

Euro wrap-up

Overview

- Bunds made modest losses as the latest retail sales data were consistent with weak euro area household consumption growth in Q3.
- Gilts were little changed on a day bereft of major economic announcements in the UK.
- Trade and industrial production data from major euro area member states and UK Q3 GDP figures are the most notable releases over the coming two days.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 09/20	-0.585	+0.017
OBL 0 10/23	-0.150	+0.014
DBR 0¼ 08/28	0.445	+0.012
UKT 2 07/20	0.811	-0.003
UKT 0¼ 07/23	1.108	+0.001
UKT 1½ 10/28	1.529	-0.007

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

Euro area

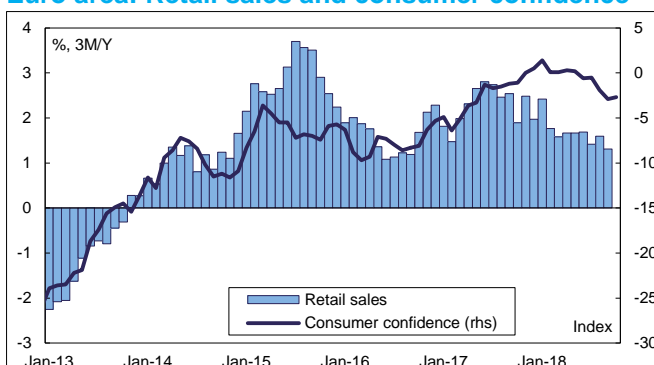
Retail sales unchanged in Q3

With euro area GDP growth having slowed markedly in Q3 to only 0.2%Q/Q, recent data suggest that household consumption growth appears unlikely to have provided much more significant support than it did in Q2, when it rose just 0.2%Q/Q. Certainly, today's retail sales release reinforced this view. The level of sales was unchanged in September, disappointing market expectations of a small increase, to leave the annual pace dropping to 0.8%Y/Y, the second lowest rate since 2014 – a sign of weakness not only in the latest month but in recent months and quarters too. Within the detail, increases of 0.4%M/M in food and fuel sales were offset by a similar decline in the non-food sector. Looking through the monthly volatility, growth in both food and non-food categories was close to zero, at 0.1%3M/3M and -0.2%3M/3M respectively, while petrol stations showed a more notable drop in sales, as fuel prices continued to rise. On this basis, total sales were unchanged in Q3 – a notable weakening from the 0.8%3M/3M increase in Q2. So, while new car sales will have provided a positive contribution to consumption growth in Q3, thanks to a surge in sales ahead of the introduction of new emission testing standards, this support seems likely to be reversed over coming months. And although consumer sentiment remains high by historical standards it deteriorated to its lowest level in sixteen months in September, suggesting limited support from household spending in the final quarter of the year too.

German IP up in September, but down in Q3

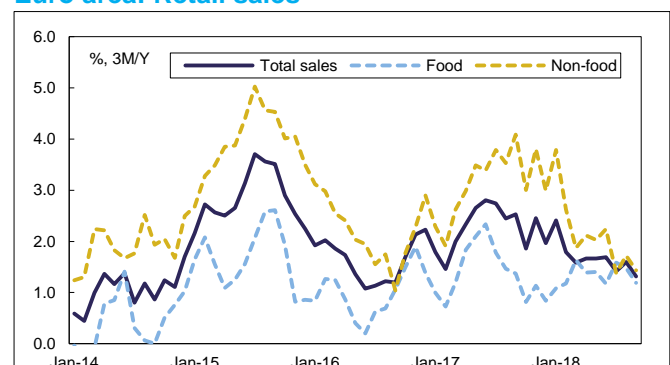
With German business survey indicators consistent with weakening economic momentum in the largest euro area member state and yesterday's manufacturing orders data signalling a drop in production levels in this sector, today's industrial production figures were slightly better than might have been expected. Overall output rose by 0.2%M/M in September, and the previous reading for August was revised upwards to growth of 0.1%M/M, to leave production up 0.8% compared with a year earlier. However, the headline figure was flattered by a 2.2%M/M jump in construction. Excluding that effect – the measure that aligns with the aggregate euro area figures – industrial production was down 0.2%M/M in September. Capital goods production finally posted an increase following three negative readings previously, but manufacturing as a whole was merely flat as production of intermediate and consumer goods posted declines. Despite the slightly better tone of September figures, Q3 as a whole was very disappointing, with total output down by nearly 1%Q/Q, fully reversing the increase in Q2, with manufacturing down almost 1½%3M/3M. A drop in car production levels associated with the introduction of new emission standards as well as rising concerns about the global trade outlook certainly played a role. So, with Germany set to release its first estimate of Q3 GDP data a week today, the outlook appears quite bleak – we expect growth to have dropped to zero, at best, last quarter, which would be the first non-positive reading for 3½ years.

