

# Euro wrap-up

## Overview

- Bunds followed USTs higher on US electoral news while the final euro area services PMIs pointed to a marked weakening of activity and German new car registrations fell despite an increase in production.
- Gilts also made significant gains as the UK's final services PMIs were revised down from the flash estimates.
- Thursday will bring the BoE's latest monetary policy announcement along with new data for euro area retail sales, German factory orders and the construction PMIs.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.804	-0.001
OBL 0 10/25	-0.820	-0.010
DBR 0 08/30	-0.641	-0.020
UKT 1½ 09/22	-0.083	-0.032
UKT 0% 06/25	-0.078	-0.035
UKT 4% 12/30	0.204	-0.066

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

Source: Bloomberg

## Euro area

### Final PMIs suggest no growth in October, with services weakest since May

On a day completely dominated by electoral news from the US, the euro area dataflow was inevitably largely overlooked. Nevertheless, while perhaps not as bad as feared, the final services PMIs reinforced the impression of a significant weakening in economic activity in the region at the start of Q4. Admittedly, the German services PMI was revised up slightly (to 49.5). And so, with the French index unchanged from the flash estimate, the euro area services PMI was also nudged higher. But at 46.9, that was still the lowest since May and suggested a contraction in activity in the sector last month. Meanwhile, as expected, the Italian (46.7) and Spanish services PMIs (46.5), which were published for the first time, similarly pointed to a drop in output in the sector last month at the steepest since the late spring. And despite upwards revisions to the manufacturing PMIs on Monday, the euro area composite PMI was revised up just 0.6pt to 50.0, the lowest since June, suggesting an absence of GDP growth at the start of Q4. With restrictions on activity steadily tightened over the past month, the PMIs for inflows of new business in services inevitably fell to the lowest levels since May. But the surveys were conducted before the announcement of much tighter restrictions in each of the four larger member states, as well as some of the smaller euro area countries too. And a steep contraction in economic activity in the current month – and continued significant weakness in December – is inevitable.

### German new car registrations down again, but production maintains recovery

According to data released at the start of the week, new car registrations weakened in France, Italy and Spain last month. And despite purchase incentives, today's data suggested a similar picture in Germany. In particular, having posted positive growth in September, KBA figures showed that new German car registrations fell 3.6%Y/Y in October, as weaker domestic registrations outweighed an increase in foreign demand. As a result, over the first ten months of the year, new German car registrations were down a marked 23.4%YTD/Y, with the drop in German demand (25%YTD/Y) slightly more than that for foreign demand (20%YTD/Y). Unlike in France and the UK, German car dealerships will remain open during the coming weeks of tighter restrictions on activity. Nevertheless, even where consumers can visit showrooms, we expect demand to be hit by calls to stay at home as much as possible amid the intensification of the pandemic. More happily, however, according to the VDA, German car production increased for a second month in October to 382k, the highest since February, to be down just 2.5%Y/Y, the smallest year-on-year decline since September 2019. While that still left it down about 30%YTD/Y, it provides further evidence that German manufacturing output maintained its uptrend last month.

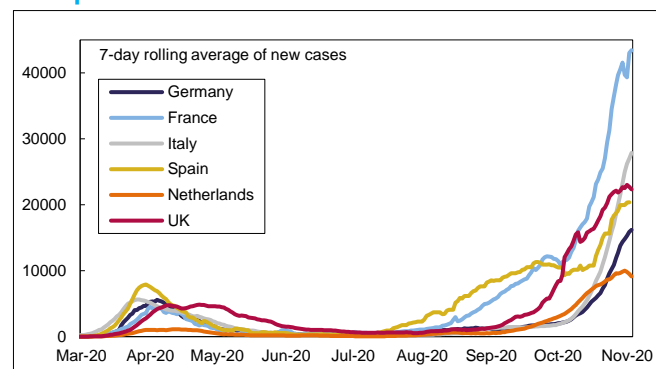
### Europe: Selected lockdown measures

	Ger	Fra	Ita	Sp	NL	Bel	Aus	Eng*
Non-essential retail & personal care	✓	X	P	X	✓	X	✓	X
Leisure	X	X	P	X	✓	X	X	X
Restaurants & bars	X	X	P	X	X	X	X	X
Social gatherings (limited number)	✓	X	P	✓	✓	✓	✓	X
Curfew	P	□	□	P	X	P	✓	X
Schools	✓	✓	P	✓	✓	X	P	✓

Key: ✓ open/allowed. X closed/banned. P partial closures. □ Under consideration.

\*Measures to come into effect on 5 November. Source: Daiwa Capital Markets Europe Ltd.

### Europe: Coronavirus cases



Source: ECDC and Daiwa Capital Markets Europe Ltd.

