

Euro wrap-up

Overview

- Bunds followed USTs slightly lower, while German factory orders data showed tentative signs of stabilisation and the final euro area PMIs pointed to accelerated recovery momentum.
- Gilts also made losses as the final UK composite PMI was upwardly revised in October to the second-highest reading in 13 months.
- On Thursday, we expect the BoE to leave Bank Rate unchanged, but signal that the December MPC meeting remains 'live' for a rate cut. Euro area retail sales and German IP data for September are also due.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.000	+0.008
OBL 2.2 10/30	2.266	+0.013
DBR 2.6 08/35	2.671	+0.019
UKT 3½ 03/27	3.790	+0.018
UKT 4½ 03/30	3.927	+0.031
UKT 4½ 03/35	4.461	+0.038

*Change from close as at 5.00pm GMT.
Source: Bloomberg

Euro area

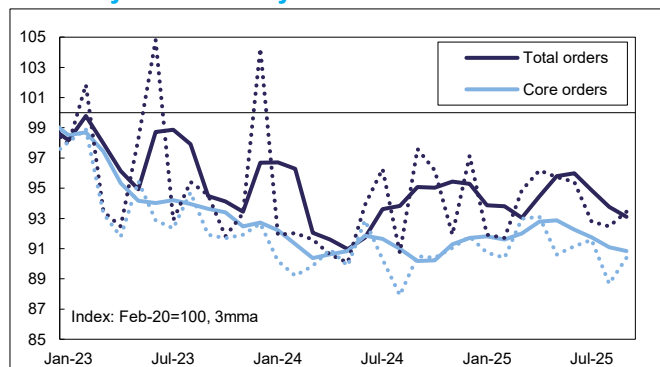
German orders down sharply in Q3, but signs of stabilisation in September

With German production having maintained a steady downtrend over the summer – falling in August to the lowest level since 2010 outside of the first Covid-19 lockdown – today's manufacturing orders data raised tentative hopes of some stabilisation in demand in the sector. New factory orders rose for the first month in five in September, by 1.1%M/M. And when excluding major items, core orders rose for a third month in four, by 1.9%M/M, the most since March. But having risen by a similar magnitude in Q2, the level of total new orders was still down 3%Q/Q in Q3 – the steepest quarterly drop since Q124 – while core orders were down 1.5%Q/Q in Q3, to remain firmly within the subdued range of the past couple of years. Given the significant front-running of US tariffs by firms earlier in the year, the weakness in Q3 was unsurprisingly driven by foreign demand. New orders from outside of the euro area were down 5.1%Q/Q in Q3. And excluding major items, the quarterly decline in core orders from outside of the euro area was the steepest in a decade (-5.3%Q/Q) outside of the initial pandemic slump. This notwithstanding, new foreign orders rose in September for the first month in four, potentially supported by the EU-US trade agreement reached in late-August. And despite a drop in total domestic orders that month, underlying domestic orders also rose to a six-month high.

German auto manufacturers more upbeat about outlook as orders show tentative signs of recovery

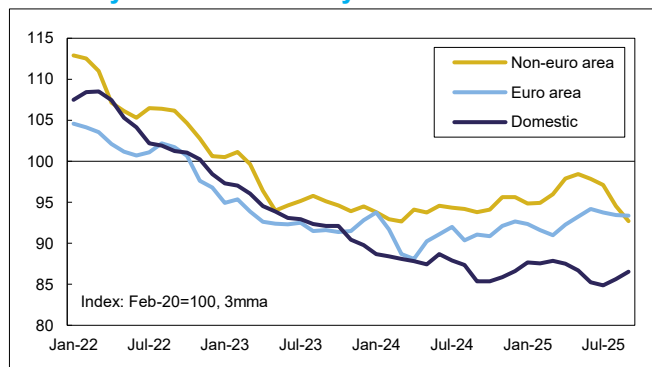
The improvement in order books at the end of the quarter was driven by a partial reversal in new demand for autos (6.2%M/M), albeit leaving them still down almost 2% over the quarter as a whole. And despite a further modest recovery in orders of other transport equipment, that component was also roughly one third below the Q2 level that had been boosted by a major ship order. New orders of fabricated metal products were also a modest drag in Q3 as September saw payback for several large-scale orders in August. In contrast, new orders for electrical equipment and general machinery rose to the highest in three and six months respectively. And while still below the surge earlier in the year, new orders for pharmaceuticals rose some 3.5%Q/Q in Q3. Indeed, the steady uptrend in order backlogs in the pharmaceutical, electrical and other transport equipment subsectors should provide some support to the near-term production trend. And surveys suggest greater optimism about the outlook at the turn of the year, with today's ifo autos survey implying the best business expectations in the industry for almost three years. In terms of the manufacturing outturn for September – for which data are due to be published tomorrow – we expect some payback for the autos-led retrenchment in total output in August (-4.3%M/M). But today's turnover data, which recorded a fifth decline (-2.2%M/M) out of the past six to be down 1.2%Q/Q in Q3, raise downside risks. And a weaker-than-expected production reading number tomorrow could raise the possibility of a downwards revision to [Q3 GDP](#), for which the first estimate surprisingly suggested that the economy flatlined.

