

Euro wrap-up

Overview

- Bunds made modest gains and BTPs remained volatile while euro area industrial production data surprised on the upside.
- Gilts also made gains as uncertainty persisted over UK PM May's ability to strike a deal with the EU that might be successfully ratified in parliament.
- The coming week brings the key EU summit discussion on Brexit, final euro area inflation figures for September, and labour market, inflation and retail sales data from the UK.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/20	-0.565	-0.011
OBL 0 04/23	-0.048	-0.017
DBR 0¼ 08/28	0.507	-0.011
UKT 2 07/20	0.839	-0.033
UKT 0¼ 07/23	1.202	-0.039
UKT 1½ 10/28	1.638	-0.035

*Change from close as at 4.00pm BST.
Source: Bloomberg

Euro area

IP trending broadly sideways despite August upside surprise

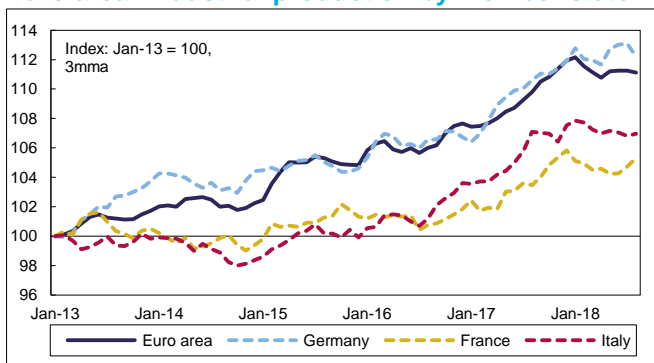
Having disappointed expectations earlier in the summer, euro area industrial production took a turn for the better in August. Following two consecutive monthly declines of 0.7%M/M in June and July, IP rose a larger-than-expected 1.0%M/M with all main categories of production up, led by energy (1.9%M/M), consumer durables (1.5%M/M) and capital goods (1.4%M/M). The expansion came despite a third consecutive weak performance in Germany, where production was flat on the EU-harmonised definition, as output rose in every other member state which reported data. While growth was strong in Italy and the Netherlands (1.7%M/M) and moderate in Spain (0.8%M/M), it was relatively modest in France (0.3%M/M). And the headline euro area figure was given a boost from exceptional strength in some of the other member states, including Portugal (2.7%M/M) and Ireland (an extraordinary 8.0%M/M). Despite the return to growth in August, euro area IP was still up a tepid 0.8%Y/Y, well down on average rates above 4.0%Y/Y around the turn of the year. And the average level of production in the first two months of Q3 was still 0.2% lower than the monthly average in Q2, with manufacturing output down 0.3% on the same basis. While we expect to see Germany return to growth in September, we think most other countries will see contractions. As such, we forecast that euro area industrial production was broadly flat over the third quarter as a whole, weighed by ongoing softness in exports, as net trade seems likely to have acted as a drag on GDP growth once again.

The coming week in the euro area and US

The coming week will bring the latest EU Council meeting (17-18 October), where leaders will, among other things, discuss ongoing work on the development of the policy framework for EMU with a view to take decisions at a Euro Summit in December. And with Italy's Lower House having yesterday passed the government's so-called Economic and Financial Document, those controversial fiscal plans will no doubt be discussed, at least tangentially.

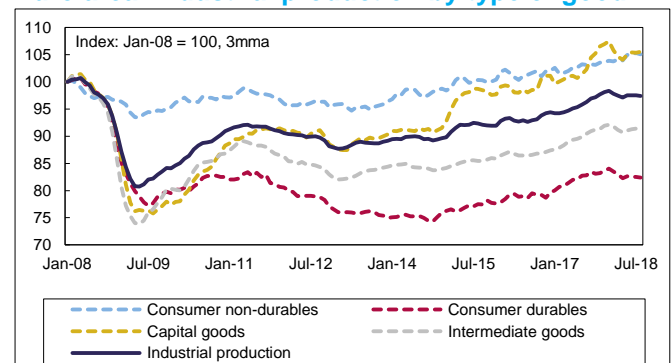
Data-wise, it should be a fairly quiet week for top-tier data with perhaps most notable Wednesday's release of final euro area inflation figures for September. These are expected to confirm the flash estimates showing headline CPI rising 0.1ppt to 2.1%Y/Y, while core CPI declined 0.1ppt to 0.9%Y/Y. An upwards revision of 0.1ppt to the core rate, however, is possible. Wednesday will also bring new car registration figures for September and construction output data for August, while euro area trade numbers for August are due the previous day. Tuesday will also bring the first insight into investor sentiment regarding the region's largest member state at the start of Q4 with the German ZEW survey for October. In the markets, Germany will sell 2Y bonds on Tuesday, followed by 25Y bonds on Wednesday, while France and Spain will auction bonds with various maturities on Thursday.

