

Euro wrap-up

Overview

- Bunds were little changed as final October PMIs confirmed a drop in euro area business confidence at the start of Q4, while BTPs weakened as the Italian PMI signalled contraction at the start of Q4.
- Gilts made losses despite the failure of the UK Cabinet to reach a consensus on the appropriate Irish border backstop in Brexit negotiations.
- Tomorrow will bring euro area retail sales and German industrial production data for the month of September.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 09/20	-0.603	+0.008
OBL 0 10/23	-0.168	+0.004
DBR 0¼ 08/28	0.430	+0.004
UKT 2 07/20	0.834	+0.015
UKT 0¾ 07/23	1.107	+0.020
UKT 1½ 10/28	1.536	+0.036

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

Euro area

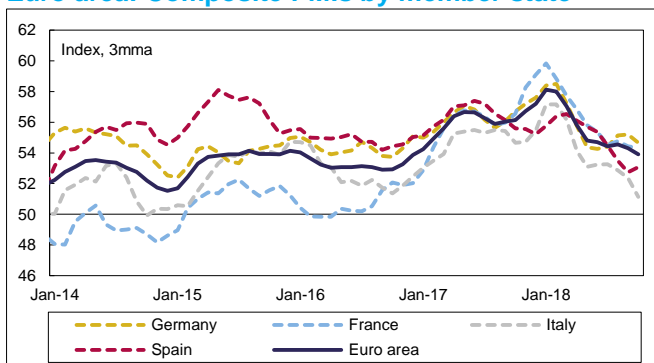
Euro area composite PMI confirmed at near-2-year low

After the euro area's final manufacturing PMI last week broadly aligned with October's flash estimate (52.0, a 26-month low), there was a modest upside surprise to the final services survey today. In particular, the euro area services and composite PMIs were upwardly revised from the preliminary readings by 0.4pt to 53.7 and 53.1 respectively. But this still represented a drop of 1.0pt from September, with the respective indices at their lowest since January 2017 and September 2016, while overall firms' business expectations were the most downbeat in almost four years. Certainly, with new orders moderating in both the manufacturing and services sectors, the composite new orders PMI was down more than 1pt in October (admittedly a touch higher than the flash estimate) to 52.8 its weakest reading for more than two years. While today's survey suggests that the economic slowdown recorded in Q3 has intensified into Q4, it also still indicated ongoing jobs growth broadly in line with the average rate of the past two years. Meanwhile, despite the softer activity backdrop, the PMIs suggested that input and output price pressures were also little changed, with the respective indices close to their averages of the past twelve months.

Italy PMIs signal contraction

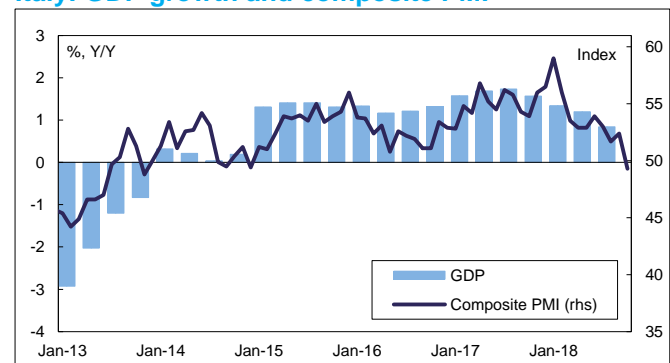
At the country level, the headline services PMI for Germany was revised notably higher from the flash estimate, but was still the weakest for three months. In contrast, the equivalent index in France was revised slightly lower from the flash, although it remained consistent with a slight pickup in growth in October. And the Spanish services PMI also signalled a firmer pace of expansion last month, with the respective index at a four-month high. So while the German composite PMI (53.4) was still down from September, the composite PMIs from France (54.1) and Spain (53.7) were higher. And, with the exception of Italy, today's surveys signalled that all member states remained firmly in expansionary territory. With regards to Italy, following the decline in the October manufacturing PMI (down 0.8pt to 49.2), today's survey suggested that the services sector fared even worse at the start of the fourth quarter, perhaps as political uncertainty and tightening financial conditions became more prominent. In particular, the headline indicator declined a whopping 4.1pts to 49.2, its weakest reading for nearly five years, to leave the composite PMI down 3.1pts to 49.3, similarly the lowest since 2013. With the composite new orders component also back in contractionary territory, jobs growth was reportedly the slowest for fourteen months. And with Italian firms concerns about the coalition government unlikely to fade over the near term, economic surveys are likely to point to ongoing sluggishness.

Euro area: Composite PMIs by member state



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

Italy: GDP growth and composite PMI



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



German factory orders fell in Q3

Ahead of tomorrow's German industrial production figures, today brought further insight into the performance of Germany's manufacturing sector in Q3 with the latest factory orders figures. And these beat expectations with total orders rising 0.3%M/M in September, following upwardly revised growth of 2½%M/M in August. The increase in September was more than fully accounted for by a rebound in domestic orders (up 2.8%M/M), while new orders from overseas were down almost 1½%M/M thanks to a more-than 3½%M/M decline in orders by countries outside the euro area. But when excluding major orders, the performance was less impressive, with orders down more than 1½%M/M. Moreover, on average in Q3, total orders fell for the third consecutive quarter and by 1%Q/Q, indicating another weak showing from Germany's manufacturers last quarter and a continued tepid outlook for the sector too. Indeed, today's manufacturing turnover figures – which typically closely align with manufacturing output – were again disappointing, showing a decline of 1.1%M/M in September (-1.3%Q/Q) suggesting that the production figures due to be published tomorrow will again report a subdued outturn that month.