Germany: New factory orders*



*Core orders exclude bulk items. Dotted lines show single month series.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New core factory orders*



*Excludes bulk items.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

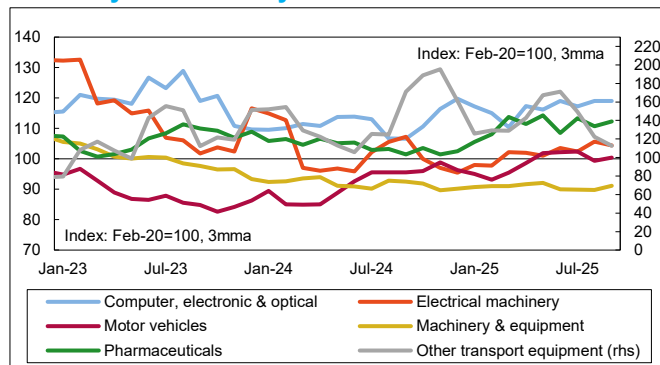
French IP picks up in September, but surveys remain mixed about production in October

In contrast to Germany, the industrial sector in France offered ongoing support to the economic recovery last quarter. Admittedly, French production growth in Q3 (1.4%Q/Q) was flattered by a significant increase in energy output in June. But today's data suggested renewed momentum in the sector in September, with total IP rising a stronger-than-expected 0.8%M/M. The rebound in production was broad-based across subsectors, including of autos and other transport equipment, machinery and electrical equipment. There was, however, a further decline in output of pharmaceuticals to the lowest level this year. The October INSEE business survey also suggested that firms in that subsector, as well as auto manufacturers, were the most downbeat in a year. This notwithstanding, the INSEE survey also suggested that manufacturers in aggregate were the most upbeat about the overall business climate since March 2024, amid a pickup in domestic and overseas orders. And despite a slight deterioration in services sentiment at the start of Q4 – signalled in both the INSEE and PMI indices – surveys continue to suggest ongoing economic growth this quarter, albeit highly likely at a softer pace than in Q3 (0.5%Q/Q).

Final composite PMIs point to accelerated recovery momentum at the start of Q4

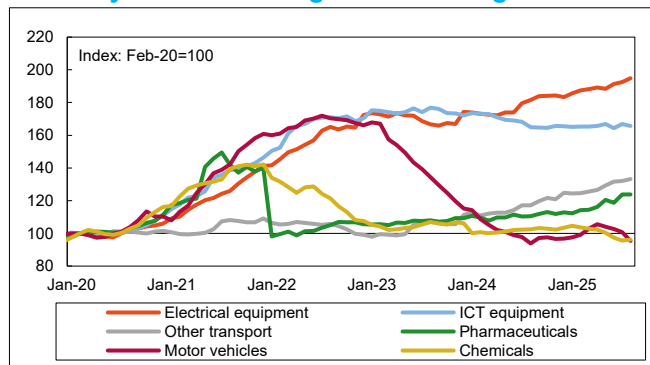
Today's final services PMIs for October also provided further encouragement for growth momentum this quarter. In particular, the headline euro area activity index was upwardly revised by 0.4pt from the flash to 53.0, a 17-month high, more than 2pts above the Q3 average and a touch firmer than the long-run average. With the exception of France (48.0), the survey signalled accelerated growth in the sector across the member states, led by Spain (56.6) and Ireland (56.7), while the indices from Germany (54.6) and Italy (54.0) were the best in 2½ and 1½ years respectively. So, with minimal changes to the final manufacturing components, this pushed up the euro area's composite output PMI to 52.5 from 51.2 in September, a near-2½-year high, consistent with underlying growth between 0.2-0.3%Q/Q. With the new orders component the highest since April 2023, and bang in line with the long-run average, firms signalled a pickup in headcount at the start of Q4. And, besides France, the composite PMIs suggested accelerated growth momentum at the start of Q4 across the region. Like the Commission's ESIs, today's survey implied that Spain continued to lead the way, with the composite PMI (56.0) the highest so far this year. But the equivalent German (53.9) and Italian (53.1) indices were also the best in 2½ years, suggesting a return to positive GDP growth this quarter in those member states.

