

Euro wrap-up

Overview

- Bunds followed US10s lower while French industrial production surprised to the upside in August, reporting the strongest monthly growth in 15 months.
- Gilts made losses as BoE Chief Economist Pill cautioned against cutting Bank Rate too far or too fast, while the UK construction PMI signalled the strongest growth since April 2022.
- The coming week will bring August figures for euro area retail sales, German industrial production and UK GDP, while the ECB will also publish the account from the September Governing Council meeting.

Emily Nicol
+44 20 7597 8331

Edward Maling
+44 20 7597 8330

Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.193	+0.118
OBL 2½ 10/29	2.066	+0.097
DBR 2.6 08/34	2.207	+0.065
UKT 4½ 01/27	4.131	+0.168
UKT 4½ 07/29	4.014	+0.154
UKT 4½ 07/34	4.132	+0.117

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

Euro area

French IP beat expectations in August boosted by a surge in consumer goods

While French services activity was boosted by the Paris Olympics over the summer – the Bank of France estimates a positive impact of 0.25ppt on GDP growth in Q3 – today's industrial production figures from the euro area's second largest member state provided further cause for optimism. In particular, French industrial output rose for a third consecutive month in August and by a stronger-than-expected 1.4%M/M, the most in 15 months. Admittedly, having declined sharply in May, this merely left the level of output up just 0.5%Y/Y and still roughly 4½% below the pre-pandemic level. However, it was nevertheless trending so far in Q3 some 0.7% above the Q2 average. Within the manufacturing detail, the improvement in August appears to have been led by only a few subsectors, including pharmaceuticals (22%M/M) and consumer electronics (6%M/M). Transport equipment (3.3%M/M) was supported by the autos, aerospace and shipping industries, but failed to fully reverse the drop in July. And output from a range of other industries – including machinery and equipment, electrical equipment, food and chemicals – fell back. While we expect to see subsequent payback for the strength in certain subsectors in August, the INSEE business survey signalled that manufacturing conditions were little changed in September, suggesting that manufacturing contributed positively to GDP growth in Q3.

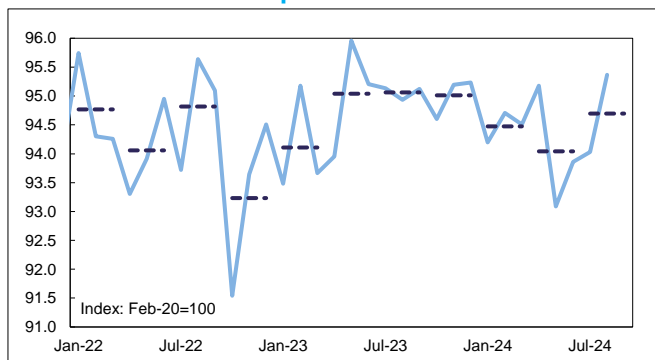
French construction output on track for fifth successive decline in Q3

In contrast, the construction sector was probably a drag on French GDP growth for a fifth consecutive quarter in Q3. Indeed, despite rising in August (0.7%M/M), the level of output in construction was still trending more than 1% lower than the Q2 average. And tallying with the deterioration reported in the INSEE construction survey, today's PMIs signalled a further notable stepdown in output in the sector at the end of Q3. In particular, the headline French activity PMI fell more than 2pts in September to 37.9, the lowest reading in 9½ years outside of the first Covid-19 lockdown period. The weakness was broad-based, but most noteworthy in civil engineering where the respective index fell to a near-two-year low. The commercial activity index remained firmly within the low range of the past ten months, while the house-building PMI fell to its second-weakest since the global financial crisis outside of the initial pandemic slump, to leave the quarterly index down more than 4pts in Q3.

