

Euro wrap-up

Overview

- While the German ruling coalition secured parliamentary approval for its pension bill, Bunds made losses as German factory orders in October surprised to the upside and euro area GDP growth in Q3 was revised higher.
- Gilts followed the global trend lower on a quiet day for UK economic news.
- The coming week will bring updates on German industrial production and goods trade, as well as UK GDP at the start of Q4.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.091	+0.023
OBL 2.2 10/30	2.399	+0.031
DBR 2.6 08/35	2.798	+0.029
UKT 3½ 03/27	3.774	+0.053
UKT 4% 03/30	3.933	+0.053
UKT 4½ 03/35	4.476	+0.043

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

Euro area

Upside surprise to German orders in October reinforces signal of gradual turn for the better

After Germany's economy remained firmly in the slow lane in the third quarter – the only member state of the largest six that failed to grow – surveys have provided mixed messages about the outlook for Q4. The ifo institute's indices point to little improvement in current conditions, suggesting that GDP growth this quarter might be negligible. But the PMIs point to a comfortable return to positive growth in Q4. And looking further ahead, the ifo survey reports that business expectations for the coming six months are close to the brightest for 3½ years. Despite continued tensions within the ruling coalition, part of this optimism continues to relate to the government's fiscal plans, which should benefit many infrastructure- and defence-related subsectors. But there is evidence of a more broad-based turn for the better in demand for German goods too, supporting hopes for a sustained recovery in 2026. Today's German factory data reinforced this view, with new orders rising for a second successive month in October and by a stronger-than-expected 1.5%M/M.

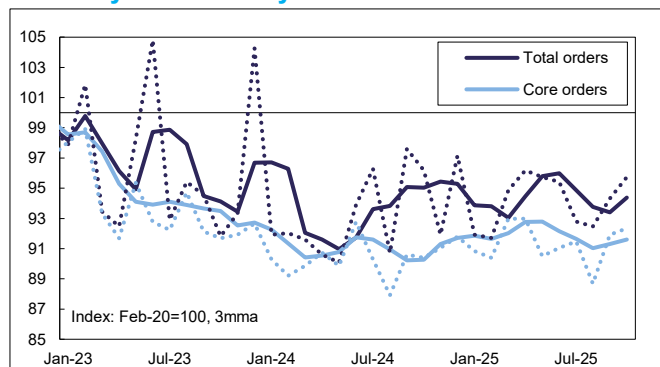
Orders flattered by bulk items, but core orders rise 3% above Q3 average

Admittedly, the pickup in factory orders in October reflected several large-scale domestic orders for other transport equipment – i.e. rail and air and spacecraft machinery – which leapt almost 90%M/M to a 13-month high. But orders for basic metals also jumped to the highest level in two years. There was some payback for previous strength in demand for autos, electrical machinery and ICT equipment. So, excluding bulk items, the pickup in core orders at the start of Q4 was moderate at 0.5%M/M. Nevertheless, this marked the highest level for six months. Core domestic orders were up for a fifth successive month, suggesting a steady recovery in domestic demand. In addition, while they fell when bulk items are included, core orders from outside of the euro area matched the highest level since June. Overall, core German factory orders were almost 2% above the Q3 average and total orders up almost 3% on the same basis, suggesting strongly that production should rise over coming months. Finally, while German manufacturing turnover rose for only the first month in four, and by a modest 0.3%M/M, there was a near-1%M/M increase in turnover when excluding energy. We think that industrial production rose for a second successive month in October, by about ½%M/M.

French manufacturing, construction and exports start Q4 on the backfoot

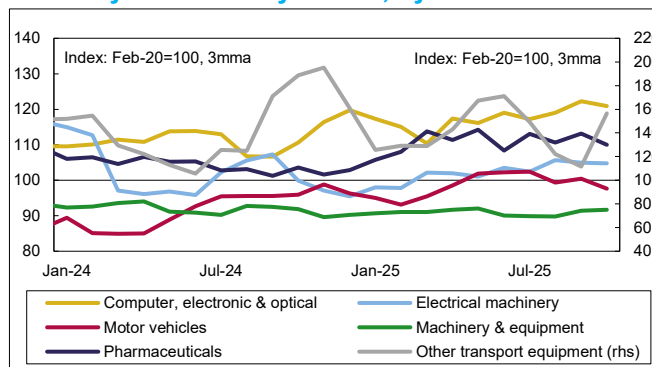
After providing a boost to French GDP growth (1.4%Q/Q) and a sizeable contribution to the build-up of inventories last quarter, today's industrial production data signalled a notable slowdown at the start of Q4. Admittedly, total French industrial output rose for a second successive month in October (0.2%M/M) to match the highest level in 2½ years. But the pickup principally reflected an increase of 2%M/M in energy production to a near-four-year high. In contrast, manufacturing output