Germany: New factory orders



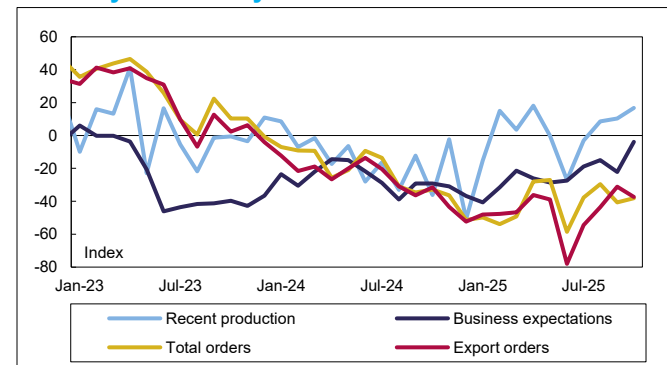
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing order backlogs



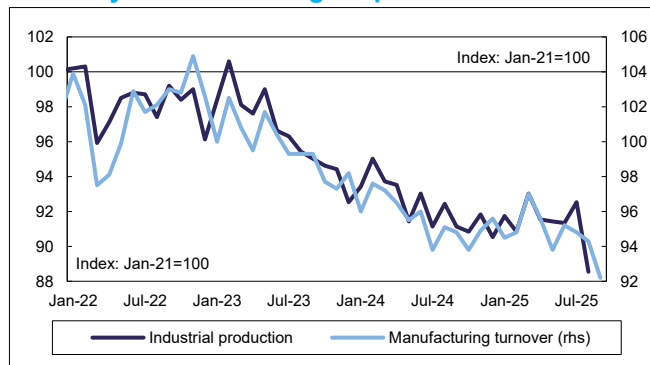
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo survey – auto sector indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing output & turnover



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

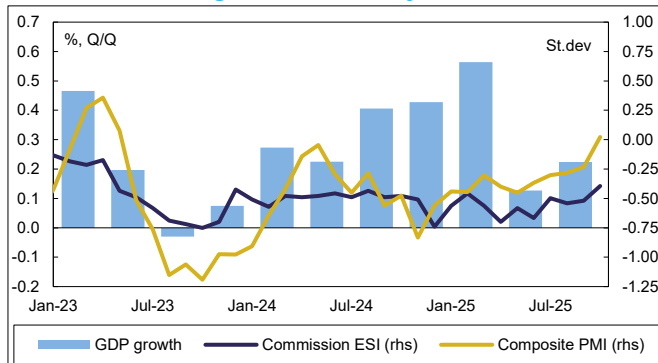
Notwithstanding the sharp deterioration in today's German manufacturing turnover data, tomorrow's industrial production figures are still expected to show some improvement in September. Certainly, with the decline in August (-4.3%M/M) likely exaggerated by summer maintenance shutdowns – especially the slump in auto production (-18.5%M/M) – there is a strong likelihood of a rebound in September. Still, that rebound will almost certainly be insufficient to compensate for earlier weakness, therefore confirming a second straight quarterly contraction. But, as in France, tomorrow's Spanish IP release is expected to show a modest expansion in Q3. Regarding aggregate euro area data, attention will turn to September retail sales figures for further insight into household consumption in Q3. Based on data already published from various member states, we expect only modest growth in retail sales (0.2%M/M), leaving them broadly flat in Q3 after seven consecutive positive quarters. Meanwhile, the October construction PMIs will give an indication as to whether the pickup in momentum suggested by the services and manufacturing surveys at the start of Q4 extended to the whole economy.

