

Euro wrap-up

Overview

- While the ZEW survey pointed to greater optimism about the economic outlook and a French survey suggested firm GDP growth in Q4, Bunds made gains as German exports fell again and a survey of German retailers flagged expectations of ongoing supply bottlenecks through to mid-2022.
- Gilts made significant losses at the shorter end of the curve but made gains at the long end amid evidence of ongoing UK consumer spending growth into Q4.
- Wednesday will bring Italian IP figures for September and final German CPI data for October while Thursday will bring the UK's Q3 GDP report.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.756	-0.016
OBL 0 10/26	-0.585	-0.024
DBR 0 08/31	-0.287	-0.040
UKT 0 ¹ / ₈ 01/24	0.439	+0.043
UKT 0 ³ / ₈ 10/26	0.592	+0.031
UKT 0 ¹ / ₂ 07/31	0.832	-0.020

*Change from close as at 4:00pm GMT.
Source: Bloomberg

Euro area

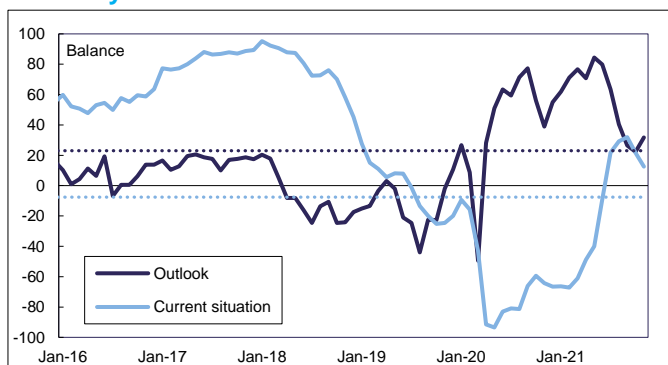
German surveys flag weak growth in Q4 but improved expectations further ahead

Consistent with yesterday's stronger Sentix survey, today's German ZEW investor survey pointed to renewed optimism regarding the economic outlook for the coming six months. In particular, the expectations balance rose for the first month in six and by 9.4pts to 31.7 in November as investors projected growth to pick up in Q122 and the recent jump in inflation to prove transitory – indeed, inflation expectations fell into negative territory for the first time since June 2020. But while the economic outlook index remains comfortably above its long-run average, it is well down on the levels seen earlier in the year (when it peaked at 84.4 in May). Moreover, investors are seemingly more downbeat about current conditions than at any point since June, with the relevant index down 9.1pts in November to 12.5. Indeed, persistent supply bottlenecks as well as high inflation were expected to have a more negative impact on GDP growth in the current quarter. As such, according to the ZEW survey, investors remained particularly downbeat about the outlook for profits growth among manufacturers in the auto sector over the coming six months, with the share of investors anticipating higher profits at services firms and retailers also moderating in October. This broadly tallies with an ifo survey of German retailers, also published today, that reported that supply bottlenecks are expected among such firms to persist into the summer of 2022. Indeed, while the share has fallen somewhat over the past month, around 60% of retailers cited persistent delivery problems in October, with a significantly higher share among bicycle retailers (90%), consumer electronics and DIY stores (84%), and car dealerships (83%).

German exports fall again in September, but net exports likely supportive in Q3

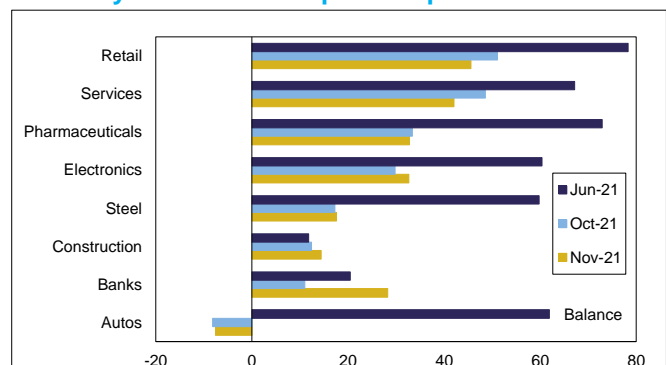
Supply strains in manufacturing were evident in today's German merchandise trade data, which reported a second successive decline in the value of exports in September. In particular, German export values fell 0.7%M/M in September following a revised drop of 0.8%M/M in August. Given the monthly profile over the preceding months, export values were up 0.5%Q/Q over Q3 as a whole. So, not least due to the low base a year earlier, this left exports up more than 7%Y/Y, with exports to EU countries up more than 9%Y/Y and non-EU countries up more than 4½%Y/Y. Admittedly, this contrasted markedly with the continued drop in exports to the UK (-10%Y/Y), while German imports from the UK were down 20%Y/Y, which also bucked the overall trend in import growth (+12.9%Y/Y). With producer prices rising, the decline in total export volumes was sharper in September, down 1.6%M/M to mark the fifth monthly drop out of the past six. So, tallying with the decline in manufacturing and mining output, export volumes were down 2.4%Q/Q in Q3 as a whole. But with import volumes down a steeper 5.6%Q/Q, today's report implies that net trade provided a positive contribution to GDP growth in Q3.