Germany: New factory orders*



*Dotted lines are unsmoothed data. Core orders excluding major orders.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders, by selected sectors



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

fell slightly (-0.1%M/M), for a third month in four. There were more sizeable declines in output from the autos and machinery subsectors to the lowest levels in ten months. And output of ICT equipment was down to a five-month low to be more than 4% below the Q3 average. Other transport equipment provided some offset, as did basic metals, which rose to an 18-month high. But while strike action early in the month might have played a role, today's release suggests that manufacturing might fail to support GDP growth in Q4 for the first quarter this year. The construction sector also seemingly remained a drag at the start of Q4, with activity declining (-0.6%M/M) to the lowest level since the first Covid-19 lockdown in 2020. And the latest INSEE business survey flagged renewed weakening in new factory orders in November, while new building permits continue to trend broadly sideways. Today's goods export value numbers for October also disappointed, declining (-0.5%M/M) to a five-month low, with shipments to the US dropping to a two-year low. But with imports down sharply (-4.6%M/M), the trade deficit narrowed significantly (by €2.4bn to €3.9bn), suggesting that net trade might well provide a non-negligible and welcome boost to French GDP growth this quarter, albeit not for the most encouraging of reasons.

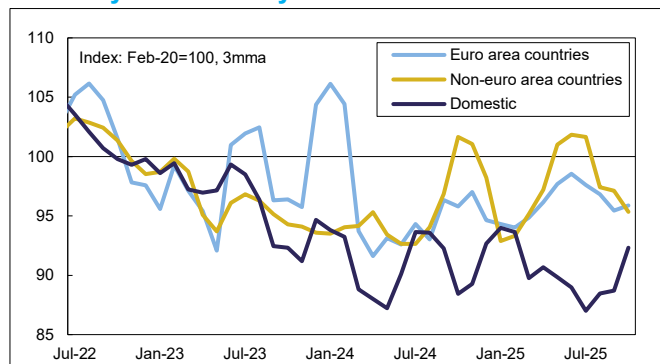
GDP growth in Q3 revised up as domestic demand remains resilient

Not unexpectedly given some more favourable recent data from the member states, euro area economic growth in Q3 was revised up by 0.1ppt to 0.3%Q/Q, 0.2ppt above the rate in Q2. Admittedly, rounding flatters that result somewhat. The upwards revision was minimal at just 3bps and pushed the growth rate to two decimal places up merely to 0.26%Q/Q. Nevertheless, that left the annual rate in Q3 at 1.4%Y/Y, close to potential and as firm as might have reasonably been expected given new US tariffs, weak external demand and heightened geopolitical uncertainty. Indeed, all domestic demand components provided support to GDP growth in Q3. With employment still gradually rising (0.6%Y/Y) and growth in employee compensation steady (4.0%Y/Y), household consumption rose for an eighth successive quarter (0.2%Q/Q). Thanks to firm growth in transport goods, machinery and other equipment, and R&D, fixed investment rose for the fourth quarter out of the past five (0.9%Q/Q). And government spending and inventories provided support too. So, GDP growth would have been roughly twice as strong had it not been for a predictable drag from net trade. But, unexpectedly, that drag was due to a drop in services exports (-0.7%Q/Q) while goods shipments (1.5%Q/Q) rebounded firmly from their dip in Q2, while imports of both goods and services rose too.

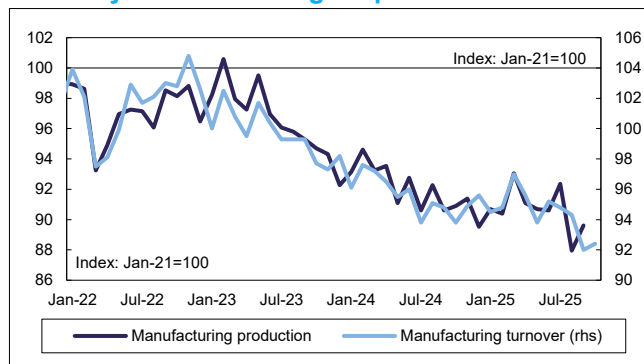
Unit labour cost growth steady above the ECB's projection to provide ammunition to the hawks

