

Euro wrap-up

Overview

- Bunds made modest losses as German exports rose in September amid tentative signs of recovery in shipments to the US.
- Gilts also made losses on a quiet day for UK economic news.
- The week ahead will bring September data for euro area IP and trade, which will feed into updated estimates of Q3 GDP. The first estimate of UK Q3 GDP is also due along with an updated labour market report.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	1.982	-0.001
OBL 2.2 10/30	2.252	+0.008
DBR 2.6 08/35	2.663	+0.015
UKT 3½ 03/27	3.783	+0.009
UKT 4½ 03/30	3.920	+0.026
UKT 4½ 03/35	4.458	+0.027

*Change from close as at 4:15pm GMT.
Source: Bloomberg

Euro area

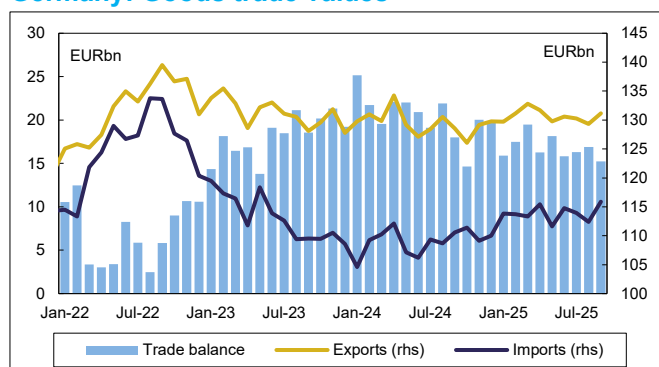
Tentative signs of recovery in German exports to the US, but net trade still a drag on growth

At first glance, today's German trade data illustrated the ongoing challenges facing manufacturers in the euro area's largest member state as it struggles with the impact of higher US tariffs and a continued loss of competitiveness in the global economy. Indeed, the trade surplus narrowed to an eleven-month low of €15.3bn in September. But this reflected a jump in the value of imports that month, by 3.1%M/M, the most since January, perhaps signalling a recovery in domestic demand. Admittedly, the pickup was led by a further increase in deliveries from China, to a near-three-year high, so might also be representative of diverted goods otherwise intended for the US. But imports from the US also reached a new series high, and a 14-month high from the UK. Despite a steady decline in competitiveness over recent years, today's report also showed encouraging signs of recovery in overseas demand for German goods. The value of exports rose for just the second month out of the past six in September, by 1.4%M/M. And while this partly reflected a rise in shipments within the EU (2.5%M/M), there was also a notable increase in exports to the US (11.9%M/M). This still left exports to the US down some 8.5%Q/Q in Q3 and almost 15% below Trump's pre-"liberation day" peak in March, while exports to China fell 3.7%Q/Q to be down more than 25% since the peak in Q122. Overall, the quarterly drop in total goods exports was more modest (-0.4%Q/Q), but nonetheless suggested a modest drag from net trade for a sixth quarter in seven. While the improvement at the end of the quarter should provide positive carry over into Q4, recent surveys have been mixed. More encouragingly, the ifo survey signalled that manufacturers on balance remained optimistic about export expectations, with a notable improvement in the autos and electrical equipment subsectors.

French exports remained broadly flat in September, by new orders jumped at the start of Q4

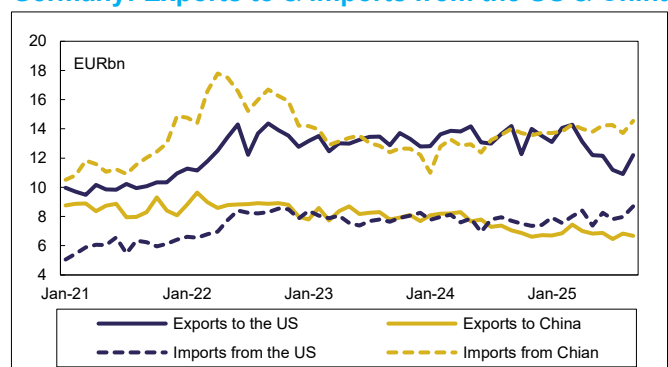
Contrasting with Germany, exports made a substantive contribution to French GDP in Q3, rising the most in more than two years to more than fully account for economic growth (of 0.5%Q/Q) last quarter. And this principally related to shipments of manufactured goods. The contrasting trends likely reflects the smaller share of French goods exported to the US. But today's monthly trade figures also suggested that the solid growth in Q3 in part reflected positive carryover from Q2, followed by strong growth in July. Since then, however, French exports have flatlined, rising just 0.1%M/M in September. The weakness in part reflects an ongoing retrenchment in shipments to the US, which fell 2.4%M/M in September to be down a further 1%Q/Q in Q3. In contrast, exports to elsewhere in Europe maintained a steady uptrend, while shipments to China rose to a six-month high. And recent surveys signal a notable pickup in new export orders, with the respective INSEE index rising to a 19-month high in October, with strong growth in transport equipment and chemical orders.

