

Euro wrap-up

Overview

- Bunds followed USTs higher while euro area construction output remained lacklustre over the summer as demand remained restricted by monetary policy.
- While UK retail sales surprised to the upside in September to signal a positive contribution to Q3 GDP growth, Gilts also made gains.
- The coming week will be dominated by October sentiment indicators, including the flash PMIs and consumer confidence surveys.

Emily Nicol
+44 20 7597 8331

Edward Maling
+44 20 7597 8030

Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.098	-0.041
OBL 2½ 10/29	2.014	-0.033
DBR 2.6 08/34	2.181	-0.026
UKT 4½ 01/27	3.989	-0.029
UKT 4½ 07/29	3.907	-0.034
UKT 4½ 07/34	4.055	-0.033

*Change from close as at 4:45pm BST.
Source: Bloomberg

Euro area

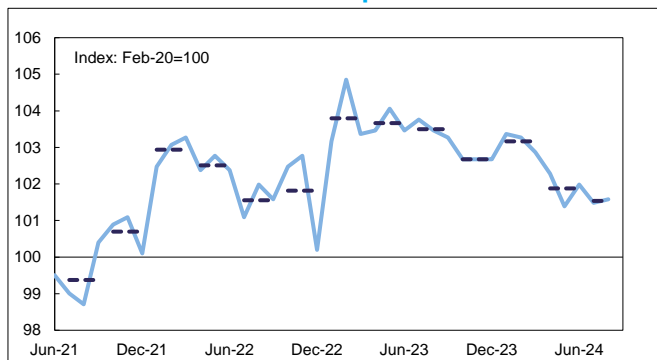
Euro area construction output remains subdued over the summer

While euro area [industrial production](#) rebounded (albeit probably only temporarily) in August, construction activity remained disappointingly subdued to raise the likelihood that the sector remained a drag on GDP growth in Q3 for a fifth quarter out of the past six. In particular, total construction activity rose just 0.1%M/M in August, to mark just the second monthly increase out of the past seven. Building work bounced back in August (0.9%M/M) but failed to fully reverse the decline in July and left the level still more than 5% below the pre-pandemic benchmark in February 2020. Meanwhile, despite continued support from NGEU projects, civil engineering activity fell for the fourth month out of five and by 2.1%M/M, the steepest drop since December 2022. Of the eleven member states to publish monthly figures, construction output rose in just three, including Germany (0.3%M/M), France (0.6%M/M) and the Netherlands (a marked 6.3%M/M). In contrast, activity declined elsewhere, including a sharp contraction in Italy (-1.8%M/M) to leave it trending broadly sideways compared with Q2 having grown rapidly over recent years due to the government's superbonus tax incentive scheme. Smoothing for monthly volatility, construction output maintained a downwards trend in Germany and France. And overall, given the downwards revision in July (-0.5%M/M), the euro area level in the first two months of Q3 was trending some 0.3% below the Q2 average.

Near-term building outlook remains subdued as demand remains restricted by monetary policy

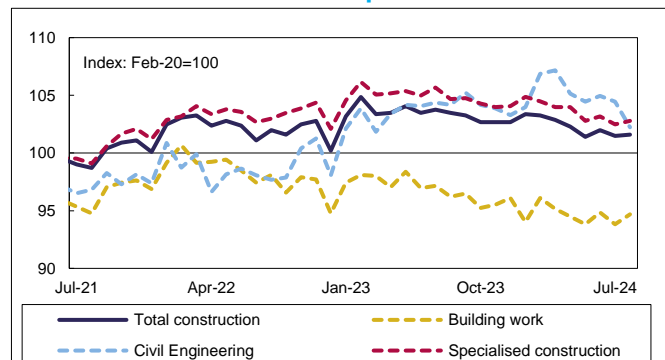
Surveys point to ongoing weakness in construction activity at the end of Q3, with unseasonably heavy rainfall seemingly a restraint on activity. The Commission's indicator of output in the three months to September fell to the lowest since May and remained well below the average in the five years before the pandemic, with the deterioration was most striking in Italy. Order books remain relatively thin despite a very modest pickup in September, while almost a third of firms continue to flag a lack of demand. And despite the pickup in house prices in Q2 across the region (with the exception of France) and the ECB's pivot to an easier monetary policy, building permits remain at low levels, particularly in Germany, suggesting that activity will remain lacklustre over coming quarters too. Indeed, German residential building permits fell in July by a whopping 27%YY to the lowest level since the series began in 2000. But the recent news has not been universally downbeat. For example, the past week's ECB Bank Lending Survey signalled a significant pickup in demand for loans for house purchase over the past quarter, which should help support a further recovery in the housing market in due course. And while monetary policy remains restrictive, back-to-back cuts in interest rates in September and October, as well as further anticipated easing over the coming six months, should help to support a gradual recovery in construction activity next year.

