

# Euro wrap-up

## Overview

- Despite a softer euro area IP report at the end of Q3, longer-dated Bund yields ended the day higher, with 10Y yields at their highest since January.
- Gilt yields similarly followed the global trend higher, with 10Y yields rising to a multi-month high.
- Tomorrow brings revised Q3 GDP figures from the euro area, as well as the first estimates of German and Italian GDP. October inflation figures are also due from France, Spain and the UK.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 12/18	-0.611	-0.009
OBL 0 10/21	-0.324	+0.008
DBR 0 08/26	0.333	+0.025
UKT 1¼ 07/18	0.243	-0.018
UKT 3¾ 09/21	0.685	+0.034
UKT 1½ 07/26	1.433	+0.067

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

## Euro area

### Euro area IP down in September, but up in Q3

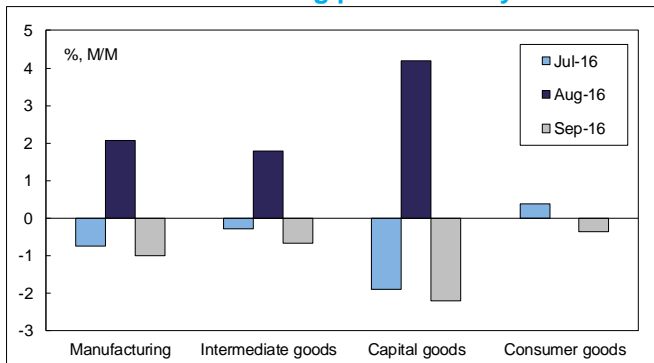
While global financial markets continued to take their cue from the US, the start of this week brought a top-tier release from the euro area in the form of September's industrial production. Given the strength in output in August and the weakness in last week's data from the largest four member states, the aggregate figure for euro area IP was predictably soft at the end of Q3, with output down 0.8%M/M to leave it up just 1.2% compared with a year earlier. And the weakness was broad based, with production of intermediate goods down 0.7%M/M, capital goods down 2.2%M/M and consumer durable goods down 5.6%M/M. But this followed upwardly revised growth in August, with an increase of more than 2%M/M in overall manufacturing output in August followed by the 1%M/M decline in September. As such, the manufacturing sector's performance over the third quarter as a whole was more encouraging, with growth of ½%Q/Q more than offsetting the 0.3%Q/Q decline in Q2. And, overall, industrial output growth of 0.4%Q/Q in Q3 suggests that the sector provided modest support to GDP growth last quarter, while recent surveys suggest a further improvement in conditions at the start of Q4 too.

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

The data focus in the euro area tomorrow will be Q3 GDP, with the second reading of GDP expected to confirm growth of 0.3%Q/Q. While we will have to wait until 6 December for the expenditure breakdown, tomorrow's release will 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. Tomorrow also brings euro area trade figures for September, the German ZEW survey of financial market participants for November, and the second readings of French and Spanish inflation for October: according to the flash estimates, headline CPI on an EU-harmonised measure in France was unchanged at 0.5%Y/Y its highest since October 2014, while the equivalent figure in Spain similarly rose to 0.5%Y/Y, its highest since September 2013.

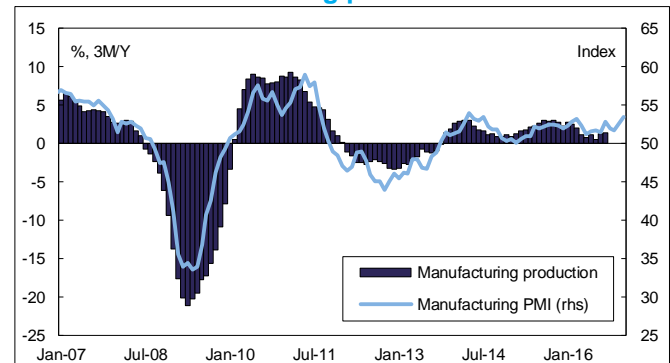
In the US, tomorrow brings October's retail sales figures, which are expected to show that total sales growth remained firm for the second successive month at 0.6%M/M. When excluding spending on autos and gasoline, sales growth is expected to be more modest at the start of Q4, at just half the headline rate. Tuesday also brings September business inventories data, October import and export price indices and November's Empire Manufacturing index. Also of interest will be speeches by FOMC voting members Fischer, Tarullo and Rosengren, as well as Fed Governor Kaplan who will be a voting member in 2017.