Germany: ZEW headline economic indices*



*Dashed lines are long-run average. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: ZEW investor profit expectations



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

BoF survey signals solid services-led growth in France

The Bank of France's latest business survey released late on Monday provided an upbeat view of economic conditions in the euro area's second-largest member state heading towards year-end. With the pre-pandemic level of French GDP having been regained ahead of expectations by the end of Q3, the BoF's survey suggested that economic activity continues to grow in Q4. In particular, GDP was judged to have been some ½ppt above the pre-pandemic level already last month, with further growth expected in November too. Following growth in economic output of 3.0%Q/Q in Q3, the BoF survey points to respectable growth of about 0.75%Q/Q in Q4 to deliver full-year growth of 6.75%Y/Y in 2021 – probably 1½ppts or more above full-year growth in the euro area. French growth in Q4 appears to be driven again by services activity, which is also now judged to have exceeded its pre-pandemic level. Industrial production, however, was judged to be moving broadly sideways below the pre-pandemic level, unsurprisingly continuing to be weighed by weakness particularly in the autos and aeronautical subsectors amid supply bottlenecks. Indeed, 86% of auto manufacturers cited supply-related difficulties in October, with the equivalent share of all industrial firms unchanged at 56%, and stocks of raw materials considered to very low. While labour shortages remained most acute in the construction sector, almost 50% of all firms cited ongoing recruitment difficulties.

The coming two days in the euro area

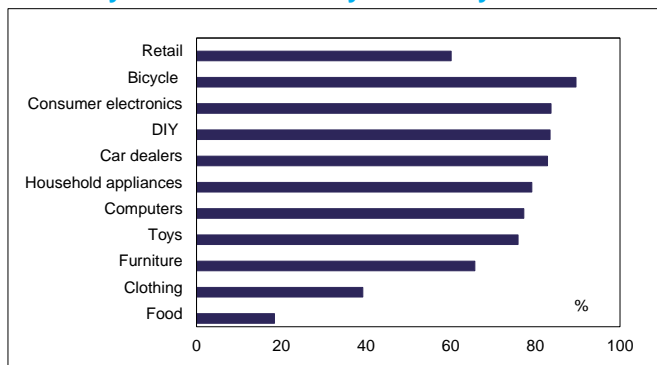
It is now set to be a quiet few days for euro area economic releases, with most notably Italian industrial production numbers for September due on Wednesday. After last week's weak outturns from [Germany and France](#), these are likely report that Italian manufacturers fared slightly better than their counterparts in the largest two member states at the end of Q3. In particular, IP is expected to have fallen just 0.1%M/M in September, to leave it up 1%Q/Q over the third quarter as a whole. Tomorrow will also bring updated German inflation numbers for October, which are expected to align with the flash estimates that showed the harmonised HICP rate jumping on the back of higher energy prices by 0.5ppt to 4.6%Y/Y.

UK

UK consumer spending boosted by early Christmas purchases

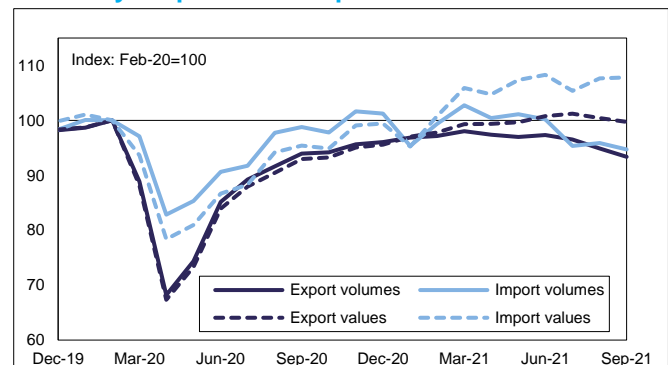
After the UK's official retail sales figures for September disappointed, today's BRC retail sales monitor suggested slightly improved momentum in the sector at the start of the fourth quarter. In particular, total sales rose 1.3%Y/Y in October and were more than 6% higher than in October 2019. Admittedly, like-for-like sales were lower than a year earlier (-0.2%Y/Y), and when adjusting for price effects the decline was even steeper. Sales of furniture and electrical goods were still hindered

