

Euro wrap-up

Overview

- Bunds closed up on the day, while a softer than expected euro area consumer confidence indicator followed a more downbeat French business sentiment survey.
- Gilts also made gains as markets responded to yesterday evening's votes in the House of Commons that raised the probability of a general election before Brexit is implemented.
- Tomorrow's main focus in the euro area will be the conclusion of the ECB's Governing Council meeting and flash PMIs for October. Meanwhile, politics will continue to dominate the news flow in the UK.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.671	-0.002
OBL 0 10/24	-0.627	-0.013
DBR 0 08/29	-0.400	-0.029
UKT 3% 09/21	0.526	+0.006
UKT 1 04/24	0.479	-0.018
UKT 0% 10/29	0.682	-0.029

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

Source: Bloomberg

Euro area

Survey results mixed ahead of the flash PMIs

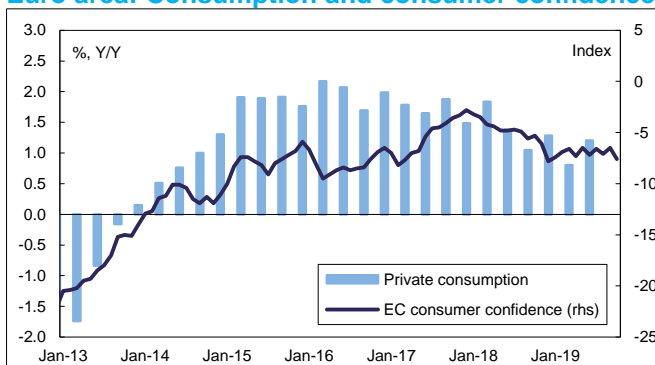
Ahead of tomorrow's ECB Governing Council meeting and release of the October flash PMIs, today brought the results from a couple of other sentiment surveys. The Commission's flash euro area consumer confidence indicator fell back more than had been expected, by 1.1pts to -7.6, the weakest reading so far this year, but effectively extending the recent trend of mild oscillation around a broadly sideways trend. That also therefore left it well below the average seen through 2018 and consistent with nothing better than ongoing moderate household spending growth. Meanwhile, the French INSEE business sentiment survey for October was also softer than expected, suggesting that economic conditions deteriorated at the start of Q4. In particular, the INSEE composite business climate indicator fell 1pt to 105, still however above its long-term average (100). Within the detail, there was a deterioration in manufacturing, for which the respective index fell 3pts to 99, the weakest since March 2015. In contrast, the equivalent figures were stable and above the long-average in services, construction and retail.

The day ahead in the euro area and US

As far as the euro area is concerned, Thursday will bring this week's most notable economic event and most significant economic data. For a start, the conclusion of the ECB's Governing Council meeting will draw the curtain down on Mario Draghi's eight-year term as President before Christine Lagarde takes over at the start of next month. Policy-wise, however, it will be a non-event. After the Governing Council last month agreed a package of new measures – including a 10bps cut in the deposit rate, an open-ended programme of net asset purchases to start on 1 November, a tiered rate framework to start on 30 October, and more generous conditions on the TLTRO-III operations – possible next steps are highly unlikely to be discussed at the meeting. However, the much-publicised differences of opinion on the Governing Council will no doubt be a focus of the press conference. Moreover, Draghi might also be questioned on the desirability of the upwards shift in yields across the curve since the September meeting, which is in part likely related to the planned tiering framework. In terms of the economic outlook, meanwhile, there seems to be no good reason for Draghi to view the ECB's current forecasts as too pessimistic. Indeed, he will no doubt emphasise that the risks remain skewed to the downside. And we would also not be at all surprised if the forecasts were eventually revised down again in December.

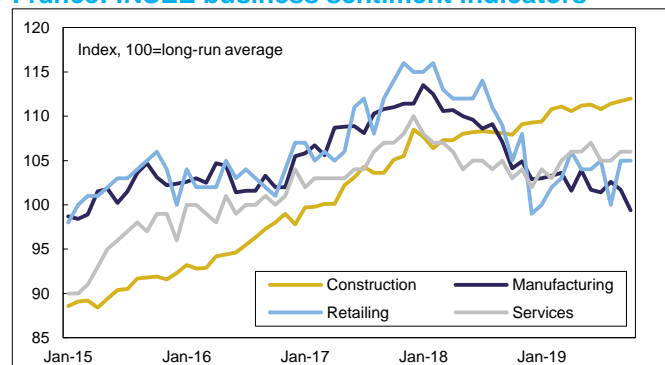
Data-wise, meanwhile, tomorrow will bring the flash October PMIs. The September PMIs suggested a further loss of momentum in the euro area at the end of the third quarter, with declines in all key indicators. Weakness was most acute in manufacturing, for which the headline euro area PMI fell to 45.7, the lowest in more than seven years, and the output and

Euro area: Consumption and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

France: INSEE business sentiment indicators



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



new orders indices similarly dropped to the lowest since 2012. While the consensus expectation is for a slight improve improvement in October, today's INSEE manufacturing index suggested otherwise.

