

Euro wrap-up

Overview

- Bunds made modest losses while euro area GDP growth was affirmed at 0.2%Q/Q in Q3 after a surge in exports to the US in September.
- Gilts underperformed after reports suggested that Chancellor Reeves was set to U-turn on plans to hike income tax in the Autumn budget.
- The coming week's European dataflow will be dominated by November business and consumer surveys, including the flash PMIs. UK inflation, retail sales and public finance figures for October are also due.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.027	+0.003
OBL 2.2 10/30	2.304	+0.013
DBR 2.6 08/35	2.711	+0.025
UKT 3% 03/27	3.822	+0.066
UKT 4% 03/30	3.995	+0.096
UKT 4½ 03/35	4.560	+0.124

*Change from close as at 4.15pm GMT.
Source: Bloomberg

Euro area

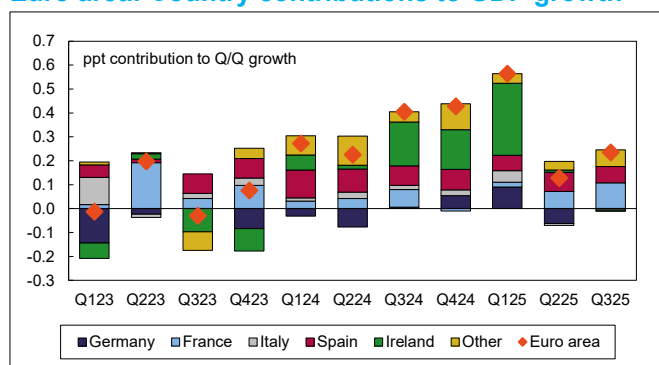
GDP growth of 0.2%Q/Q in Q3 outpaced employment growth suggesting a pickup in productivity

Today's second euro area GDP estimates for Q3 aligned with initial figures, reaffirming a slight pick up in growth from Q2 by 0.1ppt to 0.2%Q/Q. While down from the pre-tariff acceleration of Q1 (0.6%Q/Q), this was a touch firmer than expected by the ECB. And to two decimal places, GDP growth was nudged marginally higher (0.23%Q/Q). As such, the annual rate was also revised up slightly from the initial estimate to 1.4%Y/Y, which is arguably above-potential and was a mere 0.2ppt softer than in the first quarter. The tweak to the Q3 reading might in part relate to industrial output, which, despite offering no support to growth in Q3, beat assumptions for a modest drag. While the expenditure breakdown will be released with the final update on 5 December, today's monthly goods trade numbers (see below) also exceeded expectations at the end of the quarter, to suggest that net trade provided a modest contribution in Q3. Fixed investment is also expected to return to growth after contracting in Q2. And household consumption growth likely remained positive, albeit at a subdued rate, supported by the stable labour market and continued growth in real incomes. Admittedly, today's first estimate for euro area employment in Q3 showed that growth in the number of workers remained soft at just 0.1%Q/Q. This took the annual rate down to 0.5%Y/Y, the softest since Q121, and at less than half the rate of GDP growth, therefore consistent with a pickup in labour productivity. Nevertheless, the preliminary figures showed a total of 209k jobs added in Q3. Spain again provided the principal source of employment growth (153k). In contrast, Germany again shed jobs in Q3 (-41k) by the most of any quarter since the first Covid lockdown and the global financial crisis before that. Recent monthly data, however, suggests some stabilisation in the largest member state. And as Southern Europe seems likely to ensure that euro area employment growth will remain positive, which should help to keep the region's unemployment rate close to the series low of 6.3% in Q3.

