

Euro wrap-up

Overview

- Bunds were little changed today as the latest data showed an improvement in euro area exports, but a deterioration in German investor sentiment.
- Gilts were also unchanged despite an upside surprise to UK wage growth.
- Tomorrow will see the start of the European Council's two-day meeting, while we will also see the release of September inflation figures from the euro area and UK

Emily Nicol

+44 20 7597 8331

Mantas Vanagas

+44 20 7597 8318

Daily bond market movements

Bond	Yield	Change*
BKO 0 06/20	-0.614	+0.004
OBL 0 04/23	-0.186	-0.006
DBR 0¼ 08/28	0.489	-0.013
UKT 2 07/20	0.817	+0.002
UKT 0¼ 07/23	1.168	+0.001
UKT 1½ 10/28	1.609	-0.001

*Change from close as at 4.40pm BST.

Source: Bloomberg

Euro area

Euro exports improve, but ZEW indices deteriorate again

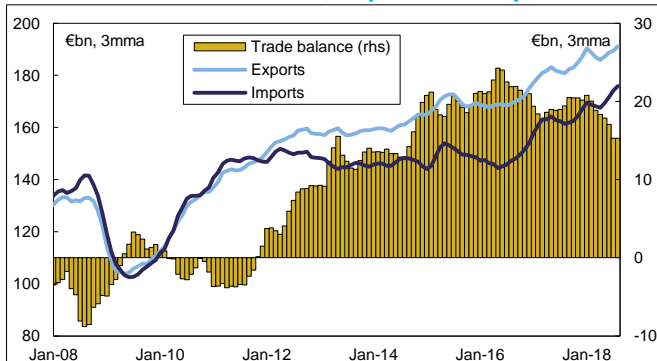
With the slowdown in euro area GDP growth through the first half attributed not least to the drag from net exports, today's monthly trade report looked, at face value, more positive. In particular, there was a notable pickup in the value of exports in August, with the 2.1%M/M increase the largest for nine months to leave them more than 5% higher than a year earlier. This principally reflected a 15½%Y/Y increase in shipments to the US, while exports to Japan were up a firm 9½%Y/Y. Perhaps unsurprisingly given its summer currency crisis, Turkey was the principal exception to the more positive trend, with the decline in exports steepening sharply, to -17%Y/Y. With the value of imports flat in August, the trade surplus recovered from July's four-year low to €16.6bn, a touch below the levels in May and June albeit still well down on the average level throughout last year and in Q1. But while the value of exports over the first two months of Q3 was up more than 1% compared with Q2, imports were on average more than 2½% higher than the average in Q2. So, while this likely to some extent reflects price movements, not least in the crude oil market, today's data further support our view that net trade again failed to provide any support to GDP growth in Q3.

Notwithstanding the more encouraging trade report, today's other new release – the ZEW survey of financial analysts – suggested that, against the backdrop of the disappointing recent export performance and US-China trade dispute, recent market turbulence and the possibility of a hard Brexit weighed on sentiment among German investors at the start of the fourth quarter. Indeed, the current conditions index fell a much steeper-than-expected 5.9pts to 70.1, its lowest level since 2016. And the drop in the expectations balance was even sharper, by 14.1pts to -24.7, matching the near-six-year low recorded in July. The ZEW is always one of the first surveys to report each month, and not necessarily the best guide to German activity. However, with most other sentiment indicators having weakened steadily since the start of the year, we would not be surprised if, in due course, other surveys, such as the Ifo, signal a continuation of this negative trend into Q4.

The day ahead in the euro area and US

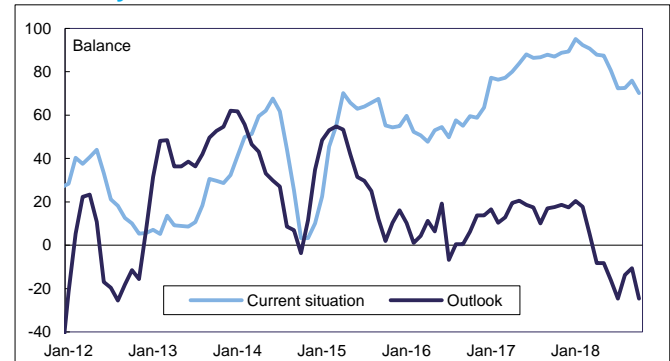
Wednesday will be the busiest day of the week for euro area economic data with perhaps most notable being the final euro area inflation figures for September. These are expected to confirm the flash estimates, which showed headline CPI rising 0.1ppt to 2.1%Y/Y and core CPI declining 0.1ppt to 0.9%Y/Y. Given the preliminary estimate's proximity to the rounding range, however, an upwards revision of 0.1ppt to the core rate is possible. Wednesday will also bring new car registration figures for September and construction output data for August.