Euro area construction PMI up to a 4-month high as house prices return to growth

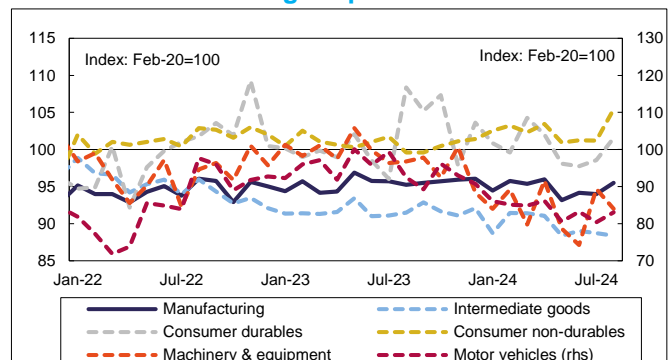
While still signalling ongoing contraction, the construction PMIs from Germany and Italy were somewhat less downbeat in September. For example, the headline German index rose to a 16-month high (41.7) to be up 1.7pts over the third quarter, while the equivalent Italian index rose to the highest in four months (47.8). So, overall, the euro area construction activity

France: Industrial output*



*Dashed dark blue lines represent quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Manufacturing output



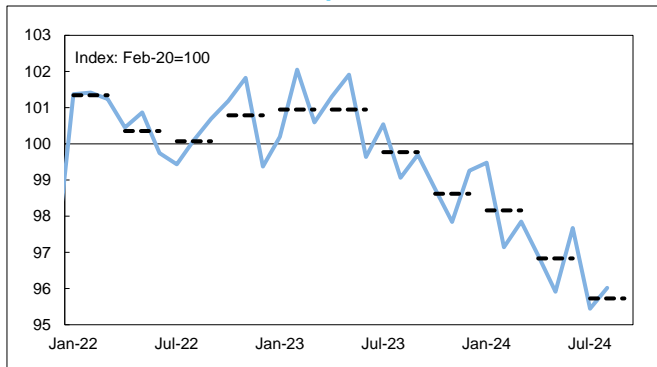
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

PMI rose 0.7pt to a four-month high of 42.1, tallying with the modest improvement in the Commission's construction sentiment indicator, which rose to the highest in six months. And while it remains historically low, the new orders PMI rose to the highest in 19 months, likely in part benefitting from the recent modest decline in borrowing costs. Demand for new residential work might also be given a boost by the recent pickup in house prices, which rose in the euro area by 1.8%Q/Q in Q2, the most for two years, to be up 1.3%Y/Y, the first positive annual growth rate since Q123. Among the larger member states, house prices rose in Germany (1.3%Q/Q) for the first quarter in eight and in Italy (3.2%Q/Q) for the first quarter in four. And another quarter of strong house price growth in Spain, the Netherlands and Portugal left the respective annual rates close to 8%Y/Y. In contrast, French house prices fell for a seventh quarter out of the past eight to be down 4.6%Y/Y.

The week ahead in the euro area

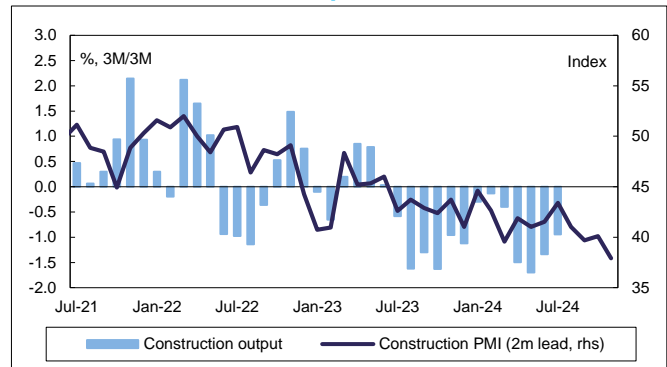
Following on from today's French IP release, the coming week will bring updates on industrial sector performance in other euro area members states. Figures for German factory orders (Monday) precede industrial production releases from Germany (Tuesday), Italy (Thursday), and Ireland (Wednesday), for which the latter often provide a non-negligible skew to the euro area figure. Industrial production in the euro area's largest economy has been lacklustre in recent months, having dropped by 2.4%M/M in July, to its lowest level in more than four years and some 12% below its pre-pandemic level. A pickup in factory orders in recent months will likely provide some temporary support to near-term production, although this rise predominantly reflected a pickup in one-off orders. As such, while we expect German IP to rise in August, manufacturing output will most likely maintain a downwards trend in Q3. Elsewhere, the coming week will also bring euro area retail sales data for August (Monday). Following a slight decline in July (-0.1%M/M), retail sales are expected to rise slightly in August, supported in part by higher spending on goods in France (0.2%M/M). In addition, final German inflation figures for September (Friday) will likely confirm that headline inflation fell below 2%Y/Y and will a granular breakdown of the basket items. Aside from the data, attention on Thursday will turn to the ECB's account from September's monetary policy meeting, during which the Governing Council cut the deposit rate by 25bps, for an update on the policymakers' assessment of the balance of risks and therefore the likelihood of a successive rate cut this month.