Euro area: Construction output*



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

Euro area: Construction output



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the euro area

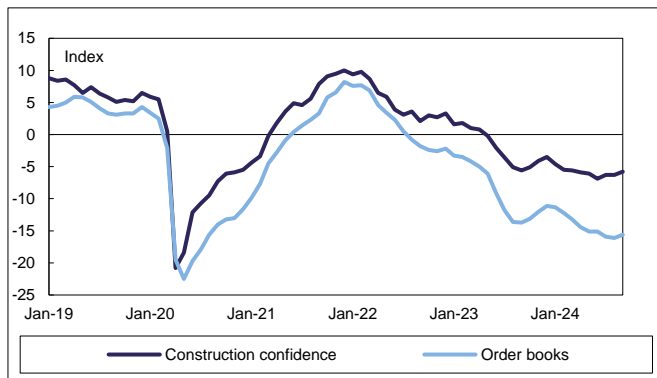
In a busy week ahead for euro area data releases, the October flash PMIs (Thursday) are likely to draw most attention. Certainly, softening growth momentum in the euro area implied by the September PMIs was flagged by ECB President [Lagarde](#) in yesterday's press conference as a key cause of the Governing Council's more dovish tone. Indeed, the euro area composite output indicator slipped into contractionary territory (49.6) for the first time since February. Although the decline in services activity (by 1.5pts to 51.4) contributed most to the monthly step-change, euro area underperformance has been anchored by weakness in manufacturing (44.9), and particularly among its largest economies. With new orders and output expectations having also slipped back in September, the euro area PMIs will likely to remain subdued in October, perhaps inching only modestly higher at best.

National business sentiment surveys will also be published, including the German ifo (Friday), French INSEE (Thursday) and Italian ISTAT reports (Friday), which in addition to the services and manufacturing sectors covered by the PMIs will include updates on conditions in construction and retail. The INSEE survey, which has a significantly larger sample than the PMIs, has provided a more reliable guide to French economic growth over the summer. But like the PMIs, Germany's ifo survey has reported a steady deterioration in firms' assessments of current conditions and expectations for the coming six months. The PMIs and national business surveys will provide an update on price pressures in October too. With the services input price index having fallen back below the long-run average in September, the prices charged component might also maintain a downwards trend this month.

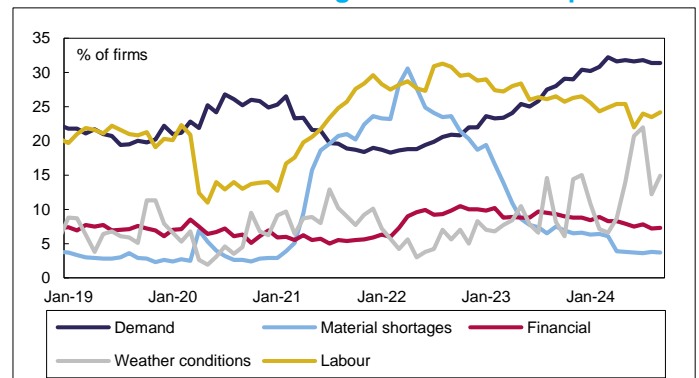
In addition, a number of consumer surveys will provide insights into consumer spending at the start of Q4. Most notably, the European Commission's flash consumer confidence indicator for October is due Wednesday. Consumer confidence rose in September to -12.9, the highest since February 2022 and not far below the long-run average. A second consecutive increase and the eighth this year is expected this month, supported by the recent decline in inflation and cut in interest rates.

Finally, the ECB's monetary figures for September are also due (Friday). With interest rates still in restrictive territory, these are expected to show that bank lending remained relatively subdued at the end of Q3. But in line with the past week's Bank Lending Survey we might well see a more noticeable pickup in mortgage lending. Meanwhile, the ECB's consumer expectations survey for August (Friday) should show that medium-term inflation expectations remained well-anchored over the summer.

