

# Euro wrap-up

## Overview

- Bunds followed the global trend lower, despite some subdued German business and consumer sentiment surveys.
- Gilts made losses as political uncertainty in the UK was heightened by further delays in the EU's decision on the extension of Article 50.
- An eventful coming week will bring the first estimates of euro area Q3 GDP and October inflation. Politics will continue to dominate the UK news flow ahead of the Article 50 deadline, while the UK manufacturing PMI will be the data highlight.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.667	+0.014
OBL 0 10/24	-0.616	+0.020
DBR 0 08/29	-0.379	+0.029
UKT 3% 09/21	0.503	+0.027
UKT 1 04/24	0.460	+0.031
UKT 0% 10/29	0.664	+0.041

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

Source: Bloomberg

## Euro area

### German ifo survey suggests little change at start of Q4

Yesterday's disappointing [PMIs](#) implied that little has materially improved in Germany's economy at the start of Q4, with the manufacturing sector woes continuing and possibly increased negative spillovers to the services sector. Today's ifo business survey gave a similar impression – while the headline business climate index for October came in slightly above the consensus forecast, it merely moved sideways at 94.6, just above the near-seven-year low reached in August. Moreover, the index of current conditions fell 0.8pt to 97.8, a small fraction above the six-year low reached a couple of months ago. And while the index of expectations for the next six months rose 0.6pt to a three-month high, at 91.5 it was still a level that in the past decade has only been lower in the previous two months. At the sectoral level, thanks to somewhat improved expectations of the outlook, the business climate index rose in manufacturing from the previous month's decade low, but still remained exceptionally weak by historical standards. And while services firms judged the business climate to have remained unchanged, the indices for construction and retail fell back closer to the bottom of the range this year.

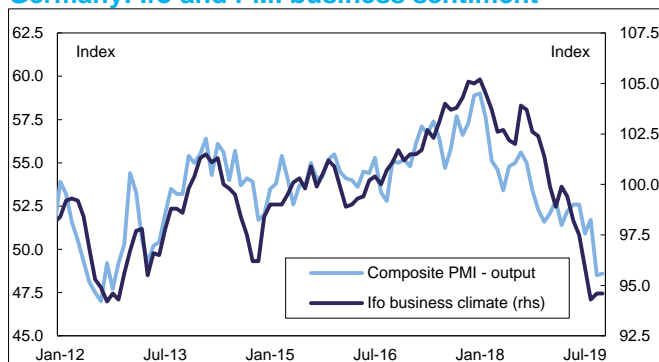
### German consumers more concerned

The GfK consumer confidence survey also offered a relatively downbeat assessment of German economic conditions at the start of Q4. In particular, the headline sentiment index was forecast to fall 0.2pt in November to 9.6, matching the weakest level since April 2017 and one that was last lower three years ago. And this followed a downwardly revised reading for the current month of 9.8. Indeed, according to GfK, ongoing concerns about the global economic slowdown, geo-political tensions and Brexit were augmented by a more downbeat outlook for the domestic labour market, particularly in the financial and autos sector where several manufacturers and suppliers, including VW, Continental and Brose, have already announced planned redundancies. And with risks that Germany has slipped back into recession in Q2 and Q3, households were the most downbeat about the economic outlook since 2012. There was also a notable weakening in households' income expectations, with the relevant index falling sharply in October to the lowest for almost six years. But while households' willingness to buy slipped back at the start of Q4 to tally with the deterioration in retail sentiment flagged in the ifo survey, it remained within the range seen over the past year, and therefore consistent with ongoing positive, albeit subdued, household spending growth.