Euro area: Retail sales and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



The coming two days in the euro area and US

A quieter day for European data tomorrow will bring German and French trade reports for September. Consistent with the weaker manufacturing performance so far this year, German exports have also slowed. While the value of exports is expected to have risen slightly (0.4%M/M) in September, this is unlikely to offset the weakness seen earlier in the quarter. And with the value of imports likely to have posted a sizeable increase, tomorrow's report is likely to signal that net trade was once again a drag on GDP growth in Germany in Q3. In France, meanwhile, the message from tomorrow's release is likely to align with the first estimate of Q3 GDP which showed net trade providing modest support to growth. Ahead of next week's euro area IP release, the latest output figures from Spain (tomorrow) and France (Friday) are expected to echo the weak tone to today's German manufacturing release. In addition, ECB President Draghi is due to speak in Dublin on Thursday. In the markets, France and Spain will auction bonds with various maturities.

Of course, the focus in the US tomorrow will be on the conclusion of the latest FOMC meeting. With little prospect of a change in policy settings, investor interest will centre on the accompanying short statement to see whether there is any sign that recent financial market developments might cause the Fed to refrain from tightening policy at the subsequent December meeting. Datawise, tomorrow will bring the latest weekly jobless claims figures, followed on Friday by the preliminary University of Michigan consumer sentiment survey for November, PPI data for October and wholesale inventories figures for September. The Fed's Vice Chair Quarles will speak on stress testing in Washington on Friday.

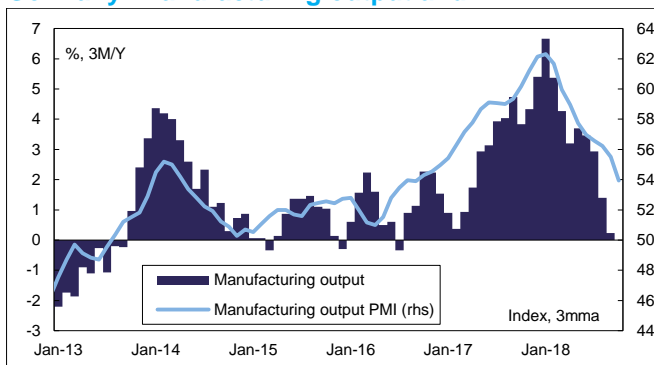
UK

The coming two days in the UK

The dataflow tomorrow brings only the RICS Residential Market survey. Today's Halifax house price index showed that the annual pace of growth eased in October from 2.5%3M/Y to 1.5%3M/Y, the lowest rate in 5½ years. The Halifax data also suggested that the average UK house price has been moving broadly sideways. Tomorrow's RICS figures will probably deliver a similar message suggesting that pressures on house prices remained broadly balanced in October, with the headline indicator expected to remain at -2%, virtually in line with its average over the last six months.

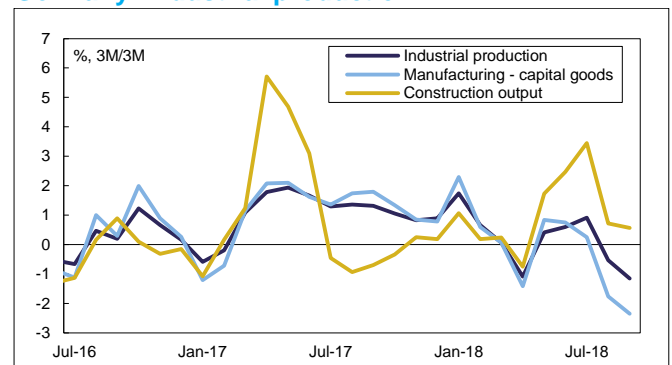
Of course, of more interest will be Friday's deluge of data, with most notable the first estimate of Q3 GDP. We expect growth to have accelerated slightly from 0.4%Q/Q in Q2 to 0.5%Q/Q, although the risks to that forecast look to be skewed to the upside. Retail sales increased notably that quarter, while new car sales also provided a positive contribution. And while business investment is set to have remained subdued against the backdrop of Brexit-related uncertainty, net trade seems to have provided a positive contribution to growth for the first time in three quarters. Alongside the GDP data we will receive the usual monthly activity indicators – services, industrial and construction output – for September and trade figures for that month too.