Euro area: Industrial production by member state



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Industrial production by type of good



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



In the US, the coming week kicks off on Monday with the retail sales report for September and the New York manufacturing survey. Tuesday, meanwhile, brings the August JOLTS report, September IP report and October NAHB housing index, followed by September housing starts and permits and the minutes from the September FOMC meeting on Wednesday. The Philadelphia Fed's manufacturing survey for October will be released on Thursday, followed by existing home sales for September on Friday. In the bond market, the Treasury will auction 30-year TIPS on Thursday.

UK

Brexit noise continues ahead of Summit

There were no new UK economic data released today, allowing Brexit noise to continue to dominate as moves by PM May to compromise on the knotty Irish backstop problem and unlock a Withdrawal Agreement appeared in jeopardy. MPs and National Assembly members of the Northern Irish Democratic Unionist Party, upon whose fickle support the government relies in the House of Commons to pass legislation, met to discuss Brexit policy while continuing to suggest that May's plan for different regulatory arrangements between Northern Ireland and Great Britain was a betrayal and thus still threaten to withdraw its backing. Moreover, at least one Cabinet member – reportedly the Leader of the House of Commons Andrea Leadsom – was seemingly considering resigning from government, while several of her colleagues all seemingly had expressed severe reservations, over May's intention to agree to an open-ended (albeit not permanent) customs union with the EU as part of the Irish backstop. So, even if a deal is eventually reached between the UK and EU at one of the forthcoming summits, whether the draft agreement would be ratified by the House of Commons would remain highly uncertain.



The coming week in the UK

The main UK focus in the coming week, of course, will be the EU Council meeting, where EU27 leaders will discuss over dinner on Wednesday evening the state of the negotiations on the terms of the Brexit Withdrawal Agreement and an accompanying political declaration on future arrangements, with an eye to deciding whether to call a special summit on 17-18 November to try to reach a final deal.

It will be a busy week for top-tier UK economic data, kicking off with the latest labour market report on Tuesday. With employment growth expected to have remained around zero in the three months to August, the unemployment rate is expected to have moved sideways at 4.0%, the joint-lowest rate for 43½ years. The latest developments in labour income might be of more interest, not least given that in the previous month average regular wage growth rose to its joint-highest rate since mid-2015 (2.9%3M/Y). The data focus on Wednesday, meanwhile, will be September's inflation release. While CPI unexpectedly rose 0.2ppt to 2.7%Y/Y in August, we expect headline inflation to fall back to 2.5%Y/Y in the latest month. We also forecast core CPI to slip back to 2.0%Y/Y. September's retail sales figures, due Thursday, are likely to prove to be weaker than of late. The past week's BRC retail sales monitor indicated a loss of momentum and a drop in September seems likely given the strength in the first two months of the quarter. But a drop of more than 4½%M/M in September would be required for retail sales to drop over the third quarter as a whole. Finally data-wise, Friday will bring the latest public sector finance figures. In addition, the BoE's Governor Carney is scheduled to speak in New York on Friday, while Deputy Governors Broadbent and Cunliffe also have public engagements – the latter will appear before the Treasury Select Committee on Wednesday.

In the absence of significant news, the next edition of the Euro wrap-up will be published on 16 October 2018.








European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU 	Industrial production M/M% (Y/Y%)	Aug	1.0 (0.9)	0.5 (-0.2)	-0.8 (-0.1)	-0.7 (0.3)
Germany 	Final EU-harmonised CPI Y/Y%	Sep	2.2	2.2	1.9	-
Country	Auction	- Nothing to report -				