Euro area exports surge amid a large shipment of chemicals & pharmaceuticals to the US

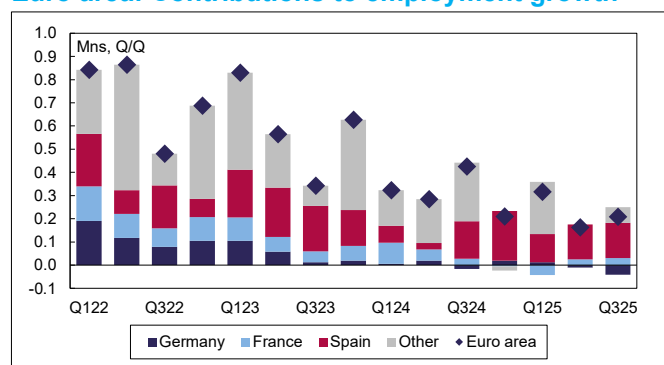
Despite some mixed signals from member states, the aggregate euro area goods trade numbers in September were, at first glance, undeniably positive. Indeed, the value of exports rose for just a second month in the past six and by a substantial 4.7%M/M, the fastest monthly pace since January 2011 outside of the post-lockdown reopening in Q220. And given a more modest rise in import values (1.3%M/M), the euro area's trade goods surplus widened to €18.7bn, from an upwardly revised €10.6bn in August. But despite the September boost, the level of euro area exports remained some 7% below the pre-tariff hike peak at the end of Q1. And the detail attributed the jump almost solely to a near-doubling in chemicals and pharmaceuticals shipments to the US (almost certainly concentrated in Ireland) to their second-highest month on record after March. This notwithstanding, total chemicals exports were down 2½%Q/Q in Q3 (and almost 20% below the peak in March). Other sectors showed no material signs of improvement either, with shipments of machinery and transport down to an eight-month low despite moving broadly sideways over the third quarter as a whole. Overall, exports fell in Q3 to the US, China

Euro area: Country contributions to GDP growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Contributions to employment growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

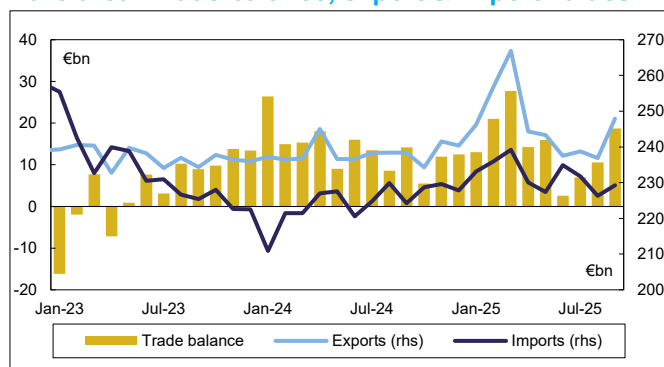
and UK. But with exports to the rest of the EU and Switzerland picking up, the total value of exports was down just 0.2%Q/Q in Q3. And with imports down a larger 0.7%Q/Q, it appears that net trade might have made a positive, albeit modest, contribution to Q3 GDP growth. Forward-looking indicators of overseas demand for euro area goods have showed tentative signs of improvement at the start of this quarter, including a five-month high in the Commission's measure of new exports orders, which might reflect some upside following the EU-US trade framework agreement in August. But in the absence of another surge in chemicals shipments to the US, we would assume some payback in October. And with demand relatively subdued in other traditional export markets, we see the risks to net trade in Q4 to be skewed to the downside.

The week ahead in the euro area

The coming week will bring several releases of note from the euro area, including various business and consumer sentiment surveys for November. The primary focus (on Friday) will be the flash PMIs, which will be watched for whether the encouraging pickup in momentum signalled in October was sustained into the middle of the fourth quarter. Indeed, the euro area's composite output PMI rose 1.2pts to a near-2½-year high of 52.5, supported in part by a strong performance in the periphery. But the pickup was also underpinned by strong growth in German services. We note, however, that the German ifo survey suggested limited improvement in activity in October, which might pose a risk for the PMIs this month. While the French composite PMI – which proved a poor guide to the strength of GDP growth in Q3 – might well imply continued contraction, the more comprehensive INSEE business survey (also due Friday) will likely signal broadly stable conditions in the second largest member state. Meanwhile, the Commission's flash consumer confidence indicator (Thursday) will provide an update on household sentiment in November after gradually recovering to an eight-month high last month (-14.2). In terms of hard economic data, September's construction output release (also Thursday) will likely confirm that the sector continued to weigh on GDP growth last quarter after the downwardly revised contraction in Q2, as decreases in Germany (-0.9%M/M) and France (-1.3%M/M) imply a negative outturn in September.