### The week ahead in the euro area and US

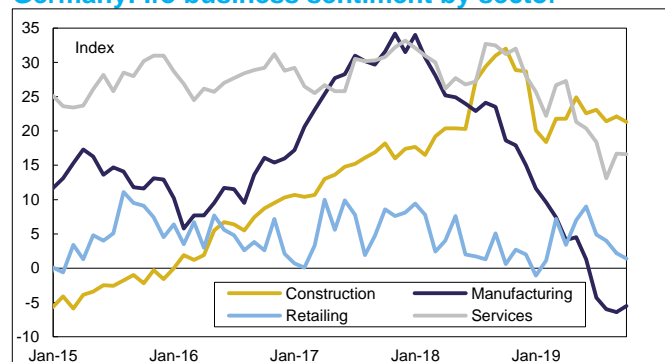
It will be a busy week ahead for top-tier euro area economic data, with the flash estimates of Q3 GDP and October CPI (Thursday) and the European Commission's economic sentiment indicator (Wednesday) key releases. In particular, Q3 GDP in the euro area is expected to show that growth slowed to 0.1%Q/Q, half the pace seen in Q2 and the softest since Q113. We expect growth in France (figures due Wednesday) to be unchanged for the third consecutive quarter at 0.3%Q/Q, but this is a touch above the consensus forecast. While Spain's economy likely continued to outperform other major member states, we also anticipate growth to

### Germany: Ifo and PMI business sentiment



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

### Germany: Ifo business sentiment by sector



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

be no stronger than the 0.4%Q/Q pace in Q2. And Italy's economy is set to have moved sideways (at best). Thursday will also bring the flash estimates of October inflation from the euro area, France and Italy, with the equivalent figures for Germany and Spain due on Wednesday. Having surprised on the downside in September, euro area headline CPI is expected to have edged even lower in October by 0.2ppt to 0.7%Y/Y on the back of lower energy inflation, while core inflation likely moved sideways at 1.0%Y/Y.

The coming week will also bring the Commission's business and consumer surveys – which arguably provide the best guide to GDP growth in the euro area – for October on Wednesday. With the flash consumer confidence indicator having deteriorated at the start of the fourth quarter (falling 1.1pts to -7.6), and little improvement expected in business conditions, the headline ESI is expected to have declined to a more-than 4½-year low. The following day will also bring euro area unemployment figures for September, while bank lending figures for the same month are due Monday. And Germany's labour market figures for October on the national measure will be published on Wednesday. In the markets, Germany and Italy will sell bonds on Wednesday.

The main event in the US will be the conclusion of the latest FOMC meeting on Wednesday. The outcome is more uncertain than recent meetings, although the Fed might not want to upset the markets, which are pricing in a near-90% probability of a rate cut. But with economic momentum slowing, risks to the outlook skewed to the downside, and various Committee members having noted the importance of acting pre-emptively, on balance, we expect the FFR target range to be cut by 25bps to 1.50-1.75%.

It will be a busy one for top-tier US data too, with the first estimate of Q3 GDP (Thursday) and October's labour market report and manufacturing ISM (Friday) the highlights. Having slowed in Q2 to 2%Q/Q annualised, GDP growth is expected to have moderated further in Q3 to 1.6%Q/Q ann. which (aside from the Government shutdown related slowdown in Q418) would be softest pace for almost four years. The increase in non-farm payrolls at the start of Q4 is also expected to be much softer than of late, with a forecast increase of 95k likely to see the unemployment rate nudge slightly higher to 3.6%. And while the headline manufacturing ISM is expected to largely reverse September's decline it is still expected to remain in contractionary territory for the third consecutive month. Also of note will be the advance goods trade and inventory figures for September (Monday), October's Conference Board's consumer confidence survey (Tuesday), the latest ADP employment report (Wednesday), September's personal income and spending figures and Q3 employment cost index (Thursday) and September construction spending data (Friday). Additionally, various housing market indicators will be published throughout the week. In the markets, there are no UST bond auctions scheduled in the coming week.

## UK

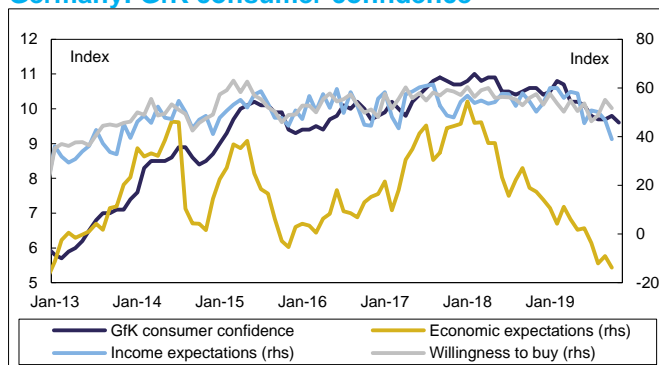
### No decisions yet on extension or election

