

Euro wrap-up

Overview

- Bunds made modest gains as the euro area's flash CPI estimate saw headline inflation fall further into negative territory and core inflation drop to a record low.
- Gilts made very modest losses as PM Johnson and European Commission President von der Leyen confirmed that they would hold talks over the weekend to try to unlock a potential trade deal.
- The coming week will bring euro area retail sales, German IP and UK GDP figures for August, as well as final services PMIs for September.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.722	-0.006
OBL 0 10/25	-0.731	-0.005
DBR 0 08/30	-0.539	-0.002
UKT 1% 09/22	-0.043	+0.002
UKT 0% 06/25	-0.066	-
UKT 4% 12/30	0.242	+0.007

*Change from close as at 4:00pm BST.

Source: Bloomberg

Euro area

Euro area inflation falls further

After the downside surprises to the national inflation releases earlier this week, today's downwards trend in the euro area flash CPI estimate will have come as no major surprise. In particular, headline inflation fell 0.1ppt to -0.3%Y/Y, the weakest reading since early 2015. Admittedly this was a slightly softer moderation than implied by the largest four member states, due to a notable jump in inflation in several other member states, including the Netherlands and Belgium. But this still left the outturn for Q3 at 0.0%Y/Y, a touch weaker (0.1ppt) than projected by the ECB last month. As had been signalled by the national figures, the weakness in part reflected a steeper pace of decline in energy inflation (down 0.4ppt to -8.2%Y/Y). Non-energy industrial goods inflation also fell further into negative territory in September, by 0.2ppt to -0.3%Y/Y, while services inflation declined 0.2ppt to 0.5%Y/Y, both at record lows. As such, core inflation eased to a series low of 0.2%Y/Y.

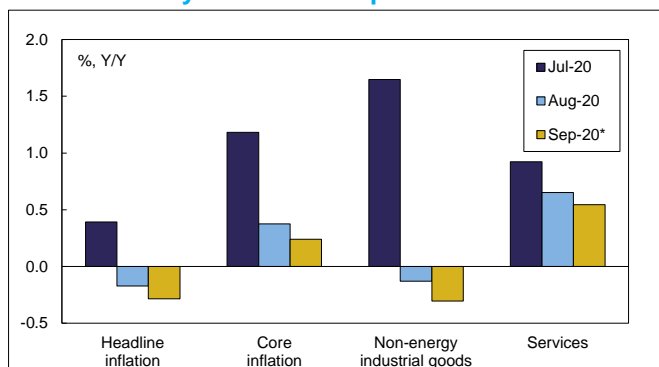
Underlying price pressures to remain weak

Of course, some of this recent softness likely reflects temporary effects. For example, Germany's VAT rate was cut by 3ppt in July for six months, while delayed and extended summer sales have distorted clothing prices in France and Italy in particular. And so we would expect to see a modest rebound in non-energy industrial goods inflation in October. But travel-related services prices have also been dragged lower by ongoing Covid-related restrictions. Separate figures published today showed that tourist arrivals in Spain were down 76%Y/Y in August. And the recent resurgence in infections across the region will likely continue to weigh on prices in the hospitality sector too. Indeed, with substantive amounts of spare capacity set to persist, coupled for the time being with a stronger euro, inflation looks set to remain under downward pressure for some time. Therefore, any near-term uptick in inflation will likely prove temporary, with our forecast for the headline CPI rate to remain in negative territory through to February before edging only slightly higher. Indeed, our full-year forecast for 2021 remains extremely subdued at 0.7%Y/Y, with only a modest rise above 1%Y/Y anticipated in 2022 too.

The coming week in the euro area

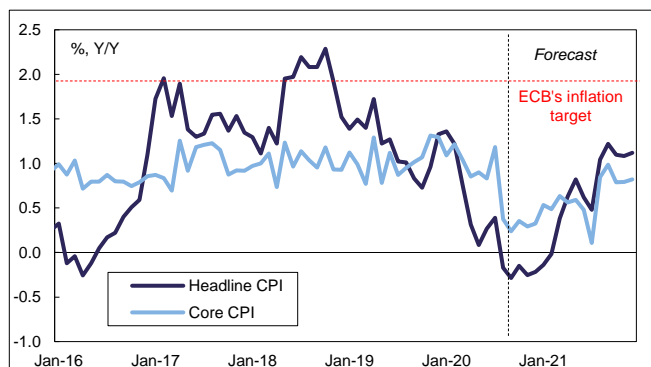
Turning to the week ahead, euro area retail sales data for August (on Monday) will provide further insight into economic activity in Q3. We expect to see further growth in aggregate euro area spending, as indicated by the various national data. However, the resurgence in the pandemic in many member states, together with a deteriorating labour market, is likely to be reflected in the spending numbers in coming months. And consistent with such a weakening in momentum, the final euro area service sector PMIs (also due on Monday) are expected to confirm that the headline euro area activity indicator fell almost 3pts in September to a four-month low of 47.6, suggesting that the sector went into reverse in September. In contrast, however, manufacturing sector releases also feature in the coming week and will likely show continued recovery. German

