

Euro wrap-up

Overview

- Bunds followed US10s lower while euro area producer prices rose for a third successive month on higher energy costs.
- Gilts made gains as BoE Governor Bailey signalled that the MPC could become a “bit more aggressive” in its rate cuts.
- Friday will bring August figures for French and Spanish industrial production, as well as the September construction PMIs from the euro area and UK.

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Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.075	+0.045
OBL 2½ 10/29	1.969	+0.054
DBR 2.6 08/34	2.141	+0.054
UKT 4½ 01/27	3.962	-0.049
UKT 4½ 07/29	3.860	-0.030
UKT 4½ 07/34	4.015	-0.009

*Change from close as at 5.00pm BST.
Source: Bloomberg

Euro area

Producer prices rose for a third successive month on higher energy costs

While the flash estimate of euro area consumer core goods inflation remained very weak in September – moving sideways at just 0.4%Y/Y, the joint-lowest since March 2021 and down more than 6ppts from the peak in February 2023 – today’s producer inflation figures suggested that pipeline pressures in the factory sector ticked slightly higher over the summer. In particular, industrial producer prices rose for a third consecutive month in August, by 0.6%M/M. But with prices having declined in the seven months to June, this still left the annual rate firmly in negative territory, and down 0.1ppt to -2.3%Y/Y. Moreover, the uptick reflected a third successive rise in energy prices, by 1.9%M/M, as the price of electricity, gas and air conditioning supply increased 3.4%M/M, the most since December 2022. But, while this left the level of energy prices a little more than 60% above the average in the year before the pandemic, they were still down more than 7½%Y/Y and more than a third below the peak in September 2022. And, notwithstanding upside risks over the near term due to the ongoing conflict in the Middle East, the near-14% drop in crude oil prices since early July should help energy cost pressures to diminish somewhat further over coming months.

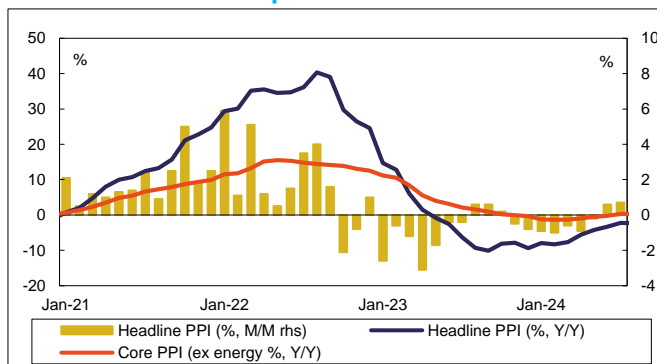
Underlying goods price pressures remain subdued

Today’s data also suggested that underlying price pressures in the factory sector remain muted. For example, likely supported by weaker prices of imported items, non-energy industrial producer prices fell for the first time this year, by 0.1%M/M, to leave the core PPI inflation rate unchanged at just 0.3%Y/Y. Intermediate goods prices declined for the first month in seven (-0.1%M/M) as prices of chemicals, basic metals and electronic products fell back. So, while the annual rate of intermediate goods PPI rose to a 15-month high, it remained firmly in negative territory at -0.8%Y/Y. While prices of capital goods rose for the eighth month out of nine – due to upwards pressure in the autos and machinery categories – the annual rate remained steady at just 1.4%Y/Y. And with producer prices of consumer durables unchanged in August, inflation of that category was also steady at 0.3%Y/Y, the joint-lowest for more than 14 years, suggesting an absence of any meaningful upwards pressures on consumer goods inflation for the time being.

Surveys signal moderating price pressures widespread across sectors

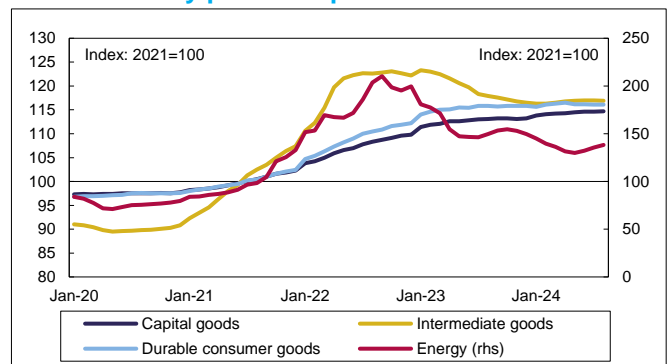
Surveys on producer prices have also signalled moderating pressures. Certainly, with shipping freight costs having recently fallen back sharply, the final euro area manufacturing input cost PMI fell in September to a five-month low (49.1), well below the long-run average. And a lack of pricing powers – due to weak global demand and ample global supply – continues to weigh on manufacturing selling prices, with the respective PMI falling to a four-month low (49.2). Perhaps unsurprisingly as

