

# Euro wrap-up

## Overview

- Bunds followed USTs higher, while euro area industrial production remained on track for a fourth consecutive quarterly decline in Q3 despite an increase in August.
- Gilts also made gains on a quiet day for UK economic releases.
- The coming week will bring September inflation estimates from the euro area and UK, along with UK labour market and retail sales data.

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### Daily bond market movements

Bond	Yield	Change
BKO 3.1 09/25	3.119	-0.023
OBL 2.4 10/28	2.667	-0.041
DBR 2.6 08/33	2.729	-0.053
UKT 3½ 10/25	4.817	-0.003
UKT 4½ 06/28	4.442	-0.016
UKT 3¼ 01/33	4.385	-0.034

\*Change from close as at 4:30pm BST.

Source: Bloomberg

## Euro area

### Industrial output rises in August, but is on track for a fourth successive quarterly drop in Q3

Despite downbeat signals from various survey indicators, euro area industrial production (excluding construction) rose in August, by 0.6%M/M, marking the strongest monthly increase for four months. Among the larger member states, production grew only modestly in Germany (0.1%M/M) and Italy (0.2%M/M), while it fell in France (-0.2%M/M) and Spain (-0.7%M/M). So, the euro area figure was flattered in particular by a rebound in Ireland (6.1%M/M), which accounted for roughly two-thirds of the monthly increase for the region as a whole. Moreover, the growth in IP in August only partially reversed the decline in July, which was revised to a steeper 1.3%M/M. And production in August was down 5.1%Y/Y, and trending so far in Q3 some 1.0% below the Q2 average, suggesting that it is firmly on track for a fourth consecutive quarterly contraction.

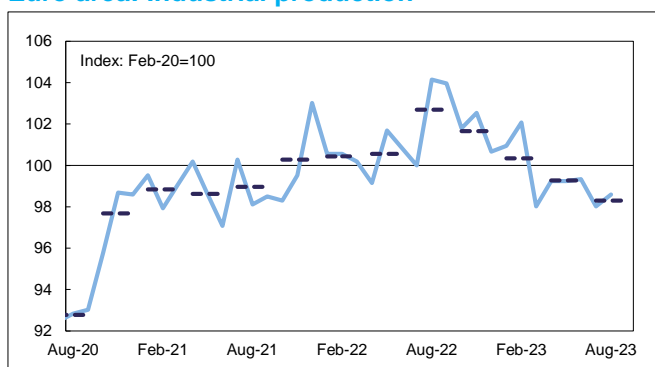
### Capital and consumer goods output returns to growth but intermediate goods output to a 3-year low

While the sectoral breakdown published by Eurostat remains distorted by idiosyncrasies associated with data reporting by certain member states, today's figures suggested that manufacturing production returned to modestly positive growth in August (0.2%M/M). But given the hefty drop in July (-4.0%M/M), this left manufacturing output down 2.5%3M/3M, the steepest such fall since November 2020. Production was supported by the first rise in consumer durable goods (1.2%M/M) for five months, in part due to stronger growth in furniture, as well as a second successive increase in consumer non-durables (0.5%M/M) reflecting growth in clothing, pharmaceuticals and food. Production of capital goods (0.3%M/M) was supported by a partial rebound in car production (4.1%M/M) following summer maintenance. But output in the autos subsector was still down more than 17% compared with the pre-pandemic level and trending in July and August some 9½% below the Q2 average. But production in other sub-categories was weaker, with a striking seventh drop out of the past eight months in general machinery to its lowest level since March 2022. And production of overall intermediate goods similarly fell (-0.2%M/M) to the lowest level for more than three years. However, production of chemicals, basic metals and coke and petroleum rose in August, to leave overall output from energy-intensive sectors up for a second successive month, by 0.6%M/M, albeit leaving it still 10% below the pre-pandemic level.

