

Euro wrap-up

Overview

- Bunds made gains today even as Germany's latest export data surprised on the upside.
- Gilts also made modest gains today despite polls continuing to suggest that the Conservative Party remains on track to win a majority in Thursday's General Election.
- Tomorrow will bring French and Italian IP data for October, and UK monthly GDP figures for the same month.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/21	-0.650	-0.012
OBL 0 10/24	-0.570	-0.022
DBR 0 08/29	-0.310	-0.020
UKT 3% 09/21	0.574	-0.020
UKT 1 04/24	0.571	-0.009
UKT 0% 10/29	0.764	-0.009

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

Source: Bloomberg

Euro area

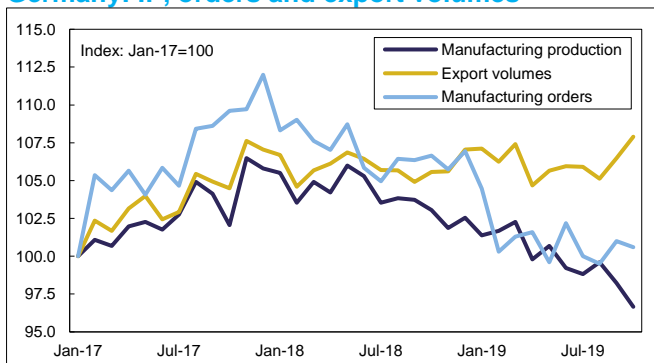
German exports exceed expectations

Germany's manufacturers have had a torrid couple of years. Friday's production data revealed that manufacturing output maintained its downtrend in October, falling to its lowest level since 2014 and more than 9.0% below the peak in November 2017. While also weaker that month, however, factory orders have trended broadly sideways since February, suggesting that production might now have reached its floor. And Germany's goods trade data for October – released today – provided a welcome upside surprise suggesting that the trough in external demand has passed. Contrary to expectations of a slight decline following growth of 1.5%M/M (the most in almost two years) in September, German export values rose a firm 1.2%M/M to reach a new series high. That left them up 2.0%Y/Y and 0.8%3M/3M, the most on a three-month basis since February. Growth in the value of exports to the euro area fell 0.9%Y/Y, but it was firmer to non-euro area EU member states (up 1.7%Y/Y) and non-EU countries (4.6%Y/Y). Import values, meanwhile, were flat on the month to leave them up just 0.3%3M/3M. And so the trade surplus increased €1.4bn to €20.6bn, the highest so far in 2019. According to Bundesbank data adjusting for price effects, export volumes rose 1.3%M/M for a second successive month, similarly rising to a series high. In contrast, import volume growth eased to just 0.2%M/M in October following firmer increases of 0.5%M/M the previous two months. So, net trade appears to have continued to provide support to German economic growth at the start of Q4, having contributed 0.5ppt to growth in Q3.

German labour cost growth moderates

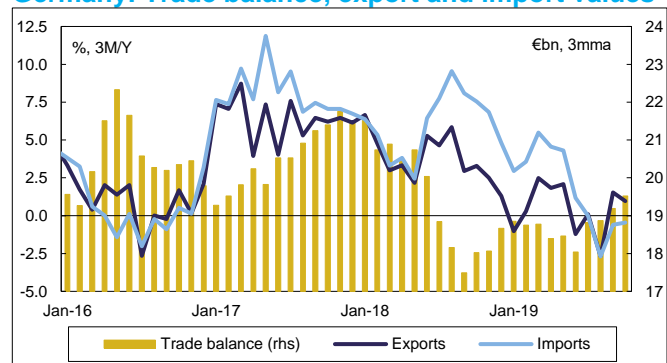
Despite a stronger export performance, GDP growth in Q3 was underwhelming at just 0.1%Q/Q. And this followed a contraction in Q2. So, it was not surprising to see a notable slowdown in jobs growth last quarter to the weakest since the start of 2010. Against this backdrop, German labour cost growth eased slightly in Q3, with the annual rate moderating 0.3ppt to 3.1%Y/Y. This reflected a slowdown in the year-on-year increases in wage and non-wage costs alike, with the former down 0.2ppt to 3.1%Y/Y and the latter down 0.6ppt to 2.9%Y/Y. Admittedly, this still left total labour costs growth above the average of the past four years. And when excluding the public and health sectors, German labour costs ticked slightly higher in Q3, by 0.2ppt to 2.9%Y/Y, the firmest rate for two years. Overall, however, today's release suggests no significant new impetus to underlying price pressures from the tight labour market. And we would expect labour cost growth to remain within the recent range over coming quarters as economic growth remains underwhelming.

Germany: IP, orders and export volumes



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: Trade balance, export and import values



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

French manufacturing sentiment slips back

In contrast to Germany, French manufacturing output has broadly trended sideways over the past couple of years. Having ticked up in the second quarter, however, Q3 was weaker, with French production posting its steepest quarterly decline since Q118. The October data are due tomorrow. But having suggested an improvement that month, the Bank of France's latest business sentiment survey today reported a renewed dip in its headline manufacturing index in November (down 1pt to 97, below the long-run average). While production in the sector reportedly stabilised last month, order books shrank to their smallest for more than three years. In contrast, while construction firms assessed a slight weakening in activity in November, their orders reportedly remained ample. And the survey signalled a modest improvement in services – the headline index rose 1pt to 99 – with broad-based growth across a range of subsectors. Overall, the Bank of France assessed today's survey to be consistent with GDP growth of 0.2%Q/Q in Q4, a slight moderation from the pace of expansion in the first three quarters of the year and a touch below our own forecast for Q4.

