

Euro wrap-up

Overview

- Bunds made very modest losses as the flash PMIs signalled a modest pickup in euro area growth momentum led by a rebound in German services.
- Gilts made gains as the flash UK PMIs pointed to a marked slowdown in growth momentum at the end of Q3 amid a slump in manufacturing output.
- Tomorrow's German ifo business survey will provide a cross-check on the flash PMIs and provide additional information on conditions in the construction and retail subsectors.

Economic Research Team

+44 20 7597 8326

Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	2.019	+0.009
OBL 2.2 10/30	2.329	+0.013
DBR 2.6 08/35	2.751	+0.006
UKT 3% 03/27	3.957	-0.014
UKT 4% 03/30	4.112	-0.016
UKT 4½ 03/35	4.689	-0.022

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

Source: Bloomberg

Euro area

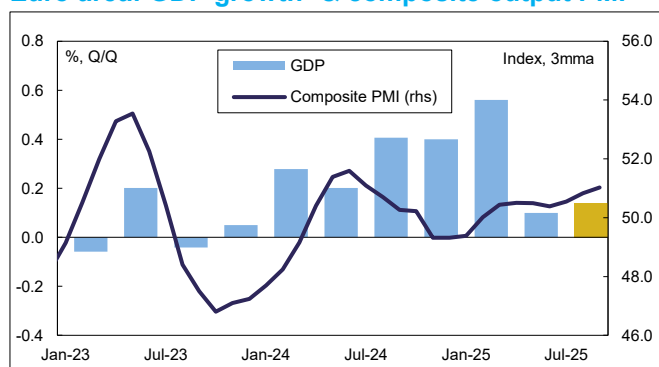
Flash PMIs signal modest pickup in growth momentum & easing of price pressures towards end-Q3

According to the flash PMIs, euro area economic growth momentum picked up only a little further in September. The region's headline composite activity PMI rose for a fourth successive month, albeit by just 0.2pt from August, to reach a 16-month high of 51.2. While that meant the quarterly average was the best since Q224, that level (51.0) might normally suggest GDP growth no stronger than 0.1%Q/Q in Q3. And the survey detail suggests that the positive momentum remains very patchy. The improvement in September was led by services, for which the euro area activity index rose almost 1pt to 51.4, the best so far this year, as domestic demand in the sector reportedly picked up. But while the manufacturing output PMI fell back from August's three-year high, at 50.7 it remained consistent with modest growth in production. Nevertheless, underlying demand in the factory sector appears to have weakened, both from abroad and domestically, while work backlogs have also fallen. So, manufacturers toned down their optimism with respect to the future path of output. They also reportedly continued to cut jobs in the sector. More happily, manufacturers and services firms alike reported a further easing of cost pressures. And so, the composite output price PMI fell back to 51.9, the second lowest in the year to date and a level broadly consistent with the ECB's inflation target.

German composite PMI matches the best in 2 years, while periphery still leads growth in Q3

As is often the case, the flash PMIs suggested diverging trends among the member states at the end of Q3. The German survey pointed to continued improvement, with the composite activity PMI up almost 2pts to 52.4, matching the best in more than two years. So, despite the relatively soft surveys of the past couple of months, the quarterly average rose to 51.2, similarly the best since Q223. While that German pickup was driven by services, where growth reportedly matched the highest in 15 months, manufacturing production also reportedly increased despite a weaker month for orders. Nevertheless, German GDP still likely grew at most by 0.1%Q/Q in Q3 after the drop of 0.3%Q/Q in Q2. In contrast, the French composite PMI fell more than 1pt to a five-month low of 48.4 on a marked deterioration in the factory sector. While that might suggest that political uncertainty and strike disruption is weighing on activity in the euro area's second-largest member state, we note that the PMIs can provide erroneous signals about French economic activity. The more reliable [INSEE survey](#), which benefits from a much larger sample, pointed to another quarter of GDP growth in Q3 close to the pace of 0.3%Q/Q in Q2. Indeed, while at face value the quarterly average French composite PMI (48.9) appeared weak, it was still a touch firmer than in the prior quarter. Beyond Germany and France, the survey suggested that economic growth softened a touch in September, with the composite activity index down 0.5pt to a three-month low of 51.8. But that left the quarterly average at 52.3, little different from Q2 to suggest predictably that the periphery – not least Spain – continued to enjoy the strongest growth of all member states in Q3.

