

Euro wrap-up

Overview

- Bunds made losses while euro area exports and new car registrations data flagged ongoing challenges caused by supply constraints.
- Gilts followed USTs noticeably lower on a quiet day for UK economic news.
- The coming week will bring final September inflation from the euro area and UK, as well as flash PMIs and consumer confidence indicators. UK retail sales data are also due.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.692	+0.012
OBL 0 10/26	-0.528	+0.014
DBR 0 08/31	-0.174	+0.019
UKT 0 ¹ / ₈ 01/24	0.571	+0.061
UKT 0 ³ / ₈ 10/26	0.754	+0.060
UKT 0 ¹ / ₂ 07/31	1.091	+0.051

*Change from close as at 4:30pm BST.
Source: Bloomberg

Euro area

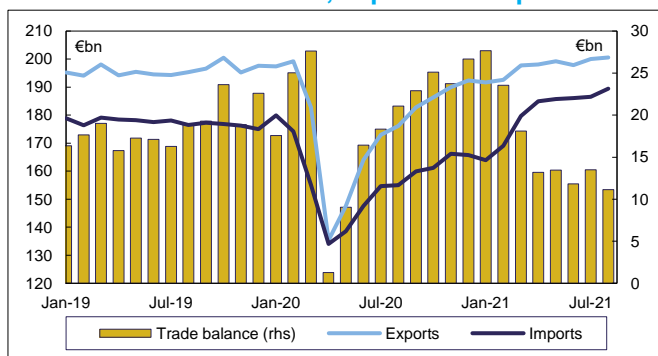
Euro area exports slow as imports jump on the back of higher prices

Against the backdrop of persistent supply challenges, today's euro area goods trade figures suggested that export growth in the euro area remained subdued in Q3. While the value of exports rose 0.3%M/M in August following growth of 1.1%M/M in July, that is likely to have reflected price increases. With producer output prices having risen 1.1%M/M that month, adjusting for such effects, export volumes will have dropped again following a decline of 1.0%M/M in July, tallying with the notable drop in [manufacturing production](#) that month. The slowdown in August reflected further declines in exports to the UK (3.8%M/M) to be around 13½% below the pre-Brexit peak, Switzerland (-5.8%M/M) and Russia (-10.1%M/M). In contrast, the easing of Covid restrictions across Asia saw shipments to Japan (10.4%M/M) and China (2.5%M/M) recover some of the losses seen earlier in the summer, while exports to the US (1.6%M/M) rose for the fifth consecutive month. The value of imports rose 1.6%M/M, the seventh consecutive monthly increase, similarly boosted by price increases. As such, the euro area trade surplus narrowed by €2.4bn to €11.1bn the lowest since May 2020. While export volumes started Q3 around 1% below the average in Q2, the equivalent drop in imports was more marked, suggesting that net goods trade might have supported growth last quarter. But while orders and forward-looking indicators have until recently suggested that external demand was strong, they are increasingly suggesting some softening of momentum ahead as supply bottlenecks have become more broad-based. And with supply chain disruption likely to continue over coming months, exports are likely to remain subdued for a while yet, with a non-negligible risk that net trade will provide a drag on GDP growth in Q4.

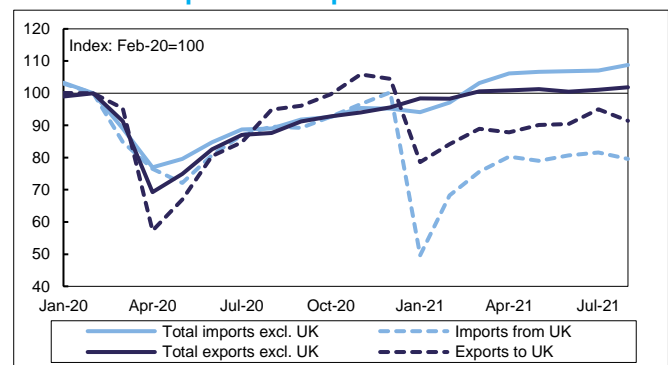
Euro area car registrations the lowest for any September since the series began

Of course, supply constraints have been most acute in the autos sector. And today's euro area car registrations numbers for September were therefore predictably weak. According to the ACEA, the number of units registered last month stood at just 612k, the lowest outcome for any September since the series began in 1989, to leave them down 24%Y/Y. Admittedly, this still meant that the cumulative number of new cars sold so far this year was almost 6% higher than during the first nine months of 2020, driven by a near-21%YTD/Y increase in Italy, as well as growth in France (8.0%YTD/Y) and Spain (8.8%YTD/Y). But that principally reflected the low base associated with the marked slump at the onset of the pandemic. Indeed, when compared with the first nine months of 2019, aggregate new cars registered so far in 2021 were down by around one quarter. And the ECB's seasonally adjusted series suggested a notably weaker performance in the third quarter, with car registrations down 7%Q/Q, after a more moderate decline (0.5%Q/Q) in Q2, with a similar contraction in Germany, a drop of almost 3% in France and double-digit declines in Italy and Spain. With the current weakness largely caused by a lack of supply of vehicles due to the ongoing semiconductor shortage, and no let-up in those supply bottlenecks on the horizon, car sales look set to remain weak for several months to come.

