

# Euro wrap-up

## Overview

- Bunds made small losses as trade figures suggested that net exports provided modest support to euro area GDP growth in Q3 for only the second quarter out of the past seven.
- Gilts also made modest losses on a day bereft of UK economic data.
- The coming week will bring November's flash PMIs from the euro area, Germany, France and the UK. The ECB account from October's Governing Council meeting is also due, while UK political parties are due to publish their election manifestos.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.643	+0.014
OBL 0 10/24	-0.589	+0.012
DBR 0 08/29	-0.339	+0.016
UKT 3¼ 09/21	0.537	+0.012
UKT 1 04/24	0.503	+0.010
UKT 0% 10/29	0.721	+0.012

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

Source: Bloomberg

## Euro area

### Euro area trade balance improves slightly at end-Q3

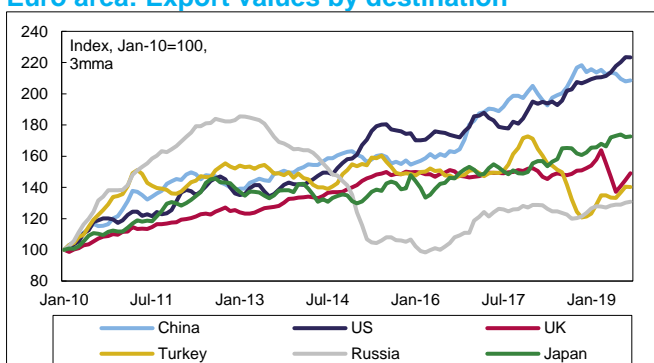
While euro area GDP growth in Q3 was confirmed yesterday at 0.2%Q/Q, unchanged from Q2, we will have to wait until the final release on 5 December for the official expenditure breakdown. However, today's release of September's trade figures suggest that net exports provided modest support to growth in Q3, for only the second quarter out of the past seven. But while there was a second successive increase in the value of exports in September (0.6%M/M), this left them just 0.2% higher over the third quarter as a whole. And so the improved trade position also reflected weaker imports in Q3, which fell 0.4%3M/3M despite rising 1½%M/M in September. Compared with a year earlier, the near-2%Y/Y increase in exports was supported in part by stronger shipments to the UK, with growth of 4.1%Y/Y the first positive reading since March and likely reflecting an increase in demand ahead of the end-October Brexit deadline. Growth in shipments to the US remained solid (8.0%Y/Y), while there was an acceleration in exports to Japan (10.0%Y/Y). But there was a notable weakening in exports to China at the end of Q3, with the 4.2%Y/Y decline the steepest since May 2016.

### Euro area growth outlook remains subdued

Looking ahead, we are on the whole relatively downbeat about the outlook for the euro area's largest trading partners, with the impacts of Brexit, Chinese rebalancing and late-cycle strains in the US, as well as ongoing weakness in several emerging markets, set to continue to weigh on export demand over coming quarters. So, the positive contribution from net trade in Q3 seems highly unlikely to be repeated over coming quarters. Uncertainty about the global economic outlook will continue to weigh on business investment too. With employment growth set to continue to fade and wage growth set to moderate, household consumption looks set to be far from vigorous. And despite moderate budgetary stimulus in Germany, the Netherlands and a handful of smaller member states, the aggregate fiscal stance of the euro area might ease by little more than ¼% of GDP, offering little new impetus to growth. So, overall, we expect no meaningful acceleration of economic growth over coming quarters, with rates of no more than 0.2%Q/Q, roughly half the pace expected by the ECB from the second quarter of next year on. And so, overall, we expect full-year growth to be a sub-potential 0.7% in 2020 and weaker still in 2021.

