

Euro wrap-up

Overview

- Bunds followed the global trend lower on a day bereft of any euro area economic data.
- Gilts also lost ground as the UK manufacturing PMI exceeded expectations, despite still signalling ongoing contraction in the sector at the start of Q4.
- The coming week will bring final European PMIs for October, along with euro area retail sales and German IP data. In addition, the BoE's monetary policy announcement on Thursday will come alongside updated economic forecasts.

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Daily bond market movements

| Bond | Yield | Change |
|--------------|--------|--------|
| BKO 0 09/21 | -0.663 | +0.015 |
| OBL 0 10/24 | -0.619 | +0.011 |
| DBR 0 08/29 | -0.385 | +0.026 |
| UKT 3¼ 09/21 | 0.523 | +0.020 |
| UKT 1 04/24 | 0.463 | +0.027 |
| UKT 0% 10/29 | 0.664 | +0.035 |

*Change from close as at 4:15pm GMT.

Source: Bloomberg

UK

Manufacturing PMI remains in contractionary territory

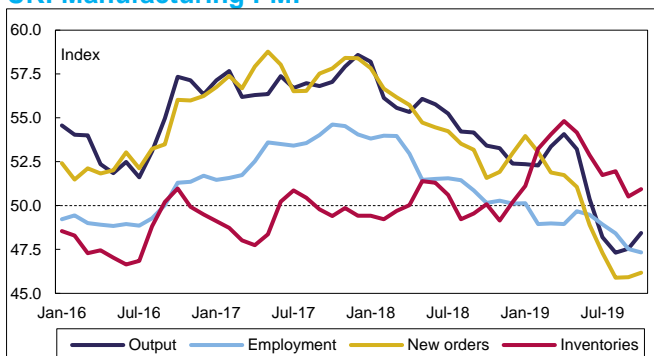
While today's UK manufacturing PMI came in above expectations, the survey was nevertheless still underwhelming and suggests that the sector remained firmly in contraction territory heading into the fourth quarter. Indeed, despite rising for the second successive month and by the most since March (1.3pts), the headline index recorded its sixth consecutive below-50 reading in October (49.6). And while the survey's output component increased a larger 1.8pts last month, overall it too continued to signal contraction (49.7) at the start of the fourth quarter. This weakness remained particularly evident in the investment goods sub-sector, with the respective production PMI merely rising to 42.8, the second-lowest for more than seven years, while the respective production PMIs in the intermediate and consumers goods sub-sectors were merely consistent with stagnation.

The improvement in the headline PMI also reflected increased preparations in the face of no-deal Brexit risks, as reflected in a notable increase in the PMI for inventories last month, up 5.5pts to 53.1, albeit remaining below the record high reached six months earlier ahead of the original Article 50 deadline. And with ongoing uncertainties surrounding the outlook for Brexit and economy, the survey implied a further decline in new orders at the start of Q4, albeit at the softest pace for five months. Against this backdrop, manufacturers continued to scale back their workforces, with the employment PMI at one of the lowest over the past decade. And today's survey also implied still very subdued inflationary pressures in the sector, with the input price PMI (50.0) declining to its lowest since March 2016, while the output PMI (51.7) was only just above the more-than three-year low hit in September.

