

# Euro wrap-up

## Overview

- Bunds made modest gains as the euro area current account surplus reached a record high but construction output growth remained subdued.
- Gilts were little changed on a quiet day for UK economic data releases.
- November economic survey results including the preliminary euro area PMIs will be the most notable data releases in the coming week. In the UK, the Chancellor will announce the Autumn Budget.

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 09/19	-0.751	-0.008
OBL 0 10/22	-0.348	-0.007
DBR 0½ 08/27	0.365	-0.011
UKT 1¼ 07/19	0.488	-0.011
UKT 0½ 07/22	0.775	-0.001
UKT 4¼ 12/27	1.304	-0.005

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

## Euro area

### Current account surplus at a record high

Despite the significant appreciation of the euro seen earlier in the year, the euro area's external surpluses remain large. Indeed, in September the euro area current account surplus rose to a record high of €37.8bn. Following the release of very strong export data earlier this week, it was no surprise that the increased trade surplus accounted for the improvement in the current account, illustrating how firmer global demand is supporting the euro area manufacturing sector and economy as a whole. Indeed, there were no signs in these data that the strong euro represents an impediment to euro area competitiveness. Other major current account components were little changed on the month, with the income account still in surplus as foreign residents' earnings on their investments in the euro area remained significantly below recent norms. While the current account surplus hit a new nominal high, however, given the solid growth over recent quarters, it fell as a share of GDP on a 12-month cumulated basis to 3.2% of GDP, 0.2ppt lower than a year earlier. Meanwhile, the financial account data suggested that foreign capital continued to flow into euro area equities, while foreign investors remained net sellers of euro area debt. Overall, the strength of these external accounts provided good reason to expect the euro to remain relatively firm even against the backdrop of Federal Reserve monetary tightening.

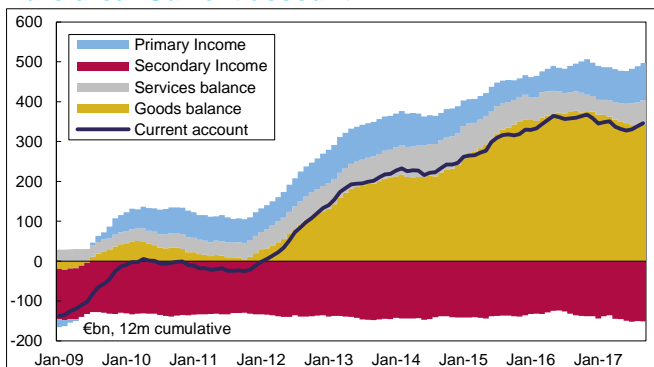
### Construction output moving sideways

In other news today, the latest euro area construction output figures were a disappointment, suggesting that much-improved general economic momentum, and improved business sentiment in the sector, has failed to lift growth. Indeed, output has been broadly flat since the winter, and in September rose only 0.1%M/M. And while a sharp increase at the start of the year together with the effect of a big drop in the same month a year ago left the annual pace at a decent 3.1%Y/Y, on a three-month basis growth was mere 0.1%3M/3M, suggesting that construction provided almost no support to euro area GDP growth in Q3. Looking at the results in the major economies, Germany reported a 1.0%Q/Q decline after two very strong two quarters previously, while construction output in France was also down. But those drops were offset by strong results in Italy and Spain, which saw increases of 1.2%Q/Q and 1.6%Q/Q respectively.

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

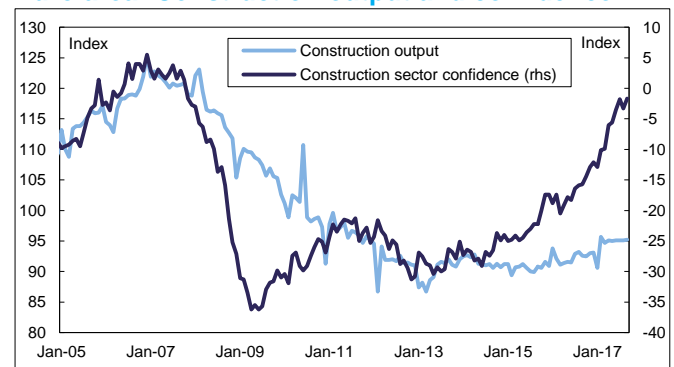
With the exception of the second release of German Q3 GDP data on Thursday, which seems likely to confirm the preliminary 0.8%Q/Q growth estimate, economic surveys are set to dominate the euro area data flow in the coming week. Most notably, on Thursday, the preliminary euro area PMIs will probably signal that the economy continued powering ahead this month. And we should receive a similar message from the French INSEE business sentiment survey, due the same day, and the German