Germany: ifo retailer survey – delivery difficulties



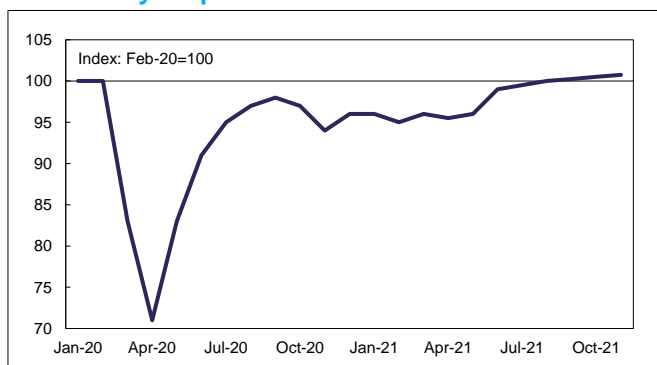
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Imports and exports



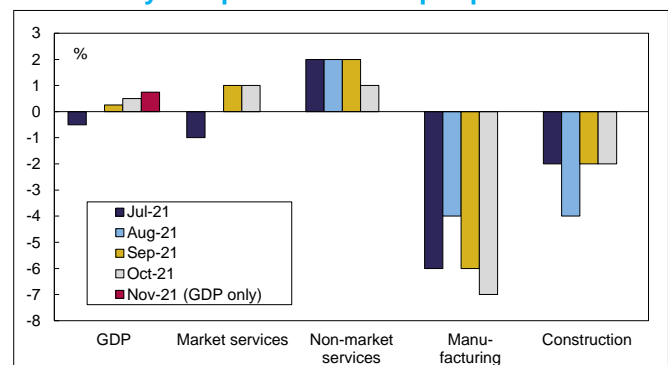
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

BoF survey: Implied level of GDP



Source: BoF and Daiwa Capital Markets Europe Ltd.

BoF survey: Output shortfall vs pre-pandemic level



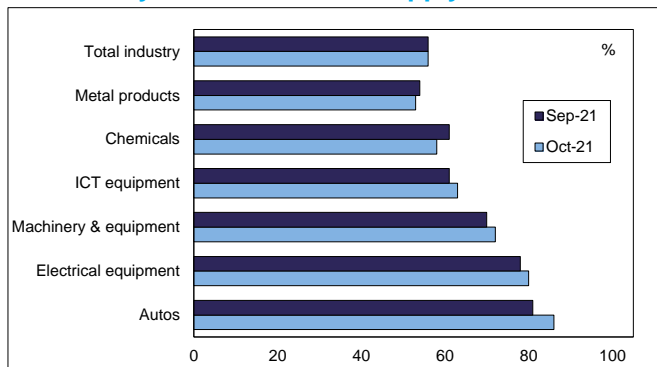
Source: BoF and Daiwa Capital Markets Europe Ltd.

by supply constraints, but clothing sales were reportedly boosted by increased socialising, while there were also signs that consumers were starting their Christmas shopping early. This tallied with the latest Barclaycard figures, which suggested that over half of surveyed consumers were buying gifts earlier than usual as a result of concerns over shortages of goods and squeezed household budgets ahead. Indeed, almost 40% of consumers continued to find it harder than normal to buy essential items due to empty supermarket shelves. And almost 90% were worried about the impact of rising inflation. This notwithstanding, Barclaycard figures implied much improved spending on certain services hardest hit by the pandemic, with the release of the long-awaited James Bond movie helping to boost spending on entertainment in October back above the pre-pandemic level for the first time. There was also encouraging news for the travel sector, with spending on international trips boosted by the lifting of restrictions – indeed, spending on airlines was down a much softer -28.1% compared with October 2019, versus an equivalent drop of almost 50% in September. And public transport also had its smallest drop since February 2020, as more workers returned to commuting by tube, train and bus.

