

Euro wrap-up

Overview

- Bunds reversed much of yesterday's gains as the German government approved additional net issuance in 2023 and October's CPI inflation data confirmed a post-reunification high.
- Gilts also made losses as UK Q3 GDP beat expectations, but nevertheless still confirmed contraction for the first quarter in six.
- The coming week brings euro area IP data and UK labour market, CPI and retail sales figures, along with the UK government's long-awaited fiscal strategy update.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.163	+0.165
OBL 1.3 10/27	2.075	+0.163
DBR 1.7 08/32	2.152	+0.152
UKT 1 04/24	3.173	+0.069
UKT 1¼ 07/27	3.370	+0.059
UKT 4¼ 06/32	3.366	+0.077

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

Source: Bloomberg

UK

UK GDP beat expectations in Q3, but still confirmed contraction for first time in six quarters

While the first estimate of UK GDP beat expectations in Q3, the economy still contracted for the first time in six quarters, and for the first time since the pandemic lockdowns, with the 0.2%Q/Q decline the steepest since the global financial crisis in 2009 when excluding lockdown periods. Today's report confirmed a marked decline in GDP in September (-0.6%M/M), with the ONS estimating that the additional bank holiday for the Queen's funeral accounted for at least half of this monthly contraction as consumer-facing services activity fell a further 1.7%M/M, to be some 10% below the pre-pandemic level. So, despite a rebound in demand earlier in the summer, overall services output was flat in Q3 as the impact of higher prices took its toll on spending. Notwithstanding a boost from the autos subsector (5.9%M/M) as supply constraints eased, manufacturing output merely moved sideways in September to be down a marked 2.3%Q/Q, the most since Q220. And while construction beat expectations in September (0.4%M/M), the quarterly increase (0.6%Q/Q) was the softest for a year. So, although GDP was still up 2.4%Y/Y, today's release confirmed that the UK is the only G7 economy with output still below the pre-pandemic peak (-0.4%) in marked contrast with the US and euro area where output in Q3 was 4.2% and 2.1% above the respective Q419 level.

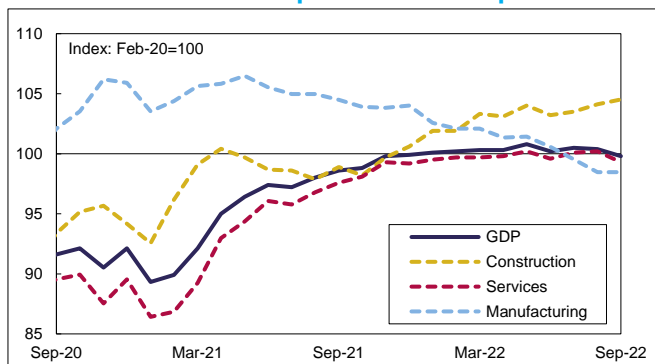
Household consumption declines as higher prices diminish purchasing power

Unsurprisingly, given diminishing households' purchasing power as inflation rose to its highest since the early 1990s, the contraction in GDP last quarter was led by private consumption, which declined (-0.5%Q/Q) for the first quarter since Q121. Spending on clothing, furniture and other household goods, food and transport all fell. So the annual pace of increase slowed sharply (down 3.5ppts to 0.8%Y/Y), and spending was still more than 3% lower than the pre-pandemic level. The impact of higher prices was clearly evident, with consumption in nominal terms up 1.7%Q/Q, 10.0%Y/Y. And with employee compensation up 1.2%Q/Q, today's release suggests that households' savings fell further in Q3. The weakness in household spending was offset by the first rise in government spending (1.3%Q/Q) in three quarters, while fixed investment (2.3%Q/Q) returned to the pre-pandemic level for the first time, boosted by the public sector and construction. But business capex remained extremely subdued, falling 0.5%Q/Q in Q3 to be almost 8½% lower than the pre-pandemic level and more than 6½% below the Brexit referendum level in Q216.