Euro area: Trade balance, export and import values



Euro area: Export and import values



French inflation meets flash estimate, Italian inflation revised down marginally

Today's final national estimates of French and Italian inflation in September were broadly as expected. French inflation on the EU-harmonised HICP measure aligned with the flash estimate, rising 0.3ppt on the month to 2.7%Y/Y, the highest in almost a decade. The equivalent Italian measure was revised down by 0.1ppt to 2.9%Y/Y, still up 0.4ppt from August and the highest since 2012. Despite that revision, with German (up 0.7ppt to 4.1%Y/Y) and Spanish data having aligned with their preliminary estimates, the final euro area figures, due next Wednesday, will also probably do likewise. So, headline euro area inflation will likely be confirmed at a thirteen-year high of 3.4%Y/Y, up 0.4ppt from August, with the flash core estimate up 0.3ppt to 1.9%Y/Y, also the highest since 2008. And this week's data from the member states underscored that the main contributor to the rise in the headline measure emanated from energy inflation. According to the preliminary figures, energy inflation rose 2.0ppts in September to a series high of 17.4%Y/Y, accounting for almost half of the HICP rate.

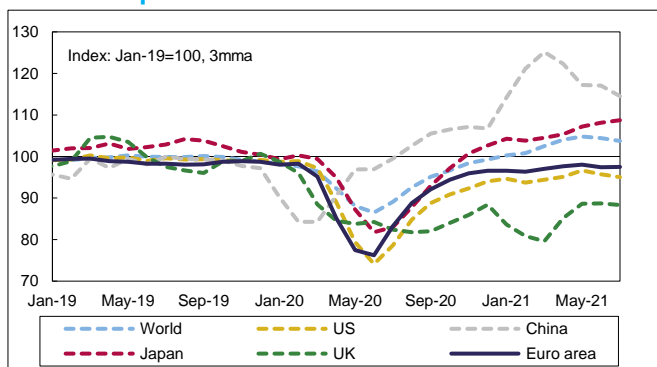
Energy price pressures most pronounced in Spain and Italy

While the pressures from energy inflation are being felt in all member states, the impact of price increases in wholesale markets varies significantly from one country to another. The overall contribution partly depends on the share of energy in consumption expenditure, which exceeds the euro area average of close to 10% in Spain and Germany, but is less than the euro area average in France, Italy and other Southern European member states. Other key variables include the specific energy mix used to generate electricity from one country to another; differences in demand for various household and auto fuels; taxes and subsidies; and new measures aimed at reducing carbon emissions, as well as other regulations and contract norms. In September, the sharpest consumer energy price increases were in Spain, up 28.8%Y/Y on the national measure, in part reflecting its more rapid pass-through of prices from wholesale markets. Italy, whose energy supply is particularly dependent on natural gas, also saw energy inflation rise above 20%Y/Y. In Germany, where coal was the principle source of energy for electricity generation in the first half of 2021 (in part reflecting lower wind power generation), energy inflation rose to 14.3%Y/Y. The new carbon charging regime and VAT changes accentuated that rise. Perhaps surprisingly, inflation of heating oil was most vigorous, at 76.5%Y/Y, also reflecting a rapid pass-through from the wholesale market, with prices of motor fuels up 28.4%Y/Y. But while natural gas import prices in Germany were up an extreme 177.5%Y/Y in August, German consumer prices for natural gas were up just 5.7%Y/Y and electricity prices were up just 2.0%Y/Y, reflecting the longer-term nature of contracts for such household energy. Nevertheless, those pressures in wholesale natural gas markets seem bound to be passed through more significantly to consumers in Germany and other member states over coming months.