France: Construction output*



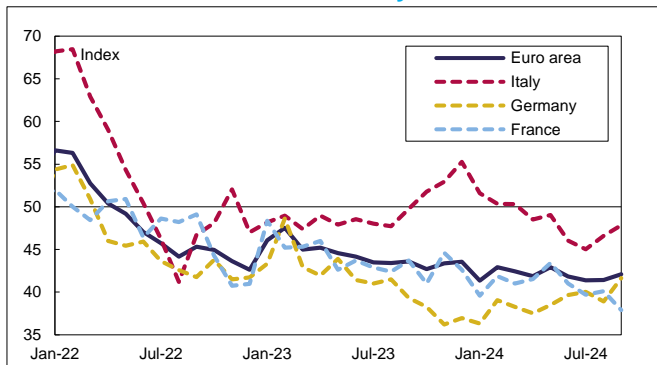
*Dashed dark blue lines represent quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Construction output & PMI



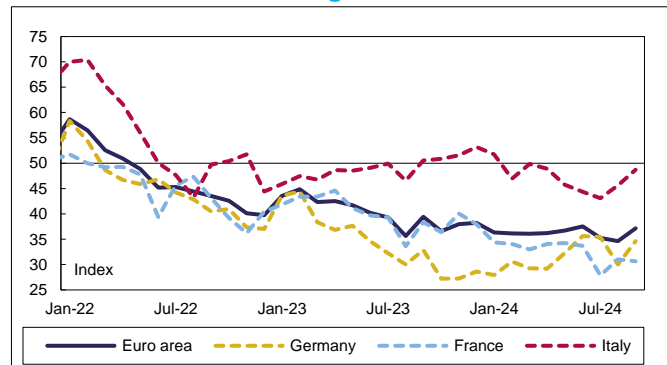
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Construction activity PMIs



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

Euro area: House building PMIs



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

UK

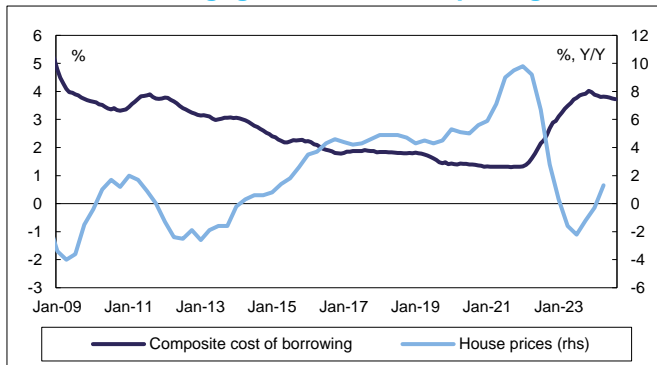
Construction PMI signals fastest expansion in activity since April 2022

Contrasting the implied softer growth in the services and manufacturing PMIs at the end of Q3, September's construction PMI survey surprised to the upside, signalling a broad acceleration in activity, supported by less restrictive borrowing costs and fading uncertainty following July's general election. In particular, the headline activity index rose 3.6pts to 57.2, indicating the strongest expansion since April 2022. And the new orders component, up 2.1pts to 57.4, implied the firmest demand in 2½ years. The improved outlook was evident in each of the respective sub-industries. In particular, the civil engineering index rose (by 7.2pts to 59.0) to its highest level since June 2021, reportedly owing to an uplift in major and renewable energy projects. Likewise, the house building component implied a third consecutive month of growth (up 1.6pts to 54.3) to reach its highest level since March 2022. So, having fallen by around a quarter between Q422-Q423, today's survey points to a significant acceleration in new private residential construction over the summer. Like the euro area, house builders' sentiment will likely be buoyed by signs of improvement in the housing market, including not least the past week's Nationwide report that recorded the highest annual growth in house prices in 22 months.