Later this month, the ECB will update its projections and signal the likelihood that inflation will undershoot its target throughout 2026 and into 2027. But coupled with the resilience of domestic demand and employment, the failure of growth in employee compensation to moderate in Q3 will be cited by the ECB's hawks as further reason to resist any calls for further monetary easing that might emerge if inflation follows that expected trajectory. Certainly, the Q3 figure for employee

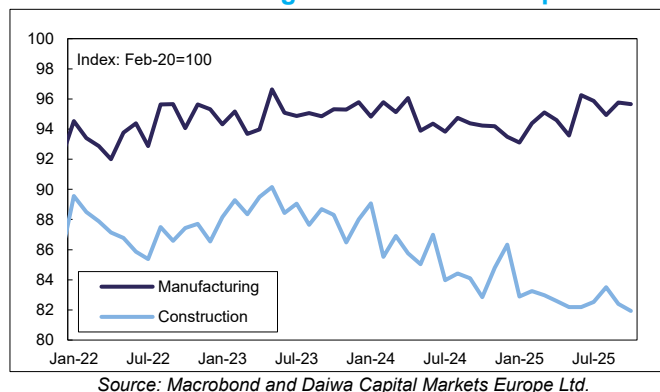
Germany: New factory orders



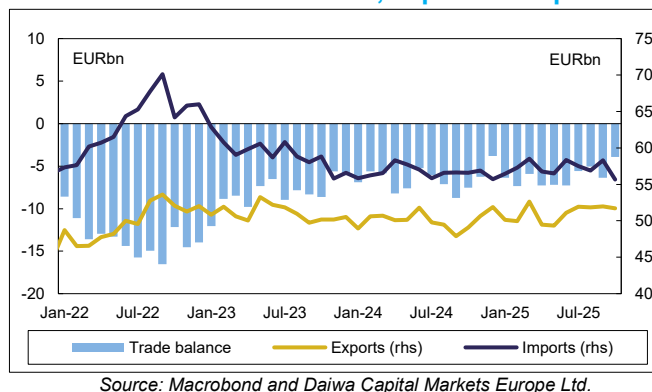
Germany: Manufacturing output & turnover



France: Manufacturing & construction output



France: Goods trade balance, exports & imports



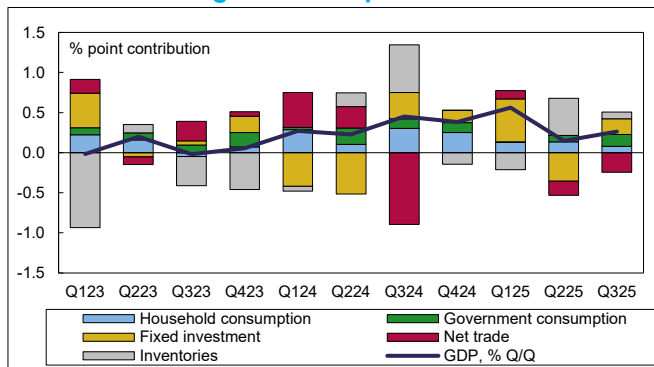
compensation exceeded the ECB's own forecast by some 80bps and is about 1ppt above levels that might be considered broadly consistent with sustained achievement of the inflation target over the medium term. And despite signals from surveys and the ECB's wage tracker that pay growth will slow steadily over following quarters, the hawks will see the risks to the outlook for labour costs as skewed significantly to the upside. Indeed, with labour productivity growth also steady, unit labour costs also failed to slow in Q3 and exceeded the policymakers' expectation. And as a result, disappointingly, unit profit growth moderated slightly to a tepid 1.0%Y/Y, some 40bps below the ECB's forecast.