The week ahead in the euro area

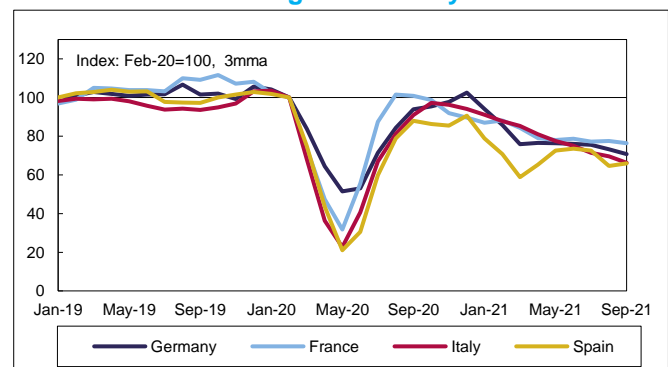
The main economic data focus in the euro area in the first half of the coming week will be inflation, with final euro area CPI numbers for September to be accompanied by German PPI figures for the same month. In line with the final national numbers published in the past week, these are expected to confirm that headline euro area inflation jumped 0.4ppt to 3.4%Y/Y, a thirteen-year high. While this was principally driven by energy, core inflation also jumped to a thirteen-year high of 1.9%Y/Y. This release will provide a comprehensive breakdown by goods and services, and therefore an update on trimmed mean and super core (excluding energy and selected food) estimates, which in August stood at 2.4%Y/Y and 1.7%Y/Y respectively. The back end of the week will bring several sentiment survey indicators of note, including the Commission's preliminary consumer confidence index on Thursday and the flash PMIs on Friday. While households are likely to have remained broadly upbeat about economic conditions at the start of Q4, they might well express some concerns about their financial situation on the back of the anticipated increase in household energy bills over the near term. Meanwhile, ongoing and widespread supply bottlenecks are likely to have weighed further on business sentiment in October, with the headline output PMIs likely to have fallen further. However, they are also expected to remain comfortably above the key 50-mark, therefore signaling a moderate loss of recovery momentum rather than contraction ahead. Other releases in the coming week including euro area construction output (Tuesday) and balance of payments figures (Wednesday), both for August, as well as the French INSEE business survey for October (Thursday).

Global: Export volumes



Source: CBP and Daiwa Capital Markets Europe Ltd.

Euro area: New car registrations by member state



Source: ECB and Daiwa Capital Markets Europe Ltd.

Beyond the economic data, after Germany's SPD, Greens and FDP today agreed a 12-page blueprint for a coalition deal – including agreement to leave the country's Constitutional debt limits intact, avoid new tax increases, but also increase spending on R&D and green activities, accelerate the exit from coal by eight years to 2030 and raise the minimum wage – detailed negotiations on a policy programme and ministerial posts are expected to start early in the week. In addition, the European Commission will publish a consultation paper on possible reforms to the EU's fiscal rules, the Stability and Growth Pact, which could strongly influence the euro area fiscal stance from 2023 on.

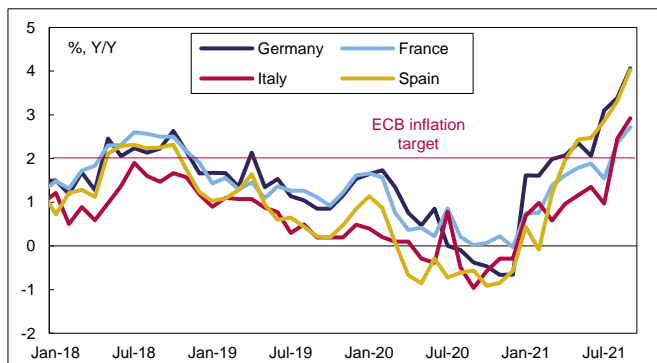
UK

The week ahead in the UK

After a quiet end to the week for UK economic news, the coming week will be a busy one for top-tier data, kicking off on Wednesday with September's inflation release. Having jumped to a 9½-year high in August, we expect headline CPI to have risen a further 0.2ppt to 3.4%Y/Y last month, underpinned by a further pickup in energy inflation. Indeed, core inflation is likely to have eased temporarily by 0.1ppt to a still-elevated 3.1%Y/Y, reflecting a moderation in services inflation on the back of base effects associated with the conclusion of the government's Eat out to Help out scheme last year. Friday's retail sales figures will also be closely watched for further signs of a slowdown in recovery momentum. However, sales at petrol stations will have been boosted significantly by the fuel crisis towards the end of the month, which saw widespread panic-buying of petrol amid reports of disruption to supplies. Meanwhile, the latest GfK consumer confidence survey (also due Friday) seems likely to highlight increasing concerns not least about rising prices. The preliminary October PMIs (Friday) are also expected to flag persistently high price pressures against the backdrop of supply bottlenecks. And with firms also expected to emphasise labour shortages, as well as softer demand, the output PMIs, for both manufacturing and services alike, are likely to have fallen further at the start of the fourth quarter, albeit remaining above the key-50 expansion level. The CBI's latest quarterly industrial trends survey (Thursday) will provide an update on output, orders, employment and investment intentions in the manufacturing sector. Meanwhile, ahead of the Government's Budget and Spending Review announcements on 27 October, Thursday will also bring the latest public finance figures for September, which are likely to confirm that the Chancellor has some room to relax future consolidation plans. Finally, tomorrow will see BoE Governor Andrew Bailey speak on a panel on the "Global Economy: Managing Uncertainty" at a G30 International Banking Seminar.