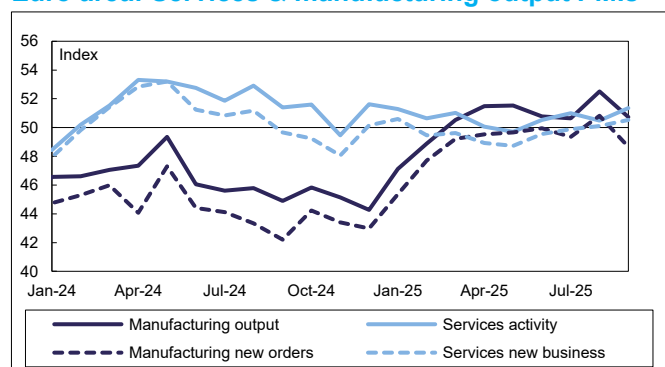
Euro area: GDP growth* & composite output PMI



*Gold bar represents Daiwa forecast for Q325.

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

Euro area: Services & manufacturing output PMIs

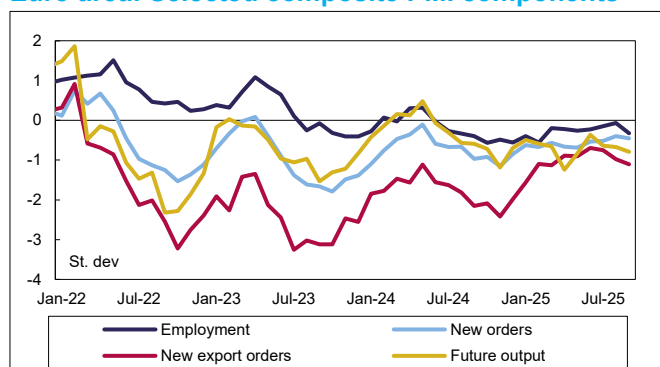


Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area consumer confidence partially rebounds in September

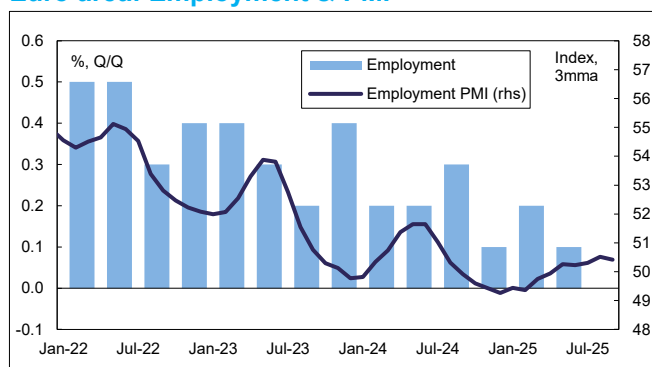
Like the flash PMIs, Monday's preliminary Commission euro area consumer confidence index flagged a modest uptick in sentiment at the end of Q3. Following August's surprising deterioration, the index rose this month back to -14.9, bang in line with the average for the year to-date albeit still firmly below the long-run average. Last month's drop appeared inconsistent with signs of continued resilience in consumer spending, which has been better represented in the Commission survey this year by the more upbeat measure for consumer purchase intentions, for which the September estimate will be published with next week's final release. Last month's weakness was driven by Germany and France to the lowest levels in four months and more than two years respectively, perhaps reflecting downcast reporting of the EU-US trade framework agreement as well as uncertainty about the future of then-French Prime Minister Bayrou. But consistent with the improved flash German PMI and resilient French INSEE survey, we suspect that September's rise might reflect a modest rebound in at least one of those core member states. We also note that the average euro area consumer confidence index in Q3 rose 0.6pt on Q2, tallying with our expectation that private consumption growth remained modestly positive this quarter after slowing to just 0.1%Q/Q last quarter.

