

# Euro wrap-up

## Overview

- Bunds and other euro area government bonds made significant gains despite a strong manufacturing sector survey from the region.
- Gilts also followed other major bond markets higher despite a positive UK construction sector survey.
- Thursday will bring the latest BoE announcements, among which we expect to see policy left unchanged, as well as the UK services and composite PMIs and euro area labour market figures.

**Chris Scicluna**  
+44 20 7597 8326

**Mantas Vanagas**  
+44 20 7597 8318

### Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.634	-0.010
OBL 0 10/21	-0.427	-0.033
DBR 0 08/26	0.129	-0.050
UKT 1½ 07/18	0.187	-0.078
UKT 3½ 09/21	0.530	-0.086
UKT 1½ 07/26	1.175	-0.105

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

## Euro area

### Manufacturing sector on a firmer footing

Having weakened earlier in the year as exporters faced up to softer demand from emerging market economies and firms sought to reduce inventories, manufacturing production in the euro area appears to have returned to growth in the third quarter. And conditions appear in place for ongoing expansion in the sector too. Today's final euro area manufacturing PMI for October saw an upwards revision to 53.5, the highest level in almost three years, with the survey detail signalling a pickup in growth of output at the firmest rate in two and a half years and rising new orders at the fastest pace since the end of 2015, with a welcome notable acceleration in demand from abroad too. In addition, the respective PMI suggested that employment in the sector is rising at the strongest rate in more than five years. And the ECB will also be encouraged to see the survey's indices for input and output prices at their highest levels in more than one year, both implying a welcome absence of deflationary pressure.

### Germany leads the way, France and Spain stronger too

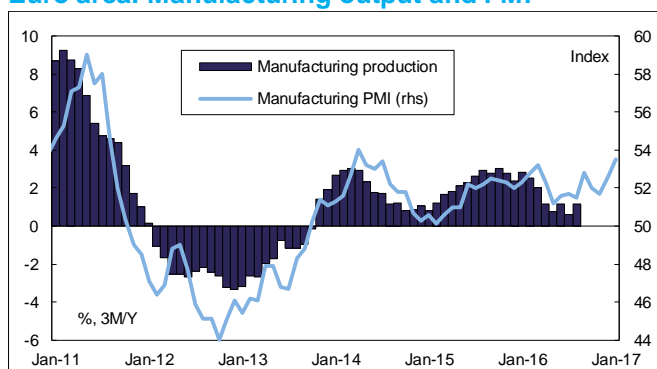
At the country level, Germany's manufacturing sector is clearly now leading the way. Despite a very slight downwards revision from the preliminary estimate, the headline German PMI rose to 55.0, its highest level since January 2014, tallying with other recent surveys (such as that produced by the Ifo Institute) to signal substantive new momentum with growth in new orders and employment appearing strong. There was better news from France too, where an upwards revision from the flash estimate saw the manufacturing PMI rise 2pts from September to 51.8, back in expansionary territory on this measure for the first time in eight months and the highest since March 2014, with the output index firmer still and the new orders PMI signalling growth for the first time this year. With the Spanish PMI up 1pt to a six-month high in line with the average of the past two years, and the Netherlands PMI outdoing even that of Germany, of the larger member states only Italy disappointed, with a slight decline in the latest month suggesting a loss of recovery momentum since the summer.

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

Thursday will bring euro area unemployment figures for September, which are expected to show a drop in the headline unemployment rate for the first time since April to a five-year low of 10.0%. In the bond markets, France and Spain will sell a range of bonds.

In the US, Thursday will be busy for economic data bringing the October non-manufacturing ISM index, Q3 labour cost and productivity figures, September factory orders and the usual weekly claims numbers.

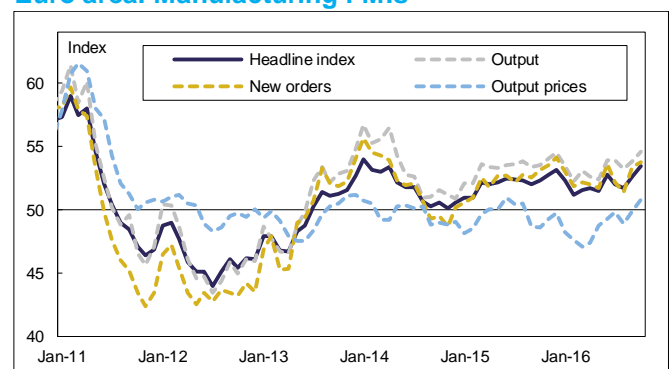
### Euro area: Manufacturing output and PMI\*



\*PMI has a three-month lead.

