

# Euro wrap-up

## Overview

- Bunds made gains as the flash euro area PMIs remained consistent with economic stagnation at the start of Q4, while the price components pointed to ongoing disinflation.
- While the flash UK composite PMI fell to an eleven-month low, Gilts made losses after the Chancellor confirmed that she would avoid the cuts in public sector investment planned by the previous government.
- Friday will bring the German ifo business survey, consumer confidence indicators from France, Italy and the UK, and euro area bank lending data.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.7 12/26	2.055	-0.035
OBL 2½ 10/29	2.063	-0.045
DBR 2.6 08/34	2.254	-0.048
UKT 4½ 01/27	4.131	+0.044
UKT 4½ 07/29	4.082	+0.049
UKT 4½ 07/34	4.232	+0.034

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

## Euro area

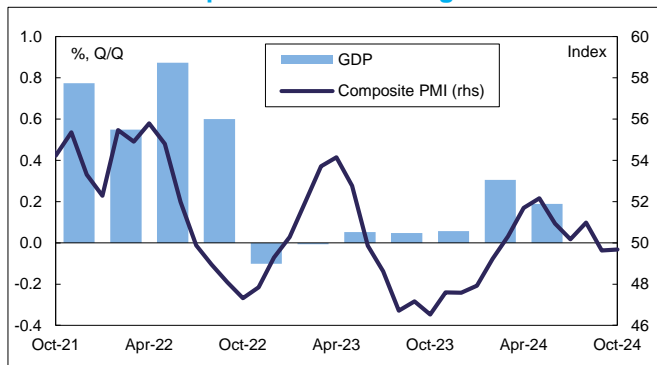
### Flash PMIs remain consistent with stagnation heading into Q4

The deterioration in the September PMIs was already an important factor behind the ECB's decision to cut rates by 25bps last week. It was also a reason why the doves from the Governing Council have this week flagged the possibility of a rate cut of 50bps at the next meeting in December. And today's flash euro area PMIs for October failed to show meaningful improvement, with the headline composite PMI up minimally to 49.7 to remain consistent with a loss of momentum since the summer and broad economic stagnation at the start of Q4. Growth in services activity reportedly slowed to the softest pace in eight months (51.2). Manufacturing output (45.5) remained firmly in reverse in line with the average rate of the past 18 months amid declining orders from home and abroad and falling work backlogs. And firms suggested a desire to trim headcount by the most since 2020. Also today, the French INSEE business survey – which usually provides a reliable guide to activity in the euro area's second-largest economy – was surprisingly downbeat, reporting the sharpest drop in manufacturing sentiment since the global financial crisis. Therefore, today's data added to evidence that the ECB's projections for GDP and inflation will probably need to be revised down when the Governing Council next meets to discuss policy. Rates markets are right to price a non-negligible probability of a jumbo ECB rate cut before year-end.

### Growth in Southern Europe still holding up while consumers are less downbeat

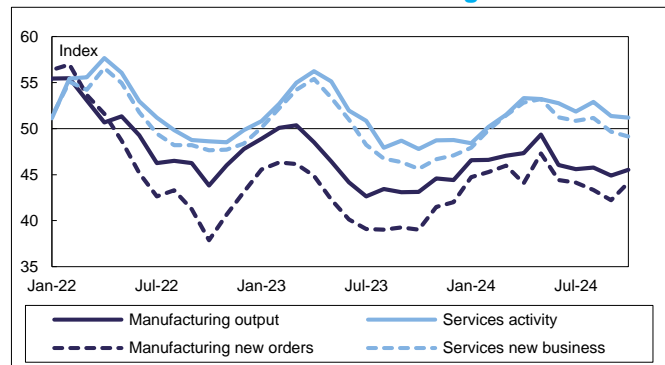
Perhaps predictably, the flash October composite PMIs suggested that the weakness in the region remains centred on the euro area's core economies, with Germany (48.4) seemingly in recession and France (47.3) possibly shifting into reverse gear in Q4 too. Economic activity in several other member states in Central and Northern Europe also undeniably remains weak. Nevertheless, the flash respective PMI reported a slight pickup in growth to a four-month high in the euro area excluding Germany and France. While the summer tourist season has passed, growth was probably again led by Spain with several other countries in Southern Europe also likely continuing to expand. Certain other recent data have also been consistent with pockets of improvement in underlying conditions in the region. Notably, yesterday's preliminary Commission index reported the eighth improvement in euro area consumer confidence in the past nine months. And higher real incomes are likely providing greater reassurance to households about the state of their personal finances. So, the ECB's hawks will continue to hope that Southern Europe will maintain some positive momentum and also that the long-awaited pickup in household spending growth might finally materialise over the near term to neutralise the case for accelerated easing.

