

Euro wrap-up

Overview

- Longer-dated Bunds followed USTs lower as German factory orders beat expectations.
- Gilts also made losses on a quiet end to the week for UK economic news.
- The coming week brings data for euro area IP and UK GDP in August, as well as the account of the ECB's September monetary policy meeting.

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 3.1 09/25	3.120	-0.008
OBL 2.4 10/28	2.759	-0.001
DBR 2.6 08/33	2.894	+0.019
UKT 3½ 10/25	4.906	+0.026
UKT 4½ 06/28	4.587	+0.042
UKT 3¼ 01/33	4.598	+0.057

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

Source: Bloomberg

Euro area

German orders beat expectations in August, hinting bottom may have been reached

Today's German factory orders data for August beat expectations, with the increase of 3.9%M/M marking the fourth month of positive growth out of the past five. Admittedly, orders data are notoriously volatile, with the latest increase following a double-digit percentage drop in July, after several large-scale orders earlier in the summer distorted the monthly profile. Indeed, in the first two months of Q3, total orders were still trending more than 3% below the Q2 average. But on a three-month basis, orders were up 4.9%3M/3M, the strongest such rate since December 2020. When excluding bulk items, core orders recorded the first positive three-month growth rate (0.6%3M/3M) since March 2020 and were averaging in July and August 1% higher than in Q2, hinting that the bottom in the recent downturn might have now been reached. This notwithstanding, factory orders were still down more than 4%Y/Y and almost 17% below the peak in July 2021, with core orders some 12% below the pandemic peak too and 2.5% below the pre-pandemic level.

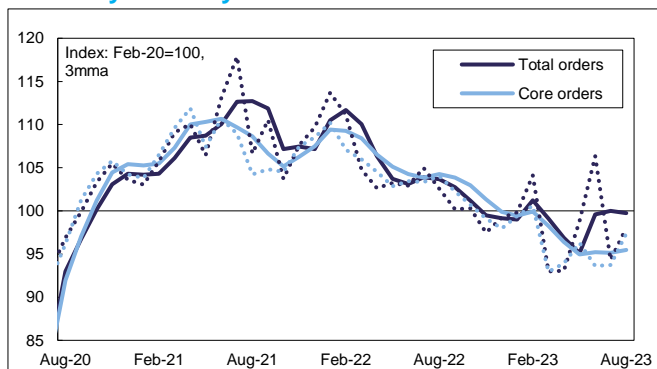
Broad based pick up in orders, with notable increase in computer and electronic goods

The pickup in orders in August appeared broad-based. Despite a further decline in capital goods, domestic orders rose 4.0%M/M to be up 0.4%3M/3M. And foreign orders were up more than 8%3M/3M, the strongest since October 2020, with similar rates for those from within and outside of the euro area. Within the sectoral breakdown, orders for consumer durables surged almost 25%M/M, the most for more than three years, amid a striking increase in computer and electronics orders (37.9%M/M) which reflected strength in a range of sub-components and payback for a dip the previous month. Orders for intermediate goods rose by the most in more than three years too (9.3%M/M), with a pickup in demand for various energy-intensive items including chemicals and basic metals. While car orders fell back in August (-2.4%M/M) they were still trending higher over the first two months of Q3. This notwithstanding, despite moving broadly sideways in August, total capital goods orders were trending more than 6% below the Q2 average.

Manufacturing turnover ticks higher, while backlogs remain exceptionally high in certain industries

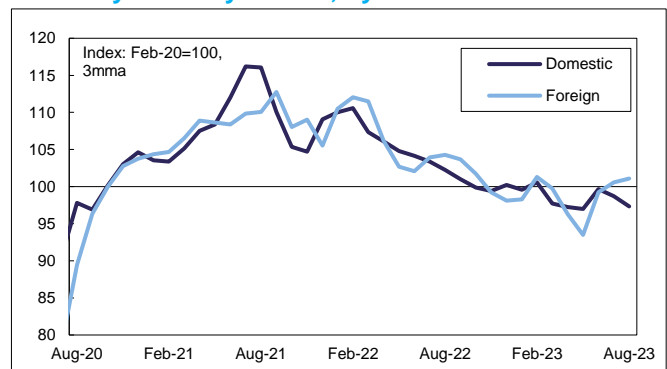
Looking ahead to Monday's release of German manufacturing production figures, today's turnover data for August reported a modest increase for the first month in three, by 0.5%M/M. The return to growth in turnover was supported by a jump in computers and electronics and textiles and chemicals, which offset a second-successive decline in autos as well as falls in the metals and paper subsectors. Germany's automobile association (VDA) suggested that the near-term outlook for the sector remained clouded by the termination of tax incentives for commercial electric vehicles at the end of August. Indeed, the latest car registrations figures reported a slight decline in September (-0.1%Y/Y) having surged in August (37.3%Y/Y).

