Daiwa Capital Markets

Euro wrap-up

Overview

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- Bunds made modest gains as the ZEW investor survey remained downbeat about current conditions but retained cautious optimism about the outlook.
- Gilts outperformed after the UK labour market report flagged softer pay growth and a further rise in joblessness in September, paving the way for a December rate cut.
- The coming two days will bring euro area industrial output data for September, as well as the first estimates of UK GDP growth in Q3.

Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	1.991	-0.009
OBL 2.2 10/30	2.251	-0.014
DBR 2.6 08/35	2.650	-0.016
UKT 3¾ 03/27	3.719	-0.078
UKT 4⅜ 03/30	3.855	-0.078
UKT 4½ 03/35	4.383	-0.076

*Change from close as at 4:00pm GMT.
Source: Bloomberg

Euro area

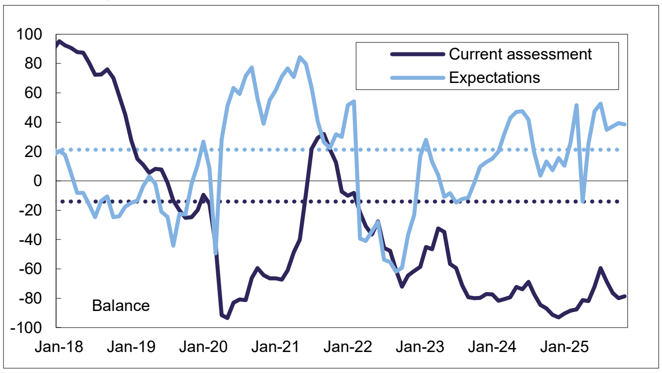
Despite current challenges, German investors remain cautiously optimistic about the outlook

Consistent with yesterday's sentix indicator, the November ZEW survey continued to suggest that investors' perceptions of the German economy remained pessimistic this quarter. Indeed, the balance of current economic assessments was only a touch less downbeat than in October and at -78.7 it was merely in line with the average in the year-to-date. Fewer than 1% of respondents to the survey assessed the current economic situation to be 'good'. But this notwithstanding, today's survey continued to suggest cautious optimism about the economic outlook. Indeed, almost half of responses to the ZEW see the outlook as' good', compared to just 10% that judge them to be 'bad'. And the more upbeat outlook broadly tallies with the findings of the ifo survey, for example, with conditions in the construction sector benefitting from lower interest rates – for which more than three-quarters of respondents to the ZEW survey expected to remain steady for the coming six months – and greater optimism around civil engineering. According to the ifo, auto manufacturers similarly remained downbeat about current conditions, with some carmakers having been forced to pause production in the region as shipments of rare earth magnets from China had fallen sharply. But they were also reportedly the most upbeat about the outlook for 2½ years. And the loosening of restrictions on the export of Chinese inputs over recent days might also give a further boost to optimism. This notwithstanding, profit expectations for the auto, as well as energy-intensive steel and chemicals manufacturers continue to languish behind other subsectors as structural challenges remain. In contrast, investors expected stronger profits growth in the construction sector, as well as IT and comms industries, with the former the most upbeat for almost four years.