The week ahead in the UK

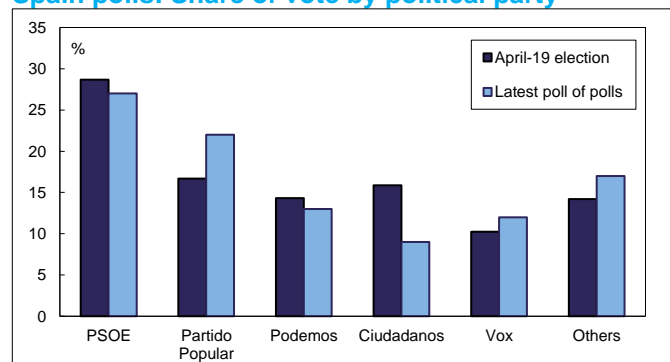
With Parliament set to be dissolved on Wednesday ahead of the 12 December General Election, the main event in the UK in the coming week will be Thursday's BoE monetary policy announcement, which will be accompanied by updated economic forecasts in its newly rebranded quarterly Monetary Policy Report. We expect no changes to policy, with Bank Rate set to be left at 0.75%. But with September's policy statement having implied a further loss of confidence on the MPC about the Brexit process, and acknowledged the more challenging external environment, we would expect the MPC to remain downbeat about the near-term outlook, with possible further downward revisions to both its GDP growth and inflation forecasts. Of course, in August, the MPC downplayed the value of its economic projections, emphasising the inconsistencies between the Bank's assumption of a smooth Brexit and the conditions underpinning moves in market asset prices, which at the time had

UK: Manufacturing PMI



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

Spain polls: Share of vote by political party*



*Poll of polls. Source: Chamber of Deputies, Politico and Daiwa Capital Markets Europe Ltd.



reflected the increasing probability of a no-deal. And so, Carney seems likely to reiterate that downside risks not least associated with political uncertainty remain to the fore and therefore restate that the MPC will “take all appropriate measures to support jobs and activity, consistent with achieving the 2% inflation target commitment”.

Turning to the data, the first half of the coming week will be dominated by October sentiment surveys, with arguably the most noteworthy release Tuesday’s services and composite PMIs. Having slipped below the key 50 expansion level in September, the headline services activity PMI is expected to have moved broadly sideways at 49.5. So, despite the improvement in the manufacturing output PMI in October, with the equivalent construction index (due Monday) set to remain firmly in contractionary territory, the all-sector PMI seems likely to remain below 50 for the second successive month and only the third time since 2012. Tuesday will also bring the BRC retail sales monitor, alongside the latest car registration figures. And Friday will see the release of the REC/KPMG report on jobs for October. In the markets, the DMO will sell 10Y Gilts on Tuesday.

Euro area
















The week ahead in the euro area and US

After a quiet end to the week for euro area economic news, the first half of the coming week will bring the final manufacturing and services PMIs for October on Monday and Wednesday respectively. The flash surveys implied still very weak conditions in the manufacturing sector at the start of Q4, with the euro area’s headline index unchanged at 45.7 in October, the joint lowest since 2012. And with little improvement in the services index (up 0.2pt to 51.8), the composite PMI (50.2) was consistent with stagnation at the start of Q4. Wednesday will also see the release of euro area retail sales figures for September, which are expected to report only a modest increase on the month (0.1%M/M), although this would still leave sales up over the third quarter as a whole and consistent with an acceleration in household consumption in Q3. At the country level, German factory orders data (Wednesday) and IP figures for September (Thursday) are expected to confirm that the manufacturing sector remained in contraction in Q3 and signal ongoing weakness heading into the final quarter of the year too. September IP data from France (Friday) and Spain (Wednesday) are also due, as are trade figures from Germany and France (Friday). Lagarde’s first official appearance as ECB President in Berlin on Monday will no doubt be closely watched, while Hernández de Cos (Monday) and Vice-President de Guindos (Wednesday) will also speak publicly. In the markets, France and Spain will sell bonds with various maturities on Thursday.

The following weekend will also see Spain head to the polls on 10 November for the fourth General Election in as many years. The vote was called in September after acting Prime Minister Sanchez of the Socialists (PSOE) failed to secure a working coalition with opposition parties. Unlike in many member states, the policy paralysis appears to have done little to dent the economic recovery over recent years. Indeed, despite having slowed slightly, Spain has seen the strongest GDP growth of the larger euro area member states in each of the past four years. And having expanded for the twenty-fourth consecutive quarter in Q3 (0.4%Q/Q), the economy looks on track for another solid performance over 2019 as a whole, with growth of around 2%Y/Y. Despite the solid economic growth and continued labour market recovery, the recent unrest in the Catalunya region following the jailing of nine Catalan separatist leaders last month raises the prospect of renewed uncertainty and instability in a key region. So while PSOE has seen its support ratings slip back over recent months, it still looks on track to once again take the largest number of seats. But like in April, it will likely fall well short of a majority. Polls suggest right-wing establishment Partido Popular (PP) has seen its popularity rise over recent weeks to the highest in almost a year at the expense of the centre-right Ciudadanos (C’s), which has seen its ratings drop to the lowest for 4½ years. But there has also been a pickup in the ratings of the ultra-nationalist/traditionalist Vox party which looks on track to overtake C’s to become the fourth largest party in Parliament, with a little more than 10% of the vote. So there is every possibility that the forthcoming plebiscite will deliver an even more hung Parliament than at present and therefore require yet another election in spring 2020.


