

Euro wrap-up

Overview

- Bunds made gains even as German trade data pointed to a pickup in exports at the end of Q3.
- Gilts were little changed despite a UK job survey pointing to a further deterioration in labour market conditions at the start of Q4.
- After the weekend's Spanish election, the coming week will bring updated estimates of Q3 GDP from the euro area, Germany and the UK. Final inflation data for October from the euro area and UK are also due.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.629	-0.005
OBL 0 10/24	-0.536	-0.023
DBR 0 08/29	-0.270	-0.032
UKT 3¼ 09/21	0.550	+0.001
UKT 1 04/24	0.529	-0.001
UKT 0¾ 10/29	0.785	-0.007

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

Source: Bloomberg

Euro area

German exports pickup in September

While yesterday's [German IP](#) figures signalled ongoing contraction in the industrial sector at the end of Q3, today's trade report provided some more encouraging news for manufacturers in the largest euro area member state. In particular, export values rose for the fourth month out of the past six in September and by a sizeable 1½%M/M, to leave them more than 4½% higher than a year earlier. And this seemed boosted by demand from within Europe and worldwide more generally. Shipments to the euro area were up 5½%Y/Y in September, an eleven-month high, to other EU countries they rose 7%Y/Y, the first annual increase for six months and the firmest since April 2018, and to non-European countries they were up 3%Y/Y. Stripping out the impact of price changes, the picture was little different, with export volumes up 1.3%M/M, the strongest monthly increase for six months. But while this left export volumes up ½% over the third quarter as a whole, with import volumes rising at the same rate, today's data suggested that net trade provided no contribution to German GDP growth last quarter, admittedly an improvement on the ½ppt drag seen in Q2.

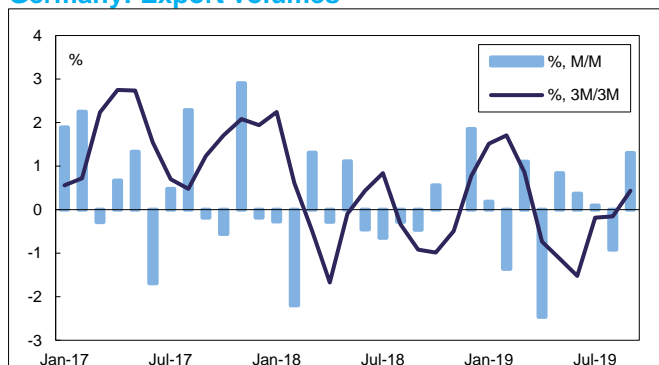
French IP disappoints in Q3

Like in Germany, today's IP figures from France suggested that manufacturers in the second largest member state struggled in the third quarter. Indeed, while French production rose in September, the 0.3%M/M increase reversed just one-third of the decline in August to leave output only 0.1% higher than a year earlier. The weakness in part reflected a further drop in energy production (-2.1%M/M), while production of intermediate goods fell for the sixth month out of the past seven. But there was also a further decline in auto production in September for the seventh month out of the past eight, with the 3.9%M/M drop the steepest since April 2017, to leave it down almost 7% compared with a year earlier and at the lowest level for three years. Manufacturing output (+0.6%M/M) in September was, however, supported by a surge in production of consumer durables (+6.9%M/M) and non-durables (+2.1%M/M). But this was not enough to offset weakness earlier in the quarter. As such, manufacturing output was down for the second successive quarter in Q3 and by a steeper 1%Q/Q, with total industrial production similarly contracting by 1.2%Q/Q, the largest such decline since Q118. Fortunately, the services sector is what matters most for the French economy. Indeed, despite the manufacturing weakness, GDP growth was unchanged at 0.3%Q/Q for the third consecutive quarter.