Exports boosted by highly erratic non-monetary gold, inventories impacted by lower demand

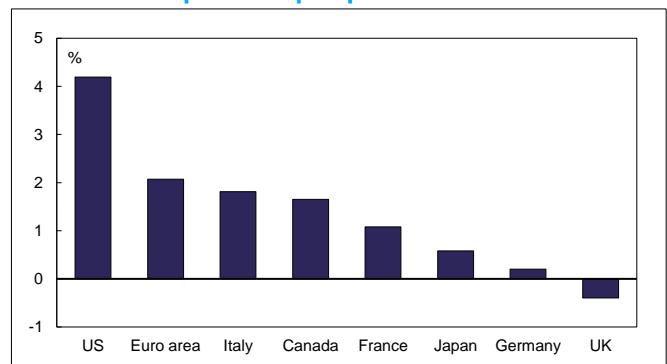
In contrast, net trade made a significant contribution to GDP growth, of 3.4ppts, with export volumes jumping 8.0%Q/Q, while import volumes fell more than 3%Q/Q. Given also the adjustment in relative prices, the overall trade deficit improved further

UK: GDP and selected production components



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

G7: GDP compared to pre-pandemic level*



*Change between Q419 and Q322, except Canada where the latest data are for Q222. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

in nominal terms in Q3, by 2.2ppts to 2.0% of GDP. But that improvement largely reflected shipments of highly erratic non-monetary gold over the past quarter, excluding which the underlying deficit narrowed only marginally, by 0.2ppt to a still-historically high 3.8% of GDP. Finally, inventories fell sharply in Q3, subtracting 3.9ppts from GDP growth, as anecdotal evidence suggested that retailers reduced stock amid lower demand, while manufacturers continued to face supply difficulties. So, while today's GDP estimate came in above the BoE's expectations (-0.5%Q/Q), the detail of the report will have done nothing to alter what is an extremely bleak economic backdrop. And while October's GDP might well see some payback from the negative impact of the additional bank holiday in September, the ongoing erosion of households' real disposable income amid higher inflation and rising borrowing costs, and persisting economic uncertainty as a global recession looms will weigh further on UK GDP this quarter and beyond.

Survey signals first decline in permanent job placements since February 2021

With surveys pointing to a further worsening in economic conditions at the start of Q4, the latest REC report on jobs published yesterday implied the first decline in permanent placements since February 2021, with temporary billings also stagnating in October. And while demand for staff continued to increase, growth in job vacancies eased for the sixth successive month. But, given greater reluctance to switch jobs during a more challenging economic backdrop and fewer foreign workers, the lack of appropriate candidates and higher cost-of-living continued to put upwards pressure on starting salaries. This notwithstanding, the relevant survey measure for permanent roles fell for the seventh consecutive month and to its lowest for eighteen months.

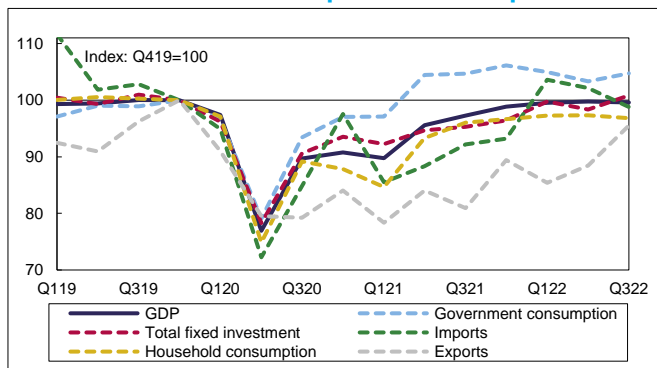
As mortgage rates jump, RICS survey flags loss of momentum in the UK housing market

Yesterday's RICS residential survey made for gloomy, albeit not surprising, reading too. In particular, after BoE data published earlier this week saw the average interest rate for a 2Y 75% LTV mortgage jump 184bps to 6.01% in October, some 480bps higher than the low in September 2021 and the highest since 2008, the RICS survey reported a marked decline in new buyer enquiries last month. And while a shortage of vendor instructions continues to support house prices, the survey's headline price index fell sharply too, slipping into negative territory for the first time since June 2020. Furthermore, near-term expectations for sales and prices worsened further, with price expectations in twelve months' time the weakest since 2010. So, while mortgage rates have eased back slightly over recent weeks from the peak above 6½% in October, the housing market will continue to suffer, with house prices certainly set to weaken.

