

Euro wrap-up

Overview

- Bunds made gains despite a modest drop in euro area industrial production and a downwards revision to Spanish inflation.
- Gilts made gains at the short end on a quiet end to the week for UK economic news.
- The coming week will bring new data on euro area goods trade and jobs, as well as revisions to GDP and CPI figures, alongside new UK reports on inflation, retail sales and the labour market.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.754	-0.039
OBL 0 10/26	-0.570	-0.045
DBR 0 08/31	-0.258	-0.023
UKT 0 ⁷ / ₈ 01/24	0.510	-0.031
UKT 0 ³ / ₈ 10/26	0.668	-0.028
UKT 0 ¹ / ₄ 07/31	0.913	-0.004

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

Euro area

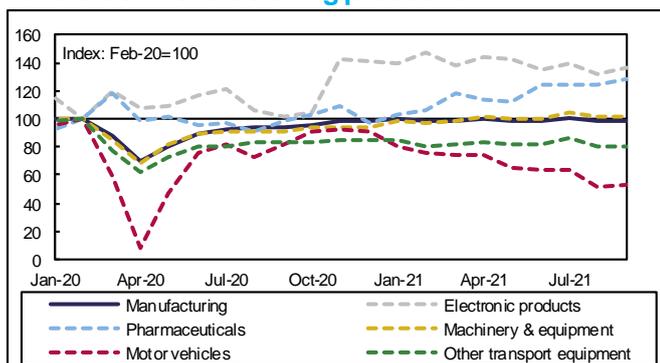
IP drops very modestly in September to suggest continued sideways trend

As expected, euro area industrial production dropped for a second successive month in September. However, the decline of 0.2% M/M was much smaller than had originally been anticipated. And following the fall of 1.7% M/M in August, that left production down a similarly modest 0.2% Q/Q in Q3 but 1.6% below the pre-pandemic level in February 2020. So, after a rise of just 0.1% Q/Q in Q2, the broad trend in IP still appears to be sideways rather than down, albeit with significant differences between the member states. Production remains particularly weak in Germany, where it fell 1.4% M/M in September and 2.4% Q/Q in Q3. While Spanish industrial output also fell back more than 1% Q/Q in Q3, French and Italian production rose about 1% Q/Q. And, once again, the Netherlands and Ireland made significant positive contributions both in September and over the quarter as a whole. Of course, the country differences in IP growth in part reflect contrasts in the importance of various sub-sectors – in particular autos – and associated resilience to supply bottlenecks. Indeed, at the aggregate euro area level, despite a rise of 2.0% M/M in September, production of motor vehicles was down a whopping 17.5% Q/Q in Q3 to be 47.5% below the pre-pandemic level and also more than 40% below the post-pandemic peak in November 2020. Also impacted by significant supply constraints, production of metals, rubber and plastics, computer and electrical equipment were all down 2% Q/Q or more in Q3. But growth in pharmaceuticals (up 7.2% Q/Q) and machinery (1.8% Q/Q) was firm over the quarter, with output of the latter rising back above its pre-pandemic level.

New factory orders maintained uptrend in Q3

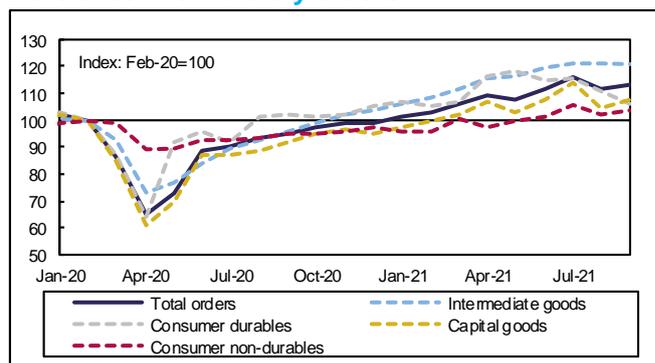
While production continues to trend sideways below the pre-pandemic level as supply restraints bind, demand for industrial goods appears to remain firm. Euro area new factory goods orders rose 1.5% M/M in September to be up 3.5% Q/Q in Q3. Growth in orders in September came entirely from beyond the euro area, which also rose a vigorous 4.9% Q/Q in Q3. But orders from within the euro area rose 2.2% Q/Q last quarter to suggest that supply constraints are not yet weighing too heavily on business demand. In particular, new orders of intermediate and capital goods alike rose close to 3% Q/Q in Q3. However, while demand for non-durables was also strong, new orders of consumer durables fell 5% Q/Q, possibly in recognition of supply shortages. Unfortunately, survey indicators, including near-record high delivery times on the manufacturing PMIs, and market signals, such as still-elevated costs of shipping freight from China to Europe, suggest that disruption is unlikely to ease soon. And that tallies with the ifo survey finding that retailers expect disruption to persist on average until next summer. When the bottlenecks do ease, however, the elevated level of orders suggests that production should shift well above the pre-pandemic level, providing new impetus to GDP growth too.