The week ahead in the euro area and US

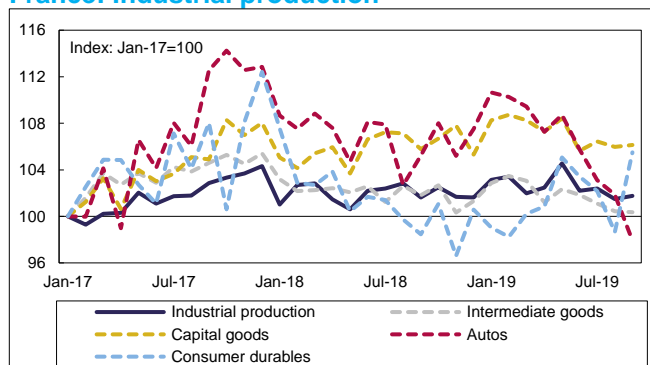
The weekend will see Spain head to the polls for the fourth time in four years. While the Socialist party (PSOE) still looks on track to once again take the largest number of seats, like in April, it will probably fall well short of a majority. Polls suggest the right-wing establishment Partido Popular (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

Germany: Export volumes



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

France: Industrial production



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.


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Parliament, with a little more than 10% of the vote, just behind the populist left-wing Podemos. So there is every possibility that Sunday's vote will deliver another minority PSOE government, an even more hung Parliament than at present, and therefore broad policy inertia ahead of yet another election in spring 2020.

Data-wise, meanwhile, there are various top-tier euro area releases in the coming week, including the aforementioned September industrial production figures on Wednesday, which are expected to show that output slipped back on the month to leave it down over Q3 as a whole for the second successive quarter. Nonetheless, the updated estimate of euro area Q3 GDP growth the following day is expected to align with the flash estimate of 0.2%Q/Q (unchanged from Q2). Against this backdrop, euro area labour market figures (also due Thursday) are likely to show employment growth in Q3 no firmer than the 0.2%Q/Q rate in Q2. Of course, of most interest on Thursday will be the first estimate of German Q3 GDP. Given the significant weakness in industrial and construction output in the third quarter, there is a significant risk that the economy slipped into a technical recession, with the consensus expectation for growth of -0.1%Q/Q. We are a touch less downbeat given the pickup in retail sales that quarter, admittedly merely forecasting GDP growth of zero in Q3. Euro area trade figures for September (due Friday) should provide some insight into the extent to which net exports weighed on GDP growth in Q3. The first half of the week, meanwhile, will bring the German ZEW and French BoF sentiment surveys for November and October respectively.

In terms of inflation, the final readings of October CPI are also due from Germany (Wednesday), France and Spain (Thursday), and the euro area (Friday). The flash estimate showed the headline euro area CPI declining 0.1ppt to 0.7%Y/Y, on the back of lower energy prices. However, given rounding effects, there is a non-negligible risk that it will be revised higher. Core CPI is expected to be confirmed at 1.1%Y/Y, 0.1ppt higher than September. Elsewhere, various ECB members are scheduled to speak publicly in the coming week, including Vice President de Guindos in London and Chief Economist Lane in Frankfurt on Wednesday. In the markets, Germany will sell 2Y bonds on Tuesday and 10Y Bunds on Wednesday, while Italy will also sell 3Y and 7Y bonds on Wednesday.

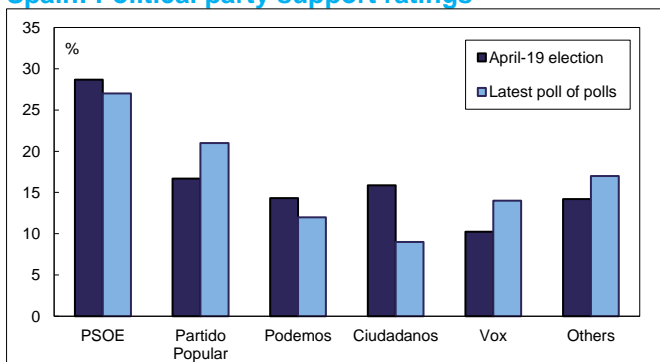
In the US, despite a quiet start with markets closed for Veterans Day holiday on Monday, the coming week looks set to be an eventful one, not least with several noteworthy releases including October CPI (Wednesday), retail sales and IP data (Friday), while Fed Chair Powell's testimony on the economy before the Joint Economic Committee on Wednesday will be closely watched for any further insight into the near-term policy outlook. Despite an anticipated pickup in prices last month, the annual CPI rate is expected to move sideways at 1.7%Y/Y as energy inflation remains subdued. Core CPI is also expected to move sideways, albeit at a slightly firmer 2.4%Y/Y. But while retail sales are expected to have reversed some of the weakness seen in September, IP is forecast to have had a soft start to the fourth quarter, with a third monthly contraction out of the past four. Friday will also bring the latest business inventories figures for September, export and import prices data for October and the Empire Manufacturing index for November. In addition, the NFIB small business optimism survey will be published on Tuesday, while PPI figures are due Thursday. In the markets, there are no UST bond auctions scheduled in the coming week.