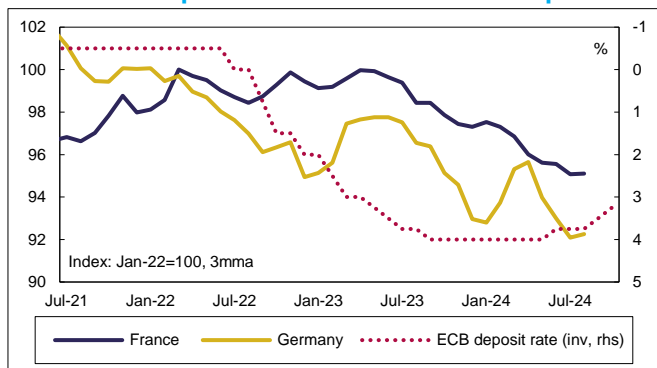
Euro area: Construction confidence & new orders



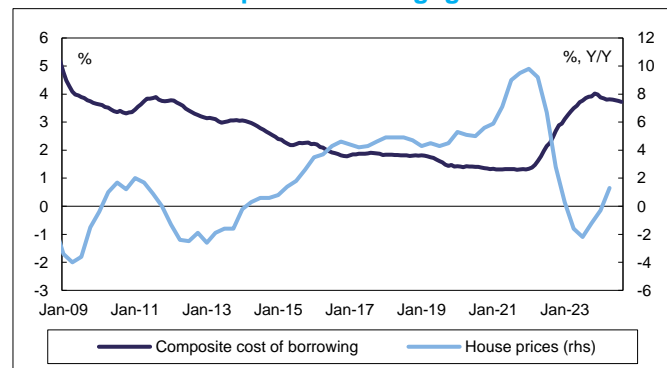
Euro area: Factors limiting construction output



Euro area: Deposit rate & construction output



Euro area: House prices & mortgage interest rates



UK

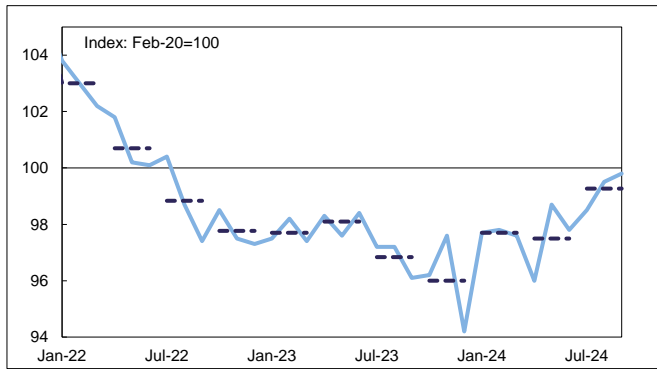
Retail sales surprise to the upside in September, suggesting solid boost to GDP growth in Q3

Despite unseasonably wet weather in several English regions and a dip in consumer confidence, UK retail sales surprised to the upside in September, suggesting that household consumption will provide a non-negligible boost to GDP growth in Q3. Indeed, contrasting expectations for a modest decline, sales volumes rose for a third consecutive month (0.3%M/M) for the first time since April 2019 outside of the pandemic period. While this left sales a touch below the pre-pandemic benchmark in February 2020, they were nevertheless still up 3.9%Y/Y. That marked the strongest annual growth in sales volumes since February 2022 and was notably firmer than the equivalent rate for sales values (2.6%Y/Y), illustrating how consumers are now getting a lot more bang for their buck as retailers cut prices in the face of intense competition. Over the third quarter as a whole, sales volumes were up 1.9%3M/3M, matching the pace in Q1 and a quarterly rate that was last exceeded in Q216 outside of the pandemic.

September sales boosted by temporary factors and likely to reverse in Q4

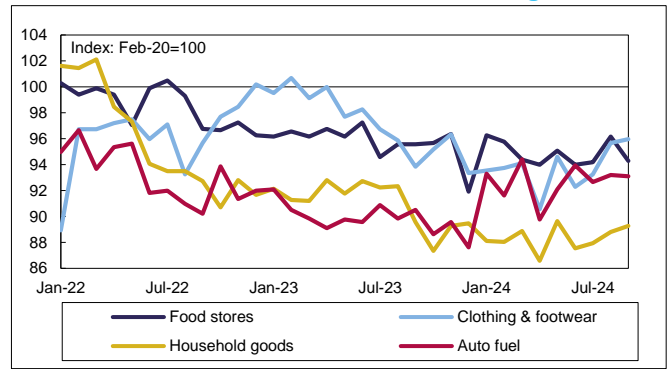
Within the detail, the strength in September was driven by sales at non-food stores (2.5%M/M), which rose for a fourth consecutive month to the highest level since March 2022. This left them up 3.0%3M/3M, the strongest quarterly increase for more than 20 years when excluding extreme readings during the first year of the pandemic. The driver in the latest month was a surge in sales of computers and telecoms equipment (35%M/M) at a pace exceeded only twice since the start of the series in 1988. This coincided with the launch of the latest iPhone model but also tallied with the BRC survey's report of increased purchases of laptops at the beginning of the school year. While clothing sales were flat in September, they still rose almost 3%3M/3M, while hardware store sales were up more than 4%3M/3M in Q3. Sales at food stores (0.5%3M/3M) and petrol stations (1.0%3M/3M) also provided a modest boost over the quarter as a whole despite a drop in spending on such items in September. The drop in consumer confidence last month and survey findings of lower purchase intentions might point to lower spending on big-ticket items over the near term. Certainly, we expect payback in sales of computers and telecoms equipment this month. And particularly if households fail to escape a significant increase in the tax burden in the forthcoming government budget announcement on 30 October, the retail sector will probably provide a modest drag on economic growth in Q4 despite the strong likelihood of a further BoE rate cut in November and good chance of another one in December and further easing throughout 2025.

