

Euro wrap-up

Overview

- Ahead of the FOMC announcement, Bunds followed Treasuries slightly higher as the European Commission's sentiment indicator fell to its lowest level since early 2015.
- Gilts made bigger gains after the House of Commons voted on Tuesday evening to hold a General Election on 12 December.
- Tomorrow will bring the flash estimates of euro area Q3 GDP and October inflation, along with the unemployment rate for September. A UK consumer confidence survey is also due.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.645	+0.004
OBL 0 10/24	-0.588	-0.001
DBR 0 08/29	-0.360	-0.006
UKT 3¼ 09/21	0.514	-0.025
UKT 1 04/24	0.474	-0.026
UKT 0% 10/29	0.680	-0.028

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

Source: Bloomberg

Euro area

Euro area ESI disappoints at start of Q4

With tomorrow's euro area GDP report expected to confirm that growth slowed further in the third quarter to its weakest rate since the euro crisis, today's European Commission business and consumer survey indices disappointingly pointed to a further deterioration in economic momentum at the start of Q4. Most notably, the headline euro area Economic Sentiment Indicator (ESI) fell 0.9pt to 100.8, the lowest since January 2015. Among the large member states, the weakness was principally driven by Spain, with the respective index posting a second successive sizeable decline (3.0pts) to 101.2, a drop of more than 6pts from the recent high in August and the lowest since mid-2014. In contrast, the ESIs were broadly stable in Germany (nevertheless the lowest since April 2013), France and Italy. This notwithstanding, the ESIs were down compared with the average in Q3 across most member states, with the euro area aggregate index more than 1½pts lower and consistent with still very subdued economic growth heading into Q4.

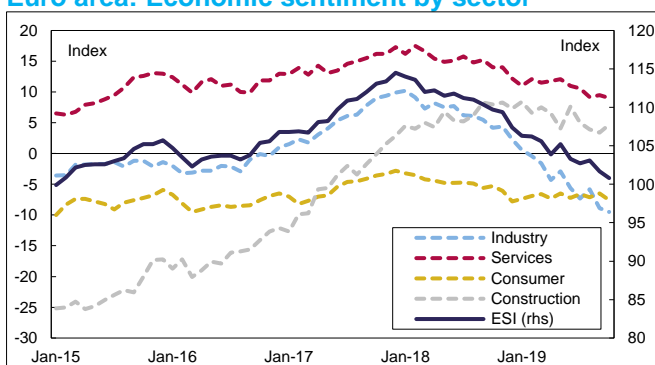
Industry and services conditions deteriorate further

Consistent with the [flash PMIs](#), today's survey suggested ongoing weakness in the manufacturing sector, with the headline industrial confidence indicator down 0.6pt to -9.5, the lowest since mid-2013 as producers were once again more pessimistic about their production expectations as order books shrank to the smallest for six years. And with services firms more downbeat about the current and expected business environment, the survey's respective headline index fell to its lowest since mid-2015. Retailers were gloomier than last month too, with the decline in consumer confidence reported by the flash estimate also confirmed and reflecting greater concern among households about the general economic situation and therefore less inclined to make major purchases. Admittedly, the headline retail and consumer indices still remained within the range since the start of the year. And the survey was not all doom and gloom. Indeed, having fallen to its lowest level since end-2017, sentiment among construction firms improved in October. Furthermore, employment intentions were revised higher not only in construction but services too.

Inflation takes a further step down in Germany

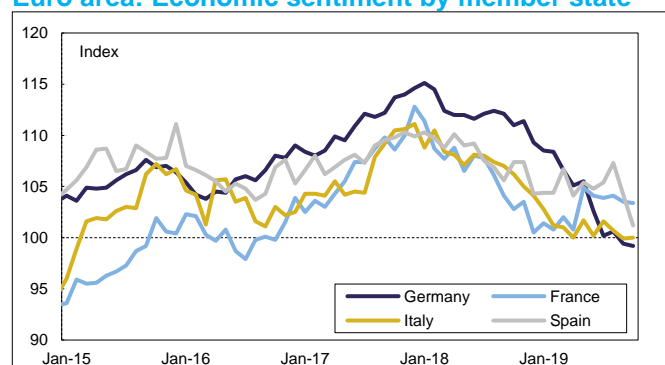
But the survey signalled still very weak pipeline price pressures, with services selling price expectations little changed from the two-year low reached in September, and only a very modest pickup in such expectations reported among industrial firms too. Against this backdrop, it was somewhat surprising to see an improvement in consumer price expectations this month. Certainly, today's flash CPI estimate from Germany suggested still very weak inflationary pressures at the start of Q4. For example, headline inflation – on the national measure – declined 0.1ppt in October, to 1.1%Y/Y, the lowest since February