The coming two days in the euro area

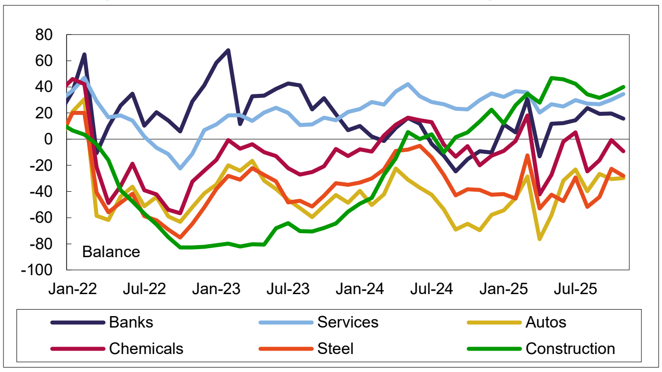
The euro area's September industrial production figures will provide the economic data highlight over the coming two days. While these data will help to inform Friday's updated Q3 GDP estimates, we do not expect them to have a sufficient impact to alter the preliminary estimates (0.2%Q/Q). Following weakness over the summer months, industrial output rebounded in both Germany (1.9%M/M) and France (0.8%M/M) in September. Wednesday's Italian release is expected to follow the same pattern, while expansion was also seen in Spain and the Netherlands. But a predictable pullback in Irish IP (-10½%M/M), to reverse fully the increase in August, should negate most of the upside from the other member states. Indeed, accounting for Ireland, we now expect aggregate euro area IP to have been essentially flat in September. And in any case, Thursday's data should confirm that the industrial sector weighed on GDP growth last quarter, contracting around ¼%Q/Q in Q3. Otherwise, German inflation detail for October will also be of particular interest tomorrow. The flash estimates showed inflation softening on food and fuel-related base effects. But the headline rate eased just 0.1ppt to 2.3%Y/Y, owing to greater pressures in services components. The detail will provide insights to the extent to which this pressure owed to more volatile components, including package holidays and transport services. Aside from the data, ECB Executive Board Member Schnabel and Banque de France Governor Villeroy will be among the notable ECB speakers over the coming days.

Germany: ZEW – investor sentiment*



*Dotted lines show long-run averages.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ZEW – profit expectations by sector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK

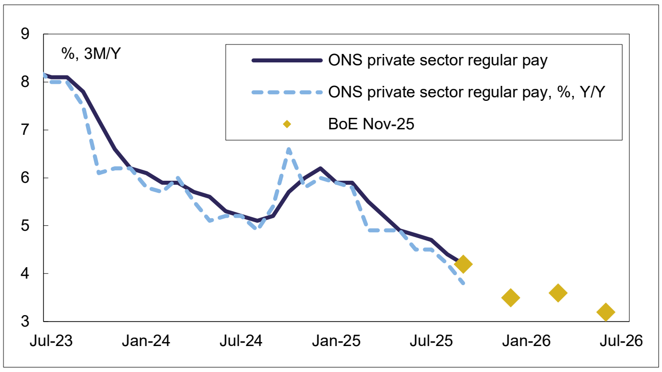
Private regular pay eases to lowest since end-2021, supporting the case for a December rate cut

While the MPC last week held Bank Rate steady at 4.00%, the overall tone to the policy statement was more dovish in recognition that risks to the inflation outlook from greater inflation persistence had become less pronounced, and those from weaker demand more apparent. And while Governor Bailey – who held the decisive vote this month – required further confirmation that the risks had become more balanced before pulling the trigger on another rate cut, today's labour market report again flagged rising slack and moderating pay growth, reinforcing our view that the MPC will cut interest rates in December. Indeed, having previously risen to 5.0%3M/Y, total pay growth edged lower in the three months to September, by 0.2ppt to 4.8%3M/Y. And, when excluding bonus payments, regular pay growth moderated a further 0.1ppt to 4.6%3M/Y, the softest since April 2022. Moreover, the downtrend in underlying wage growth would have been more pronounced in the absence of upwards impulses from the public sector (up 0.6ppt to a near-two-year high of 6.6%3M/Y) impacted by the earlier timing of annual pay rises this year. Most encouragingly for the BoE, its preferred measure of private regular wage growth moderated for a seventh successive month to 4.2%3M/Y, down 2ppts from end-2024 and the softest rate since end-2021. That moderation was also broad-based across subsectors. And the single-month measure for total private regular pay fell to a near five-year low of 3.8%Y/Y, with momentum on a three-month annualised basis down to just 2.8%3M/3M, broadly consistent with the 3% level earmarked by policymakers as compatible with the inflation target over the medium term. And with the HMRC measure of median pay also down sharply in October to a more than five-year low, risks to the Bank's forecast for private regular pay growth by year-end (3.5%3M/Y) may be to the downside too.

