

# Euro wrap-up

## Overview

- Bunds made significant gains and euro area periphery bonds outperformed as the September flash PMIs suggested notable weakening of the euro area economy.
- On a quiet day for UK economic news, Gilts also rallied ahead of a Labour Party conference vote to determine its Brexit policy.
- Tuesday will bring the latest German ifo, French INSEE and UK CBI business survey results and the outcome of the UK Supreme Court hearing on the lawfulness of Johnson's shutdown of Parliament.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.747	-0.016
OBL 0 10/24	-0.759	-0.041
DBR 0 08/29	-0.583	-0.058
UKT 3¼ 09/21	0.478	-0.061
UKT 1 04/24	0.400	-0.067
UKT 0¾ 10/29	0.547	-0.084

\*Change from close as at 4:30pm BST.  
Source: Bloomberg

## Euro area

### Flash PMIs suggest notable weakening heading towards Q4

Contrary to expectations of little change, the flash PMIs for September suggested a further loss of momentum in the euro area at the end of the third quarter with declines in all key indicators. Unsurprisingly, the weakness in the survey was most acute in manufacturing, for which the headline euro area PMI fell 1.4pts to 45.6, the lowest in more than seven years, with the output and new orders indices down again likewise to the lowest since 2012. But after suggestions of stability in recent months, conditions in services also appear to have deteriorated, with the headline PMI for the sector down 1.5pts – the most in ten months – to 52.0, the lowest since January. As a result, the euro area composite PMI also fell 1.5pts – the most since December – to just 50.4, the lowest since June 2013 and a level suggesting that economic growth has all but come to a halt. It also left the average composite PMI for Q3 at 51.3, the lowest since Q213. That would suggest euro area GDP growth in the current quarter of just 0.1%Q/Q. Given the weakness of the indices for September, including a 1.7pt drop in the euro area composite new orders index to a contractionary 48.8, also the lowest since mid-2013, the growth outlook for the fourth quarter appears to have dimmed further too. And with the composite employment (51.1) and output price PMIs (50.4) declining to multi-year lows too, underlying price pressures look to be dissipating rapidly.

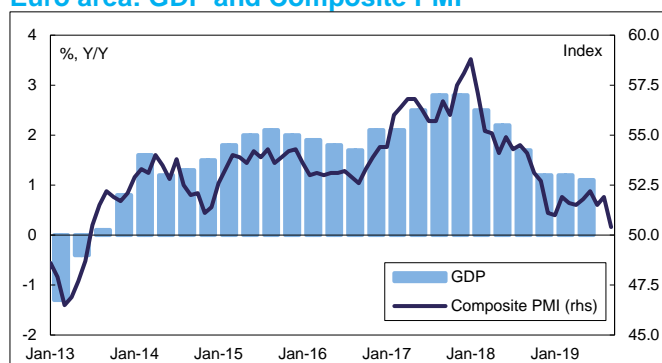
### German economy seemingly in reverse gear

The flash PMIs for Germany and France pointed to deterioration in economic conditions in the euro area's two largest member states at the end of Q3. In particular, the German composite PMI fell below the key 50 level for the first time since April 2013, suggesting an economy that has now shifted firmly into reverse gear. Indeed, the 2.6pt drop on the month was the biggest since March 2013, and took it to 49.1, the lowest since October 2012, which was the start of a quarter that saw German GDP contract 0.4%Q/Q. The Q3 average of 51.3 was the lowest since Q213. Within the detail, Germany's services PMI fell more than 2pts in September to a nine-month low of 52.5. And, most strikingly, the manufacturing PMI also fell more than 2pts to a decade low of 41.4, with the new orders PMI down to just 37.9, also the lowest since the Global Financial Crisis, suggesting that the economy is likely to struggle in Q4.

### French momentum softens, but growth remains positive

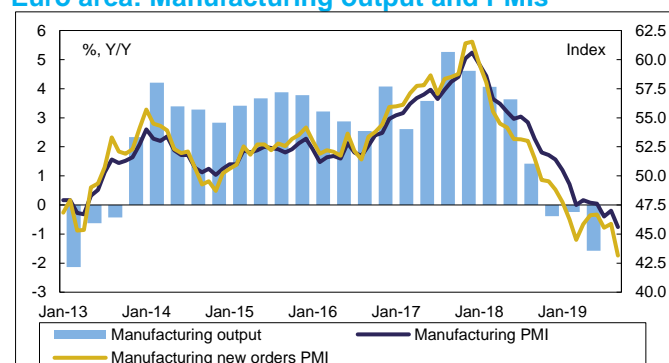
While France's PMIs remained above 50, they were nevertheless weaker across the board in September, with the composite PMI down 1.6pts, the most since December, to a four-month low of 51.3. Given strength over the previous two months, however, the Q3 average of 52.0 was up on the previous two quarters, supporting our forecast of another quarter of GDP growth of 0.3%Q/Q. Finally, although there are no flash PMIs for other member states, Markit reported that the rest of the

#### Euro area: GDP and Composite PMI



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

#### Euro area: Manufacturing output and PMIs



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



euro area saw growth soften to the weakest since November 2013. So, the deterioration of euro area economic growth momentum appears increasingly broad-based and geographically widespread.

## The day ahead in the euro area and US

Tuesday will bring national business survey results from Germany and France with the ifo and INSEE indices for September. Given the findings of today's flash PMIs, expect the ifo indices in particular to suggest ongoing weakening of momentum and flag the risks of technical recession in the euro area's largest member state. ECB Governing Council members Guindos, Hernandez de Cos, and Villeroy de Galhau will speak publicly. In the bond markets, Germany will sell 2Y Schatz.

