

# Euro wrap-up

## Overview

- Bunds followed USTs higher as euro area unemployment rose while German exports and imports fell.
- Gilts also made gains as the final UK composite PMI aligned closely with the flash estimate to remain consistent with mild contraction.
- The coming week will bring September data for euro area retail sales and German factory orders and output, and the first estimate of UK GDP in Q3.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 3.1 12/25	2.951	-0.022
OBL 2.4 10/28	2.545	-0.047
DBR 2.6 08/33	2.650	-0.063
UKT 3½ 10/25	4.682	-0.051
UKT 4½ 06/28	4.272	-0.060
UKT 3¼ 01/33	4.297	-0.086

\*Change from close as at 4:00pm GMT.  
Source: Bloomberg

## Euro area

### Unemployment rate ticks up amid broader evidence of a cooler labour market

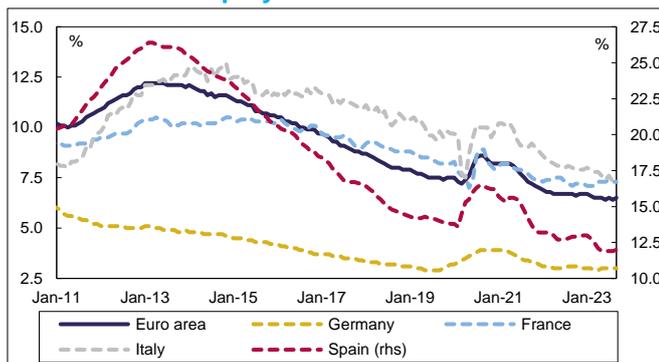
While still seemingly tight by historical standards, the euro area labour market appears gradually to be responding to higher interest rates and weaker economic activity. With the number of persons registered as jobless rising 69k on the month, the euro area unemployment rate rose 0.1ppt in September from its series low to 6.5%, its level in July. Unemployment rates rose in several member states, including Spain (12.0%), Italy (7.4%) and Portugal (2.8%) where the end of the main tourism season risks bringing a shakeout in consumer-facing service sector jobs. In the euro area's core, rates rose in Belgium (5.6%), Netherlands (3.7%) and Austria (5.5%), the latter of which is in recession. Admittedly, on the EU-harmonised measure, unemployment rates were steady in Germany (3.0%) and France (7.3%) in September. However, in Germany, data released yesterday showed that jobless claims rose in October for the ninth successive month and by a larger-than-expected 30k, the most in four months. So, the claimant count rate rose a further 0.1ppt to 5.8%, a 28-month high and 0.8ppt above the low in the first half of 2022. And the number of vacancies continued to decline, dropping for a ninth successive month to the lowest since mid-2021 and also below the range from mid-2017 to late 2019.

Survey indicators also suggest that conditions in the labour market are becoming less tight. Firms are signalling that worker shortages are become less acute. And not least given the determination of firms to cut headcount in manufacturing and retail, surveys are also signalling that job growth across the euro area could grind to a halt in Q4. Given the rising trend in labour force participation, that would extend the pickup in the unemployment rate over coming months. And as suggested by certain high-frequency indicators, the associated steady easing of labour market tightness should ensure that the peak in pay growth has now passed.

### Drop in German exports in September driven by autos

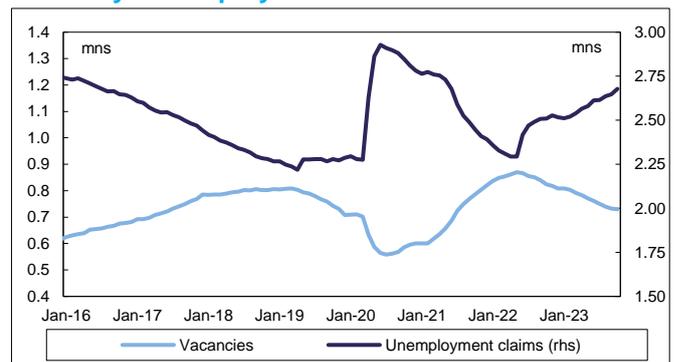
While Germany's economy contracted slightly in Q3, today's goods trade figures for September suggested that net trade provided a broadly neutral contribution last quarter. But this merely reflected a notable decline in imports offsetting a further drop in exports. Indeed, today's report showed a steeper-than-expected fall in the value of exports in September, by 2.4%M/M, the biggest drop since March. This left export values at their lowest level since Russia's invasion of Ukraine eighteen months ago and down some 7½%Y/Y. By destination, the decline in shipments was widespread but largest to the US, where they fell 4%M/M to be down almost 11½%Y/Y. And while vehicle exports jumped in September, this followed some hefty declines over the summer to leave them down 11%3M/3M and 4½%Y/Y. Admittedly, in the first nine months of the year, auto exports were up 13%YTD/Y as easing supply constraints allowed car makers to make a dent in order backlogs built up during the pandemic. Exports of machinery and electrical equipment were similarly up in the year-to-date. But other