Germany: Factory orders*



*Core orders exclude major items. Dotted lines represent unsmoothed data.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Factory orders, by destination



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

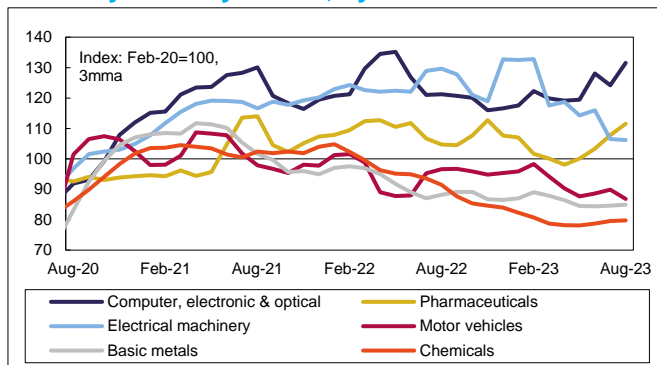
And while car production increased on the month in September it was down around 6½%Y/Y and still more than 18% below the equivalent month ahead of the pandemic. Encouragingly, however, the latest ifo institute survey suggested that auto manufacturers were notably more upbeat about production expectations for the coming three months. In contrast, the equivalent survey of chemicals producers signalled a slight deterioration in the business climate, perhaps reflecting the recent uptick in wholesale energy prices, with the expectations index firmly within the historically low range seen since Russia's invasion of Ukraine. Overall, the PMIs and ifo indices point to a continuation of the contraction trend in production in September. And the sector will likely be a non-negligible drag on GDP growth over Q3. But both surveys also suggest some progress towards a stabilisation in orders, at an admittedly low level. Moreover, backlogs in certain industries, including computers, electrical equipment and autos, remain historically high, which should provide support to manufacturing output over coming quarters.

The week ahead in the euro area

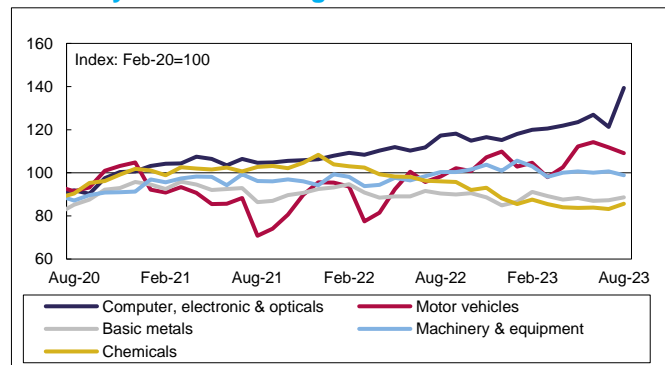
One key focus in the coming week will be the publication on Thursday of the ECB's account from its September policy-setting meeting. On that occasion, the Governing Council raised interest rates by a further 25bps, taking the deposit rate to a record high of 4.00% and the cumulative tightening since July 2022 to 450bps. But the Governing Council also hinted that this will likely mark the peak for the current tightening cycle, with the statement noting that "interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target". President Lagarde also noted in her press conference that some members of the Governing Council had already wanted to pause rather than raise rates further in September. So, the account will continue to illustrate a range of opinions on the Governing Council, while also suggesting that the balance of risks has become much more balanced, justifying the more dovish stance.

Ahead of this publication, Wednesday's release of the ECB's monthly consumer survey will provide an update on households' price, income, spending and economic growth expectations in August. In July, the median forecast for inflation expectations 12 months ahead moved sideways at 3.4%Y/Y, with expectations three years ahead nudged slightly higher to 2.4%Y/Y. Updated German inflation figures for September (Wednesday) will provide greater granularity on the flash estimates, which saw headline German HICP inflation drop 2.1ppts to a two-year-low of 4.3%Y/Y. Meanwhile, the equivalent French and Spanish numbers (Friday) are likely to confirm a slight easing by 0.1ppt to 5.6%Y/Y and an increase of 0.8ppt to 3.2%Y/Y respectively. With respect to other survey results, the Sentix investor confidence indices for October are due to be published on Monday.