In the US, the coming week’s data calendar kicks off on Monday with the latest factory orders figures for September, followed on Tuesday with the non-manufacturing ISM for October and full trade report for September. Of most interest on Wednesday will be non-farm productivity and labour costs figures for Q3, while September consumer credit data on Thursday will be accompanied by weekly jobless claims numbers. And the week will conclude with the University of Michigan’s latest consumer confidence survey. In terms of Fed Speak, voting FOMC members Williams and Evans will speak in New York on Wednesday, while Kaplan and Kashkari are due to speak publicly on Tuesday. In the markets, the Treasury will sell 3Y notes (Tuesday), 10Y notes (Wednesday) and 30Y bonds (Thursday).

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 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.1 | 1.9 | 1.1 | 0.7 |
| Germany |  | 0.4 | -0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 1.5 | 0.6 | 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 | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | -0.1 | -0.1 | 0.7 | 0.2 | 0.1 |
| Spain |  | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 2.4 | 2.0 | 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 | 1.2 | 1.1 | 1.3 | 1.2 | 1.8 | 1.2 | 1.2 |
| Core CPI |  | 1.0 | 1.1 | 0.9 | 1.2 | 1.3 | 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 | 1.7 | 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/ <i>Daiwa forecast</i> | Previous | Revised | |
| UK |  Manufacturing PMI | Oct | 49.6 | 48.2 | 48.3 | - | |
| Auctions | | | | | | | |
| Country | Auction | | | | | | |
| - Nothing to report - | | | | | | | |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.






