### Euro area: Unemployment rates



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

### Germany: Unemployment & vacancies



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

subsectors, such as chemicals – where production has fallen steadily in line with the trend for the energy-intensive subsectors – and mineral fuels were also well down on a year ago. So, overall, the value of exports was little changed in the year-to-date.

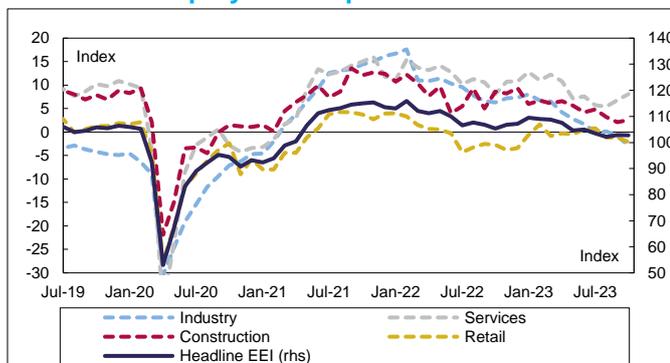
### Import volumes down by the most since December amid subdued domestic demand

With import values down a slightly smaller 1.7%M/M in September, the German trade surplus narrowed €1.2bn to €16.5bn, a four-month low but still well above the trough seen in August last year (€1.9bn), when imports were driven by the spike in energy prices. Indeed, in the year to-date, import values were some 10% below the equivalent period last year. Admittedly, import prices were up for a second successive month in September (1.6%M/M) and by the most since last August. And so, the decline in imports that month was driven by a larger drop in volumes, by 3.2%M/M, the most since December, suggesting a notable decline in domestic demand. With surveys suggesting that domestic demand weakened further in October, imports are likely to remain under downwards pressure. But export orders have similarly fallen to the lowest level in three years when activity was severely impacted by the pandemic. And external demand is likely to remain lacklustre as the impact of recent monetary tightening continues to feed through. So, while German manufacturers will continue to experience challenging conditions over coming quarters, net trade might well continue to have a broadly neutral impact for GDP growth this quarter and into 2024.

### French production ends Q3 on the back foot as autos go into reverse

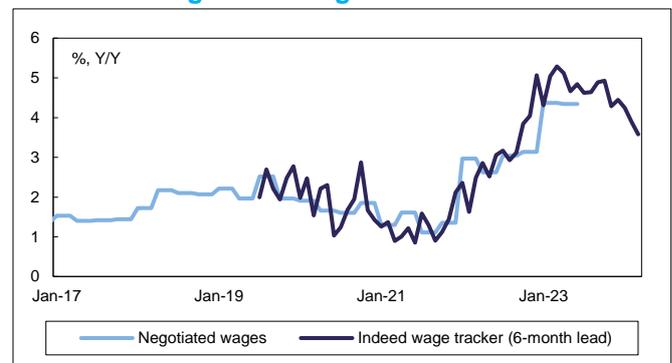
Consistent with the downbeat message from various business surveys, today's French industrial production figures saw output decline in September for the third month out of the past four and by 0.5%M/M. This left output up just 0.1%3M/3M, down from growth of 1.0%3M/3M in Q2 to suggest that the industrial sector offered no support to GDP growth in Q3. Within the detail, the drop in September was led by autos, production of which fell for a second-successive month (-5.8%M/M) to the lowest level in eleven months. Output of other transport equipment also fell (-3.2%M/M), while machinery and equipment was down (-0.5%M/M) to its lowest in six months. But the weakness in manufacturing was in part offset by a rebound in construction activity (1.8%M/M), although this meant that output in the sector was unsurprisingly a drag on GDP growth in Q3 (-1.2%3M/3M). The latest INSEE survey suggested that manufacturing conditions worsened at the start of Q4, with a notable stepdown in firms' expected levels of production this quarter.

