

Euro wrap-up

Overview

- Bunds made losses as Bank of France Governor Villeroy suggested that interest rates should continue to increase for as long as underlying price pressures are rising, and German IP data beat expectations.
- Gilts made more sizeable losses amid lower demand at the BoE's second gilt selling operation.
- Tuesday will bring euro area retail sales for September and a UK retail sales survey for October.

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Daily bond market movements

Bond	Yield	Change
BKO 0.4 09/24	2.164	+0.052
OBL 1.3 10/27	2.199	+0.036
DBR 1.7 08/32	2.316	+0.027
UKT 1 04/24	3.208	+0.131
UKT 1½ 07/27	3.519	+0.097
UKT 4¼ 06/32	3.618	+0.081

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

Euro area

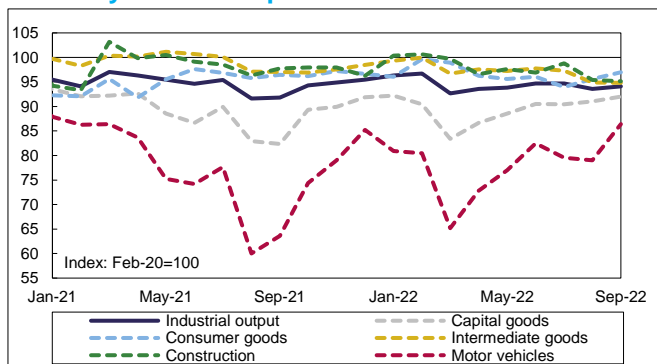
German IP beat expectations in September, but sideways trend maintained in Q3

At face value, today's German IP data beat expectations, with real-terms production up 0.6%M/M in September compared to the median forecast on the Bloomberg survey of 0.1%M/M. However, revisions meant that the contraction in August was much deeper than previously thought at -1.2%M/M. And, looking through the monthly noise, growth in September merely extended the broadly sideways trend in play since the second half of 2021. Indeed, over Q3 as a whole, IP rose just 0.1%Q/Q. And production in September was still almost 6% below the pre-pandemic level in February 2020. Growth in September was led by manufacturing and mining output, which rose 0.7%M/M to be up 0.5%Q/Q in Q3, with capital goods up 2.9%Q/Q as supply chain disruption eased somewhat in the autos sub-sector, where output rose more than 9%M/M in September and 5½%Q/Q in Q3. But shortages of raw materials and components continued to act as a restraint, particularly on production of consumer and intermediate items, which fell 0.5%Q/Q and 1.9%Q/Q respectively in Q3. And energy-intensive firms (e.g. metals and chemicals) continued to cut output aggressively (down 0.9%M/M in September to be almost 12% below the last year's peak and down almost 5%Q/Q in Q3). With confidence extremely low, and domestic and external [demand weakening](#), we expect German industrial production in all major sub-sectors to contract in Q4 and further in the New Year.

Construction PMIs paint a bleak picture for the near-term outlook

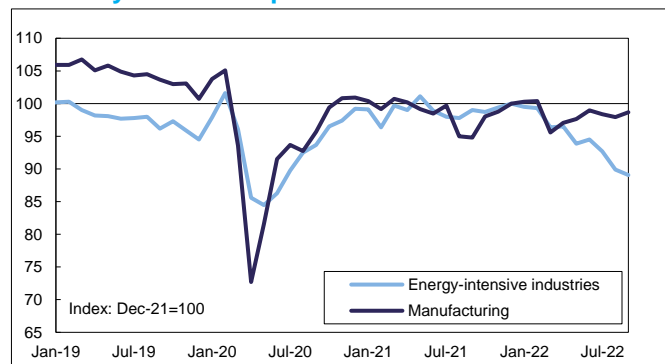
Today's production release suggested that the downtrend in German construction persisted at the end of Q3 too, with activity down 0.3%M/M in September following the slump in August (-3.5%). This left output in the sector a little more than ½% lower over the third quarter as a whole and almost 5% below the pre-pandemic level. The contraction is hardly surprising given signals from recent surveys. And while today's German construction PMI increased 2pts in October, at 43.8 it remained consistent with significant contraction, with the weakness most acute in residential housing (41.0) and new orders declining at an even steeper pace (35.7). Meanwhile, there was a marked deterioration in the equivalent French PMI, which fell 4.8pts to 44.3, a twenty-month low, amid the steepest drop in housing activity since May 2020. So, although there was a modest uptick in the Italian construction index, by 0.9pt to a still-contractionary 48.1, the overall euro area PMI fell 0.4pt to 44.9, the second-weakest reading since January 2021, with the housing index (42.6) the lowest since May 2020. Perhaps unsurprisingly given rising borrowing costs and low confidence, the outlook for the sector remained pretty bleak, with new orders the weakest since May 2020. And with the survey index of input costs having ticked higher again, firms' business expectations for the year ahead were among the lowest since the series began in 2000.