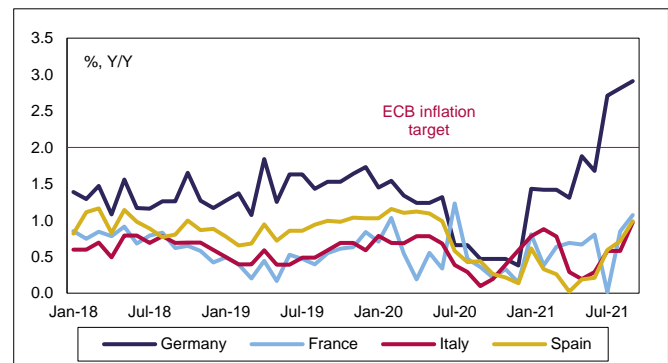
The next edition of the Euro wrap-up will be published on 20 October 2021

Euro area: Headline inflation in member states*



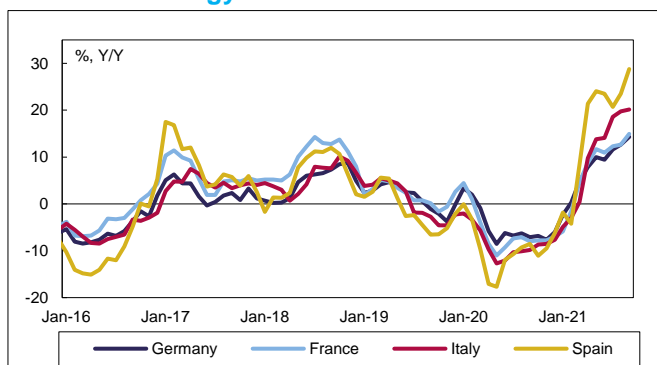
*Harmonised measure. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Core inflation in member states*



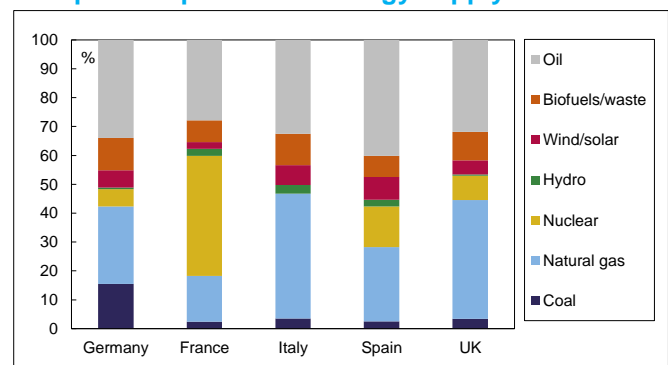
*National measure. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Energy inflation in member states*














*National measure. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Europe: Composition of energy supply*



*2020. Source: IEA and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts





		2021				2022		2021	2022	2023
		Q1	Q2	Q3	Q4	Q1	Q2			
Euro area		-0.3	2.2	1.8	1.0	0.8	0.7	5.0	4.1	2.1
UK		-1.4	5.5	1.8	0.5	0.4	0.4	7.0	3.7	1.9
Euro area										
Headline CPI		1.1	1.8	2.8	3.5	2.7	2.9	2.3	2.4	1.3
Core CPI		1.2	0.9	1.4	1.9	1.3	1.8	1.3	1.4	1.2
UK										
Headline CPI		0.6	2.1	2.9	4.3	4.5	4.0	2.5	3.4	1.8
Core CPI		1.2	1.8	2.7	3.4	3.6	3.1	2.3	2.7	2.0
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
PEPP envelope* (€bn)		1850	1850	1850	1850	1850	1850	1850	1850	1850
BoE										
Bank Rate %		0.10	0.10	0.10	0.25	0.25	0.50	0.25	0.50	0.75
Bond purchases* (£bn)		895	895	895	870	870	860	870	860	825