#### Euro area: Employment expectations indices



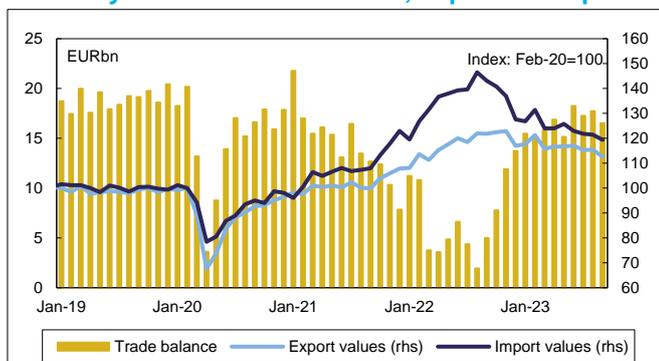
Source: EC, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

#### Euro area: Negotiated wages



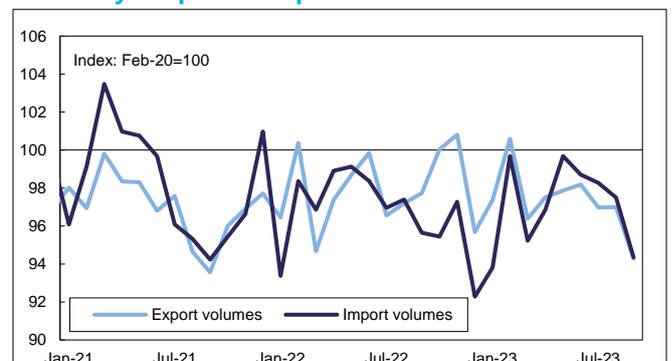
Source: Indeed, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

#### Germany: Goods trade balance, exports & imports\*



\*Values. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Export & import volumes\*



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

### The week ahead in the euro area

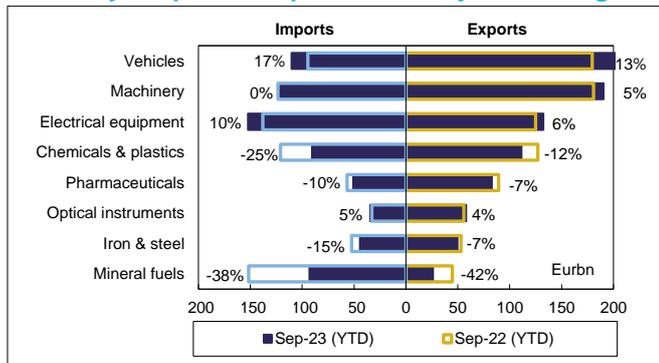
While the past week’s flash estimate of [euro area Q3 GDP](#) reported that the economy contracted slightly, we will have to wait until 7 December for the official expenditure breakdown. However, the coming week’s retail sales release for September (Wednesday) will offer some insight into the strength of consumer spending at the end of the summer. Figures published by Germany (-0.8%M/M) and France (+1.1%M/M) provided mixed messages, suggesting that aggregate sales might well be broadly flat in September. But having failed to grow in the previous three months, this would leave euro area sales down around 0.6%3M/3M. In terms of activity, figures for German factory orders (Monday) and production (Tuesday) will offer an update on conditions at the end of Q3. Amid weak orders growth and lower truck toll mileage, industrial production is expected to have declined for a fifth consecutive month in September, by as much as ½%M/M, which would leave output down almost 2%3M/3M. September industrial production figures from Italy, the Netherlands and Ireland are also due (Friday). With respect to the inflation outlook, euro area producer price figures for September (Wednesday) are likely to suggest that consumer goods inflation will continue to fall over coming quarters. In particular, PPI inflation is expected to have fallen further into negative territory to a series low (-12.8%Y/Y). Meanwhile, updated German consumer price figures (Wednesday) are expected to align with the flash estimates that showed the headline HICP rate decline a steeper-than-expected 1.3ppts to a 29-month low of 3.0%Y/Y, as well as provide the more granular breakdown. In addition, the ECB’s monthly consumer expectations survey (Wednesday) will offer an update on households’ medium-term inflation expectations.

### UK

#### The week ahead in the UK

The main event in the UK data calendar in the coming week will be the release of the first estimate of Q3 GDP, as well as the monthly production figures for September, on Friday. Various indicators have signalled a marked slowdown in economic momentum over the summer, with PMIs pointing to a mild contraction over the quarter as a whole. Indeed, while the construction sector has benefitted from a positive carry-over effect following a strong end to the second quarter, industrial production was trending in August merely flat compared with Q2. Certain services sectors – i.e. healthcare, education and transport – have been impacted by industrial action. Retail sales have been hit by inclement weather, weak consumer confidence, higher borrowing costs and economic uncertainties, with the latest data reporting a steeper-than-expected drop of 0.9%M/M in September and the first quarterly decline in four (-0.8%3M/3M). So, while hospitality and leisure activities might well have benefitted from the joint-hottest September on record, NHS strikes are likely to have weighed on activity. As such, over the third quarter as a whole, we forecast a modest contraction in GDP of 0.1%Q/Q. Ahead of Friday’s releases, October surveys will dominate the data flow, with the construction PMI (Monday), BRC retail sales monitor (Tuesday), REC report on jobs (Wednesday) and RICS residential indicators (Thursday).