Euro area: Manufacturing production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: New factory orders



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Decades-high Spanish inflation still dominated by energy price pressures

Spain's final inflation data for October provided a slight downside surprise, with both the national CPI and EU-harmonised HICP measures revised down by 0.1ppt from the flash estimates. At 5.4%YY, however, those rates still marked euro-era highs and are likely to remain the highest in the euro area in October bar the Baltic States. They also reflected a sharp rise of 1.4ppts from September. But, as expected, the detail published today confirmed that the pressure was driven by energy prices. Indeed, more than half of the rise in inflation (0.8ppt) came from housing costs, including utility bills, inflation of which was up 6ppts to 20.5%YY. Electricity prices rose more than 60%YY and 10%M/M with household gas prices up 16.5%YY and 2.7%M/M. Meanwhile, with the fuels component up more than 4ppts to above 28%YY, transport inflation rose 2.5ppts to 12.3%YY, accounting for a further 0.3ppt of the increase in overall inflation in October. Indeed, excluding costs of housing (including energy bills) and transport, inflation would be 1.1%YY. While inflation of new cars accelerated 0.4ppt to 3.6%YY, used car prices were (unusually) down 2.0%YY, and inflation of non-energy industrial goods was just 0.9%YY – hardly suggesting significant pass-through of price pressures further up the supply chain. And while inflation of hotels and restaurants, and recreation and culture, jumped to 2.0%YY and 1.5%YY as tourism activity continued to normalise, services prices were up just 1.5%YY.

Spanish core inflation subdued suggesting a marked decline in 2022 once gas prices retreat

So, while it rose 0.4ppt on the month, Spanish core inflation remained subdued at just 1.4%YY. Although that is the highest Spanish core rate since 2013, it still points to the likelihood of a marked decline in inflation back firmly below 2%YY once energy pressures dissipate. Given the large contribution from energy prices, much will depend on the evolution of prices of natural gas, particularly important for electricity generation. Encouragingly, European benchmark natural gas prices are currently down more than 35% from their early October peak on the promise of increased Russian supplies. And while Belarus threatens to impede the flow of Russian gas to the EU, futures contracts are pricing a marked fall from March onwards.

The week ahead in the euro area

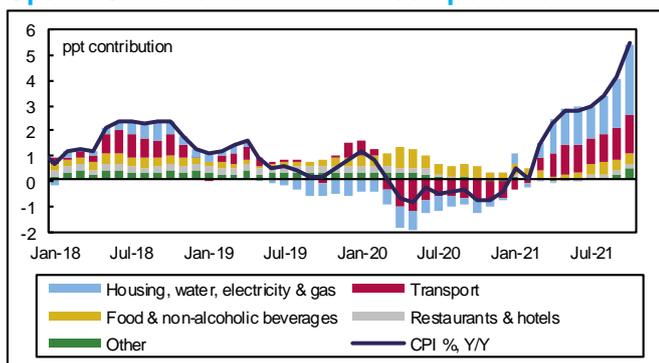
The coming week will bring updated euro area GDP figures for Q3 (Tuesday), which are expected to confirm that growth firmed very slightly from Q2 by 0.1ppt to 2.2%Q/Q. These will come alongside preliminary employment numbers for the third quarter, which are expected to report another strong quarter of jobs growth, likely leaving the number of people in work less than 1mn below the pre-pandemic level. Wednesday will bring updated euro area CPI figures for October, which are likely to align with the flash estimate that showed headline inflation rising 0.7ppt to 4.1%YY, a euro-era high, as energy prices surged. The increase in the flash core CPI rate was therefore more modest, by 0.2ppt to 2.1%YY, with the trimmed mean estimate likely to have ticked only slightly higher too. The final Spanish data, however, raise the possibility of a downwards revision to headline inflation. Ahead of these data, Tuesday will bring final French and Italian CPI releases. Meanwhile, German producer price inflation numbers for October are due Friday and are likely to register a new post-reunification high. Other data releases due in the coming week include euro area trade (Monday), construction output (Wednesday), new car registrations (Thursday) and balance of payments (Friday).