Euro area: Producer price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Key producer price levels



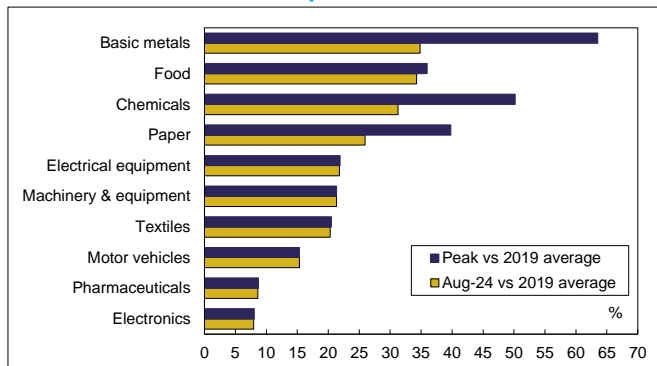
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

challenges in the sector remain most extreme in Germany, the PMIs implied the steepest decline in selling prices in that member state. And this tallied with an ifo survey published earlier in the week that implied increasingly diminished scope to raise prices over the coming three months. Indeed, the price expectations index fell to the lowest level since February 2021, with firms in various energy-intensive manufacturing sub-sectors such as chemicals, basic metals and paper reporting a notable deterioration in pricing powers. The ifo indices also implied a notable moderation in price expectations in the consumer-related sectors. Today's services PMI survey also saw the euro area input price index drop more than 1½pts to 56.1, back below the long-run average for the first time since March 2021. And while the services prices charged PMI (52.4) remained above the long-run trend, it too fell to the lowest since spring 2021.

Final services PMIs point to slowing economic momentum despite upwards revision

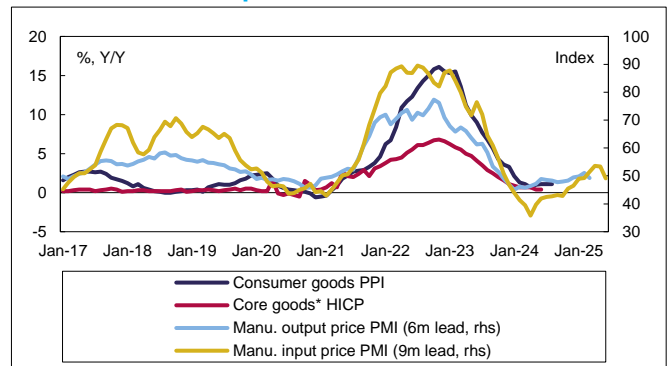
The growth message from today's final services PMIs was somewhat less downbeat than initially feared. In particular, the euro area headline services index was upwardly revised from the flash by 0.9pt to 51.4, thanks to a larger revision in the respective French survey. Taken together with a modest upward revision to the equivalent manufacturing output index earlier in the week (+0.1pt to 45.0), the euro area composite output PMI was 0.8pt stronger than the flash estimate at 49.6. But this still marked the lowest reading for seven months and implied a further loss in economic momentum at the end of Q3. Indeed, the quarterly composite index (50.3) was some 1.4pts below the Q2 average and merely consistent with stagnation in Q3.