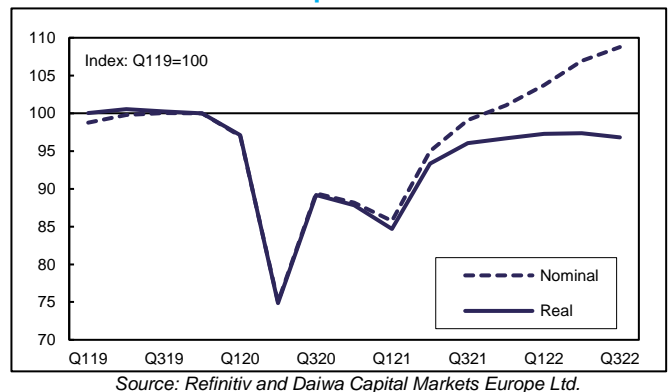
The week ahead in the UK

It will be a busy week ahead for top-tier UK releases, including labour market (Tuesday), CPI (Wednesday) and retail sales data (Friday), while Chancellor Hunt will present his long-awaited fiscal strategy alongside updated OBR forecasts for the

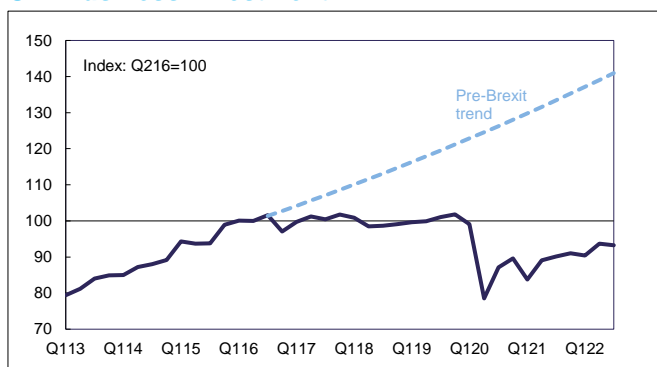
UK: GDP and selected expenditure components



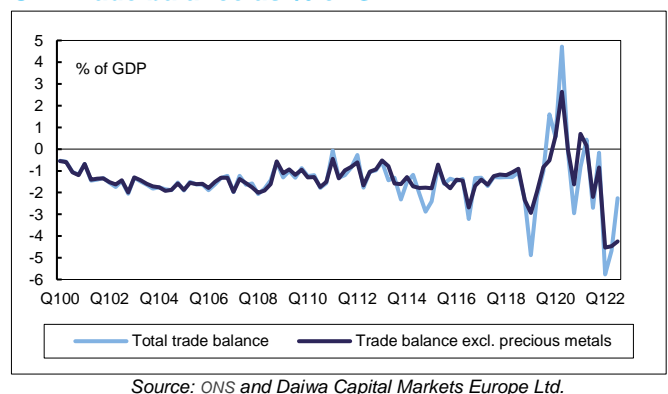
UK: Household consumption



UK: Business investment



UK: Trade balance as % of GDP



economy and public finances. Having fallen in the three months to August (-109k) for first time since January and by the most since February 2021, surveys suggest that employment dropped further in September consistent with the deteriorating economic backdrop. But, not least due to continued weakness in labour force participation, the unemployment rate is expected to have moved sideways at 3.5%, implying a very tight jobs market. Wednesday's inflation figures will be a key focus too, with the step-up in household energy bills last month likely to see headline inflation jump again in October: we forecast an above-consensus rise of 0.8ppt to 10.8%Y/Y. Indeed, when excluding food and energy, core inflation could have moved sideways at an admittedly still-elevated 6.5%Y/Y. Meanwhile, Friday's retail sales data for October might well report a modest bounce following September's bank holiday dampened demand for goods. But these data are also likely to illustrate the deterioration in households' purchasing power, with limited spending on non-essentials and big ticket items. And the latest GfK consumer confidence survey (Friday) seems bound to offer a gloomy outlook for near-term spending prospects too.