UK

The week ahead in the UK

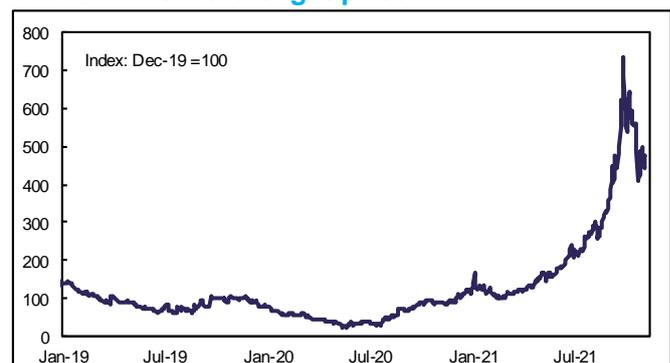
After yesterday's [softer GDP](#) release, the coming week will bring more key UK economic data that might prove integral to the outcome of December's monetary policy decision. Tuesday's labour market report will be closely watched and provide some partial insight into conditions since the termination of the government's Job Retention Scheme at the end of September, when more than 1mn jobs were estimated to have been still supported. With a recent ONS business survey having suggested that around 87% of furloughed employees had returned to work and only 3% had been made permanently

Spain: CPI inflation and main components



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Netherlands: Natural gas price*



*Netherlands TTF Natural 1-month forward price. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

redundant, any pickup in unemployment should prove limited. The claimant count data for October due on Tuesday might therefore offer further insights, but the ILO unemployment rate and redundancy figures will refer to the three months to September and so will not provide a guide to the impact of the end of the furlough scheme. While headline wage growth is expected to have moderated further in the three months to September, this will in part reflect ongoing compositional effects and base effects. However, the ONS' estimate of underlying regular wage growth – which was assessed in August to have risen to between 4.1-5.6% Y/Y – will be of interest. Wednesday's release of October inflation data seems highly likely to see headline inflation jump from 3.1% Y/Y in September to close to 4% Y/Y, principally due to the increase in the regulated household energy price cap and higher petrol prices. Indeed, despite an anticipated pickup up in services inflation to its highest since mid-2013, core inflation is likely to have risen just 0.1ppt to 3.0% Y/Y. Friday's release of October retail sales figures will provide an update on spending on goods at the start of the fourth quarter, with recent surveys pointing to a pickup in expenditure as consumers started their Christmas shopping early amid fears of ongoing supply shortages throughout the festive season. The end of the week will also bring the latest public finance figures for October.

Daiwa economic forecasts

	2021		2022				2021	2022	2023
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q									
Euro area 	2.2	1.0	0.8	0.7	0.7	0.6	5.2	4.2	2.1
UK 	1.3	0.9	0.4	0.4	0.4	0.6	6.9	3.7	1.8
Inflation forecasts %, Y/Y									
Euro area									
Headline CPI 	2.8	4.2	3.4	3.6	2.8	1.8	2.5	2.9	1.4
Core CPI 	1.4	2.2	1.6	2.3	1.9	1.5	1.4	1.8	1.3
UK									
Headline CPI 	2.8	4.3	4.6	4.3	3.7	2.4	2.4	3.7	1.8
Core CPI 	2.6	3.3	3.7	3.2	2.6	2.0	2.2	2.9	2.0
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
PEPP envelope* (€bn) 	1850	1850	1850	1850	1850	1850	1850	1850	1850
BoE									
Bank Rate % 	0.10	0.10	0.25	0.25	0.50	0.50	0.10	0.50	0.75
Gilt purchases* (£bn) 	875	875	875	875	866	866	875	866	833

