

Euro wrap-up

Overview

- Bunds were little changed as final euro area inflation in October aligned with the flash estimate.
- Gilts partly reversed yesterday's gains as there were no new significant developments with UK politics.
- UK politics will remain the focus ahead of the EU leaders' summit on 25 November. The ECB's policy account and the Commission's Opinion on the Italian government's fiscal plans will be worth watching too.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/20	-0.585	+0.005
OBL 0 10/23	-0.224	+0.011
DBR 0% 08/28	0.372	+0.013
UKT 2 07/20	0.731	+0.029
UKT 0% 07/23	0.955	+0.031
UKT 1% 10/28	1.420	+0.056

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

Euro area

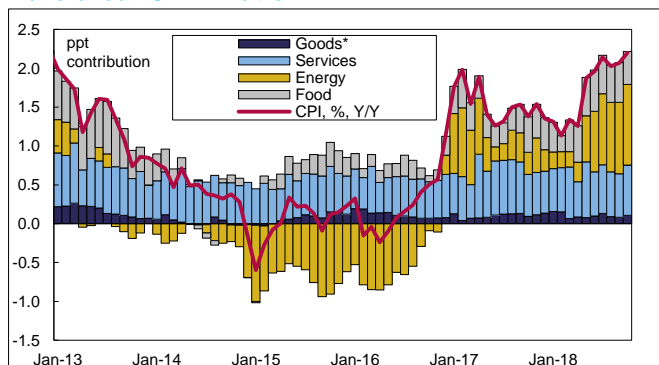
Inflation likely peaked in October

The final release of euro area inflation figures for October brought no surprises, with the pickup in the flash headline rate confirmed at 2.2%Y/Y from 2.1%Y/Y, the highest level since end-2012. Core inflation was also unrevised at 1.1%Y/Y, a rate previously seen in July before dipping to 0.9%Y/Y in August and September. The pickup in October in part reflected higher services prices, up 1.5%Y/Y, unchanged from the flash estimate and up 0.2ppt on the month, while non-energy industrial goods inflation was unrevised at 0.4%Y/Y. The other major components were also little changed from the preliminary release, confirming a drop in food inflation, from 2.6%Y/Y to 2.2%Y/Y, while the increase in energy inflation was a touch firmer than initially estimated, at 10.7%Y/Y, the first double-digit reading since late-2011. Looking at further details, volatile components, such as air fares and package holidays, appear to have provided a positive contribution, which seem likely to be reversed going forward. Moreover, with the oil price (Brent crude) having plummeted from a peak of more than \$86pb in early October to close to \$65pb, energy CPI will also exert some downward pressure on headline CPI. Indeed, we expect the headline rate of inflation to ease over the coming months and see it falling to around 1½%Y/Y in the middle of next year.

The coming week in the euro area and US

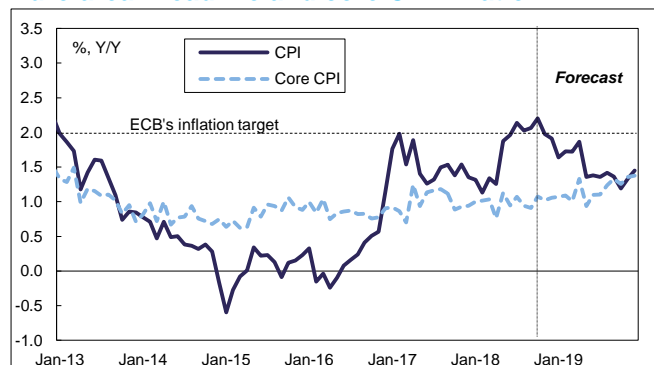
The coming week brings several releases of note, including the ECB's account from its October monetary policy meeting (Thursday), the Commission's latest Opinion on Italy's budgetary plan (Wednesday) and November sentiment surveys. In particular, while the Governing Council at the last meeting still considered risks to the outlook to be broadly balanced, it will be interesting to see to what extent discussions focussed on the recent weakening in the euro area data, while attention will also be on any further insight into the future monetary policy debate, including possible changes to the reinvestment policy to be agreed in December and options for another round of very long-term refinancing operations. With respect to Italy, the Commission is likely to reiterate its previous criticisms, noting again that the budgetary plan represents a 'significant deviation' from what was required under the EU rules. With regards to the data, Thursday will bring the European Commission's flash consumer confidence indicator for November – expected to post a modest decline on the month, albeit remaining at a relatively elevated level – as well as the French INSEE business confidence survey for the same month. Friday, meanwhile, will see the flash PMIs surveys from the euro area and largest two member states. Having declined sharply in October, the euro area's composite PMI is expected to edge lower in November to 53.0, which would be a fresh 26-month low. The final reading of German GDP growth for Q3 is also due on Friday and expected to confirm that the economy contracted last quarter (-0.2%Q/Q) for the first time in 3½ years. This release will also provide an official expenditure breakdown. The first half of the coming week, however, should be relatively quiet with just euro area balance of payments and construction output data for