UK

UK services PMIs revised higher in October, confirming September's lull was temporary

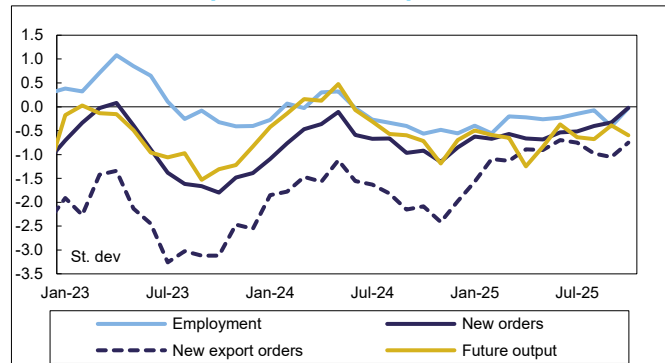
While the flash October PMIs provided tentative signs that the stalling of UK economic growth implied by the September survey (50.1) was a temporary departure from its recent trend, the final survey today reinforced that a moderate growth path likely resumed at the start of Q4. Indeed, at 52.2, the composite output PMI was marked up 1.1pts from its flash reading, 2.1pts above the September outturn, and some 0.5pt above the Q3 average. And though still lagging well below its pre-pandemic average (53.6), it nonetheless highlights that private sector activity at the start of Q4 was perhaps not as sluggish as might have been feared. The improvement in October owes in part to the manufacturing sector, with the output component rising a chunky 5.9pts on the month to 51.6, the first expansionary reading in 12 months. Admittedly, we assume that the phased production restart at Jaguar Land Rover, whose halt precipitated September's decline, was principally responsible for that boost. Meanwhile, the markup to the final composite readings principally reflected better conditions perceived in the dominant services sector, with the respective business activity PMI up 1.5pts from September to 52.3, albeit remaining almost 2pts below August's recent peak and below the long-run average. And with business expectations in the sector also the best in 12 months, the employment PMI (49.6) signalled the softest decline in jobs growth in the sector in over a year. As such, signs of firmer activity and a slower pace of loosening in the labour market would, on balance, appear to support a more cautious approach to easing monetary policy restrictiveness, therefore supporting our view that the MPC will leave policy unchanged this week.

Euro area: GDP growth & survey indices



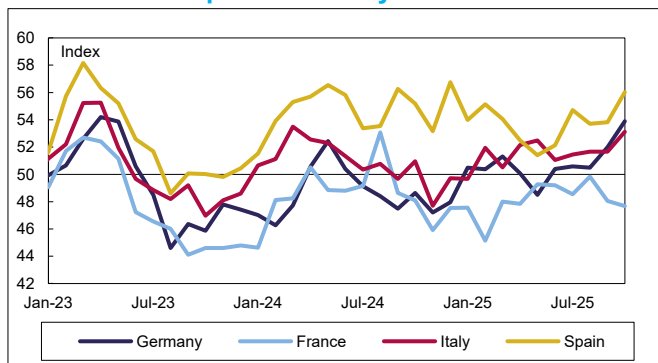
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Composite PMI components



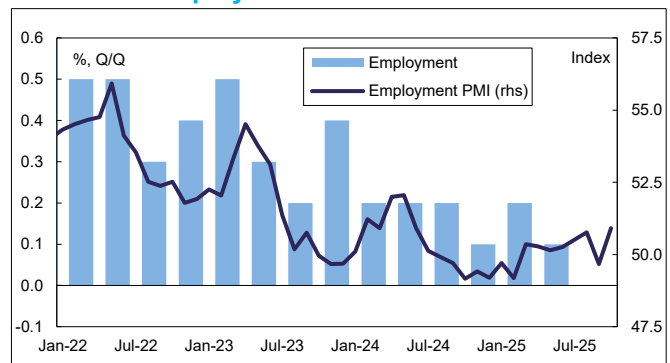
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Composite PMIs by member state



