Euro wrap-up

Overview

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- Bunds made very modest gains, as a German business survey provided mixed message about economic conditions, while a French business survey signalled softer growth in Q4.
- Gilts ended the day little changed as the latest UK labour market report showed a drop in the unemployment rate, but indicated a further moderation in employment and wage growth.
- Tomorrow will bring euro area industrial production data for September, as well as October inflation figures from Germany and the UK.

Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.633	-0.008
OBL 0 10/24	-0.644	-0.005
DBR 0 08/29	-0.249	-0.002
UKT 3¾ 09/21	0.568	+0.003
UKT 1 04/24	0.568	+0.012
UKT 0⅞ 10/29	0.813	+0.003

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

Euro area

German ZEW provided mixed messages

On a relatively quiet day for euro area economic news, today's German ZEW survey of financial market experts – the first indicator to offer an insight into economic conditions in November – attracted attention. In particular, the survey's expectations component offered a rare glimmer of hope about the near-term outlook, increasing a sizeable 20.7pts on the month to -2.1, the highest level since May and a whopping 42pts higher than August's trough. This pickup reflected a significantly improved assessment of the near-term outlook on the back of seemingly improved prospects for a Brexit deal between the EU and UK and a trade agreement between China and the US. Certainly, it is not uncommon for this measure to track equities markets, which have been on a steady upward trend over the past month or so. This notwithstanding, German financial professionals were still not convinced by the current economic situation, with the survey's respective indicator rising just 0.6pt to -24.7, still the second-lowest reading for 9½ years. And it is this index that provides a more reliable guide to the closely watched Ifo business survey. Therefore, when the Ifo is published on 25 November, we would expect this survey to suggest that business conditions remained very weak in the middle of Q4 and consistent with still weak GDP growth.

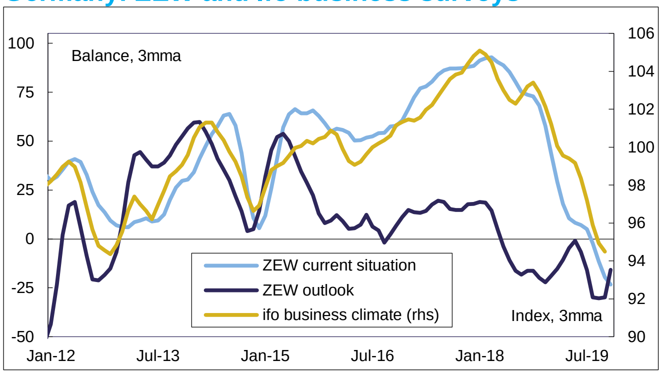
Bank of France survey signals softer growth

At face value, today's Bank of France business sentiment survey was also more positive, with the headline manufacturing indicator rising 2pts to 98 in October, as production and order books in the sector resumed an upward trend that month. But manufacturers were nevertheless more downbeat about the near-term production outlook. While construction firms saw solid output last month, they were more downbeat about the near-term outlook, therefore leaving the respective sentiment index unchanged at 105, admittedly a still elevated level. And while services activity reportedly increased 'moderately' in October, overall the business sentiment indicator for the sector fell back by 1pt to 98, a three-year low. So, overall, the Bank of France assessed today's survey to be consistent with a slight moderation in GDP growth at the start of the quarter, forecasting growth of 0.2%Q/Q in Q4, down from a rate of 0.3%Q/Q in the previous three quarters.

