

Euro wrap-up

Overview

- Bunds benefited from global risk aversion while a euro area services survey was consistent with steady growth at the start of Q4.
- As the impact of Thursday's High Court ruling on Brexit continued to be felt, Gilts also made gains and sterling further strengthened, while new UK car registration figures disappointed.
- The coming week brings industrial production and trade figures from Germany, France and the UK, as well as euro area retail sales data.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.637	-0.004
OBL 0 10/21	-0.427	-0.017
DBR 0 08/26	0.135	-0.023
UKT 1½ 07/18	0.169	-0.022
UKT 3½ 09/21	0.502	-0.043
UKT 1½ 07/26	1.141	-0.059

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

Euro area

Services and composite PMIs consistent with steady growth in Q4

Following some downward revisions from the preliminary estimates, today's euro area services and composite PMIs were consistent with steady rather than accelerating economic growth at the start of the fourth quarter. Having declined the previous month to the lowest since end-2014, the euro area services PMI posted a modest rebound in October to 52.8, the average of the previous six months, suggesting steady expansion in the sector. And the minimal increases in the indices for employment and new orders left them close to recent norms too. So, while data released earlier this week showed that the manufacturing PMI rose to the highest level in two and a half years to suggest a notable improvement in momentum in that sector, the euro area composite PMI rose 0.7pt in October to 53.3, the highest level since January but still below the range of much of 2015 and arguably consistent with nothing stronger than continued GDP growth around the 0.3%Q/Q rate of Q2 and Q3. Meanwhile, the detail of the survey reported slight increases in the new orders and employment indices, albeit to levels little different from the averages of the year to-date. And the ECB is likely to be moderately encouraged by the rises in the composite input and output price PMIs to the highest levels in more than one year, with the latter back to 50.0, suggesting an easing of disinflationary pressures.

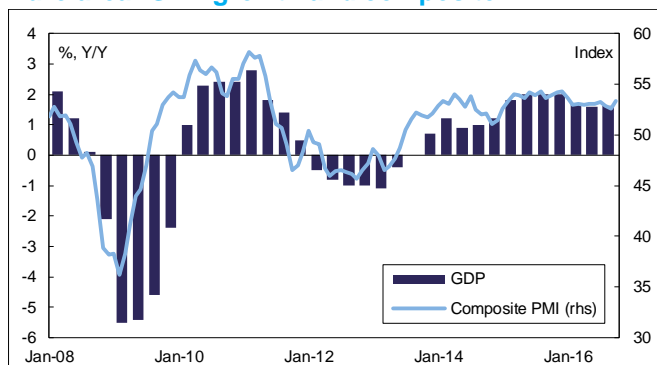
Germany and Spain provide cause for optimism

At the country level, like in manufacturing, conditions in the German services sector appear consistent with solid expansion, with the respective PMI up more than 3pts in October to 54.1, back close to the average of the year to-date. And that confirmed the German composite PMI at its flash estimate of 55.1, the highest level of the year to-date, suggesting a pickup in German GDP growth to about 0.5%Q/Q in Q4. In contrast, the French figures disappointed, with a significant downwards revision from the flash estimate leaving the services PMI at a three-month low close to the middle of the range of the year so far. And that left the French composite down more than 1pt on the month, similarly to the lowest since July, suggesting that GDP growth in Q4 might remain no better than the 0.2%Q/Q rate of Q3. Elsewhere, economic growth appears to remain sluggish in Italy where the services PMI was a touch higher on the month at 51.0, but the composite index was unchanged in October at 51.1, close to the bottom of the range of the past two years. And with the Spanish services and composite PMIs remaining above 54 in the latest month, growth in that member state seems likely to remain the firmest of all large euro area countries in Q4, probably around 0.6%Q/Q.

The week in the euro area and US

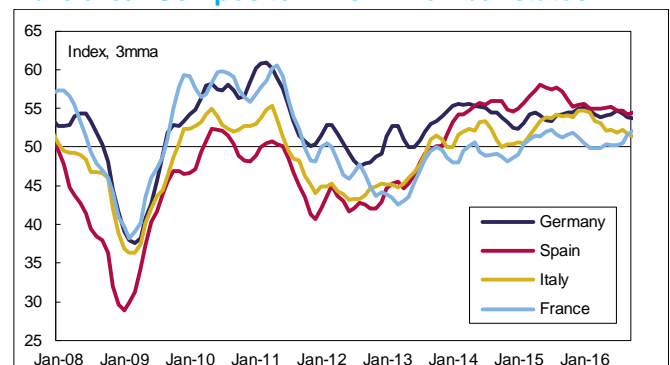
The coming week in the euro area will be dominated by national data from the manufacturing sector, with September figures for German factory orders and Spanish industrial production due Monday, German IP and goods trade and French goods

