

Euro wrap-up

Overview

- While the euro area's manufacturing PMI signalled still very weak conditions in the sector at the start of Q4, Bunds followed the global trend lower.
- Gilts also made notable losses even as the UK construction PMI implied still steep contraction in the sector.
- Tomorrow will bring more UK sentiment surveys, including the services and composite PMIs, as well new car registrations data.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.661	+0.009
OBL 0 10/24	-0.604	+0.019
DBR 0 08/29	-0.351	+0.036
UKT 3¼ 09/21	0.548	+0.028
UKT 1 04/24	0.504	+0.044
UKT 0¾ 10/29	0.725	+0.059

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

Source: Bloomberg

Euro area

Manufacturing PMIs weak despite upwards revision

While the final euro area manufacturing PMIs for October saw slight upwards revisions from the preliminary estimates, they were still disappointingly weak and continued to suggest marked contraction in the sector at the start of Q4, with conditions set to remain challenging over coming months too. Indeed, the euro area headline manufacturing index was revised up just 0.2pt to 45.9, which still marked the second-lowest reading since 2012. And while they were also a touch firmer than previously thought, the euro area output (46.6) and new orders (45.3) indices were likewise still well below 50 and consistent with one of the sharpest contractions of the past seven years. Against this backdrop, manufacturers continued to scale back their workforces, with the survey signaling the steepest job declines since the start of 2013.

Widespread manufacturing weakness across member states

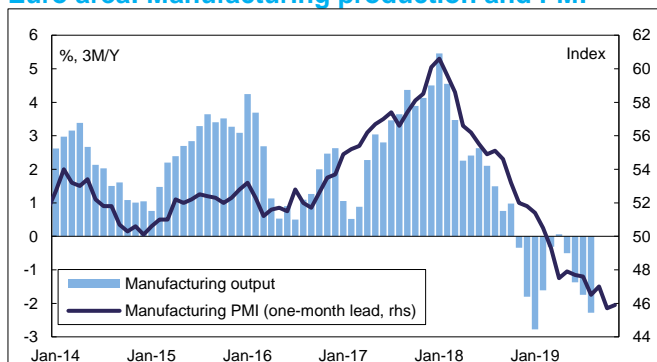
While the German manufacturing PMI was similarly nudged 0.2pt higher from the flash, at 42.1 it was just 0.4pt higher than the near-decade low hit in September. And with the output and new orders indices still consistent with significant declines in the sector, German manufacturers reportedly stepped up their job cutting, with the relevant index at its lowest since the start of 2010. Although today's surveys again suggested that French manufacturers continue to fare better than their German counterparts, the increase in the headline PMI (up 0.6pt to 50.7) only partly reversed the decline seen in September. And while the output PMI was firmer (51.2), this too was well below the levels seen through 2017 and 2018. The Italian and Spanish figures, published for the first time today, suggested a further notable deterioration in Southern Europe at the start of Q4 too. For example, the headline PMIs respectively fell 0.1pt to a seven-month low of 47.7 and 0.9pt to 46.8, the worst since April 2013, with the output indices in both countries implying an even sharper pace of decline last month.

The day ahead in the euro area and US

It should be a quieter day for euro area economic news tomorrow, with just PPI data for September due for release. At the country level, tomorrow will also bring the latest Spanish labour market figures for October. In the markets, Germany will sell index-linked Bunds.

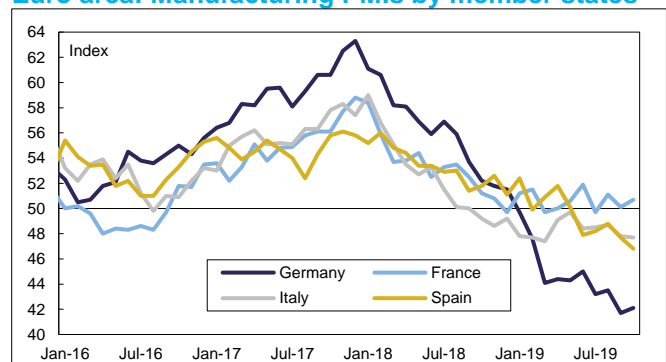
In the US, tomorrow will bring a number of top-tier releases including October's non-manufacturing ISM and final Markit services and composite PMIs, as well as the full trade report for September and JOLTS job openings figures for the same month. In terms of Fed Speak, Kaplan, Barkin and Kashkari are all in action, while in the markets the Treasury will sell 3Y Notes.