### Surveys suggest prospects for production remain very weak

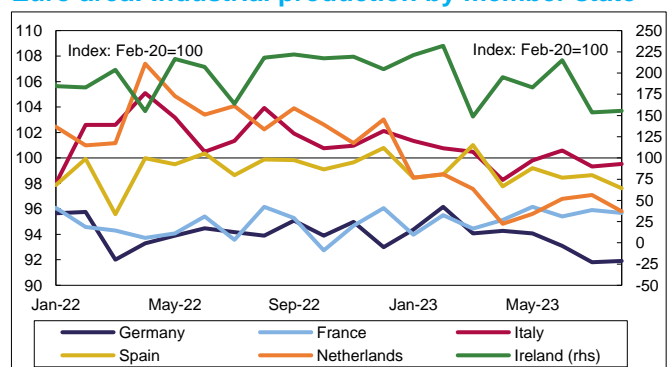
Looking ahead, survey indicators undoubtedly remain weak. While still above the trough recorded in July, the manufacturing output PMI in September fell back to just 43.1, the second-lowest reading since the global financial crisis when excluding the initial Covid-lockdown period. While the new orders PMI ticked slightly higher, at 39.3, it was still one of the weakest readings on the series and consistent with a substantial decline in new demand. Certainly, despite easing constraints from material

### Euro area: Industrial production\*



\*Dashed lines represent quarterly averages. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Industrial production by member state



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

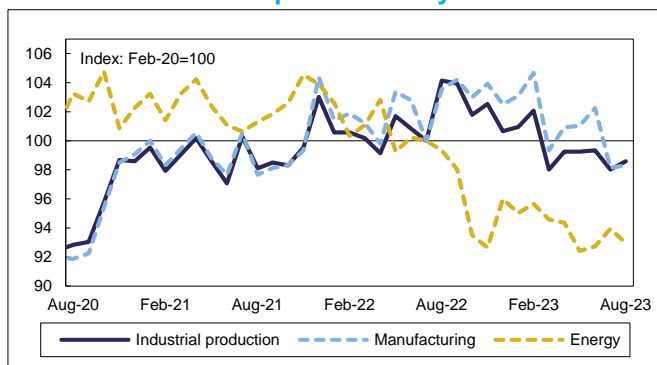
and labour shortages, the Commission survey reported that one third of manufacturers judged demand to be a limiting factor on production in Q3, the biggest share since Q420 and the euro crisis before that. And with work backlogs declining and the orders-to-inventories ratio still historically weak, we expect industrial production to remain subdued in September and into Q4 too.

## The week ahead in the euro area

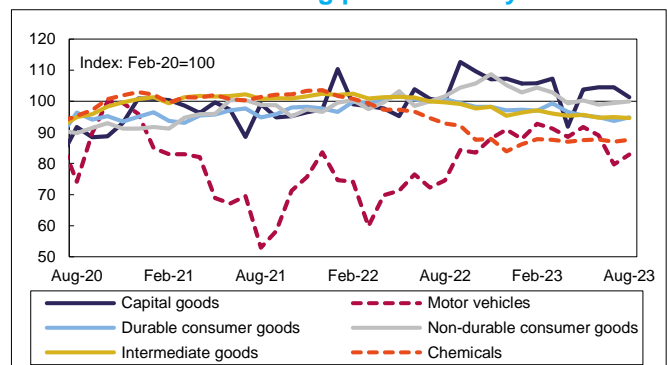
The coming week will bring updated euro area consumer price inflation figures for September on Wednesday, which will include the granular detail. The flash estimates saw the headline HICP rate fall 0.9ppt to a near-two-year low of 4.3%Y/Y, with the core rate down 0.8ppt to a twelve-month low of 4.5%Y/Y. The moderation principally reflected a sizeable easing in services inflation in part as last year's German highly discounted travel pass fell out of the calculation. But inflation of core goods, food and energy also moderated in September. Given the rounding in the euro area's headline and core estimates (4.34%Y/Y) and (4.54%Y/Y), and the modest upwards revisions to today's final French and Spanish inflation figures, by 0.01ppt to 5.66%Y/Y and 0.02ppt to 3.26%YY respectively, there is a non-negligible risk that the aggregate euro area HICP rate will similarly be nudged 0.1ppt higher from the flash estimate to 4.4%Y/Y. Separately, German producer price inflation figures (Friday) will provide an update on pressures at the factory gate in September and are likely to point to the likelihood of a further easing in core goods CPI inflation over coming months.