Euro area: GDP growth and composite PMI



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

Euro area: Composite PMIs in member states



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



trade on Tuesday, and French and Italian IP on Thursday. Among other scheduled new releases, Monday brings euro area retail sales figures for September – following the drop of 1.4%M/M in Germany, sales in the euro area are expected to post a decline of 0.5%M/M, the most since March. In addition, Wednesday brings the Bank of France business sentiment survey for October, and Friday brings the final estimate of German inflation in October, for which the flash estimate rose 0.2ppt to a two-year high of 0.7%Y/Y. Policy-wise, Monday will see the Eurogroup of euro area finance ministers meet. And in the bond markets, Germany will sell 2Y Bunds on Wednesday while Italy will sell 3Y and 7Y bonds on Friday.

Of course, all eyes in the coming week will be on the outcome of Tuesday's US Presidential election. But, data-wise, it should be much quieter of late, with just consumer credit figures due Monday, the JOLTS report due Tuesday and wholesale trade data due Wednesday, all for the month of September. The back end of the week, meanwhile, brings October's Federal budget statement on Thursday and the flash University of Michigan's consumer sentiment survey for November on Friday. In the UST market, a 3Y note auction will be conducted on Tuesday, followed by a 10Y note and 30Y bond auction on Wednesday and Thursday respectively.

UK

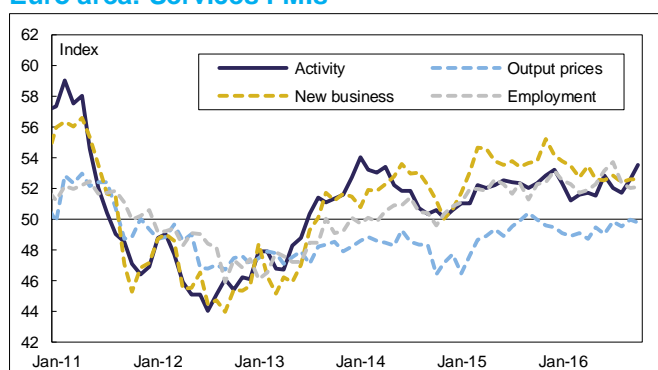
Car sales growth continues to ease

Recent economic data have suggested that household spending has been largely resilient to Brexit uncertainty, with retail sales continuing to grow firmly and consumer confidence rebounding to pre-referendum levels. That prompted the BoE to revise up its near-term projections for consumption growth yesterday. However, today's car registration figures were on the soft side, with the number of new cars registered up by only 1.4%Y/Y in October, having grown by 1.6%Y/Y in September. If we exclude June and July, when Brexit uncertainty was at its highest, today's reading is the second lowest in more than four years, suggesting that underlying momentum in consumer spending might be not as strong as other indicators are suggesting, in particular when big-ticket items are considered.

The week ahead in the UK

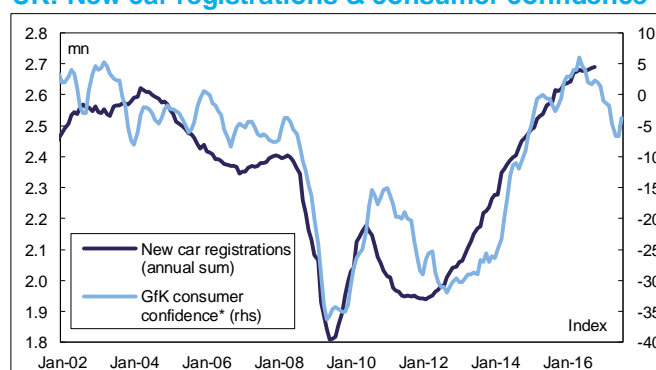
The data focus in the UK in the coming week will be September's industrial output, due on Tuesday, and trade figures for the same month, out on Wednesday. While industrial production is expected to have been little changed to leave the annual pace of growth below 1%Y/Y, the trade data should be a bit more positive, with the trade deficit expected to have fallen to below £4bn from £4.7bn previously. Meanwhile, figures from the construction sector, due at the end of the week, seem set to remain downbeat. Although business sentiment has recovered, output in this sector is likely to have been little changed in September. Among other notable releases, the RICS Residential Market Survey might show that momentum in the housing market remained stable in October having improved slightly over the previous two months, while the BRC's retail survey and the NIESR monthly GDP estimate are also due.

Euro area: Services PMIs



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







UK: New car registrations & consumer confidence



*Nine month lead.

