

# Euro wrap-up

## Overview

- While euro area trade figures suggested that net exports were a drag on GDP in Q3, Bunds made losses as the bilateral surplus with the US rose to a record high in Q3 and several Governing Council members flagged a potential need for caution in the face of heightened uncertainty.
- Gilts followed USTs marginally lower on a quiet day for UK economic news.
- Tuesday will bring final euro area inflation estimates for October, along with preliminary labour cost and job vacancy data for Q3.

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### Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	2.160	+0.051
OBL 2½ 10/29	2.199	+0.027
DBR 2.6 08/34	2.370	+0.018
UKT 4½ 01/27	4.415	+0.025
UKT 4½ 07/29	4.338	+0.013
UKT 4½ 07/34	4.471	+0.001

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

Source: Bloomberg

## Euro area

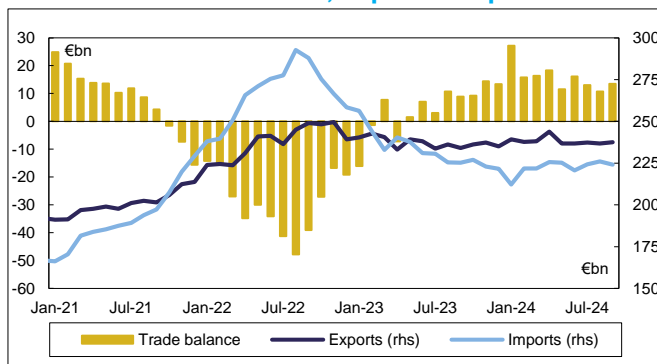
### Euro area trade likely a modest drag on Q3 GDP despite improvement in September

While euro area GDP growth surprised to the upside in Q3, the improvement was supported by spending associated with the summer tourist season and one-off events such as the Paris Olympics. In contrast, persisting challenges in manufacturing caused production in the sector to contract for a sixth quarter out of the past seven (-1.1%Q/Q). And, while we will have to await the subsequent national accounts release for the official expenditure breakdown, today's monthly goods trade report implied that net exports in Q3 similarly provided a modest drag for the first quarter in five. Admittedly, the trade surplus widened slightly in September, by €2.8bn to a three-month high of €13.6bn, as the value of exports rose (0.4%M/M) and imports fell (-0.8%M/M). But this still left the trade balance in September at roughly half the record high at the start of the year and over the third quarter as a whole (€37.3bn) some €9bn lower than in Q2. Indeed, export values were down 0.8%3M/3M, while import values rose 0.4%3M/3M, with recent price moves suggesting a similar performance in volumes in Q3. Like the manufacturing backdrop, the deterioration was largely driven by Germany, where the trade surplus in September was the smallest since May 2023 and export shipments declined more than 1%3M/3M and import volumes rose 2%3M/3M.

### Exports to China fell further in Q3, while bilateral trade surplus with the US rose to a series high

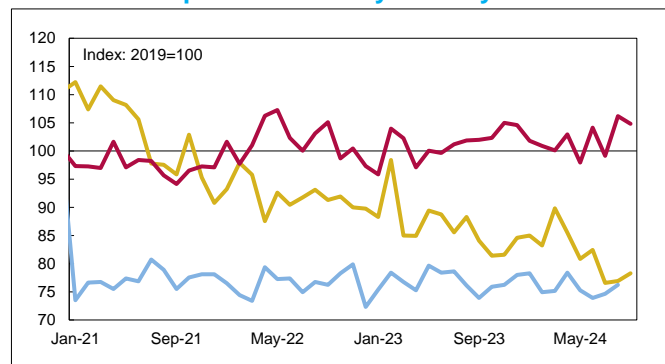
The euro area's export share of global trade has been on a steady downtrend over recent years as the manufacturing sector faced increased competition overseas, not least from China. Indeed, despite a modest rise in September, exports to China have followed a steady downwards path over the past 18 months, down a little more than 6%Y/Y in Q3 and some 18% below the peak in February 2023, reflecting weaker demand for transport and machinery equipment (-9%Y/Y in Q3). So, despite a modest improvement in September, the euro area's trade deficit with China in Q3 (-€57.5bn) was the joint-highest since Q223, and by far the largest of its major trading partners. In contrast, with export values to the US having risen 5½%Y/Y in Q3, the quarterly bilateral balance with that country (€46bn) was at a series high in Q3, and almost €20bn above that in Q117 when President Trump took office for the first time, raising concerns about the extent to which the EU will be able to evade tariff hikes this time around. Indeed, the US accounted for roughly 16% of the euro area's exports in 2023, up from around 14% in 2016, with chemicals and related products – largely pharmaceuticals – machinery and transport equipment shipments to the US together accounting for roughly 40% of total exports from these subsectors. Of course, the extent to which Trump's campaign promise of a blanket '10-or-20%' tariff on all trading partners ultimately materialises remains to be seen. And while ongoing uncertainty might weigh on investment, we might well also see a near-term boost to production and shipments in those export sectors to avoid the impacts of any such hike next year.