Germany: Manufacturing output and PMI



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

Germany: Industrial production








Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

In the absence of significant news, the next edition of the Euro wrap-up will be published on 09 November 2018.

European calendar

Today's results








Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Retail sales M/M% (Y/Y%)	Sep	0.0 (0.8)	0.1 (0.9)	-0.2 (1.8)	0.3 (2.2)
Germany	 Industrial production M/M% (Y/Y%)	Sep	0.2 (0.8)	0.0 (0.5)	-0.3 (-0.1)	0.1 (0.2)
Italy	 Retail sales M/M% (Y/Y%)	Sep	-0.8 (-2.5)	-0.2 (2.1)	0.7 (2.2)	0.6 (2.1)
UK	 Halifax house price index M/M% (3M/Y%)	Oct	0.7 (1.5)	0.8 (1.3)	-1.4 (2.5)	-1.3 (-)
Country	Auction					
Germany	 sold €2.4bn of 0.25% 2028 bonds (15-Aug-2028) at an average yield of 0.42%					

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	Trade balance €bn	Sep	20.0	17.1
	 07.00	Current account €bn	Sep	21.0	15.3
	 07.00	Exports (imports) M/M%	Sep	0.4 (0.8)	0.1 (-2.4)
France	 07.45	Trade balance €bn	Sep	-5.8	-5.6
	 07.45	Current account balance €bn	Sep	-	-1.6
Spain	 08.00	Industrial production M/M% (Y/Y%)	Sep	-0.5 (0.8)	0.7 (1.2)
UK	 00.01	RICS house price balance %	Oct	-2	-2
Country	GMT	Auction / Event			
- Nothing scheduled -					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd

Friday's data releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
France	 07.45	Industrial production M/M% (Y/Y%)	Sep	-0.3 (1.1)	0.3 (1.6)
	 07.45	Manufacturing production M/M% (Y/Y%)	Sep	-0.2 (1.8)	0.6 (1.9)
UK	 09.30	GDP – first estimate Q/Q% (Y/Y%)	Q3	<u>0.5 (1.4)</u>	0.4 (1.2)
	 09.30	Monthly GDP estimate M/M%	Sep	<u>-0.2</u>	0.0
	 09.30	Services output M/M% (3M/3M%)	Sep	0.1 (0.5)	0.0 (0.5)
	 09.30	Industrial production M/M% (Y/Y%)	Sep	-0.1 (0.4)	0.2 (1.3)
	 09.30	Manufacturing Production M/M% (Y/Y%)	Sep	0.1 (0.4)	-0.2 (1.3)
	 09.30	Construction output M/M% (Y/Y%)	Sep	0.1 (1.3)	-0.7 (0.3)
	 09.30	Trade (goods trade) balance £bn	Sep	-1.5 (-11.4)	-1.3 (-11.2)
Country	GMT	Auction / Event			
France	 09:50	Auction: to sell 0.25% 2026 bonds (25-Nov-2026)			
	 09:50	Auction: to sell 0.75% 2028 bonds (25-Nov-2028)			
	 09:50	Auction: to sell 2.5% 2030 bonds (25-May-2030)			
	 09:50	Auction: to sell 4.5% 2041 bonds (25-Apr-2041)			
Spain	 09:30	Auction: to sell 0.35% 2023 bonds (30-Jul-2023)			
	 09:30	Auction: to sell 3.45% 2066 bonds (30-Jul-2066)			
	 09:30	Auction: to sell 4.2% 2037 bonds (31-Jan-2037)			
	 09:45	Auction: to sell 0.05% 2021 bonds (31-Oct-2021)			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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