

Euro wrap-up

Overview

- Bunds made losses while French figures for September industrial production fell back at the end of Q3.
- Gilts made losses after the first bond auction since last week's Budget announcement and associated increase in Gilt issuance drew the lowest demand in almost a year.
- Tomorrow will bring figures for German factory orders, euro producer prices and final euro area services and UK construction PMIs.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	2.287	+0.034
OBL 2½ 10/29	2.282	+0.029
DBR 2.6 08/34	2.423	+0.033
UKT 4½ 01/27	4.498	+0.077
UKT 4½ 07/29	4.425	+0.098
UKT 4½ 07/34	4.526	+0.072

*Change from close as at 4:30pm GMT.

Source: Bloomberg

Euro area

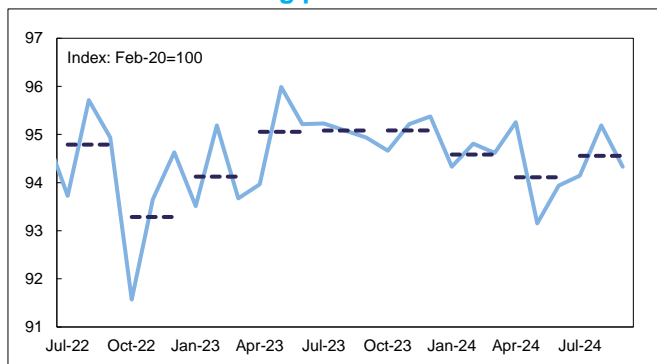
French IP increased in Q3 but fell back at the end of the quarter

Beyond the temporary boost to the French economy in Q3 owing to the impact of this summer's Olympic games on certain services, last week's flash GDP release suggested that industrial production rose for the first quarter in three (0.3%Q/Q). But while today's monthly IP figures for September confirmed the fastest quarterly growth since for four quarters (and a touch firmer at 0.5%Q/Q), it also reported a loss of momentum at the end of Q3. As we had expected, industrial production fell on the month in September (-0.9%M/M) almost fully reversing the downwardly revised growth in August (1.1%M/M). Within this, manufacturing output contracted 0.8%M/M in September, to leave it barely higher over the third quarter as a whole (0.1%Q/Q), marginally firmer than implied in the flash GDP estimate. Production of capital and consumer durable goods rose (0.7%Q/Q and 4.2%Q/Q) offsetting a further downtrend in output of intermediate goods (-1.4%Q/Q). But following strong growth in August, payback in September was most evident in consumer electronics (-13.0%M/M), pharmaceuticals (-11.6%M/M) and motor vehicles (-5.0%M/M). Reportedly due to unfavourable weather conditions, construction activity fell for the fourth month out of six (-0.3%M/M) to leave it down 1.2%Q/Q in Q3 – the fifth consecutive quarterly decline and well below the zero growth assumed in the GDP release. Overall, today's release suggests a negative carry over in both manufacturing and construction activity into Q4, further raising questions about the loss of economic momentum this quarter. Certainly, the INSEE survey pointed to a marked deterioration in manufacturing sector in October, with a near-7pt slump in the headline index to be some 8% below the long-run average.

Manufacturing PMIs point to ongoing contraction at the start of Q4

Yesterday's final manufacturing PMIs confirmed that the euro area's industrial woes unlikely dissipated at the start of Q4. Indeed, while there was a very modest upward revision to the euro area output component in October – by 0.3pt from flash to 45.8, marking an improvement of 0.9pt relative to September – this still implied a marked pace of contraction for a 28th consecutive month. Admittedly, today's survey added to recent evidence that the bottom in Germany's downturn might well have been reached. Indeed, the output component increased 1½pts from September's eleven-month low (41.4), while the new orders PMI 5.2pts to 42.0, a three-month high. However, the output PMIs fell in France (down 0.9pt to a nine-month low of 43.0), Italy (down 0.6pt to 46.8) and the Netherlands (down 0.3pt to 47.5). So, it was only thanks to the relatively robust performance from Spain where a pick-up in new orders led to the strongest implied output growth (56.4) since September 2021. According to the PMIs manufacturing output also expanded in Ireland and Greece.

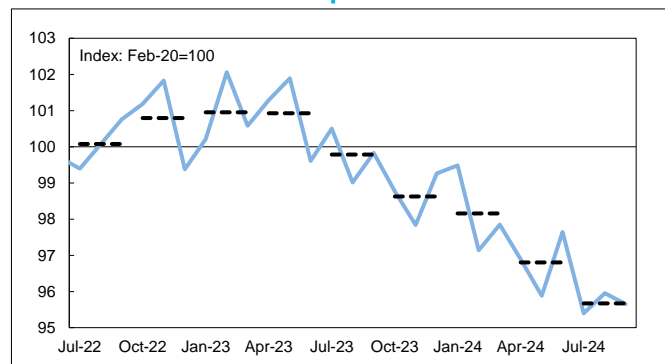
France: Manufacturing production*



*Dashed lines denote quarterly averages.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Construction output*