UK: Retail sales volumes*



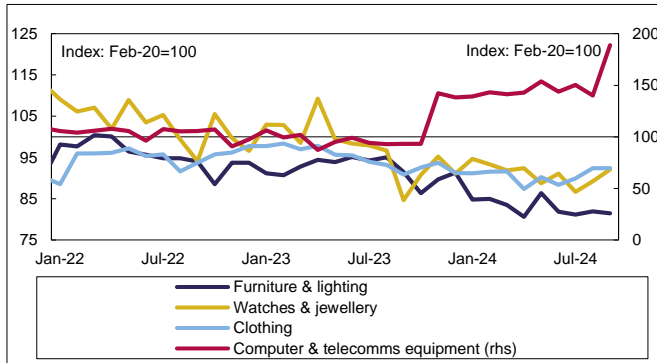
*Dashed dark blue lines represent quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes – selected categories



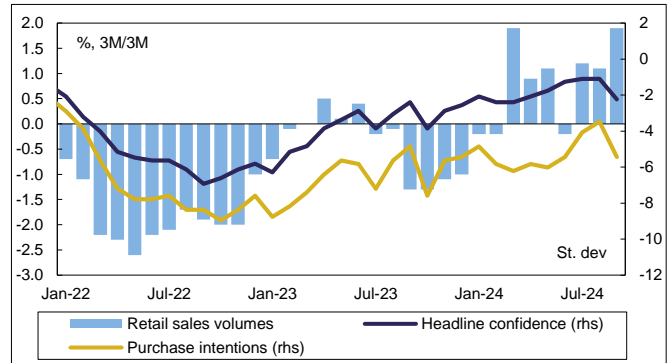
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes – selected categories



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales & consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.










The week ahead in the UK

Like in the euro area, Thursday's flash October PMIs will be the UK data highlight in the coming week. In Q3, the PMIs signalled ongoing expansion, with the headline composite index averaging 53.1 over this period, matching the average in Q2 and supported by growth in both manufacturing and services. While the composite index declined in September (by 1.2pts to 52.6), business expectations of future output remained above their long-run average. Overall, the composite PMI is expected to be broadly unchanged this month. Meanwhile, after headline inflation slipped back below the 2% target in September, the PMI price indices will provide an update on inflationary pressures this month. Particular focus will be on whether services price pressures continue to dissipate, with the recent output price PMI having declined to a 20-month low (54.7) in September. Having seen manufacturing input costs (57.5) rise over recent months, we might see a modest uptick in the manufacturing output price index this month too. The CBI industrial trends survey is also due (Thursday), which will include the quarterly survey indicators on investment and employment intentions for the coming year.

Elsewhere, ahead of the new government's Budget announcement on 30 October, attention will also be on the latest public sector finance statistics (Tuesday), which will provide context on the current fiscal situation and existing borrowing overshoot. In August, public sector net borrowing (FYTD £64.1bn) was some £6.3bn above the OBR's forecast (FYTD £57.8bn), which was based on the previous government's spending plans. That gap is expected to have widened slightly in September. Separately, ahead of the BoE's MPC meeting on 7 November, the coming week will see a number of MPC members – including BoE Governor Bailey, Deputy Governor Breeden, and external members Greene and Mann – speak publicly at the IMF Autumn meetings in Washington.