Germany: Goods trade values



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Exports to & imports from the US & China



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

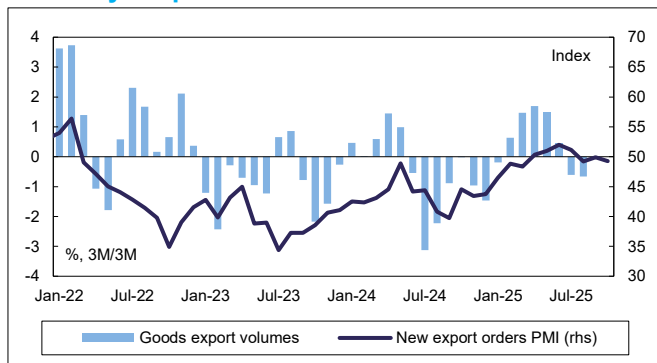
The week ahead in the euro area

The euro area economic dataflow in the week ahead will be dominated by activity data, with industrial production (Thursday) and goods trade figures for September feeding into the second estimates of Q3 GDP (both Friday). Given the rebound in production in [Germany](#), France and likely Italy (data due Wednesday), aggregate euro area IP looks set to report some partial reversal following the contraction in August (-1.2%M/M). But there are downside risks to this outturn given the likelihood of a pullback in Ireland (Monday). In any case, we expect Thursday's release to show that the industrial sector weighed on euro area GDP in Q3, with production contracting by roughly ¼%Q/Q. Additionally, today's trade data imply that despite a likely increase in exports, a larger pickup in imports will narrow the goods trade surplus in September. That said, we wouldn't expect either of those developments to have a sufficiently negative impact on the second estimate of Q3 GDP growth, with initially reported an acceleration of 0.1ppt to 0.2%Q/Q. That release will also be accompanied by employment figures for Q3, for which we expect the rate of growth to be broadly steady in the region of 0.1-0.2%Q/Q. As it has been in recent quarters, growth was likely concentrated in Spain, compensating for a further decline in the bloc's core member states. Activity data aside, the coming week will also bring final October inflation data from Germany (Wednesday), France and Spain (Friday). The decline in the flash estimates from both Germany (by 0.1ppt to 2.3%Y/Y) and France (by 0.2ppt to 0.9%Y/Y) were driven principally by food prices, with inflation flattered by base effects. But services inflation in Germany edged higher. The additional detail provided in these releases will likely show that services pressures were driven by seasonal pricing in the typically volatile transport services component. Finally, the Sentix (Monday) and German ZEW (Tuesday) will provide insights into investors' sentiment in November.

The week ahead in the UK

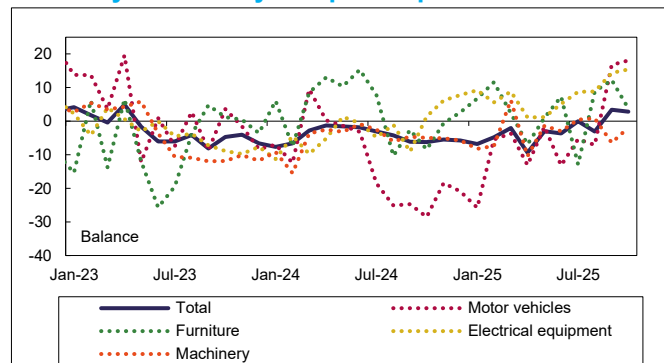
After the BoE yesterday narrowly voted to keep interest rates on hold – with Governor Bailey requiring a little further evidence that inflation had passed its peak – the focus in the UK in the coming week will turn to the latest round of labour market statistics on Tuesday – the first of two updates ahead of the December monetary policy decision – followed by the first publication of Q3 GDP estimates on Thursday. Regarding the former, we note that the pick up in pay growth in August was principally led by the public sector. More reassuringly, private sector regular pay – the BoE's preferred measure of wage growth – eased to 4.4%3M/Y, its lowest rate since December 2021 and undershooting the BoE's previous forecast. With the unemployment rate also steadily rising and job vacancies somewhat below their pre-pandemic levels, it was evident at November's monetary policy meeting that the MPC has become more cognizant to the downside risks of continued labour market loosening to the inflation outlook. As a result, the BoE's new central projections expect private sector pay to ease more rapidly, to 4.2%3M/Y in September and 3.5%3M/Y by year-end, when the unemployment rate was also seen rising to a five-year high of 5%. Indeed, the forthcoming release is expected to show the unemployment rate rising a further 0.1ppt to

