

Euro wrap-up

Overview

- Bunds made losses in line with the global trend, while an investor survey pointed to an improvement in the euro area's economic outlook, but German factory orders fell sharply in Q3 illustrating still very challenging manufacturing conditions.
- Gilts also made losses despite a downbeat construction PMI survey.
- Tomorrow will bring German industrial production and euro area producer price inflation figures for September, as well as a UK retail survey for October.

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Daily bond market movements

Bond	Yield	Change
BKO 3.1 12/25	2.991	+0.042
OBL 2.4 10/28	2.613	+0.076
DBR 2.6 08/33	2.727	+0.085
UKT 3½ 10/25	4.706	+0.040
UKT 4½ 06/28	4.317	+0.046
UKT 3¼ 01/33	4.367	+0.080

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

Source: Bloomberg

Euro area

German factory orders beat downbeat expectations in September, but declined sharply in Q3

After last week's GDP figures confirmed that [Germany's economy contracted](#) slightly in Q3, today's German factory orders and turnover data offered little in the way of encouragement for the near-term manufacturing outlook and suggested that updated GDP estimates, that will incorporate September data, will be at risk of a downwards revision. At face value, Germany's factory orders data beat admittedly downbeat expectations in September, with the modest rise of 0.2%M/M comparing with the Bloomberg survey consensus of a decline 1½%M/M. A pickup in new orders to euro area countries (6.2%M/M) and elsewhere in the world (2.9%M/M) helped offset a fall in domestic orders (-5.9%M/M) to the lowest level since 2009 when excluding the initial slump during the first Covid lockdown. But the pickup in foreign orders merely reflected big-ticket items. Indeed, core orders (excluding bulk items) fell 2.2%M/M to the lowest level since March. And with the jump in overall orders in August having been revised notable lower – down 2ppts to 1.9%M/M – on the back of a data input error in the consumer electronics subsector and having fallen sharply in July, overall factory orders were down 4.0%Q/Q in Q3, the steepest quarterly drop since Q222. The decline in core orders was more modest at 0.4%Q/Q, but this nevertheless marked the sixth consecutive quarterly fall to leave the level in September some 15½% below the pandemic peak in June 2021 and 6½% below the pre-pandemic benchmark in February 2020.

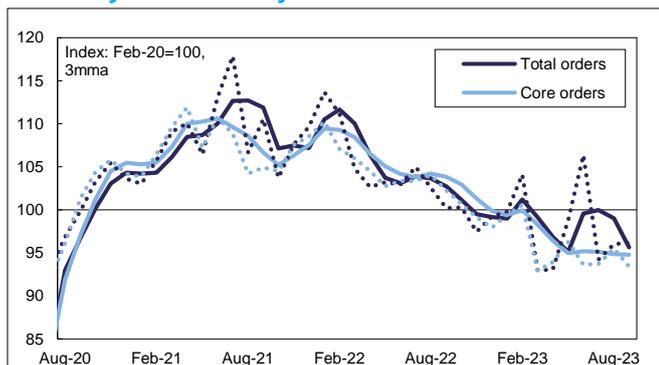
Decline in capital goods orders driven by weaker car orders and payback in the aerospace sector

Within the detail, orders for intermediate goods rose for a third month out of the past four (0.9%M/M), with a pickup in demand for various energy-intensive items including chemicals and basic metals. But while orders of intermediate goods were near the top of the range over the past six months, they were still some 6% below the pre-pandemic level (and more than 9% below when excluding major items). While orders for machinery and equipment also rose for a fourth month out of the past five, the pickup in new capital goods orders (0.7%M/M) was limited by a weakening in transport equipment. Indeed, a one-off surge in the shipbuilding subsector (581%M/M) was largely offset by a further decline in the aerospace sector, while auto orders fell for a second-successive month. And so, while auto orders were broadly flat over the third quarter as a whole, total orders of capital goods were 6.2% below the Q2 average. Meanwhile, orders for consumer durables slumped 8.4%M/M in September, reversing the rise in August, reflecting payback in computer and electronics orders.