### Euro area: Current account



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: Construction output and confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



Ifo indices, which are out on Friday. Consumers in the euro area are likely to have remained very upbeat too, with Wednesday's flash European Commission consumer sentiment indicator expected to have inched further up in November to reach a new sixteen-year high. With regard to monetary policy, the ECB's account from its latest policy meeting might provide further insights into the reported disagreements on the Governing Council concerning whether the extended asset purchases should have been left open-ended and whether the forward guidance related to these purchases should have been amended. We might hear comments on these or similar issues from Draghi himself when he speaks at the European Parliament on Monday.

The coming week's US economic diary is compressed by Thursday's Thanksgiving holiday. Data-wise, the Conference Board will publish its leading index for October on Monday, with October existing home sales following on Tuesday. And Wednesday sees the release of October durables goods orders, the final University of Michigan consumer survey results for November, the weekly jobless claims report and – ahead of a probable rate hike next month – the minutes of the October FOMC meeting. In addition, a short session for bond markets on Friday will coincide with the release of the flash manufacturing and services sector PMIs for November. Aside from the data, the focus for markets will be the progress of the US tax reform through the Senate and a speech by soon-to-depart Fed Chair Yellen on Tuesday. In the bond market the Treasury has a 2-year FRN auction on Tuesday.

## UK

### The week ahead in the UK
















On Wednesday the Chancellor of the Exchequer will present his annual Budget. Politically, it is unlikely to be an easy one, given that the government is currently preoccupied with scandals and deep internal disputes over Brexit, and relies on the Democratic Unionist Party for a majority in Parliament. But the economics are no less challenging. In the current fiscal year the public borrowing figures have consistently surprised on the downside, and this would normally nudge the borrowing trajectory over the coming years lower. But there are plenty of factors working the other way. To begin with, since the previous Budget in the Spring the government has announced measures that will raise government borrowing over coming years. Most notably, they reversed the planned National Insurance contribution increases for the self-employed, altered the student loan system and, as part of the 'confidence and supply' deal between the Conservatives and the DUP, promised some extra spending in the Northern Ireland. In addition, a higher expected path of Bank Rate means that projected debt interest payments will be higher too.

However, analysis from the Institute for Fiscal Studies (IFS) suggests that the effect of the above will be dwarfed by a downgrade to the OBR's growth forecasts. Certainly, GDP growth this year will not reach 2.0%, as the OBR expected six months ago. But more importantly, the OBR has already signaled that it will revise down its forecast for productivity growth. The IFS numbers suggest that these changes could leave the government's annual net borrowing at the end of the forecast horizon in FY21/22 up by an astonishing £63bn if productivity continues growing at a very subdued rate in line with its average over the last seven years. This is a terrible backdrop for a Chancellor who is already a marked man. With political appetite for more austerity seemingly non-existent he may well be left to accept that the public finances will not improve in the way that he had previously hoped.

On the data front, the second estimate of Q3 GDP is coming out on Thursday. While the headline pace of growth is likely to be confirmed at 0.4%Q/Q, the focus will be on the expenditure breakdown. Private consumption looks to have risen at a slightly stronger pace than the 0.2%Q/Q rate in Q2, and we expect that investment and public consumption growth was also positive, albeit not very impressive. However, despite an improved global economic momentum and weak sterling, we expect that net exports provided a significant negative contribution to GDP growth, likely of around ½ppt. Among other data releases, the CBI Distributive Trades survey is also due on Thursday. Ahead of the Budget announcement, on Tuesday we will receive October public finance figures and this month's CBI Industrial Trends Survey, while on Friday the BBA will release its lending data from major retail banks. With regard to monetary policy, MPC member Dave Ramsden will give his first official speech on Monday, while his colleagues Cunliffe, McCafferty, Saunders and Vlieghe will testify before the Treasury Select Committee on Tuesday.



