

# Euro wrap-up

## Overview

- Bunds ended the day little changed as German factory orders data exceeded expectations, but September euro area construction PMIs pointed to ongoing weakness.
- Gilts were also little changed, despite a strong UK construction PMI survey.
- Tomorrow will bring data for German and Spanish IP, as well as UK house prices.

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### Daily bond market movements

| Bond         | Yield  | Change |
|--------------|--------|--------|
| BKO 0 09/22  | -0.170 | -0.002 |
| OBL 0 10/25  | -0.707 | +0.003 |
| DBR 0 08/30  | -0.507 | +0.004 |
| UKT 1½ 09/22 | -0.020 | +0.001 |
| UKT 0% 06/25 | -0.033 | -      |
| UKT 4% 12/30 | 0.290  | +0.004 |

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

Source: Bloomberg

## Euro area

### German factory orders exceed expectations

In contrast to yesterday's [services PMIs](#) – which signalled a loss of momentum in the sector across the euro area's member states – the [manufacturing PMIs](#) suggested that the recovery in that sector, particularly in Germany, remained intact at the end of Q3. And today's German factory orders data further supported this view. Coming on the back of an upwardly revised increase in July (3.3%M/M), orders rose a stronger-than-expected 4.5%M/M in August, taking the cumulative rise since April to more than 50%. Admittedly, given the plunge at the start of the pandemic, the level of orders was still more than 3½% lower than the pre-crisis peak and 2.2% down from a year ago.

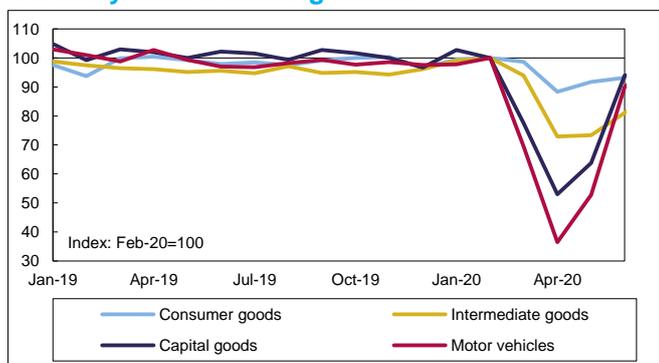
### Foreign orders surge ahead

Within the detail, the recovery continued to be driven by overseas orders (6.5%M/M) and underpinned by demand from elsewhere within the euro area (up 14.6%M/M) – indeed, orders to euro area countries were more than 6% higher than the pre-pandemic level – while those from other countries rose a more modest 1.5%M/M. In contrast, despite rising in August (1.7%M/M), domestic orders were still down more than 6½% from February's peak, perhaps somewhat surprisingly so given the six-month VAT cut implemented in July. At the sectoral level, the recovery appeared broad based in August, with orders of intermediate, capital and consumer goods all up more than 4%M/M, although domestic orders for capital goods bucked the trend to record a second successive drop in August. And new domestic orders in the car industry fell back too (down 5.0%M/M). Nevertheless, this follows strong growth over recent months and total auto orders were still up more than 4%M/M to leave them just above the pre-pandemic level. With most leading indicators for the sector, such as the German manufacturing new orders PMI (which surged to 64.2 in September), pointing upwards, we expect growth in total factory orders and production to be sustained over coming months.

### But recovery in manufacturing turnover pauses

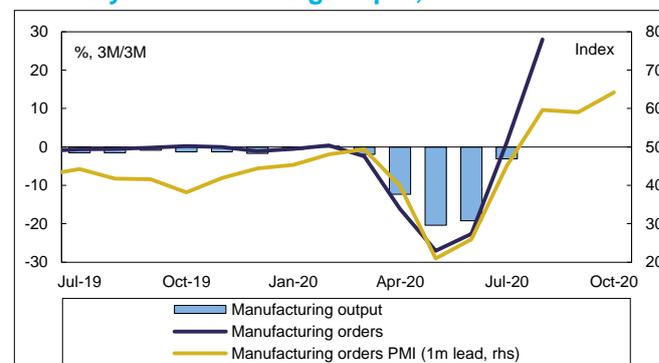
This notwithstanding, today's manufacturing turnover figures – which often correlate with IP data (due tomorrow) – were disappointingly subdued, down 0.1%M/M in August. Admittedly, this follows particularly strong growth over recent months to have recovered roughly two-thirds of the initial post-pandemic slump. But it nevertheless suggests that there are some downside risks to tomorrow's forecast rise in IP of 1½%M/M.

### Germany: Manufacturing orders



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: Manufacturing output, orders and PMI



Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

## Construction PMIs point to weakness in Germany and France

Like with yesterday's services PMIs, the equivalent construction sector survey today signalled ongoing sluggish output in September. While the euro area's headline activity index was down just 0.3pt on the month, at 47.5 it remained in contractionary territory for the seventh consecutive month. And while Germany's construction sector saw limited disruption to output during the initial stages of the lockdown, today's survey suggested renewed weakness at the end of Q3, with the equivalent index falling 2.5pts to 45.5, a three-month low. The French PMI, meanwhile, similarly remained firmly below 50 in September despite rising 1.3pts on the month, as demand for new work was reportedly hit by a resurgence in coronavirus cases in that country. In contrast, the Italian activity index (51.2) rose to its highest since June and signalled expansion for the fourth consecutive month. And with new business orders reportedly at their highest since October 2019, boosted in part by the Government's ecobonus scheme, Italian optimism in the sector about the coming year rose further too.