The coming two days in the UK

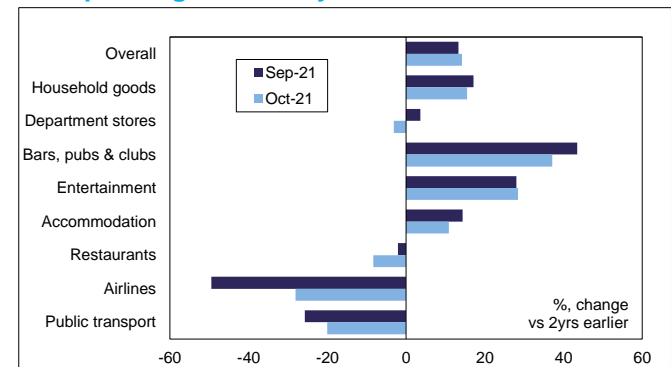
After a day bereft of UK data tomorrow, Thursday will bring the most noteworthy release of the week with the flash estimate of Q3 GDP. After it surged by 5½%Q/Q in Q2, GDP growth looks set to have slowed amid enduring supply constraints and a rise in coronavirus infections. In particular, we expect growth of 1.8%Q/Q in Q3, a touch above the Bloomberg consensus. A strong rebound in services in Q3 thanks to the further easing of restrictions will be offset to some extent by weaker manufacturing and construction output, as activity remained hampered by supply bottlenecks. But with some MPC members seemingly concerned about the recent loss of economic recovery momentum, the monthly deluge of output and trade numbers for September will also be closely watched, with GDP forecast to have been no stronger than the 0.4%M/M growth recorded in August. Beyond the GDP data, Thursday will also bring the RICS house price survey for October. Elsewhere, BoE external MPC member Tenreyo will participate in a fireside chat with Lawrence Summers at the LSE tomorrow.

BoF survey: Manufacturers - supply difficulties



Source: BoF and Daiwa Capital Markets Europe Ltd.

UK: Spending on Barclaycard







Source: Barclaycard and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 11 November 2021

European calendar


Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Trade balance €bn	Sep	16.2	16.0	10.7	11.7
	 ZEW current situations (expectations)	Nov	12.5 (31.7)	19.0 (18.7)	21.6 (22.3)	-
France	 Trade balance €bn	Sep	-6.8	-	-6.7	-
UK	 BRC retail sales monitor, like-for-like sales Y/Y%	Oct	-0.2	-	-0.6	-

Auctions



Country Auction

Germany  sold €4.77bn of 0% 2023 bonds at an average yield of -0.71%

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
Euro area	 Sentix investor confidence	Nov	18.3	15.0	16.9	-
France	 BoF industrial sentiment	Oct	102	-	100	-

Auctions



Country Auction

- Nothing to report -


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	 07.00	Final CPI (EU harmonised CPI) Y/Y%	Oct	4.5 (4.6)	4.1 (4.1)
Italy	 09.00	Industrial production M/M% (Y/Y%)	Sep	-0.1 (4.0)	-0.2 (0.0)

Auctions and events

Germany  10.30 Auction: €3.0bn of 0% 2031 bonds









UK  10.00 Auction: £900mn of 0.125% 2031 index-linked bonds

 14.00 BoE's Tenreyro to hold a fireside chat with Lawrence Summers on 'Secular stagnation after Covid-19'






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
UK		00.01 RICS house price balance %	Oct	65	68
		07.00 Preliminary GDP Q/Q% (Y/Y%)	Q3	<u>1.8 (7.2)</u>	5.5 (23.6)
		07.00 Monthly GDP M/M%	Sep	0.4	0.4
		07.00 Services output M/M% (3M/3M%)	Sep	0.6 (3.7)	0.3 (3.7)
		07.00 Industrial production M/M% (Y/Y%)	Sep	0.3 (3.1)	0.8 (3.7)
		07.00 Manufacturing production M/M% (Y/Y%)	Sep	0.3 (3.1)	0.5 (4.1)
		07.00 Construction output M/M% (Y/Y%)	Sep	0.5 (7.2)	-0.2 (10.1)
		07.00 Goods trade balance £bn	Sep	-14.3	-14.9

Auctions and events

Euro area		09.00 ECB to publish its Economic Bulletin
		14.15 ECB's Chief Economist Lane to speak at a joint ECB-NY Fed conference
		16.00 ECB's Schnabel speaks at an event organised by Women in Economics
Italy		10.00 Auction: €2.0bn of 0% 2024 bonds
		10.00 Auction: €3.75bn of 0.45% of 2029 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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