Coming week's data calendar

The coming week's key data releases

| Country | GMT | Release | Period | Market consensus/ <i>Daiwa forecast</i> | Previous |
|-----------------------------------|---|---|--------|--|-------------|
| Monday 04 November 2019 | | | | | |
| EMU |  | 09.00 Final manufacturing PMI | Oct | 45.7 | 45.7 |
| Germany |  | 08.55 Final manufacturing PMI | Oct | 41.9 | 41.7 |
| France |  | 08.50 Final manufacturing PMI | Oct | 50.5 | 50.1 |
| Italy |  | 08.45 Manufacturing PMI | Oct | 47.8 | 48.7 |
| Spain |  | 08.15 Manufacturing PMI | Oct | 47.7 | 48.8 |
| UK |  | 00.01 Lloyds business barometer | Oct | - | 2 |
| |  | 09.30 Construction PMI | Oct | 44.4 | 43.3 |
| Tuesday 05 November 2019 | | | | | |
| EMU |  | 10.00 PPI Y/Y% | Sep | -1.1 | -0.8 |
| Spain |  | 08.00 Unemployment change '000s | Oct | 60.0 | 13.9 |
| UK |  | 00.01 BRC retail monitor – like-for-like sales Y/Y% | Oct | 0.0 | -1.7 |
| |  | 09.00 New car registrations Y/Y% | Oct | - | 1.3 |
| |  | 09.30 Services PMI (composite PMI) | Oct | 49.8 (49.6) | 49.5 (49.3) |
| Wednesday 06 November 2019 | | | | | |
| EMU |  | 09.00 Final services PMI (composite PMI) | Oct | 51.8 (50.2) | 51.6 (50.1) |
| |  | 10.00 Retail sales M/M% (Y/Y%) | Sep | 0.1 (2.5) | 0.3 (2.1) |
| Germany |  | 07.00 Factory orders M/M% (Y/Y%) | Sep | 0.0 (-6.7) | -0.6 (-6.7) |
| |  | 08.55 Final services PMI (composite PMI) | Oct | 51.2 (48.6) | 51.4 (48.5) |
| France |  | 08.50 Final services PMI (composite PMI) | Oct | 52.9 (52.6) | 51.1 (50.8) |
| Italy |  | 08.45 Services PMI (composite PMI) | Oct | 51.0 (50.0) | 51.4 (50.6) |
| Spain |  | 08.00 Industrial output Y/Y% | Sep | -0.8 (1.6) | 0.9 (1.7) |
| |  | 08.15 Services PMI (composite PMI) | Oct | 52.9 (51.1) | 53.3 (51.7) |
| Thursday 07 November 2019 | | | | | |
| Germany |  | 07.00 Industrial production M/M% (Y/Y%) | Sep | -0.3 (-4.4) | 0.3 (-4.0) |
| Italy |  | 09.30 Retail sales M/M% (Y/Y%) | Sep | - | -0.6 (0.7) |
| UK |  | 12.00 BoE Bank Rate % | Nov | 0.75 | 0.75 |
| Friday 08 November 2019 | | | | | |
| Germany |  | 07.00 Trade balance €bn | Sep | 18.8 | 16.4 |
| |  | 07.00 Exports (imports) M/M% | Sep | 0.4 (0.0) | -1.5 (0.6) |
| France |  | 07.45 Trade balance €bn | Sep | -4.9 | -5.0 |
| |  | 07.45 Industrial production M/M% (Y/Y%) | Sep | 0.3 (0.4) | -0.9 (-1.4) |
| |  | 07.45 Manufacturing production M/M% (Y/Y%) | Sep | 0.2 (0.1) | -0.8 (-1.6) |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

| Country | GMT | Event / Auction |
|-----------------------------------|---|--|
| Monday 04 November 2019 | | |
| EMU |  08.00 | ECB's Hernandez de Cos speaks in Madrid |
| |  18.30 | ECB President Lagarde speaks in Berlin |
| UK |  14.30 | UK Parliament holds vote for a new Speaker of the House of Commons |
| Tuesday 05 November August | | |
| EMU |  09.00 | ECB's Villeroy speaks in France |
| Germany |  10.30 | Auction: to sell €0.5bn of 0.5% 2030 index-linked bonds |
| UK |  10.30 | Auction: to sell £2.75bn of 0.875% 2029 bonds |
| Wednesday 06 November 2019 | | |
| EMU |  09.00 | ECB Vice-President Guindos and Executive Board member Mersch speak in Frankfurt |
| Thursday 07 November 2019 | | |
| EMU |  09.00 | ECB publishes its Economic Bulletin |
| |  10.00 | EU Commission publishes its Economic Forecasts |
| Spain |  09.40 | Auction: to sell €0.8bn 0.25% 2024 bonds |
| |  09.40 | Auction: to sell 0.15% 2023 index-linked bonds |
| |  09.40 | Auction: to sell €0.8bn 0.6% 2029 bonds |
| |  09.40 | Auction: to sell €0.8bn 1.85% 2035 bonds |
| France |  09.50 | Auction: to sell €5.8bn 0% 2029 bonds |
| |  09.50 | Auction: to sell €1.5bn 1.25% 2034 bonds |
| |  09.50 | Auction: to sell €2.6bn 1.5% 2050 bonds |
| |  09.50 | Auction: to sell 1.75% 2066 bonds |
| UK |  09.30 | The Office for Budget Responsibility publishes its fiscal forecasts |
| |  12.00 | BoE publishes its Inflation Report |
| |  12.30 | BoE Governor Carney speaks at a press conference on the Bank's latest policy announcement and Inflation Report |
| Friday 08 November 2019 | | |
| UK |  - | UK's sovereign credit rating review by Moody's |

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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