

Euro wrap-up

Overview

- Bunds were little changed today as Germany's construction PMI signalled an improvement at the end of Q3.
- While the UK Government suggested it would be prepared to send a letter requesting an Article 50 extension while also undermining its effect, Gilts made gains as UK car registrations remained down in the year to date.
- While Brexit noise will continue, the coming week will bring the account of the September ECB policy meeting as well as monthly data on German IP and trade and UK GDP.

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Daily bond market movements

| Bond | Yield | Change |
|--------------|--------|--------|
| BKO 0 09/21 | -0.796 | -0.004 |
| OBL 0 10/24 | -0.803 | +0.001 |
| DBR 0 08/29 | -0.590 | +0.004 |
| UKT 3% 09/21 | 0.349 | -0.011 |
| UKT 1 04/24 | 0.250 | -0.019 |
| UKT 0% 10/29 | 0.442 | -0.028 |

*Change from close as at 4:40pm BST.
Source: Bloomberg

Euro area

German construction sector turning for the better?

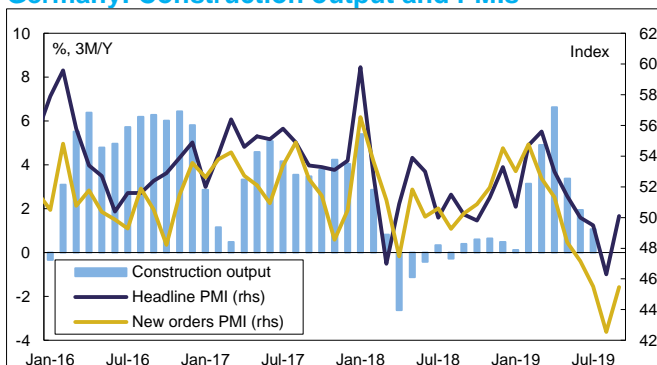
On a quiet end to the week, the most notable new data release of note was the German construction PMI survey for September. Over the past few years, confidence in Germany's construction has been elevated, with the respective ifo sentiment indicator reaching a series high a year ago reflecting strong demand and highly favourable fundamentals. Since then, however, while still high by historical standards, sentiment in the sector has moderated. And having been firm earlier this year, like manufacturing output, construction activity weakened in late spring and into the summer. However, today's construction PMI survey suggested that conditions in the sector took a turn for the better at the end of Q3. The headline PMI rose a chunky 3.8pts to a four-month high of 50.1. Housing activity (up 3.5pts to 51.5) led the way, but commercial work (up 4.6pts to 49.3) and civil engineering (up 2pts to 46.0) were also improved. The survey indicator for new orders also rose. But at 45.5 it remains low and suggestive of a still-subdued outlook for activity in the sector. So, while the weakening in construction output seen since the first quarter might have come to an end, we do not anticipate a significant boost to economic growth from the sector anytime soon.

The week ahead in the euro area and US

The coming week will be quiet for euro area aggregate data releases. But there will be several key national releases, with focus on August IP data from the four largest member states. German factory orders figures (Monday) will be followed by that country's production numbers (Tuesday), with both expected to report continued contraction in the middle of Q3. In particular, German IP is forecast to fall for the third consecutive month in August, to leave output 4½% lower than a year earlier. That day will also bring equivalent Spanish figures, followed on Thursday by French and Italian IP data. The latest goods trade reports for August are also due from Germany (Thursday) and France (Tuesday). And the end of the week will also bring final September inflation figures from Germany and Spain, which are expected to align with the flash estimates that showed the respective headline harmonised CPI rates decline 0.1ppt to 0.9%Y/Y and 0.2ppt to 0.2%Y/Y. Elsewhere, the account from the ECB's September Governing Council meeting (Thursday) will be of interest with respect to the split in opinions on last month's stimulus package. Meanwhile, Council members Constâncio, Lane and Hernández de Cos are due to speak on Tuesday, while Banca d'Italia's Panetta – the proposed candidate to replace outgoing ECB Executive Board member Cœuré later this year – will speak in Rome on Wednesday. In the markets, Germany will sell index-linked bonds on Tuesday, while Italy is scheduled to sell bonds on Friday.