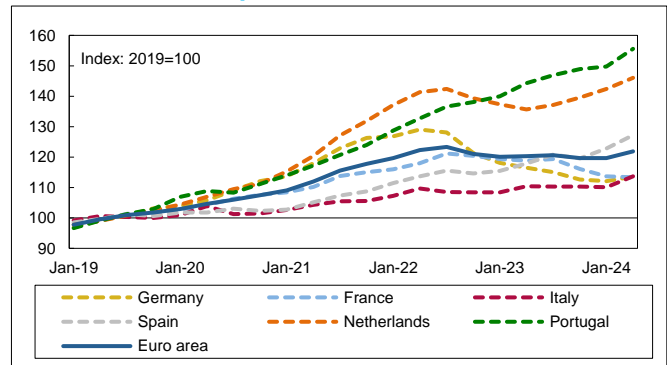
The week ahead in the UK

The headline release in the UK the coming week will be Friday's monthly GDP report for August. Following a downward revision to Q2 growth earlier this week, by 0.1ppt to 0.5%Q/Q, the August release will provide a final reference for GDP ahead of both November's MPC decision and the Autumn budget. Our expectation is for a return to modest growth of 0.2%M/M that month, in part compensating for stagnation in June and July (0.0%M/M). Indeed, retail sales volumes – accounting for around 10% of the monthly GDP measure – rose a stronger than expected 1.0%M/M in August in a sign that waning inflation and less restrictive financial conditions may be feeding through to higher consumer spending. The manufacturing PMIs also buoy hopes for bounce back following the decline in industrial production in July. The coming week's BRC retail monitor (Tuesday) will provide an update on retail sales volumes at the end of Q3. The BoE's quarterly credit conditions survey for Q3 and the RICS residential survey (both due Thursday) are also due.

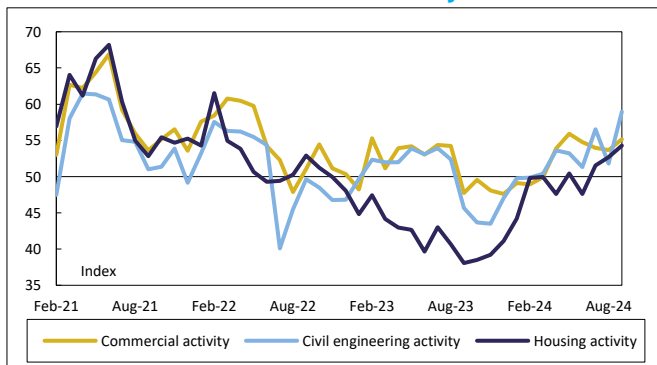
Euro area: Mortgage rates & house price growth