### Euro area: Composite PMI & GDP growth



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

### Euro area: Services & manufacturing PMIs



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

## Easing costs offer ample scope to ease policy, but size of December cut dependent on future data

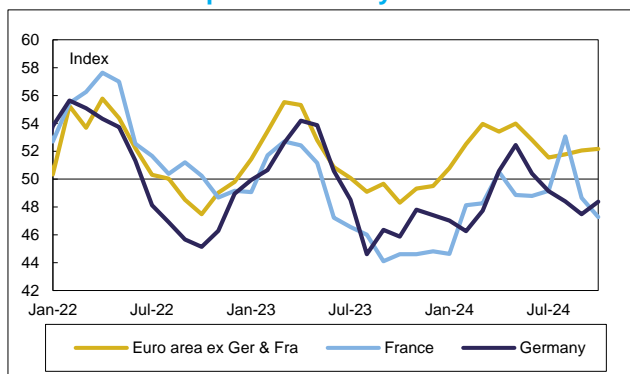
Consumers' personal finances now probably do feel under less pressure than over the past few years. But we suspect that households will still prefer to save rather than spend any extra disposable income. And the flash PMIs and INSEE indices are certainly not the only business surveys – which always provide a better guide to economic growth than consumer sentiment – to suggest that the euro area economy is now stagnating rather than regaining traction. Given that it is deterring business investment and consumer purchases of durable goods, while increasing incentives to save, the restrictive monetary policy stance is undeniably one important cause of the lack of momentum. High interest rates are also helping to squeeze inflation out of the system. Indeed, the flash PMIs suggested that input cost pressures (54.0) in October were the softest since 2020 and below the long-run average. And output prices (51.3) rose the least on the survey since early 2021 as firms appeared increasingly to absorb some of their extra costs within their margins. Moreover, the euro area fiscal stance looks set to become more restrictive next year. So, there now appears clear scope for further significant monetary easing over the next few meetings to return ECB policy to a neutral or even an accommodative stance. But there are plenty of important data, including two months of inflation, Q3 GDP and a further month of PMIs, to be released in the euro area between now and then. In addition, the external economic, political and financial market environment is far more difficult to predict with confidence over the near term. So, the size of the ECB's next rate cut in December – 25bps or 50bps – remains very much in the balance.

## The day ahead in the euro area

Following today's October flash PMIs, attention in the euro area at the end of the week will continue to be focussed on business surveys from the member states. In particular, tomorrow's German ifo institute business indices, which will also provide a broader assessment of economic conditions from the retail and construction sectors, will suggest that the weakness observed at the end of Q3, centred on the manufacturing sector, extended into October. We expect the ifo indices to signal little change from the contraction suggested in September, in line with today's flash PMIs. And while those also signalled that, beyond the two largest member states, growth in the rest of the euro area sustained a positive trend, tomorrow's Italian ISTAT indices are also expected to show limited improvement.