Euro area: Key inflation components



*Flash estimates. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Headline and core inflation forecast



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

factory orders data, to be published on Tuesday, will precede the release of German and Spanish IP data (Wednesday), with French, Italian and Dutch IP figures following on Friday. Manufacturing output is expected to have risen further in August across the member states, although survey data, including yesterday's [manufacturing PMIs](#), point to a growing divergence between countries, with German manufacturers in particular faring better than elsewhere. Meanwhile, French and German goods trade figures for September will be published on Wednesday. Other sentiment surveys due include the euro area Sentix indicator for October on Monday, the construction PMIs for September on Tuesday, and the Bank of France business sentiment survey on Thursday.
















Separately, the ECB account from the 9-10 September Governing Council meeting will be published on Thursday. This meeting has been followed by recent comments by influential ECB policymakers – not least President Lagarde at the ECB watchers' conference – suggesting more easing in on the cards. Nevertheless, it will be interesting to see if there was any reference at last month's meeting to potential future considerations and or preference on how policy might be eased further. Meanwhile, ECB President Lagarde and Chief Economist Lane will speak publicly on Tuesday.

UK

The coming week in the UK

After a quiet end to the week for UK economic data, the focus over the weekend remains on Brexit discussions, with PM Johnson set to hold talks tomorrow with European Commission President von der Leyen to see where concessions (on both sides) could be made in an attempt to unlock a deal and allow officials to work on the finer details of any potential agreement. Datawise, the focus in the coming week will be Friday's monthly GDP release, which is expected to report further substantive growth having risen 6.6%/M/M in July. Growth is expected to be widespread across the sectors, with the services sector most notably supported by the Government's "Eat out to help out" subsidy and hospitality VAT cut. However, GDP as a whole will likely remain more than 5% below the February level and the outlook for growth remains highly uncertain given the revival in the pandemic and – most importantly – the marked labour market shake-out now firmly underway. Indeed, Monday's release of the final services sector PMI for September is expected to confirm that the headline index fell 3.7pts to 55.1, a three-month low, as firms in transport services, international travel and hospitality continued to cite severely impacted operating conditions. That day will also bring the latest new car registration figures for September. Meanwhile, Tuesday will see the release of the construction PMI, followed on Thursday by the RICS housing market survey, both for September. In other news, BoE Governor Bailey will participate in a panel discussion on Thursday, while Chief Economist Haldane will be in action on Monday and Friday.

Daiwa economic forecasts



		2020				2021		2020	2021	2022
		Q1	Q2	Q3	Q4	Q1	Q2			
GDP growth, %, Q/Q										
Euro area		-3.6	-12.1	9.5	1.5	1.5	1.0	-7.6	5.5	3.4
Germany		-2.0	-9.7	7.5	1.5	1.0	1.0	-5.5	4.6	2.4
France		-5.9	-13.8	15.0	1.8	0.8	1.0	-9.1	6.5	3.0
Italy		-5.5	-12.8	9.5	3.0	1.5	1.0	-10.1	6.3	3.2
Spain		-5.2	-17.8	14.0	2.5	2.0	2.0	-11.4	8.0	4.2
UK		-2.2	-19.8	18.5	1.0	1.0	2.0	-9.3	7.1	4.1
Inflation, %, Y/Y										
Euro area										
Headline CPI		1.1	0.2	0.0	-0.3	0.1	0.7	0.3	0.7	1.1
Core CPI		1.1	0.9	0.6	0.3	0.6	0.5	0.7	0.7	0.8
UK										
Headline CPI		1.7	0.6	0.7	0.4	0.5	1.6	0.8	1.4	1.6
Core CPI		1.6	1.4	1.2	0.7	0.8	1.5	1.2	1.3	1.4
Monetary policy										
ECB										
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Net asset purchases*		20	140	100	100	100	70	140	20	20
BoE										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Net asset purchases**		36	40	17	17	17	17	17	0	0

*Monthly target €bn, end of period. **Monthly target £bn, end of period.
 Source: Bloomberg, ECB, BoE 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	 CPI estimate (core CPI) Y/Y%	Sep	-0.3 (0.2)	-0.4 (0.2)	-0.2 (0.4)	-
Spain	 Unemployment change '000s	Sep	-26.3	60.0	29.8	-