*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/ <i>Daiwa forecast</i>	Previous	Revised
Euro area 	Industrial production M/M% (Y/Y%)	Sep	-0.2 (5.2)	-0.5 (4.1)	-1.6 (5.1)	-1.7 (4.9)
Spain 	Final CPI (EU harmonised CPI) Y/Y%	Oct	5.4 (5.4)	5.5 (5.5)	4.0 (4.0)	-
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	GMT	Release	Period	Market consensus/ <i>Daiwa</i> <u>forecast/actual</u>	Previous	
Monday 15 November 2021						
Euro area	10.00	Trade balance €bn	Sep	-	11.1	
UK	00.01	Rightmove house price index M/M% (Y/Y%)	Nov	-	1.8 (6.5)	
Tuesday 16 November 2021						
Euro area	10.00	Second estimate of GDP Q/Q% (Y/Y%)	Q3	2.2 (3.7)	2.1 (14.2)	
	10.00	Preliminary employment Q/Q% (Y/Y%)	Q3	-	0.7 (1.8)	
France	07.45	Final CPI (EU-harmonised CPI) Y/Y%	Oct	2.6 (3.2)	2.2 (2.7)	
Italy	07.45	Final CPI (EU-harmonised CPI) Y/Y%	Oct	2.9 (3.1)	2.5 (2.9)	
UK	07.00	Preliminary output per hour Y/Y	Q3	-	4.3	
	07.00	Claimant count rate % (jobless claims change '000s)	Oct	-	5.2 (-51.1)	
	07.00	Average earnings including bonuses (excluding bonuses) 3M/Y%	Sep	5.9 (5.0)	7.2 (6.0)	
	07.00	ILO unemployment rate %	Q3	4.5	4.5	
	07.00	Employment change '000s	Q3	-	235	
Wednesday 17 November 2021						
Euro area	10.00	Final CPI (core CPI) Y/Y%	Oct	4.1 (2.1)	3.4 (1.9)	
	10.00	Construction output M/M% (Y/Y%)	Oct	-	-1.3 (-1.6)	
Italy	09.00	Total trade balance €bn	Sep	-	1.3	
UK	07.00	CPI (core CPI) Y/Y%	Oct	<u>3.9 (3.0)</u>	3.1 (2.9)	
	07.00	PPI input (output) prices Y/Y%	Oct	12.1 (7.3)	11.4 (6.7)	
	09.30	House price index Y/Y%	Sep	-	10.6	
Thursday 18 November 2021						
Euro area	07.00	EU-27 new car registrations Y/Y%	Oct	-	-23.1	
France	-	Bank of France retail sales M/M%	Oct	-	2.8	
Friday 19 November 2021						
Euro area	09.00	ECB current account balance €bn	Sep	-	13.4	
Germany	07.00	PPI Y/Y%	Oct	16.2	14.2	
Italy	09.00	Industrial sales M/M% (Y/Y%)	Sep	-	0.8 (13.8)	
UK	00.01	GfK consumer confidence	Nov	-	-17	
	07.00	Retail sales including auto fuels M/M% (Y/Y%)	Oct	0.5 (-2.0)	-0.2 (-1.3)	
	07.00	Retail sales excluding auto fuels M/M% (Y/Y%)	Oct	0.4 (-3.4)	-0.6 (-2.6)	
	07.00	Public sector net borrowing, excluding banks, £bn	Oct	15.0	21.8	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 15 November 2021		
Euro area	 10.00	ECB President Lagarde speaks before the European Parliament's Committee on Economic and Monetary Affairs
	 12.45	ECB's de Guindos gives closing remarks at Euro Finance Week conference
Tuesday 16 November 2021		
Euro area	 16.10	ECB President Lagarde to give an on-stage interview
Germany	 10.30	Auction: €1bn of 0% 2052 bonds
UK	 10.00	Auction: £1.75bn of 0.875% 2046 bonds
Wednesday 17 November 2021		
Euro area	 -	ECB publishes its Financial Stability Review
	 12.00	ECB's Schnabel takes part in Q&A session on the euro area's economic and monetary policy outlook
Thursday 18 November 2021		
Euro area	 10.00	ECB's Panetta scheduled speaks before the European Parliament's Committee on Economic and Monetary Affairs
	 14.30	ECB's Lane takes part in fireside chat 'The new Federal Reserve and ECB Strategies'
France	 09.50	Auction: 0% 2024 bonds
	 09.50	Auction: 0% 2027 bonds
	 09.50	Auction: 2.75% 2027 bonds
	 10.50	Auction: 0.1% 2026 inflation-linked bonds
	 10.50	Auction: 0.1% 2028 inflation-linked bonds
	 10.50	Auction: 0.7% 2030 inflation-linked bonds
Spain	 09.30	Auction: 0% 2027 bonds
	 09.30	Auction: 0.6% 2029 bonds
	 09.30	Auction: 0.5% 2031 bonds
Friday 19 November 2021		
Euro area	 08.30	ECB President Lagarde to give a speech at the European Banking Congress
	 13.00	ECB's Weidmann scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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