Euro area: Manufacturing production and PMI



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

Euro area: Manufacturing PMIs by member states



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



UK

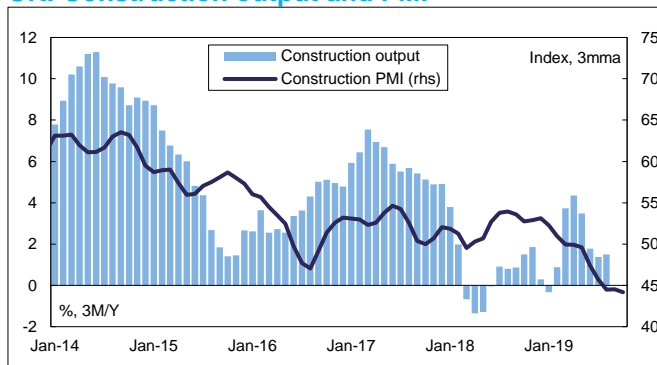
Construction still in contraction

Like last Friday's [manufacturing PMI](#), there was an upwards surprise to the equivalent construction sector survey at the start of Q4. In particular, the headline index rose for the first month in three in October and by 0.9pt to 44.2, nevertheless still one of the lowest readings of the past decade and consistent with ongoing steep contraction in the sector. And the improvement was concentrated to commercial activity, with the relevant PMI rising 3.9pts to 44.9, a five-month high but still well below the long-run average and consistent with declining output. Moreover, the survey signalled a steeper pace of decline in civil engineering (down 0.6pt to 40.8) and housing construction (down 2.7pts to 45.0), with the indices at their lowest level for ten years and three years respectively. But while the survey suggested that activity that month was hindered to some extent by unusually wet weather, it also inferred that client demand remained subdued due to persistent political uncertainty. And so, while the survey's new orders component posted a notable increase in October (up 3.8pts) at 44.6 it still marked the seventh successive sub-50 reading and implied ongoing contraction. And with business optimism over the coming year one of the weakest levels since 2012, construction firms continued to scale back their workforces, with the employment index suggesting one of the steepest paces of job losses since early 2010.

The day ahead in the UK

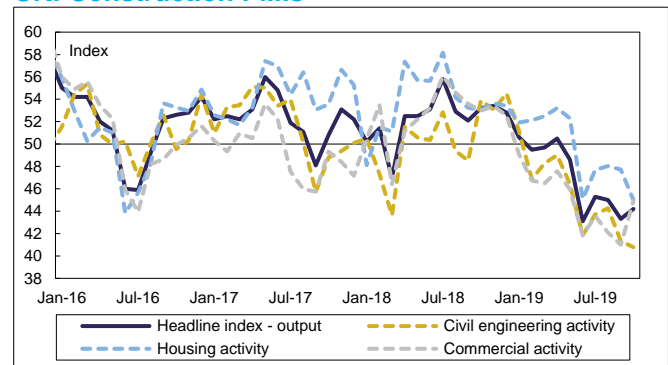
The UK's October PMI surveys will conclude tomorrow with the services and composite indices. Having slipped below the key 50 expansion level in September, the headline services activity PMI is expected to have moved broadly sideways at 49.5. So, despite the improvement in the manufacturing output PMI in October, the all-sector PMI seems likely to remain below 50 for the second successive month and only the third time since 2012. Tomorrow will also bring the BRC retail sales monitor, alongside the latest car registration figures, both for October. In the markets, the DMO will sell 10Y Gilts.

UK: Construction output and PMI



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

UK: Construction PMIs










Source: Markit, Thomson Reuters 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
EMU	 Final manufacturing PMI	Oct	45.9	45.7	45.7	-
Germany	 Final manufacturing PMI	Oct	42.1	41.9	41.7	-
France	 Final manufacturing PMI	Oct	50.7	50.5	50.1	-
Italy	 Manufacturing PMI	Oct	47.7	47.8	48.7	-
Spain	 Manufacturing PMI	Oct	46.8	47.7	48.8	-
UK	 Lloyds business barometer	Oct	6	-	2	-
	 Construction PMI	Oct	44.2	44.4	43.3	-

Auctions




Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	 10.00	PPI Y/Y%	Sep	-1.2	-0.8
Spain	 08.00	Unemployment change '000s	Oct	62.1	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	49.7 (49.5)	49.5 (49.3)

Auctions

Country	BST	Auction/Event
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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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