Euro area: Selected composite PMI components



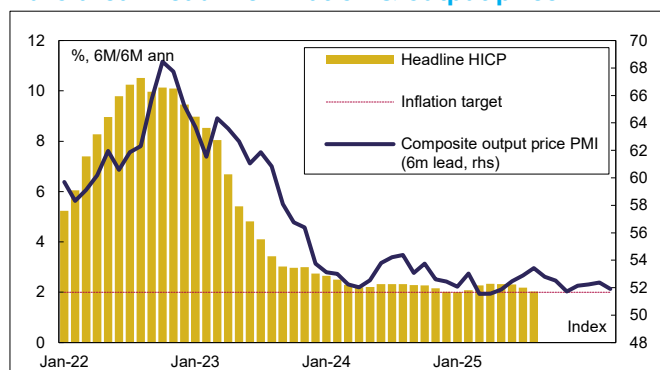
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Employment & PMI



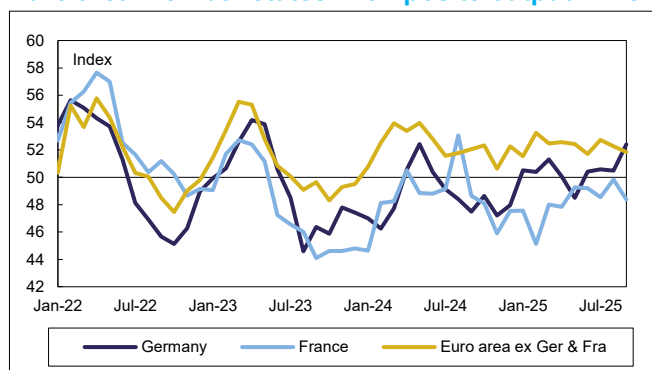
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Headline inflation & output price PMI



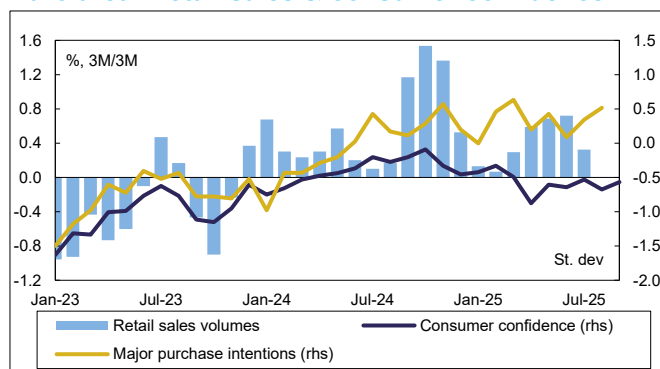
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Composite output PMIs



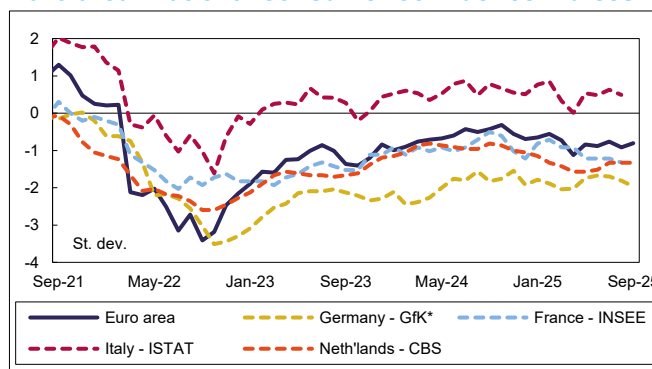
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales & consumer confidence



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

Euro area: National consumer confidence indices



*German GfK figure for September is survey forecast.