Euro area: Trade balance, export and import values



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: ZEW sentiment indicators



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



Tomorrow will also bring the latest European Council meeting, where leaders should, among other things, discuss ongoing work on the development of the policy framework for the euro area. After the Italian cabinet last night reaffirmed its draft plans for an imprudent loosening of fiscal policy – including higher public spending, tax cuts and the reversal of a pension reform to lead to a non-negligible increase in the planned structural deficit contrary to the reduction previously pencilled in – those budgetary proposals will no doubt be discussed, at least tangentially. Indeed, with the Italian proposals so clearly inconsistent with Italy's obligations under the EU fiscal rules, Germany and other Northern Europeans would be forgiven for continuing to resist plans that would see them underwrite proposals for new euro area fiscal instruments and deposit insurance scheme.

In the US, September housing starts and permits figures are due. But more attention will likely be focused on the minutes of the September FOMC meeting.

UK

Wage growth reached a post-crisis high

Having risen at a decent pace in the first half of the year, UK employment has stalled in recent months, with today's labour market data showing three-month growth in August at -5k3M/3M, representing the first negative reading since October last year. The level of unemployment declined slightly too. But with the labour force shrinking the unemployment rate remained unchanged at 4.0%, still nevertheless the lowest level since mid-1970's. The lack of progress in the labour market appears to be a sign that supply constraints are starting to bite, in particular given that demand remains firm – indeed, the number of vacancies has remained very high by historical standards in recent months.

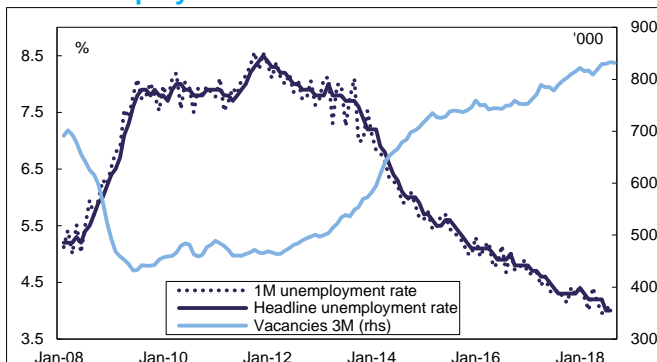
Today's pay figures, which brought an upward surprise, also pointed to a tight labour market. Average weekly earnings growth inched up 0.1ppt to 2.7%3M/Y. But excluding bonuses, growth was above 3.0%3M/Y for the first time since early 2009. On a shorter-term basis, the pace was even more impressive: total pay was up 3.9%3M/3M, while regular wage growth exceeded 4.0%3M/3M. These numbers will be welcomed by policymakers at the BoE, which based their most recent decision to raise Bank Rate on the assumption of strengthening domestically generated inflationary pressures. A number of MPC member have alluded to higher wage growth in recent speeches, while Chief Economist Haldane noted that there is "compelling evidence of a new dawn breaking for pay growth". Despite higher nominal pay growth, however, in real terms wages continue to advance at a subdued pace, although the latest readings of 0.4%3M/Y and 0.7%3M/Y in real total and regular wages respectively represented the strongest growth in more than 1½ years.

The day ahead in the UK

At one stage, tomorrow's Brexit discussions at the European Council meeting were meant to provide the opportunity for a breakthrough. However, the breakdown in negotiations over the weekend was followed by yesterday's statement in the House of Commons by PM Theresa May, whereby she reported the current stalemate over the Irish border backstops and also heard criticism of her proposals from all sides of the chamber, highlighting the difficulties that she faces in reaching a deal with the EU that might eventually be ratified by the UK Parliament. So, the probability of meaningful progress tomorrow appears minimal, and substantive progress even next month might not be forthcoming. Indeed, even just for tactical political reasons, a deal between the EU and UK sides no seems unlikely to be reached before December at the earliest, with votes in the UK Parliament – which could well prove too close to call – unlikely to be held before the New Year.

