

Euro wrap-up

Overview

- Bunds were little changed despite an upwards surprise to the Commission's economic sentiment survey at the start of Q4.
- Gilts were also unchanged despite the release of a weaker UK consumer confidence survey.
- The coming week brings euro area GDP and inflation figures, while final October PMIs are also due. In the UK, the MPC announces its monetary policy decision and publishes the latest Inflation Report.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.615	+0.005
OBL 0 10/21	-0.391	+0.004
DBR 0 08/26	0.166	-0.005
UKT 1¼ 07/18	0.286	-0.016
UKT 3¾ 09/21	0.605	-0.006
UKT 1½ 07/26	1.255	+0.001

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

Euro area

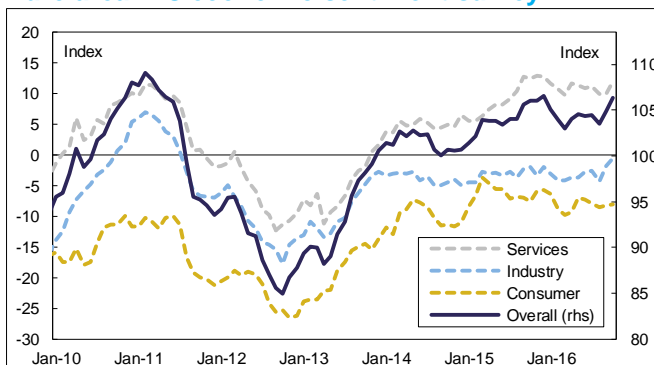
Euro area's economy started Q4 on the front foot

This week's survey indicators were on the whole more positive about the economic performance of the major euro area member states at the start of Q4. And so an improvement in today's Commission economic sentiment survey – arguably the best leading indicator for euro area growth – was to be expected. However, the figures surprised significantly on the upside, with the headline index rising by 1.4pts for the second consecutive month to 106.3 in October, the highest level so far this year. With regards to the sectoral breakdown, there was a further pickup in industrial confidence to its most favourable in more than five years, while firms in the services and construction sectors were also significantly more upbeat. And while retailers assessed conditions to be little changed, the consumer confidence indicator confirmed the flash estimate of a small increase from the previous month. Meanwhile, among the major member states, Spain posted the largest increase (+2.6pts), while the German and Italian ESIs headed higher as well (up 1.6pts and 1.4pts respectively), with the German index the highest since July 2011. In contrast, but consistent with some softer national sentiment surveys earlier this week, the French figure disappointed, with the ESI (down 0.3pt) remaining below its average of the past twelve months. Overall, while there are plenty of factors that might upset business and consumer sentiment over the coming months and quarters – for example, political uncertainty ahead of the referendum in Italy and the presidential election in France – today's survey suggests the euro area economy gathered steam at the start of the final quarter of the year.

French and Spanish GDP figures present contrasting fortunes

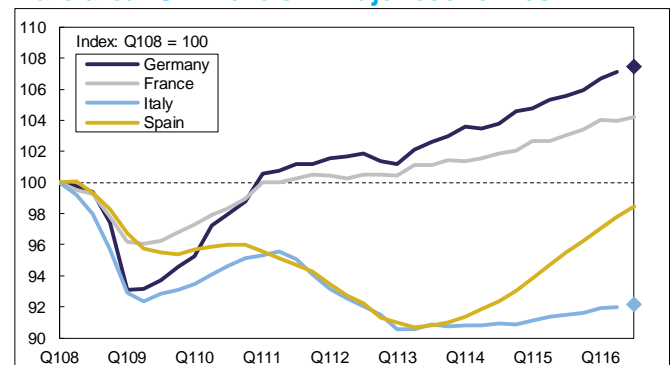
Today also brought the first official Q3 GDP growth estimates from two of the four largest member states. While French GDP confirmed a return to growth from a decline of 0.1%Q/Q in Q2, the increase of 0.2%Q/Q fell slightly short of expectations. And the details of the release were also disappointing. While fixed investment provided a modest positive contribution to growth in Q3, household consumption stagnated for the second consecutive quarter. And while exports rose a little more than ½%Q/Q, a notable increase in imports last quarter (up more than 2%Q/Q) meant that net trade subtracted ½ppt from growth in Q3. So, in the absence of a particularly large positive contribution from stock accumulation (½ppt), the French economy would have contracted for the second successive quarter. Meanwhile, the first estimate of Spanish GDP came in line with expectations showing that the economic expansion slowed slightly in Q3 with growth moderating by 0.1ppt to a still-robust 0.7%Q/Q, leaving economic output up more than 3% compared with a year earlier. While we will have to wait for revised figures next month for an official expenditure breakdown, Spain's GDP growth looks set to have been supported by household spending and fixed investment. And overall, Spain looks set to have once again posted the firmest growth among large member states.