German manufacturing turnover falls sharply in September as demand for autos dips

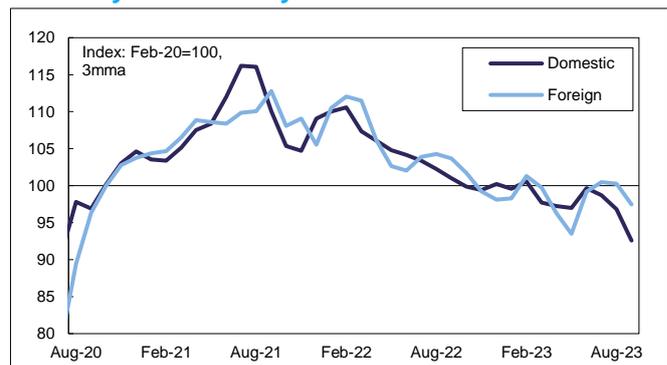
Looking ahead to tomorrow's release of German manufacturing production figures, today's turnover data for September were disappointing. These reported a sixth consecutive monthly decline, by 1.6%M/M, the largest drop since March. And with

Germany: New factory orders*



*Core orders exclude large bulk items. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

turnover now assessed to have declined by ½%M/M in August, having previously been estimated to rise by the same magnitude, the level was the lowest for sixteen months and down 1.5%Q/Q in Q3. While the weakness was broad-based, it was driven by a steeper drop in the autos sector, where activity appears to have been hit by the termination of tax incentives for commercial electric vehicles at the end of August. Taken with lower truck toll mileage, today's turnover data pose notable downside risks to the Bloomberg survey consensus for tomorrow's production figures, which had before today's release, seen output dropping just 0.1%M/M. Moreover, an outturn in line with today's turnover release would suggest a non-negligible downwards revision to the first estimate of Q3 GDP too.

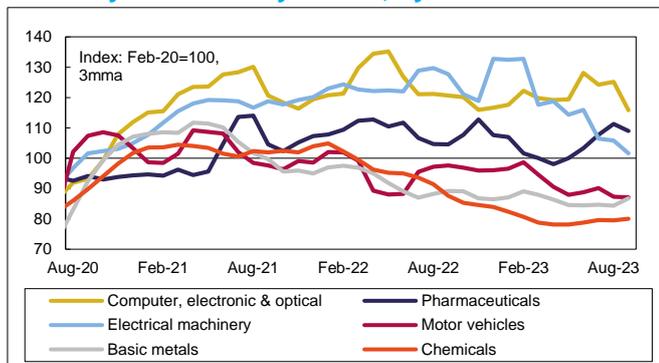
Final services PMIs and Sentix investor surveys consistent with contraction

After the flash euro area services PMIs unexpectedly pointed to a further loss of momentum in the sector at the start of Q4, today's final results for October confirmed that the headline activity index fell 0.9pt to 47.8, the lowest reading since February 2021, some 1.4pts below the Q3 average and more than 6½pts below the Q2 average. The weakness was in part led by Germany, where, despite a modest upwards tweak from the flash release, the activity index fell 2.1pts to 48.2. The improvement initially reported in the respective French index was also revised, albeit lower, to leave it at its second-lowest level (45.2) since the second Covid wave in November 2020. Meanwhile, the Italian index – published for the first time today – surprised on the downside in October, declining for fifth month out of the past six and by 2.2pts to 47.7, a twelve-month low. So, it was thanks to a modest pickup in activity in Spain – where the respective index rose 0.6pt to 51.1 – that the decline in the aggregate euro area PMI wasn't larger. The outlook for the euro area's services sector remains clouded by a steeper decline in new business as domestic demand remains squeezed by higher borrowing costs, low consumer confidence and still relatively high inflation. And the new export orders component – related not least to tourism – implied the steepest fall since the start of the series in 2014 when excluding the first year of the pandemic. Taken together with still very challenging manufacturing conditions, the composite PMIs implied ongoing contraction in Germany (45.9), France (44.6) and Italy (47.0) and stagnation in Spain (50.0). And while today's euro area Sentix investor survey saw an unexpected uptick in the headline sentiment index, by 3.4pts to a three-month high of -18.6 at the start of November, this reflected a notable increase in the expectations balance, by 6.8pts to a nine-month high of -10.0. Indeed, the current business situation balance improved only very slightly, by 0.3pt to -26.8, to remain at one of the lowest readings since the initial pandemic slump and a level Sentix considers to be consistent with recession.

