

Euro wrap-up

Overview

- Bunds made gains and OAT spreads widened further on continued investor concerns, while euro area consumer confidence deteriorated but French business conditions remained surprising resilient.
- Gilts also followed USTs higher, while a UK manufacturing survey signalled ongoing stabilisation but challenges ahead.
- Friday will bring the flash October PMIs, the ECB's consumer expectations survey and UK retail sales data.

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Daily bond market movements

Bond	Yield	Change
BKO 3.0 12/28	3.019	-0.086
OBL 2.9 10/31	3.141	-0.087
DBR 3 08/36	3.330	-0.088
UKT 4 05/29	4.883	-0.036
UKT 4½ 03/31	4.955	-0.039
UKT 4¾ 07/36	5.323	-0.054

*Change from close as of 4:45pm BST.

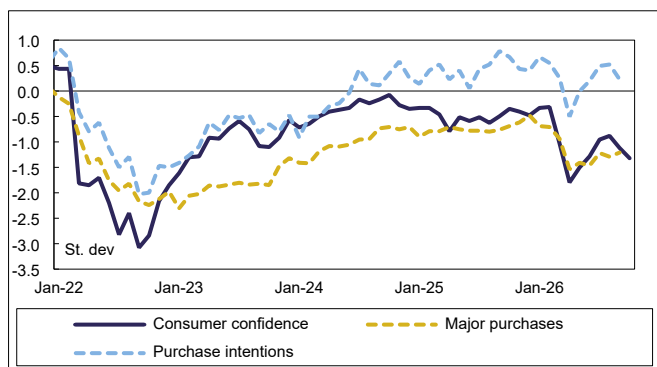
Source: Bloomberg

Euro area

Consumer confidence falls to a five-month low on political turmoil

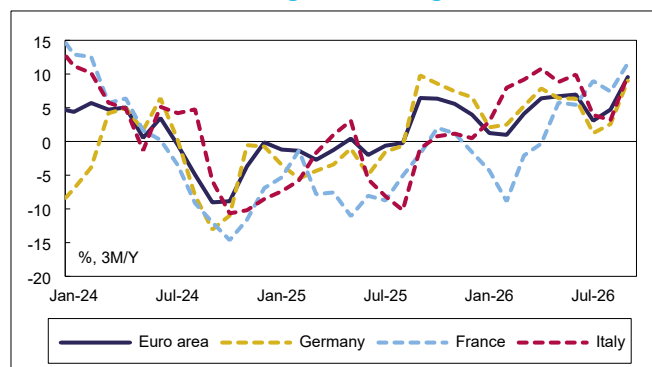
While the euro area economy has so far proved resilient to the energy price shock and some households benefited from lower petrol prices as new government measures provided relief, the Commission's flash estimate of euro area consumer confidence in October unsurprisingly weakened. The headline index fell for a second successive month and by a larger 1.1pt to -17.9, its lowest level since May. While still somewhat above the recent low in April, the deterioration was arguably less pronounced than might have been expected given heightened political uncertainty in France and Spain, the tightening of financial conditions, and the ongoing impasse in the Middle East negotiations. Perhaps inevitably, the limited evidence available from member states so far this month suggests that renewed economic uncertainty and heightened unemployment fears might have weighed on households' willingness to spend. But according to today's Dutch survey results, the share of those in the Netherlands considering it a good time to make major purchases remained resilient. This might tally with continued strength in new car demand, with euro area registrations rising 9.6%Y/Y in September, with ongoing strong growth in sales of electric vehicles and BEV sales up 82%Y/Y. So, while risks are skewed to the downside, household consumption might continue to offer support to GDP growth in both Q3 and Q4, albeit at a slower pace than the 0.4%Q/Q rate in Q2.

Euro area: Consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: New car registrations growth



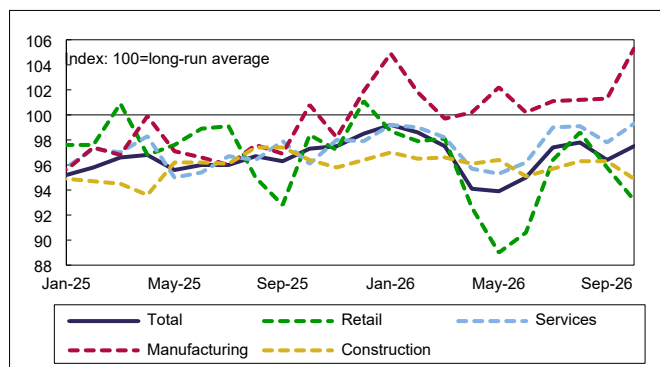
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

French business sentiment surprisingly resilient at the start of Q4 but deterioration expected ahead