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

The day ahead in the euro area

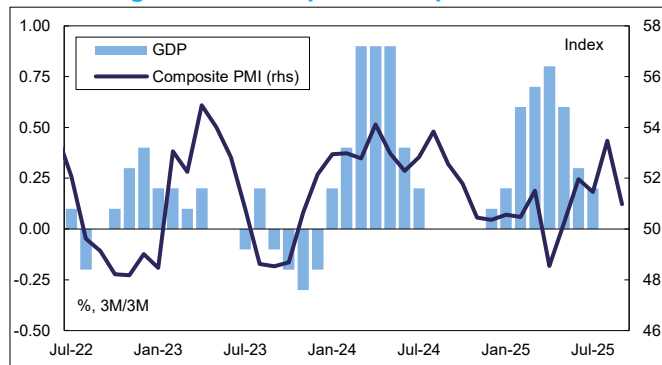
Wednesday's focus will remain on September's round of business surveys, with the German ifo indices providing the headline data release for the euro area. Those will look to affirm the services-led rise in today's flash German PMIs, which should also bolster predictions for a ninth-consecutive monthly uptick in the headline ifo business climate index. Like the PMIs last month, the August ifo indices had pointed to relatively upbeat business expectations. But current conditions that month were judged to have remained weak, particularly in manufacturing with trading companies and constructors also more downbeat. Spanish PPI data for August are also due.

UK

Flash PMIs point ongoing expansion in Q3 despite a loss of momentum in September

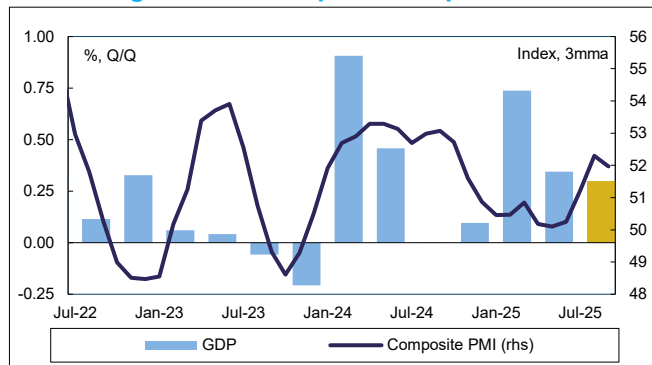
According to the flash PMIs, UK economic growth momentum slowed at the end of Q3, perhaps in part weighed by uncertainties related to fiscal policy and global trade. Having jumped in August to a 12-month high, the headline composite output index fell in September by 2.5pts – the most since April – to 51.0, a four-month low. Nevertheless, smoothing for monthly volatility, the quarterly index in Q3 (52.0) was the strongest in a year, 1½pts above the average in the first half of the year when UK GDP rose an annualised 2.2%, the fastest pace of the G7 economies. So, while the composite PMI is not always an accurate guide to GDP growth and remains below the long-run average, it nevertheless points to continued expansion. And supported by the positive carryover from June, we expect to see another quarter of moderate GDP growth in Q3, likely matching the 0.3%Q/Q rate last quarter. While that is arguably a touch below potential, it would tally with the MPC's judgement that the risks of a sudden deterioration in economic activity and the labour market have diminished. And so, it would also perhaps bolster the case for keeping rates on hold through to year-end amid concerns of inflation persistence. Nevertheless, with respect to the inflation outlook, today's survey was arguably more encouraging, with the composite output price PMI (54.6) slipping to one of the lowest readings since the pandemic, albeit still more than 1pt above the long-run average. And while some firms continued to flag higher energy bills, food prices and technology costs, the continuing decline in staff headcount implied by the composite employment PMI – which was below 50 for a twelfth successive month – is suggestive of ongoing loosening in the labour market. As such, we continue to expect the BoE's rate-cutting cycle to resume in the New Year once the hump in the current inflation cycle has passed.

