

Euro wrap-up

Overview

- Bunds were little changed despite a disappointing German sentiment survey, while the Italian government was working to the wire to submit new fiscal plans to the European Commission.
- Gilts made notable losses as reports suggested that EU and UK negotiators had reportedly finalised the Withdrawal Agreement text.
- Aside from Italian policy and Brexit-related news, the focus tomorrow will be on euro area and German Q3 GDP data, as well as October inflation figures from the UK, France and Spain.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.565	-
OBL 0 10/23	-0.184	+0.010
DBR 0¼ 08/28	0.407	+0.009
UKT 2 07/20	0.794	+0.040
UKT 0¼ 07/23	1.079	+0.050
UKT 1½ 10/28	1.515	+0.062

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

Euro area

German ZEW declines sharply

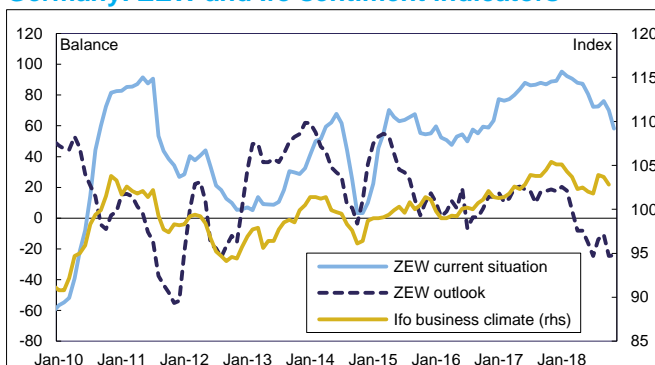
Ahead of tomorrow's Q3 German GDP release – expected to show that the economy moved sideways at best – today's ZEW survey of financial analysts signalled a further deterioration in sentiment in November. Indeed, against the backdrop of the disappointing economic performance in Q3, ongoing concerns about the outlook for global trade and the notable deterioration in equity markets – the German DAX has lost almost 9% since the end of September – the survey's current conditions index fell for the second successive month and by a steeper-than-expected 11.9pts to 58.2. This left it a whopping 37pts lower than the peak at the start of the year and at its lowest level for more than two years. But, having dropped notably in October to its joint-lowest reading in around six years, there was a modest pickup in the expectations balance, by 0.6pt to -24.1, albeit still leaving it 44.5pts lower than the start of the year and still well below the long run average. 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 business sentiment indicators having weakened steadily since the start of the year, we would not be surprised if, in due course, the Ifo and PMIs also show a continuation of this negative trend into the middle of Q4.

The day ahead in the euro area and US

It will be a busy day for economic data tomorrow, with the release of euro area and German GDP, euro area employment, all for Q3, and euro area industrial production for September. While euro area GDP growth is expected to align with the flash estimate of 0.2%Q/Q, given the preliminary reading's proximity to the lower bound of the rounding range, there is a small risk of a downwards revision. Certainly, the euro area's manufacturing sector had another weak quarter in Q3 – tomorrow's IP figures are expected to report a drop of more than ½%M/M in September, to leave output down 0.2%Q/Q. Germany will also announce its Q3 GDP data for the first time – with most activity indicators having weakened significantly last quarter, we expect the economy to have moved sideways, which would mark the first non-positive growth in 3½ years. Against a backdrop of slowing growth, euro area labour market figures might also show a limited rise in employment over the third quarter. After Germany's final inflation figures for October, released today, were unrevised at 2.4%Y/Y, a rise of 0.2ppt on the month to the highest rate since February 2012, tomorrow will also bring final October CPI figures from France and Spain. Supply-wise, Germany will sell 30Y bonds.