UK

Job survey show labour market conditions weakening

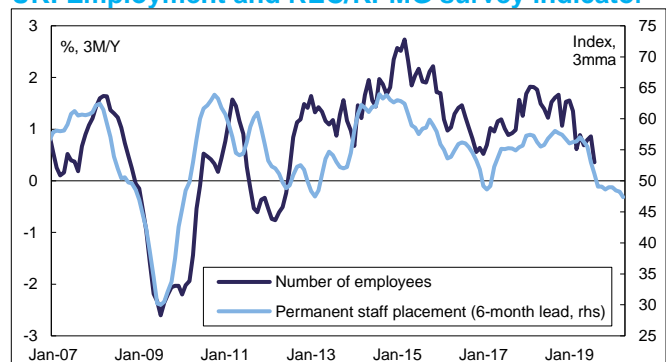
After the [BoE](#) yesterday offered a more downbeat assessment of the economic outlook further along the forecast horizon and flagged that the labour market no longer appears to be tightening, today's REC/KPMG Report on Jobs showed that recruitment consultancies assessed a further weakening in labour market conditions at the start of Q4. Against the backdrop of persistent political uncertainty, the survey suggested a further drop in hiring last month, with the number of people placed in permanent roles declining at one of the fastest rates for a decade. Temporary placements continued to rise only marginally too. While the supply of job candidates also continued to fall sharply in October, the number of vacancies increased at the slowest pace since the start of 2012, with reduced demand for both permanent and temporary staff alike.

Spain: Political party support ratings



Source: Politico and Daiwa Capital Markets Europe Ltd.

UK: Employment and REC/KPMG survey indicator


















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

The week ahead in the UK

It will be a busy week ahead for top-tier UK economic data, kicking off on Monday with the first estimate of Q3 GDP and the monthly output and trade figures for September. Given the strength in activity at the start of the third quarter, the UK's economy is expected to have returned to expansion in Q3, with the consensus forecast for growth of 0.4%Q/Q in line with the BoE's assumption in yesterday's Monetary Policy Report. We think risks to this forecast might be skewed to the downside. And while household consumption is expected to have posted steady growth, business investment will no doubt have maintained a downward trend. Moreover, the monthly output releases look set to illustrate a further slowing in economic momentum towards the end of the quarter. Tuesday will bring the latest labour market data, which are expected to report a steeper pace of decline in employment in the three months to September, albeit leaving the unemployment rate unchanged at 3.9%. Average earnings growth is also expected to remain close to the near-4%3M/Y growth seen over recent months. The following day will bring October's inflation figures, which are expected to show a further fall in the headline CPI rate by 0.1ppt to 1.6%Y/Y, not least reflecting Ofgem's reduced price caps on tariffs that month. But the core CPI rate is also expected to be little changed at 1.7%Y/Y, suggesting that underlying price pressures remain subdued. Finally, Thursday's release of October retail sales numbers are expected to show a modest increase in spending at the start of Q4 despite still weak consumer and retailer sentiment surveys. Other releases in the coming week include the ONS house price index (Wednesday) and the RICS house price balance (Thursday). Supply-wise, the DMO will sell 20Y Gilts on 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	0.0	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.










Coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 11 November 2019					
Italy		09.00 Industrial production M/M% (Y/Y%)	Sep	-0.4 (-2.0)	0.3 (-1.8)
UK		09.30 Preliminary GDP Q/Q% (Y/Y%)	Q3	0.4 (1.1)	-0.2 (1.3)
		09.30 GDP M/M%	Sep	-0.1	-0.1
		09.30 Services output M/M% (3M/3M)	Sep	0.1 (0.4)	0.0 (0.4)
		09.30 Industrial production M/M% (Y/Y%)	Sep	-0.1 (-1.2)	-0.6 (-0.7)
		09.30 Manufacturing production M/M% (Y/Y%)	Sep	-0.2 (-1.3)	-0.7 (-1.7)
		09.30 Construction output M/M% (Y/Y%)	Sep	-0.3 (1.2)	0.2 (2.4)
		09.30 Trade balance (goods trade balance) £bn	Sep	-2.0 (-10.1)	-1.5 (-9.8)
Tuesday 12 November 2019					
Germany		10.00 ZEW current situation balance (expectations)	Nov	-24.0 (-14.0)	-25.3 (-22.8)
France		07.30 Bank of France industry sentiment indicator	Oct	97	96
UK		09.30 Claimant count rate % (change '000s)	Oct	-	3.3 (21.1)
		09.30 Average weekly earnings (excl. bonuses) 3M/Y%	Sep	3.8 (3.8)	3.8 (3.8)
		09.30 ILO unemployment rate 3M%	Sep	3.9	3.9
		09.30 Employment change 3M/3M '000s	Sep	-109	-56
Wednesday 13 November 2019					
EMU		10.00 Industrial production M/M% (Y/Y%)	Sep	-0.3 (-2.3)	0.4 (-2.8)
Germany		07.00 Final CPI (EU-harmonised CPI) Y/Y%	Oct	1.1 (0.9)	1.2 (0.9)
UK		09.30 CPI (core CPI) Y/Y%	Oct	1.6 (1.7)	1.7 (1.7)
		09.30 PPI output prices (core output prices) Y/Y%	Oct	0.8 (1.5)	1.2 (1.7)
		09.30 ONS house price index Y/Y%	Sep	0.9	1.3
Thursday 14 November 2019					
EMU		10.00 GDP – second estimate Q/Q% (Y/Y%)	Q3	0.2 (1.1)	0.2 (1.2)
		10.00 Employment Q/Q% (Y/Y%)	Q3	-	0.2 (1.2)
Germany		07.00 Preliminary GDP Q/Q% (Y/Y%)	Q3	-0.1 (0.4)	-0.1 (0.4)
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	Oct	0.7 (0.9)	0.9 (1.1)
Spain		08.00 Final CPI (EU-harmonised CPI) Y/Y%	Oct	0.1 (0.2)	0.1 (0.2)
UK		00.01 RICS house price balance	Oct	-3	-2
		09.30 Retail sales including fuel M/M% (Y/Y%)	Oct	0.3 (3.7)	0.0 (3.1)
		09.30 Retail sales excluding fuel M/M% (Y/Y%)	Oct	0.3 (3.6)	0.2 (3.0)
Friday 15 November 2019					
EMU		10.00 Trade balance €bn	Sep	17.4	20.3
		10.00 Final CPI (core CPI) Y/Y%	Oct	0.7 (1.1)	0.8 (1.0)
Italy		09.00 Total trade balance €bn	Sep	-	2.3
		10.00 Final CPI (EU-harmonised CPI) Y/Y%	Oct	0.4 (0.2)	0.4 (0.2)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.






The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 11 November 2019		
EMU	 -	ECB's Enria and Mersch are scheduled to speak
Tuesday 12 November August		
EMU	 -	ECB's Coeure, Mersch and Enria are scheduled to speak
Germany	 10.30	Auction: to sell €5bn of 0% 2021 bonds
Wednesday 13 November 2019		
Germany	 10.30	Auction: to sell €3bn of 2029 bonds
Italy	 10.00	Auction: to sell €2.75bn of 3Y bonds
	 10.00	Auction: to sell €2.25bn of 7Y bonds
Thursday 14 November 2019		
EMU	 -	ECB's Guindos, Lane and Knot are scheduled to speak
UK	 10.30	Auction: to sell 1.75% 2049 bonds
Friday 15 November 2019		
EMU	 08.00	ECB's Mersch is scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Trade balance €bn	Sep	21.1	19.5	16.2	16.4
	 Exports (imports) M/M%	Sep	1.5 (1.3)	0.3 (0.0)	-1.8 (0.5)	-0.9 (0.1)
France	 Trade balance €bn	Sep	-5.6	-5.0	-5.0	-5.4
	 Industrial production M/M% (Y/Y%)	Sep	0.3 (0.1)	0.4 (0.3)	-0.9 (-1.4)	- (-1.3)
	 Manufacturing production M/M% (Y/Y%)	Sep	0.6 (0.4)	0.2 (0.1)	-0.8 (-1.6)	- (-1.5)

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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