UK: GDP growth & composite output PMI



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

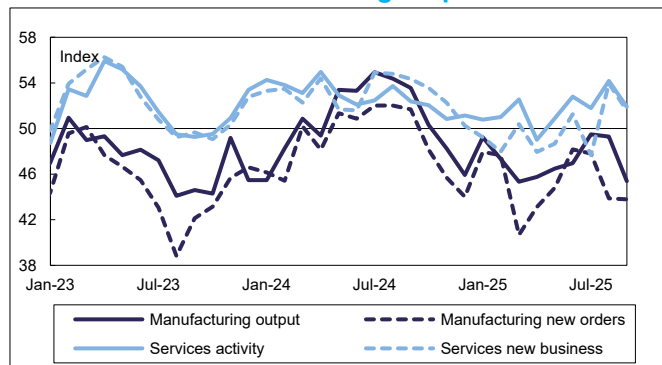
UK: GDP growth* & composite output PMI



*Gold bar represents Daiwa forecast for Q325.

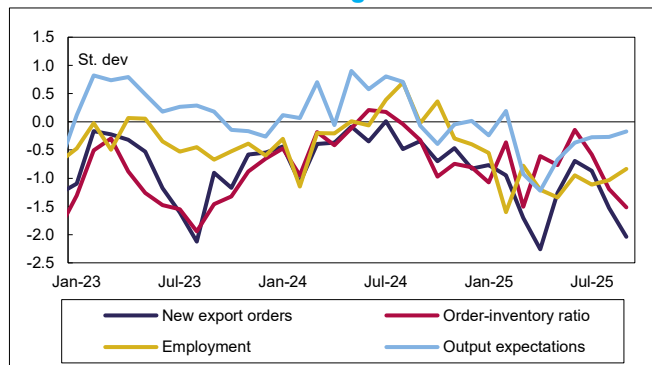
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Services & manufacturing output PMIs



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

UK: Selected manufacturing PMIs



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

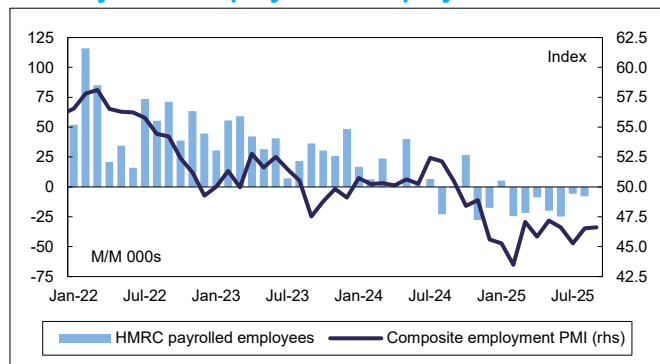
Services sector continues to support growth, but manufacturing output slumps

While the deterioration in the PMIs in September was evident across both services and manufacturing, they suggested a persisting divergence of fortunes between sectors. The chunky 2.3pts drop in the services activity PMI failed fully to reverse the leap in August. Moreover, at 51.9, the index continued to signal ongoing expansion in the sector, with the quarterly PMI in Q3 (52.6) the highest in a year. While respondents reportedly expressed concerns about the potential impact of tax rises in the Autumn budget, the new business component (51.6) was still the second highest in ten months. In contrast, the manufacturing output PMI slumped almost 4pts – the most in a single month since August 2022 – to 45.4, a six-month low some 7½pts below the long-run average. That substantial downturn partly reflects a cyberattack at Jaguar Land Rover – one of the UK's top exporting firms – which has halted production this month with knock-on effects on the auto sector supply chain. Demand also remained subdued, with new factory orders from overseas (39.1) the weakest in over two years except for April which was scarred by Trump's "Liberation Day" announcements. With stocks of finished goods up in September, the orders-to-inventory ratio was the joint-lowest in more than two years, suggesting that near-term risks to the manufacturing production outlook remain skewed to the downside. Nevertheless, perhaps reflecting expectations that activity in the auto sector will pick up once production at Jaguar Land Rover resumes, manufacturers were the least downbeat about the outlook since January.