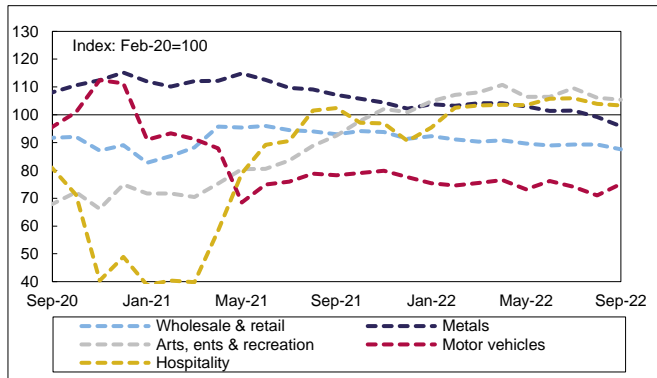
Attention on Thursday will be on Chancellor Hunt's Autumn Statement and accompanying economic and fiscal forecasts from the OBR. This follows Hunt's decision last month to reverse the majority of the measures announced in Kwarteng's disastrous 'mini-budget' on 23 September, including the decision to go ahead with the previously legislated increase in the rate of corporation tax to 25% next April. But while the Treasury estimated that the U-turn on many of Kwarteng's measures saved roughly £32bn, and debt interest payments will be lower than they would have been had the Statement gone ahead on 31 October as previously planned, not least due to the significant cost of the energy price guarantee through to next April, reports suggest that the Chancellor plans to tighten policy by around £54bn (2.4% of 2021 GDP) over five years. Sizeable spending cuts worth £33bn would suggest a return to fiscal austerity while tax hikes worth around £21bn might also be difficult for Conservative party backbench MPs to stomach. The extent to which cuts in public spending and tax increases will be back-loaded beyond the monetary policy horizon and indeed beyond the likely date of the next general election will be important for the outlook for inflation and monetary policy. Ahead of this, BoE Governor Bailey and several MPC members including the newest external member Dhingra will be questioned by the Treasury Select Committee on the MPC's latest Monetary Policy Report on Wednesday.

Euro area

German inflation confirmed at a post-reunification high amid broadening price pressures

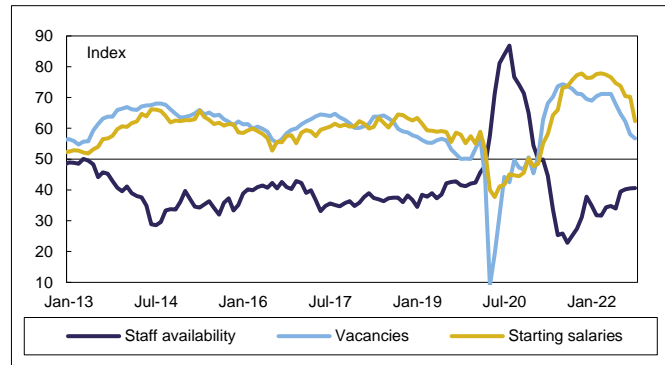
Final German consumer price inflation figures for October aligned with the flash estimates that showed the headline HICP rate jump 0.7ppt to a series-high 11.6%Y/Y. Likewise, on the national measure, headline inflation was confirmed at a post-reunification higher of 10.4%Y/Y. Despite the reduction in VAT duty on natural gas and heating prices last month (from 19%