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
France	 Final EU-harmonised CPI Y/Y%	Sep	2.5	2.5	2.6	-
Spain	 Final EU-harmonised CPI Y/Y%	Sep	2.3	2.2	2.2	-
UK	 RICS house price balance %	Sep	-2	1	2	1
Country	Auction					
Italy sold	 €3.5bn of 2.3% 2021 bonds (15-Oct-2021) at an average yield of 2.51%					
	 €1.5bn of 2.5% 2025 bonds (15-Nov-2025) at an average yield of 3.28%					
	 €942mn of 2.45% 2033 bonds (01-Sep-2033) at an average yield of 3.66%					
	 €558mn of 4% 2037 bonds (01-Feb-2037) at an average yield of 3.79%					























Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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	0.4	0.3	0.3	0.3	0.3	2.0	1.4	1.2	
Germany		0.4	0.5	0.4	0.5	0.4	0.5	0.4	1.9	1.7	1.6	
France		0.2	0.2	0.3	0.3	0.4	0.3	0.3	1.5	1.2	0.9	
Italy		0.3	0.2	0.2	0.2	0.2	0.2	0.2	1.1	0.7	0.5	
Spain		0.6	0.6	0.6	0.5	0.5	0.4	0.4	2.6	1.9	1.6	
UK		0.1	0.4	0.5	0.3	0.3	0.3	0.3	1.2	1.3	1.2	
Inflation forecasts %, Y/Y												
Euro area												
Headline CPI		1.3	1.7	2.1	2.0	1.9	1.7	1.5	1.4	1.8	1.6	1.5
Core CPI		1.0	0.9	1.0	1.0	0.9	1.0	1.1	1.3	1.0	1.1	1.4
UK												
Headline CPI		2.7	2.4	2.5	2.4	2.4	2.4	2.1	2.0	2.5	2.2	1.9
Core CPI		2.5	2.0	2.0	1.9	1.9	2.1	2.0	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	0.75	0.75	0.75	1.00	1.00
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.

Coming week's data calendar

Key data releases						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Monday 15 October 2018						
EMU		14:55	ECB public sector asset purchases €bn	Weekly	<u>3.2</u>	6.8
UK		00:01	Rightmove house prices M/M% (Y/Y%)	Oct	-	0.7 (1.2)
Tuesday 16 October 2018						
EMU		10:00	Trade balance €bn	Aug	14.4	12.8
		10:00	ZEW expectations indicator	Oct	-	-7.2
Germany		10:00	ZEW current situation (expectations) indicator	Oct	74.3 (-12.0)	76.0 (-10.6)
Italy		10:00	Final EU-harmonised CPI Y/Y%	Sep	1.6	1.6
		11:00	Trade balance €bn	Aug	-	5.7
UK		09:30	Claimant count rate % (change '000s)	Sep	-	2.6 (8.7)
		09:30	Average weekly earnings (excl. bonuses) 3M/Y%	Aug	<u>2.6 (2.9)</u>	2.6 (2.9)
		09:30	ILO Unemployment rate 3M%	Aug	<u>4.0</u>	4.0
		09:30	Employment change 3M/3M '000s	Aug	<u>-5</u>	3
Wednesday 17 October 2018						
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	2.7	3.1
Thursday 18 October 2018						
UK		09:30	Retail sales excluding auto fuel M/M% (Y/Y%)	Sep	-0.4 (3.7)	0.3 (3.5)
		09:30	Retail sales including auto fuel M/M% (Y/Y%)	Sep	-0.4 (3.6)	0.3 (3.3)
Friday 19 October 2018						
EMU		09:00	Current account balance €bn	Aug	-	21.3
Italy		09:00	Current account balance €bn	Aug	-	8.6
UK		09:30	Public sector net borrowing excluding interventions £bn	Sep	4.5	6.8

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country	BST	Event / Auction	
Monday 15 October 2018			
- Nothing scheduled -			
Tuesday 16 October 2018			
Germany		10:30	Auction: to sell €4bn of 0% 2020 bonds (11-Sep-2020)
Wednesday 17 October 2018			
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
Thursday 18 October 2018			
France		09:50	Auction: to sell 0% 2021 bonds (25-Feb-2021)
		09:50	Auction: to sell 0% 2024 bonds (25-Mar-2024)
		09:50	Auction: to sell 1% 2025 bonds (25-Nov-2025)
		10:50	Auction: to sell 0.1% 2021 index-linked bonds (01-Mar-2021)
		10:50	Auction: to sell 0.1% 2047 index-linked bonds (25-Jul-2047)
Spain		09:30	Auction: to sell bonds
Friday 19 October 2018			
UK		16:30	BoE's Carney scheduled to speak in New York

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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