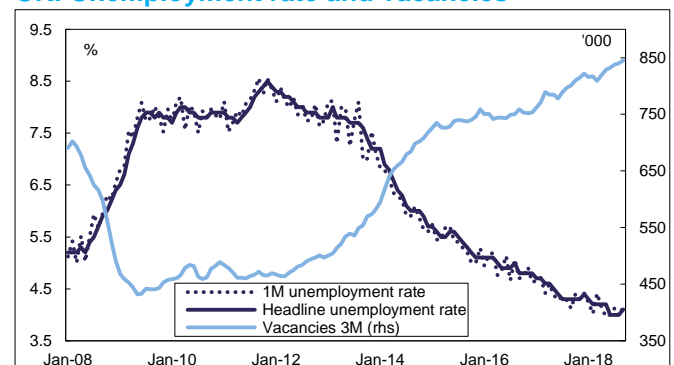
In the US, meanwhile, the main focus tomorrow will be October CPI figures. A modest increase in gasoline prices will help boost the headline index to leave the annual pace increasing for the first time since June, by 0.2ppt to 2.5%Y/Y. The rise in core prices should be a touch softer at 0.2%M/M, to leave the year-on-year rate unchanged at 2.2%.

Germany: ZEW and Ifo sentiment indicators



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Unemployment rate and vacancies



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



UK

Pay growth on the rise

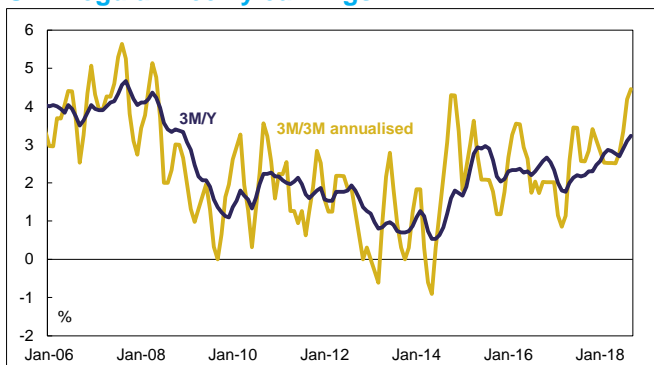
Pay growth in the UK took another step up in September, according to today's release of the latest labour market figures. The headline rate of increase in average weekly earnings rose from 2.8%3M/Y to 3.0%3M/Y, the strongest for three years. And when excluding bonuses, earnings growth of 3.2%3M/Y was the firmest rate since 2008. Looking at shorter-term measures of growth, the pace of increase was even more impressive - for example, overall regular wages were up 4.5%3M/3M annualised, while the equivalent private sector pace stood at 5.1%3M/3M, both at the highest rates since the financial crisis. While the unemployment rate ticked higher for the first time this year, by 0.1ppt to 4.1%, it was still only just off its 43-year low recorded in recent months. And the latest employment data were still consistent with tightening conditions in the labour market, with the number of people in employment rising by 23k3M/3M. And while this still represented a slowdown from the triple-digit pace of growth seen in the first half of the year this appears to be driven to a greater extent by supply constraints, with the number of vacancies continuing to rise to the highest on record.

Meanwhile, the composition of employment continued to change. The number of full-time employees continued to grow rapidly, while part-time and the self-employed categories reported decreases. And the number of average hours worked rose again to 32.2, up almost a third of an hour over the last three months. So, while the level of employment was little changed in Q3, the total number of hours worked rose by 1.0%Q/Q, exceeding GDP growth of 0.6%Q/Q. As a result, today's flash productivity estimates suggest that output per hour, the main measure of UK productivity dropped by 0.4%Q/Q last quarter almost fully reversing the improvement seen in Q2. And compared to a year ago it was only 0.2%Y/Y higher. With pay growth increasing and productivity falling, domestic inflationary pressures seem to be on the rise, something the BoE will be monitoring closely.