The day ahead in the UK

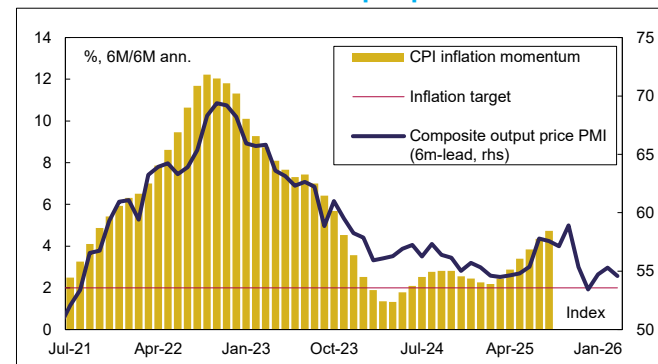
With no top-tier data scheduled for release, it should be a quiet day ahead for the UK. The most notable event will be a speech by MPC external member Megan Greene on Wednesday evening. As one of the more hawkish BoE rate-setters – being one of four Committee members to vote against the cut to Bank Rate at August's monetary policy meeting – we suspect that Greene will signal her intention to favour holding rates for the remainder of the year. Indeed, doing so would be consistent with her voiced concerns about the risks of inflation persistence, closely tied to concerns about the sensitivity of consumer price expectations to elevated food inflation. Greene has also questioned the extent to which the Bank's monetary policy stance remains restrictive.

UK: Payrolled employees & employment PMI



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

UK: Headline inflation & output price PMI



Source: S&P Global, 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 services (manufacturing) PMI	Sep	51.4 (49.5)	50.5 (50.7)	50.5 (50.7)	-
	Preliminary composite PMI	Sep	51.2	51.1	51.0	-
Germany	Preliminary services (manufacturing) PMI	Sep	52.5 (48.5)	49.5 (50.0)	49.3 (49.8)	-
	Preliminary composite PMI	Sep	52.4	50.7	50.5	-
France	Preliminary services (manufacturing) PMI	Sep	48.9 (48.1)	49.6 (50.1)	49.8 (50.4)	-
	Preliminary composite PMI	Sep	48.4	49.7	49.8	-
UK	Preliminary services (manufacturing) PMI	Sep	51.9 (46.2)	53.5 (47.1)	54.2 (47.0)	-
	Preliminary composite PMI	Sep	51.0	53.0	53.5	-
	CBI industrial trends survey – total orders (selling prices) % balance	Sep	-27 (4)	-30 (11)	-33 (9)	-

Auctions

Country	Auction
Germany	sold €3.601bn of 1.9% 2027 bonds at an average yield of 2.01%
	sold £1.5bn of 5.375% 2056 bonds at an average yield of 5.476%

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	Preliminary Commission consumer confidence indicator	Sep	-14.9	-15.0	-15.5	-

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany		09.00 ifo business climate indicator	Sep	89.4	89.0
		09.00 ifo current assessment (expectations) indicator	Sep	86.6 (92.0)	86.4 (91.6)
Spain		08.00 PPI Y/Y%	Aug	-	0.3

Auctions and events

Germany		10.30	Auction: to sell up to €4bn of 2.5% 2032 bonds		
Italy		10.00	Auction: to sell up to €2.5bn of 2.1% 2027 bonds		
		10.00	Auction: to sell up to €1.25bn of 1.1% 2031 inflation-linked bonds		
		10.00	Auction: to sell up to €1.25bn of 2.4% 2039 inflation-linked bonds		
UK		10.00	Auction: to sell £4.75bn of 4.375% 2030 bonds		
		17.30	MPC External Member Greene to give a speech on 'Supply shocks and monetary policy' at the University of Glasgow		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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