The week ahead in the euro area

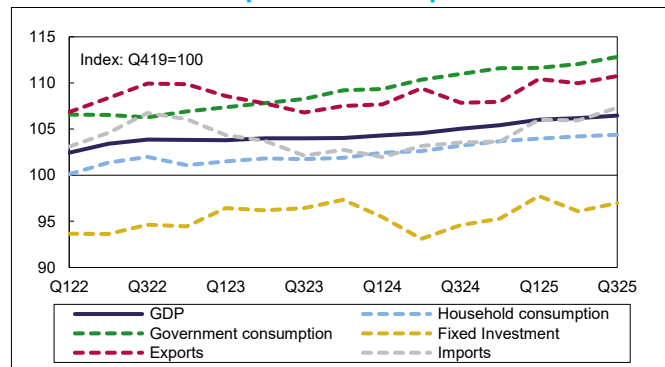
The coming week will bring further updates on activity in the euro area factory sector in October, starting with the German industrial production report on Monday. Despite a double-digit percentage jump in auto output, German manufacturing production rose by a disappointing 1.9%M/M in September, reversing less than half of the decline the previous month. And as energy generation only partly offset weakness in construction, total industrial production significantly missed expectations, rising 'just' 1.3%M/M. Positive survey indicators and a modest pick-up in truck toll mileage, coupled with today's new orders and turnover data, point to another month of moderate growth – probably around ½%M/M – in October. German goods trade data for the same month are due on Tuesday with Italian industrial production data due the following day. In September, growth in German goods exports of 1.4%M/M was more than fully accounted for by shipments within the EU. Exports to countries outside of the EU were flat despite the first pickup in shipments to the US in five months. Unlike survey indicators of production, and as suggested by today's data, signals on orders from abroad have remained downbeat, suggesting that exports might have started Q4 on the back foot.

Beyond the factory sector, the coming week's euro area dataflow concludes on Friday with final November inflation data from Germany, France and Spain. According to the flash figures, German HICP inflation jumped a larger-than-expected 0.3ppt to 2.6%Y/Y but French inflation was steady at just 0.8%Y/Y and the Spanish rate moderated by 0.1ppt to 3.1%Y/Y. Some of the pickup in inflation in Germany was caused by energy. The granular detail will reveal the extent to which the rise was also driven by services components which are typically highly volatile – notably package tours – and which might be expected to reverse in December.

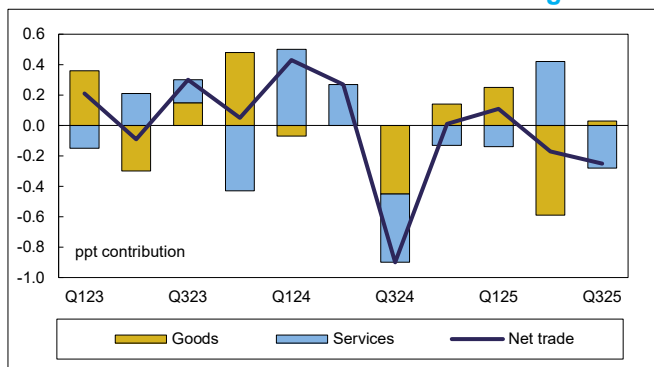
Euro area: GDP growth & expenditure contributions



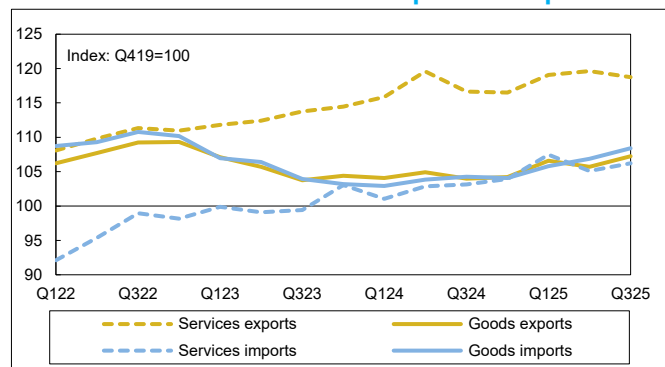
Euro area: GDP expenditure components



Euro area: Net trade contributions to GDP growth



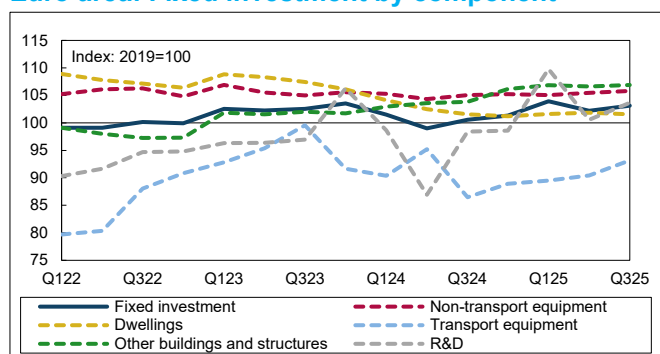
Euro area: Goods & services exports & imports