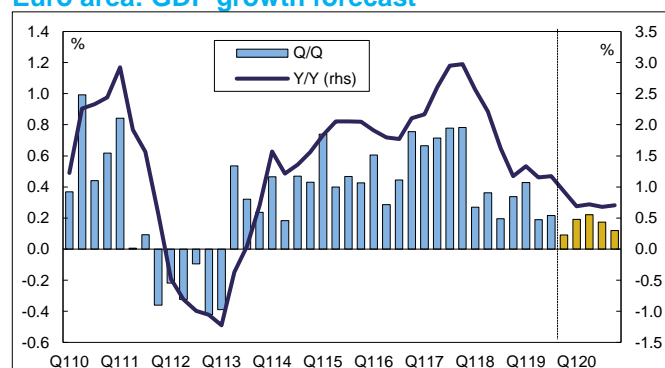
Among the large member states, we expect a pickup in car production to support ongoing positive growth in Germany. However, with the savings ratio likely to remain elevated, business investment to remain weak and fiscal stimulus relatively modest given the strong budgetary position, the outlook there will remain disappointingly subdued: as for this year, our full-year German GDP growth forecast for 2020 is just ½%. Ongoing sluggishness is inevitable in Italy too, with growth likely again to be close to zero next year. And while the French and Spanish economies appear likely to continue expanding at a

### Euro area: Export values by destination



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: GDP growth forecast



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



steady pace over coming quarters, this would still leave their annual growth somewhat softer than in recent years.

## No surprises from final October CPI figures

Against the backdrop of subdued economic growth, inflation inevitably remains weak too. Today's final estimate of euro area inflation in October aligned with the flash figure, with headline CPI confirmed to have dropped 0.1ppt to 0.7%Y/Y (admittedly 0.75%Y/Y to two decimal places), the lowest rate in almost three years. Within the detail the changes from the preliminary estimates were minimal. So, the weakness was more than fully accounted for by energy prices, which were down 3.1%Y/Y. While food price inflation inched up to 1.7%Y/Y, there was a modest pickup in non-energy industrial goods inflation, by 0.1ppt to 0.3%Y/Y, with a similar increase in services inflation too, to 1.6%Y/Y. As such, the core CPI rate edged up 0.1ppt to 1.1%Y/Y, still only a touch above the average this year.

## Expect only modest pickup in inflation in 2020

Looking ahead, with energy inflation set to move higher over the near term thanks to base effects, the headline CPI rate will likely rise back above 1.0%Y/Y from December. Services inflation should edge up too as higher wages are gradually passed on to consumers. But non-energy goods inflation should remain subdued not least due to global factors. As such, the rise in core inflation is likely to be very modest to average 1.2%Y/Y in 2020. And we forecast headline inflation to average just 1.1%Y/Y next year too. As we expect the outlook for GDP to remain subdued, inflation seems likely to be little stronger in 2021.

## So ECB will eventually feel the need to ease again

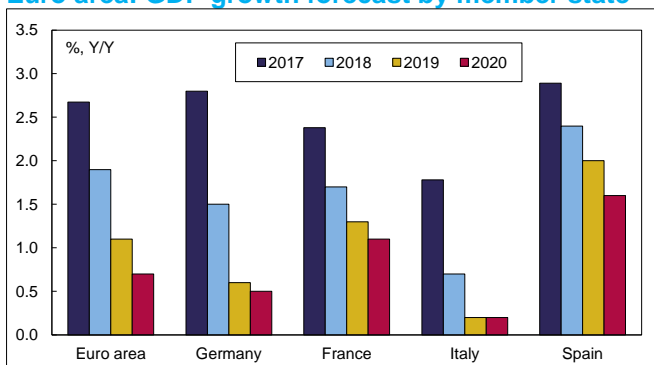
That prognosis should, in due course, call for further monetary easing. But recognising the questionable cost-benefit analysis of various policy measures, the ECB's Governing Council will be reluctant to act. Judging from the range of views expressed at the September Governing Council meeting and various subsequent comments of members – including comments yesterday and today from ECB Chief Economist Lane – we think that a further modest rate cut is still possible, and pencil in a 10bps reduction in the deposit rate to -0.60% in March. Such a move might be sweetened with an adjustment to the ECB's tiering framework to soften the impact on the banking sector. And while we do not expect an increase in the €20bn rate of net asset purchases throughout 2020, we do expect the Governing Council to have to raise its self-imposed issue and issuer limits from 33% to 40% in the second half of the year.

## The week ahead in the euro area and US

In the euro area, the main economic focus in the coming week will be Friday's flash PMIs for November. While the headline manufacturing index is expected to report a modest pickup this month, it will still remain in contractionary territory. And with little improvement anticipated in conditions in the services sector, the composite PMI is forecast to post only a modest increase in November, by 0.2ppt to 50.8, which would still mark the third-lowest reading since mid-2013 and consistent with a moderation in GDP growth so far in Q4. Meanwhile, in Germany, despite an anticipated improvement, the composite PMI is still expected to remain firmly below the key-50 level, while in France the respective index is likely to indicate little change in conditions this month. Friday will also bring revised German Q3 GDP figures, which will include the full national accounts breakdown.

