

Euro wrap-up

Overview

- On a better day for risk appetite Bunds made very modest losses and southern periphery bonds made gains, while euro area retail sales data disappointed.
- Gilts made losses on a quiet day for economic news in the UK.
- Tuesday will bring IP data from Germany and the UK, and goods trade data from Germany and France.

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	+0.004
OBL 0 10/21	-0.421	+0.007
DBR 0 08/26	0.150	+0.015
UKT 1¼ 07/18	0.188	+0.030
UKT 3¼ 09/21	0.538	+0.046
UKT 1½ 07/26	1.198	+0.069

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

Euro area

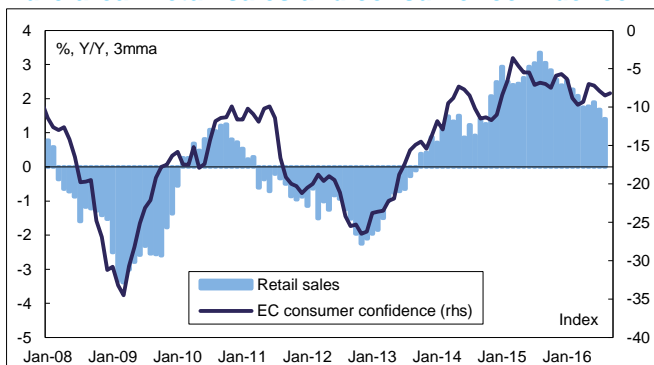
Retail sales consistent with weaker consumption trend

According to the preliminary estimate, euro area GDP growth in Q3 was sustained at the 0.3%Q/Q rate registered in Q2. But while there is no expenditure breakdown available, today's euro area retail sales figures for September suggested that consumer spending might have struggled even to match the 0.2%Q/Q growth rate of the second quarter, and was certainly well down on the 0.5%Q/Q average rate of the preceding six quarters. In particular, retail sales fell for the second successive month in September, down 0.2%M/M, to leave them unchanged over the third quarter as a whole from Q2. The drop at the euro area level was unsurprising not least given that we already knew that German retail sales fell 1.4%M/M, the most in more than two years, that month. But had it not been for increased spending on food, drinks and tobacco, which rose 0.6%M/M, sales would have been significantly weaker than the headline figure implied. Indeed, euro area 'core' retail sales (i.e. excluding sales of food and fuel) fell 1.0%M/M, the most in two years, leaving them down 0.2%Q/Q in Q3. Admittedly, overall consumer spending in Q3 was likely stronger than these retail figures suggest, with signs of support from other categories (e.g. new car registrations were up 0.5%Q/Q in Q3). But today's figures add to evidence of a slowdown in the trend of consumer spending growth in the euro area since the first quarter, likely related at least in part to an easing in real disposable income growth as inflation moves gradually higher. And with consumer confidence still down from its recent multi-year highs reached at the turn of the year, we certainly do not anticipate a marked acceleration in growth of consumer spending over the near term.

Softness in German factory orders likely temporary

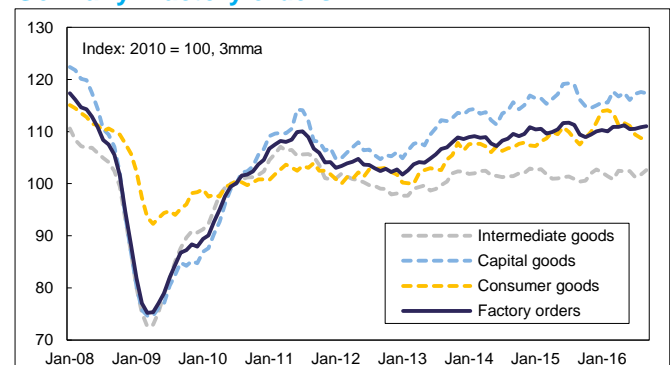
Meanwhile, the first of numerous economic data releases related to the performance of the euro area's industrial sector due this week saw German factory orders miss expectations, falling in September by 0.6%M/M, the most since April. The detail was also somewhat disappointing, with the decline entirely concentrated in orders of capital goods, reflecting softer demand both at home and abroad. Looking through the recent volatility, however, the underlying trend still looks favourable, with factory orders still up 0.5%Q/Q in third quarter and capital goods orders up more than 1%Q/Q. While the industrial production figures for the same month, due tomorrow, are expected to show a modest drop on the month following a surge in August, overall IP likely returned to positive growth in Germany in the third quarter following a drop in Q2. And with economic surveys for October having signalled highly favourable conditions in the sector, e.g. with the new orders and output PMIs at their highest since early 2014 and the Ifo expectations index for the sector similarly the highest in two years, we are looking for a strengthening in German manufacturing production growth in the final quarter of the year.

Euro area: Retail sales and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: Factory orders



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



The day ahead in the euro area and US

Tuesday brings the aforementioned German industrial production figures for September. We expect to see a decline of about ½%M/M partly as payback from the strong August reading (+2½%M/M), which would still leave output in the sector up over the third quarter as a whole. German and French goods trade figures for September are also due.







All eyes, of course, will be on the US Presidential election, with the final polls to close – in Alaska and Hawaii – at midnight EST (5am GMT, Wednesday), the time shortly after which the defeated candidates in each of the past two elections made their televised concession speeches. Also in the US, the September JOLTS job openings report is also due and the US Treasury will sell 3Y Notes.

UK

The day ahead in the UK

After a quiet start to the week in the UK today, which saw no notable economic data releases, tomorrow brings the latest industrial production figures for September. Having fallen by 0.4%M/M in the previous month, industrial output is expected to have been unchanged at the end of the third quarter, despite a reported improvement in business conditions in the manufacturing sector, where output is expected to have increased by 0.4%M/M, the fastest monthly pace since April. Meanwhile, the BRC's retail sales survey for October is also due tomorrow, while BoE Chief Economist Andy Haldane is scheduled to speak in London.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
EMU	 Retail sales M/M% (Y/Y%)	Sep	-0.2 (1.1)	-0.3 (1.2)	-0.1 (0.6)	-0.2 (1.2)	
	 ECB public sector asset purchases €bn	Weekly	17.1	<u>16.2</u>	17.2	-	
Germany	 Factory orders M/M% (Y/Y%)	Sep	-0.6 (2.6)	0.2 (3.5)	1.0 (2.1)	0.9 (2.0)	
Spain	 Industrial production M/M% (Y/Y%)	Sep	-1.4 (0.8)	-0.5 (2.5)	1.4 (4.0)	1.6 (4.3)	
UK	 Halifax house price index M/M% (3M/Y%)	Oct	1.4 (5.2)	0.2 (4.9)	0.1 (5.8)	0.3 (-)	
Country	Auction						
UK	 BoE APF operation purchased £1bn of 3-7Y Gilts (2.94 cover ratio)						

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
Germany	07:00	Industrial production M/M% (Y/Y%)	Sep	-0.5 (2.0)	2.5 (1.9)
	07:00	Trade balance €bn	Sep	22.4	20.1
	07:00	Current account balance €bn	Sep	24.5	17.9
	07:00	Imports (exports) M/M%	Sep	-0.2 (-0.8)	1.9 (3.4)
France	07:45	Trade balance €bn	Sep	-4.2	-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

Auctions and events

Country	GMT	Auction / Event
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
	17:00	BoE's Haldane scheduled to speak in London

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<http://www.uk.daiwacm.com/research-zone/research-blog>



Follow us

[@DaiwaEurope](https://twitter.com/DaiwaEurope)

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.