

Euro wrap-up

Overview

- Bunds followed Treasuries lower today despite some disappointing French and Italian IP releases.
- Gilts also made notable losses, while a UK survey pointed to ongoing recovery in the housing market.
- The coming week brings revised euro area Q3 GDP figures, along with the first estimates of GDP from Germany and Italy, and October's final euro area inflation data. In the UK, meanwhile, October's CPI, labour market and retail sales figures are due.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/18	-0.614	+0.011
OBL 0 10/21	-0.359	+0.046
DBR 0 08/26	0.282	+0.079
UKT 1¼ 07/18	0.242	+0.018
UKT 3¼ 09/21	0.651	+0.066
UKT 1½ 07/26	1.352	+0.095

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

Euro area

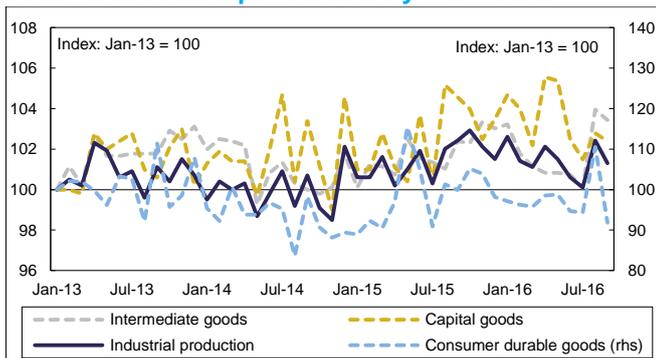
French and Italian IP decline at end-Q3

While speculation about the outlook for US policy and its likely impact on economic and financial conditions inevitably remained the driving force in global financial markets, the euro area economic dataflow was not without interest with some weak manufacturing sector data from the second and third largest member states for the end of Q3. In particular, French IP was down a much steeper-than-expected 1.1%M/M in September, the largest drop for fourteen months, albeit coming on the back of notable strength in August – growth that month was upwardly revised to 2.3%M/M, a near-five-year high. The weakness in September was broad based with manufacturing output also down more than 1%M/M, due to notable declines in production of machinery and auto equipment, although this still left manufacturing output up 0.2%Q/Q in Q3. Due to weakness in mining output (down 2%Q/Q), however, overall French industrial output posted a modest decline in Q3 for the third consecutive quarter, albeit falling just 0.1%Q/Q. While the equivalent Italian figures were also soft, the 0.8%M/M decline was less than anticipated and similarly followed upwardly revised growth of 1.8%M/M in August. Admittedly, this reflected a further notable increase in energy output (up more than 3%M/M), while manufacturing output was down almost 2%M/M in September, the steepest drop since the start of 2015, as production of intermediate and capital goods largely reversed the surge in August. But with manufacturing output having risen at the start of Q3 too, it was 1½%Q/Q higher over the quarter as a whole, to leave overall industrial output up more than 1%Q/Q, the firmest quarterly reading for six years. Overall, taken together with the weak showings from Germany and Spain earlier this week, when aggregate euro area IP data are published on Monday we would expect to see a decline in output of almost 1%M/M in September. But this would still imply a modest expansion in the industrial sector in Q3, with production up a little less than ½%Q/Q.

The week ahead in the euro area and US

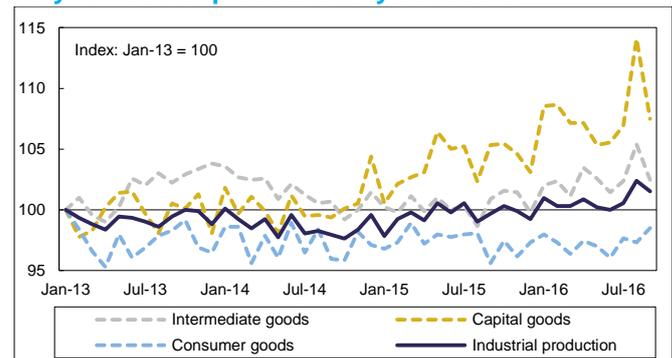
In the euro area, the coming week's data calendar kicks off with the aforementioned euro area industrial production release for September. Consistent with figures from the largest member states, euro area IP is expected to have declined at the end of Q3, by almost 1%M/M, following an increase of more than 1½%M/M in August, to leave output roughly 0.4% higher over the third quarter as a whole. Focus on Tuesday will be on the second reading of euro area Q3 GDP, which is expected to confirm growth of 0.3%Q/Q. This release will also include the first official estimate from Germany, where GDP growth is expected to have moderated by 0.1ppt to a four-quarter low of 0.3%Q/Q, and Italy, where growth is expected to have returned to positive territory at 0.2%Q/Q from a flat second quarter. September trade figures from the euro area will also be published on Tuesday, with the balance of payments data for the same month on Friday. Thursday, meanwhile, brings October's final euro area inflation figures – expected to confirm that headline CPI rose to a more than two-year high of 0.5%Y/Y while core CPI was unchanged at 0.8%Y/Y for the third consecutive month – and new car registrations for the same month, as well as September's construction output data.

