

Euro wrap-up

Overview

- As ECB President Lagarde suggested that the ECB might push rates to a restrictive stance, Bunds made losses, but euro area producer price inflation moderated slightly and Germany factory orders fell sharply.
- On a relatively quiet end to the week for UK economic news, Gilts followed USTs higher at the short end but lower at the long end.
- The coming week will bring data for UK GDP in Q3 as well as euro area retail sales and German industrial production in September.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0.4 09/24	2.106	+0.040
OBL 1.3 10/27	2.159	+0.048
DBR 1.7 08/32	2.284	+0.045
UKT 1 04/24	2.954	-0.026
UKT 1½ 07/27	3.367	-0.021
UKT 4½ 06/32	3.522	+0.023

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

Euro area

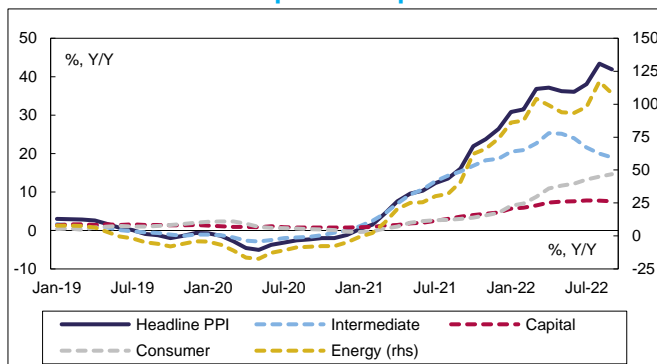
Euro area PPI inflation moderates from August's series high

While the [flash euro area CPI](#) estimate for October earlier this week significantly beat initial expectations, today's industrial PPI figures for September suggested that, in line with recent signals from surveys and wholesale markets, pipeline price pressures might possibly have peaked. Admittedly, producer goods prices were still up 1.6%M/M, but this compared with a cumulative rise of 10.7% over the previous two months. As such, the annual PPI rate fell 1.5ppts from August's record high to 41.9%Y/Y. While producer energy prices rose a further 3.3%M/M, this was merely a quarter of the increase in August, to leave the annual rate down almost 9ppts at a nevertheless still-eye-watering 108%Y/Y. Most notably, when excluding energy, prices were up just 0.4%M/M for a second successive month, compared to the peak of 2.7%M/M in April and the average from March to May of 2.0%M/M. And so, the annual core PPI rate (ex-energy) fell for the fourth consecutive month to 14.5%Y/Y. That in part reflected a further negligible increase in intermediate goods prices, up just 0.1%M/M for the third successive month in contrast to the peak of 3.9%M/M in April, pushing the respective annual rate down a further 1ppt to 19.0%Y/Y, the lowest since December. With capital goods prices up just 0.4%M/M, just half the average rate in the first seven months of the year, the annual rate edged lower for the first time since August 2020 (down 0.1ppt to 7.6%Y/Y). Admittedly, producer consumer goods inflation maintained an upwards trend in September, rising 0.6ppt to 14.6%Y/Y, as prices of non-durable items, including food, rose another 1.0%M/M, close to the average of the past five months. But with the increase in prices of durable consumer goods just 0.4%M/M for the second successive month, down from an average of more than 1.0%M/M in the first seven months of the year, the annual rate of consumer goods PPI should also now be close to its peak, which would help CPI inflation to fall back in the New Year too.

German factory orders fall sharply at end of Q3 on weaker foreign demand

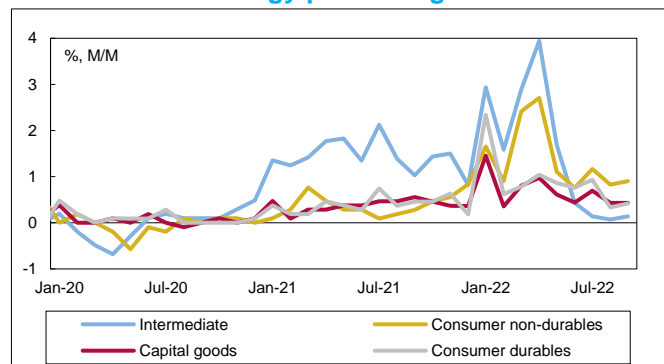
German factory orders remained firmly in reverse gear in September, declining 4.0%M/M following a (revised) drop of 2.0%M/M the prior month. That left them more than 16½% below the peak in July last year, and about 1½% below the pre-pandemic level in February 2020. And despite a firmer start to the quarter, orders dropped 1.6%Q/Q in Q3 following the 5.5%Q/Q slump in Q2. The weakness in September was largely due to a sharp decline in new foreign demand, which fell a steep 7.0%M/M, with orders from the rest of the euro area down 8.0%M/M and those from other countries down 6.3%M/M while domestic orders fell just 0.5%M/M. By type of good, capital goods and intermediate items registered steep drops, but consumer goods orders rebounded. Over Q3 as a whole, however, only capital goods orders failed to decline, being supported by a pickup in new orders from the autos sector. Looking ahead to Monday's IP data, manufacturing turnover inched up 0.2%M/M in September pointing to a steady month for output. That would also mean that factory production provided moderate support to overall GDP over Q3 as a whole as supply-chain strains in the auto sector eased somewhat.