### Euro area: Trade balance, export & import values



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Export volumes by country



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

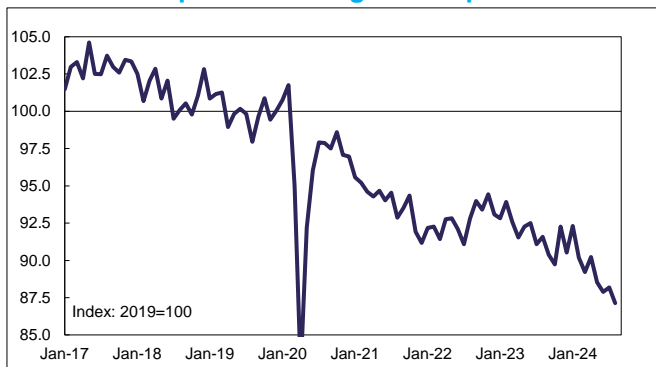
### The day ahead in the euro area

Tomorrow will bring final euro area inflation figures for October. The flash release showed the headline HICP rate rising 0.3ppt to 2.0%Y/Y, owing primarily to upward impulses in non-core components, including food inflation up to a nine-month high. But the core components were better behaved, with prices of non-energy industrial goods and services up in line with their monthly norms in the decade before the financial crisis. Tomorrow's release will bring the granular detail, which will be watched for insights into recent developments in underlying price pressures (i.e. excluding the typically volatile components such as airfares and package holidays). In terms of risks to services inflation persistence, policymakers will watch closely the release of preliminary labour costs figures for Q3, which are likely to report a notable slowing in annual growth last quarter, not least due to base effects. Meanwhile, preliminary job vacancy figures are likely to report a further decline in Q3.

### The day ahead in the UK

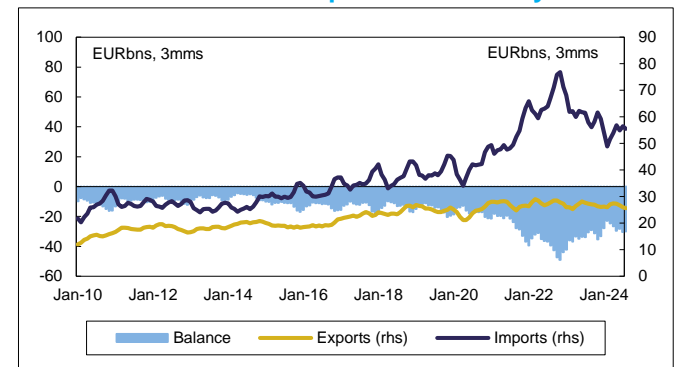
On another quiet day for UK economic data releases, focus tomorrow will be BoE Governor Bailey's appearance before the Treasury Select Committee, along with Deputy Governor Lombardelli and external members Mann and Taylor, to discuss the findings of the MPC's latest Monetary Policy Report.