The week ahead in the UK

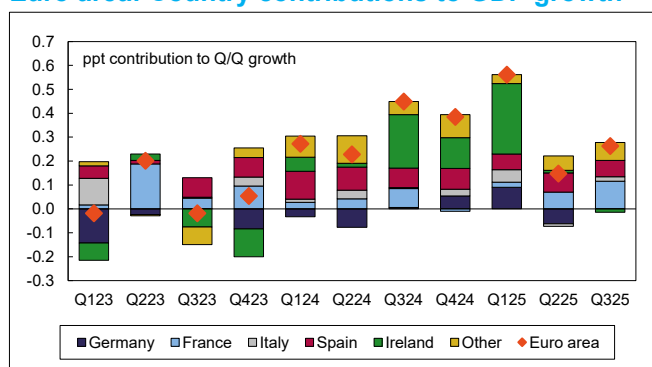
The coming week's UK data highlight will be the October GDP report (Friday), including the usual monthly sectoral and trade breakdown, which will be watched closely for the extent to which economic activity bounced back after the JLR-related slump in September. That month saw economic output contract for a second month out of three (-0.1%M/M), as manufacturing output fell a sizeable 2%M/M to the lowest level for 2½ years due to the near-30%M/M drop in car production. While car production seems certain to have rebounded in October as operations at JLR restarted, the phased return suggests that output might only partially reverse. Indeed, the auto manufacturers association (SMMT) reported that output in the sector was still down almost 24%Y/Y at the start of Q4. A notable drop in [retail sales](#) will also weigh on services, while we might also expect some payback for the September boost in broadcasting and Women's Rugby World Cup that month. And surveys suggest that construction activity remained weak. Overall, like the consensus, we expect a muted recovery in GDP at the start of Q4, with growth of 0.2%M/M at best, to leave output moving merely sideways on a three-month basis. Beyond the GDP data, various surveys in the coming week will give an update on conditions in November in the labour market (REC report on jobs on Monday), retailing (BRC retail sales monitor on Tuesday) and housing market (RICS residential survey on Thursday). But these might bear the negative hallmark of heightened uncertainties and fears ahead of the Autumn Budget announcements.

Euro area: Fixed investment by component



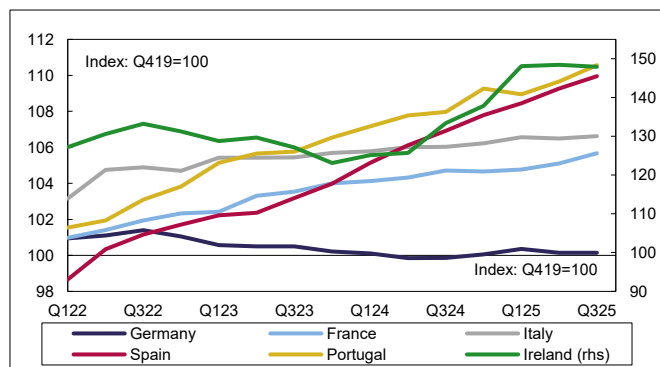
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Country contributions to GDP growth



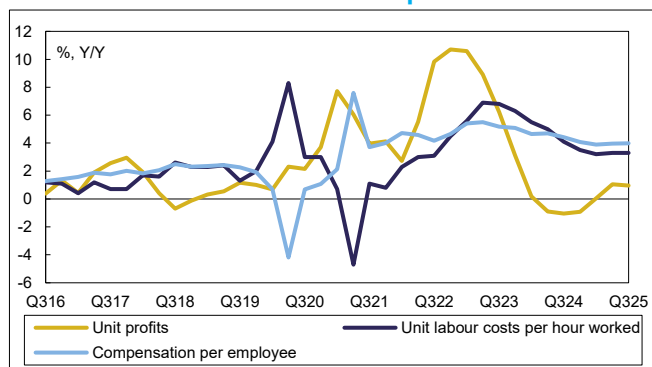
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: GDP levels












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Labour costs & unit profits














Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecast

		2025			2026			2025	2026	2027
		Q2	Q3	Q4	Q1	Q2	Q3			
GDP		%, Q/Q						%, Y/Y		
Euro area		0.1	0.3	0.3	0.3	0.3	0.3	1.4	1.1	1.3
UK		0.3	0.1	0.2	0.3	0.4	0.3	1.4	1.1	1.5
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.0	2.1	2.1	1.7	1.7	1.5	2.2	1.6	1.8
Core HICP		2.4	2.3	2.4	2.2	1.6	1.5	2.4	1.7	1.6
UK										
Headline CPI		3.5	3.8	3.6	3.2	2.3	2.1	3.4	2.4	2.0
Core CPI		3.7	3.6	3.5	3.3	2.6	2.3	3.6	2.6	1.9
Monetary policy, %										
ECB										
Deposit Rate		2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Refi Rate		2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
BoE										
Bank Rate		4.25	4.00	3.75	3.75	3.50	3.25	3.75	3.25	3.00