#### Germany: Export & import values by selected good



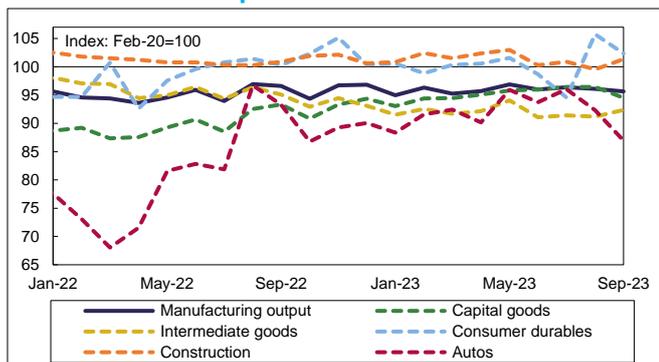
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Germany: Ifo manufacturing survey indices



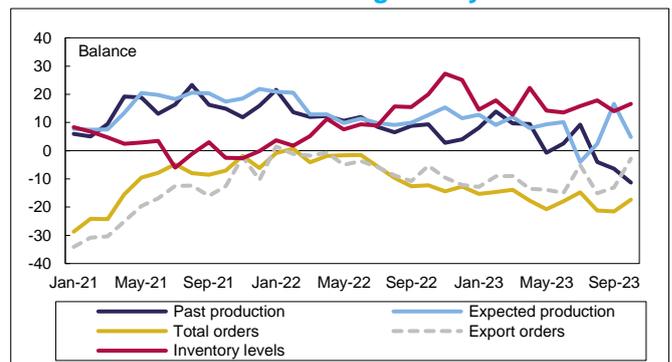
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

#### France: Industrial production



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

#### France: INSEE manufacturing survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## Daiwa economic forecasts

	2023		2024				2023	2024	2025
	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP</b>	%, Q/Q						%, Y/Y		
Euro area 	-0.1	-0.1	0.1	0.2	0.3	0.3	0.4	0.3	1.4
UK 	-0.1	0.0	0.0	0.0	0.1	0.2	0.5	0.1	0.6
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline HICP 	5.0	3.1	3.0	2.4	1.9	2.1	5.5	2.3	1.8
Core HICP 	5.1	4.1	3.1	1.9	1.5	1.7	5.0	2.0	1.7
UK									
Headline CPI 	6.7	4.7	4.2	2.7	3.0	2.8	7.4	3.2	2.1
Core CPI 	6.4	5.7	5.1	3.3	2.9	2.7	6.3	3.5	2.0
<b>Monetary policy, %</b>									
ECB									
Refi Rate 	4.50	4.50	4.50	4.25	4.00	3.75	4.50	3.75	3.25
Deposit Rate 	4.00	4.00	4.00	3.75	3.50	3.25	4.00	3.25	2.75
BoE									
Bank Rate 	5.25	5.25	5.25	5.25	5.00	4.75	5.25	4.75	3.00