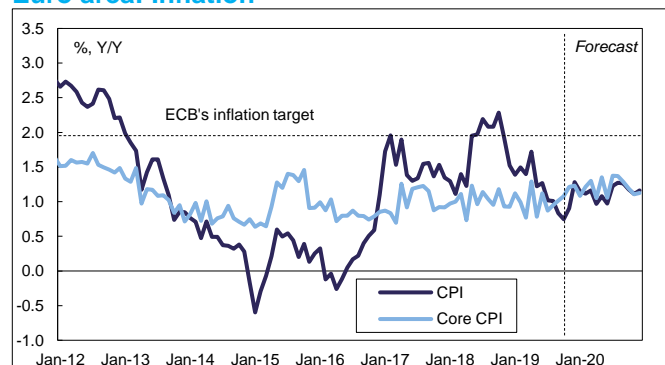
Ahead of this will see the release on Thursday of the Commission's flash consumer confidence indicator for November, which is likely to report a modest improvement on the month, albeit remaining firmly within the recent range. The same day will see the release of the account of the ECB's October policy meeting, although – if the respective press conference was anything to go by – that is likely to be a non-event. Meanwhile, Tuesday will also bring euro area construction output and current account data for September, along with new car registrations figures for October. In the markets, Germany will sell longer-dated Bunds on Wednesday, while France and Spain will sell bonds with various maturities on Thursday.

### Euro area: GDP growth forecast by member state



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: Inflation



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.
















In the US, the coming week's data calendar will bring various housing market indicators including the NAHB index for November (Monday), housing starts figures (Tuesday) and existing home sales numbers for October (Thursday). Thursday will also bring the latest Philly Fed and Conference Board's leading indices, followed on Friday by Markit's flash PMIs for November. Wednesday's publication of the minutes from the most recent FOMC meeting will also be closely watched. In the markets, the US will sell 10Y TIPS.

## UK

### The week ahead in the UK

Politics will continue to dominate the news flow in the run up to next month's general election, with the major parties due to publish their election manifestos and the first televised leaders' debate between Boris Johnson and Jeremy Corbyn on Tuesday. Turning to the data, there are a couple of November sentiment surveys of note kicking off on Tuesday with the CBI's industrial trends survey. This is expected to show that manufacturing orders remained considerably weaker than a year earlier, as political and economic uncertainty continue to weigh on conditions in the sector. But arguably more attention will be on the first ever release of UK flash PMIs on Friday, which will offer insight into economic activity in the manufacturing and services sectors in November. While the headline manufacturing PMI is likely to stay firmly in contractionary territory, it remains to be seen whether the services PMI was any stronger than the 50-level in October, that indicated stagnation at the start of Q4. Meanwhile, Thursday will bring the latest public sector finance figures, which are expected to show that net borrowing in October was higher than a year earlier. The fiscal policy pledges of the various political parties, however, suggest that the underlying state of the public finances is highly likely to deteriorate over the coming year.





## Daiwa economic forecasts

	2019				2020				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP forecasts %, Q/Q</b>											
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 	0.5	-0.2	0.1	0.1	0.1	0.2	0.1	0.1	1.5	0.6	0.5
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 	0.6	-0.2	0.3	-0.1	0.2	0.2	0.2	0.1	1.4	1.2	0.5
<b>Inflation forecasts %, Y/Y</b>											
Euro area											
Headline CPI 	1.4	1.4	1.0	1.0	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	1.3	1.5	1.3	1.0	1.0	1.3
UK											
Headline CPI 	1.9	2.0	1.8	1.5	1.7	1.1	0.9	1.0	2.5	1.8	1.3
Core CPI 	1.9	1.7	1.7	1.7	1.6	1.4	1.2	1.1	2.1	1.7	1.3
<b>Monetary policy</b>											
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	0.75	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.
























