

Euro wrap-up

Overview

- Bunds made modest gains today despite a more upbeat German investor sentiment survey.
- Gilts also made modest gains despite a more positive UK retail sector survey and continued sterling weakness on the back of ongoing concerns about the impact of Brexit.
- Tomorrow brings euro area IP data for August, as well as final French inflation figures for September.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.668	-0.006
OBL 0 10/21	-0.492	-0.011
DBR 0 08/26	0.023	-0.033
UKT 1¼ 07/18	0.176	-0.032
UKT 3¾ 09/21	0.367	-0.043
UKT 1½ 07/26	0.973	-0.049

*Change from close as at 4.30pm BST.
Source: Bloomberg

Euro area

German ZEW exceeds expectations

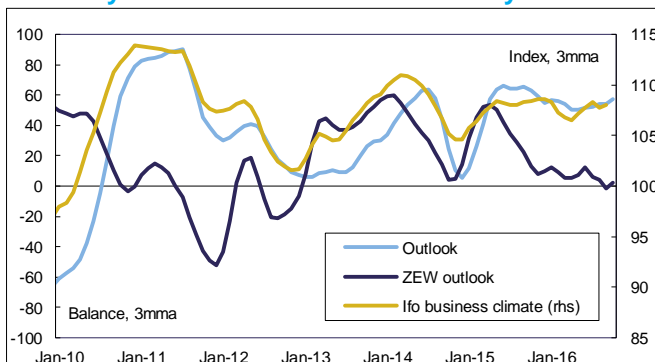
Recent sentiment surveys from the euro area's largest member state provided mixed messages about economic conditions at the end of Q3. German consumers suggested that conditions were at their most favourable for fifteen years, while the Ifo business climate index rose to a more than two-year high. In contrast, a weak showing for the services PMI caused the composite PMI to fall to its lowest level since end-2014, while the ZEW survey of investors also signalled a further modest loss of confidence in September. But despite ongoing concerns about Deutsche Bank and the increased likelihood of a 'hard' Brexit, today's ZEW survey for October suggested that financial market participants were much more upbeat about conditions at the start of Q4. In particular, the headline current conditions balance rose 4.4pts on the month to 59.5, a nine-month high. Meanwhile, the expectations balance increased by a stronger-than-expected 5.7pts to 6.2 – while still notably lower than the pre-UK referendum peak, that was bang in line with the average of the past twelve months. Overall, today's survey reflected expectations of ongoing steady recovery in the euro area's largest member state, although the ZEW acknowledged that downside risks related to the German banking sector remain.

The day ahead in the euro area and US

Tomorrow brings euro area industrial production figures for August. Given the strengthening seen in the four largest member states, aggregate output is expected to have risen almost 2%M/M that month, which would be the strongest pace since January. Nevertheless, as a result of the weakness seen at the start of the third quarter, output on average in the first two months of Q3 would be broadly flat compared with Q2. Wednesday also brings revised French CPI figures for September, with the EU-harmonised measure expected to align with the flash estimate of 0.5%Y/Y, up 0.1ppt on the month at a near-two-year high. Elsewhere, ECB Executive Board members Yves Mersch and Benoît Cœuré are due to speak.

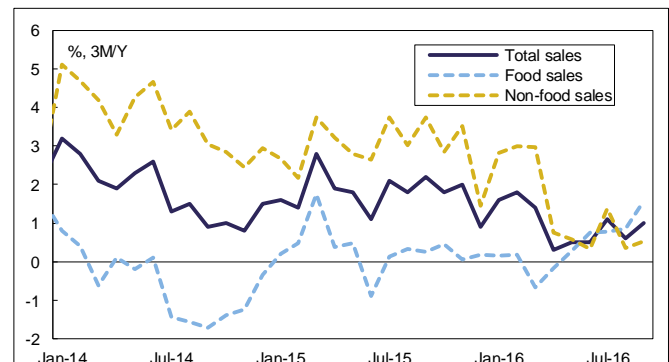
In the US, with just August JOLTS figures due for release, focus tomorrow will be on the minutes from the September FOMC meeting for any further insights into the likely timing of the next rate hike. Also of note will be the speech by FOMC member Bill Dudley, while Esther George – who has been voting for a 25bps rate hike since July – is also due to speak at a conference. Supply-wise, the Treasury will sell 3Y and 10Y notes.

Germany: ZEW and Ifo sentiment surveys



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: BRC Retail sales monitor



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



UK






Stronger food sales drove retail sales activity up in September

On a relatively quiet day for new economic data in the UK, the BRC/KPMG Retail Sales Monitor for September was the only notable release. And the survey suggested that after a weak showing in August, with its headline measure of sales growth dropping to -0.3%Y/Y, the slowest pace in sixteen months, activity on the High Street picked up again at the end of the third quarter, with total sales rising 1.3%Y/Y. Looking through the monthly volatility, the pace of 1%3M/Y was only a touch below the six-month high of 1.1% recorded in July – the month that saw official retail sales growth of more than 6%Y/Y. Within the survey detail, the improvement was driven by stronger food sales, up 1.6%3M/Y, the highest growth rate since November 2013 excluding Easter distortions, while non-food sales rose by only 0.5%3M/Y. With consumer confidence back at pre-referendum levels, and economic indicators suggesting that the initial Brexit impact on the economy was not as severe as initially feared, retail sector activity might well hold up over coming months. Nevertheless, the post-referendum fall in sterling will no doubt have an upward effect on prices as we head into the key Christmas sales period.






The day ahead in the UK

MPC member Jon Cunliffe is due to appear in Parliament tomorrow to discuss the impact of Brexit on the financial services sector. There are no new economic data releases scheduled.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 ZEW expectations balance	Oct	12.3	-	5.4	-
Germany	 ZEW current assessment balance (expectations)	Oct	59.5 (6.2)	55.5 (4.0)	55.1 (0.5)	-
UK	 BRC Retail Sales Monitor, like-for-like sales Y/Y%	Sep	0.4	-0.3	-0.9	-
Auctions						
Country	Auction					
Germany sold	 €407mn of 0.1% 2046 index-linked bonds (15-Apr-2046) at an average yield of -0.6%					
UK	 BoE APF operation purchased £1.17bn of 15Y+ Gilts (3.49 cover ratio)					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases						
Economic data						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
EMU	 10:00	Industrial production M/M% (Y/Y%)	Aug	1.5 (1.5)	-1.1 (-0.5)	
France	 07:45	Final EU-harmonised CPI Y/Y%	Sep	0.5	0.4	
Auctions and events						
Country	BST	Auction / Event				
UK	 10:00	BoE's Cunliffe scheduled to speak in Parliament				
	 10:30	Auction: To sell £850mn of 0.125% 2036 index-linked bonds (22-Nov-2036)				
	 14:50	BoE APF operation: To purchase 7-15Y Gilts				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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