Euro area: CPI inflation



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Headline and core CPI inflation



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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September due on Monday. In the markets, Germany will sell 5Y bonds on Wednesday, while France and Spain will issue bonds with various maturities on Thursday.
















Ahead of the coming week's Thanksgiving holiday should be relatively quiet on the dataflow. Housing market indicators include November's NAHB housing index (Monday), October's housing starts (Tuesday) and existing home sales figures (Wednesday). Wednesday will also bring preliminary durable goods orders data for October, along with the Conference Board's Leading index for the same month and the revised University of Michigan's consumer sentiment survey for November. Supply-wise, the US Treasury will sell 10Y TIPS on Wednesday.

UK

The coming week in the UK




UK politics will remain the focus in the coming week ahead of the European Council summit on 25 November, where EU leaders will convene to discuss and potentially sign off the Brexit Withdrawal Agreement. While Theresa May looks to have averted further Cabinet resignations for now, with key Brexit-supporting Ministers today vowing to stay (albeit in an attempt to change her policy) she may well face a leadership contest next week (which we would expect her to win). But by the time she gets to the Brussels Summit she may be even more damaged than she is currently, while the chances of getting the Withdrawal Agreement ratified by the UK Parliament look very slim. Data-wise, the coming week brings the October public finance data, which are out on Wednesday. The public finances so far this year have performed better than expected which – assuming an orderly Brexit – had provided the Chancellor room to loosen fiscal policy in the near term. The CBI's Industrial Trends survey, due on Tuesday, will be worth watching too for any insights into how sentiment in the manufacturing sector is holding up against the backdrop of high uncertainty about the future trading arrangement between the UK and the EU.

Daiwa economic forecasts

		2018				2019				2018	2019	2020
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q												
Euro area		0.4	0.4	0.2	0.3	0.3	0.3	0.3	0.3	1.9	1.3	1.2
Germany		0.4	0.5	-0.2	0.4	0.4	0.5	0.4	0.4	1.5	1.3	1.5
France		0.2	0.2	0.4	0.3	0.4	0.3	0.3	0.3	1.6	1.3	0.9
Italy		0.3	0.2	0.0	0.2	0.2	0.2	0.2	0.2	1.0	0.6	0.5
Spain		0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4	2.5	1.9	1.6
UK		0.1	0.4	0.6	0.3	0.3	0.3	0.3	0.3	1.3	1.4	1.2
Inflation forecasts %, Y/Y												
Euro area												
Headline CPI		1.3	1.7	2.1	2.0	1.7	1.6	1.4	1.4	1.8	1.5	1.5
Core CPI		1.0	0.9	1.0	1.1	1.1	1.2	1.3	1.4	1.0	1.2	1.4
UK												
Headline CPI		2.7	2.4	2.5	2.3	2.1	2.1	1.9	1.9	2.5	2.0	1.9
Core CPI		2.5	2.0	2.0	1.9	1.9	2.0	1.9	2.0	2.1	2.0	2.0
Monetary policy												
ECB												
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25
Deposit Rate %		-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.25	-0.25	-0.40	-0.25	0.00
Net asset purchases*		30	30	30	15	0	0	0	0	15	0	0
BoE												
Bank Rate %		0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	0.75	1.00	1.25
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/ <i><u>Daiwa forecast</u></i>	Previous	Revised
EMU		Final CPI (core CPI) Y/Y%	Oct	2.2 (1.1)	<u>2.2 (1.1)</u>	2.1 (0.9)	-
Italy		Final EU-harmonised CPI Y/Y%	Oct	1.7	1.7	1.5	-
		Trade balance €bn	Sep	1.3	-	2.6	2.5
Country	Auction						
- Nothing to report -							


