UK: Selected manufacturing & services output



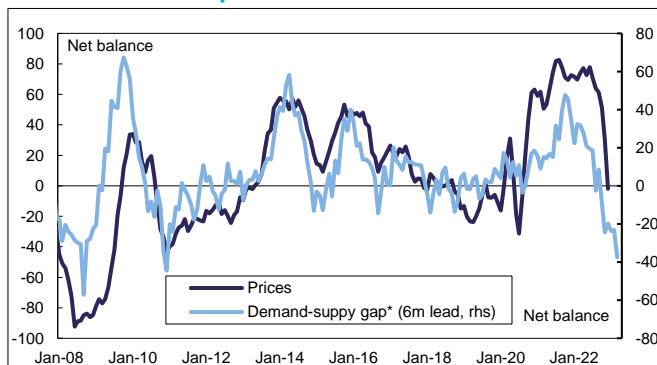
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Labour market survey indicators



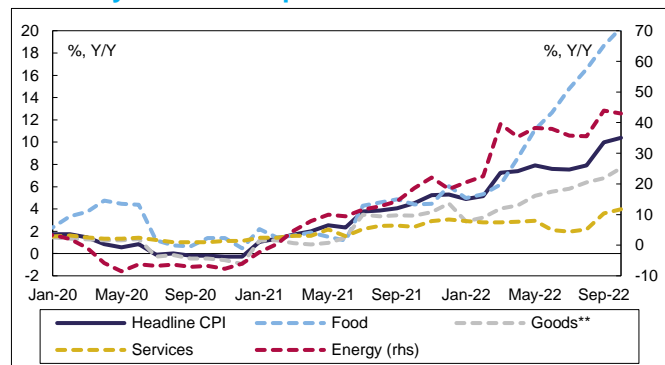
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: RICS house price indicators



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Consumer price inflation*



*National measure. **Non-energy industrial goods. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.










to 7%) and a sizeable drop in the annual increase in petrol prices (8ppts to 20.3%Y/Y), energy inflation eased only marginally (from 43.9%Y/Y, to 43.0%Y/Y) to still account for 4½ppts of headline inflation. Food inflation also maintained an upwards trend (up 1.6ppts to 20.3%Y/Y). But there was a broadening of underlying price pressures too, with the core CPI rate up 0.4ppt to 5.0%Y/Y. Indeed, our estimate of non-energy goods inflation rose 0.9ppt to 7.7%Y/Y, with clothing and other household goods rising further. Meanwhile, despite an easing in hotel and restaurant costs for the first time in nineteen months, services inflation increased 0.4ppt to 4.0%Y/Y.

The week ahead in the euro area

The coming week's calendar gets underway with the release of euro area industrial production figures on Monday. Data published by the member states have been mixed, with positive growth in Germany (0.8%M/M) and Ireland (11.9%) contrasting with declines in France (-0.7%), Italy (-1.8%), Spain (-0.4%) and Portugal (-2.5%). Overall, we anticipate euro area IP to have risen by a little more than ½%M/M in September, despite an easing in supply constraints and associated sizeable boost to autos output, to leave output broadly flat over the third quarter as a whole. This notwithstanding, the second estimate of Q3 GDP (Tuesday) is expected to confirm positive growth of 0.2%Q/Q, a marked deceleration from the pace of recovery in H122 when growth averaged 0.7%Q/Q, but firmer than surveys had originally suggested. As such, while employment is likely to have maintained an upwards trend in Q3, the rate of increase is also expected to have slowed from 0.4%Q/Q in Q2. September's goods trade figures (Tuesday) will likely suggest that net trade was a drag on GDP in Q3, with construction output numbers (Thursday) similarly set to signal contraction last quarter. Thursday will also bring an updated estimate of euro area HICP inflation in October, including a detailed component breakdown and additional measures of underlying price pressures including the ECB's trimmed mean figures. The flash release saw headline inflation jump 0.8ppt to a record high of 10.7%Y/Y, with the core rate up 0.4ppt to 6.4%Y/Y.