Germany: Export volumes & new orders PMI



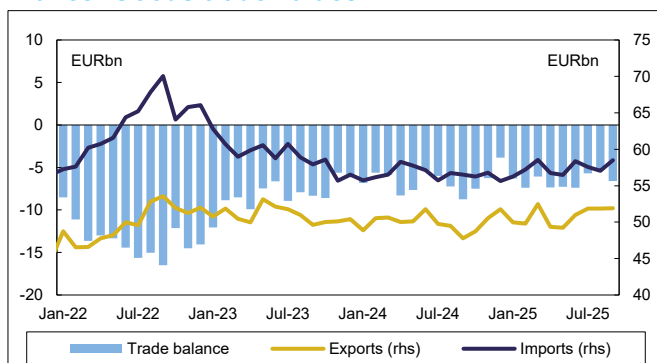
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo survey – export expectations indices



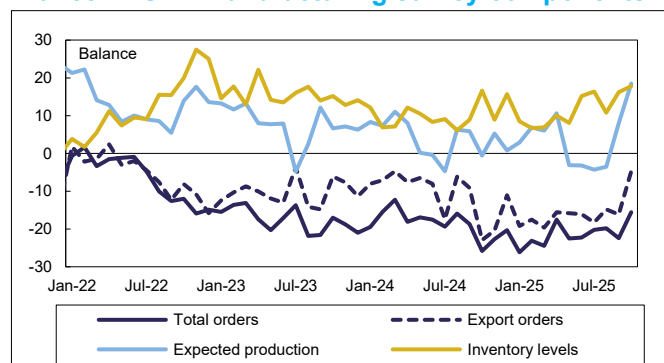
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Goods trade values



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: INSEE manufacturing survey components



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

4.9% in the three months to September. This notwithstanding, tentative signals from the employment PMI in October might suggest some stabilization in the jobs market. And the more forward-looking REC's jobs report (Friday) for October may also warrant attention for potential signs of improvement in hiring intentions.

In terms of the preliminary estimate of Q3 GDP data, like the BoE, we expect growth to have slowed slightly to 0.2%Q/Q, down a touch from growth of 0.3%Q/Q in Q2. Household consumption likely provided a modest boost. But we think that government spending unlikely repeated the strength in Q2, with uncertainty also weighing on business investment. In addition, net trade appears on track to provide a small drag last quarter. The monthly GDP series will provide an update on momentum at the end of the third quarter. And this is likely to confirm that the positive growth last quarter largely reflected the strength of carryover from the end of Q2. Indeed, having barely grown in July and August, September's outturn looks set to be impacted by the production shutdown at Jaguar Land Rover, which precipitated the marked deterioration in September's PMIs. While car production accounts for only a small share of the UK's manufacturing base (~8%), and smaller share of the whole economy (<1%) the consequences for its supply chain risks amplifying its effects. As such, we think that risks to our Q3 growth forecast are skewed to the downside. Elsewhere, with the ONS retail sales series claiming a fourth consecutive month of solid retail sales growth in September, the BRC's retail survey (Tuesday) will provide a timelier insight as to retail activity in October. The RICS residential survey will also provide an update on housing market activity last month. Despite the resilience of most price gauges and new mortgage approvals in recent months, we expect the survey to attribute any perceived weaknesses to pre-budget apprehension.

Daiwa economic forecast

		2025				2026		2025	2026	2027
		Q1	Q2	Q3	Q4	Q1	Q2			
GDP		%, Q/Q						%, Y/Y		
Euro area		0.6	0.1	0.2	0.3	0.3	0.3	1.4	1.1	1.4
UK		0.7	0.3	0.2	0.3	0.3	0.4	1.5	1.3	1.5
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.3	2.0	2.1	2.2	1.8	1.8	2.2	1.7	1.9
Core HICP		2.6	2.4	2.3	2.5	2.3	1.8	2.5	1.9	1.8
UK										
Headline CPI		2.8	3.5	3.8	3.4	3.0	2.3	3.4	2.5	1.9
Core CPI		3.6	3.7	3.6	3.4	3.2	2.5	3.6	2.6	1.7
Monetary policy, %										
ECB										
Deposit Rate		2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Refi Rate		2.65	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
BoE										
Bank Rate		4.50	4.25	4.00	3.75	3.50	3.25	3.75	3.25	3.00