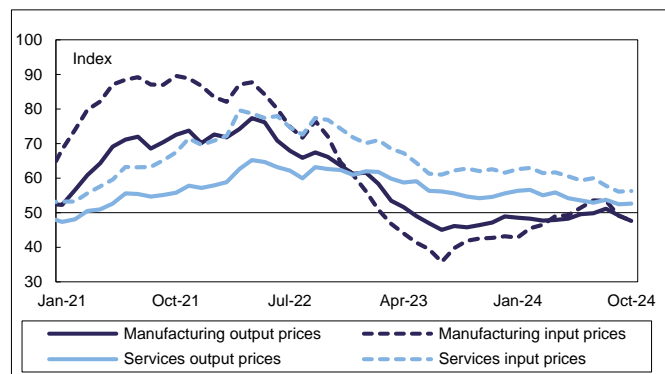
Separately, Friday's French and Italian consumer confidence indices will likely suggest contrasting fortunes among the households of the two neighbouring countries. Despite the improvement in the Commission's flash euro area index close to the long-run average, we expect little change in both countries. In France, noisier rhetoric of fiscal consolidation, through both public spending cuts and tax increases, seems likely to keep consumer confidence firmly below the long-run average. In Italy, however, sentiment is likely to remain above the long-run average reflecting the recent improvement in the country's

### Euro area: Composite PMIs by member state



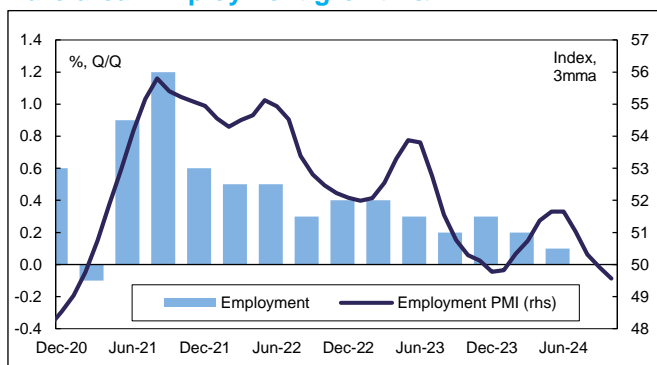
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Price PMIs



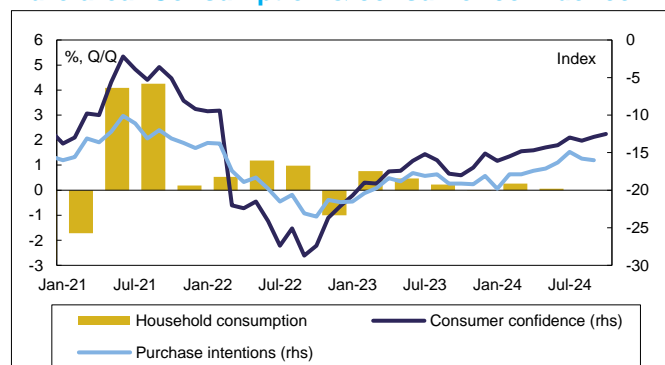
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Employment growth & PMI



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

### Euro area: Consumption & consumer confidence\*



\*October consumer confidence figure is preliminary estimate.  
 Source: Macrobond, EC and Daiwa Capital Markets Europe Ltd.

economic performance. Finally, the impact of restrictive monetary policy will be evident in tomorrow's euro area monetary data. Bank lending seems bound to remain subdued in September, although last week's Bank Lending Survey for Q3 hinted at the possibility of a pickup in mortgage lending.