The day ahead in the UK

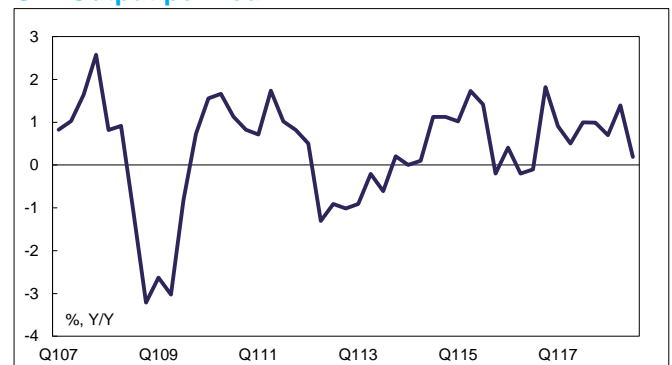
The flow of top tier UK economic data will continue tomorrow, with the latest inflation figures due for release. We expect little change, with the headline rate set to remain at 2.4%Y/Y in October. Energy inflation will probably pick up as auto fuel prices and electricity and gas tariffs appear to have taken a step up last month, but core inflation should remain at 1.9%Y/Y.

UK: Regular weekly earnings



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.












UK: Output per hour



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	 ZEW expectations indicator	Nov	-22.0	-	-19.4	-
Germany	 Final EU-harmonised CPI Y/Y%	Oct	2.4	2.4	2.2	-
	 ZEW current situation (expectations) indicator	Nov	58.2 (-24.1)	65.0 (-26.0)	70.1 (-24.7)	-
UK	 Claimant count rate % (change '000s)	Oct	2.7 (20.2)	-	2.6 (18.5)	-(23.2)
	 Average weekly earnings (excl. bonuses) 3M/Y%	Sep	3.0 (3.2)	<u>3.0 (3.1)</u>	2.7 (3.1)	2.8 (-)
	 ILO Unemployment rate 3M%	Sep	4.1	<u>4.0</u>	4.0	-
	 Employment change 3M/3M '000s	Sep	23	<u>25</u>	-5	-
Country	Auction					
Germany	 €3.1bn of 0% 2020 bonds (11-Dec-2020) at an average yield of -0.58%					
Italy	 €2.5bn of 2.3% 2021 bonds (15-Oct-2021) at an average yield of 1.98%					
	 €1.75bn of 2.5% 2025 bonds (15-Nov-2025) at an average yield of 3.12%					
	 €1.25bn of 2.95% 2038 bonds (01-Sep-2038) at an average yield of 3.9%					











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	3.1	-	-1.4	-
France	 Bank of France industrial sentiment	Oct	103	104	105	104
Italy	 Industrial production M/M% (Y/Y%)	Sep	-0.2 (1.3)	-0.5 (0.5)	1.7 (-0.8)	-
Country	Auction					
- Nothing to report -						

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 estimate Q/Q% (Y/Y)	Q3	<u>0.2 (1.7)</u>	0.4 (2.2)	
		10:00 Industrial production M/M% (Y/Y%)	Sep	-0.4 (0.3)	1.0 (0.9)	
		10:00 Employment Q/Q% (Y/Y%)	Q3	-	0.4 (1.5)	
Germany		07:00 GDP - first estimate Q/Q% (Y/Y)	Q3	<u>0.0 (1.4)</u>	0.5 (2.3)	
France		07:45 Final EU-harmonised CPI Y/Y%	Oct	2.5	2.5	
Spain		08:00 Final EU-harmonised CPI Y/Y%	Oct	2.3	2.3	
UK		09:30 CPI (core CPI) Y/Y%	Oct	<u>2.4 (1.9)</u>	2.4 (1.9)	
		09:30 Input (output) PPI Y/Y%	Oct	9.6 (3.1)	10.3 (3.1)	
		09:30 UK House Price Index Y/Y%	Sep	3.2	3.2	
Country	GMT	Auction / Event				
Germany		10:30 Auction: to sell €1.5bn of 1.25% of 2048 bonds (15-Aug-2048)				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd

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