The day ahead in the euro area and US

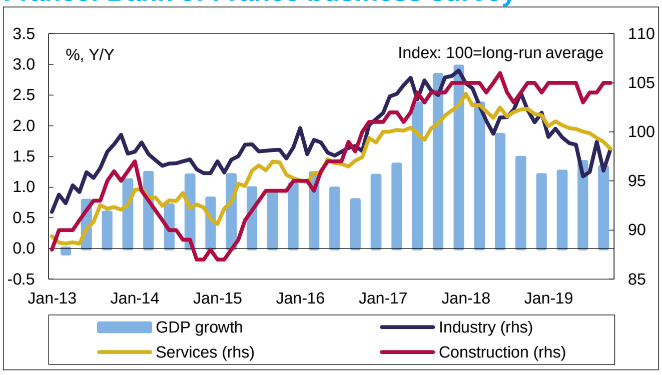
Tomorrow will bring the euro area's industrial production figures for September. Consistent with the weakness seen in Germany, Italy and Spain at the end of Q3, aggregate euro area IP is expected to have declined by around 0.2%M/M, partly reversing the increase in August. And with output having fallen in July, this would leave it down more than ½%Q/Q in Q3, admittedly a more modest drop than in Q2 but nevertheless the fourth quarterly contraction out of the past five. Wednesday will also bring final German inflation figures for October, which are likely to align with the flash estimate that showed the headline EU-harmonised CPI rate unchanged from September at 0.9%Y/Y, a near-three-year low. Tomorrow will also bring an ECB Governing Council non-monetary policy meeting, the first one under new ECB President Christine Lagarde. While this will cover non-monetary policy

Germany: ZEW and Ifo business surveys



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

France: Bank of France business survey



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

decisions, the agenda reportedly will include discussions on how to improve the central bank's internal policy discussions, with proposals to include a formal vote on policy decisions. As usual, there will be no press conference following tomorrow's meeting, with any decisions taken to be published in the ECB's monthly survey of non-monetary ECB decisions the following day. In the markets, Germany will sell 10Y Bunds, while Italy will sell bonds with various maturities.

In the US, tomorrow will bring several noteworthy events, including Fed Chair Powell's testimony on the economy before the Joint Economic Committee, which will be closely watched for any further insight into the near-term policy outlook. Data-wise, October's CPI release is expected to show that 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.

UK

Employment growth weakens further

After yesterday's UK Q3 GDP report came in softer than expected, with growth slowing to its lowest annual pace since the start of 2010, at face value today's employment report came in a touch stronger than expectations. For example, the headline unemployment rate unexpectedly fell in the three months to September by 0.1ppt to 3.8%, the lowest since 1974. And while this principally reflected a fall in participation, the decline in employment was also softer than anticipated (-58k) to leave it still up by 323k compared with the three months to September 2018. Moreover, the drop over the third quarter was more than fully accounted for by part-time workers, with the number of full-time workers rising by a little more than 50k. But growth in full-time employment has undoubtedly slowed considerably over the past year or so, with the annual rate of 0.5% in September just a quarter of that seen in 2018. And overall, total employment growth has clearly weakened considerably since the turn of the year, when it increased by more than 200k in the three months to December. Furthermore, against the backdrop of still weak business conditions as political uncertainties persist, risks to the near-term jobs outlook remain skewed to the downside. Certainly, there was a further drop in the number of vacancies in September to leave them more than 6% lower than a year earlier and at lowest level since mid-2017. And various surveys, including the PMIs and REC/KPMG Report on Jobs, point to further cutbacks in workforces over coming months too.