The next edition of the Euro wrap-up will be published on 15 November 2022

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	-0.2	-0.4	-0.3	-0.5	-0.3	4.3	-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/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Final CPI M/M% (Y/Y%)	Oct	0.9 (10.4)	0.9 (10.4)	1.9 (10.0)	-
	 Final EU-harmonised CPI M/M% (Y/Y%)	Oct	1.1 (11.6)	1.1 (11.6)	2.2 (10.9)	-
UK	 GDP – first estimate Q/Q% (Y/Y%)	Q3	-0.2 (2.4)	<u>-0.5 (2.1)</u>	0.2 (4.4)	-
	 GDP M/M%	Sep	-0.6	<u>-0.4</u>	-0.3	-0.1
	 Industrial production M/M% (Y/Y%)	Sep	0.2 (-3.1)	-0.3 (-4.4)	-1.8 (-5.2)	-1.4 (-4.3)
	 Manufacturing production M/M% (Y/Y%)	Sep	0.0 (-5.8)	-0.4 (-6.8)	-1.6 (-6.7)	-1.1 (-6.2)
	 Index of services M/M% (3M/3M%)	Sep	-0.8 (0.0)	-0.5 (-0.2)	-0.1 (-0.1)	0.1 (0.1)
	 Construction output M/M% (Y/Y%)	Sep	0.4 (5.7)	-0.6 (4.5)	0.4 (6.1)	0.6 (6.4)
	 Total trade balance (goods trade balance) £bn	Sep	-3.1 (-15.7)	-7.0 (-18.6)	-7.0 (-21.7)	-4.7 (-17.2)



Auctions

Country	Auction
Italy	 sold €2.75bn of 3.50% 2026 bonds at an average yield of 3.22%
	 sold €4.00bn of 3.85% 2029 bonds at an average yield of 3.84%
	 sold €2.00bn of 4.00% 2035 bonds at an average yield of 4.26%


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
Italy	 Industrial production M/M% (Y/Y%)	Sep	-1.8 (-0.5)	-1.5 (1.0)	2.3 (2.9)	-
UK	 RICS house price balance %	Oct	-2	18	32	30

Auctions

Country	Auction
UK	 sold £3.5bn of 4.125% 2027 bonds at an average yield of 3.626%