In terms of activity, euro area goods trade and construction output figures, both for August, will be published on Monday and Wednesday respectively. Data published so far by the member states suggest that exports and construction output both fell over the summer. Meanwhile, the coming week will also bring some October economic sentiment indicators from the larger member states. In particular, the German ZEW investor survey (Tuesday) is likely to echo the findings from the past week's euro area Sentix release. That survey saw its current conditions balance slump 5pts to an eleven-month low of -27, but also reported a modest improvement in investor expectations six months ahead, with the respective balance (-16.8) up to its highest since April. Meanwhile, the French INSEE business survey (Thursday) is likely to remain consistent with broadly stable economic conditions and very modestly positive growth in Q3.

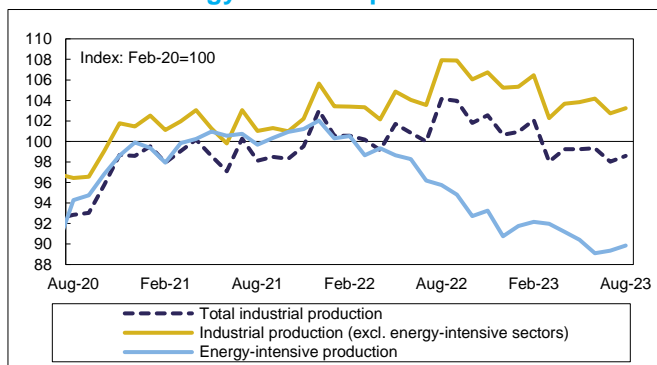
### Euro area: Industrial production by sector



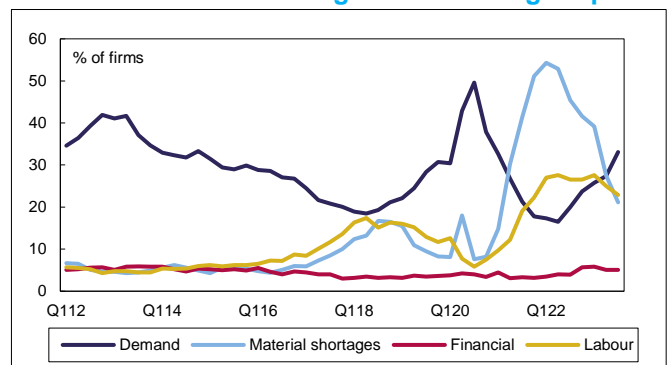
### Euro area: Manufacturing production by sector



### Euro area: Energy-intensive production



### Euro area: Factors limiting manufacturing output



# UK

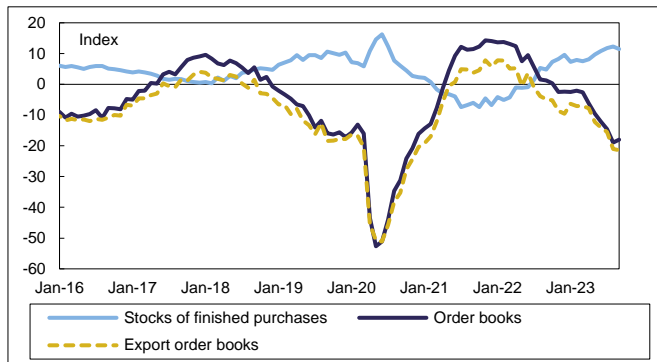
## The week ahead in the UK

The coming week will be a busy one for top-tier economic data, bringing key releases of relevance to the BoE’s monetary policy decision-making. Most notable will be the latest official figures for the labour market (on Tuesday) and inflation (Wednesday). In terms of the labour market, employment is likely to remain well down on a three-month basis in August, probably close to the fall of 207k – a magnitude always previously associated with recession – in the three months to July. We also expect the unemployment rate to remain unchanged at July’s rate 4.3%, up 0.3ppt from the three months to May. But while the level of vacancies will likely fall further, average weekly earnings growth will remain very high after rising to 8.5%3M/Y in July. Private sector regular pay growth, which came in at 8.1%3M/Y in July and has been singled out by the MPC, will also remain elevated and on track to exceed the BoE’s forecast of 6.9%3M/Y in September.

In terms of inflation, we currently expect no change in the annual CPI rate in September from August’s 18-month low of 6.7%Y/Y to be 0.2ppt below the BoE’s forecast for the month. The stickiness of the headline inflation rate will principally reflect the sharp rise in prices of auto fuel over the course of the past month. In contrast, the BRC survey suggests that inflation of food should fall to a 12-month low and that pressures on non-energy industrial goods prices also continue to moderate. And despite the likelihood of a pickup in the education component, services inflation should slow in part due to base effects associated with hotel prices. So, we expect the core CPI rate to fall 0.2ppt to an eight-month low of 6.0%Y/Y, which – like the soft employment data – would be consistent with unchanged monetary policy at the 2 November MPC meeting.