## The day ahead in the euro area

Thursday will bring a handful of new economic data from the euro area, including the September retail sales report. Given the weak spending data already released from Germany and France, euro area retail sales are likely to have dropped at least 1½%M/M, although that will still probably leave them up by more than 2½%Y/Y and above February's pre-lockdown level. German factory orders data for September are also due, along with the October construction PMIs. As suggested by the buoyant recent surveys, the German orders data should point to ongoing growth in demand at the end of Q3. The construction PMIs, however, are likely to suggest continued weakness in the sector in most member states at the start of Q4.

## UK

### Services PMI revised down to suggest marked weakening before new lockdown hits

In contrast to the euro area, the UK's final services PMI for October was revised down almost 1pt from the flash estimate to 51.4 in October, a hefty 4.7pts below September's level. Given the downwards revision to the [manufacturing output PMI](#) earlier this week, the composite PMI was also revised down to 52.1, 4.4pts below September's level. The marked loss of growth momentum implied by the surveys should not have come as a surprise, with several regions in Northern England, Scotland, Wales and Northern Ireland having experienced a steady tightening of restrictions on the sector over recent weeks. The findings also tallied with high-frequency data, including figures for restaurant reservations and travel, as well as the levelling off of business turnover in the ONS's Business Impact of Covid-19 survey. The PMI for services new business was also revised down, to just 47.3, more than 7pts below September's level to signal likely near-term contraction in the sector. And the survey was conducted up to 28 October, i.e. a few days before the announcement of the second English national lockdown – involving the closure of non-essential retailing, hospitality, personal services and leisure facilities – which is set to kick in from tomorrow. While PM Johnson today insisted that the new restrictions would not be extended beyond 2 December, in reality their duration will depend on the path of the pandemic and the associated inflow of Covid-19 patients into hospital Intensive Care Units. In that respect, the trend remains discouraging. So, we see a significant risk that the constraints on services activity will last close to Christmas, prolonging the inevitable sharp contraction in GDP – of several percentage points – that will ensue this month.

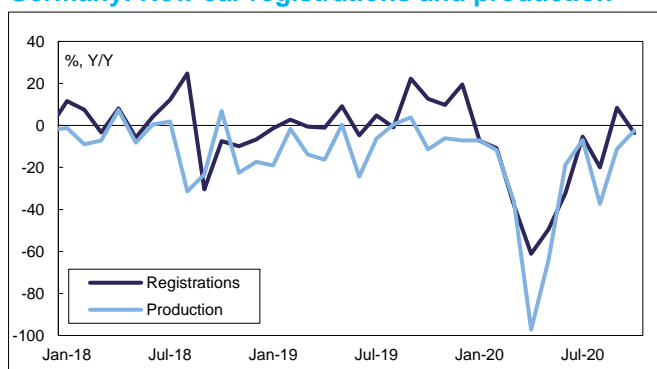
### The day ahead in the UK

Thursday will bring the start of the latest English lockdown, forcing the closure of all non-essential retail, leisure, personal services and hospitality venues and thus all-but-ensuring that UK GDP will decline sharply in Q4. Thursday will also bring the week's main economic policy event in the UK, the BoE MPC's latest announcements, which have been brought forward to 07.00 to avoid a clash with a statement by Chancellor Sunak. The policy statement and meeting minutes will be accompanied by the Bank's latest Monetary Policy Report and forecasts. Based on the current rate of net asset purchases, the BoE's existing £745bn target is set to be reached by the end of the year. And so, with growing evidence of a weakening of economic recovery momentum over the past couple of months, even before the new restrictions on activity were announced, there was already a strong case for the MPC this week to extend the net purchases into 2021 in order to avoid an unwarranted tightening of financial conditions.

Consistent with the recent public comments of most MPC members, we have long expected the MPC this week to vote for an increase of £100bn in the asset purchase target to £845bn. Indeed, out of the nine members, only Chief Economist Haldane, who voted against the previous increase in asset purchases, might be tempted to vote against such an increase tomorrow. Meanwhile, in terms of forward guidance, the MPC will likely keep the door open to a possible eventual cut in Bank Rate to negative territory if economic conditions warrant such a move. But, for the time being there is unlikely to be a rate cut, as the technical preparations that might facilitate such action in future still need to be completed. It remains to be seen, finally, quite how far the MPC's projections will be able to reflect adequately the detail of the new lockdown measures.

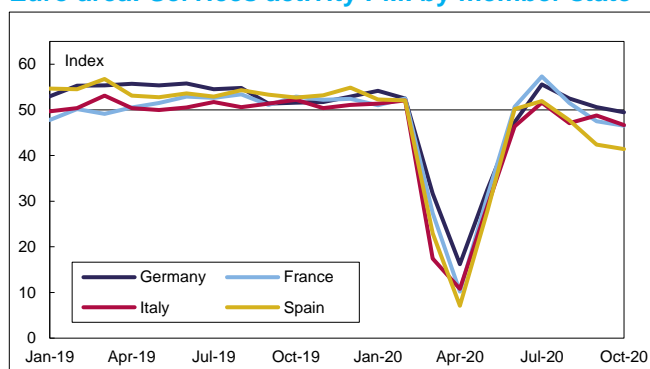
Datavise, like in the euro area, Thursday will bring the UK's construction PMIs for October, which are expected to suggest ongoing solid expansion in the sector.