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> forecast/actual	Previous
Monday 14 November 2022					
Euro area	10.00	Industrial production M/M% (Y/Y%)	Sep	<u>0.8 (3.5)</u>	1.5 (2.5)
UK	00.01	Rightmove house price index M/M% (Y/Y%)	Nov	-	0.9 (7.8)
Tuesday 15 November 2022					
Euro area	10.00	GDP – second estimate Q/Q% (Y/Y%)	Q3	0.2 (2.1)	0.8 (4.1)
	10.00	Employment – first estimate Q/Q% (Y/Y%)	Q3	-	0.4 (2.7)
	10.00	Trade balance €bn	Sep	-45.0	-47.3
Germany	10.00	ZEW current assessment (expectations) balance	Nov	-68.1 (-50.0)	-72.2 (-59.7)
France	06.30	ILO unemployment rate %	Q3	7.3	7.4
	07.45	Final CPI M/M% (Y/Y%)	Oct	<u>1.0 (6.2)</u>	-0.6 (5.6)
	07.45	Final HICP M/M% (Y/Y%)	Oct	<u>1.3 (7.1)</u>	-0.5 (6.2)
Spain	08.00	Final CPI M/M% (Y/Y%)	Oct	<u>0.4 (7.3)</u>	-0.7 (8.9)
	08.00	Final HICP M/M% (Y/Y%)	Oct	<u>0.1 (7.3)</u>	-0.2 (9.0)
UK	07.00	Payrolled employees monthly change '000s	Oct	-	69
	07.00	Unemployment claimant count % (change '000s)	Oct	-	3.9 (25.5)
	07.00	Average earnings including (excluding) bonuses 3M/Y%	Sep	5.9 (5.5)	6.0 (5.4)
	07.00	ILO unemployment rate 3M%	Sep	3.5	3.5
	07.00	Employment change 3M/3M '000s	Sep	-30	-109
Wednesday 16 November 2022					
Italy	09.00	Final CPI M/M% (Y/Y%)	Oct	<u>3.5 (11.9)</u>	0.3 (8.9)
	09.00	Final HICP M/M% (Y/Y%)	Oct	<u>4.0 (12.8)</u>	1.6 (9.4)
UK	07.00	CPI M/M% (Y/Y%)	Oct	<u>1.8 (10.8)</u>	0.5 (10.1)
	07.00	Core CPI Y/Y%	Oct	<u>6.5</u>	6.5
	07.00	PPI output prices M/M% (Y/Y%)	Oct	0.5 (14.6)	0.2 (15.9)
	07.00	PPI input prices M/M% (Y/Y%)	Oct	0.2 (18.1)	0.4 (20.0)
	07.00	House price index Y/Y%	Sep	-	13.6
Thursday 17 November 2022					
Euro area	07.00	EU27 new car registrations Y/Y%	Oct	-	9.6
	10.00	Final HICP M/M% (Y/Y%)	Oct	<u>1.5 (10.7)</u>	1.2 (9.9)
	10.00	Final core HICP Y/Y%	Oct	<u>5.0</u>	4.8
	10.00	Construction output M/M% (Y/Y%)	Sep	-	-0.6 (2.3)
Italy	09.00	Trade balance €bn	Sep	-	-9.6
Friday 18 November 2022					
UK	00.01	GfK consumer confidence	Nov	-46	-47
	07.00	Retail sales including auto fuel M/M% (Y/Y%)	Oct	0.4 (-6.5)	-1.4 (-6.9)
	07.00	Retail sales excluding auto fuel M/M% (Y/Y%)	Oct	0.6 (-6.8)	-1.5 (-6.2)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country		GMT	Event / Auction
Monday 14 November 2022			
Euro area		12.00	ECB's Panetta scheduled to speak
		16.15	ECB's de Guindos scheduled to speak
UK		15.00	BoE sells short-dated gilts
Tuesday 15 November 2022			
Euro area		03.00	ECB's Villeroy scheduled to speak
Germany		10.30	Auction: €4bn of 2.1% 2029 bonds
UK		10.00	Auction: £3.25bn of 1% 2032 bonds
		10.00	Auction: £2.25bn of 0.875% 2046 bonds
Wednesday 16 November 2022			
Euro area		12.45	ECB's Villeroy scheduled to speak
		15.00	ECB President Lagarde scheduled to speak
		-	ECB publishes Financial Stability Review
Germany		10.30	Auction: €1.5bn of 1% 2038 bonds
UK		14.15	BoE Governor Bailey and MPC members testify on November's Monetary Policy Report before Treasury Select Committee
Thursday 17 November 2022			
Euro area		15.00	ECB's Villeroy scheduled to speak
France		09.50	Auction: 0.75% 2028 bonds
		09.50	Auction: 0.50% 2029 bonds
		10.50	Auction: 0.10% 2031 index-linked bonds
		10.50	Auction: 3.15% 2032 index-linked bonds
		10.50	Auction: 0.10% 2047 index-linked bonds
Spain		09.30	Auction: 0.00% 2025 bonds
		09.30	Auction: 0.70% 2032 bonds
		09.30	Auction: 5.15% 2044 bonds
UK		12.30	Chancellor Hunt to deliver Autumn Statement with OBR forecast
		12.30	BoE Chief Economist Pill scheduled to speak
Friday 18 November 2022			
Euro area		08.30	ECB President Lagarde scheduled to speak
		13.15	ECB's Knot and BoE's Mann scheduled to speak at ECB event

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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