Unemployment rate jumps to 4½-year high, but tentative signs labour demand starting to stabilise

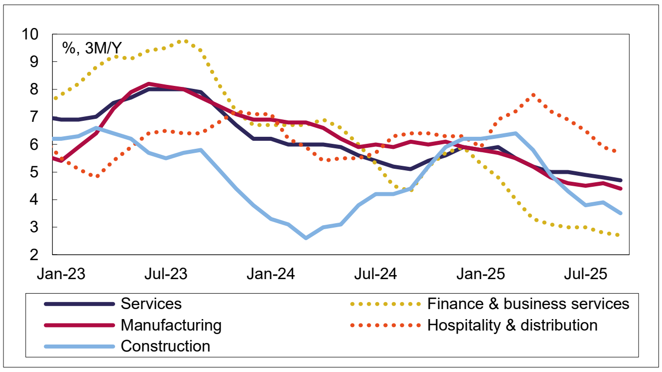
One source of divergence of views on the MPC relates to uncertainty about the balance of supply and demand in the labour market. But overall today's report was consistent with survey findings that suggest an increase in labour slack over the past year or so. The flash estimate of payrolled employees fell for an eleventh month out of the past twelve in October, by a further 32k. Alongside the downwards revision to payrolls last month (also down 32k), that took the cumulative drop over the past year to 180k. Despite positive jobs growth in hospitality for the first month in six, there was further losses in headcount across wholesale & retail, information and communications, manufacturing and construction. Meanwhile, the Labour Force Survey (LFS) measure of employment also fell in September for a second successive month, to record the first quarterly decrease (-22k) in 18 months. This tallied with a pickup in the redundancy rate to the highest in 20 months and pushed the unemployment rate in the three months to September up 0.2ppt to 5.0%, the highest since February 2021, 1.4ppt above the

UK: Private sector regular pay growth



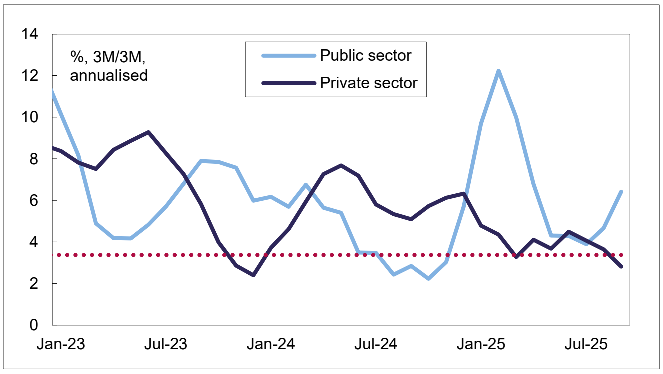
Source: Macrobond, BoE and Daiwa Capital Markets Europe Ltd.

UK: Regular pay growth by sector



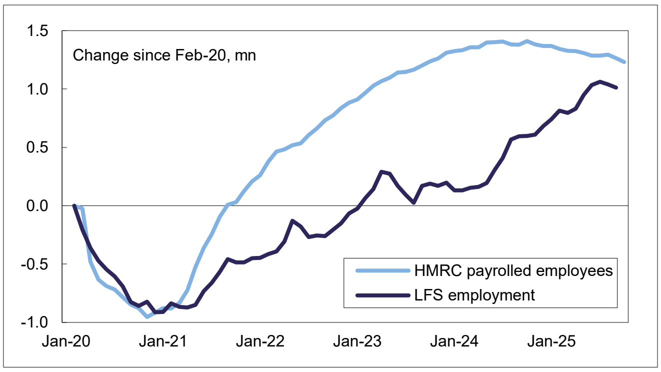
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Private & public regular pay growth*



**Dotted red line represents 20-year average.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Measures of employment



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

series low in mid-2022 and a touch firmer than the BoE's expectation. While there were some signs of stabilsation in job vacancies in October, the ratio of vacancies to jobless workers was the weakest in over a decade outside of the pandemic period. And while the October composite employment PMI improved to a 13-month high as some services firms reported plans to replace voluntary leavers amid the improving outlook, it merely pointed to stabilisation in the loss of headcount rather than a return to jobs growth.