## The day ahead in the euro area

Tomorrow sees the release of the aforementioned German and Spanish industrial production data for August. German IP is expected to rise a further 1.5%M/M in August, while in Spain output is expected to have risen 0.9%M/M. But risks to both forecasts might well be skewed to the downside, particularly in Spain where output rose more than 9%M/M previously. Meanwhile, Italian retail sales figures are expected to show that sales were up 3.8%M/M in August, just a touch softer than the rise in the euro area of 4.4%M/M reported yesterday, after falling 2.2%M/M in July. French trade figures for August are also due. In other news, ECB President Christine Lagarde is speaking tomorrow, while Dutch central banker Frank Elderson – who was yesterday nominated to replace outgoing ECB Executive Board member Yves Mersch at the end of the year – will participate in an OECD conference on climate change.

## UK

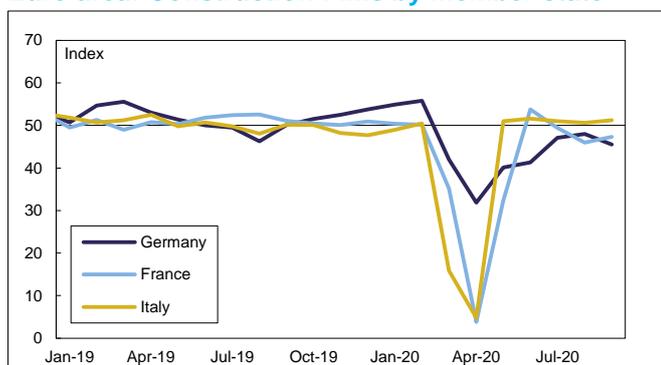
### UK construction PMI signals stronger growth

In marked contrast to the euro area survey, but broadly consistent with the UK's manufacturing and services PMIs, today's UK construction PMIs pointed to continued solid growth in the sector in September. In particular, the headline activity index rose 2.2pts to 56.8, the second-strongest reading since 2015. This was led by house building – the relevant index rose to its highest in six years – as well as firmer commercial activity as pent-up demand from the lockdown continued to feed through. However, civil engineering work reportedly continued to decline in September, with the survey component having dropped more than 11pts over the past two months. Overall, there was a sharp rise in new business last month and confidence about the outlook was the strongest for seven months. As such, while firms in the sector continued to scale back workforces for the eighteenth successive month, this occurred at a considerably reduced rate than in recent months.

### The day ahead in the UK

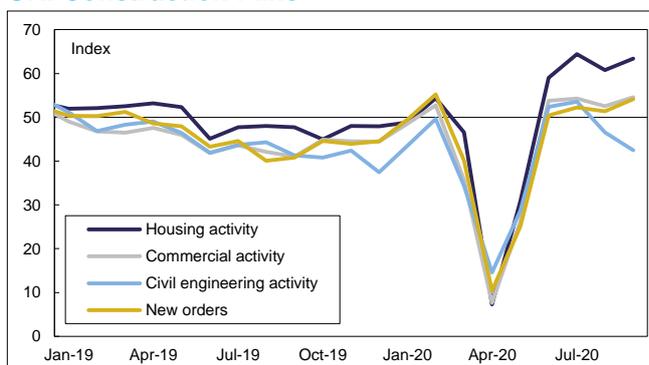
In the UK, tomorrow will bring the ONS house price index for July, along with labour productivity figures for Q2.

### Euro area: Construction PMIs by member state



Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

### UK: Construction PMIs



Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

## European calendar

### Today's results

#### Economic data

| Country | Release  | Period | Actual     | Market consensus/<br><i>Daiwa forecast</i> | Previous   | Revised    |
|---------|--|--------|------------|--|------------|------------|
| EMU     |  Construction PMI           | Sep    | 47.5       | -  | 47.8       | -          |
| Germany |  Factory orders M/M% (Y/Y%) | Aug    | 4.5 (-2.2) | 2.8 (-3.8)                                 | 2.8 (-7.3) | 3.3 (-6.9) |
|         |  Construction PMI           | Sep    | 45.5       | -  | 48.0       | -          |
| France  |  Construction PMI           | Sep    | 47.3       | -  | 46.0       | -          |
| Italy   |  Construction PMI           | Sep    | 51.2       | -  | 50.6       | -          |
| UK      |  Construction PMI           | Sep    | 56.8       | 54.0                                       | 54.6       | -          |

#### Auctions

| Country | Auction   |
|---------|---|
| Germany |  sold €82mn of 0.1% 2046 index-linked bonds at an average yield of -1.25%  |
|         |  sold €285mn of 0.5% 2030 index-linked bonds at an average yield of -1.25% |
| UK      |  sold £3.25bn of 0.125% 2024 bonds at an average yield of -0.026%          |
|         |  sold £2bn of 1.75% 2049 bonds at an average yield of 0.853%               |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

| Country | BST   | Release                                  | Period | Market consensus/<br><i>Daiwa forecast</i> | Previous    |
|---------|---|--|--------|--|-------------|
| Germany |  07.00 | Industrial production M/M% (Y/Y%)        | Aug    | 1.5 (-8.7)                                 | 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    | 3.8 (-)                                    | -2.2 (-7.2) |
| Spain   |  08.00 | Industrial production M/M% (Y/Y%)        | Aug    | -4.9 (-5.9)                                | 9.3 (-6.4)  |
| UK      |  09.30 | House price index Y/Y%                   | Jul    | 3.6  | 3.4         |
|         |  09.30 | Unit labour costs (output per hour) Y/Y% | Q2     | -  | 6.2 (-0.6)  |

#### Auctions and events

| Country | BST   | Auction / Event                                   |
|---------|---|---|
| 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 |

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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