Euro area: EC economic sentiment survey



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

Euro area: GDP levels in major economies*



*Daiwa forecasts for Germany and Italy in Q316.
Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



Mixed inflation results from the member states

Today's dataflow also brought flash inflation figures for October from three of the four largest member states. French inflation came in slightly below expectations, with the headline CPI rate on the EU-harmonised basis remaining unchanged in October at 0.5%Y/Y, albeit still the highest pace since 2014. And the national CPI measure was also unchanged at 0.4%Y/Y, with the breakdown showing that services and food price inflation eased, but was offset by a sharp pick up in energy prices.

In contrast, the equivalent German figures were firmer: the EU-harmonised CPI rose 0.2ppt to match the expected pace of 0.7%Y/Y, which is the highest since the end of 2014. And the breakdown of the national CPI measure, which rose by only 0.1ppt to 0.8%Y/Y, suggested that the improvement was driven by stronger energy inflation. Meanwhile, Spanish figures brought a notable upward surprise – the headline EU-harmonised measure of inflation rose from 0%Y/Y to 0.5%Y/Y, a rate not seen since September 2013. So overall, we expect next Monday's preliminary aggregate euro area figures to show that headline inflation also increased by 0.2ppt for the second successive month in October to 0.6%Y/Y, which would be the firmest rate for 2½ years. However, with the improvement likely to be driven by higher energy prices rather than a pickup in underlying price pressures, core CPI is likely to remain unchanged at 0.8%Y/Y for a third consecutive month.

The week ahead in the euro area and US

The coming week will be a busy one for euro area economic data, with numerous top-tier releases including the preliminary estimates of Q3 GDP and October inflation, both due Monday. Notwithstanding the slightly softer French release today, we expect euro area GDP growth to have risen slightly in Q3 by 0.1ppt to 0.4%Q/Q, bang in line with the average of the recovery to date, to leave output 1.7% higher than a year earlier. In addition, we expect euro area inflation to have edged up to a more than 2½-year high of 0.6%Y/Y in October. But this pickup will once again reflect a smaller drag from energy prices, so core CPI is expected to remain unchanged at 0.8%Y/Y for the third consecutive month. The coming week also brings the final readings of October PMIs for the manufacturing sector (Wednesday) and services sector (Friday) for the euro area and various member states, with the euro area composite PMI (also due Friday) expected to align with the flash estimate of an increase of 1.1pts to 53.7, the highest level of the year so far. Meanwhile, Thursday brings euro area unemployment figures for September, which will be preceded by German and Spanish labour market numbers on Wednesday. Elsewhere, the ECB's Economic Bulletin will be published on Thursday, while Germany will sell bonds on Wednesday and France on Thursday.

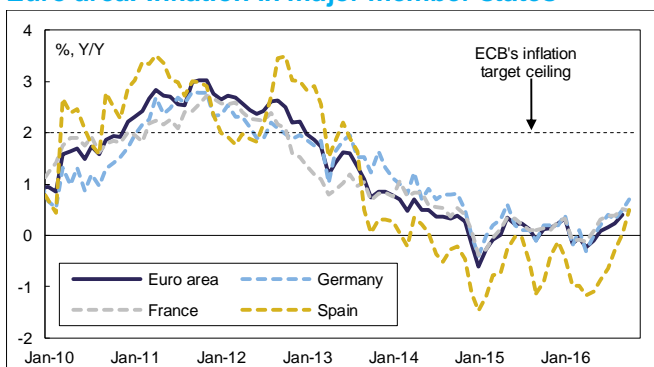
It will also be an eventful week in the US, with a raft of top-tier data alongside the conclusion on Wednesday of the FOMC's latest two-day policy meeting. Not least given some softer economic data (as well as the impending outcome of the US election on 8 November) the majority on the Committee are likely to be willing to hold off raising the Fed Funds Rate until the final meeting of the year. It will, however, be interesting to see whether any other Committee members join the three that voted for a 25bps hike at September's meeting. Data-wise, the calendar kicks off on Monday with the monthly household spending and income figures, alongside the closely-watched deflators, for September. Tuesday's focus will be the manufacturing ISM for October, while the equivalent non-manufacturing ISM is due Thursday, alongside Q3 productivity and labour cost figures. And the all-important labour market report is out on Friday, with expectations for an increase in non-farm payrolls of around 150k for October. Friday also brings September's trade report. Meanwhile, there are no UST bond auctions scheduled.