Euro area: Economic sentiment by sector



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

Euro area: Economic sentiment by member state



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



2018. And while the harmonised CPI rate was unchanged at 0.9%Y/Y, this was nevertheless the joint weakest for three years. At the national level, the weakness was once again driven by lower energy prices (down 1ppt to -2.1%Y/Y), although services inflation also edged lower (down 0.1ppt to 1.6%Y/Y).

French expansion continued in Q3

While the Commission's survey signalled a further moderation in GDP growth in many member states in Q3, the headline ESI had posted a modest rise in France last quarter, broadly consistent with today's Q3 GDP estimate, which, in line with our expectation, showed GDP growth unchanged for the third consecutive quarter at 0.3%Q/Q. Within the expenditure detail, household consumption accelerated slightly in Q3 to account for the largest contribution to growth (0.3ppt). And with private investment providing a boost (0.2ppt) for the sixth consecutive quarter and private inventories adding a further 0.1ppt, domestic demand was the strongest for two years. Indeed, while exports posted a modest increase (0.3%Q/Q), a surge in imports (1.4%Q/Q) left net trade subtracting 0.4ppt from growth, the most since the start of 2017. Looking ahead, recent sentiment surveys suggest neither significant improvement nor deterioration in conditions at the start of Q4, supporting our forecast of another quarter of growth of 0.3%Q/Q in the final quarter of the year.

The day ahead in the euro area and US

Thursday will be another busy day for top-tier economic releases, with most notably the flash estimates of euro area Q3 GDP and October inflation. 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. While Spain's economy likely continued to outperform other major member states, we also anticipate growth to be no stronger than the 0.4%Q/Q pace in Q2. And Italy's economy is set to have moved sideways (at best). While the first reading of German GDP won't be published until 14 November, tomorrow's retail sales figures for September will provide insight into household spending at the end of the third quarter.

Tomorrow will also bring the flash estimates of October inflation from the euro area, France and Italy. 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. However, today's German and Spanish figures suggest that risks to this forecast are skewed to the upside. In addition, euro area labour market figures for September are expected to show that the unemployment rate was unchanged at 7.4%, the lowest since May 2008.

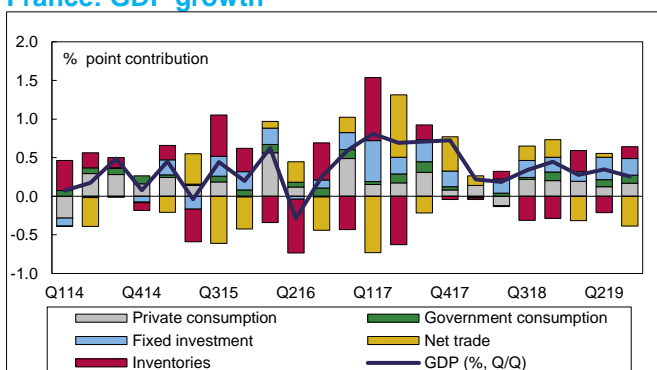
In the US, tomorrow will bring personal spending and income figures for September, including the closely watched monthly deflators, as well as the employment cost index for Q3. And ahead of Friday's comprehensive labour market report, tomorrow will see the release of October's Challenger job cuts data and weekly jobless claims figures.