## UK

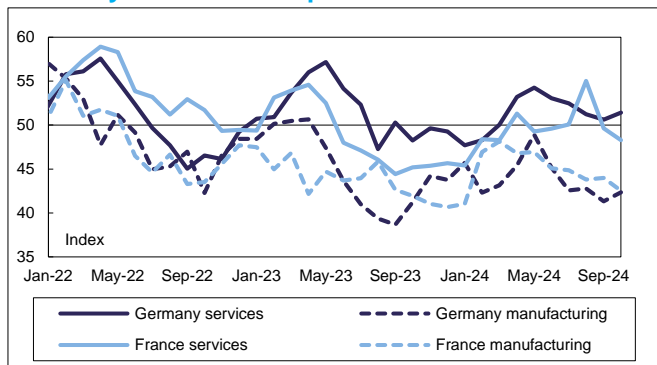
### Composite PMI falls to 11-month low as demand reportedly drops ahead of Budget announcements

Today's flash UK PMIs in October surprised to the downside, implying a notable slowing in growth momentum at the start of Q4 and therefore adding support to the case for a rate cut at the MPC's forthcoming policy meeting on 7 November. In particular, the headline composite output PMI fell for a second successive month, by 0.9pt in October to an eleven-month low of 51.7. This left the index some 1.3pts below the average in the first nine months of the year and at a level consistent with GDP growth of around 0.1%Q/Q. The deterioration this month was seemingly exacerbated by increased uncertainty surrounding the nature and extent of tax hikes to be unveiled in next week's Budget announcement. Nevertheless, the loss of momentum was reportedly broad-based as new orders were put on hold across various sectors. Indeed, despite the fastest export sales growth since March 2023, the services activity index fell 0.5pt to 51.8, the lowest for eleven months and more than 3pts below the peak in April. Meanwhile, the manufacturing output index declined for a third consecutive month, by 2.7pts – the most since December – to 50.9, the lowest for six months and more than 4pts below the peak in July. New factory orders (48.9) also reportedly contracted the most in six months, while inventories of finished goods rose for the first month in 16, further clouding the near-term production outlook. Overall, manufacturers and services firms expected weaker growth over the coming 12 months, which led firms to put a hold on hiring. These findings tallied with the notable deterioration in business optimism reported in the CBI's industrial trends survey, with the respective index (-24) in the three months to October the lowest for two years. In turn, firms in the sector unsurprisingly downwardly revised their investment intentions for the coming year.

### Factory price PMIs fall sharply, while services input cost pressures back below long-run average

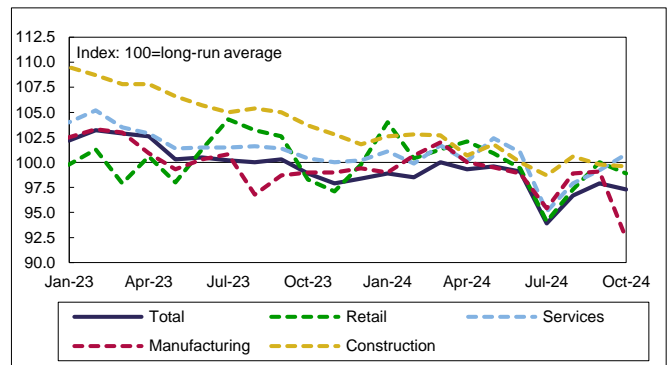
The PMI's inflation components provided mixed messages about price pressures at the start of Q4. Having spiked in recent months, the manufacturing input price index fell sharply in October, by a whopping 7.9pts to a ten-month low of 49.5. Among other things, firms cited lower oil prices and freight shipping costs. And with firms' pricing powers restrained by lacklustre demand, the PMIs also reported a moderation in factory selling prices, tallying with the absence of producer output price inflation implied by the CBI's survey too. In contrast, the services prices-charged PMI rose to a four-month high in October (55.7) to remain some way above the long-run average (52.8). But this still remained below the average in the first half of this

#### Germany & France: Output PMIs



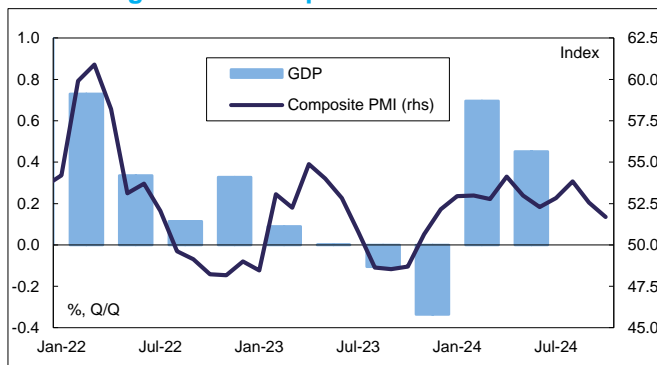
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: INSEE business climate indices