The day ahead in the euro area

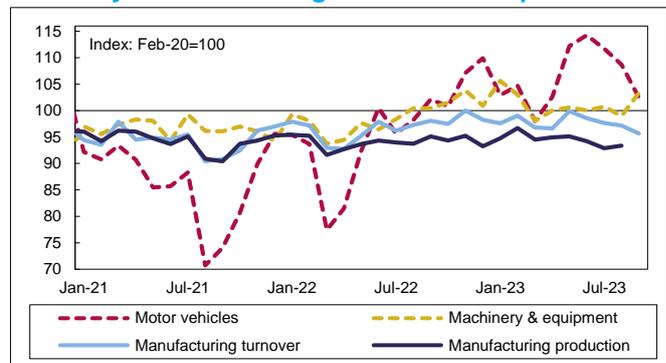
A key focus in the euro area's data calendar tomorrow will be the aforementioned German industrial production data. In line with today's turnover figures, these are likely to report a fifth consecutive decline in output in September and by a larger

Germany: New factory orders, by sector



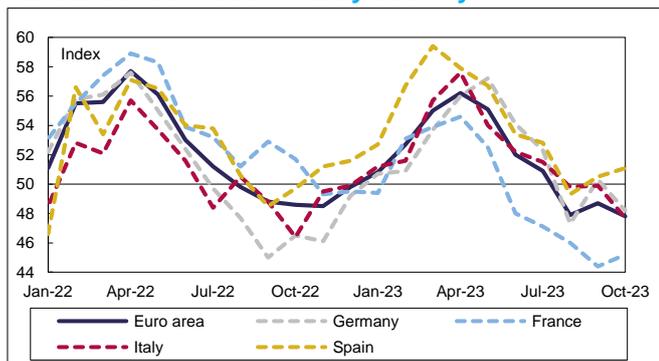
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing turnover & output



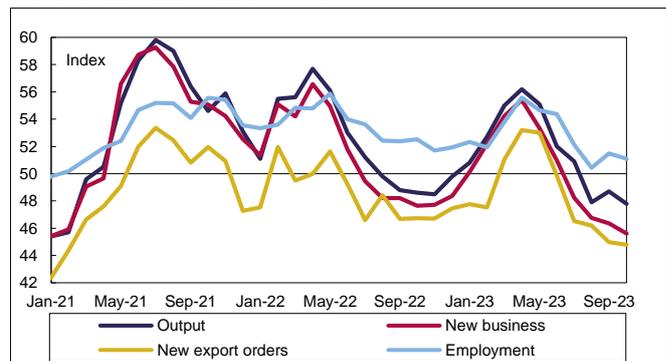
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Euro area: Services PMIs by country



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

Euro area: Services PMIs



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

magnitude than currently suggested by the Bloomberg survey consensus (-0.1%M/M). In addition, tomorrow will bring the latest construction PMIs from the larger member states, which are likely to signal ongoing contraction in the sector in Germany, France and Italy. Meanwhile, with respect to the inflation outlook, euro area producer price figures for September 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).

UK

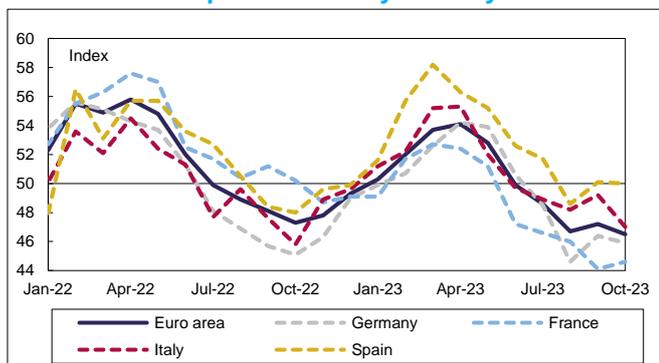
Construction PMIs remain consistent with contraction as higher borrowing costs cut demand

Today's data flow reinforced the continued lack of momentum in the UK's economy at the start of Q4. Having fallen significantly at the end of Q3, the headline construction activity PMI rose only slightly in October, by 0.6pt to 45.0, to mark the second-lowest reading since the early stages of the pandemic and a level consistent with a sizeable contraction. While the decline in activity implied by the PMIs was broad-based across the subsectors, there were some signs of stabilisation in commercial building in October. But the survey suggested that civil engineering activity decreased by the most since July 2022, while suggesting that the weakness unsurprisingly remained most acute in house building. Indeed, the respective index rose just 0.4pt to 38.5, the second-lowest level since the global financial crisis when excluding the initial Covid slump. The ongoing contraction in activity reflected persisting declines in new business, with the new work PMI falling for a third consecutive month in October, implying the joint-sharpest rate of decline since May 2020, as an elevated cost of borrowing, weak consumer confidence and economic uncertainties weighed on demand. Indeed, only a little more than one third of respondents forecast a rise in business activity over the coming twelve months. Against this backdrop of softer demand and also improved supply constraints, there was renewed downwards pressures on input prices at the start of Q4, with the respective component dropping 5½ pts to 44.5, suggesting the fastest pace of decline since the global financial crisis.