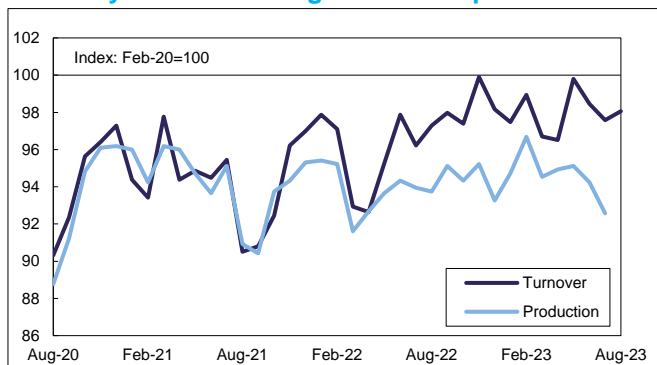
Germany: Factory orders, by subsector



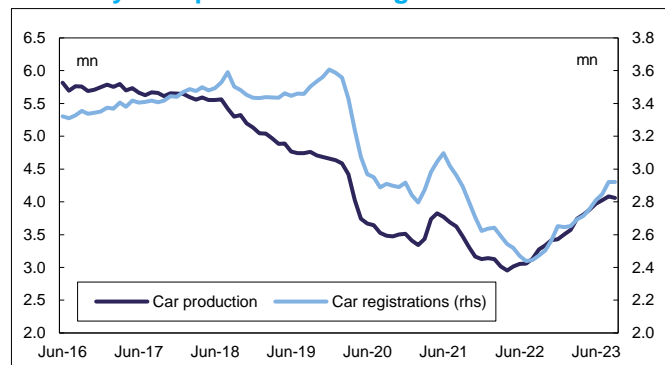
Germany: Manufacturing turnover



Germany: Manufacturing turnover & production



Germany: Car production & registrations



In terms of economic activity, the manufacturing sector will remain in focus, kicking off with the aforementioned German industrial production figures (Monday), which will be accompanied by the release of the notoriously volatile Irish numbers. These will be followed by equivalent figures from Italy (Tuesday) and the euro area as a whole (Friday). Based on data from some of the member states published so far, including the declines registered in France and Spain, we expect to see a second successive drop in euro area IP in August, following a decline of 1.1%M/M in July.

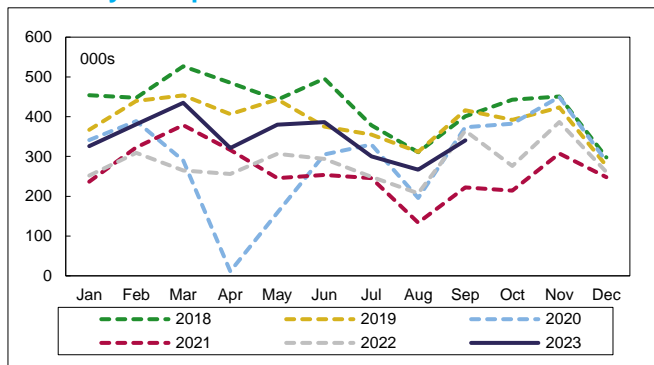
UK

The week ahead in the UK

The main economic focus in the UK in the coming week will be the release on Thursday of the monthly GDP report for August. Survey indicators, including the PMIs, signalled a deterioration in economic momentum over the summer, with the composite output index slumping more than 2pts to 48.6 in August, a level that in the five years before the pandemic would have been consistent with a substantive contraction in GDP. This notwithstanding, we expect some positive payback for the weather-associated weakness in July, which saw GDP decline 0.5%M/M. Certainly, retail sales in August (0.4%M/M) reversed some of the decline in July (-1.1%M/M). Overall, we expect GDP to have risen around 0.2%M/M in August, to leave growth on a three-month basis moderately positive at 0.3%3M/3M, which would be the firmest in thirteen months. Within the detail, we expect modest rebounds in services, manufacturing, and construction activity that month, which will be insufficient to fully reverse the contraction at the start of Q3.