*In the absence of any significant developments, the next edition of the Euro wrap-up will be published on 21 November 2017.*

## Daiwa economic forecasts

	2017				2018				2016	2017	2018
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP forecasts %, Q/Q</b>											
Euro area 	0.6	0.7	0.6	0.5	0.5	0.4	0.4	0.4	1.8	2.3	1.9
Germany 	0.9	0.6	0.8	0.6	0.5	0.4	0.4	0.5	1.9	2.5	2.3
France 	0.5	0.6	0.5	0.5	0.4	0.4	0.3	0.3	1.1	1.8	1.7
Italy 	0.5	0.3	0.5	0.3	0.3	0.2	0.3	0.3	1.1	1.6	1.2
Spain 	0.8	0.9	0.8	0.6	0.6	0.5	0.6	0.7	3.3	3.1	2.6
UK 	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.4	1.8	1.5	1.2
<b>Inflation forecasts %, Y/Y</b>											
Euro area											
Headline CPI 	1.8	1.5	1.4	1.4	1.1	1.3	1.5	1.5	0.2	1.5	1.3
Core CPI 	0.8	1.1	1.2	1.0	1.0	1.0	1.0	1.3	0.9	1.0	1.1
UK											
Headline CPI 	2.1	2.7	2.8	3.0	2.8	2.7	2.6	2.4	0.7	2.7	2.6
Core CPI 	1.8	2.5	2.6	2.6	2.6	2.5	2.4	2.4	1.3	2.4	2.5
<b>Monetary policy</b>											
ECB											
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate % 	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
Net asset purchases* 	80	60	60	60	30	30	30	5	80	60	5
BoE											
Bank Rate % 	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.25	0.50	0.50
Net asset purchases** 	0	0	0	0	0	0	0	0	0	0	0














\*Monthly target €bn, end of period. \*\*Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
EMU 	Current account balance €bn	Sep	37.8	-	33.3	34.5
	Construction output M/M% (Y/Y%)	Sep	0.1 (3.1)	-	-0.2 (1.6)	0.0 (1.9)
Auctions						
Country	Auction					
- Nothing scheduled -						









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	
<b>Monday 20 November 2017</b>						
EMU		14:45 ECB public sector asset purchases €bn	Weekly	<u>12.2</u>	12.8	
<b>Tuesday 21 November 2017</b>						
Spain		09:00 Trade balance €bn	Sep	-	-3.2	
UK		09:30 Public sector net borrowing excluding interventions £bn	Oct	6.6	5.3	
		11:00 CBI Industrial Trends survey, total orders	Nov	3	-2	
<b>Wednesday 22 November 2017</b>						
EMU		15:00 Consumer confidence indicator	Nov	-0.9	-1.0	
<b>Thursday 23 November 2017</b>						
EMU		09:00 Preliminary manufacturing PMI	Nov	58.2	58.5	
		09:00 Preliminary services PMI (preliminary composite PMI)	Nov	55.2 (55.9)	55.0 (56.0)	
Germany		07:00 GDP – final release Q/Q% (Y/Y%)	Q3	<u>0.8 (2.8)</u>	0.8 (2.8)	
		08:30 Preliminary manufacturing PMI	Nov	60.3	60.6	
		08:30 Preliminary services PMI (preliminary composite PMI)	Nov	55.0 (56.7)	54.7 (56.6)	
France		07:45 Manufacturing confidence (production outlook)	Nov	111 (32)	111 (31)	
		08:00 Preliminary manufacturing PMI	Nov	55.9	56.1	
		08:00 Preliminary services PMI (preliminary composite PMI)	Nov	57.0 (57.2)	57.3 (57.4)	
UK		09:30 GDP – second release Q/Q% (Y/Y%)	Q3	<u>0.4 (1.5)</u>	0.3 (1.5)	
		11:00 CBI Distributive Trades survey, retail sales	Nov	4	-36	
<b>Friday 24 November 2017</b>						
Germany		09:00 Ifo business climate index	Nov	116.5	116.7	
		09:00 Ifo current assessment balance (expectations)	Nov	125.0 (108.8)	124.8 (109.1)	

\*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Coming week's events/auctions calendar

Key events & auctions		
Country	GMT	Event / Auction
<b>Monday 20 November 2017</b>		
EMU		14:00 ECB's Draghi scheduled to speak at the European Parliament
<b>Tuesday 21 November 2017</b>		
EMU		15:00 ECB's Cœuré scheduled to speak in Frankfurt
UK		10:30 Auction: To sell £1bn of 0.125% 2026 index-linked bonds (22-Mar-2026)
<b>Wednesday 22 November 2017</b>		
Germany		10:30 Auction: To sell €1bn of 1.25% 2048 bonds (15-Aug-2048)
UK		12:30 Chancellor of the Exchequer presents his Autumn Budget 2017 to Parliament
<b>Thursday 23 November 2017</b>		
EMU		12:30 ECB publishes account of the monetary policy meeting
		18:15 ECB's Cœuré scheduled to speak in Paris
<b>Friday 24 November 2017</b>		
EMU		18:15 ECB's Cœuré scheduled to speak in Paris

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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