The day ahead in the UK

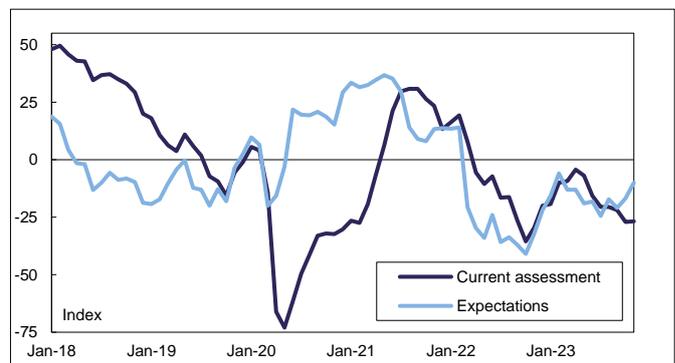
In the UK, tomorrow will bring the BRC retail sales monitor for October. Amid low consumer confidence, high borrowing costs and uncertainties about the economic outlook, the BRC indices are likely to echo the downbeat message from the CBI distributive trades survey, which suggested that sales were particularly weak for the time of year and fell sharply in October.

Euro area: Composite PMIs by country



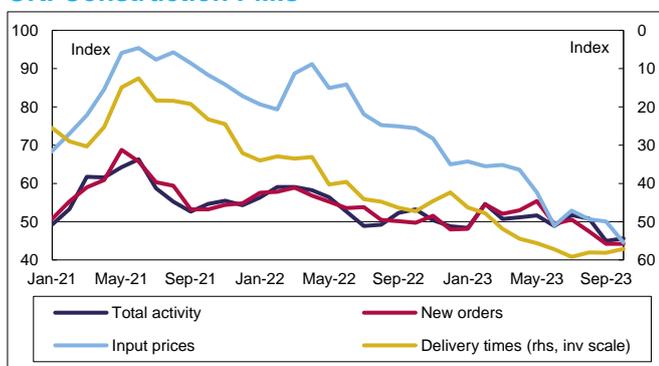
Source: Refinitiv Datastream, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Sentix investor sentiment indices



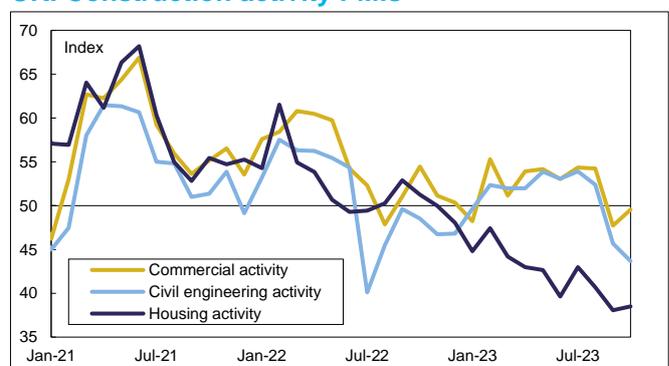
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

UK: Construction PMIs



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

UK: Construction activity PMIs



Source: Refinitiv Datastream, S&P Global 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	 Final services (composite) PMI	Oct	47.8 (46.5)	<u>47.8 (46.5)</u>	48.7 (47.2)	-
	 Sentix investor confidence index	Nov	-18.6	-22.2	-21.9	-
Germany	 Factory orders M/M% (Y/Y%)	Sep	0.2 (-4.3)	-1.5 (-3.0)	3.9 (-4.2)	1.9 (-6.3)
	 Final services (composite) PMI	Oct	48.2 (45.9)	<u>48.0 (45.8)</u>	50.3 (46.4)	-
France	 Final services (composite) PMI	Oct	45.2 (44.6)	<u>46.1 (45.3)</u>	44.4 (44.1)	-
Italy	 Services (composite) PMI	Oct	47.7 (47.0)	48.5 (47.7)	49.9 (49.2)	-
Spain	 Services (composite) PMI	Oct	51.1 (50.0)	49.3 (48.7)	50.5 (50.1)	-
UK	 New car registrations Y/Y%	Oct	14.3	-	21.0	-
	 Construction PMI	Oct	45.6	46.0	45.0	-

Auctions

Country	Auction
- Nothing to report -	

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	 08.30	Construction PMI	Oct	-	43.6
	 10.00	PPI Y/Y%	Sep	0.5 (-12.5)	0.6 (-11.5)
Germany	 07.00	Industrial production M/M% (Y/Y%)	Sep	-1.0 (-3.7)	-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

Auctions and events

UK	 10.00	Auction: £3.75bn of 4.625% 2034 bonds
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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