Germany: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Industrial production



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

The day ahead in the euro area

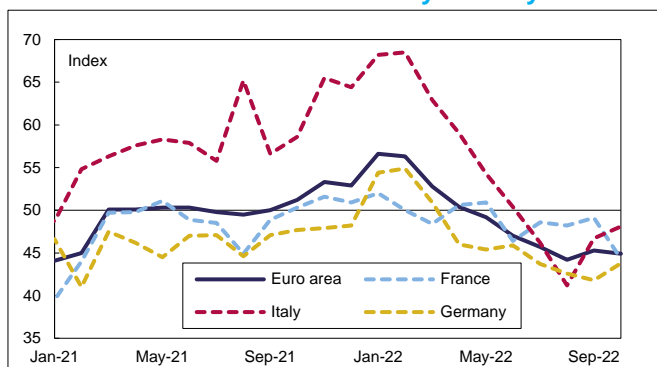
Tomorrow will bring euro area retail sales figures for September. While [German](#) sales surprised on the upside in September, any growth in aggregate euro area sales will be limited by households' diminished purchasing power amid record high prices.

UK

The day ahead in the UK

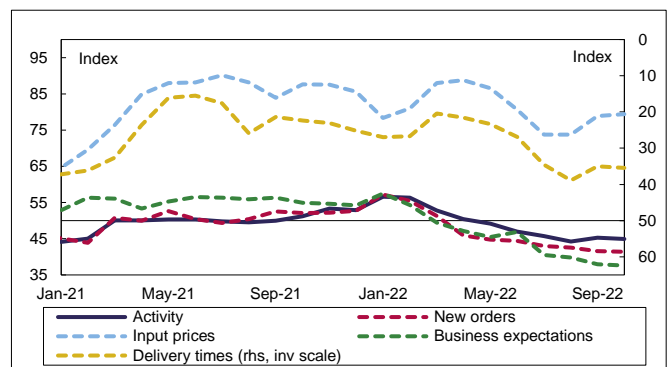
After a day bereft of UK economic releases, tomorrow should be another relatively quiet day for economic news, with just the BRC retail sales monitor for October. With households' real disposable income declining and confidence near a record low, this survey seems likely to signal ongoing subdued sales growth at the start of Q4, although the headline measure might well be flattered by a low base a year earlier as well as some payback following the Bank Holiday shortened trading month in September. Separately, BoE Chief Economist Huw Pill is due to speak.

Euro area: Constructions PMIs by country



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

Euro area: Construction 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	 Construction PMI	Oct	44.9	-	45.3	-
	 Sentix investor confidence	Nov	-30.9	-35.0	-38.3	-
Germany	 Industrial production M/M% (Y/Y%)	Sep	0.6 (2.6)	0.1 (2.0)	-0.8 (2.1)	-1.2 (1.6)
	 Construction PMI	Oct	43.8	-	41.8	-
France	 Construction PMI	Oct	44.3	-	49.1	-
Italy	 Construction PMI	Oct	48.1	-	46.7	-





Auctions

Country	Auction
UK	 BoE sold £750mn of 2030-2039 gilts



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	 10.00	Retail sales M/M% (Y/Y%)	Sep	0.4 (-1.1)	-0.3 (-2.0)
France	 07.45	Trade balance €bn	Sep	-14.7	-15.3
Italy	 09.00	Retail sales M/M% (Y/Y%)	Sep	0.2 (-)	-0.4 (4.3)
UK	 00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Oct	-	1.8

Auctions and events

Germany	 10.30	Auction: To sell €6bn of 0% 2024 bonds
UK	 09.00	BoE Chief Economist Pill speaks as a panellist at a conference on 'Global monetary policy challenges'

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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