Euro area: PPI inflation peak vs latest



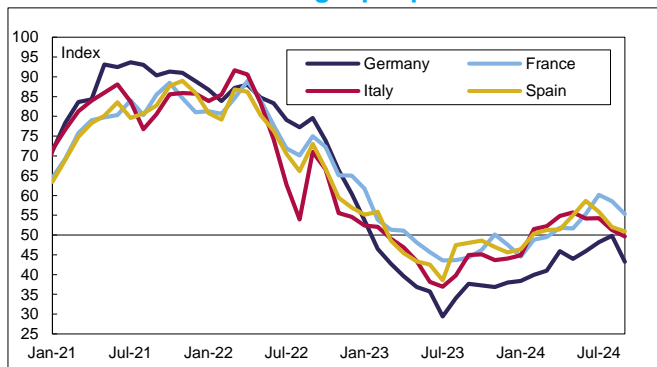
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Goods price indicators



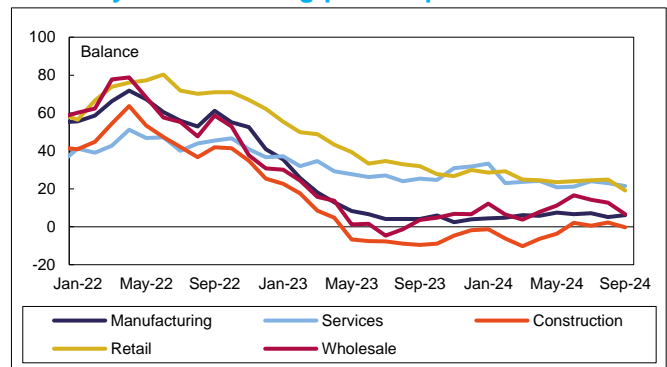
*Non-energy industrial goods. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing input price PMIs



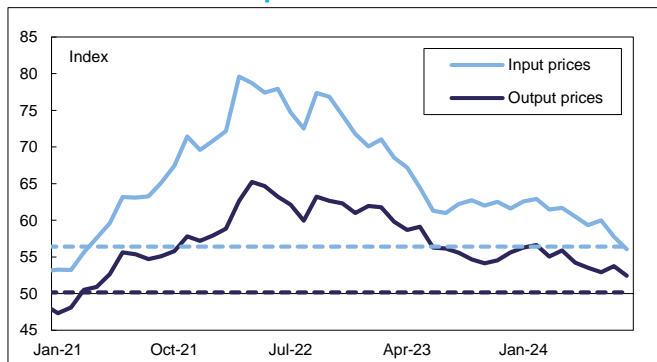
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Germany: Firms' selling-price expectations



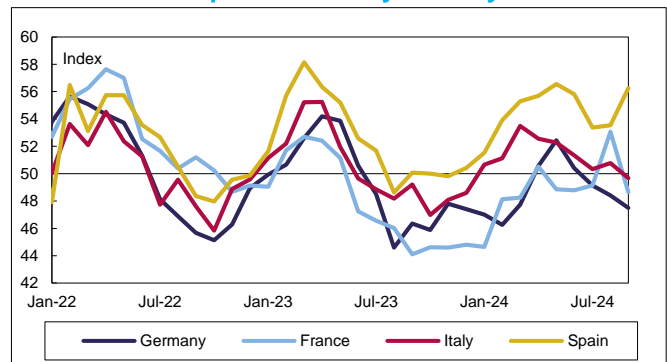
Source: ifo institute, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Services price PMIs*



*Dashed lines represent long-run average. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Composite PMIs by country



Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

While weakening momentum in services was evident in Germany (50.6), France (49.6) and Italy (50.5), Spain bucked the trend in September, with the respective index jumping 2½pts to a 17-month high of 57.1. And so, while the composite PMIs from the largest three member states were in contractionary territory in September, the Spanish index (up 2.7pts to 56.3) was close to the top of the range of the past 18 months. And while the quarterly average for the Spanish index (54.4) was around 1½pts softer than in Q2, it nevertheless remained consistent with another quarter of solid GDP growth, and a rate that undoubtedly outpaced the other larger member states.

The day ahead in the euro area

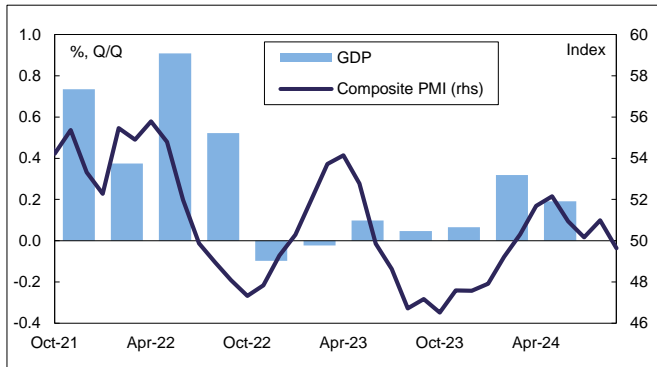
The end of the week will bring an update on the manufacturing sector in the middle of Q3, with August industrial production figures from France and Spain. These are likely to merely reverse the declines in July (-0.5%M/M and -0.4%M/M respectively) to maintain a broadly sideways trend since May. Meanwhile, the construction PMIs from Germany, France and Italy are likely to signal ongoing contraction in the sector at the end of Q3.