*Dashed lines denote quarterly averages.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

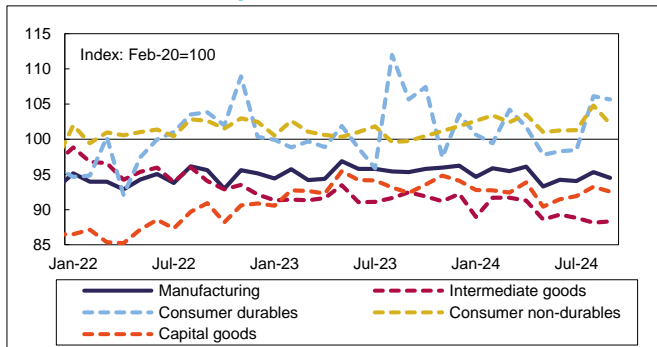
After last week’s flash GDP release suggested that Germany’s economy managed to narrowly avoid a recession in Q3, releases over the coming few days will provide greater insight into the manufacturing performance at the end of the quarter, including tomorrow’s factory orders data for September. Following two months of strong growth at the start of summer, orders fell abruptly in August (-5.8%M/M). As such, we expect to see some payback in September, albeit still leaving factory orders up in Q3 for the first quarter in three, thanks to major orders. Like the manufacturing series, tomorrow’s final services PMIs are expected to signal another month of outperformance in Spain at the start of Q4, while the German index rose to a three-month high, offsetting a further deterioration in the equivalent French index, following the Olympics-related boost in the summer. Finally, tomorrow will also bring euro area PPI for September.

UK

BRC retail monitor hints at less buoyant October, as uncertainties heightened ahead of the Budget

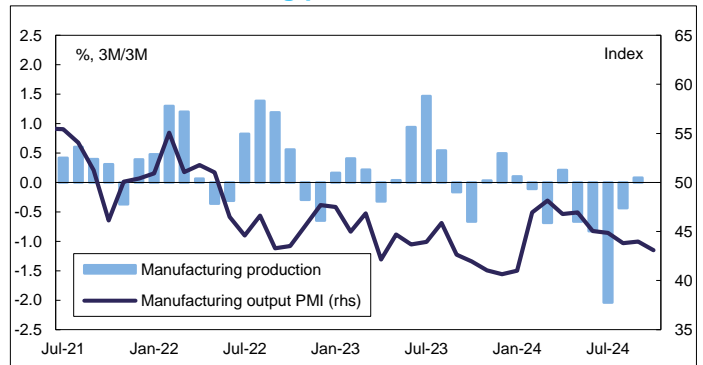
After September’s retail sales were buoyed by a rise in computers and telecomms, leading to a third consecutive month of rising sales volumes, the British Retail Consortium’s (BRC) retail monitor today suggested that sales growth in October had unsurprisingly slowed. Indeed, according to the BRC, retail sales values rose by 0.6%Y/Y in October a marked slowdown from 2.0%Y/Y in September. Growth in like-for-like sales also eased to just 0.3%Y/Y from 1.7%Y/Y previously. The BRC referenced a possible downwards influence on annual growth due to different school holiday dates compared with last year. It is highly likely that consumer spending habits were also impacted by the heightened uncertainty in the lead up to the Budget announcement at the end of October, tallying with the deterioration in consumer sentiment surveys pointing an ongoing preference to save than spend on big-ticket items. Indeed, October also recorded a notable decline in new car registrations (-6.0%Y/Y). When adjusting for prices effects using the BRC’s shop-price inflation gauge, the slowdown in sales volumes was less marked – indeed, like-for-like retail sales rose by 1.1%Y/Y (1.6%3M/Y) in October. And although discretionary spending has been relatively slow to benefit from rising real household incomes, like-for-like non-food sales volumes recorded just the second positive month of growth in two and a half years.

France: Industrial production



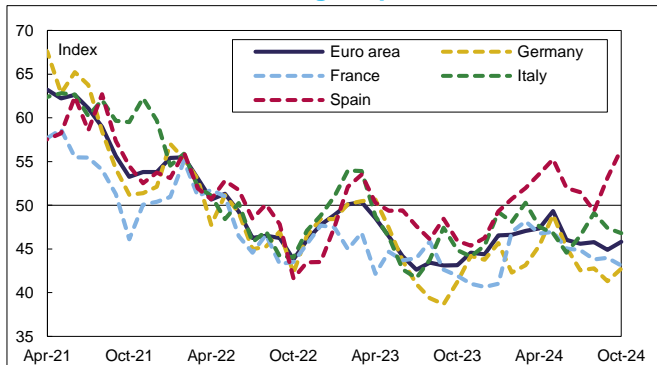
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Manufacturing production and PMI