Euro area: Industrial producer price inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Non-energy producer goods inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

even as energy-intensive sub-sectors rationalised output. However, the orders data tally with survey evidence to suggest that production is likely to fall back – perhaps sharply – in Q4 and into the New Year.

French IP falls back in September following a surge over the summer

Today's French and Spanish IP figures reported falling output in September. The drop in France (0.8%M/M) reflected payback for the summer surge, with growth in August upwardly revised (2.7%M/M) to leave output up 0.8%Q/Q in Q3. French production in September was nevertheless still more than 4% below the pre-pandemic peak. Despite declining in September (-5.5%M/M), autos output accelerated 14½%Q/Q in Q3 as supply bottlenecks eased, with solid quarterly growth in computer & electrical parts (5.1%), chemicals (3.0%) and electrical machinery (2.7%) too. But energy production fell in September (-3.4%M/M) to be down more than 10%Q/Q. And while construction rose in September (1.8%M/M), activity in the sub-sector provided no support to GDP growth in Q3. In Spain, the drop in production (-0.3%M/M) was similarly driven by the autos sector (-19.5%M/M), which followed a strong rebound (28.0%M/M in August). So, while autos output rose 7%Q/Q, a step back in clothing and pharmaceuticals of more than 9%Q/Q left IP down 0.3%Q/Q in Q3. And if the manufacturing PMIs are to be believed, production looks likely to have declined sharply at the start of Q4 in both France and Spain.

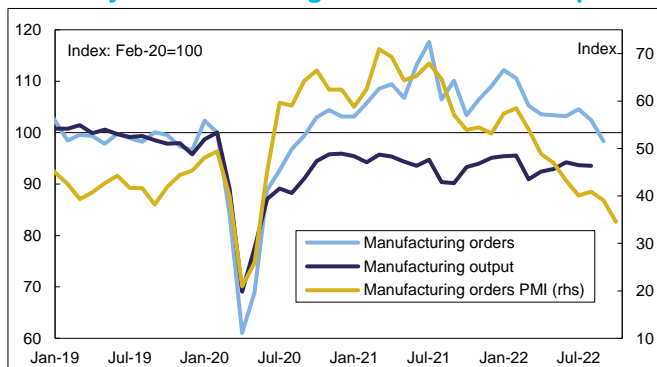
Despite a modest upwards revision, services PMIs still consistent with contraction

While today's final October services PMIs were revised a touch higher from the flash release, they were still consistent with contraction in the sector. Indeed, the headline euro area activity index was still down 0.2pt on the month to 48.6, amid a further weakening in new business (down 0.6pt to 47.7), with both indices the weakest since February 2021. Admittedly, the German services PMI was revised up (by 1.6pts from the flash to 46.5), although this still marked the fourth consecutive contractionary reading, while the expansion slowed in France in October (down 1.2pts on the month to 51.7). But the decline in October was most marked in Italy, where the respective PMI fell 2.4pts to 46.4, the weakest since January 2021, as domestic and overseas demand slumped. Taken together with the poor manufacturing surveys, the euro area composite PMI fell for the sixth consecutive month in October, by 0.8pt to 47.3, a near-two-year low consistent with a decline in GDP.