Despite heightened political uncertainty, a significant tightening in financial conditions and recent social unrest, today's INSEE business survey offered a surprisingly resilient assessment of the French economy at the start of Q4. The composite business sentiment indicator edged slightly higher in October, by 1.1pt to 97.5, in line with the Q3 average and some 3½pts above May's recent trough. The improvement was led by manufacturing, where the headline sentiment index jumped 4pts to 105, its highest level since mid-2022, amid rebounds in the autos and chemicals industries, as well as continued strong growth in output of ICT equipment. Production expectations were also boosted by the biggest order books in more than four years, while investment plans for this year were revised markedly higher compared with six months ago and are expected to rise further in 2027. The business climate in services also improved slightly in October, with the respective index (99) at the top of the range of the past two years, as conditions in professional, scientific and technical activities were judged to be the best in more than three years. Nevertheless, perhaps unsurprisingly, many other aspects of the survey struck a more cautious note, with uncertainty rising markedly, particularly among services firms. Moreover, with responses having been collected between 25 September and 19 October, the survey likely failed to capture fully the impact of the latest political and social disruption. Even before the decline in footfall and damage caused by the past weekend's unrest, retail sentiment fell

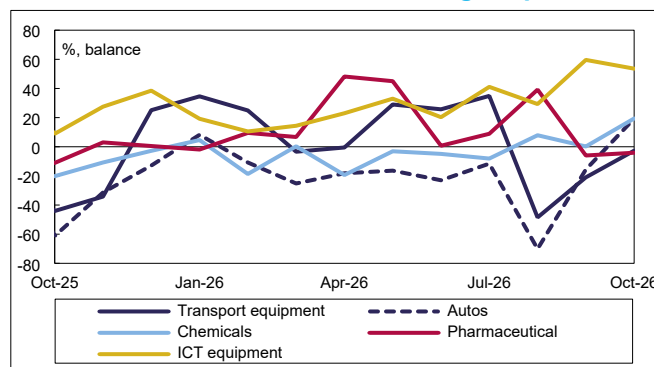
for a second successive month to a four-month low, with expected sales among the weakest levels since 2014 outside the pandemic lockdowns. Meanwhile, reflecting higher materials and borrowing costs, construction firms were the most downbeat in 18 months. With political and fiscal uncertainty set to remain high over the coming six months and beyond, the risks to French spreads over coming weeks and months look skewed significantly to the upside. And the resulting ongoing tightening of financial conditions seems likely to be reflected in a more marked deterioration in French business sentiment over forthcoming INSEE surveys.

France: INSEE business sentiment indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: INSEE recent manufacturing output indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

The key data focus in the euro area on Friday will be the October flash PMIs, which will offer an early indication of whether the firmer underlying growth momentum signalled last quarter was sustained into Q4. The composite output PMI rose to 53.1 in [September](#), suggesting the fastest expansion in 3½ years following a recovery in German and French services activity. Manufacturing order books were similarly stronger, still underpinned by defence- and AI-related demand, helping backlogs to rise for the first time since mid-2022. Although today's INSEE survey suggested only limited fallout from the recent unrest, tighter financial conditions and heightened political uncertainty in France, and perhaps also Spain, might have weighed somewhat on activity in October.

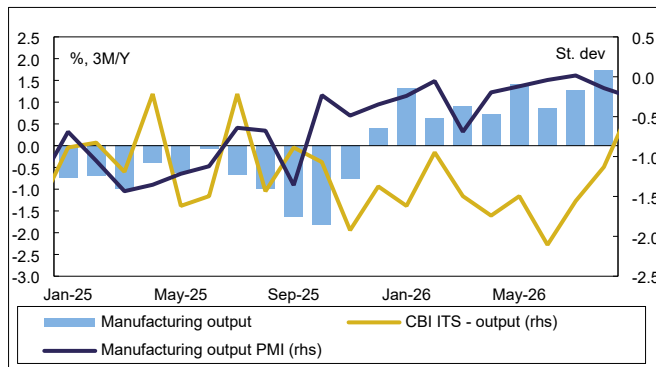
Meanwhile, the price PMIs are likely to show a further intensification of cost pressures, reflecting the continued upward trend in wholesale gas, oil and diesel prices. Although the pass-through to consumers has so far been more limited, output price indices are also likely to have moved higher. Against the backdrop of the recent upside inflation surprise, ECB policymakers will therefore be particularly attentive to consumers' inflation expectations, with the September survey results also due tomorrow. In August, year-ahead CPI expectations edged up 0.1ppt to 3.0%Y/Y, albeit remaining well below the levels seen at the start of the energy shock. More notably, expectations at the three-year horizon rose 0.2ppt to 2.9%Y/Y, just shy of March's three-year high. Aside from the data, focus will also turn to Moody's scheduled review of France's sovereign credit rating, with the current negative outlook pointing to a likely downgrade.