France: Industrial production by subsector



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Italy: Industrial production by subsector



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



In the US, the coming week looks set to be busy one for top-tier releases, including October's retail sales (Tuesday), industrial production (Wednesday) and CPI figures (Thursday). Expectations are for a further modest increase in retail sales and industrial output at the start of Q4, while headline inflation is expected to have edged higher to 1.6%Y/Y, which would be a two-year high. However, this is likely to principally reflect a higher contribution from energy prices. Indeed, when excluding energy and foods, core CPI is forecast to remain unchanged at 2.2%Y/Y for the fifth month out of the past six. Other releases include November's Empire manufacturing index and September's business inventories (Tuesday), September capital flows data and November's NAHB housing market index (Wednesday), October's housing starts and November's Philly Fed index (Thursday). Supply-wise, the US Treasury will sell 10Y TIPS on Thursday.

UK

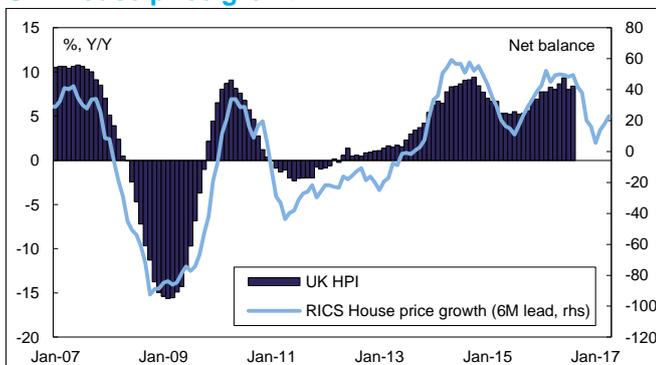
Price pressure in the housing market continue to recover

On a relatively quiet day in the UK today, the only release of note was the RICS Residential Market Survey. It showed that price momentum in the housing market continued to recover at the start of the fourth quarter, with the net balance of 23% of survey respondents reporting higher prices in October, up from 18% in September and the 6% trough in July. While the equivalent index for London remained negative, the -16% reading was the highest in seven months. Stronger price growth was underpinned by an ongoing mismatch between demand and supply. However, a lack of available properties meant that market activity remained low and, therefore, the agreed sales indicator remained close to zero. Looking ahead, ongoing employment growth and low mortgage interest rates should continue to support the housing market over the near term. Indeed, survey respondents see market activity improving, while price expectations at both the three-month and twelve-month horizons are positive, with the relevant indicators at 18% and 43% respectively notably higher than the pre-referendum lows albeit still below the average over recent years.

The week ahead in the UK

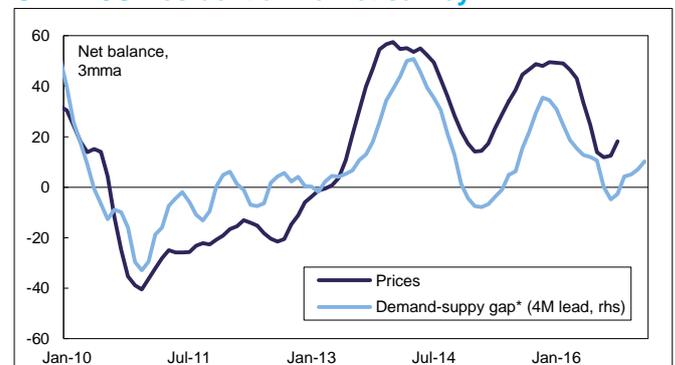
After a quiet end to the week tomorrow, which brings only September's construction output figures, the coming week will be busier for UK top-tier releases, with the latest inflation, labour market and retail sales figures due on Tuesday, Wednesday and Thursday respectively. In September, CPI data showed that the headline rate increased significantly, to 1.0%Y/Y, a rate last seen at the end of 2014, and next week's figures are set to show that this trend continued at the start of Q4 – indeed, we expect the headline rate to have risen to 1.2%Y/Y. But this is likely to mainly reflect higher energy price inflation and so the core rate seems likely to have remained unchanged at the six-month high of 1.5%Y/Y hit in the previous month. Meanwhile, consistent with stronger survey indicators, the latest figures from the labour market are expected to show that employment rose in September, with headline three-month growth looking set to have increased slightly from 106k in August. And there is likely to be little change in other major indicators too – the three-month unemployment rate should have remained at 4.9% for the fifth consecutive month, while wage growth will most likely have been stable at or very close to the 2.3%3M/Y rate reported in August. With respect to the latest retail sales figures, although the pace of sales growth moderated in September to 4.1%Y/Y, the reading was consistent with still relatively firm underlying momentum in consumer spending. And next week's figures seem likely to show that this positive momentum was maintained in October, with sales growth likely to remain elevated. Alongside the major data releases, the MPC officials' testimony at the Treasury Select Committee on Tuesday should also receive a great deal of attention.

UK: House price growth



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: RICS Residential Market survey



*Buyer enquiries minus vendor instructions.