The next edition of the Euro wrap-up will be published on 22 October 2024

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	0.2	0.3	0.3	0.3	0.4	0.3	0.9	1.2
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	2.0	2.4	2.3	2.1	2.3	7.3	2.5	2.2
Core CPI 	3.6	3.3	3.3	3.3	2.3	2.0	6.2	3.7	2.3
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/ <i>Daiwa forecast</i>	Previous	Revised	
Euro area	 Current account balance €bn	Aug	31.5	-	39.6	40.8	
	 Construction output M/M% (Y/Y%)	Aug	0.1 (-2.5)	-	0.0 (-2.2)	-0.5 (-2.3)	
UK	 Retail sales – including auto fuel M/M% (Y/Y%)	Sep	0.3 (3.9)	-0.4 (3.2)	1.0 (2.5)	- (2.3)	
	 Retail sales – excluding auto fuel M/M% (Y/Y%)	Sep	0.3 (4.0)	-0.3 (3.1)	1.1 (2.3)	- (2.2)	
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 21 October 2024							
Germany		07.00 PPI Y/Y%	Sep	-1.1	-0.8		
France		- Retail sales Y/Y%	Sep	-	0.2		
UK		00.01 Rightmove house prices M/M% (Y/Y%)	Oct	-	0.8 (1.2)		
Tuesday 22 October 2024							
Euro area		05.00 New car registrations Y/Y%	Sep	-	-19.9		
UK		07.00 Public sector net borrowing £bn	Sep	17.5	13.7		
Wednesday 23 October 2024							
Euro area		15.00 Preliminary Commission consumer confidence indicator	Oct	-12.5	-12.9		
Thursday 24 October 2024							
Euro area		09.00 Preliminary manufacturing (services) PMI	Oct	45.3 (51.5)	45.0 (51.4)		
		09.00 Preliminary composite PMI	Oct	49.7	49.6		
Germany		08.30 Preliminary manufacturing (services) PMI	Oct	40.8 (50.7)	40.6 (50.6)		
		08.30 Preliminary composite PMI	Oct	47.6	47.5		
France		07.45 INSEE business (manufacturing) confidence indicator	Oct	98 (99)	98 (99)		
		08.15 Preliminary manufacturing (services) PMI	Oct	45.0 (50.0)	44.6 (49.6)		
		08.15 Preliminary composite PMI	Oct	49.0	48.6		
UK		09.30 Preliminary manufacturing (services) PMI	Oct	51.5 (52.4)	51.5 (52.4)		
		09.30 Preliminary composite PMI	Oct	52.6	52.6		
		11.00 CBI industrial trends survey – total orders (selling prices) balance %	Oct	-28 (9)	-35 (8)		
Friday 25 October 2024							
Euro area		09.00 ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Sep	2.2 (2.6)	2.7 (2.3)		
		09.00 M3 money supply Y/Y%	Sep	2.9	2.9		
Germany		09.00 ifo business climate indicator	Oct	85.6	85.4		
		09.00 ifo current assessment (expectations) indicator	Oct	84.4 (87.0)	84.4 (86.3)		
France		07.45 INSEE consumer confidence indicator	Oct	95	95		
		11.00 Total jobseekers mn	Q3	-	2.8		
Italy		09.00 ISTAT consumer confidence indicator	Oct	98.5	98.3		
		09.00 ISTAT business (manufacturing) confidence indicator	Oct	- (87.0)	95.7 (86.7)		
Spain		08.00 PPI Y/Y%	Sep	-	-1.3		
		08.00 Unemployment rate %	Q3	-	11.3		
UK		00.01 GfK consumer confidence indicator	Oct	-21	-20		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 21 October 2024		
- Nothing to report -		
Tuesday 22 October		
Germany		10.30 Auction: to sell €5bn of 2026 bonds
UK		10.00 Auction: to sell £900mn of 0.625% 2045 inflation-linked bonds
		14.15 BoE MPC External Member Greene speaks on monetary policy at the Atlantic Council during IMF-World Bank week.
		14.25 BoE Governor Bailey speaks at the Bloomberg Regulatory Forum, New York.
Wednesday 23 October 2024		
Euro area		15.00 ECB President Lagarde speaks on Europe's economic outlook at the Atlantic Council during IMF-World Bank week.
		15.00 ECB Chief Economist Lane speaks at the Institute for International Finance, Washington D.C.
Germany		10.30 Auction: to sell €4bn of 2.6% 2034 bonds
UK		10.00 Auction: to sell £4bn of 3.75% 2027 bonds
		21.30 BoE Governor Bailey speaks at the Institute for International Finance, Washington D.C.
Thursday 24 October 2024		
Euro area		18.00 ECB Chief Economist Lane speaks at the Cleveland Fed's 'Inflation: Drivers and Dynamics Conference 2024'
Friday 25 October 2024		
Italy		10.00 Auction: to sell inflation-linked bonds*

*Details to be announced on Tuesday. 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://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

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.