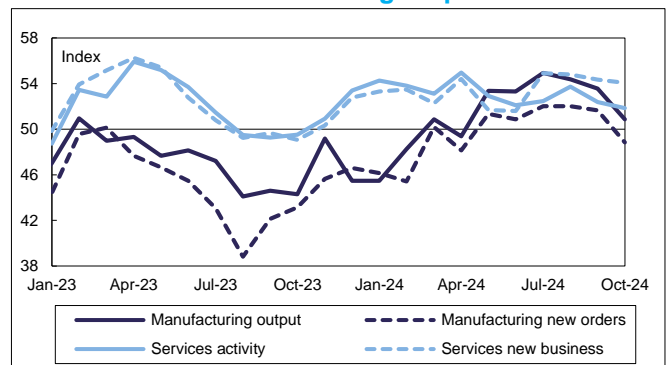
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: GDP growth & composite PMI



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

#### UK: Services & manufacturing output PMIs



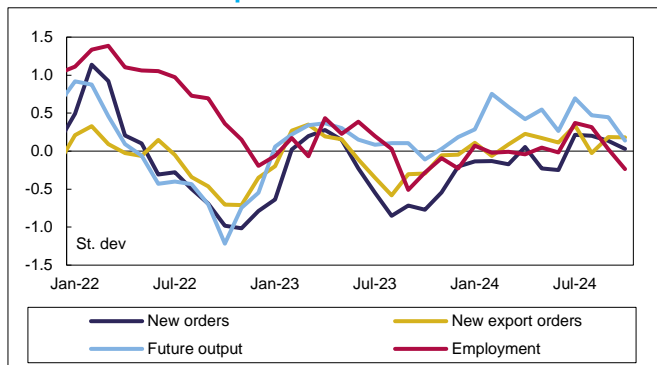
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

year and well below the peak in May 2022 (67.9). Moreover, input cost pressures in services slipped back this month and remained below the long-run average, suggesting that the disinflationary trend in services CPI inflation should be maintained over coming months. As such, the price PMIs should pose no obstacle to the rate cuts next month and beyond that the composite output PMI suggests is now required.

### The day ahead in the UK

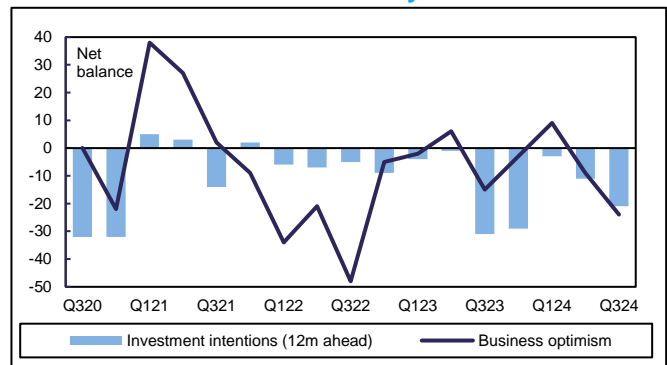
On an otherwise quiet end to the week for UK economic data, October's GfK consumer confidence survey results will be the focus. September's release saw a sharp reversal of this year's broadly positive trend, as the shift in tone of the new government surrounding the need for tax hikes countered the effects of rising real wages and the start of the BoE's rate-cut cycle. And with households, firms and investors alike all still awaiting the contents of next week's Budget announcement, we do not expect an immediate rebound in October.