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

Euro area: Employment & PMI

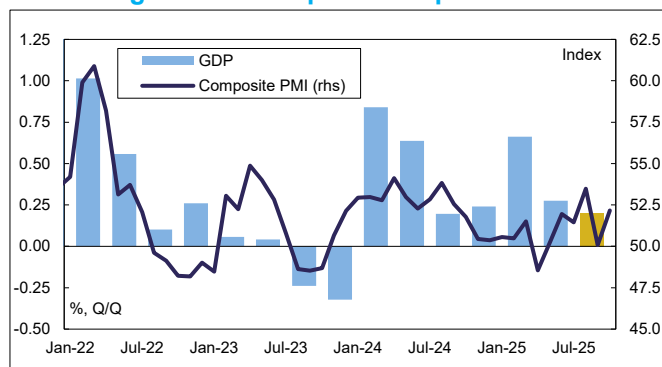


Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the UK

Thursday's BoE's monetary policy announcement undoubtedly provides the highlight of the week. But as we wrote in [Friday's Euro wrap-up](#), uncertainty about the outcome is much higher than usual. In line with the Bloomberg survey consensus, our baseline expectation is that the MPC will hold Bank Rate at 4.00% this week. While wage growth has softened more than expected and September's inflation undershoot supports the case for a further cut, headline CPI is still almost 2ppts above target. Economic activity has also been a touch firmer than the BoE expected. And while Chancellor Reeves earlier this week forewarned about the prospects for tighter fiscal policy, including broader tax increases, to come in the government's Autumn budget, we also expect the majority to err on the side of caution given the uncertainty about the detailed measures and their implications for the inflation outlook. Governor Bailey and Deputy Governor Breeden arguably hold the decisive votes this week. Both appear sympathetic to the soft labour market data since the last meeting. As such, the possibility of another 4-5 vote in favour of a 25bps cut, as in August, cannot be completely ruled out. But on balance, we think that the majority on the Committee will want more time to digest specific measures beforehand. And with the benefit of two more months of (likely favourable) data, the BoE should feel more comfortable resuming its easing cycle in December. If so, particular focus will be given to the accompanying statement, the minutes – which will include for the first time a paragraph from each MPC member to illustrate their judgements – and Bailey's press conference for more dovish signals.

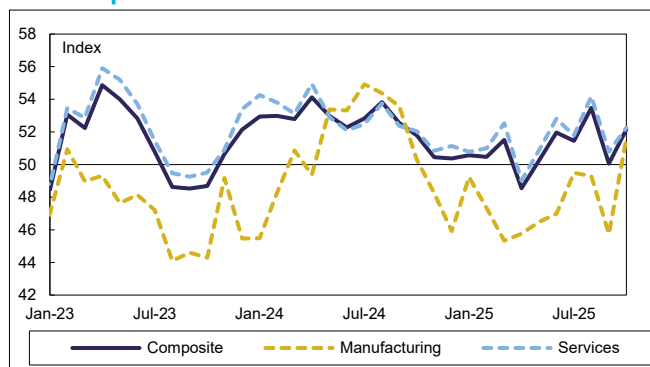
UK: GDP growth & composite output PMI*



*Gold bar shows Daiwa forecast for Q325.

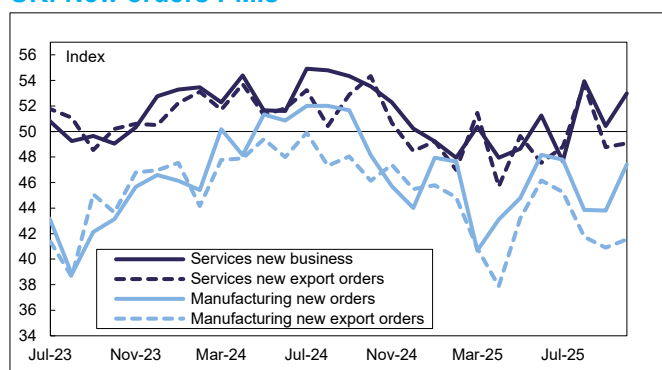
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Output PMIs



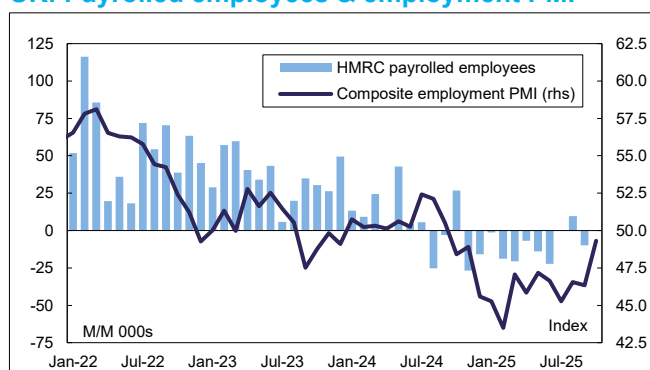
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: New orders PMIs