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on Tuesday 11 November 2025

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Trade balance €bn	Sep	15.3	16.7	17.2	16.9
France	 Trade balance €bn	Sep	-6.6	-	-5.5	-5.2
	 Preliminary wages Q/Q%	Q3	0.3	-	0.5	-

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 10 November 2025					
Euro area	 09.30	Sentix investor confidence indicator	Nov	-4.0	-5.4
Tuesday 11 November 2025					
Germany	 10.00	ZEW current situation (expectations) balance	Nov	-78.0 (41.3)	-80.0 (39.3)
UK	 00.01	BRC retail monitor – like-for-like sales Y/Y%	Oct	-	2.0
	 07.00	Averages wages (excluding bonuses) 3M/Y%	Sep	5.0 (4.6)	5.0 (4.7)
	 07.00	Private sector regular wages 3M/Y%	Sep	4.2	4.4
	 07.00	Unemployment rate 3M%	Sep	4.9	4.8
	 07.00	Employment 3M/3M change 000s	Sep	10	91
	 07.00	Payrolled employees M/M change 000s	Oct	-8	-10
	 07.00	Claimant count rate % (change 000s)	Oct	-	4.4 (25.8)
Wednesday 12 November 2025					
Germany	 07.00	Final HICP (CPI) Y/Y%	Oct	<u>2.3 (2.3)</u>	2.4 (2.4)
Italy	 09.00	Industrial production M/M% (Y/Y%)	Sep	1.5 (-0.5)	-2.4 (-2.7)
Thursday 13 November 2025					
Euro area	 10.00	Industrial production M/M% (Y/Y%)	Sep	0.8 (2.4)	-1.2 (1.1)
France	 07.45	ILO unemployment rate (mainland) %	Q3	7.5 (7.3)	7.5 (7.3)
UK	 00.01	RICS house price balance %	Oct	-14	-15
	 07.00	GDP – first estimate Q/Q% (Y/Y%)	Q3	<u>0.2 (1.4)</u>	0.3 (1.4)
	 07.00	Monthly GDP M/M% (3M/3M%)	Sep	0.0 (0.2)	0.1 (0.3)
	 07.00	Services output M/M% (3M/3M%)	Sep	0.1 (0.3)	0.0 (0.4)
	 07.00	Industrial output M/M% (Y/Y%)	Sep	-0.2 (-1.4)	0.4 (-0.7)
	 07.00	Construction output M/M% (Y/Y%)	Sep	0.1 (1.0)	-0.3 (1.0)
	 07.00	Trade (goods trade) balance £bn	Sep	-2.9 (-20.7)	-3.4 (-21.2)
	 09.30	Preliminary output per hour Y/Y%	Q3	-	-0.8
Friday 14 November 2025					
Euro area	 10.00	GDP – second estimate Q/Q% (Y/Y%)	Q3	<u>0.2 (1.3)</u>	0.1 (1.5)
	 10.00	Employment – first estimate Q/Q% (Y/Y%)	Q3	-	0.1 (0.6)
	 10.00	Trade balance €bn	Sep	-	9.7
France	 07.45	Final HICP (CPI) Y/Y%	Oct	<u>0.9 (1.0)</u>	1.1 (1.2)
Spain	 08.00	Final HICP (CPI) Y/Y%	Oct	<u>3.2 (3.1)</u>	3.0 (3.0)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country		GMT	Event / Auction
Monday 10 November 2025			
- Nothing scheduled -			
Tuesday 11 November 2025			
UK		08.30	MPC external member Greene speaks on panel at UBS conference, London
Wednesday 12 November 2025			
Euro area		10.45	ECB's Schnabel to give a speech on "Europe reimagined: The path to empowerment" at BNP Paribas conference, London
Germany		10.30	Auction: to sell up to €1bn of 2.5% 2046 bonds
		10.30	Auction: to sell up to €1.5bn of 2.9% 2056 bonds
UK		12.05	BoE Chief Economist Pill gives speech on the BoE's pandemic response at IIMR conference, Buckingham
Thursday 13 November 2025			
Euro area		09.00	ECB to publish Economic Bulletin 7/2025
France		09.00	BdF Governor & ECB Governing Council member Villeroy speaks on panel at IMF-BdF conference, Paris
Italy		09.30	Auction: to sell bonds*
UK		12.00	MPC external member Greene on panel discussing central bank independence at Chatham House, London
Friday 14 November 2025			
Euro area		15.00	ECB Chief Economist Lane speaks on policy panel hosted by SNB, Zurich
UK		00.01	REC, KPMG & S&P Global UK Report on Jobs for October

*Details to be announced. 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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