UK political uncertainty remains highly elevated. After PM Johnson yesterday evening announced his plan to propose formally to Parliament on Monday a pre-Christmas General Election, at the time of writing it appeared unlikely that the House of Commons would grant his wish. With two-thirds of MPs required to endorse that proposal, Labour MPs appeared highly unlikely to vote in favour of Johnson's motion, at least unless the EU was first to offer an unambiguous Article 50 extension to end-January. But in their meeting today, EU Ambassadors deferred their decision on the length and detail of the extension to Monday at the earliest. That reflected the desire of France to offer only a short extension, to 15 November, as preferred by Johnson himself. However, it is clear that France is isolated in this respect. So, while the likelihood is that the parliamentary chaos will continue well beyond the start of next week, we continue to expect the extension to end-January eventually to be agreed. A final decision by the EU might, however, be left to the 31 October, just before the UK would otherwise have to leave without a deal. Of course, the door will also likely be left open to a sooner EU exit should Parliament pass a Withdrawal Agreement before end-January. Whether all this will eventually be sufficient for MPs to reach agreement on the timing of an early election, however, is unclear, with the behaviour of Johnson and Labour leader Corbyn highly unpredictable (and often seemingly irrational).

### The week ahead in the UK

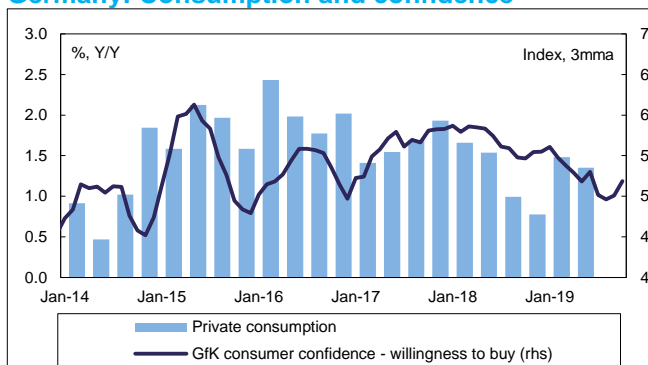
Aside from the politics, the coming week's data calendar will be dominated by October sentiment surveys, with perhaps most notable the manufacturing PMIs due on Friday. Despite a modest pickup in September, the headline index remained below the key-

#### Germany: GfK consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.
















#### Germany: Consumption and confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.







50 mark for the fifth consecutive month. And while a no-deal Brexit at the end of the month was eventually effectively taken off the table, persistent political uncertainty will have continued to hamper conditions in the sector, with the headline index likely to have remained firmly in contractionary territory at the start of Q4. Ahead of this, the week will bring the GfK consumer confidence indicator (Thursday), which seems bound to reiterate the downbeat assessment of households seen over the past year, suggesting a further likely moderation in household spending growth. Against this backdrop, the CBI distributive trades survey (Monday) is expected to show that retailers had seen a further decline in sales growth at the start of Q4. And the BoE's latest lending figures (Tuesday) are likely to indicate a further slowdown in consumer credit growth at the end of Q3. Elsewhere, BoE external member Tenreyro will speak publicly on Monday, while the DMO will sell index-linked Gilts on Tuesday.

## Daiwa 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	0.9	1.1	1.0	1.2	1.2	1.8	1.2	1.1
Core CPI		1.0	1.1	0.9	1.1	1.2	1.2	1.4	1.3	1.0	1.0	1.0
UK												
Headline CPI		1.9	2.0	1.8	1.6	1.9	1.6	1.5	1.5	2.5	1.8	1.6
Core CPI		1.9	1.7	1.7	1.7	1.8	1.9	1.8	1.7	2.1	1.8	1.8
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	 GfK consumer confidence indicator	Nov	9.6	9.8	9.9	9.8
	 Ifo business climate index	Oct	94.6	94.5	94.6	-
	 Ifo current assessment balance (expectations)	Oct	97.8 (91.5)	98.0 (91.0)	98.5 (90.8)	98.6 (90.9)
France	 PPI Y/Y%	Sep	-1.0	-	-0.7	-0.6
Spain	 PPI Y/Y%	Sep	-3.3	-	-2.5	-2.6
Auctions						
Country	Auction					
Italy		Auction: sold €3bn of 0% 2021 bonds at an average yield of -0.112%				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

