

Euro wrap-up

Overview

- Longer-dated Bunds made modest gains, while a French consumer survey suggested that household spending will remain supportive to GDP in Q4.
- Gilts ended the day little changed as UK MPs looked likely this evening to vote in favour of an early General Election in December.
- Ahead of the evening's FOMC decision, tomorrow will bring a number of top-tier euro area releases including the Commission's latest economic sentiment survey, the first estimate Q3 GDP from France and flash inflation estimates for October from Germany and Spain.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.653	+0.001
OBL 0 10/24	-0.591	-0.004
DBR 0 08/29	-0.356	-0.022
UKT 3½ 09/21	0.543	+0.004
UKT 1 04/24	0.501	-0.004
UKT 0½ 10/29	0.715	-0.010

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

Source: Bloomberg

Euro area

French consumer confidence stable

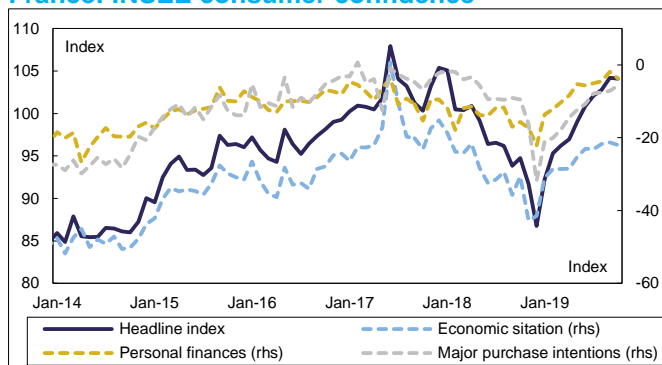
On a relatively quiet day for euro area economic releases today, the French INSEE consumer survey for October broadly aligned with expectations, suggesting that confidence was little changed at the start of Q4. In particular, the headline sentiment index moved sideways in October at 104, matching the twenty-month high reached in September and remaining comfortably above the long-run average. While consumers were a touch less upbeat about their future financial situation, the respective survey measure still remained close to the near-twelve-year high reached in September. And with only a very modest deterioration in the survey's unemployment component, the share of households considering it to be a suitable time to make major purchases over the coming twelve months increased again in October to its highest in seventeen months. Therefore, today's survey supports our view that household consumption will remain supportive of French GDP growth in Q4.

The day ahead in the euro area and US

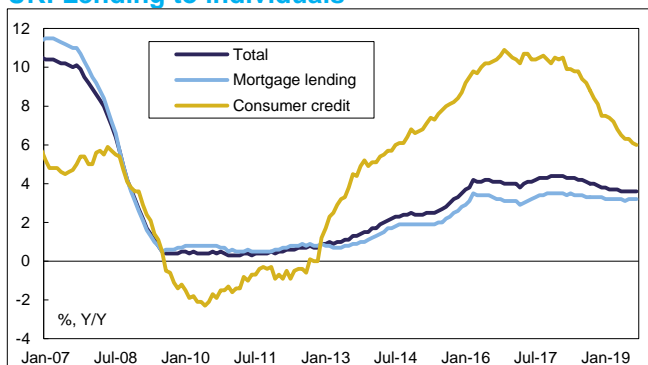
It should be a busier day for euro area economic releases tomorrow, with the European Commission's business and consumer surveys – which arguably provide the most comprehensive guide to euro area GDP – for October to be accompanied by the first estimates of Q3 GDP and October inflation at the national level. In particular, 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 euro area ESI is expected to have declined to a more-than 4½-year low, implying ongoing subdued euro area GDP growth at the start of Q4. Ahead of Thursday's first estimate of euro area Q3 GDP, we expect the equivalent figures from France to show that growth was unchanged for the third consecutive quarter at 0.3%Q/Q. Wednesday will also bring flash CPI estimates from Germany and Spain, with the EU-harmonised inflation rates expected to have declined further in October. In addition, German labour market figures for the same month will also be published.

Of course, all eyes in the US will be on the conclusion of the latest FOMC meeting. With economic momentum slowing, risks to the outlook skewed to the downside, and various Committee members having noted the importance of acting pre-emptively, we expect the FFR target range to be cut by 25bps to 1.50-1.75%. The vote split will be closely watched – September's meeting saw two members vote to keep rates unchanged, while one member voted for a 50bps cut – as will Chair Powell's post-meeting press conference for any insight into the near-term policy outlook. Wednesday will also bring the first estimate of US Q3 GDP, which is expected to show that growth moderated further last quarter to 1.6%Q/Q ann. which

France: INSEE consumer confidence



UK: Lending to individuals



(aside from the Government shutdown related slowdown in Q418) would be softest pace for almost four years. And ahead of Friday's payrolls report, tomorrow will also bring the ADP employment report for October.