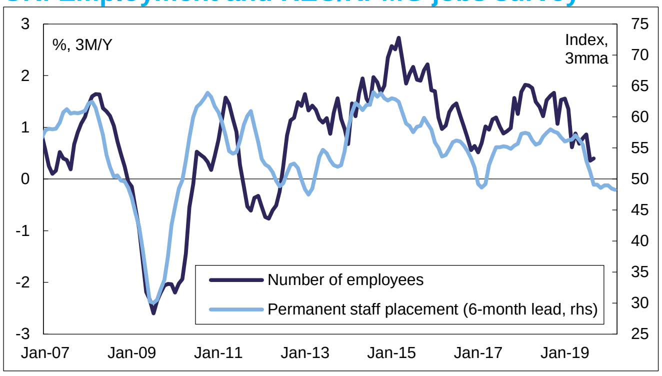
Wage growth on a downward trend too

Having previously reached the strongest rates since 2008 (in June), the latest wage data missed expectations, with total labour earnings (including bonuses) slowing 0.1ppt in the three months to September to 3.6%3M/Y, from the recent peak of 3.9%, while regular growth eased 0.2ppt to 3.6%3M/Y. There was a downward trend in both private and public sector wages, by 0.1ppt to 3.6%3M/Y and 0.2ppt to 3.2%3M/Y respectively. And when looking at the more recent profile, the weakening was more striking in September – for example, total wage growth on a 3M/3M annualised basis was almost 2ppts lower than the peak in July at 3.0%, with the drop in public sector wage growth (from 7.4%3M/3M ann. in June to 1%3M/3M ann. in September) even more marked. Looking ahead, we expect the weaker economic environment to contribute to a further softening of wage growth over coming quarters. And this seems bound to keep household consumption relatively subdued, and limit any domestically driven upward inflationary pressures too.

The day ahead in the UK

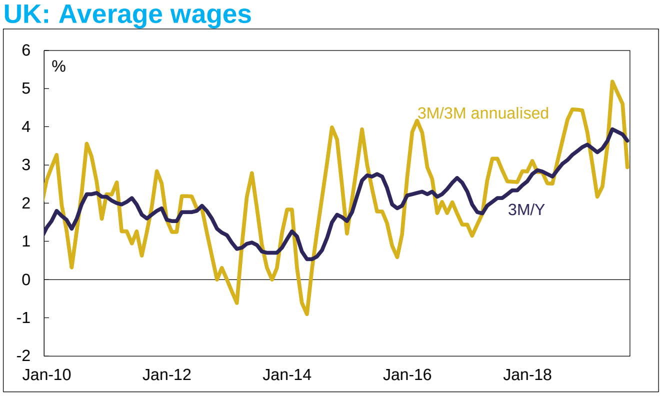
Tomorrow will bring more top-tier UK data, with October's inflation figures expected to show a further fall in the headline CPI rate by 0.1ppt to 1.6%Y/Y, a touch stronger than assumed by the BoE in its Monetary Policy Report last week. While the downward trend will continue to principally reflect energy inflation, not least given Ofgem's reduced price caps on tariffs that month, the core CPI rate is also expected to be little changed at 1.7%Y/Y, suggesting that underlying price pressures remain subdued. Tomorrow will also bring the ONS house price index for September.

UK: Employment and REC/KPMG jobs survey



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

UK: Average wages



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ *Daiwa forecast*	Previous	Revised
Germany	ZEW current situation balance (expectations)	Nov	**-24.7 (-2.1)**	-24.0 (-14.0)	-25.3 (-22.8)	-
France	Bank of France industry sentiment indicator	Oct	**98**	97	96	-
UK	Claimant count rate % (change '000s)	Oct	**3.4 (33.0)**	-	3.3 (21.1)	**- (13.5)**
	Average weekly earnings (excl. bonuses) 3M/Y%	Sep	**3.6 (3.6)**	3.8 (3.8)	3.8 (3.8)	**3.7 (-)**
	ILO unemployment rate 3M%	Sep	**3.8**	3.9	3.9	
	Employment change 3M/3M '000s	Sep	**-58**	-109	-56	-

Auctions

Country	Auction
Germany	sold €4.0bn of 0% 2021 bonds at an average yield of -0.62%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
EMU	10.00	Industrial production M/M% (Y/Y%)	Sep	-0.2 (-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

Auctions and events

Country	BST	Auction / Event
Germany	10.30	Auction: to sell €3bn of 0% 2029 bonds
Italy	10.00	Auction: to sell €2.5bn of 0.05% 2023 bonds
	10.00	Auction: to sell €3.25bn of 0.85% 2027 bonds
	10.00	Auction: to sell €1.5bn of 2.7% 2047 bonds
	10.00	Auction: to sell €1.5bn of 3.85% 2047 bonds
EMU	-	ECB Governing Council non-monetary policy meeting

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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