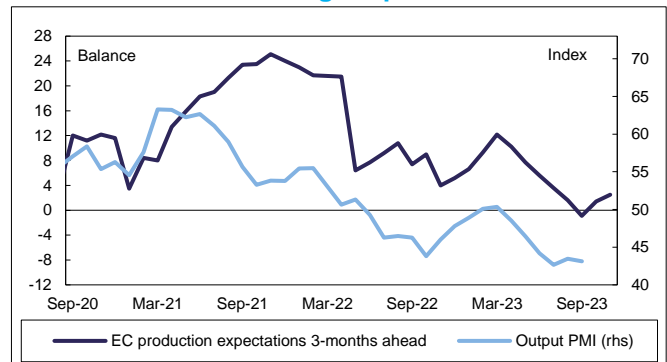
The other notable release due in the coming week is September’s retail report (Friday), which is expected to report a modest decline in sales volumes of less than ½%M/M. Following the drop of 1.1%M/M in July and only modest rebound in August, that would leave sales down on a quarterly basis in Q3 for the first time since Q422. The weakness would in part reflect the impact of higher prices of auto fuel on spending at petrol stations. But it will also be due to disappointing sales of autumn apparel due not least to the unseasonably high temperatures which matched the UK’s record for the month.

### Euro area: Orders and inventories



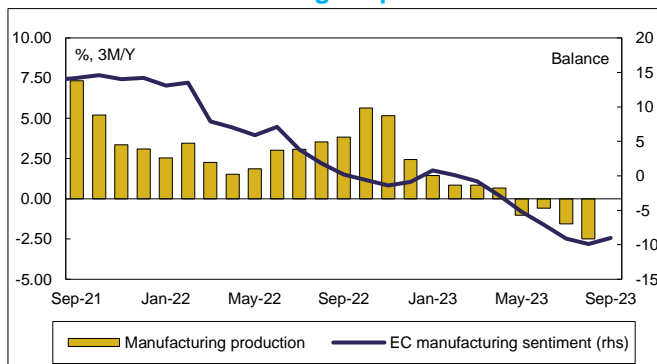
Source: EC, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

### Euro area: Manufacturing output indices



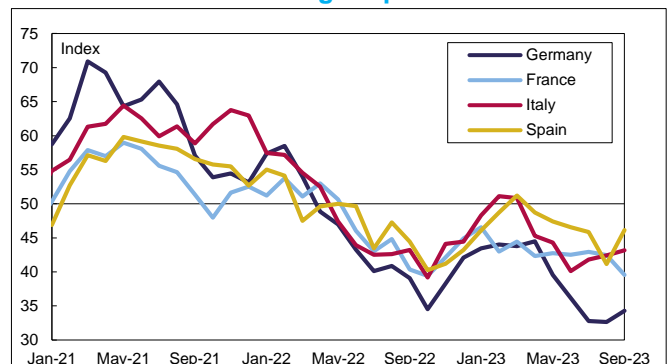
Source: EC, Refinitiv Datastream, S&P Global and Daiwa Capital Markets Europe Ltd.

### Euro area: Manufacturing output & sentiment



Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.










### Euro area: Manufacturing output PMIs



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

The next edition of the Euro wrap-up will be published on 17 October 2023




## Daiwa economic forecasts

	2023			2024			2023	2024	2025
	Q2	Q3	Q4	Q1	Q2	Q3			
<b>GDP</b>	<b>%, Y/Y</b>								
Euro area 	0.1	-0.1	0.0	0.2	0.2	0.3	0.4	0.6	1.5
UK 	0.2	0.0	0.1	0.1	0.0	0.1	0.6	0.3	0.7
<b>Inflation, %, Y/Y</b>									
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
<b>Monetary policy, %</b>									
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
Euro area 	Industrial production M/M% (Y/Y%)	Aug	<b>0.6 (-5.1)</b>	<u>0.4 (-3.3)</u>	-1.1 (-2.2)	-1.3 (-)
France 	Final HICP (CPI) Y/Y%	Sep	<b>5.7 (4.9)</b>	<u>5.6 (4.9)</u>	5.7 (4.9)	-
Spain 	Final HICP (CPI) Y/Y%	Sep	<b>3.3 (5.8)</b>	<u>3.2 (3.5)</u>	2.4 (2.6)	-
