UK

Consumers less confident about economic outlook

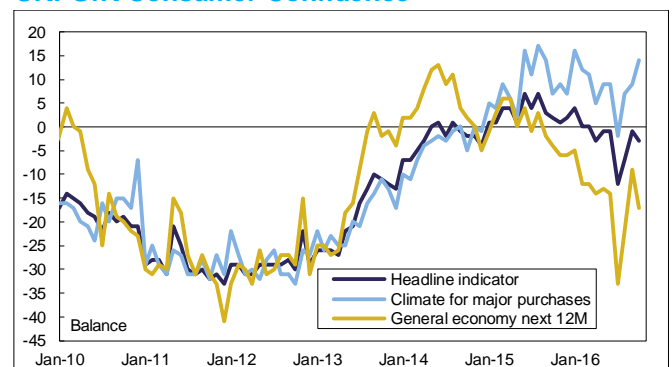
Having fallen sharply in July, consumer confidence in the UK recovered in August and September, returning to levels seen just ahead of the referendum. But today's release of the GfK survey showed that it eased back slightly in October, with the headline indicator falling from -1 to -3. The weakness reflected a deterioration in the assessment of the economic situation, perhaps as the slide in sterling made consumers re-evaluate the economic consequences of Brexit. However, the personal financial situation indicators were little changed, while the climate for major purchases was assessed to be at the highest level

Euro area: Inflation in major member states



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: GfK Consumer Confidence



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














since the start of this year, consistent with the CBI retail sector survey yesterday, which suggested a pick-up in sales in October. Looking ahead, while consumer confidence may remain relatively firm in the near term, as rising inflation starts to erode real disposable incomes thereafter, consumers will find themselves under greater pressure.

The week ahead in the UK

The MPC announcement of its latest monetary policy decision and publication of its quarterly Inflation Report on Thursday will be the key events in the UK in the coming week. In early August, when policy was eased, the MPC said it would do so again this year if the economy evolved in line with its forecast at the time. However, with growth in Q3 having moderated by only 0.2ppt to 0.5%Q/Q, against the BoE's forecast in August of growth of 0.1%, the chances of policy loosening at this meeting are slim. However, with risks to the economic outlook remaining firmly to the downside, not least since it is now apparent that the government is intent on a 'hard' Brexit, prioritising the control of EU immigration over economic considerations, the MPC will likely leave the door open to a further easing in policy, which we expect to come in February as the triggering of Article 50 moves closer.















Data-wise, the coming week sees the release of the October PMIs, with the manufacturing, construction and services surveys out on Tuesday, Wednesday and Thursday respectively. Having risen sharply in September, the headline indicators of the first two are expected to have eased slightly this month, while the services PMI is expected to have moved broadly sideways for the second consecutive month. Among other new data, Monday will bring the release of the BoE's lending figures, which will probably show that mortgage lending picked up in September. Meanwhile, the BRC retail price index and new car registration figures are out on Wednesday and Thursday respectively.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Economic sentiment indicator	Oct	106.3	104.9	104.9	-
	 Services (industrial) sentiment	Oct	12.0 (-0.6)	10.0 (-1.6)	10.0 (-1.7)	- (-1.8)
	 Final consumer confidence	Oct	-8.0	<u>-8.0</u>	-8.2	-
Germany	 Preliminary EU-harmonised CPI Y/Y%	Oct	0.7	0.7	0.5	-
France	 GDP – preliminary release Q/Q% (Y/Y%)	Q3	0.2 (1.1)	<u>0.2 (1.3)</u>	-0.1 (1.3)	-
	 Preliminary EU-harmonised CPI Y/Y%	Oct	0.5	0.6	0.5	-
	 Consumer spending M/M% (Y/Y%)	Sep	-0.2 (0.7)	0.3 (1.1)	0.7 (1.0)	0.8 (1.3)
Spain	 Preliminary EU-harmonised CPI Y/Y%	Oct	0.5	0.3	0.0	-
	 GDP – preliminary release Q/Q% (Y/Y%)	Q3	0.7 (3.2)	<u>0.7 (3.1)</u>	0.8 (3.2)	-
UK	 GfK consumer confidence survey	Oct	-3	-3	-1	-
Country	Auction					
Italy sold	 €2.75bn of 0.35% 2021 bonds (01-Nov-2021) at an average yield of 0.57%					
	 €2.5bn of 1.25% 2026 bonds (01-Dec-2026) at an average yield of 1.6%					
	 €3.25bn of floating-rate 2024 bonds (15-Feb-2024) at an average yield of 0.59%					

















Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

Key data releases						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Monday 31 October 2016						
EMU		10:00 GDP – preliminary release Q/Q% (Y/Y%)	Q3	0.3 (1.6)	0.3 (1.6)	
		10:00 Flash CPI estimate Y/Y%	Oct	<u>0.6</u>	0.4	
		10:00 Flash core CPI estimate Y/Y%	Oct	<u>0.8</u>	0.8	
		14:45 ECB public sector asset purchases €bn	Weekly	<u>16.2</u>	16.5	
Germany		07:00 Retail sales M/M% (Y/Y%)	Sep	0.2 (1.5)	-0.3 (3.7)	
Italy		10:00 Preliminary EU-harmonised CPI Y/Y%	Oct	0.1	0.1	
Spain		08:00 Retail sales Y/Y%	Sep	3.3	3.4	
		09:00 Current account balance €bn	Aug	-	3.0	
UK		00:01 Lloyds business barometer	Oct	-	24	
		07:00 Nationwide house price index M/M% (Y/Y%)*	Oct	4.9 (0.2)	5.3 (0.3)	
		09:30 Mortgage approvals `000s	Sep	61.5	60.1	
		09:30 Net consumer credit (net lending secured on dwellings) £bn	Sep	1.5 (3.0)	1.6 (2.9)	
Tuesday 01 November 2016						
UK		09:30 Manufacturing PMI	Oct	54.4	55.4	
Wednesday 02 November 2016						
EMU		09:00 Final manufacturing PMI	Oct	53.3	52.6	
Germany		08:55 Unemployment change `000s (rate %)	Oct	0 (6.1)	1 (6.1)	
		08:55 Final manufacturing PMI	Oct	55.1	54.3	
France		08:50 Final manufacturing PMI	Oct	51.3	49.7	
Italy		08:45 Manufacturing PMI	Oct	51.4	51.0	
Spain		08:00 Unemployment M/M `000s	Oct	80.0	22.8	
		08:15 Manufacturing PMI	Oct	52.5	52.3	
UK		00:01 BRC shop price index Y/Y%	Oct	-	-1.8	
		09:30 Construction PMI	Oct	51.8	52.3	
Thursday 03 November 2016						
EMU		10:00 Unemployment rate %	Sep	10.0	10.1	
Italy		09:00 Unemployment rate %	Sep	11.4	11.4	
UK		09:00 New car registrations Y/Y%	Oct	-	1.6	
		09:30 Services PMI (composite PMI)	Oct	52.5 (53.5)	52.6 (53.9)	
		12:00 BoE bank rate %	Nov	<u>0.25</u>	0.25	
		12:00 BoE asset purchase target £bn	Nov	<u>435</u>	435	
		15:00 BoE corporate bond purchases £mn	Weekly	-	1994	
Friday 04 November 2016						
EMU		09:00 Final services PMI (final composite PMI)	Oct	53.5 (53.7)	52.2 (52.6)	
Germany		08:55 Final services PMI (final composite PMI)	Oct	54.1 (55.1)	50.9 (52.8)	
France		08:50 Final services PMI (final composite PMI)	Oct	52.1 (52.2)	53.3 (52.7)	
Italy		08:45 Services PMI (composite PMI)	Oct	51.5 (51.5)	50.7 (51.1)	
Spain		08:15 Services PMI (composite PMI)	Oct	55.0 (54.3)	54.7 (54.1)	

* Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country	BST	Event / Auction	
Monday 31 October 2016			
UK		14:50	BoE APF operation: To purchase 3-7Y Gilts
Tuesday 01 November 2016			
UK		10:30	Auction: To sell £2.75bn of 0.5% 2022 bonds (22-Jul-2022)
		14:50	BoE APF operation: To purchase 15Y+ Gilts
Wednesday 02 November 2016			
Germany		10:30	Auction: To sell €3bn of 0% 2026 bonds (15-Aug-2026)
UK		14:50	BoE APF operation: To purchase 7-15Y Gilts
Thursday 03 November 2016			
EMU		09:00	ECB publishes Economic Bulletin
		21:00	ECB's Cœuré scheduled to speak at Harvard University
France		09:50	Auction: To sell 0.25% 2026 bonds (25-Nov-2026)
		09:50	Auction: To sell 1.25% 2036 bonds (25-May-2036)
Spain		09:30	Auction: To sell 1.95% 2030 bonds (30-Jul-2030)
		09:30	Auction: To sell 1.3% 2026 bonds (31-Oct-2026)
		09:30	Auction: To sell 1.8% 2024 index-linked bonds (30-Nov-2024)
		09:30	Auction: To sell 0.75% 2021 bonds (30-Jul-2021)
UK		12:00	Monetary policy announcement and MPC minutes
		12:00	BoE publishes Inflation Report
Friday 04 November 2016			
EMU		17:00	ECB's Constâncio scheduled to speak in Chicago

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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