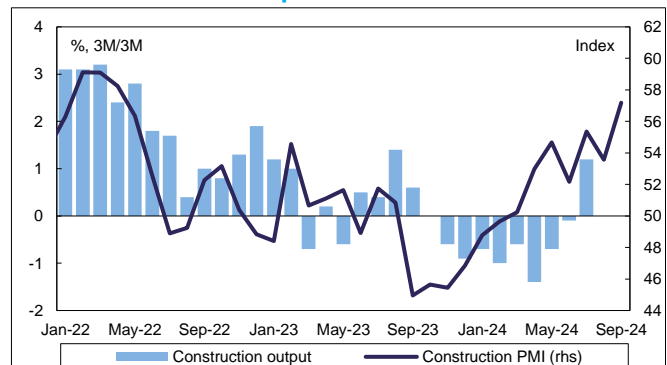
Euro area: House price levels












UK: Construction subsector activity PMIs



UK: Construction output & PMI










Daiwa economic forecasts

	2024			2025			2023	2024	2025
	Q2	Q3	Q4	Q1	Q2	Q3			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.2	0.2	0.2	0.3	0.3	0.3	0.5	0.7	1.0
UK 	0.5	0.3	0.3	0.3	0.3	0.4	0.3	1.0	1.3
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.5	2.2	2.2	2.0	1.8	1.8	5.4	2.4	1.9
Core HICP 	2.8	2.8	2.9	2.5	2.0	1.8	4.9	2.9	2.1
UK									
Headline CPI 	2.1	2.1	2.6	2.5	2.0	2.2	7.3	2.6	2.2
Core CPI 	3.6	3.4	3.5	3.3	2.2	2.0	6.2	3.8	2.4
Monetary policy, %									
ECB									
Deposit Rate 	3.75	3.50	3.00	2.50	2.25	2.25	4.00	3.00	2.25
Refi Rate 	4.25	3.65	3.15	2.65	2.40	2.40	4.50	3.15	2.40
BoE									
Bank Rate 	5.25	5.00	4.50	4.00	3.50	3.00	5.25	4.50	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/ Daiwa forecast	Previous	Revised	
Euro area 	Construction PMI	Sep	42.1	-	41.4	-	
Germany 	Construction PMI	Sep	41.7	-	38.9	-	
France 	Industrial production M/M% (Y/Y%)	Aug	1.4 (0.5)	0.3 (-2.0)	-0.5 (-2.2)	0.2 (-1.2)	
	Construction PMI	Sep	37.9	-	40.1	-	
Italy 	Construction PMI	Sep	47.8	-	46.6	-	
	Deficit to GDP YTD %	Q2	5.8	-	8.8	8.4	
	Retail sales M/M% (Y/Y%)	Aug	-0.5 (0.8)	-	0.5 (1.0)	-(0.9)	
Spain 	Industrial production M/M% (Y/Y%)	Aug	-0.1 (-0.1)	0.2 (-0.1)	-0.4 (-0.4)	-	
UK 	New car registrations Y/Y%	Sep	1.0	-	-1.3	-	
UK 	Construction PMI	Sep	57.2	-	53.6	-	
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 forecast</i>	Previous
Monday 7 October 2024					
Euro area	09.30	Sentix investor confidence index	Oct	-14.7	-15.4
	10.00	Retail sales M/M% (Y/Y%)	Aug	0.2 (1.0)	0.1 (-0.1)
Germany	07.00	Factory orders M/M% (Y/Y%)	Aug	-2.0 (-1.6)	2.9 (3.7)
Tuesday 8 October 2024					
Germany	07.00	Industrial production M/M% (Y/Y%)	Aug	0.8 (-3.9)	-2.4 (-5.3)
France	07.45	Trade balance €bn	Aug	-	-5.9
UK	00.01	BRC retail monitor – like-for-like sales Y/Y%	Sep	0.8	0.8
Wednesday 9 October 2024					
Germany	07.00	Trade balance €bn	Aug	18.9	17.0
Thursday 10 October 2024					
Italy	09.00	Industrial production M/M% (Y/Y%)	Aug	0.3 (-3.0)	-0.9 (-3.3)
UK	00.01	RICS house price balance %	Sep	7	1
Friday 11 October 2024					
Germany	07.00	Final HICP (CPI) Y/Y%	Sep	<u>1.8 (1.6)</u>	2.0 (1.9)
UK	07.00	Monthly GDP M/M% (3M/3M%)	Aug	<u>0.2 (0.3)</u>	0.0 (0.5)
	07.00	Services output M/M% (3M/3M%)	Aug	0.2 (0.3)	0.1 (0.6)
	07.00	Industrial output M/M% (Y/Y%)	Aug	0.2 (-0.5)	-0.8 (-1.2)
	07.00	Manufacturing output M/M% (Y/Y%)	Aug	0.3 (-0.4)	-1.0 (-1.3)
	07.00	Construction output M/M% (Y/Y%)	Aug	0.4 (-0.3)	-0.4 (-1.6)
	07.00	Trade (goods trade) balance £bn	Aug	-6.0 (-19.3)	-7.5 (-20.0)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 7 October 2024		
Euro Area	08.45	ECB Chief Economist Lane speaks at ECB Conference on Monetary Policy, Frankfurt.
UK	00.01	S&P, KPMG and REC publish September Report on Jobs
Tuesday 8 October		
Germany	10.30	Auction: to sell €1bn of 2.3% 2033 green bonds
UK	10.00	Auction: to sell £1bn of 0.125% 2039 index-linked bonds
Wednesday 9 October 2024		
Germany	10.30	Auction: to sell €500mn of 0% 2036 bonds
	10.30	Auction: to sell €1bn of 2.6% 2041 bonds
UK	10.00	Auction: to sell £3.75bn of 4.25% 2034 bonds
Thursday 10 October 2024		
Euro area	12.30	ECB publishes monetary policy account of September Governing Council meeting
UK	09.30	BoE to publish quarterly credit conditions survey for Q3 2024
Friday 11 October 2024		
Italy	10.00	Auction: to sell bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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