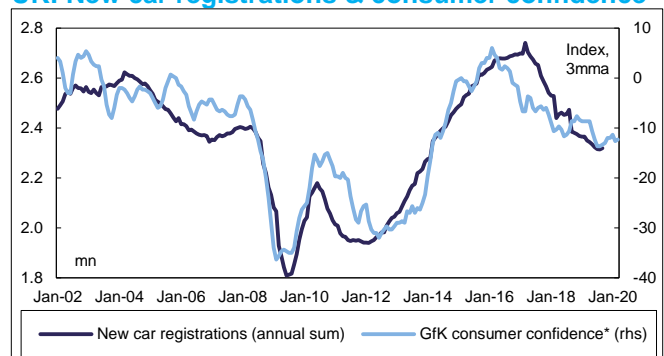
In the US, the coming week's data highlights will focus on inflation with the September CPI report due on Thursday, as well as PPI and import/export price figures for the same month due on Tuesday and Friday respectively. New sentiment indices

Germany: Construction output and PMIs



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

UK: New car registrations & consumer confidence



*Consumer confidence index has six-month lead. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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will come from the NFIB small business survey for September (due Tuesday) and the preliminary University of Michigan consumer confidence survey for October (Friday). Other releases of note include August consumer credit numbers (Monday), the JOLTS job report and wholesale trade and inventories figures for the same month (Wednesday), the usual weekly jobless claims figures (Thursday) and the September federal budget statement (specific date of release to be announced). Meanwhile, further insights into Fed policy might emerge on Wednesday when the minutes of the September FOMC meeting are released. And there will be several Fed policymakers speaking publicly over the course of the week including Chair Powell, who will give a speech at the annual conference of the National Association of Business Economists on Tuesday and will also participate in a Kansas City Fed event on Wednesday. In the markets, the Treasury will sell 3Y notes (Tuesday) and 10Y notes on Wednesday and 30Y bonds on Thursday.

UK

New car registrations fall short of expectations

A quiet end to the week for new releases from the UK brought only new car registrations figures for September, which is typically a strong month for auto sales. But despite the low base as sales this time last year were negatively impacted by the introduction of new emissions testing standards across Europe, today's report showed a pretty paltry rise of 1.3%Y/Y. Indeed, this contrasts markedly with other European national releases implying strong double-digit growth in September – registrations were up in Germany by 22%Y/Y, France by 16½%Y/Y, Italy by 13%Y/Y, Spain by 18%Y/Y and the Netherlands by 30%Y/Y. So, over the first nine months of the year, UK car registrations were down 2½% compared with the equivalent period in 2018. Of course, the softness of new car registrations tallies with survey evidence of subdued consumer confidence, which suggests ongoing subdued demand over coming quarters too. And with external demand for British made cars set to remain weak, we would expect auto production to remain on a downward trend over coming months too.
















The week ahead in the UK

Brexit will inevitably remain centre-stage in the coming week as talks continue between the UK and EU at different levels of seniority to determine whether there is scope for a deal to be reached at the forthcoming EU Summit on 17-18 October. However, the EU is clearly unable to accept [Johnson's current proposals](#), not least as they require the re-establishment of customs checks to be imposed on good shipments between Northern Ireland and the Irish Republic, as well as the veto on Northern Irish regulatory alignment with the EU provided to the Northern Irish Assembly. So, the UK Government will need to shift its position and present acceptable new legal text by the end of the week to keep open the possibility of an agreement at that Summit. If not, although a further Summit later in the month would not be ruled out, the focus on 17-18 October would shift to preparing for either a no-deal scenario or a further Article 50 extension.

If, as we expect, no agreement is reached on 17-18 October, the UK's anti-no-deal legislation (the recently approved Benn Act) would demand that Boris Johnson write formally to the EU to request an Article 50 extension. And a legal case at the Court of Session (Scotland's highest civil court) will continue at the start of the coming week to determine the consequences if Boris Johnson did not write that letter. Johnson has repeatedly stated publicly that he would not send such a letter. But Government documents submitted to the court today contradicted those statements by specifying that he would in fact do so if necessary. At the same time, however, an aide of Johnson suggested that the Government might simultaneously also seek to frustrate the application for an extension (e.g. via diplomatic means to try to encourage another member state to veto the EU's agreement to such a request) in order to try to achieve a no-deal Brexit. So, the case in the Court of Session will rule on the consequences for Johnson (which in theory could include a custodial sentence) if he did indeed frustrate the application for an extension. It will also rule on whether, if Johnson failed to write the letter seeking the extension, a court could do so automatically on his behalf.