Source: Bloomberg, ECB, BoE 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		GDP – final estimate Q/Q% (Y/Y%)	Q3	0.3 (1.4)	<u>0.2 (1.4)</u>	0.1 (1.5)	-
		GDP – household consumption Q/Q%	Q3	0.2	0.1	0.1	0.3
		GDP – government spending Q/Q%	Q3	0.7	0.6	0.5	0.4
		GDP – fixed investment Q/Q%	Q3	0.9	0.1	-1.8	-1.7
		Employment – second estimate Q/Q% (Y/Y%)	Q3	0.2 (0.6)	<u>0.1 (0.5)</u>	0.1 (0.6)	-
Germany		Factory orders M/M% (Y/Y%)	Oct	1.5 (-0.7)	0.5 (-2.4)	1.1 (-4.3)	2.0 (-3.4)
France		Industrial production M/M% (Y/Y%)	Oct	0.2 (1.7)	-0.1 (1.3)	0.8 (1.3)	0.7 (-)
		Trade balance €bn	Oct	-3.9	-	-6.6	-6.4
Italy		Retail sales M/M% (Y/Y%)	Oct	0.5 (1.3)	-	-0.5 (0.5)	-0.4 (0.7)
Spain		Industrial production M/M% (Y/Y%)	Oct	0.7 (1.2)	0.5 (0.8)	0.4 (1.7)	0.3 (1.5)
		House price index Q/Q% (Y/Y%)	Q3	2.9 (12.8)	-	4.0 (12.7)	-
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 8 December 2025					
Euro area 	09.30	Sentix investor confidence indicator	Dec	-6.3	-7.4
Germany 	07.00	Industrial production M/M% (Y/Y%)	Oct	0.6 (-0.1)	1.3 (-1.0)
Tuesday 9 December 2025					
Germany 	07.00	Trade balance €bn	Oct	15.2	15.2
UK 	00.01	BRC retail monitor – like-for-like sales Y/Y%	Nov	2.5	1.5
Wednesday 10 December 2025					
Italy 	09.00	Industrial production M/M% (Y/Y%)	Oct	-0.5 (0.2)	2.8 (1.5)
Thursday 11 December 2025					
UK 	00.01	RICS house price balance %	Nov	-21	-19
Friday 12 December 2025					
Germany 	07.00	Final HICP (CPI) Y/Y%	Nov	<u>2.6 (2.3)</u>	2.3 (2.3)
France 	07.45	Final HICP (CPI) Y/Y%	Nov	<u>0.8 (0.9)</u>	0.8 (0.9)
	07.45	Final wages Q/Q%	Q3	<u>0.3</u>	0.5
Spain 	08.00	Final HICP (CPI) Y/Y%	Nov	<u>3.1 (3.0)</u>	3.2 (3.1)
UK 	07.00	Monthly GDP M/M% (3M/3M%)	Oct	0.1 (0.0)	-0.1 (0.1)
	07.00	Services output M/M% (3M/3M%)	Oct	0.0 (0.1)	0.2 (0.2)
	07.00	Industrial production M/M% (Y/Y%)	Oct	0.9 (-1.2)	-2.0 (-2.5)
	07.00	Construction output M/M% (Y/Y%)	Oct	0.0 (1.6)	0.2 (1.3)
	07.00	Trade (goods trade) balance £bn	Oct	-1.3 (-19.1)	-1.1 (-18.9)
	09.30	BoE/Ipsos inflation attitudes survey – 1Y ahead CPI Y/Y%	Q4	-	3.6

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 8 December 2025		
UK 	00.01	REC, KPMG & S&P Global UK Report on Jobs for November
	17.00	BoE external MPC member Taylor to speak on a panel: "What's next for growth, wealth and debt?"
Tuesday 9 December 2025		
UK 	10.00	Auction: to sell £750mn of 4.25% 2032 bonds
	14.15	Various BoE MPC members to testify before Treasury Select Committee on the November Monetary Policy Report
Wednesday 10 December 2025		
Euro area 	10.55	ECB President Lagarde speaks at the FT's Global Boardroom conference, London
UK 	10.00	Auction: to sell £4.5bn of 4.75% 2035 bonds
Thursday 11 December 2025		
Italy 	10.00	Auction: to sell bonds*
Friday 12 December 2025		
- Nothing scheduled -		

*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>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at:

https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.