**In the absence of significant news, the next edition of the Euro wrap-up will be published on 19 November 2019**

## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Trade balance €bn	Sep	<b>18.3</b>	18.7	20.3	<b>19.7</b>
	 Final CPI (core CPI) Y/Y%	Oct	<b>0.7 (1.1)</b>	0.7 (1.1)	0.8 (1.0)	-
Italy	 Total trade balance €bn	Sep	<b>2.8</b>	-	2.6	-
	 Final CPI (EU-harmonised CPI) Y/Y%	Oct	<b>0.4 (0.2)</b>	0.4 (0.2)	0.4 (0.2)	-
Auctions						
Country	Auction					
- Nothing to report -						

















Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Coming week's calendar

The coming week's key data releases						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
<b>Monday 18 November 2019</b>						
UK		00.01 Rightmove house price index M/M% (Y/Y%)	Nov	-	0.6 (-0.2)	
<b>Tuesday 19 November 2019</b>						
EMU		07.00 EU27 new car registrations Y/Y%	Oct	-	14.5	
		10.00 Construction output M/M% (Y/Y%)	Sep	-	-0.5 (1.2)	
		10.00 Current account balance €bn	Sep	-	26.6	
Italy		09.00 Industrial sales M/M% (Y/Y%)	Sep	-	-0.3 (-2.2)	
		09.00 Industrial orders M/M% (Y/Y%)	Sep	-	1.1 (-10.0)	
UK		11.00 CBI industrial trends survey, total orders	Nov	-30	-37	
<b>Wednesday 20 November 2019</b>						
Germany		07.00 PPI M/M% (Y/Y%)	Oct	0.0 (-0.4)	0.1 (-0.1)	
UK		09.30 Unit labour costs Y/Y%	Q2	-	2.1	
<b>Thursday 21 November 2019</b>						
EMU		15.00 Preliminary Commission's consumer confidence	Nov	-7.2	-7.6	
France		07.45 INSEE business confidence indicator	Nov	105	105	
		07.45 Manufacturing confidence indicator (production outlook)	Nov	100 (1)	99 (-1)	
Spain		09.00 Trade balance €bn	Sep	-	-4.0	
UK		09.30 Public sector net borrowing £bn	Oct	9.3	9.4	
<b>Friday 22 November 2019</b>						
EMU		09.00 Preliminary manufacturing (services) PMI	Nov	46.0 (52.5)	45.9 (52.2)	
		09.00 Preliminary composite PMI	Nov	50.9	50.6	
Germany		07.00 Final GDP Q/Q% (Y/Y%)	Q3	0.1 (0.5)	-0.2 (0.3)	
		08.30 Preliminary manufacturing (services) PMI	Nov	42.8 (52.0)	42.1 (51.6)	
		08.30 Preliminary composite PMI	Nov	49.3	48.9	
France		08.15 Preliminary manufacturing (services) PMI	Nov	50.9 (53.0)	50.7 (52.9)	
		08.15 Preliminary composite PMI	Nov	52.7	52.6	
UK		09.30 Preliminary manufacturing (services) PMI	Nov	48.5 (50.1)	49.6 (50.0)	
		09.30 Preliminary composite PMI	Nov	49.7	50.0	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd

## The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 18 November 2019</b>		
EMU		- ECB's Chief Economist Lane, de Guindos and Hernandez de Cos scheduled to speak at separate events
<b>Tuesday 19 November August</b>		
- Nothing scheduled -		
<b>Wednesday 20 November 2019</b>		
EMU		09.00 ECB publishes its Financial Stability Review
		17.00 ECB's Chief Economist Lane scheduled to speak
Germany		10.30 Auction: €1.5bn of 0% 2050 bonds
<b>Thursday 21 November 2019</b>		
EMU		12.30 ECB publishes its account of October 's 23-24 October Governing Council policy meeting
		- ECB's Mersch and de Guindos scheduled to speak at separate events
France		09.50 Auction: 0% 2023 bonds
		09.50 Auction: 0% 2024 bonds
		09.50 Auction: 0% 2025 bonds
		10.50 Auction: 0.1% 2028 index-linked bonds
		10.50 Auction: 0.1% 2029 index-linked bonds
		10.50 Auction: 0.1% 2047 index-linked bonds
Spain		09.45 Auction: 0.25% 2024 bonds
		09.45 Auction: 0.6% 2029 bonds
		09.45 Auction: 3.45% 2066 bonds
<b>Friday 22 November 2019</b>		
EMU		08.00 ECB President Lagarde scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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