Thursday will be a busy day for economic data from the US. Most notably perhaps, ~~bring~~ preliminary durable goods figures for September are due. In addition, new home sales figures for the same month, the flash Markit PMIs for October, and usual weekly claims numbers are also scheduled for release. In the markets, the Treasury will sell 7Y Notes.

UK

Article 50 extension coming

Yesterday evening's events as good as confirmed that the Article 50 deadline will be extended beyond the end of this month, which among other things will remove the risk of a no-deal Brexit. But, at the time of writing, the specificities of that extension, and quite what it will be used for, were still unclear. There was a decent chance that a general election would be held before Christmas to try to resolve the arithmetic in the House of Commons. However, it was still not impossible that Parliament would first be given another couple of weeks to try to pass the Brexit Withdrawal Agreement Bill (or WAB) before an election is scheduled for next year.

WAB progress paused

Johnson yesterday evening stated that he would 'pause' the progress of his WAB. That came after he won a majority in favour in principle (by 329 votes to 299) but was subsequently defeated (by 322 votes to 308) on the programme motion, whereby he had sought to seriously limit the scope for scrutiny and amendment of the Bill. His desire for an unreasonably tight timetable reflected his fear that his WAB would be amended significantly by MPs in the committee stage – perhaps, for example, to incorporate a demand that the Government negotiate a customs union arrangement with the EU or extend the intended transition period by two years to end-2022.

Tusk unsurprisingly recommending extension

In response to yesterday's votes, EU President Donald Tusk tweeted that he would recommend to the EU27 leaders that they now accept the request in Johnson's letter sent on Saturday for an extension. In line with the Benn Act, that letter requested an extension until 31 January. And since any alternative deadline would require endorsement in a subsequent vote in the House of Commons, we expect the 31 January to be agreed by the EU27. But the extension would likely still leave open the door to the UK to leave the EU sooner (perhaps on the first or fifteenth of any month up until the 31 January) should the necessary legislation be adopted by then. At the time of writing, however, the likely timing of the agreement and announcement of the EU's offer was still uncertain.

Will an election come before Brexit is implemented?

As such, it was still possible that Johnson would try again over coming days to pass a new programme motion incorporating a slightly longer timetable for House of Commons scrutiny of his WAB. But the chances of his Brexit proposals then being amended by MPs in a form that would be unacceptable to him would seem high. And he would still have no scope to limit the time taken by the House of Lords to consider the Bill. As such, on balance, we continue to expect a general election to be held before Brexit is implemented. The outcome of that election would be highly unpredictable even if the Conservatives might currently seem on track for a majority. Much might depend on timing. Johnson might prefer it sooner rather than later. But for the election to be held by the end of the year, Parliament will need to agree to it within the next two weeks.




The day ahead in the UK

Politics will continue to dominate tomorrow, as Johnson tries to work out how to respond to yesterday's votes in the House of Commons. It remains to be seen whether EU President Tusk will be able to confirm the detail of the Article 50 extension to be offered to the UK. But if and when he does, Johnson could move swiftly to announce his intended next steps, including any proposal for an early general election. Indeed, perhaps notably, tomorrow will represent the latest possible date by which Parliament could set a general election in November under the Fixed Term Parliaments Act. It will also bring the Parliamentary vote on Johnson's 'Queen's Speech' policy agenda, a defeat in which would also provide further justification for a move to an early general election. Data-wise, UK Finance bank loan figures for September represent the only release of note.


European calendar

Today's results

Economic data











Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Consumer confidence indicator	Oct	-7.6	-6.8	-6.5	-
France	 Business confidence indicator	Oct	105	106	106	-
	 Manufacturing confidence indicator (production outlook)	Oct	99 (-1)	102 (5)	102 (4)	- (3)

Auctions



Country	Auction
Germany	 sold €2.5bn of 0% 2029 bonds at an average yield of -0.41%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU		09.00 Preliminary manufacturing PMI (services)	Oct	46.0 (51.9)	45.7 (51.6)
		09.00 Preliminary composite PMI	Oct	50.3	50.1
		12.45 ECB main refinancing rate %	Oct	0.00	0.00
		12.45 ECB marginal lending facility %	Oct	0.25	0.25
		12.45 ECB deposit facility rate %	Oct	-0.50	-0.50
Germany		08.30 Preliminary manufacturing PMI (services)	Oct	42.0 (52.0)	41.7 (51.4)
		08.30 Preliminary composite PMI	Oct	48.8	48.5
France		08.15 Preliminary manufacturing PMI (services)	Oct	50.2 (51.6)	50.1 (51.1)
		08.15 Preliminary composite PMI	Oct	51.6	50.8
UK		09.30 UK Finance loans approved for house purchase '000s	Sep	42.4	42.6

Events & Auctions

Country	BST	Auction/Event
EMU		12:45 ECB monetary policy announcement
		13.30 ECB's Draghi speaks at a press conference following the Governing Council meeting

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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