### Euro area: Manufacturing production by subsector



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

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



\*PMI has three-month lead.

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



## UK






### Immigration restrictions would hurt UK business

Ahead of Wednesday's release of labour market figures, today the CIPD, the professional body for HR professionals, published its latest quarterly Labour Market Outlook. In line with other recent business surveys, this suggested that employment is likely to continue growing over the near term, although the pace is likely to be softer. But perhaps more interesting was the survey's insights into employers' assessment of Brexit, and how it is going to affect the labour market in the future. According to the survey, more than one third of respondents expect that recruitment of EU migrants will become more difficult over the coming twelve months and an even higher share, more than 40%, believe restrictions on EU immigration will have a negative impact on their long-run operations in the UK. Employers say they will look to respond to immigration controls on EU workers by retaining older workers, absorbing extra costs of EU workers' recruitment, investing in training and hiring more apprentices.

### The day ahead in the UK

The testimony of MPC members, including Mark Carney, at the Treasury Select Committee tomorrow should receive plenty of attention. Having previously stated that they would ease policy further, MPC members revised up their growth forecast and changed their forward guidance at the November meeting, with policy now having a neutral bias. Certainly, some MPs are likely to give Carney and others a hard time over this shift in the outlook. Meanwhile, Carney will also no doubt be questioned on his decision to leave the BoE in June 2019, one year later than he originally intended. Data-wise, the focus tomorrow will be October's CPI figures. 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 tomorrow'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.

## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Industrial production M/M% (Y/Y%)	Sep	<b>-0.8 (1.2)</b>	-1.0 (0.9)	1.6 (1.8)	<b>1.8 (2.2)</b>
	 ECB public sector asset purchases €bn	Weekly	<b>16.8</b>	<u>16.0</u>	17.1	-
Italy	 Final EU-harmonised CPI Y/Y%	Oct	<b>-0.1</b>	<u>-0.1</u>	0.1	-
UK	 Rightmove house price index M/M% (Y/Y%)	Nov	<b>-1.1 (4.5)</b>	-	0.9 (4.2)	-
Country	Auction					
UK	 BoE APF operation purchased £1bn of 3-7Y Gilts (3.39 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
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	22.1	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	61.6 (8.1)	59.5 (6.2)
France	07:45	Final EU-harmonised CPI Y/Y%	Oct	<u>0.5</u>	0.5
Italy	09:00	GDP – preliminary 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	9.3 (1.8)	7.2 (1.2)
	09:30	House price index Y/Y%	Sep	8.1	8.4

### Auctions and events

Country	GMT	Auction / Event
UK	10:00	BoE's Carney and other MPC members testify at the Treasury Select Committee
	14:50	BoE APF operation: To purchase 15Y+ Gilts

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Friday's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	Final EU-harmonised CPI Y/Y%	Oct	<b>0.7</b>	0.7	0.5	-
UK	Construction output M/M% (Y/Y%)	Sep	<b>0.3 (0.2)</b>	0.0 (-0.4)	-1.5 (0.2)	<b>-1.1 (0.8)</b>

### Auctions

Country	Auction
Italy sold	<ul style="list-style-type: none"> <li>€2.75bn of 0.05% 2019 bonds (15-Oct-2019) at an average yield of 0.3%</li> <li>€2.25bn of 0.65% 2023 bonds (15-Oct-2023) at an average yield of 1.37%</li> <li>€605mn of 5% 2040 bonds (01-Sep-2040) at an average yield of 3.05%</li> <li>€1.3bn of 2.7% 2047 bonds (01-Mar-2047) at an average yield of 3.14%</li> </ul>

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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