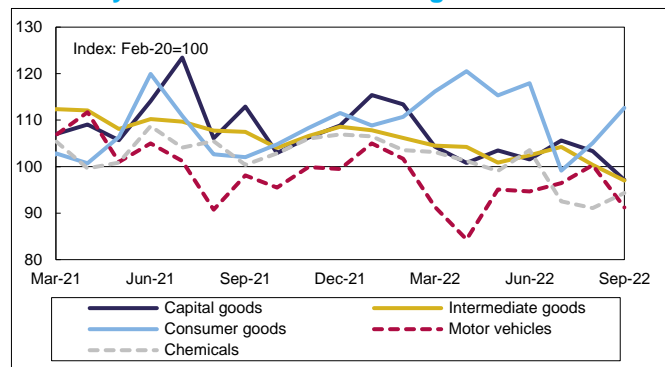
The week ahead in the euro area

It is set to be a somewhat quieter week ahead for euro area top-tier releases, with the data calendar kicking off with the aforementioned German industrial production report on Monday, followed by the equivalent release from Italy on Thursday. Following the first estimate of [euro area Q3 GDP](#) earlier this week, Tuesday's retail sales numbers will provide further insight into consumer spending at the end of the quarter. While German sales surprised on the upside in September, any growth in aggregate euro area sales will be limited by households' diminished purchasing power amid record high prices. Indeed, final

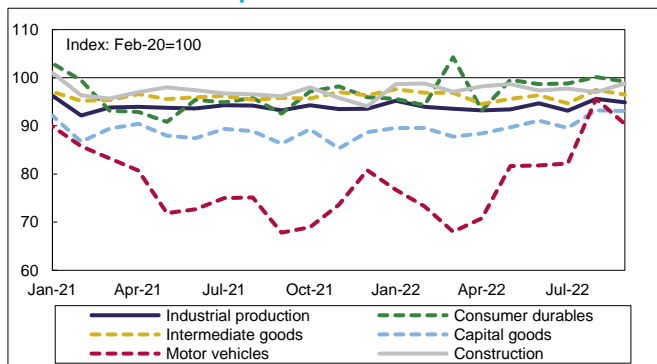
Germany: Manufacturing new orders and output



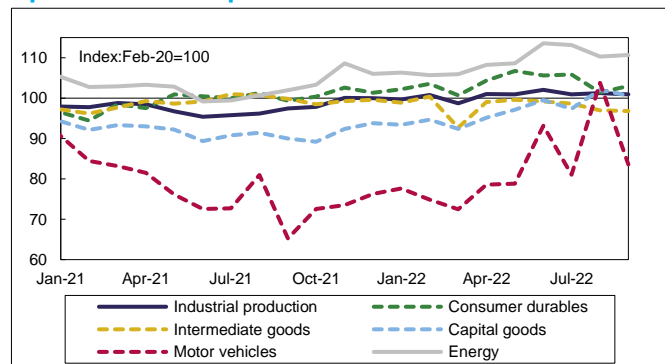
Germany: Selected manufacturing new orders



France: Industrial production



Spain: Industrial production



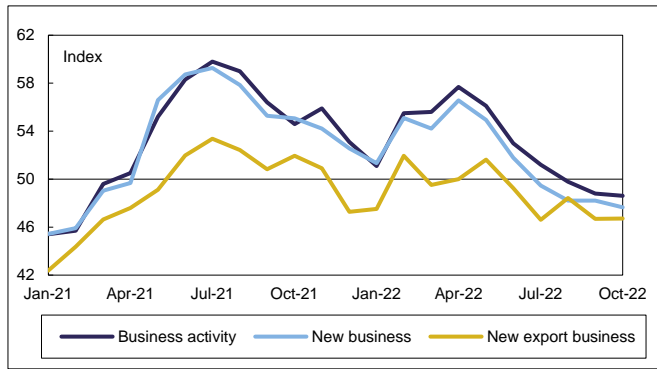
German inflation figures for October (Friday) are expected to confirm that headline HICP inflation jumped 0.7ppt to 11.6%Y/Y reflecting a further surge in food prices. Meanwhile, October's construction PMIs and the euro area's Sentix investor survey for November will provide further updates on sentiment at the start of the fourth quarter on Monday.