UK

UK to head to the polls on 12 December

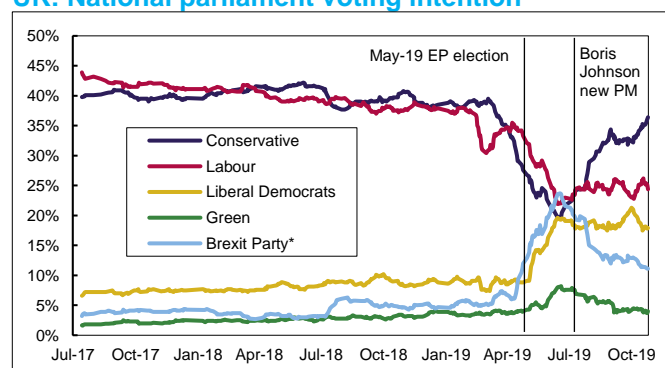
There were no surprises in yesterday evening's House of Commons vote on the Early General Election Bill, which saw MPs vote overwhelming in favour (438 vs 20) of a December election, the third in less than five years. Indeed, despite an attempt by opposition parties to bring forward the election not least to try to encourage a higher turnout of student voters, it was confirmed that the general public will head to the polls on 12 December. Based on current polling, it might appear that the Conservative Party is on track to garner a sizeable majority this time around, giving the Government the mandate to proceed with Johnson's Withdrawal Agreement and in theory deliver Brexit before the end of the current Article 50 extension. And Johnson's decision to reinstate 10 of the 21 Tory MPs previously expelled for supporting the anti-no-deal Brexit Bill might well give the party's seat tally a boost. But we continue to attach a probability to a Conservative majority of no more than 50%. In particular, the geographical concentration of votes will be key. We also note that Johnson's ratings are inferior to

France: GDP growth



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: National parliament voting intention**



*UKIP up until April 2019. **10 observations moving average.
 Source: National poll results and Daiwa Capital Markets Europe Ltd.

those of May ahead of the last election which delivered a poor showing for the Tories. And tactical voting associated with Brexit will confuse matters. The Liberal Democrats will win several seats off the Conservatives in the South and the Scottish National Party will win seats off the Conservatives in Scotland. As such, there is also a significant probability of another hung Parliament, with the Conservatives still falling short of a majority. And there is also a non-negligible probability that the election could offer a workable government based on anti-Brexit alliance between opposition parties – i.e. a Labour/LibDem/SNP coalition – to trigger a second referendum and/or revocation of Article 50.











The day ahead in the UK

The economic data focus in the UK tomorrow will be the GfK's consumer confidence survey, which, in line with the Commission's survey today, seems bound to reiterate the downbeat assessment of households seen over the past year, suggesting a further likely moderation in household spending growth. Indeed, today's Commission indicator for the UK declined 0.8pt in October, nevertheless remaining within the range since the start of the year.





European calendar

Today's results

Economic data











Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Economic sentiment indicator	Oct	100.8	101.1	101.7	-
	 Industrial confidence indicator (services)	Oct	-9.5 (9.0)	-8.8 (9.2)	-8.8 (9.5)	-8.9 (-)
	 Final consumer confidence indicator	Oct	-7.6	-7.6	-6.5	-
Germany	 Unemployment rate % (change '000s)	Oct	5.0 (6.0)	5.0 (2.0)	5.0 (-10.0)	- (-9.0)
	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Oct	1.1 (0.9)	1.1 (0.8)	1.2 (0.9)	-
France	 Preliminary GDP Q/Q% (Y/Y%)	Q3	0.3 (1.3)	0.2 (1.3)	0.3 (1.4)	-
	 Consumer spending M/M% (Y/Y%)	Sep	-0.4 (0.3)	0.0 (0.6)	0.0 (-0.4)	0.1 (-0.1)
Italy	 Consumer confidence indicator (manufacturing)	Oct	111.7 (99.6)	111.8 (98.6)	112.2 (98.8)	- (99.0)
Spain	 Preliminary CPI (EU-harmonised) Y/Y%	Oct	0.1 (0.2)	0.0 (0.1)	0.1 (0.2)	-
UK	 BRC shop price index Y/Y%	Oct	-0.4	-	-0.6	-

Auctions

Country	Auction
Germany	 sold €2.5bn of 0% 2024 bonds at an average yield of -0.58%
Italy	 sold €3.0bn of 2030 bonds at an average yield of 1.06%
	 sold €2.5bn of 2025 bonds at an average yield of 0.42%
	 sold €750mn of 2025 floating rate notes at an average yield of 0.4%

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	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

Events & Auctions		
Country	GMT	Auction/Event
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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

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