*Target 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/ Daiwa forecast	Previous	Revised
Euro area	 EU27 (euro area) new car registrations Y/Y%	Sep	-23.1 (-24.1)	-	-19.1 (-21.8)	-
	 Trade balance €bn	Aug	11.1	-	13.4	13.5
France	 Final CPI (EU-harmonised CPI) Y/Y%	Sep	2.2 (2.7)	2.1 (2.7)	1.9 (2.4)	-
Italy	 Final CPI (EU-harmonised) Y/Y%	Sep	2.5 (2.9)	2.6 (3.0)	2.0 (2.5)	-

Auctions



Country Auction

- Nothing to report -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Spain	 Final CPI (EU-harmonised CPI) Y/Y%	Sep	4.0 (4.0)	4.0 (4.0)	(3.3) 3.3	-
UK	 RICS house price balance %	Sep	68	70	73	72

Auctions


























Country Auction

- Nothing to report -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.















The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> forecast/actual	Previous
Monday 18 October 2021					
UK		00.01 Rightmove house price index M/M% (Y/Y%)	Oct	-	0.3 (5.8)
Tuesday 19 October 2021					
Euro area		10.00 Construction output M/M% (Y/Y%)	Aug	-	0.1 (3.3)
Spain		09.00 Trade balance €bn	Aug	-	-16.0
Wednesday 20 October 2021					
Euro area		09.00 Current account €bn	Aug	-	21.6
		10.00 Final CPI (core CPI) Y/Y%	Sep	<u>3.4 (1.9)</u>	3.0 (1.6)
Germany		07.00 PPI Y/Y%	Sep	-	1.5 (12.0)
UK		07.00 CPI (core CPI) Y/Y%	Sep	<u>3.4 (3.0)</u>	3.2 (3.1)
		07.00 PPI input (output) prices Y/Y%	Sep	11.8 (6.8)	11.0 (5.9)
		09.30 House price index Y/Y%	Aug	-	8.0
Thursday 21 October 2021					
Euro area		15.00 European Commission's preliminary consumer confidence	Oct	-	-4.0
France		07.45 INSEE business confidence	Oct	110	111
		07.45 INSEE manufacturing confidence (production outlook)	Oct	105 (19)	106 (23)
UK		07.00 Public sector net borrowing, excl. banks £bn	Sep	22.6	20.0
		11.00 CBI industrial trends, total orders (selling prices)	Oct	17 (-)	22 (41)
Friday 22 October 2021					
Euro area		09.00 Preliminary manufacturing (services) PMI	Oct	57.0 (55.5)	58.6 (56.4)
		09.00 Preliminary composite PMI	Oct	55.2	56.2
Germany		08.30 Preliminary manufacturing (services) PMI	Oct	56.6 (55.3)	58.4 (56.2)
		08.30 Preliminary composite PMI	Oct	54.3	55.5
France		08.15 Preliminary manufacturing (services) PMI	Oct	54.0 (55.6)	55.0 (56.2)
		08.15 Preliminary composite PMI	Oct	54.7	55.3
UK		00.01 GfK consumer confidence	Oct	-16	-13
		07.00 Retail sales including auto fuels M/M% (Y/Y%)	Sep	0.5 (-0.5)	-0.9 (0.0)
		07.00 Retail sales excluding auto fuels M/M% (Y/Y%)	Sep	-0.4 (-1.8)	-1.2 (-0.9)
		09.30 Preliminary manufacturing (services) PMI	Oct	56.0 (54.5)	57.1 (55.4)
		09.30 Preliminary composite PMI	Oct	54.0	54.9

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 18 October 2021		
- Nothing scheduled -		
Tuesday 19 October 2021		
Euro area	 10.15	ECB's Rehn scheduled to speak at a conference on "Monetary Policy Approaches: A Comparative Appraisal"
	 15.00	ECB's Lane scheduled to speak at a conference on "Monetary Policy Approaches: A Comparative Appraisal"
UK	 13.10	BoE Governor Bailey scheduled to speak at a conference on the macro-financial impacts of climate change
Wednesday 20 October 2021		
Germany	 10.30	Auction: €3bn of 0% 2031 bonds
UK	 10.00	Auction: £2.25bn of 0.25% 2031 bonds
Thursday 21 October 2021		
France	 09.50	Auction: 0% 2025 bonds
	 09.50	Auction: 1% 2025 bonds
	 09.50	Auction: 0.5% 2026 bonds
	 09.50	Auction: 0.1% 2032 index-linked bonds
	 09.50	Auction: 0.1% 2047 index-linked bonds
	 09.50	Auction: 0.1% 2026 index-linked bonds
Spain	 09.30	Auction: 0% 2027 bonds
	 09.30	Auction: 0.85% 2037 bonds
Friday 22 October 2021		
Euro area	 09.00	ECB's survey of professional forecasters

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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