UK

The week ahead in the UK

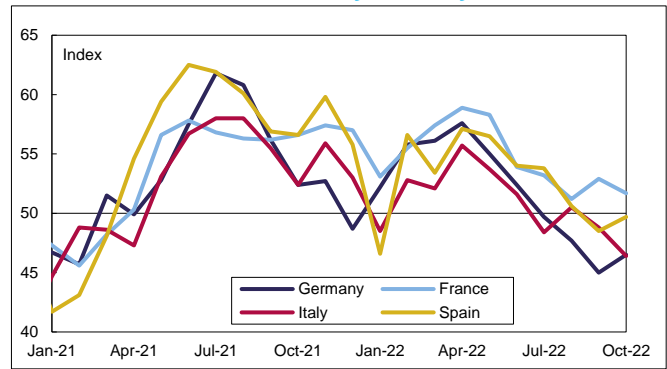
Following yesterday's very gloomy economic assessment from the [BoE](#), the data highlight from the UK in the coming week will be the first estimate of Q3 GDP and associated monthly output and trade figures for September. Not least reflecting the impact of the period of national mourning and additional Bank Holiday to mark the Queen's funeral, as well as the weakening in demand amid high inflation, rising borrowing costs and heightened economic uncertainties, GDP is likely to have fallen in September for the third month out of four. So, in line with BoE staff estimates, we forecast GDP to have contracted by 0.5%Q/Q in Q3, weighed not least by consumer spending. And that would leave the UK the only G7 economy with output still below the pre-pandemic level. Other releases in the week ahead include the BRC retail sales monitor (Tuesday), RICS residential survey and REC report on jobs (Thursday) all for October.

Euro area: Services PMIs



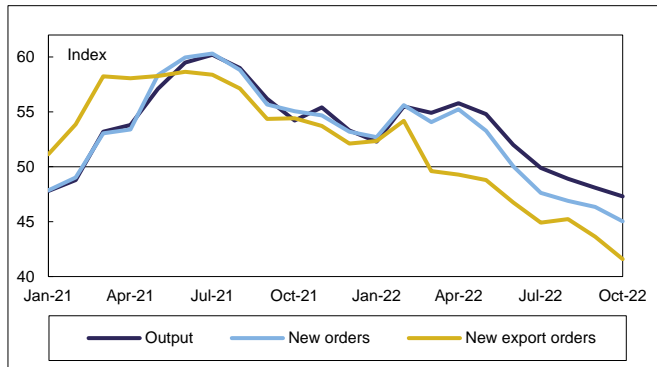
Source: S&P Global, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Services PMIs by country



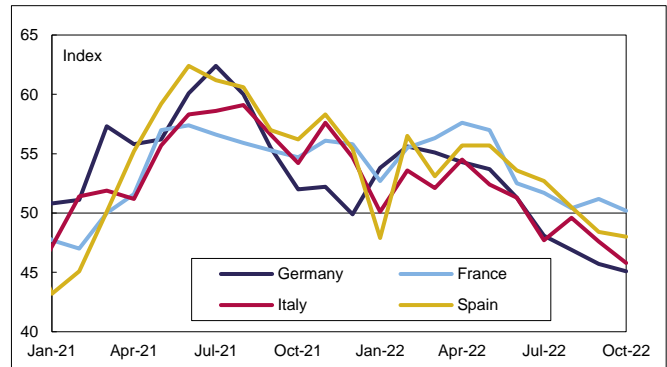
Source: S&P Global, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Composite PMIs












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

Euro area: Composite PMIs by country









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

Daiwa economic forecasts

	2022			2023			2022	2023	2024
	Q2	Q3	Q4	Q1	Q2	Q3			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.8	0.2	-0.3	-0.3	-0.1	0.1	3.3	-0.2	0.8
UK 	0.2	-0.5	-0.3	-0.3	-0.5	-0.3	4.2	-1.2	0.1
Inflation, %, Y/Y									
Euro area									
Headline HICP 	8.0	9.3	10.5	9.2	7.3	5.6	8.5	6.3	2.0
Core HICP 	3.7	4.4	5.2	4.9	4.1	3.4	4.0	3.6	2.0
UK									
Headline CPI 	9.2	10.0	10.9	10.2	9.9	8.9	9.1	9.0	4.2
Core CPI 	6.0	6.3	6.6	6.2	5.1	4.6	6.0	5.0	3.9
Monetary policy, %									
ECB									
Refi Rate 	0.00	1.25	2.50	3.00	3.00	3.00	2.50	3.00	2.25
Deposit Rate 	-0.50	0.75	2.00	2.50	2.50	2.50	2.00	2.50	1.75
BoE									
Bank Rate 	1.25	2.25	3.50	4.25	4.25	4.25	3.50	4.25	3.25

