

Euro wrap-up

Overview

- Bunds followed USTs higher, even as the German government announced plans to more than double its net issuance in 2023 to €45bn.
- Shorter-dated Gilts made losses as BoE Chief Economist Pill reiterated that further monetary tightening was required with 'risks in the UK economy tilted towards more inflation'.
- Wednesday will bring the ECB's consumer expectations survey for September and a UK labour market survey, while Friday brings the first estimate of UK Q3 GDP.

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.219	-0.016
OBL 1.3 10/27	2.174	-0.050
DBR 1.7 08/32	2.262	-0.076
UKT 1 04/24	3.263	+0.045
UKT 1½ 07/27	3.496	-0.028
UKT 4½ 06/32	3.556	-0.083

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

Source: Bloomberg

Euro area

Euro area retail sales fell in Q3 despite a pickup in September

Despite households' purchasing power being further diminished by record high inflation, today's euro area retail sales data showed that spending on goods rose in September, by 0.4%M/M, with the previously estimated decline in August (-0.3%M/M) revised away too. The improvement at the end of Q3 was broad based, with sales on core items (1.0%M/M) posting the strongest growth for five months, while food sales rose (0.4%M/M) for the second month out of the past three, as did non-store sales (2.6%M/M). Admittedly, there was a dip in spending on fuel (-0.6%M/M) as the price of petrol rose. And while there were sizeable rebounds in Germany (0.9%M/M) and the Netherlands (1.3%M/M) in September, sales in France and Spain merely eked out modest growth (0.2%M/M) and sales were down in Italy (-0.1%M/M). Moreover, despite the modest bounce in September, retail sales in real terms maintained a downwards trend last quarter, with volumes down 0.7%Q/Q in Q3, the third consecutive contraction to leave them almost 2½% lower than the peak last year. In marked contrast, nominal sales were up more than 1½%Q/Q in Q3 and more than 9%Y/Y in September. And with prices having continued to trend sharply higher and confidence remaining at historical lows, the shortfall in sales volumes relative to values is likely to continue to widen further.

The coming few days in the euro area

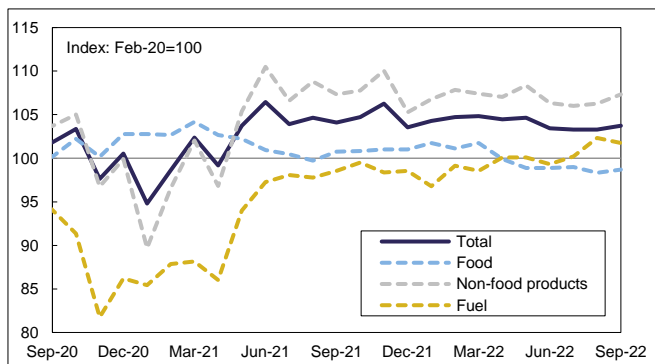
A relatively quiet few days ahead for euro area top-tier economic indicators brings the ECB monthly consumer expectations survey results tomorrow, with most focus on September's update for inflation expectations 12 months and three years ahead. Following yesterday's German figures, IP numbers from Ireland (tomorrow) and Italy (Thursday) will provide a further guide to the euro area's aggregate industrial production figures.

UK

BRC survey suggests subdued retail sales growth amid higher prices

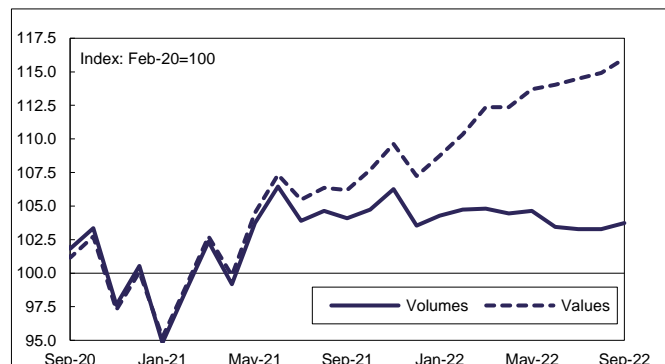
Contrasting with the CBI distributive trades survey, today's BRC retail sales monitor signalled a slowdown in spending growth at the start of Q4. In particular, the measure of the like-for-like value of sales fell 0.6ppt to 1.2%Y/Y, even in spite of the further jump in prices that month – indeed, the BRC's shop price index rose to a record high 6.6%Y/Y in October – suggesting that in real terms retail sales were well down on levels a year ago. Certainly, the impact of higher food inflation (up 1ppt to 11.6%Y/Y on the BRC shop price gauge) was evident in the BRC food sales index, with like-for-like sales in nominal terms up 0.5ppt to 4.7%3M/Y. And with households' budgets being increasingly squeezed by higher prices and