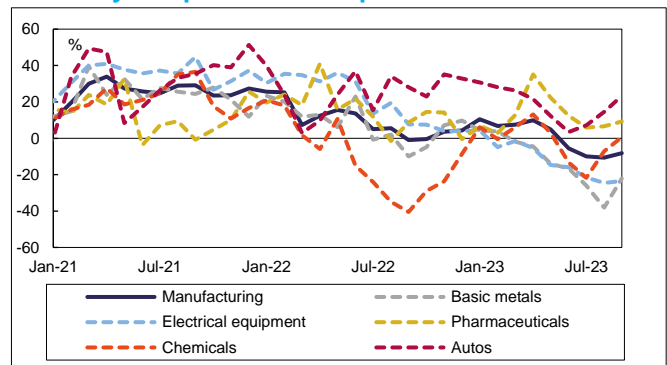
In terms of survey results, reflecting lacklustre economic momentum, the latest REC report on jobs (due Wednesday) will likely point to a further loosening in the labour market in September. In August, the survey suggested that, amid falling job vacancies, permanent placements fell by the most since the early stages of the pandemic. As such, while still historically elevated, the survey's measure of permanent starting salaries moderated to its lowest since April 2021 signalled the likelihood of a slowdown in average labour earnings over coming months. Meanwhile, amid weaker job prospects and high borrowing costs, the RICS residential survey for September (Thursday) is likely to imply an ongoing decline in house prices. The BRC retail sales monitor (Tuesday) will provide an update on demand on the high street at the end of the third quarter. And the BoE's quarterly Credit Conditions Survey (Thursday) will likely illustrate the impact of the MPC's aggressive monetary policy tightening on the demand for and supply of bank loans in Q3.

Germany: Car production



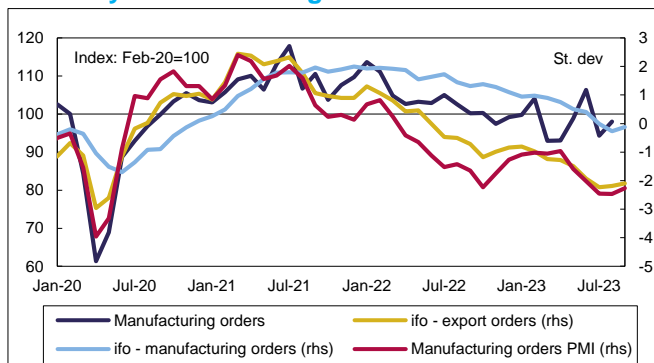
Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Germany: Ifo production expectations indices*



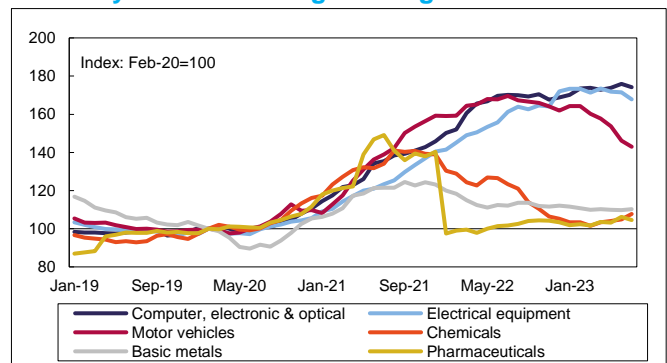
*Three months ahead. Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing orders indices












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

Germany: Manufacturing backlogs



Source: Macrobond and Daiwa Capital Markets Europe Ltd.




Daiwa economic forecasts

	2023			2024			2023	2024	2025
	Q2	Q3	Q4	Q1	Q2	Q3			
GDP							%, Y/Y		
Euro area 	0.1	-0.1	0.0	0.2	0.2	0.3	0.4	0.6	1.5
UK 	0.2	0.1	0.1	0.1	0.0	0.1	0.4	0.3	0.7
Inflation, %, Y/Y									
Euro area									
Headline HICP 	6.2	5.0	3.1	2.9	2.5	2.0	5.5	2.4	1.9
Core HICP 	5.5	5.1	4.0	2.8	1.8	1.4	5.0	1.9	1.8
UK									
Headline CPI 	8.4	6.7	4.7	4.4	2.7	2.8	7.4	3.1	1.8
Core CPI 	6.9	6.4	5.7	5.3	3.4	2.8	6.3	3.4	1.7
Monetary policy, %									
ECB									
Refi Rate 	4.00	4.50	4.50	4.50	4.50	4.25	4.50	4.00	3.00
Deposit Rate 	3.50	4.00	4.00	4.00	4.00	3.75	4.00	3.50	2.50
BoE									
Bank Rate 	5.00	5.25	5.25	5.25	5.25	5.00	5.25	4.50	2.75