**The coming week's key data releases**

Country		GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 28 October 2019</b>						
EMU		09.00	M3 money supply Y/Y%	Sep	5.7	5.7
Germany		07.00	Import price index Y/Y%	Sep	-3.1	-2.7
UK		11.00	CBI distributive trades survey, reported sales	Oct	-20	-16
<b>Tuesday 29 October 2019</b>						
France		07.45	Consumer confidence indicator	Oct	104	104
Italy		09.00	PPI Y/Y%	Sep	-	-2.1
Spain		08.00	Retail sales Y/Y%	Sep	3.4	3.2
UK		07.00	Nationwide house price index M/M% (Y/Y%)	Oct	0.0 (0.2)	-0.2 (0.2)
		09.30	Net consumer credit £bn (Y/Y%)	Sep	0.9 (5.0)	0.9 (5.4)
		09.30	Net lending secured on dwellings (mortgage approvals '000s)	Sep	3.8 (65.0)	3.9 (65.5)
		09.30	M4 money supply Y/Y%	Sep	-	3.2
<b>Wednesday 30 October 2019</b>						
EMU		10.00	Economic sentiment indicator	Oct	101.1	101.7
		10.00	Industrial confidence indicator (services)	Oct	-8.8 (9.3)	-8.8 (9.5)
		10.00	Final consumer confidence indicator	Oct	-7.6	-6.5
Germany		08.55	Unemployment rate % (change '000s)	Oct	5.0 (2.0)	5.0 (-10.0)
		13.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Oct	1.1 (0.8)	1.2 (0.9)
France		06.30	Preliminary GDP Q/Q% (Y/Y%)	Q3	0.2 (1.3)	0.3 (1.4)
		07.45	Consumer spending M/M% (Y/Y%)	Sep	0.0 (0.6)	0.0 (-0.4)
Italy		09.00	Consumer confidence indicator (manufacturing)	Oct	111.8 (98.7)	112.2 (98.8)
Spain		08.00	Preliminary CPI (EU-harmonised) Y/Y%	Oct	0.1 (0.1)	0.1 (0.2)
UK		00.01	BRC shop price index Y/Y%	Oct	-	-0.6
<b>Thursday 31 October 2019</b>						
EMU		10.00	GDP Q/Q% (Y/Y%)	Q3	0.1 (1.1)	0.2 (1.2)
		10.00	Preliminary CPI (core CPI) Y/Y%	Oct	0.7 (1.0)	0.9 (1.0)
		10.00	Unemployment rate %	Sep	7.4	7.4
Germany		07.00	Retail sales M/M% (Y/Y%)	Sep	0.3 (3.5)	-0.1 (3.2)
France		07.45	Preliminary CPI (EU-harmonised CPI) Y/Y%	Oct	0.9 (1.1)	0.9 (1.1)
Italy		09.00	Unemployment rate %	Sep	9.6	9.5
		10.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Oct	0.3 (0.2)	0.3 (0.2)
		11.00	Preliminary GDP Q/Q% (Y/Y%)	Q3	0.0 (0.2)	0.1 (0.1)
Spain		08.00	Preliminary GDP Q/Q% (Y/Y%)	Oct	0.4 (2.0)	0.5 (2.3)
UK		00.01	GfK consumer confidence indicator	Oct	-13	-12
<b>Friday 01 November 2019</b>						
UK		09.30	Manufacturing PMI	Oct	48.1	48.3

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 28 October 2019</b>		
UK	 17.00	BoE's Tenreyro speaks in London
<b>Tuesday 29 October August</b>		
UK	 10.30	Auction: £1.1bn of 0.125% 2028 index-linked bonds
<b>Wednesday 30 October 2019</b>		
Germany	 10.30	Auction: €3bn of 0% 2024 bonds
Italy	 10.00	Auction: to sell 5Y and 10Y bonds
<b>Thursday 31 October 2019</b>		
- Nothing scheduled -		
<b>Friday 01 November 2019</b>		
EMU	-	All Saints' Day public holiday

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.