#### UK: Selected composite PMIs



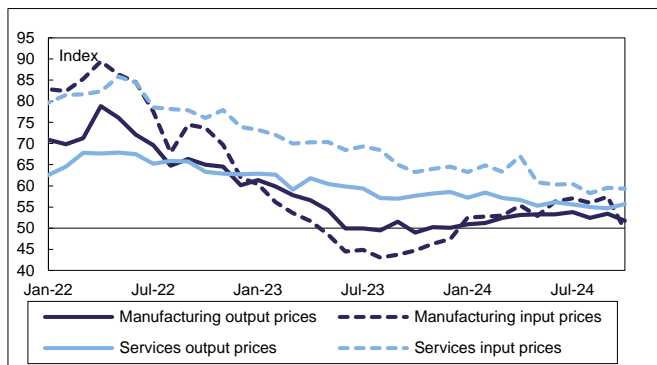
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### UK: CBI industrial trends survey indices



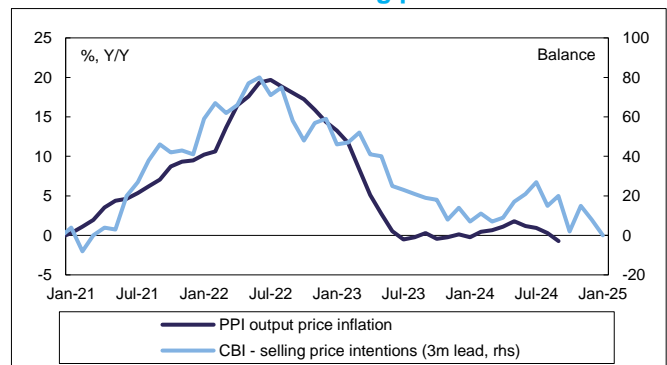
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Price PMIs



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

#### UK: PPI inflation & CBI selling price intentions













Source: Macrobond 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	 Preliminary manufacturing (services) PMI	Oct	<b>45.9 (51.2)</b>	45.1 (51.5)	45.0 (51.4)	-
	 Preliminary composite PMI	Oct	<b>49.7</b>	49.7	49.6	-
Germany	 Preliminary manufacturing (services) PMI	Oct	<b>42.6 (51.4)</b>	40.8 (50.6)	40.6 (50.6)	-
	 Preliminary composite PMI	Oct	<b>48.4</b>	47.6	47.5	-
France	 INSEE business (manufacturing) confidence indicator	Oct	<b>97 (92)</b>	98 (99)	98 (99)	-
	 Preliminary manufacturing (services) PMI	Oct	<b>44.5 (48.3)</b>	45.0 (49.9)	44.6 (49.6)	-
UK	 Preliminary composite PMI	Oct	<b>47.3</b>	48.9	48.6	-
	 Preliminary manufacturing (services) PMI	Oct	<b>50.3 (51.8)</b>	51.5 (52.4)	51.5 (52.4)	-
	 Preliminary composite PMI	Oct	<b>51.7</b>	52.5	52.6	-
	 CBI industrial trends survey – total orders (selling prices) balance %	Oct	<b>-27 (0)</b>	-28 (9)	-35 (8)	-


#### Auctions

Country	Auction
	- Nothing to report -


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Wednesday's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Preliminary Commission consumer confidence indicator	Oct	<b>-12.5</b>	-12.5	-12.9	-












#### Auctions

Country	Auction
Germany	 sold €3.303bn of 2.6% 2034 bonds at an average yield of 2.31%
UK	 sold £4bn of 3.75% 2027 bonds at an average yield of 4.082%




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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 (86.9)	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	11.35	11.27
UK	 00.01	GfK consumer confidence indicator	Oct	-20	-20

#### Auctions and events

Italy	 10.00	Auction: to sell up to €2.5bn of 3.1% 2026 bonds
	 10.00	Auction: to sell up to €1bn of 0.4% inflation-linked 2030 bonds
	 10.00	Auction: to sell up to €1.5bn of 1.8% inflation-linked 2036 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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