UK

CBI survey signals further manufacturing stabilisation, but flagged ongoing challenges ahead

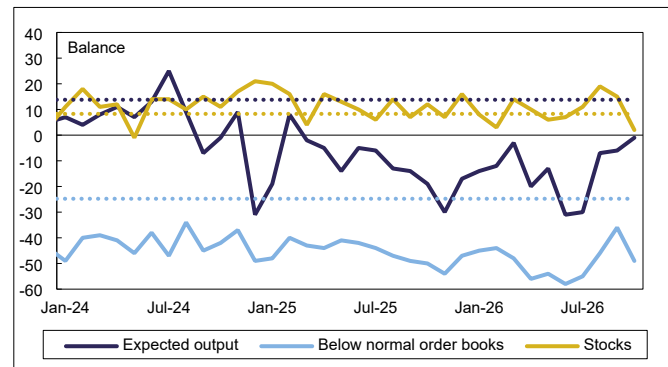
While the strength of UK economic growth this year has principally reflected the services sector, manufacturing has also provided support. This partly reflected the continued recovery in car manufacturing after last year's JLR shutdown, but the improvement has been relatively broad-based across industries. While the CBI industrial trends survey has tended to provide a relatively poor guide to production growth, the latest survey suggested ongoing stabilization from weakness earlier in the year. Despite a modest deterioration from September, the net balance of output in the three months to October (-10%) remained well above levels seen over the previous 12 months, while production expectations for the coming three months were the highest since February 2025. Nevertheless, underlying demand remained subdued, with roughly half of manufacturers reporting below-normal order books in October and more than 80% judging stocks to be adequate or more than adequate. Meanwhile, the share of firms citing labour-related constraints on production rose to its highest since January 2025. So, while firms signalled an intention to increase headcount in the months ahead for the first time in more than two years, the survey suggested that the near-term outlook remains fragile. And with margins continuing to be squeezed by elevated input costs, investment intentions for the year ahead remained weak, with firms expecting to reduce expenditure on plant and machinery, buildings, innovation and training.

UK: Manufacturing production & survey indices



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

UK: CBI industrial trends survey indices*



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

The day ahead in the UK

Like in the euro area, the key UK data focus tomorrow will be the October flash PMIs. Although firmer services activity supported a modest rebound in the composite output PMI last quarter, the survey has remained relatively subdued, contrasting with the strength of the [GDP](#) data. Indeed, the signal on new business was broadly neutral last quarter, while the headline composite index slipped to a three-month low in September (52.0). Given the backdrop of a persistent and more acute price shock, and further tightening in financial conditions, we expect growth momentum to have slowed into October, while input and output price pressures are expected to have intensified.

Meanwhile, given the further increase in prices at the pump, we expect sales at petrol stations to have declined for a second successive month in September. But perhaps supported by back-to-school sales and the launch of the new iPhone, overall retail sales volumes might have edged only slightly lower last month to confirm a third consecutive quarter of positive retail sales growth, likely in the region of $\frac{1}{4}$ - $\frac{1}{2}$ %Q/Q. While some [retail surveys](#) suggest risks are skewed to the downside, consumer confidence that month rose to a two-year high. Nevertheless, with household energy bills stepping up this month, pre-Budget jitters building and additional monetary tightening likely, tomorrow's October GfK survey could point to a modest deterioration in household sentiment.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Preliminary Commission consumer confidence indicator	Oct	-17.9	-17.0	-16.5	-16.8
	New car registrations Y/Y%	Sep	9.6	-	4.5	-
France	INSEE business (manufacturing) confidence indicator	Oct	97 (105)	96 (101)	96 (101)	-
	INSEE production (own-company production) outlook indicator	Oct	-8 (19)	-	-9 (15)	14 (-)
UK	CBI industrial trends - total orders (selling prices) net % balance	Oct	-32 (24)	-	-9 (12)	-
	CBI industrial trends - business optimism % net balance	Q4	-27	-	-36	-

Auctions

Country	Auction
UK	sold £1bn of 0.125% 2031 inflation-linked bonds at an average yield of 1.141%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area		09.00 Preliminary services (manufacturing) PMI	Oct	52.5 (52.8)	53.0 (52.9)
		09.00 Preliminary composite PMI	Oct	52.7	53.1
		09.00 ECB consumer expectations survey - 1Y- (3Y-) ahead CPI Y/Y%	Sep	3.1 (2.9)	3.0 (2.9)
Germany		08.30 Preliminary services (manufacturing) PMI	Oct	52.5 (53.5)	52.9 (53.9)
		08.30 Preliminary composite PMI	Oct	53.4	53.8
France		08.15 Preliminary services (manufacturing) PMI	Oct	50.7 (50.5)	51.2 (50.6)
		08.15 Preliminary composite PMI	Oct	50.3	51.1
UK		00.01 GfK consumer confidence indicator	Oct	-14	-13
		07.00 Retail sales - incl. auto fuels M/M% (Y/Y%)	Sep	-0.1 (1.0)	0.5 (2.4)
		07.00 Retail sales - excl. auto fuels M/M% (Y/Y%)	Sep	-0.1 (1.4)	0.6 (2.7)
		09.30 Preliminary services (manufacturing) PMI	Oct	51.8 (51.8)	52.1 (51.9)
		09.30 Preliminary composite PMI	Oct	51.7	52.0

Auctions and events

France		-	Moody's sovereign credit rating announcement
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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