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
EMU		Final services PMI (final composite PMI)	Oct	52.8 (53.3)	53.5 (53.7)	52.2 (52.6)	-
Germany		Final services PMI (final composite PMI)	Oct	54.2 (55.1)	54.1 (55.1)	50.9 (52.8)	-
France		Final services PMI (final composite PMI)	Oct	51.4 (51.6)	52.1 (52.2)	53.3 (52.7)	-
Italy		Services PMI (composite PMI)	Oct	51.0 (51.1)	51.5 (51.5)	50.7 (51.1)	-
Spain		Services PMI (composite PMI)	Oct	54.6 (54.4)	55.0 (54.3)	54.7 (54.1)	-
UK		New car registrations Y/Y%	Oct	1.4	-	1.6	-
Country	Auction						
- Nothing to report -							












Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

Key data releases						
Country		GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 07 November 2016						
EMU		10:00	Retail sales M/M% (Y/Y%)	Sep	-0.3 (1.2)	-0.1 (0.6)
		14:45	ECB public sector asset purchases €bn	Weekly	<u>16.2</u>	17.2
Germany		07:00	Factory orders M/M% (Y/Y%)	Sep	0.3 (3.5)	1.0 (2.1)
Spain		08:00	Industrial production M/M% (Y/Y%)	Sep	-0.5 (2.5)	1.4 (4.0)
UK		08:30	Halifax house price index M/M% (3M/Y%)	Oct	0.2 (4.9)	0.1 (5.8)
Tuesday 08 November 2016						
Germany		07:00	Industrial production M/M% (Y/Y%)	Sep	-0.5 (2.0)	2.5 (1.9)
		07:00	Trade balance €bn	Sep	23.0	20.1
		07:00	Current account balance €bn	Sep	24.0	17.9
		07:00	Imports (exports) M/M%	Sep	-0.5 (-0.9)	1.9 (3.4)
France		07:45	Trade balance €bn	Sep	-4.3	-4.3
		07:45	Current account balance €bn	Sep	-	-2.1
UK		00:01	BRC Sales like-for-like Y/Y%	Oct	0.6	0.4
		09:30	Industrial production M/M% (Y/Y%)	Sep	0.0 (0.8)	-0.4 (0.7)
		09:30	Manufacturing production M/M% (Y/Y%)	Sep	0.4 (-0.1)	0.2 (0.5)
		15:00	NIESR GDP 3M/3M%	Oct	-	0.4
Wednesday 09 November 2016						
France		07:30	Bank of France manufacturing sentiment indicator	Oct	99	98
UK		09:30	Visible trade balance £bn	Sep	-11.3	-12.1
		09:30	Total trade balance £bn	Sep	-4.0	-4.7
Thursday 10 November 2016						
France		07:45	Industrial production M/M% (Y/Y%)	Sep	-0.3 (0.5)	2.1 (0.5)
		07:45	Manufacturing production M/M% (Y/Y%)	Sep	0.0 (0.5)	2.2 (0.7)
Italy		09:00	Industrial production M/M% (Y/Y%)	Sep	-1.0 (2.2)	1.7 (4.1)
UK		00:01	RICS house price balance %	Oct	18	17
		15:00	BoE corporate bond purchases £mn	Weekly	-	2361
Friday 11 November 2016						
Germany		07:00	Final EU-harmonised CPI Y/Y%	Oct	0.7	0.5
UK		09:30	Construction output M/M% (Y/Y%)	Sep	0.0 (-0.4)	-1.5 (0.2)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country		GMT	Event / Auction
Monday 07 November 2016			
UK		14:50	BoE APF operation: To purchase 3-7Y Gilts
Tuesday 08 November 2016			
Germany		10:30	Auction: To sell €500mn of 0.1% 2026 index-linked bonds (15-Apr-2026)
UK		10:30	Auction: To sell £2.5bn of 1.75% 2037 bonds (07-Sep-2037)
		14:50	BoE APF operation: To purchase 15Y+ Gilts
Wednesday 09 November 2016			
EMU		-	ECB's Praet and Nouy scheduled to speak in Brussels
		16:45	ECB's Constancio scheduled to speak in Lyon
Germany		10:30	Auction: To sell €5bn of 2018 bonds (14-Dec-2018)
UK		14:50	BoE APF operation: To purchase 7-15Y Gilts
Thursday 10 November 2016			
EMU		14:50	ECB's Constancio scheduled to speak in Stockholm
UK		17:00	BoE's Haldane scheduled to speak in Cambridge
Friday 11 November 2016			
Italy		10:00	Auction: To sell bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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