2022						
Germany		07.00	Final CPI M/M% (Y/Y%)	Sep	1.9 (10.0)	0.3 (7.9)
		07.00	Final HICP M/M% (Y/Y%)	Sep	2.2 (10.9)	0.4 (8.8)
		-	Current account balance* €bn	Aug	-	5.0
UK		00.01	RICS house price balance %	Sep	48	53
Friday 14 October 2022						
Euro area		10.00	Trade balance €bn	Aug	-	-40.3
France		07.45	Final CPI M/M% (Y/Y%)	Sep	-0.5 (5.6)	0.5 (5.9)
		07.45	Final HICP M/M% (Y/Y%)	Sep	-0.5 (6.2)	0.5 (6.6)
Spain		08.00	Final CPI M/M% (Y/Y%)	Sep	-0.6 (9.0)	0.3 (10.5)
		08.00	Final HICP M/M% (Y/Y%)	Sep	0.0 (9.3)	0.3 (10.5)






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

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 10 October 2022		
Euro area	 14.00	ECB Chief Economist Lane scheduled to speak
Tuesday 11 October 2022		
Euro area	 11.10	ECB's Panetta scheduled to speak
	 13.45	ECB Chief Economist Lane scheduled to speak
Germany	 10.30	Auction: €5.5bn of 0.40% 2024 bonds
UK	 10.00	Auction: £900mn of 0.125% 2051 index-linked bonds
	 19.00	BoE's Deputy Governor Cunliffe scheduled to speak
	 19.35	BoE Governor Bailey scheduled to speak
Wednesday 12 October 2022		
Euro area	 14.30	ECB President Lagarde scheduled to speak
	 16.00	ECB's Knot scheduled to speak
Germany	 10.30	Auction: €4bn of 1.7% 2032 bonds
UK	 10.00	Auction: £3.5bn of 4.125% 2027 bonds
	 12.35	BoE's Pill scheduled to speak
	 18.00	BoE's Mann scheduled to speak
Thursday 13 October 2022		
Euro area	 08.30	ECB Vice President de Guindos scheduled to speak
Italy	 10.00	Auction: 3Y and 7Y bonds
UK	 09.30	BoE publishes Q3 bank liabilities and credit conditions surveys
Friday 14 October 2022		
UK	 12.00	BoE publishes its Quarterly Bulletin

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Today's results

Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Retail sales M/M% (Y/Y%)	Aug	-1.3 (-1.7)	-1.2 (-4.1)	1.9 (-5.1)	0.7 (-5.1)
	 Industrial production M/M% (Y/Y%)	Aug	-0.8 (2.1)	-0.5 (2.3)	-0.3 (-1.1)	0.0 (-0.8)
France	 Trade balance €bn	Aug	-15.3	-14.4	-14.5	-14.8
Italy	 Retail sales M/M% (Y/Y%)	Aug	-0.4 (4.3)	0.0 (-)	1.3 (4.2)	- (4.1)
Auctions						
Country	Auction					
UK	 BoE bought £786.3mn of gilts					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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