UK

Bailey signals possible faster pace of rate cuts, while CPI expectations remain well behaved

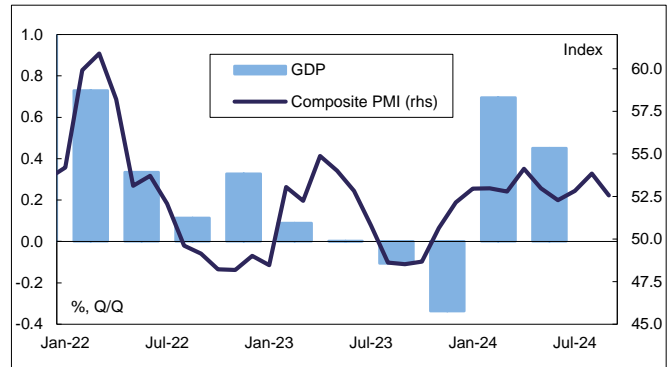
While the MPC left Bank Rate unchanged at its previous meeting in September, its updated forward guidance stated that “in the absence of any material developments, a gradual approach to removing policy restraint remains appropriate” to suggest that further easing was likely to come as soon as its next meeting in November. With recent inflation prints – for both headline and services CPI – coming in below the BoE’s August projections, wage growth having moderated significantly to the softest since November 2020 and surveys suggesting that GDP growth has slowed broadly in line with the MPC’s expectations, BoE Governor Bailey today suggested in an interview with the Guardian newspaper that the BoE could become a “bit more aggressive” in its policy approach. And we would agree. Our expectation is that Bank Rate will be cut by 25bps at each meeting going forward through to September next year, with a terminal rate this cycle of 3.00%. Certainly, the findings of today’s Decision Maker Panel survey suggested that firms’ inflation and wage expectations remained well-behaved at the end of Q3. Indeed, while CPI expectations one year ahead ticked up very slightly to a three-month high of 2.7%Y/Y in September, firms’ expected output price growth for the 12 months ahead remained steady at 3.6%3M/Y, the joint-lowest for three years, while CPI expectations for three years ahead moved sideways at 2.7%Y/Y.

Euro area: GDP growth & composite PMIs



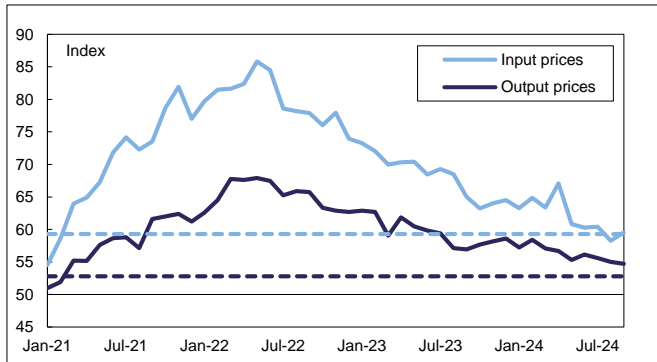
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: GDP growth & composite PMI



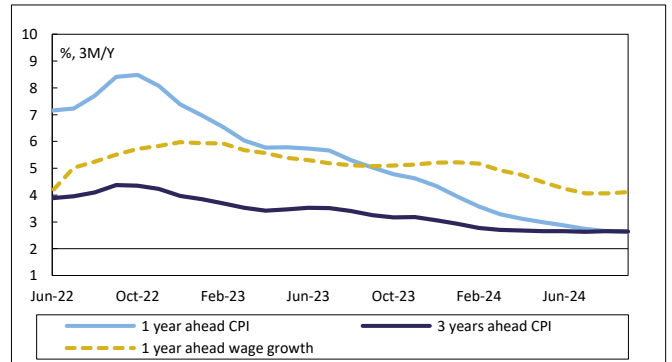
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Services price PMIs*



*Dashed lines represent long-run average. Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Firms' CPI & wage growth expectations



Source: BoE DMP survey, Macrobond and Daiwa Capital Markets Europe Ltd.

