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

### Euro area: Manufacturing PMIs



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



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## UK

### Sentiment in the construction sector remains positive

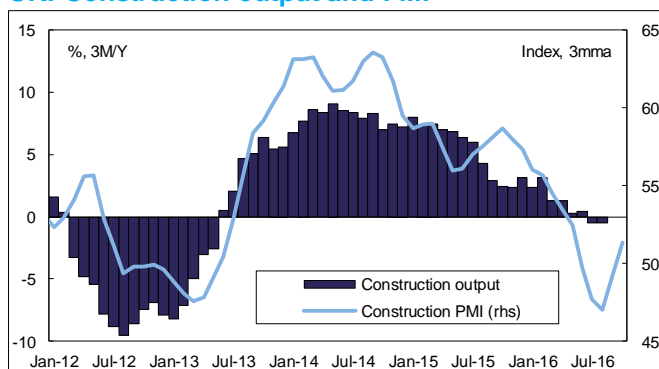
Recent reports have suggested that investor confidence has returned to the UK commercial real estate sector after the panic seen in the days following the Brexit vote. In addition, the latest signals from the broader housing market have also been positive, with the RICS price indicator and the number of approved mortgages starting to edge higher, and price growth remaining firm. Against this backdrop, sentiment in the construction sector seems to be holding up well too. Today's construction PMI showed that the headline output indicator was little changed in October, posting a modest increase from 52.3 to 52.6, the highest level since March. However, other details of the survey were less positive, with the new orders and business expectation indices down on the month by 1.6pts and 3.0pts respectively, signalling that output is likely to weaken in the months ahead.

### The day ahead in the UK

Tomorrow brings the latest monetary policy decision from the MPC and the publication of the BoE's quarterly Inflation Report. 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. But with risks to the economic outlook firmly on the downside, with the government appearing to prioritise the control of EU immigration over economic considerations, the MPC is likely to leave the door open to further policy easing, even as its updated forecasts will show inflation rising well above the 2% target on the back of sterling's precipitous drop since the referendum. In addition, the BoE will also release new information on its asset purchase schemes, including a new schedule of Gilt purchase operations, and updated list of CBPS eligible securities and details of its corporate bond holdings. On the data front, tomorrow's release of services and composite indicators will end the flow of October PMIs in the UK. The headline index for services is expected to have been little changed at about 52.5, while the composite index should be weaker after the drop in the manufacturing output PMI earlier this week.

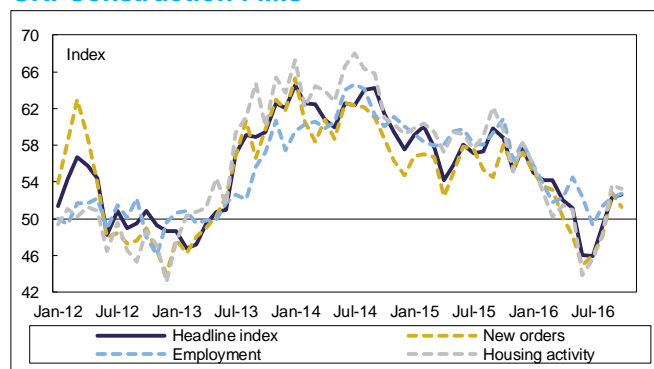
Elsewhere, tomorrow should also see the verdict handed down in the High Court case on whether a Parliamentary vote is required before the Government can trigger Article 50. Whatever the ruling, there will be an immediate appeal to the Supreme Court from whichever side loses, with time in the Supreme Court's schedule set aside in early December and a ruling expected before the end of the year. And there is the (slim) possibility that (ironically) there may then be a referral to the European Court of Justice to rule on whether Article 50 is indeed reversible once triggered. But expect volatility for sterling in particular around these judgments. Sterling is being driven by expectations of how 'hard' (and hence how economically damaging) Brexit will be. If the Government wins tomorrow, then expectations of hard Brexit will increase, as will the pressure on the pound.

### UK: Construction output and PMI



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

### UK: Construction PMIs














Source: Markit, 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
EMU	 Final manufacturing PMI	Oct	<b>53.5</b>	53.3	52.6	-
Germany	 Unemployment change '000s (rate %)	Oct	<b>-13 (6.0)</b>	-1 (6.1)	1 (6.1)	<b>0 (-)</b>
	 Final manufacturing PMI	Oct	<b>55.0</b>	55.1	54.3	-
France	 Final manufacturing PMI	Oct	<b>51.8</b>	51.3	49.7	-
Italy	 Manufacturing PMI	Oct	<b>50.9</b>	51.4	51.0	-
Spain	 Manufacturing PMI	Oct	<b>53.3</b>	52.6	52.3	-
UK	 BRC shop price index Y/Y%	Oct	<b>-1.7</b>	-	-1.8	-
	 Nationwide house price index M/M% (Y/Y%)	Oct	<b>0.0 (4.6)</b>	0.2 (4.9)	(0.3) 5.3	-
	 Construction PMI	Oct	<b>52.6</b>	51.8	52.3	-
Country	Auction					
Germany sold	 €2.5bn of 0% 2026 bonds (15-Aug-2026) at an average yield of 0.12%					
UK sold	 £400mn of 0.625% 2040 index-linked bonds (22-Mar-2040) at an average yield of -1.741%					













Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tomorrow's data releases

### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	10:00	 Unemployment rate %	Sep	10.0	10.1
Italy	09:00	 Unemployment rate %	Sep	11.4	11.4
Spain	08:00	 Unemployment M/M '000s	Oct	77.0	22.8
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

### Auctions and events

Country	GMT	Auction / Event
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
	15:00	 BoE publishes details of its corporate bond holdings
	20:55	 BoE's Cunliffe scheduled to speak in London

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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