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
Monday 19 November 2018						
EMU		09:00	Current account balance €bn	Sep	-	23.9
		10:00	Construction output M/M% (Y/Y%)	Sep	-	-0.5 (2.5)
		14:55	ECB public sector asset purchases €bn	Weekly	-	3.1
Italy		09:00	Current account balance €bn	Sep	-	5.0
UK		00:01	Rightmove house prices M/M% (Y/Y%)	Nov	-	1.0 (0.9)
Tuesday 20 November 2018						
Germany		07:00	PPI M/M% (Y/Y%)	Oct	0.3 (3.3)	0.5 (3.2)
UK		11:00	CBI Industrial Trends Survey, total orders	Nov	-5	-6
Wednesday 21 November 2018						
UK		09:30	Public sector net borrowing excluding interventions £bn	Oct	6.2	4.1
Thursday 22 November 2018						
EMU		15:00	Preliminary consumer confidence indicator	Nov	-3.0	-2.7
France		07:45	Business sentiment indicator	Nov	104	104
		07:45	Manufacturing confidence (production outlook) indicator	Nov	103 (-)	104 (7)
Friday 23 November 2018						
EMU		09:00	Preliminary services PMI (composite PMI)	Nov	53.6 (53.0)	53.7 (53.1)
		09:00	Preliminary manufacturing PMI	Nov	52.0	52.0
Germany		07:00	GDP – final release Q/Q% (Y/Y%)	Q3	-0.2 (1.1)	0.5 (2.0)
		08:30	Preliminary services PMI (composite PMI)	Nov	54.5 (53.1)	54.7 (53.4)
		08:30	Preliminary manufacturing PMI	Nov	52.2	52.2
France		08:15	Preliminary services PMI (composite PMI)	Nov	54.9 (53.8)	55.3 (54.1)
		08:15	Preliminary manufacturing PMI	Nov	51.3	51.2

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country		GMT	Event / Auction
Monday 19 November 2018			
EMU		09:15	ECB's Nouy scheduled to speak in Frankfurt
Tuesday 20 November 2018			
EMU		16:30	ECB's Nouy scheduled to speak in Frankfurt
UK		10:00	BoE's Carney, Haldane, Cunliffe and Saunders are scheduled to testify before the Treasury Select Committee
		10:30	Auction: to sell £500mn of 0.125% 2056 index-linked bonds (22-Nov-2056)
Wednesday 21 November 2018			
EMU		-	European Commission to publish Opinion on Italy's budgetary plans
Germany		10:30	Auction: to sell €3bn of 0% 2023 bonds (13-Oct-2023)
Thursday 22 November 2018			
EMU		09:15	ECB's Angeloni is scheduled to speak in Frankfurt
		12:30	ECB publishes account of its October Governing Council meeting
		16:30	ECB's Weidmann, Knot and Visco are scheduled to speak in Florence
		17:00	ECB's Yves Mersch is scheduled to speak in Munich
France		09:50	Auction: to sell 0% 2022 bonds (25-May-2022)
		09:50	Auction: to sell 0% 2023 bonds (25-Mar-2023)
		10:50	Auction: to sell 0.25% 2024 index-linked bonds (25-Jul-2024)
		10:50	Auction: to sell 0.1% 2028 index-linked bonds (01-Mar-2028)
		10:50	Auction: to sell up to €1.25bn of 0.7% 2030 index-linked bonds (25-Jul-2030)
Spain		09:30	Auction: to sell bonds
Friday 23 November 2018			
EMU		12:00	ECB Vice President de Guindos is scheduled to speak in Madrid

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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