

# Euro wrap-up

## Overview

- While an upbeat Ifo business survey provided cause for optimism about Germany's near-term growth outlook, Bunds were little changed.
- Gilts were also little changed despite further gyrations in sterling and following comments by Chancellor Hammond that he could see no reason why any BoE request for QE might be refused in future.
- Wednesday brings consumer confidence survey results from Germany and France, Italian retail sales data and UK bank lending numbers.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.651	+0.001
OBL 0 10/21	-0.477	+0.010
DBR 0 08/26	0.028	+0.004
UKT 1¼ 07/18	0.244	+0.007
UKT 3¾ 09/21	0.488	+0.004
UKT 1½ 07/26	1.084	+0.002

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

## Euro area

### Ifo survey adds to evidence of a stronger Q4 for German growth

Following yesterday's flash PMIs, which saw the German composite index rise to its highest level since the end of last year, today's Ifo business survey added to evidence of a stronger fourth quarter for economic growth in the euro area's largest member state. In particular, the survey's current conditions and business expectations indices surprised on the upside with both rising to their highest levels since April 2014. At the sectoral level, conditions appear to remain exceptionally favourable for construction firms, with the relevant index rising for the seventh successive month to a new series high. In addition, the manufacturing index rose to its highest level in almost two and a half years with firms encouragingly reporting strong demand for capital goods. Meanwhile, retail sector sentiment moved broadly sideways at the relatively elevated average for the past year, and the wholesale index declined, albeit also remaining above the long-run average. While we now expect to see a strengthening of German GDP growth to 0.5%Q/Q in Q4 from about 0.3%Q/Q in Q3, the risks still look skewed to the downside. Indeed, the last time the Ifo indices were at the current levels the German economy actually weakened in the face of external shocks. And there are numerous potential adverse shocks in the pipeline, not least from the political side, to upset matters over coming months.

### But French trend appears to remain subdued

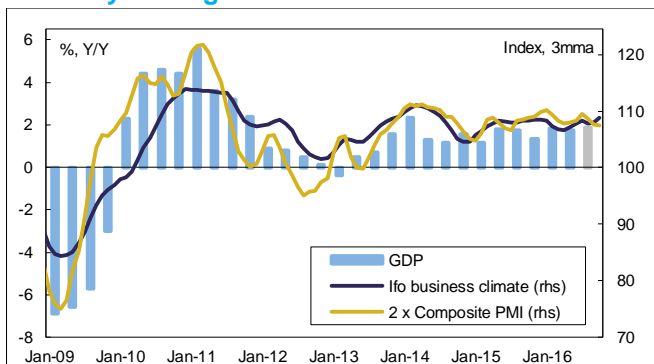
In contrast to Germany, the latest surveys suggest that the French economy is unlikely to break out of the recent relatively subdued trend. Indeed, like yesterday's flash French PMIs, which saw the composite PMI fall back on the month due to a weaker showing from the services sector, today's INSEE business survey for October was somewhat disappointing, with the headline business climate index stable for the third consecutive month at 101, only just a touch above the long-run average and no firmer than the norm of the past twelve months. Within the detail, manufacturers, retailers and service providers were all a little less upbeat while sentiment among construction firms was stable, albeit still below the long-run average. We currently think that French economic growth rebounded to about 0.3%Q/Q in Q3 from a contraction of 0.1%Q/Q in Q2, and forecast growth of 0.2%Q/Q in Q4.

### The day ahead in the euro area, UK and US

Wednesday sees the euro area data focus shift to consumer confidence with October survey results from Germany and France. Italian retail sales figures for August are also due. In the bond markets, Germany and Portugal will sell 5Y regular bonds while Italy will sell index-linked bonds.

After a quiet day today for UK data, the only release of note in the UK tomorrow will be the BBA lending data from the largest retail banks, which are expected to show that the number of approved mortgages picked up in September, having fallen since the start of the year. And in the US, Wednesday brings September's advanced goods trade report along with September's preliminary wholesale inventories and new home sales figures. The US Treasury will sell 5Y Notes and 2Y FRNs.

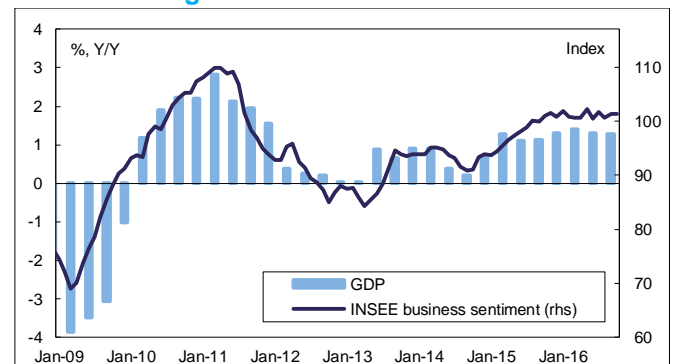
### Germany: GDP growth\* & sentiment indices



\*GDP forecast for Q316.

Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### France: GDP growth\* & INSEE sentiment index









\*GDP forecast for Q316.









Source: Thomson Reuters 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
Germany	 Ifo business climate index	Oct	<b>110.5</b>	109.6	109.5	-
	 Ifo current assessment balance (expectations)	Oct	<b>115.0 (106.1)</b>	114.9 (104.5)	114.7 (104.5)	-
France	 Business confidence indicator (production outlook)	Oct	<b>101 (2)</b>	102 (8)	102 (7)	<b>101 (6)</b>
Italy	 Industrial sales M/M% (Y/Y%)	Aug	<b>4.1 (6.8)</b>	-	2.1 (-0.7)	<b>2.3 (-0.5)</b>
	 Industrial orders M/M% (Y/Y%)	Aug	<b>10.2 (15.9)</b>	-	-10.8 (-11.8)	<b>-10.4 (-)</b>
Country	Auction					
UK	 BoE APF operation purchased £1.17bn of 15Y+ Gilts (2.43 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	
Germany	 07:00	GfK consumer confidence survey	Nov	10.0	10.0	
France	 07:45	Consumer confidence survey	Oct	98	97	
Italy	 09:00	Retail sales M/M% (Y/Y%)	Aug	0.4 (0.5)	-0.3 (-0.2)	
UK	 09:30	BBA loans for house purchase 000s	Sep	37.4	37.0	
Auctions and events						
Country	BST	Auction / Event				
Germany	 10:30	Auction: To sell €3bn of 0% 2021 bonds (8-Oct-2021)				
Italy	 10:00	Auction: To sell 2.35% 2024 index-linked bonds (15-Sep-2024)				
	 10:00	Auction: To sell 3.1% 2026 index-linked bonds (15-Sep-2026)				
UK	 14:50	BoE APF operation: To purchase 7-15Y Gilts				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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