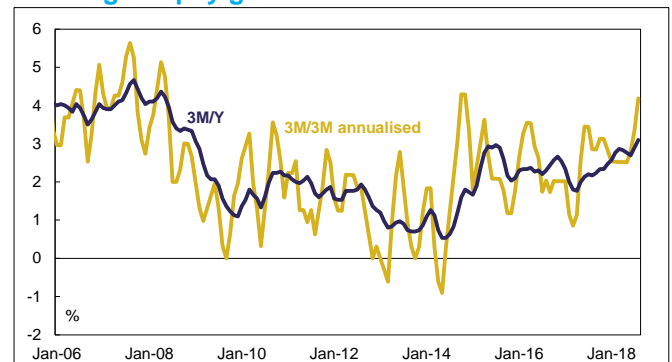
Data-wise, attention tomorrow turns to inflation, with the September figures due for release. Having risen to 2.7%Y/Y in August, the headline CPI rate is set to ease slightly – our expectations are for a 2.5%Y/Y print. The core rate should also moderate 0.1ppt to 2.0%Y/Y as inflation in both goods and services categories partly reverse the increases of the previous month. Non-core components should also see a small decline, although the fall in energy inflation will most likely be temporary. The ONS House Price Index is also due for release tomorrow, while BoE Deputy Governors Cunliffe and Broadbent are scheduled to speak publicly

UK: Unemployment rate and vacancies



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Regular pay growth













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	 Trade balance €bn	Aug	16.6	14.7	12.8	12.6
	 ZEW expectations indicator	Oct	-19.4	-	-7.2	-
Germany	 ZEW current situation (expectations) indicator	Oct	70.1 (-24.7)	74.4 (-12.0)	76.0 (-10.6)	-
Italy	 Final EU-harmonised CPI Y/Y%	Sep	1.5	1.6	1.6	-
	 Trade balance €bn	Aug	2.6	-	5.7	-
UK	 Claimant count rate % (change '000s)	Sep	2.6 (18.5)	-	2.6 (8.7)	-(14.2)
	 Average weekly earnings (excl. bonuses) 3M/Y%	Aug	2.7 (3.1)	<u>2.6 (2.9)</u>	2.6 (2.9)	-
	 ILO Unemployment rate 3M%	Aug	4.0	<u>4.0</u>	4.0	-
	 Employment change 3M/3M '000s	Aug	-5	<u>-5</u>	3	-
Country	Auction					
Germany sold	 €3bn of 0% 2020 bonds (11-Sep-2020) at an average yield of -0.56%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results







Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 ECB public sector asset purchases €bn	Weekly	1.3	<u>3.2</u>	6.8	-
UK	 Rightmove house prices M/M% (Y/Y%)	Oct	1.0 (0.9)	-	0.7 (1.2)	-
Country	Auction					
- Nothing to report -						






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	07:00	 EU27 new car registrations Y/Y%	Sep	-	31.2
	10:00	 Construction output M/M% (Y/Y%)	Aug	-	0.3 (2.6)
	10:00	 Final CPI (core CPI) Y/Y%	Sep	<u>2.1 (0.9)</u>	2.0 (0.9)
UK	09:30	 CPI (core CPI) Y/Y%	Sep	<u>2.5 (2.0)</u>	2.7 (2.1)
	09:30	 Input (output) PPI Y/Y%	Sep	9.2 (2.9)	8.7 (2.9)
	09:30	 UK House Price Index Y/Y%	Aug	2.8	3.1

Auctions and events

Country	BST	Auction / Event
EMU	-	 EU leaders hold a two-day summit
	08:30	 ECB's Praet scheduled to speak in Madrid
Germany	10:30	 Auction: to sell €1.5bn of 2.5% 2044 bonds (04-Jul-2044)
UK	14:15	 BoE's Cunliffe scheduled to speak in London
	18:00	 BoE's Broadbent scheduled to speak in Washington

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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