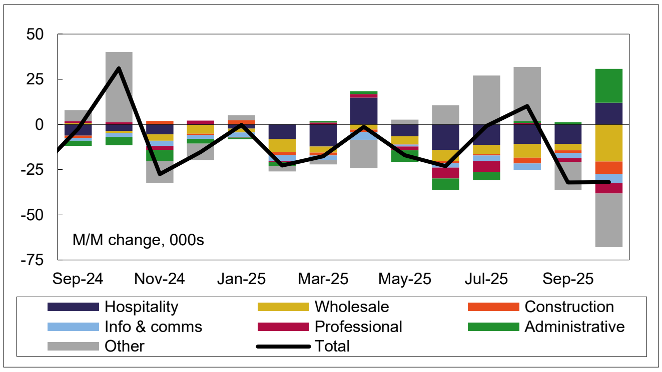
Survey suggests consumers reluctant to spend at start of Q4 ahead of Budget & Black Friday

With firms still reluctant to hire, households' disposable incomes squeezed by higher energy tariffs and ongoing uncertainties about the precise tax increases to be announced later this month, today's BRC retail monitor suggested that consumers remained cautious with their spending at the start of Q4. This showed that growth in sales values slowed 0.7ppt to 1.6%Y/Y in October, a five-month low and below average growth over the past twelve months. When smoothing for monthly volatility, sales growth (2.3%3M/Y) was the joint-softest since March. And it was mainly supported by the value of food sales growth (4.2%3M/Y), which was exaggerated by price effects. Indeed, adjusting for the BRC shop price inflation measure, growth in food sales volumes in October was negligible for the fourth successive month. While growth in the value of non-food sales (0.8%3M/Y) was in part constrained by falling prices, growth in volumes of such items was similarly the softest in ten months as consumers reportedly delayed purchases in the hope of Black Friday deals and the unseasonably mild weather. Notwithstanding this, we suspect that any bounce in spending in November will be limited by the ongoing preference to save, and not least due to the looming tax hikes to be announced in the later-timed November 26 Budget.

The coming two days in the UK

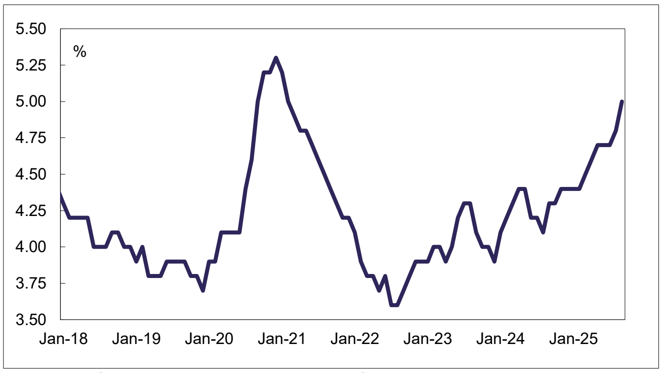
While Wednesday should be a relatively quiet for UK economic news, Thursday will bring preliminary Q3 GDP estimates, alongside September's monthly GDP series, production and trade data. Like the BoE, we expect growth to have slowed slightly to 0.2%Q/Q in Q3, from 0.3%Q/Q in Q2. Household consumption likely provided a modest boost. But we think that government spending is unlikely to have repeated its strength from the previous quarter. Heightened uncertainty may have also posed as a headwind to business investment, and net trade appears on track to provide a small drag last quarter. Indeed, we expect the monthly GDP series to confirm that the positive growth last quarter principally reflected the strength of carryover from the end of Q2. And having failed to grow over the first two months of Q3, September's outturn is at high risk of being negatively impacted by the production shutdown at Jaguar Land Rover; which precipitated the broad deterioration across September's PMIs. While car production admittedly accounts for only a small share of the UK's (relatively small) manufacturing base (~8%), the consequences throughout its supply chain risks amplifying its effects more broadly. As such, we caution that we see the risks to our Q3 growth forecast as skewed to the downside.

