Daiwa Capital Markets

Euro wrap-up

Overview

Emily Nicol
+44 20 7597 8331

- While the euro area jobless rate edged up from the series low, longer-dated bunds made modest gains.
- Gilts closed slightly lower while the BoE's DMP survey reported an uptick in business inflation expectations but maintained expectations for weaker jobs and wage growth.
- Friday will bring the final September PMIs from the euro area and UK, as well as French industrial production data for August.

Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	2.006	-0.001
OBL 2.2 10/30	2.295	-0.002
DBR 2.6 08/35	2.698	-0.012
UKT 3¾ 03/27	3.976	+0.018
UKT 4⅜ 03/30	4.130	+0.018
UKT 4½ 03/35	4.707	+0.014

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

Euro area

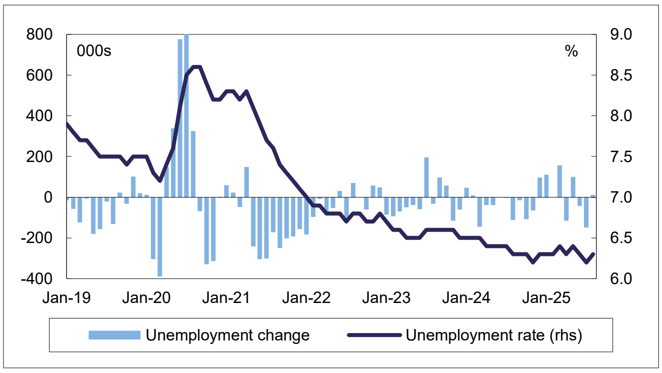
Euro area jobless rate edges up from series low despite continued downtrend in Spain & Greece

After a steady decline in euro area job vacancies back to levels ahead of the pandemic and signals from the Commission survey that many firms intend to cut headcount, today's jobless numbers still pointed to broad resilience in the labour market over the summer. The unemployment rate ticked slightly higher in August from July's series low, by 0.1pt to 6.3%. But the increase in the number of people out of work was only minimal (11k) to 10.84mn, still some 36k lower than six months earlier. Moreover, the pickup principally reflected a jump in the Netherlands and Austria. While there was also a slight increase in Italy (7k), this followed a significant drop in the previous two months to leave Italian unemployment still down more than 100k so far this year and the jobless rate (6.0%) only just above July's near 18-year low. Consistent with signs of stabilisation in the national jobless claims figures, the rise in the EU-harmonised measure of German unemployment was the smallest in 14 months to leave the respective rate steady at 3.7%. The French jobless rate (7.5%) was also unchanged in August. And maintaining the trend of the past year, there were further declines in unemployment in Spain (10.3%) and Greece (8.1%), both representing their lowest rates since the Global Financial Crisis. Today's Spanish national data for September also reported the largest monthly drop in jobless claims since January. With some labour slack remaining in the periphery, there remains scope for further job growth and declines in unemployment in Southern Europe without reviving wage growth pressures. And the balance between labour demand and supply in the core member states is likely to remain less tight than it was in the aftermath of the pandemic. So, continued resilience in the labour market over coming quarters should remain compatible with a moderation in pay pressures and need not be an obstacle to ongoing services disinflation.

The day ahead in the euro area

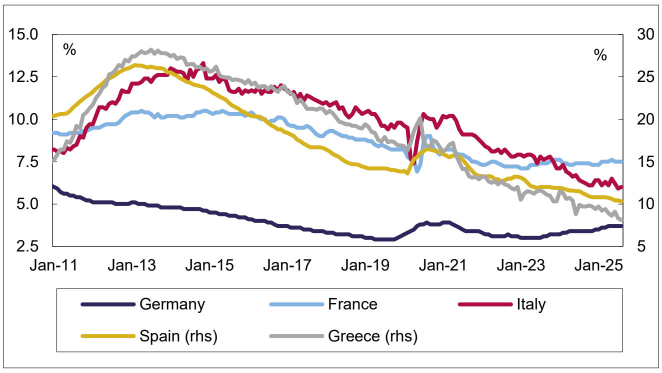
September's final services and composite PMIs, due tomorrow, are expected to reaffirm the modest uptick in euro area economic activity at the end of Q3 signalled by the preliminary estimates. Indeed, the flash euro area composite output index rose 0.2pt to 51.2, a 17-month high. The improvement was led by firmer activity in Germany (52.4), itself matching the most pronounced expansion in the last two years. That contrasted somewhat the less upbeat signals from Germany's ifo survey. But we note that the improvement in Wednesday's updated manufacturing output PMI (to a 3½-year high) raises the likelihood of an upwards revision to the German composite index. In similar vein, the stability of the French national surveys raises the potential for an upwards revision to those flash PMIs. Separately, French industrial production data for August, also due tomorrow, are expected to suggest stabilisation after a drop in the previous month. And despite September's slightly hotter flash euro area inflation figure, PPI inflation should fall back into negative territory for a first month in nine, consistent with the ongoing absence of core goods price pressures. Economic data aside, ECB President Lagarde will be among the many speakers in Amsterdam tomorrow for a symposium celebrating the outgoing-DnB Governor Klaas Knot.