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

The next edition of Euro wrap-up will be published on 14 November 2016.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France	 Industrial production M/M% (Y/Y%)	Sep	-1.1 (-1.1)	-0.3 (0.4)	2.1 (0.5)	2.3 (0.4)
	 Manufacturing production M/M% (Y/Y%)	Sep	-1.1 (-0.9)	-0.1 (0.4)	2.2 (0.7)	2.4 (0.6)
Italy	 Industrial production M/M% (Y/Y%)	Sep	-0.8 (1.8)	-1.0 (2.2)	1.7 (4.1)	1.8 (4.4)
UK	 RICS house price balance %	Oct	23	18	17	18
	 BoE corporate bond purchases £mn	Weekly	2690	-	2361	-
Country	Auction	- Nothing to report -				

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	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)

Auctions and events

Country	GMT	Auction / Event
Italy	10:00	Auction: To sell up to €2.75bn of 0.05% 2019 bonds (15-Oct-2019)
	10:00	Auction: To sell up to €2.25bn of 0.65% 2023 bonds (15-Oct-2023)
	10:00	Auction: To sell up to €750mn of 5% 2040 bonds (01-Sep-2040)
	10:00	Auction: To sell up to €1.5bn of 2.7% 2047 bonds (01-Mar-2047)

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 14 November 2016						
EMU		10:00 Industrial production M/M% (Y/Y%)	Sep	-	1.6 (1.8)	
		14:45 ECB public sector asset purchases €bn	Weekly	<u>16.0</u>	17.1	
Italy		09:00 Final EU-harmonised CPI Y/Y%	Oct	<u>-0.1</u>	0.1	
Tuesday 15 November 2016						
EMU		10:00 GDP – second release Q/Q% (Y/Y%)	Q3	<u>0.3 (1.6)</u>	0.3 (1.6)	
		10:00 Trade balance €bn	Sep	-	23.3	
		10:00 ZEW expectations balance	Nov	-	12.3	
Germany		07:00 GDP – first release Q/Q% (Y/Y%)	Q3	<u>0.3 (1.8)</u>	0.4 (1.8)	
		10:00 ZEW current assessment balance (expectations)	Nov	-	59.5 (6.2)	
France		07:45 Final EU-harmonised CPI Y/Y%	Oct	<u>0.5</u>	0.5	
Italy		09:00 GDP – first release Q/Q% (Y/Y%)	Q3	<u>0.2 (0.8)</u>	0.0 (0.8)	
Spain		08:00 Final EU-harmonised CPI Y/Y%	Oct	<u>0.5</u>	0.0	
UK		09:30 CPI (core CPI) Y/Y%	Oct	<u>1.2 (1.5)</u>	1.0 (1.5)	
		09:30 PPI input (output) price inflation Y/Y%	Oct	8.9 (1.7)	7.2 (1.2)	
		09:30 House price index Y/Y%	Sep	-	8.4	
Wednesday 16 November 2016						
UK		09:30 Average earnings incl. bonuses (excl. bonuses) 3M/Y%	Sep	<u>2.4 (2.4)</u>	2.3 (2.3)	
		09:30 ILO unemployment rate 3M%	Sep	<u>4.9</u>	4.9	
		09:30 Employment change 3M/3M '000s	Sep	<u>110</u>	106	
		09:30 Claimant count rate % (change 000s)	Oct	2.3 (2.5)	2.3 (0.7)	
Thursday 17 November 2016						
EMU		07:00 EU27 new car registrations	Oct	-	7.2	
		10:00 Construction output M/M% (Y/Y%)	Sep	-	-0.9 (0.9)	
		10:00 Final CPI (core CPI) Y/Y%	Oct	<u>0.5 (0.8)</u>	0.4 (0.8)	
France		06:30 Unemployment rate %	Q3	-	9.9	
Italy		09:00 Trade balance total €bn	Sep	-	2.5	
UK		09:30 Retail sales excluding petrol M/M% (Y/Y%)	Oct	0.4 (5.3)	0.0 (4.0)	
		09:30 Retail sales including petrol M/M% (Y/Y%)	Oct	0.3 (5.1)	0.0 (4.1)	
		15:00 BoE corporate bond purchases £mn	Weekly	-	2690	
Friday 18 November 2016						
EMU		09:00 Current account balance €bn	Sep	-	29.7	
Italy		09:30 Current account balance €bn	Sep	-	3.4	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country	GMT	Event / Auction	
Monday 14 November 2016			
EMU	 08:30	ECB's Constancio scheduled to speak in Frankfurt	
UK	 14:50	BoE APF operation: To purchase 3-7Y Gilts	
Tuesday 15 November 2016			
UK	 10:00	BoE's Carney and other MPC members testify at the Treasury Select Committee	
UK	 14:50	BoE APF operation: To purchase 15Y+ Gilts	
Wednesday 16 November 2016			
UK	 14:50	BoE APF operation: To purchase 7-15Y Gilts	
Thursday 17 November 2016			
France	 09:50	Auction: To sell bonds	
	 10:50	Auction: To sell index-linked bonds	
UK	 10:30	Auction: To sell £1.1bn of 0.125% 2026 index-linked bonds (22-Mar-2026)	
Friday 18 November 2016			
EMU	 08:00	ECB's Draghi scheduled to speak in Frankfurt	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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