UK: Change in payrolled employees by sector



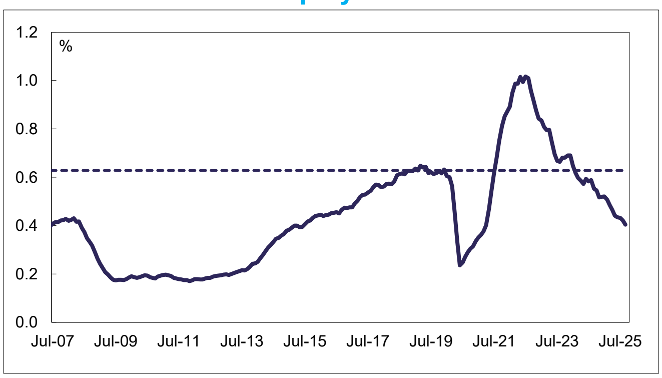
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Unemployment rate



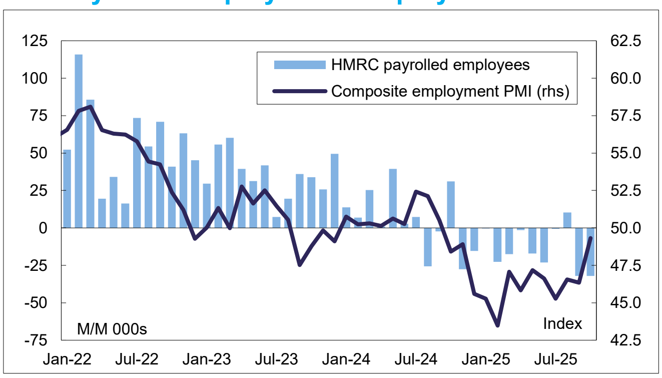
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Vacancies to unemployment ratio*



**Dashed line shows 2019 average*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Payrolled employees & employment PMI



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

The next Euro wrap-up will be published on Thursday 13 November 2025

European calendar

Today's results

Economic data

Country		Release	Period	**Actual**	Market consensus/ <u>*Daiwa forecast*</u>	Previous	Revised
Germany		ZEW current situation (expectations) balance	Nov	**-78.7 (38.5)**	-78.2 (41.0)	-80.0 (39.3)	-
UK		Averages wages (excluding bonuses) 3M/Y%	Sep	**4.8 (4.6)**	5.0 (4.6)	5.0 (4.7)	-
		Private sector regular wages 3M/Y%	Sep	**4.2**	4.2	4.4	-
		Unemployment rate 3M%	Sep	**5.0**	4.9	4.8	-
		Employment 3M/3M change 000s	Sep	**-22**	5	91	-
		Payrolled employees M/M change 000s	Oct	**-32**	-3	-10	-32
		Claimant count rate % (change 000s)	Oct	**4.4 (29.0)**	-	4.4 (25.8)	4.3 (0.4)
		BRC retail monitor – like-for-like sales Y/Y%	Oct	**1.5**	-	2.0	-

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Monday's results

Economic data

Country		Release	Period	**Actual**	Market consensus/ <u>*Daiwa forecast*</u>	Previous	Revised
Euro area		Sentix investor confidence indicator	Nov	**-7.4**	-4.0	-5.4	-

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country		GMT	Release	Period	Market consensus/ <u>*Daiwa forecast*</u>	Previous
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)

Auctions and events

Country		GMT	Event
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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Country		GMT	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Economic data						
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	*0.2 (1.4)*	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 (-1.3)	0.4 (-0.7)
		07.00	Construction output M/M% (Y/Y%)	Sep	0.0 (1.0)	-0.3 (1.0)
		07.00	Trade (goods trade) balance £bn	Sep	-3.1 (-20.8)	-3.4 (-21.2)
		09.30	Preliminary output per hour Y/Y%	Q3	-	-0.8
Auctions and events						
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		10.00	Auction: to sell up to €3.5bn of 2.35% 2029 bonds			
		10.00	Auction: to sell up to €1.5bn of 3.25% Jul 2032 bonds			
		10.00	Auction: to sell up to €1.5bn of 3.25% Nov 2032 bonds			
		10.00	Auction: to sell up to €1.5bn of 4.65% 2055 bonds			
UK		12.00	MPC external member Greene on panel discussing central bank independence at Chatham House, London			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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