The day ahead in the euro area and US

In addition to the aforementioned German industrial production figures – with the consensus forecast for growth of 0.0%M/M looking too optimistic – the focus tomorrow will be the euro area retail sales release, which will provide further insight in household consumption over the third quarter. Indeed, the expected rise of 0.1%M/M in September would still leave sales down 1% over the quarter as a whole. In the markets, Germany will sell 10-year bonds.

As markets digest the results from the mid-term elections and the FOMC's latest two-day meeting gets underway, tomorrow's US data releases include September consumer credit figures and weekly mortgage application numbers. Supply-wise, the US will sell 30-year bonds.

UK

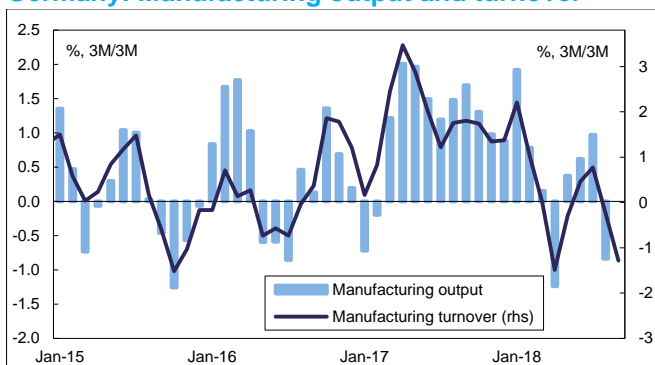
Softer retail sales growth at the start of Q4

Following yesterday's weak services PMI which left the composite index at its lowest level since the Brexit vote, today's BRC Retail Sales Monitor suggested that retail sales growth was unimpressive in October. Like-for-like sales were up by a below-average 0.1%M/M, while total sales rose 1.3%Y/Y, up from 0.7%Y/Y in September but lower compared to the summer months. Looking through the monthly volatility, the increase in total sales on a three-month basis of 1.1%3M/Y was the weakest since April. While grocery sales growth remained positive, the increase of 2.3%3M/Y was the lowest in four months, while non-food sales were broadly flat. So the survey appears to be consistent with slower retail sales growth than that seen in the latest official figures – in September they showed a rise of 3.0%Y/Y. And with consumer sentiment remaining very subdued and real wages growing only modestly, as we head into year-end, the most important period for the High Street, retail sales growth might ease further.

The day ahead in the UK

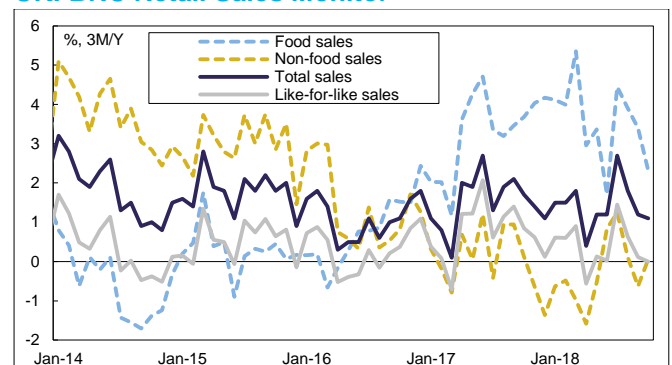
It should be a quiet day in the UK data calendar with only the Halifax house price index due for release.

Germany: Manufacturing output and turnover



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.










UK: BRC Retail Sales Monitor



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	 Final services (composite) PMI	Oct	53.7 (53.1)	53.3 (52.7)	54.7 (54.1)	-
	 PPI M/M% (Y/Y%)	Sep	0.5 (4.5)	0.4 (4.3)	0.3 (4.2)	0.4 (4.3)
Germany	 Factory orders M/M% (Y/Y%)	Sep	0.3 (-2.2)	-0.5 (-2.8)	2.0 (-2.1)	2.5 (-1.8)
	 Final services (composite) PMI	Oct	54.7 (53.4)	53.6 (52.7)	55.9 (55.0)	-
France	 Final services (composite) PMI	Oct	55.3 (54.1)	55.6 (54.3)	54.8 (54.0)	-
Italy	 Services (composite) PMI	Oct	49.2 (49.3)	52.0 (51.0)	53.3 (52.4)	-
Spain	 Services (composite) PMI	Oct	54.0 (53.7)	51.8 (52.2)	52.5 (52.5)	-
UK	 BRC retail sales monitor, like-for-like sales Y/Y%	Oct	0.1	0.5	-0.2	-
Country	Auction					
UK sold	 £1.9bn of 1.625% 2028 bonds (22-Oct-2028) at an average yield of 1.493%					

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	Retail sales M/M% (Y/Y%)	Sep	0.1 (0.9)	-0.2 (1.8)	
Germany	 07:00	Industrial production M/M% (Y/Y%)	Sep	0.0 (0.5)	-0.3 (-0.1)	
Italy	 09:00	Retail sales M/M% (Y/Y%)	Sep	-0.2 (2.1)	0.7 (2.2)	
UK	 08:30	Halifax home prices M/M% (3M/Y%)	Oct	0.8 (1.3)	-1.4 (2.5)	
Country	GMT	Auction / Event				
Germany	 10:30	Auction: to sell €3bn of 0.25% 2028 bonds (15-Aug-2028)				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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