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

UK: Payrolled employees & employment 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	 Final composite (services) PMI	Oct	52.5 (53.0)	<u>52.2 (52.6)</u>	51.2 (51.3)	-
	 PPI Y/Y%	Sep	-0.2	-0.2	-0.6	-
Germany	 Factory orders M/M% (Y/Y%)	Sep	1.1 (-4.3)	0.9 (-4.1)	-0.8 (1.5)	-0.4 (2.1)
	 Final composite (services) PMI	Oct	53.9 (54.6)	<u>53.8 (54.5)</u>	52.0 (51.5)	-
France	 Industrial production M/M% (Y/Y%)	Sep	0.8 (1.3)	0.1 (0.6)	-0.7 (0.4)	-0.9 (0.1)
	 Final composite (services) PMI	Oct	47.7 (48.0)	<u>46.8 (47.1)</u>	48.1 (48.5)	-
Italy	 Composite (services) PMI	Oct	53.1 (54.0)	52.1 (53.0)	51.7 (52.5)	-
	 Retail sales M/M% (Y/Y%)	Sep	-0.5 (0.5)	-	-0.1 (0.5)	-0.2 (0.6)
Spain	 Composite (services) PMI	Oct	56.0 (56.6)	54.3 (54.5)	53.8 (54.3)	-
UK	 New car registrations Y/Y%	Oct	0.5	-	13.7	-
	 Final composite (services) PMI	Oct	52.2 (52.3)	<u>51.1 (51.1)</u>	50.1 (50.8)	-

Auctions

Country	Auction
Germany	 sold €846mn of 2.6% 2041 bonds at an average yield of 3.02%
	 sold €800mn of 2.5% 2044 bonds at an average yield of 3.09%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tuesday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Spain	 Unemployment (net employment) change 000s	Oct	22.1 (64.6)	-	-4.8 (56.7)	-

Auctions

Country	Auction
Germany	 sold €3.766bn of 2% 2027 bonds at an average yield of 1.98%
UK	 sold £5bn of 4% 2029 bonds at an average yield of 3.845%

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	50.0	<u>50.0</u>	49.8	-
Germany	 Final manufacturing PMI	Oct	49.6	<u>49.6</u>	49.5	-
France	 Final manufacturing PMI	Oct	48.8	<u>48.3</u>	48.2	-
Italy	 Manufacturing PMI	Oct	49.9	49.3	49.0	-
Spain	 Manufacturing PMI	Oct	52.1	51.8	51.5	-
UK	 Final manufacturing PMI	Oct	49.7	<u>49.6</u>	46.2	-

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		08.30	Construction PMI	Oct	-	46.0
		10.00	Retail sales M/M% (Y/Y%)	Sep	0.2 (1.0)	0.1 (1.0)
Germany		07.00	Industrial production M/M% (Y/Y%)	Sep	3.0 (0.1)	-4.3 (-3.9)
		08.30	Construction PMI	Oct	-	46.2
France		07.45	Preliminary private sector payrolls Q/Q%	Q3	-	0.2
		08.30	Construction PMI	Oct	-	42.9
Italy		08.30	Construction PMI	Oct	-	49.8
Spain		08.00	Industrial production M/M% (Y/Y%)	Sep	0.3 (1.7)	-0.1 (3.4)
UK		09.30	Construction PMI	Oct	46.7	46.2
		12.00	BoE Bank Rate %	Nov	<u>4.00</u>	4.00
		14.00	DMP 3M output price (1Y CPI) expectations Y/Y%	Oct	-	3.7 (3.4)

Auctions and events

Euro area		18.30	ECB Chief Economist Lane speaks on panel discussing global trade at an IMF research conference, Washington D.C.		
France		09.50	Auction: to sell up to €11bn of 3.5% 2035, 3.6% 2042 & 3% 2049 bonds		
Spain		09.30	Auction: to sell 3% 2033, 1.85% 2035, & 3.5% 2035 bonds & 1.15% 2036 inflation-linked bonds		
UK		12.00	BoE monetary policy announcement, minutes and Monetary Policy Report to be published		
		12.30	BoE Governor Bailey to present updated macroeconomic projections in post-MPC press conference		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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