Euro area: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales



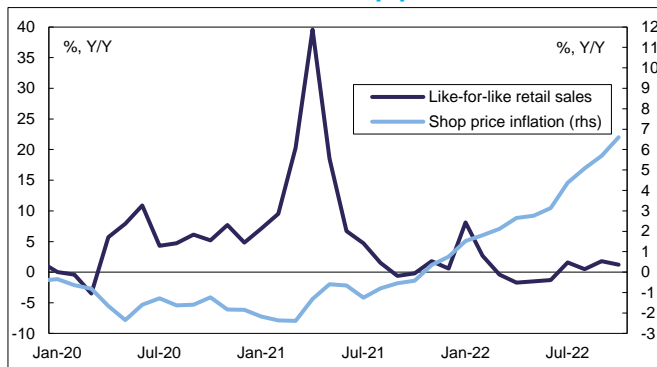
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

rising borrowing costs, consumers continue to scale back spending on non-essential items, with non-food sales down 1.8%3M/Y, despite prices being up more than 4%Y/Y. So, while the official retail sales data in seasonally-adjusted terms might well receive a boost in October as payback following the Bank Holiday shortened trading month in September, some consumers may well have been holding off non-essential spending until November's Black Friday deals. And overall, with confidence still near record lows and real disposable income falling significantly, the underwhelming spending trend seems likely to be maintained over coming months and into the New Year.

The coming few days in the UK

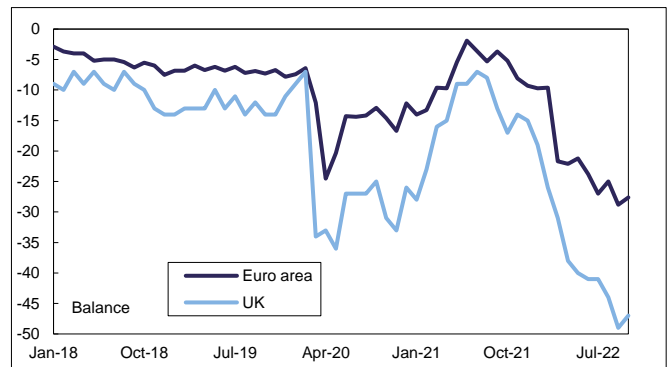
Following last week's very gloomy economic assessment from the [BoE](#), the main release over the remainder of the week will be the first estimate of Q3 GDP and associated monthly output and trade figures for September on Friday. Not least reflecting the impact of the period of national mourning and 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. Ahead of this will bring the REC/KPMG report on jobs (tomorrow) and RICS residential survey (Thursday).

UK: BRC retail sales and shop price inflation



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

Euro area & UK: Consumer confidence







Source: Refinitiv, EC, GfK and Daiwa Capital Markets Europe Ltd.

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

European calendar


Today's results



Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Retail sales M/M% (Y/Y%)	Sep	0.4 (-0.6)	0.4 (-1.1)	-0.3 (-2.0)	0.0 (-1.4)
France	 Trade balance €bn	Sep	-17.5	-14.3	-15.3	-
UK	 BRC retail sales monitor, like-for-like sales Y/Y%	Oct	1.2	-	1.8	-

Auctions	
Country	Auction
Germany	 sold €4.59bn of 0% 2024 bonds at an average yield of 2.28%

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	 09.00	ECB consumer price expectations, 3 years ahead Y/Y%	Sep	-	3.0	

Auctions and events		
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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases














Economic data						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
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	

Auctions and events		
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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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)
Auctions and events					
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			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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