Euro area: Unemployment level & rate



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Unemployment rates



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK

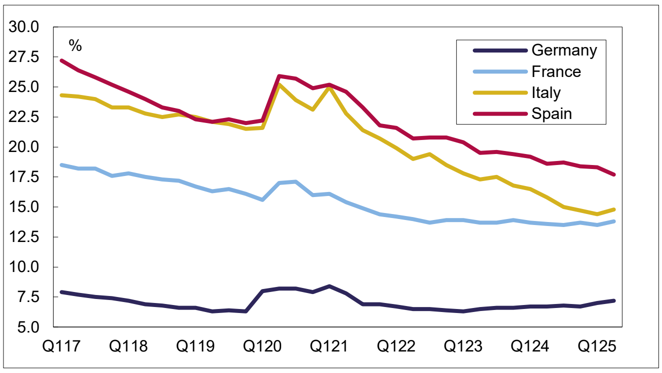
DMP survey provides support to the views of both the doves and hawks on the MPC

While market-implied probability of a further Bank Rate cut at the BoE's November policy meeting has fallen to less than 10%, the outcome of this meeting is not yet a done deal. In their public commentary over the past week, the hawks have predictably expressed their preference to hold policy unchanged for the time being due to concerns about inflation persistence. But the doves continue to place weight on signs of a slowing labour market and subdued underlying demand. So, as today's BoE Decision Maker Panel (DMP) survey results broadly maintained their recent trends, they might have reinforced the views of both camps on the MPC. According to the DMP, firms' expectations for their own price increases over the coming 12 months held steady at 3.7%3M/Y in September for a third consecutive month. So, while signals from some other surveys – including yesterday's manufacturing PMIs – suggest that higher input costs linked in part to April's hike in employer National Insurance contributions are being absorbed largely by profit margins as subdued demand limits scope to pass through to customers – the DMP survey tallies with risks of above-target inflation persistence. Indeed, today's survey reported a modest uptick in CPI expectations – both one year (3.4%3M/Y) and three years ahead (3.0%3M/Y) – to the highest since late 2023. Admittedly, these rates remain well below the highs in 2022. And today's figures implied limited impact from rising household price expectations on pay demands as firms continue to reduce headcount. Indeed, the DMP measure of employment growth in the three months to September fell 0.5%Y/Y, the most in four years, and suggested that firms on average have no intention to increase headcount over the coming year. As such, firms still expect wage growth to slow over the coming twelve months, by 1ppt to 3.6%3M/Y, the softest since mid-2022, albeit still somewhat above rates that might be considered consistent with inflation at target.

The day ahead in the UK

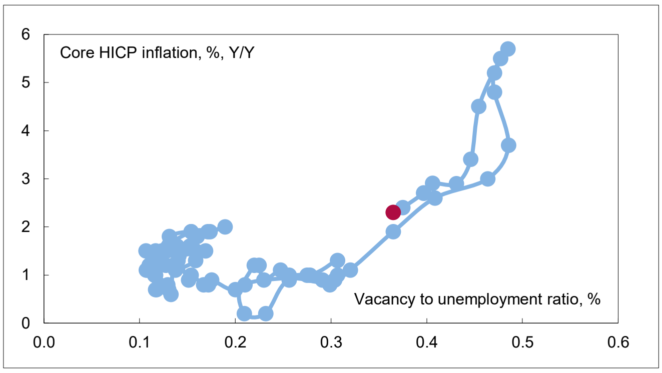
The most notable economic data from the UK on Friday will be the final services PMIs. While the final manufacturing indices confirmed a larger contraction in output that month, likely amplified by disruption at JLR, the flash PMIs primarily attributed the loss of growth momentum last month to weaker services activity. The respective flash estimate was nevertheless still consistent with an expansion in the tertiary sector (51.9), as the drop of 2.3pts failed fully to reverse the increase in August, which also marked a 16-month high. Elsewhere, BoE Governor Bailey is due to deliver the keynote speech at the aforementioned DnB symposium in Amsterdam. While Bailey is among the couple of MPC members to have not publicly commented on monetary policy over the past two weeks – and, indeed, probably has the least predictable vote at November's meeting – we expect his comments to focus on financial stability, reflecting his position as FSB Chair for which he succeeded DnB Governor Knot.