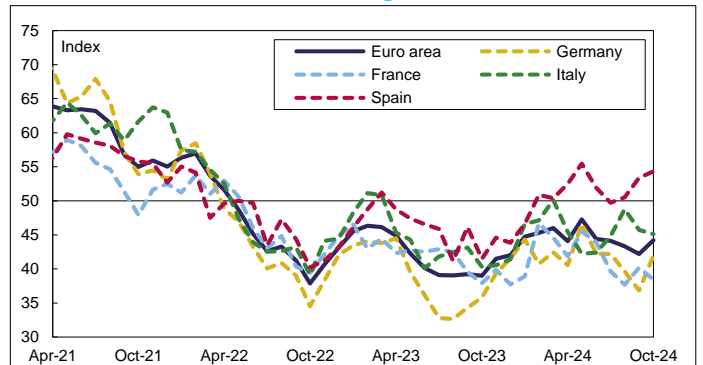
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output PMIs



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

Euro area: New manufacturing orders PMIs

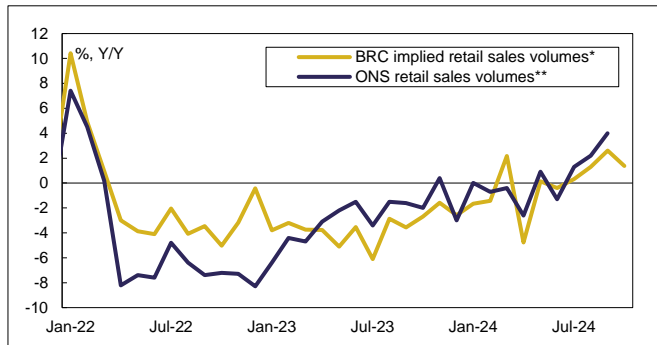


Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the UK

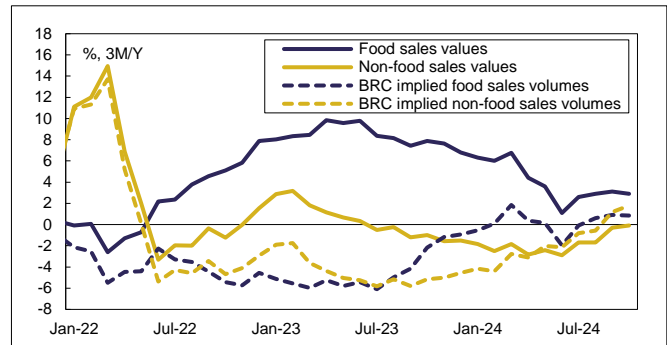
On an otherwise quiet day ahead of Thursday's BoE policy announcement, tomorrow's construction PMI survey will most likely show that the headline activity index in expansionary territory for an eighth consecutive month in October, although uncertainty in the lead up to the Budget announcement might well have stunted its potential performance.

UK: Retail sales volumes



*BRC retail sales deflation by the BRC shop price index. **Excluding auto fuels.
 Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: BRC retail sales indices



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
France	Industrial production M/M% (Y/Y%)	Sep	-0.9 (-0.6)	-0.6 (-0.4)	1.4 (0.5)	1.1 (0.1)
	Budget balance YTD €bn	Sep	-173.8	-	-171.9	-
Spain	Unemployment (employment) change 000s	Oct	26.8 (67.8)	-	3.2 (22.2)	-
UK	Final composite (services) PMI	Oct	21.8 (52.0)	51.7 (51.8)	52.6 (52.4)	-
	BRC retail monitor – like-for-like sales Y/Y%	Oct	0.3	1.4	1.7	-
	New car registrations Y/Y%	Oct	-6.0	-	1.0	-

Auctions

Country	Auction
UK	sold £3.75bn of 4.25% 2034 bonds at an average yield of 4.475%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Monday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Final manufacturing PMI	Oct	46.0	45.9	45.0	-
	Sentix investor confidence index	Nov	-12.8	-12.6	-13.8	-
Germany	Final manufacturing PMI	Oct	43.0	42.6	40.6	-
France	Final manufacturing PMI	Oct	44.5	44.5	44.6	-
Italy	Manufacturing PMI	Oct	46.9	48.5	48.3	-
Spain	Manufacturing PMI	Oct	54.5	53.2	53.0	-







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 	09.00	Final composite (services) PMI	Oct	49.7 (51.2)	49.6 (51.4)
	10.00	PPI Y/Y%	Sep	-3.4	-2.3
Germany 	07.00	Factory orders M/M% (Y/Y%)	Sep	1.5 (-2.1)	-5.8 (-3.9)
	08.55	Final composite (services) PMI	Oct	48.4 (51.4)	47.5 (50.6)
France 	08.50	Final composite (services) PMI	Oct	47.3 (48.3)	48.6 (49.6)
Italy 	08.45	Composite (services) PMI	Oct	50.0 (50.2)	49.7 (50.5)
Spain 	08.15	Composite (services) PMI	Oct	56.3 (56.6)	56.3 (57.0)
UK 	09.30	Construction PMI	Oct	55.1	57.2

Auctions and events

Germany 	10.30	Auction: to sell €1bn of 2.6% 2041 bonds	
	10.30	Auction: to sell €500mn of 2.5% 2046 bonds	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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