Data-wise, the most notable UK release in the coming week will be the August production figures, including GDP, on Thursday. With some car plants missing their usual maintenance shutdowns that month, manufacturing output might post a second monthly gain. However, we expect output in services and construction to decline, and so also expect a small drop of 0.1%M/M in GDP. Given the rise of 0.3%M/M in July, however, that would still leave overall economic output on track for a modest gain in Q3 following the fall of 0.2%Q/Q in Q2. The August trade data, however, seem likely to show a widening in the deficit and ongoing weakness in exports. Other releases due in the coming week include the September BRC retail sales survey and Q2 unit labour cost data (both Tuesday) and the September RICS housing survey (Wednesday). Meanwhile, Tuesday will see BoE Governor Carney, Chief Economist Haldane and external MPC member Teneyro speak publicly, but given the focus of their respective events, none of them seems likely to comment explicitly on the BoE monetary policy outlook. Finally, in the bond market, the DMO will sell 2036 index-linked Gilts on Tuesday.

Economic forecasts

| | | 2019 | | | | 2020 | | | | 2018 | 2019 | 2020 |
|-----------------------------------|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| GDP forecasts %, Q/Q | | | | | | | | | | | | |
| Euro area |  | 0.4 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 1.9 | 1.1 | 0.8 |
| Germany |  | 0.4 | -0.1 | -0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 1.5 | 0.5 | 0.4 |
| France |  | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 1.7 | 1.3 | 1.2 |
| Italy |  | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | -0.1 | -0.1 | 0.7 | 0.0 | 0.1 |
| Spain |  | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 2.4 | 2.2 | 1.6 |
| UK |  | 0.5 | -0.2 | 0.2 | -0.1 | 0.2 | 0.2 | 0.2 | 0.1 | 1.4 | 1.0 | 0.5 |
| Inflation forecasts %, Y/Y | | | | | | | | | | | | |
| Euro area | | | | | | | | | | | | |
| Headline CPI |  | 1.4 | 1.4 | 1.0 | 1.0 | 1.2 | 1.2 | 1.4 | 1.2 | 1.8 | 1.2 | 1.2 |
| Core CPI |  | 1.0 | 1.1 | 0.9 | 1.0 | 1.1 | 1.2 | 1.4 | 1.3 | 1.0 | 1.0 | 1.0 |
| UK | | | | | | | | | | | | |
| Headline CPI |  | 1.9 | 2.0 | 1.9 | 1.7 | 2.0 | 1.7 | 1.5 | 1.5 | 2.5 | 1.9 | 1.7 |
| Core CPI |  | 1.9 | 1.7 | 1.7 | 1.6 | 1.7 | 1.8 | 1.7 | 1.7 | 2.1 | 1.7 | 1.7 |
| 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 | 0.00 |
| Deposit Rate % |  | -0.40 | -0.40 | -0.50 | -0.50 | -0.60 | -0.60 | -0.60 | -0.60 | -0.40 | -0.50 | -0.60 |
| Net asset purchases* |  | 0 | 0 | 0 | 20 | 20 | 20 | 20 | 20 | 15 | 20 | 20 |
| BoE | | | | | | | | | | | | |
| Bank Rate % |  | 0.75 | 0.75 | 0.75 | 0.75 | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 0.50 |
| 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/ Daiwa forecast | Previous | Revised | |
| Germany |  Construction PMI | Sep | 50.1 | - | 46.3 | - | |
| UK |  New car registrations Y/Y% | Sep | 1.3 | - | -1.6 | - | |
| Auctions | | | | | | | |
| Country | Auction | | | | | | |
| - Nothing scheduled - | | | | | | | |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.