Final PMIs point to moderating price pressures and slowing recovery momentum

While the final services PMIs reported a modest pickup in cost burdens in September, the respective index (59.5) was merely in line with the long-run average, some 3½pts below the average of the past year and a whopping 26pts below the peak in 2022. Moreover, the respective selling-price PMI fell for the sixth month out of the past seven to 54.7, the lowest since February 2021 and almost 2pts below the average in the year-to-date. While the PMIs pointed to ongoing economic expansion at the end of Q3, today's survey also confirmed a slowdown in momentum last month particularly in the services sector. In particular, the final services activity index was downwardly revised from the flash by 0.4pt to a three-month low of 52.4. As such, the composite output index was also revised down by 0.4pt to 52.6, some 1.2pts lower than in August and the softest since June. Admittedly, this left the composite PMI in Q3 (53.1) unchanged from the quarterly average in Q2 and consistent with GDP growth of 0.3%Q/Q, in line with the BoE's and our own projection.

The day ahead in the UK

In a relatively quiet end to the week for top-tier releases, tomorrow will bring September new car registrations figures and construction PMI survey.







European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Final composite (services) PMI	Sep	49.6 (51.4)	48.9 (50.5)	51.0 (52.9)	-
	 PPI Y/Y%	Aug	-2.3	-2.3	-2.1	-2.2
Germany	 Final composite (services) PMI	Sep	47.5 (50.6)	47.2 (50.6)	48.4 (51.2)	-
France	 Final composite (services) PMI	Sep	48.6 (49.6)	47.4 (48.3)	53.1 (55.0)	-
Italy	 Composite (services) PMI	Sep	49.7 (50.5)	50.2 (51.1)	50.8 (51.4)	-
Spain	 Composite (services) PMI	Sep	56.3 (57.0)	52.8 (54.0)	53.5 (54.6)	-
UK	 Final composite (services) PMI	Sep	52.6 (52.4)	52.9 (52.8)	53.8 (53.7)	-
	 DMP 3M output price (1Y CPI) expectations Y/Y%	Sep	3.6 (2.7)	3.4 (2.7)	3.6 (2.6)	-
Auctions						
Country	Auction					
France	 sold €2.49bn of 1.25% 2034 bonds at an average yield of 2.86%					
	 sold €6.17bn of 3% 2034 bonds at an average yield of 2.92%					
	 sold €1.92bn of 3% 2049 bonds at an average yield of 3.42%					
	 sold €1.42bn of 3.25% 2055 bonds at an average yield of 3.55%					
Spain	 sold €1.85bn of 2.5% 2027 bonds at an average yield of 2.277%					
	 sold €1.5bn of 1.45% 2029 bonds at an average yield of 2.378%					
	 sold €1.19bn of 4.7% 2041 bonds at an average yield of 3.356%					
	 sold €512mn of 2.05% 2039 inflation-linked bonds at an average yield of 1.297%					



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area 	08.30	Construction PMI	Sep	-	41.4
Germany 	08.30	Construction PMI	Sep	-	38.9
France 	07.45	Industrial production M/M% (Y/Y%)	Aug	0.3 (-2.0)	-0.5 (-2.2)
	08.30	Construction PMI	Sep	-	40.1
Italy 	08.30	Construction PMI	Sep	-	46.6
	09.00	Deficit to GDP YTD %	Q2	-	8.8
	11.00	Retail sales M/M% (Y/Y%)	Aug	- (1.3)	0.5 (1.0)
Spain 	08.00	Industrial production M/M% (Y/Y%)	Aug	0.2 (-0.1)	-0.4 (-0.4)
UK 	09.00	New car registrations Y/Y%	Sep	-	-1.3
	09.30	Construction PMI	Sep	53.1	53.6

Auctions and events

Italy 	09.30	ISTAT to release revised GDP quarterly series to Q224			
Spain 	08.00	ECB Governing Council members Centeno and Escriva speak on monetary union & euro area growth at Foro la Toja, Spain			

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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