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	
Euro area 	Unemployment rate %	Sep	<b>6.5</b>	6.4	6.4	-	
Germany 	Trade balance €bn	Sep	<b>16.5</b>	16.3	16.6	17.7	
France 	Industrial production M/M% (Y/Y%)	Sep	<b>-0.5 (-0.1)</b>	0.0 (0.0)	-0.3 (-0.5)	-0.1 (-0.3)	
Italy 	Unemployment rate %	Sep	<b>7.4</b>	7.4	7.3	-	
Spain 	Unemployment change '000s	Oct	<b>36.9</b>	-	19.8	-	
UK 	Final services (composite) PMI	Oct	<b>49.5 (48.7)</b>	49.2 (48.6)	49.3 (48.5)	-	
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	GMT	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
<b>Monday 06 November 2023</b>					
Euro area	 09.00	Final services (composite) PMI	Oct	<u>47.8 (46.5)</u>	48.7 (47.2)
	 09.30	Sentix investor confidence index	Nov	-21.7	-21.9
Germany	 07.00	Factory orders M/M% (Y/Y%)	Sep	-2.0 (-3.0)	3.9 (-4.2)
	 08.55	Final services (composite) PMI	Oct	<u>48.0 (45.8)</u>	50.3 (46.4)
France	 08.50	Final services (composite) PMI	Oct	<u>46.1 (45.3)</u>	44.4 (44.1)
Italy	 08.45	Services (composite) PMI	Oct	49.3 (47.7)	49.9 (49.2)
Spain	 08.15	Services (composite) PMI	Oct	49.4 (48.9)	50.5 (50.1)
UK	 09.00	New car registrations Y/Y%	Oct	-	21.0
	 09.30	Construction PMI	Oct	46.0	45.0
<b>Tuesday 07 November 2023</b>					
Euro area	 08.30	Construction PMI	Oct	-	43.6
	 10.00	PPI Y/Y%	Sep	0.3 (-12.9)	0.6 (-11.5)
Germany	 07.00	Industrial production M/M% (Y/Y%)	Sep	-0.5 (-3.0)	-0.2 (-2.0)
	 08.30	Construction PMI	Oct	-	39.3
France	 08.30	Construction PMI	Oct	-	43.7
Italy	 08.30	Construction PMI	Oct	-	49.8
Spain	 08.00	Industrial production M/M% (Y/Y%)	Sep	0.3 (-2.4)	-0.8 (-3.4)
UK	 00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Oct	-	2.8
<b>Wednesday 08 November 2023</b>					
Euro area	 09.00	ECB 1 (3) year inflation expectations Y/Y%	Sep	-	3.5 (2.5)
	 10.00	Retail sales M/M% (Y/Y%)	Sep	-0.2 (-2.9)	-1.2 (-2.1)
Germany	 07.00	Final HICP (CPI) Y/Y%	Oct	<u>3.0 (3.8)</u>	4.3 (4.5)
France	 07.45	Trade balance €bn	Sep	-	-8.2
Italy	 09.00	Retail sales M/M% (Y/Y%)	Sep	-	-0.4 (2.4)
<b>Thursday 09 November 2023</b>					
UK	 00.01	RICS house price balance %	Oct	-64	-69
<b>Friday 10 November 2023</b>					
Italy	 09.00	Industrial production M/M% (Y/Y%)	Sep	-0.2 (-)	0.2 (-4.2)
UK	 07.00	GDP – first estimate Q/Q% (Y/Y%)	Q3	<u>-0.1 (0.5)</u>	0.2 (0.6)
	 07.00	GDP M/M%	Sep	-0.1	0.2
	 07.00	Industrial production M/M% (Y/Y%)	Sep	-0.1 (1.1)	-0.7 (1.3)
	 07.00	Manufacturing production M/M% (Y/Y%)	Sep	0.1 (2.9)	-0.8 (2.8)
	 07.00	Index of services M/M% (Q/Q%)	Sep	0.0 (-0.2)	0.4 (0.1)
	 07.00	Construction output M/M% (Y/Y%)	Sep	-0.4 (2.7)	-0.5 (2.3)
	 07.00	Trade (goods) balance £bn	Sep	-2.6 (-15.3)	-3.4 (-16.0)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 06 November 2023</b>		
UK	 17.00	BoE Chief Economist Pill scheduled to participate in online Q&A session
<b>Tuesday 07 November 2023</b>		
UK	 10.00	Auction: £3.75bn of 4.625% 2034 bonds
<b>Wednesday 08 November 2023</b>		
Euro area	 08.45	ECB Chief Economist Lane scheduled to give keynote speech at Central Bank of Latvia conference
	 09.00	ECB to publish monthly expectations survey
	 12.30	ECB's De Cos scheduled to speak
Germany	 10.30	Auction: €4bn of 2.6% 2033 bonds
UK	 00.01	S&P Global/REC report on jobs
	 09.30	BoE Governor Bailey scheduled to give keynote speech at Central Bank of Ireland conference
	 10.00	Auction: £900mn of 0.125% 2051 index-linked bonds
<b>Thursday 09 November 2023</b>		
Euro area	 08.10	ECB Chief Economist Lane scheduled to give opening remarks at ECB conference on money markets
	 09.00	ECB publishes Economic Bulletin
UK	 08.30	BoE Chief Economist Pill scheduled to speak at a conference
<b>Friday 10 November 2023</b>		
Euro area	 12.30	ECB President Lagarde to hold a fireside chat with the FT's Martin Wolf
Italy	 10.00	Auction: 3Y and 7Y bonds

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.