The day ahead in euro area and US

Ahead of Thursday's euro area IP release, tomorrow will bring equivalent figures from France and Italy. But while French production is expected to have posted a second successive increase in October, this would still leave output down around ½% compared with a year earlier. And an anticipated further decline in Italian production for the fourth month out of the past five would leave it almost 2% lower than a year ago. Tomorrow will also bring Germany's ZEW survey of financial professionals for December, which will provide further insight into conditions heading into year end. In the markets, meanwhile, Germany will sell 2Y Schatz.

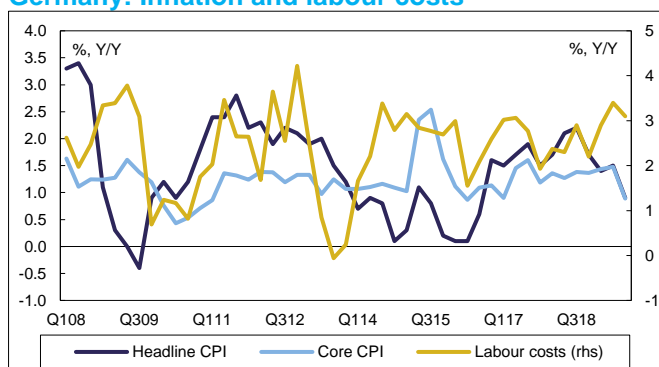
As the latest two-day FOMC meeting gets underway, it should be another relatively quiet day for economic data in the US, with just the NFIB small business optimism indicator for November and revised productivity and labour costs figures for Q3 due for release. In the markets, the Treasury will sell 10Y notes.

UK

The day ahead in the UK

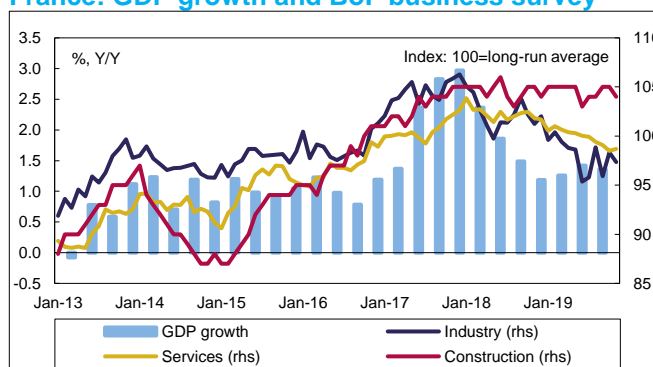
After a quiet start to the week for economic releases from the UK, all of this week's top-tier data will come tomorrow, with the October figures for GDP, production and trade due. The consensus forecast is for the economy to have expanded 0.1%M/M at the start of Q4, which would leave three-month growth at just 0.1%3M/3M. We see the risks to that view as skewed to the downside. Not least given the impact of uncertainty ahead of the end-month Article 50 deadline, manufacturing production seems likely to post a third successive monthly decline, while construction output is also likely to fall. Growth in services will likely be minimal. So, the difference between growth and stagnation might come down to the North Sea oil and gas sector.

Germany: Inflation and labour costs






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

France: GDP growth and BoF business survey













Source: 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
Germany	 Trade balance €bn	Oct	21.5	19.3	21.1	21.2
	 Labour costs Q/Q% (Y/Y%)	Q3	0.9 (3.1)	-	0.8 (3.2)	0.6 (3.4)
France	 Bank of France business sentiment indicator	Nov	97	98	98	-
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases						
Economic data						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Germany	 10.00	ZEW current situation (expectations) balance	Dec	-22.0 (0.0)	-24.7 (-2.1)	
France	 07.45	Industrial production M/M% (Y/Y%)	Oct	0.2 (-0.4)	0.3 (0.1)	
Italy	 09.00	Industrial production M/M% (Y/Y%)	Oct	-0.2 (-2.0)	-0.4 (-2.1)	
UK	 09.30	Monthly GDP estimate M/M% (3M/3M%)	Oct	0.1 (0.0)	-0.1 (0.3)	
	 09.30	Industrial production M/M% (Y/Y%)	Oct	0.2 (-1.2)	-0.3 (-1.4)	
	 09.30	Manufacturing production M/M% (Y/Y%)	Oct	0.0 (-1.4)	-0.4 (-1.8)	
	 09.30	Construction output M/M% (Y/Y%)	Oct	-0.2 (-0.1)	-0.2 (0.5)	
	 09.30	Services activity M/M% (3M/3M%)	Oct	0.1 (0.2)	0.0 (0.4)	
	 09.30	Trade balance (goods trade balance) £bn	Oct	-2.8 (-11.7)	-3.4 (-12.5)	
Auctions and events						
Country	GMT	Auction / Event				
Germany	 10.30	Auction: €4bn of 0% 2021 bonds				

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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