UK

Pre-Christmas General Election looks likely

While the UK Government yesterday evening predictably failed to garner the two-thirds majority required to hold an early General Election under the Fixed Term Parliaments Act, at the time of writing, the UK still looked set for an early election before Christmas. Indeed, this seemed likely to be confirmed this evening when MPs were scheduled to vote on the Government's Early Parliamentary General Election Bill to hold an election on December 12. The simple Bill was almost identical to that proposed by the Liberal Democrats and SNP over the weekend. One sticking point remains the date, with Labour having tabled an amendment an earlier election on 9 December, in line with the Liberal Democrats and SNP preference to prevent Johnson the opportunity to bring back the Withdrawal Agreement Bill (WAB) before the poll as well as to encourage a higher turnout of student voters. The later date would allow a little more time to secure the approval of the House of Lords later in the week and Royal Assent for the law to take effect within six weeks of the chosen election date. Overall, given today's formal confirmation that the EU has extended Article 50 to 31 January (with the option to leave on the first day of the month following completion of the ratification of the Withdrawal Agreement Bill if that happens first), and the support of all main parties (with the Labour Party coming on board today), today's Bill might easily receive the simple majority required to pass under this legislative route, although possible amendments (e.g. to give the vote to sixteen and seventeen year-olds and/or EU citizens) could complicate matters.

Consumer credit continues to moderate

Against the backdrop of heightened political uncertainty and weak consumer confidence, the BoE's latest bank lending figures today perhaps unsurprisingly revealed further signs of caution with respect to borrowing at the end of Q3. This was particularly evident in consumer credit, with the net increase of £0.8bn in September once again below the average seen since July 2018. And borrowing on credit cards rose at the weakest rate since December, while the net increase of other loans was the lowest since March. As such, while the annual rate of growth was revised higher over the past two and a half years it still maintained a steady downward trend in September, 6.0%Y/Y, the softest pace for almost three years. While various housing market indicators continue to point to ongoing weakness, today's figures again suggested that mortgage lending remained stable. Indeed, net secured lending was little changed at £3.8bn in September, to leave annual growth unchanged at 3.2%Y/Y, broadly in line with the average of the past three years. And mortgage approvals (66k) remained within the narrow range seen over recent years. Of course, the outlook for the housing market and demand for household loans will depend in no small part on the path of Brexit. But despite recent declines in borrowing interest rates, the longer uncertainty persists, a weakening lending trend seems likely to materialise.








The day ahead in the UK

Focus in the UK will remain firmly on politics. Data-wise, tomorrow will bring just the BRC's latest shop price index for October.


European calendar

Today's results

Economic data











Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France	 Consumer confidence indicator	Oct	104	104	104	-
Italy	 PPI Y/Y%	Sep	-2.4	-	-2.1	-
Spain	 Retail sales Y/Y%	Sep	3.4	3.2	3.2	3.3
UK	 Nationwide house price index M/M% (Y/Y%)	Oct	0.2 (0.4)	0.0 (0.3)	-0.2 (0.2)	-
	 Net consumer credit £bn (Y/Y%)	Sep	0.8 (6.0)	0.9 (5.0)	0.9 (5.4)	1.0 (6.1)
	 Net lending secured on dwellings (mortgage approvals '000s)	Sep	3.8 (65.9)	3.8 (65.0)	3.9 (65.5)	3.7 (65.7)
	 M4 money supply Y/Y%	Sep	4.0	-	3.2	3.3

Auctions





Country	Auction
UK sold	 £1.1bn of 0.125% 2028 index-linked bonds at an average yield -2.478%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	 10.00	Economic sentiment indicator	Oct	101.1	101.7
	 10.00	Industrial confidence indicator (services)	Oct	-8.8 (9.2)	-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 (3.0)	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 (98.6)	112.2 (98.8)
Spain	 08.00	Preliminary CPI (EU-harmonised) Y/Y%	Oct	0.0 (0.1)	0.1 (0.2)
UK	 00.01	BRC shop price index Y/Y%	Oct	-	-0.6

Events & Auctions

Country	GMT	Auction/Event
Germany	 10.30	Auction: €3bn of 0% 2024 bonds
Italy	 10.00	Auction: €2.5bn of 0.35% 2025 bonds
	 10.00	Auction: €3bn of 1.35% 2030 bonds
	 10.00	Auction: €750mn of 2025 floating rate bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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