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

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Germany 	Factory orders M/M% (Y/Y%)	Aug	3.9 (-4.2)	1.5 (-7.9)	-11.7 (-10.5)	-11.3 (-10.1)
France 	Trade balance €bn	Aug	-8.2	-	-8.1	-
Italy 	Retail sales M/M% (Y/Y%)	Aug	-0.4 (2.4)	0.0 (-)	0.4 (2.7)	-(2.8)

















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	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
Monday 09 October 2023					
Euro area 	09.30	Sentix investor confidence index	Oct	-24.0	-21.5
Germany 	07.00	Industrial production M/M% (Y/Y%)	Aug	0.0 (-1.5)	-0.8 (-2.1)
Tuesday 10 October 2023					
Italy 	09.00	Industrial production M/M% (Y/Y%)	Aug	-0.6 (-5.0)	-0.7 (-2.1)
UK 	00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Sep	-	4.3
Wednesday 11 October 2023					
Euro area 	09.00	ECB 1Y (3Y) CPI expectations Y/Y%	Aug	-	3.4 (2.4)
Germany 	07.00	Final HICP (CPI) Y/Y%	Sep	<u>4.3 (4.5)</u>	6.4 (6.1)
Thursday 12 October 2023					
UK 	00.01	RICS house price balance %	Sep	-60	-68
	07.00	GDP M/M% (3M/3M%)	Aug	0.2 (0.3)	-0.5 (0.2)
	07.00	Industrial production M/M% (Y/Y%)	Aug	-0.2 (1.7)	-0.7 (0.4)
	07.00	Manufacturing production M/M% (Y/Y%)	Aug	-0.5 (3.5)	-0.8 (3.0)
	07.00	Index of services M/M% (3M/3M%)	Aug	0.3 (0.2)	-0.5 (0.1)
	07.00	Construction output M/M% (Y/Y%)	Aug	0.2 (2.6)	-0.5 (2.8)
	07.00	Total (goods) trade balance £bn	Aug	-4.1 (-15.2)	-3.4 (-14.1)
Friday 13 October 2023					
Euro area 	10.00	Industrial production M/M% (Y/Y%)	Aug	0.2 (-3.5)	-1.1 (-2.2)
France 	07.45	Final HICP (CPI) Y/Y%	Sep	<u>5.6 (4.9)</u>	5.7 (4.9)
Spain 	08.00	Final HICP (CPI) Y/Y%	Sep	<u>3.2 (3.5)</u>	2.4 (2.6)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 09 October 2023		
Euro area 	09.00	ECB de Guindos scheduled to speak
	-	IMF annual meetings – Outlook for the global economy 9-15 th October
UK 	21.00	BoE's Mann scheduled to speak – What have we learned about inflation dynamics?
Tuesday 10 October 2023		
Germany 	10.30	Auction: 0.10% 2033 index-linked bonds
	10.30	Auction: 0.10% 2046 index-linked bonds
UK 	10.00	Auction: £900mn 0.125% 2039 index-linked bonds
Wednesday 11 October 2023		
Germany 	10.30	Auction: €1.0bn of 2048 bonds
	10.30	Auction: €1.5bn of 2052 bonds
UK 	00.01	REC report on jobs
	10.00	Auction: £3.75bn of 4.625% 2034 bonds
Thursday 12 October 2023		
Euro area 	12.30	ECB publishes account of September meeting
Italy 	10.00	Auction: 3Y and 7Y bonds
UK 	09.30	BoE publishes its quarterly credit conditions survey
	10.00	BoE Chief Economist scheduled to speak
Friday 13 October 2023		
Euro area 	14.00	ECB President Lagarde scheduled to speak
UK 	09.00	BoE Chief Economist scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: <https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.