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






















European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Euro area 	Final services (composite) PMI	Oct	48.6 (47.3)	48.2 (47.1)	48.8 (48.1)	-	
	PPI M/M% (Y/Y%)	Sep	1.6 (41.9)	1.6 (41.8)	5.0 (43.3)	- (43.6)	
Germany 	Factory orders M/M% (Y/Y%)	Sep	-4.0 (-10.8)	-0.5 (-7.2)	-2.4 (-4.1)	-2.0 (-3.8)	
	Final services (composite) PMI	Oct	46.5 (45.1)	44.9 (44.1)	45.0 (45.7)	-	
France 	Industrial production M/M% (Y/Y%)	Sep	-0.8 (1.8)	-1.0 (1.2)	2.4 (1.2)	2.7 (1.5)	
	Final services (composite) PMI	Oct	51.7 (50.2)	51.3 (50.0)	52.9 (51.2)	-	
Italy 	Services (composite) PMI	Oct	46.4 (45.8)	48.5 (47.4)	48.8 (47.6)	-	
Spain 	Industrial production M/M% (Y/Y%)	Sep	-0.3 (3.6)	-0.3 (3.7)	0.4 (5.5)	0.3 (5.2)	
	Services (composite) PMI	Oct	49.7 (48.0)	48.5 (47.4)	48.5 (48.4)	-	
UK 	Construction PMI	Oct	53.2	50.8	52.3	-	
	New car registrations Y/Y%	Oct	26.4	-	4.6	-	
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 07 November 2022					
Euro area	 08.30	Construction PMI	Oct	-	45.3
	 09.30	Sentix investor confidence	Nov	-35.0	-38.3
Germany	 07.00	Industrial production M/M% (Y/Y%)	Sep	0.2 (2.0)	-0.8 (2.1)
	 08.30	Construction PMI	Oct	-	41.8
France	 08.30	Construction PMI	Oct	-	49.1
Italy	 08.30	Construction PMI	Oct	-	46.7
Tuesday 08 November 2022					
Euro area	 10.00	Retail sales M/M% (Y/Y%)	Sep	0.4 (-1.1)	-0.3 (-2.0)
France	 07.45	Trade balance €bn	Sep	-14.3	-15.3
Italy	 09.00	Retail sales M/M% (Y/Y%)	Sep	-	-0.4 (4.3)
UK	 00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Oct	-	1.8
Wednesday 09 November 2022					
- Nothing scheduled -					
Thursday 10 November 2022					
Italy	 09.00	Industrial production M/M% (Y/Y%)	Sep	-1.5 (1.0)	2.3 (2.9)
UK	 00.01	RICS house price balance %	Oct	18	32
Friday 11 November 2022					
Germany	 07.00	Final CPI M/M% (Y/Y%)	Oct	0.9 (10.4)	1.9 (10.0)
	 07.00	Final EU-harmonised CPI M/M% (Y/Y%)	Oct	1.1 (11.6)	2.2 (10.9)
UK	 07.00	GDP – first estimate Q/Q% (Y/Y%)	Q3	<u>-0.5 (2.1)</u>	0.2 (4.4)
	 07.00	GDP M/M%	Sep	<u>-0.4</u>	-0.3
	 07.00	Industrial production M/M% (Y/Y%)	Sep	-0.2 (-4.7)	-1.8 (-5.2)
	 07.00	Manufacturing production M/M% (Y/Y%)	Sep	-0.4 (-6.8)	-1.6 (-6.7)
	 07.00	Index of services M/M% (3M/3M%)	Sep	-0.5 (-0.2)	-0.1 (-0.1)
	 07.00	Construction output M/M% (Y/Y%)	Sep	-0.6 (4.5)	0.4 (6.1)
	 07.00	Total trade balance (goods trade balance) £bn	Sep	-6.5 (-18.5)	-7.0 (-21.7)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 07 November 2022		
UK 	15.00	BoE to sell medium-term gilts
Tuesday 08 November 2022		
Germany 	10.30	Auction: To sell €6bn of 0% 2024 bonds
Wednesday 09 November 2022		
Euro area 	09.00	ECB consumer expectations survey results – September 2022
Germany 	10.30	Auction: To sell €4bn of 1.7% 2032 bonds
UK 	10.00	Auction: To sell £2.75bn of 0.875% 2033 bonds
Thursday 10 November 2022		
Euro area 	09.00	ECB publishes Economic Bulletin
	13.00	ECB's Schnabel, Kazimir and Vasle scheduled to speak
UK 	00.01	KPMG/REC report on jobs
	10.00	Auction: To sell £3.5bn of 4.125% 2027 bonds
Friday 11 November 2022		
Euro area 	10.00	European Commission publishes its latest economic forecasts
	12.00	ECB's Panetta scheduled to speak
	12.00	ECB's Guindos scheduled to speak
	16.00	ECB's Chief Economist Lane scheduled to speak
Italy 	10.00	Auction: 3Y and 7 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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