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 05 October 2020					
EMU		09.00 Final services (composite) PMI	Sep	47.6 (50.1)	50.5 (51.9)
		09.30 Sentix investor confidence	Oct	-9.5	-8.0
		10.00 Retail sales M/M% (Y/Y%)	Aug	2.3 (2.4)	-1.3 (0.4)
Germany		08.55 Final services (composite) PMI	Sep	49.1 (53.7)	52.5 (54.4)
		- New car registrations* Y/Y%	Sep	-	-20.0
France		08.50 Final services (composite) PMI	Sep	47.5 (48.5)	51.5 (51.6)
Italy		08.45 Services (composite) PMI	Sep	46.6 (49.5)	47.1 (49.5)
Spain		08.15 Services (composite) PMI	Sep	46.3 (-)	47.7 (48.4)
UK		09.00 New car registrations Y/Y%	Sep	-	-5.8
		09.30 Final services (composite) PMI	Sep	55.1 (55.7)	58.8 (59.1)
Tuesday 06 October 2020					
EMU		08.30 Construction PMI	Sep	-	47.8
Germany		07.00 Factory orders M/M% (Y/Y%)	Aug	3.0 (-3.0)	2.8 (-7.3)
		08.30 Construction PMI	Sep	-	48.0
France		08.30 Construction PMI	Sep	-	46.0
Italy		08.30 Construction PMI	Sep	-	50.6
UK		09.30 Construction PMI	Sep	-	54.6
Wednesday 07 October 2020					
Germany		07.00 Industrial production M/M% (Y/Y%)	Aug	2.0 (-8.5)	1.2 (-10.0)
France		07.45 Current account (trade) balance €bn	Aug	-	-6.2 (-7.0)
Italy		09.00 Retail sales M/M% (Y/Y%)	Aug	-	-2.2 (-7.2)
Spain		08.00 Industrial production M/M% (Y/Y%)	Aug	-	9.3 (-6.4)
UK		09.30 House price index Y/Y%	Jul	3.2	3.4
		09.30 Unit labour costs (output per hour) Y/Y%	Q2	-	6.2 (-0.6)
Thursday 08 October 2020					
Germany		07.00 Current account (trade) balance €bn	Aug	- (16.0)	20 (19.2)
France		- Bank of France industrial sentiment	Sep	-	106
UK		00.01 RICS house price balance	Sep	34	44
Friday 09 October 2020					
France		07.45 Industrial production M/M% (Y/Y%)	Aug	2.0 (-)	3.8 (-8.3)
		07.45 Manufacturing production M/M% (Y/Y%)	Aug	-	4.5 (-8.5)
Italy		09.00 Industrial production M/M% (Y/Y%)	Aug	3.0 (-)	7.4 (-8.0)
UK		07.00 Monthly GDP M/M% (3M/3M%)	Aug	4.8 (8.3)	6.6 (-7.6)
		07.00 Industrial production M/M% (Y/Y%)	Aug	2.2 (-4.5)	5.2 (-7.8)
		07.00 Manufacturing production M/M% (Y/Y%)	Aug	2.5 (-6.0)	6.3 (-9.4)
		07.00 Construction output M/M% (Y/Y%)	Aug	3.8 (-11.0)	17.6 (-12.7)
		07.00 Index of services M/M% (3M/3M%)	Aug	5.1 (6.9)	6.1 (-8.1)
		07.00 Total trade (goods trade) balance £bn	Aug	0.7 (-8.8)	1.1 (-8.6)

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 05 October 2020		
EMU	-	ECB President Lagarde participates in the Eurogroup meeting
UK	09.30	BoE Chief Economist Haldane scheduled to speak
Tuesday 06 October 2020		
EMU	-	ECB President Lagarde and Chief Economist Lane scheduled to speak
Germany	10.30	Auction: €250mn of 0.1% 2046 index-linked bonds
	10.30	Auction: €500mn of 0.5% 2030 index-linked bonds
UK	10.00	Auction: £3.25bn of 0.125% 2024 bonds
	11.30	Auction: £2bn of 1.75% 2049 bonds
Wednesday 07 October 2020		
EMU	13:10	ECB President Lagarde scheduled to speak
Germany	10.30	Auction: €3bn of 0% 2030 bonds
UK	10.00	Auction: £2.5bn of 0.375% 2030 bonds
	11.30	Auction: £750mn of 0.125% 2041 index-linked bonds
Thursday 08 October 2020		
EMU	08.25	ECB's Schnabel and BoE Governor Bailey to participate in a panel discussion at Single Resolution Board's annual conference
	09.00	ECB's de Guindos scheduled to speak
	11.15	ECB's Mersch scheduled to speak
	12.30	ECB publishes its account of the September monetary policy meeting
Friday 09 October 2020		
UK	09.30	BoE's Chief Economist Haldane scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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