#### 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	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous	
<b>Monday 16 October 2023</b>						
Euro area		10.00	Trade balance €bn	Aug	-	2.9
Italy		09.00	Final HICP (CPI) Y/Y%	Sep	<u>5.7 (5.3)</u>	5.5 (5.4)
UK		00.01	Rightmove house price index M/M% (Y/Y%)	Oct	-	0.4 (-0.4)
<b>Tuesday 17 October 2023</b>						
Germany		10.00	ZEW current assessment (expectations) balance	Oct	-80.0 (-10.3)	-79.4 (-11.4)
UK		07.00	Payrolled employees, monthly change '000s	Sep	-	-1
		07.00	Unemployment claimant count rate % (change '000s)	Sep	-	4.0 (0.9)
		07.00	Average weekly earnings (excluding bonuses) 3M/Y%	Aug	8.3 (7.8)	8.5 (7.8)
		07.00	ILO unemployment rate 3M%	Aug	4.3	4.3
		07.00	Employment change, 3M/3M '000s	Aug	-187	-207
<b>Wednesday 18 October 2023</b>						
Euro area		10.00	Final headline (core) HICP Y/Y%	Sep	<u>4.4 (4.5)</u>	5.2 (5.3)
		10.00	Construction output M/M% (Y/Y%)	Aug	-	0.8 (1.0)
Italy		09.00	Trade balance €bn	Aug	-	6.4
UK		07.00	Headline (core) CPI Y/Y%	Sep	<u>6.7 (6.0)</u>	6.7 (6.2)
		07.00	PPI (input) output prices Y/Y%	Sep	-0.2 (-2.6)	-0.4 (-2.3)
		09.30	House price index Y/Y%	Aug	-	0.6
<b>Thursday 19 October 2023</b>						
France		07.45	INSEE business (manufacturing) confidence index	Oct	99 (98)	100 (99)
Spain		09.00	Trade balance €bn	Aug	-	-4.9
<b>Friday 20 October 2023</b>						
Euro area		07.00	EU new car registrations Y/Y%	Sep	-	21.0
Germany		07.00	PPI Y/Y%	Sep	-14.2	-12.6
France		-	Bank of France retail sales index* Y/Y%	Sep	-	-4.0
UK		00.01	GfK consumer confidence index	Oct	-20	-21
		07.00	Retail sales incl. auto fuels M/M% (Y/Y%)	Sep	-0.2 (-0.1)	0.4 (-1.4)
		07.00	Retail sales excl. auto fuels M/M% (Y/Y%)	Sep	0.2 (0.0)	0.6 (-1.4)
		07.00	Public sector net borrowing excl. banks £bn	Sep	18.3	11.6

\*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 16 October 2023</b>		
Euro area	 08.30	ECB's Villeroy scheduled to speak
UK	 09.30	BoE Chief Economist Pill scheduled to speak
<b>Tuesday 17 October 2023</b>		
Euro area	 14.00	ECB's Knot scheduled to speak
	 18.00	ECB's Holzmann scheduled to speak
Germany	 10.30	Auction: €5bn of 0% 2025 bonds
UK	 10.00	Auction: £2.75bn of 3.75% 2053 bonds
	 10.05	BoE's Dhingra scheduled to speak
<b>Wednesday 18 October 2023</b>		
Germany	 10.30	Auction: €4bn of 2.6% 2033 bonds
<b>Thursday 19 October 2023</b>		
France	 09.50	Auction: 2.50% 2026 bonds
	 09.50	Auction: 2.75% 2027 bonds
	 09.50	Auction: 2.75% 2029 bonds
	 09.50	Auction: 2.50% 2030 bonds
	 10.50	Auction: 0.1% 2026 index-linked bonds
	 10.50	Auction: 0.1% 2029 index-linked bonds
	 10.50	Auction: 0.1% 2036 index-linked bonds
Spain	 09.30	Auction: 2.15% 2025 bonds
	 09.30	Auction: 0.8% 2029 bonds
	 09.30	Auction: 3.55% 2033 bonds
<b>Friday 20 October 2023</b>		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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