### Germany: New car registrations and production



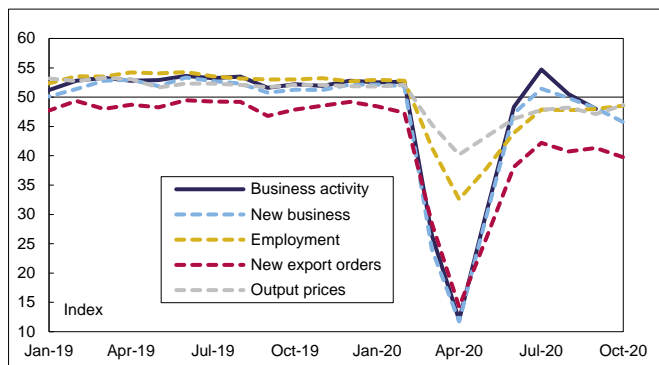
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Services activity PMI by member state



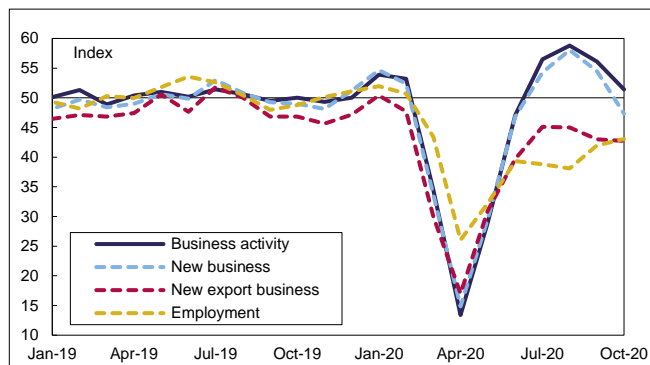
Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Services PMIs



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

### UK: Services PMIs



Source: Markit, Refinitiv 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	Final services (composite) PMI	Oct	<b>46.9 (50.0)</b>	46.2 (49.4)	48.0 (50.4)	-
	PPI Y/Y%	Sep	<b>-2.4</b>	-2.4	-2.5	<b>-2.6</b>
Germany	Final services (composite) PMI	Oct	<b>49.5 (55.0)</b>	48.9 (54.5)	50.6 (54.7)	-
	New car registrations Y/Y%	Oct	<b>-3.6</b>	-	8.4	-
France	Final services (composite) PMI	Oct	<b>46.5 (47.5)</b>	46.5 (47.3)	47.5 (48.5)	-
Italy	Services (composite) PMI	Oct	<b>46.7 (49.2)</b>	47.1 (49.3)	48.8 (50.4)	-
Spain	Unemployment change 000s	Oct	<b>49.6</b>	-	-26.3	-
	Services (composite) PMI	Oct	<b>41.4 (44.1)</b>	40.0 (43.0)	42.4 (44.3)	-
UK	Final services (composite) PMI	Oct	<b>51.4 (52.1)</b>	52.3 (52.9)	56.1 (56.5)	-

#### Auctions

Country	Auction
Germany	sold €4.621bn of 0% 2025 bonds at an average yield of -0.85%
UK	sold £3bn of 0.125% 2026 bonds at an average yield of 0.00%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Yesterday's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
- Nothing to report -						











#### Auctions

Country	Auction
Germany	sold €380mn of 0.5% 2030 index-linked bonds at an average yield of -1.35%
UK	sold £2.75bn of 0.125% 2028 bonds at an average yield of 0.116%
	sold £2bn of 1.255 2041 bonds at an average yield of 0.771%









Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tomorrow's releases

### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU		08.30 Construction PMI	Oct	-	47.5
		10.00 Retail sales M/M% (Y/Y%)	Sep	-1.5 (2.8)	4.4 (3.7)
Germany		07.00 Factory orders M/M% (Y/Y%)	Sep	2.0 (-1.2)	4.5 (-2.2)
		08.30 Construction PMI	Oct	-	45.5
France		08.30 Construction PMI	Oct	-	47.3
Italy		08.30 Construction PMI	Oct	-	51.2
UK		07.00 BoE Bank Rate %	Nov	<u>0.10</u>	0.10
		07.00 BoE asset purchase target £bn	Nov	<u>845</u>	745
		09.00 New car registrations Y/Y%	Oct	-	-4.4
		09.30 Construction PMI	Oct	55.0	56.8

### Auctions and events

EMU		10.00 European Commission publishes its latest economic forecasts
France		09.50 Auction: 0.5% 2029 bonds
		09.50 Auction: 0% 2030 bonds
		09.50 Auction: 1.5% 2050 bonds
		09.50 Auction: 4% 2055 bonds
Spain		09.45 Auction: €2bn of 1.2% 2040 bonds
		09.45 Auction: 0.15% 2023 index-linked bonds
UK		07.00 BoE monetary policy announcement and publication of Monetary Policy Report

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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