#### Euro area: Export share of global imports



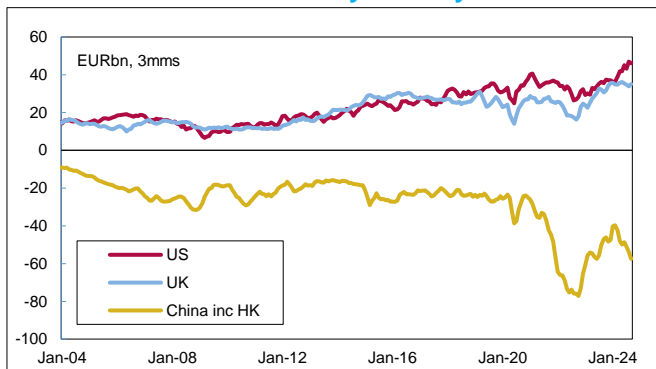
Source: CPB, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Trade of transport & machinery with China



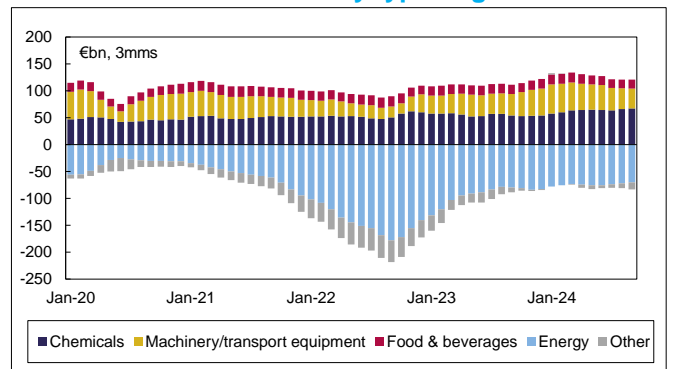
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Trade balance by country



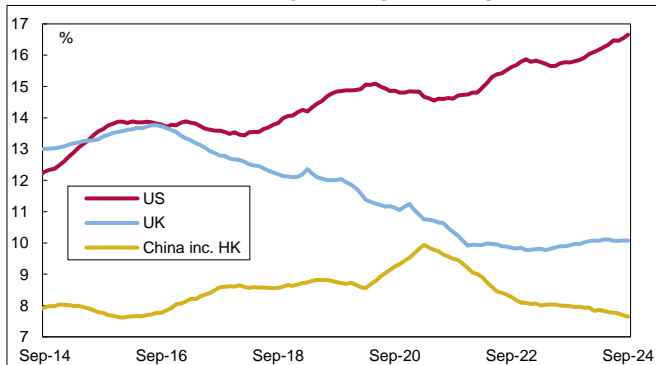
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Trade balance by type of good



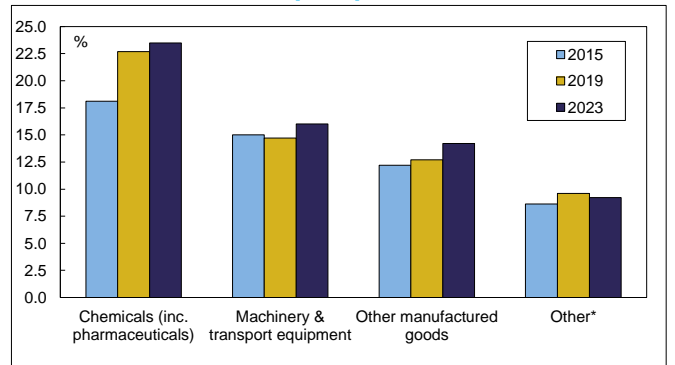
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Share of exports by country



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Share of export product to the US





\*Others include food, raw materials, mineral fuels & other commodities.  
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	 Trade balance €bn	Sep	13.6	7.7	11.0	10.8
UK	 Rightmove house prices M/M% (Y/Y%)	Nov	-1.4 (1.2)	-	0.3 (1.0)	-

#### Auctions

Country	Auction
- Nothing to report -	



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tuesday's releases

#### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	09.00	Current account balance €bn	Sep	-	31.5
	10.00	Final headline (core) HICP Y/Y%	Oct	2.0 (2.7)	1.8 (2.7)
	10.00	Preliminary labour costs Y/Y%	Q3	-	4.7
	10.00	Preliminary job vacancy rate %	Q3	-	2.6

#### Auctions and events

UK		10.00	Auction: to sell £3.25bn of 3.75% 2038 bonds		
		10.00	BoE Governor Bailey, DG Lombardelli, and External Members Mann & Taylor to speak to Treasury Select Committee		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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