In the absence of significant news, the next edition of the Euro wrap-up will be published on 8 October 2019

The coming week's key data releases

| Country | BST | Release | Period | Market consensus/ <i>Daiwa forecast</i> | Previous |
|----------------------------------|---|---|--------|--|-------------|
| Monday 07 October 2019 | | | | | |
| Germany |  | 07.00 Factory orders M/M% (Y/Y%) | Aug | -0.4 (-6.9) | -2.7 (-5.6) |
| Tuesday 08 October 2019 | | | | | |
| Germany |  | 07.00 Industrial production M/M% (Y/Y%) | Aug | -0.2 (-4.2) | -0.6 (-4.2) |
| France |  | 07.45 Trade balance €bn | Aug | - | -4.6 |
| Italy |  | 09.00 Retail sales M/M% (Y/Y%) | Aug | - | -0.5 (2.6) |
| Spain |  | 08.00 Industrial production M/M% (Y/Y%) | Aug | 0.1 (0.4) | -0.4 (0.8) |
| UK |  | 00.01 BRC retail monitor, like-for-like sales Y/Y% | Sep | -0.8 | -0.5 |
| |  | 09.30 Unit labour costs Y/Y% | Q2 | - | 2.1 |
| Wednesday 09 October 2019 | | | | | |
| France |  | 07.30 Bank of France business survey – industry sentiment | Sep | 99 | 99 |
| Thursday 10 October 2019 | | | | | |
| Germany |  | 07.00 Trade balance €bn | Aug | 18.6 | 21.6 |
| France |  | 07.45 Industrial production M/M% (Y/Y%) | Aug | 0.2 (0.2) | 0.3 (-0.2) |
| |  | 07.45 Manufacturing production M/M% (Y/Y%) | Aug | 0.3 (-0.2) | 0.3 (-0.3) |
| Italy |  | 09.00 Industrial production M/M% (Y/Y%) | Aug | 0.1 (-1.8) | -0.7 (-0.7) |
| UK |  | 00.01 RICS house price balance | Sep | -7 | -4 |
| |  | 09.30 Monthly GDP M/M% (3M/3M%) | Aug | 0.0 (0.1) | 0.3 (0.0) |
| |  | 09.30 Industrial production M/M% (Y/Y%) | Aug | 0.0 (-0.9) | 0.1 (-0.9) |
| |  | 09.30 Manufacturing production M/M% (Y/Y%) | Aug | 0.2 (-0.7) | 0.3 (-0.6) |
| |  | 09.30 Index of services M/M% (3M/3M%) | Aug | -0.1 (0.2) | 0.3 (0.2) |
| |  | 09.30 Construction output M/M% (Y/Y%) | Aug | -0.4 (-0.1) | 0.5 (0.3) |
| |  | 09.30 Total trade balance (goods trade balance) £bn | Aug | -1.0 (-10.0) | -0.2 (-9.1) |
| Friday 11 October 2019 | | | | | |
| Germany |  | 07.00 Final CPI (EU-harmonised CPI) Y/Y% | Sep | 1.2 (0.9) | 1.4 (1.0) |
| Spain |  | 08.00 Final CPI (EU-harmonised CPI) Y/Y% | Sep | 0.1 (0.2) | 0.3 (0.4) |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

| Country | BST | Event / Auction |
|----------------------------------|---|--|
| Monday 07 October 2019 | | |
| - Nothing scheduled - | | |
| Tuesday 08 October August | | |
| EMU |  | 10.30 ECB's Lane and Hernandez de Cos speaks on a panel in Frankfurt |
| Germany |  | 10.30 Auction: to sell €0.5bn of 0.50% 2030 index-linked bonds |
| UK |  | 05.00 BoE Governor Carney speaks on climate change in Tokyo |
| |  | 10.30 BoE's Tenreyro speaks on a panel in Frankfurt |
| |  | 10.30 Auction: to sell £800mn 0.125% index-linked bonds |
| Wednesday 09 October 2019 | | |
| - Nothing scheduled - | | |
| Thursday 10 October 2019 | | |
| EMU |  | 12.30 ECB's account from 12 September Governing Council meeting |
| EMU |  | 18.30 ECB's Lane speaks in Frankfurt |
| Friday 11 October 2019 | | |
| - Nothing scheduled - | | |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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