In the US, the data-flow will include the September Conference Board consumer confidence survey results, as well as July house price data. The Treasury will sell 2Y USTs. FOMC members Evans and George will speak publicly.

## UK

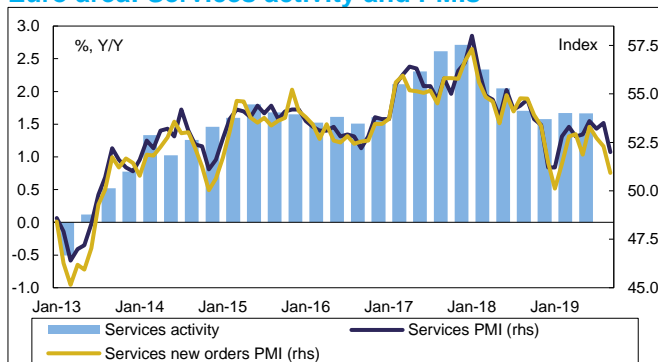
### The day ahead in the UK

Tuesday morning will bring the judgement of the UK Supreme Court on whether PM Johnson's shutdown of Parliament was lawful. While the judgement cannot be predicted with confidence, on balance we think the greater likelihood is that Johnson's action will be considered unlawful. If so, the next meeting of Parliament could be brought forward from 14 October, giving the cross-party MPs greater time to scrutinize the Government's Brexit policy and perhaps act again to ward off a no-deal Brexit. Moreover, the ability of Johnson to prorogue Parliament once again next month in a deliberate attempt to force through a no-deal Brexit could be curtailed.

Markets will also have to take stock of the impact of this evening's vote at the opposition Labour Party conference on whether (in line with the majority membership view) to adopt an all-out pro-Remain policy in the event of a second Brexit referendum or instead to adhere to the fence-sitting position advocated by leader Corbyn. The decision is also likely to have an impact on whether any new deal agreed by PM Johnson with the EU before the end of October might be approved by MPs only subject to a confirmatory referendum.

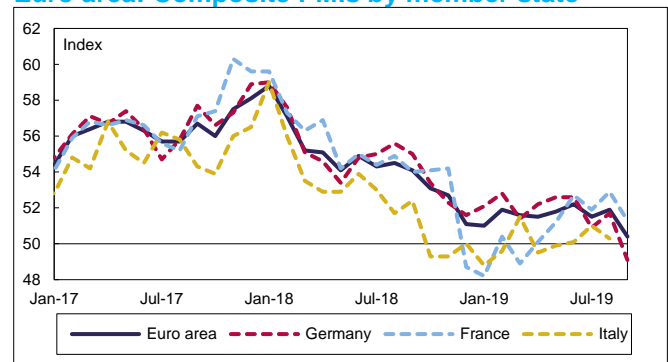
After a quiet start to the week for UK economic data, meanwhile, tomorrow will bring the September CBI industrial trends survey, which seems bound to indicate subdued conditions in the manufacturing sector despite some additional Brexit-related stock-building activity. August public finances data are also due and seem bound to report a significant increase in net borrowing compared to the same month a year ago not least due to increased public expenditure on Brexit preparations. In the bond markets, the DMO will sell 30Y Linkers.

### Euro area: Services activity and PMIs



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

### Euro area: Composite PMIs by member state\*










\*Latest observations are the September flash estimates for euro area, Germany and France and the August final PMI for Italy. Source: Markit, 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	 Preliminary manufacturing (services) PMI	Sep	<b>45.6 (52.0)</b>	47.3 (53.2)	47.0 (53.5)	-
	 Preliminary composite PMI	Sep	<b>50.4</b>	52.0	51.9	-
Germany	 Preliminary manufacturing (services) PMI	Sep	<b>41.4 (52.5)</b>	44.3 (54.3)	43.5 (54.8)	-
	 Preliminary composite PMI	Sep	<b>49.1</b>	51.4	51.7	-
France	 Preliminary manufacturing (services) PMI	Sep	<b>50.3 (51.6)</b>	51.2 (53.2)	51.1 (53.4)	-
	 Preliminary composite PMI	Sep	<b>51.3</b>	52.5	52.9	-
Spain	 Trade balance €bn	Jul	<b>-2.5</b>	-	-1.5	-

### Auctions







Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tomorrow's releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	 09.00	Ifo business climate index	Sep	94.5	94.3
	 09.00	Ifo current assessment (expectations) balance	Sep	96.9 (92.0)	97.3 (91.3)
France	 07.45	Business confidence indicator	Sep	105	105
	 07.45	Manufacturing confidence (production outlook) indicator	Sep	102 (3)	102 (2)
UK	 09.30	Public sector net borrowing £bn	Aug	7.0	-1.3
	 11.00	CBI industrial trends survey - total orders	Sep	-16	-13

### Auctions

Country	BST	Auction/Event
EMU	 08.00	ECB's Villeroy speaks in Paris
	 13.00	ECB Vice-President de Guindos speaks in Frankfurt
Germany	 10.30	Auction: to sell €4bn of 0% 2021 bonds
Spain	 11.30	Bank of Spain publishes its economic forecasts
UK	 10.30	UK Supreme Court to rule whether it was legal for PM Johnson to shut Parliament down
	 10.30	Auction: to sell £0.5bn of 0.125% index-linked 2048 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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