Euro area: Labour slack*



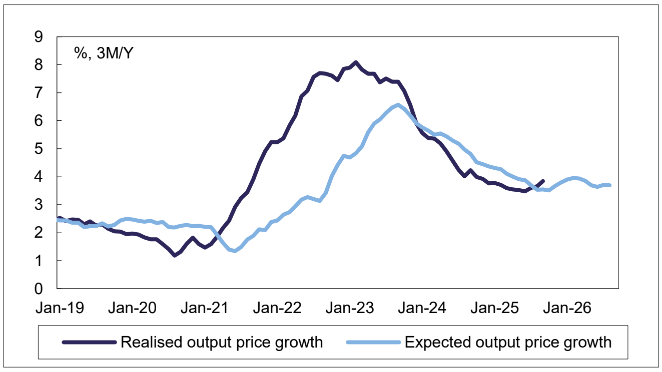
**20-64years. Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

Euro area: Phillips curve*



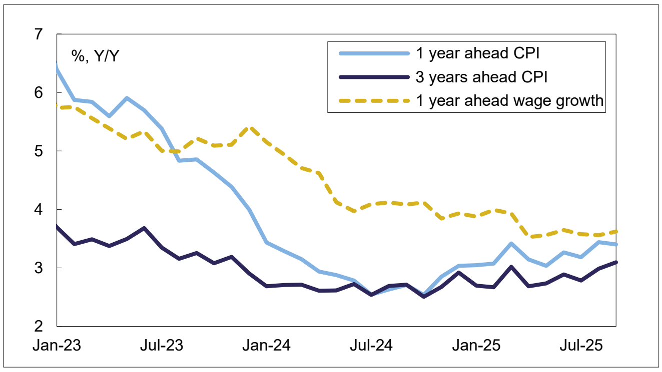
**Red dot represents Q225 figures.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Business output price expectations



Source: DMP survey, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Business CPI & wage growth expectations



Source: DMP survey, Macrobond and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area	Unemployment rate %	Aug	**6.3**	*6.2*	6.2	-
Spain	Unemployment (net employment) change 000s	Sep	**-4.8 (56.7)**	-	21.9 (29.8)	-
UK	DMP 3M output price (1Y CPI) expectations Y/Y%	Sep	**3.7 (3.4)**	3.7 (3.4)	3.7 (3.4)	-

Auctions

Country	Auction
France	sold €5.490bn of 3.5% 2035 bonds at an average yield of 3.51%
	sold €2.395bn of 1.25% 2036 bonds at an average yield of 3.57%
	sold €2.322bn of 0.5% 2044 bonds at an average yield of 4.03%
	sold €1.293bn of 4% 2060 bonds at an average yield of 4.39%
Spain	sold €1.447bn of 2.7% 2030 bonds at an average yield of 2.483%
	sold €2.834bn of 3% 2033 bonds at an average yield of 2.922%
	sold €1.058bn of 1% 2042 bonds at an average yield of 3.739%
	sold €592m of 1.15% 2036 inflation-linked bonds at an average yield of 1.49%
UK	sold £4.5bn of 4.75% 2035 bonds at an average yield of 4.769%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Euro area	09.00	Final composite (services) PMI	Sep	*51.2 (51.4)*	51.0 (50.5)
	10.00	PPI Y/Y%	Aug	-0.4	0.2
Germany	08.55	Final composite (services) PMI	Sep	*52.4 (52.5)*	50.5 (49.3)
France	07.45	Industrial production M/M% (Y/Y%)	Aug	0.3 (0.6)	-1.1 (1.3)
	08.50	Final composite (services) PMI	Sep	*48.4 (48.9)*	49.8 (49.8)
Italy	08.45	Composite (services) PMI	Sep	51.6 (51.5)	51.7 (51.5)
	09.00	Retail sales M/M% (Y/Y%)	Aug	-	0.0 (1.8)
Spain	08.15	Composite (services) PMI	Sep	53.3 (53.3)	53.7 (53.2)
UK	09.30	Final composite (services) PMI	Sep	*51.0 (51.9)*	53.5 (54.2)

Auctions and events

Country	BST	Event
Euro area	10.40	ECB President Lagarde speaks at symposium for outgoing-DnB Governor & ECB Governing Council member Knot, Amsterdam
Italy	11.00	ISTAT to publish revised quarterly GDP series
UK	14.20	BoE Governor Bailey to give keynote speech at symposium for outgoing-DnB Governor Knot, Amsterdam

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:
https://www.uk.daiwacm.com/ficc-research/recent-blogs