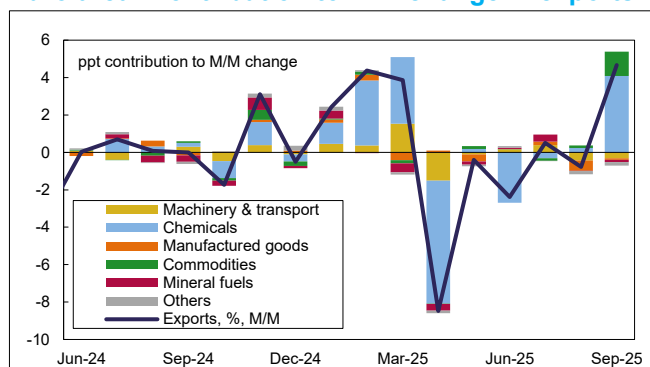
In terms of inflation, the week ahead will also bring October's final euro area print (Wednesday). Despite the downwards revision in today's French estimates, headline HICP is still expected to have moderated 0.1ppt to 2.1%Y/Y, as in the flash release. However, given the low rounding in the core HICP measure (2.36%Y/Y), a downwards revision to that component cannot be completely ruled out. Nevertheless, the accompanying detail should confirm that it was favourable base effects in non-core components – principally food and fuel – which led to the step down in the headline rate. The detail will also likely confirm that much of the upward pressures in services can be attributed to the more volatile categories like transport services. Indeed, while services inflation looks set to rise over the remainder of the year, we expect its downtrend to resume in 2026. In this respect, the preliminary euro area labour costs and job vacancy data for Q3 will be of interest. Consistent with the steady decline in the job vacancy rate back to pre-pandemic levels, these are likely to suggest that labour costs

Euro area: Trade balance, export & import values



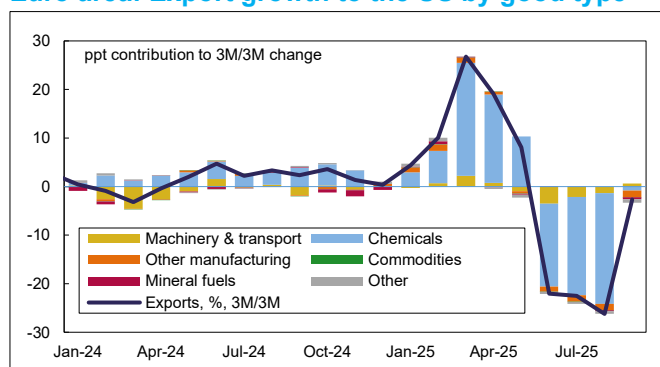
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Contribution to M/M change in exports



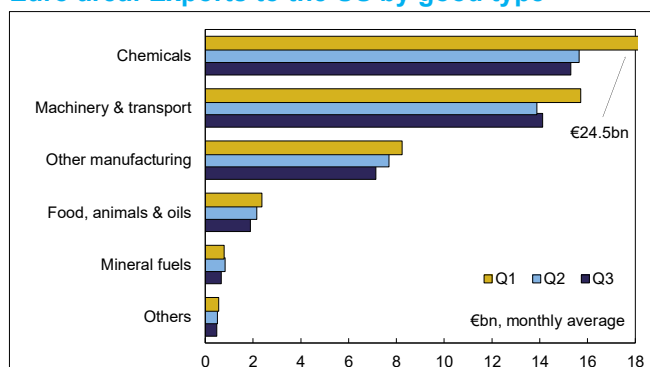
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Export growth to the US by good type



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Exports to the US by good type



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

growth moderated in Q3, after edging up for a first quarter in six in Q2. Meanwhile, tallying the ECB's wage tracker, the ECB's negotiated wages indicator for Q3 (due Friday) seems bound to be softer too, supporting the case for further moderation in services inflation over the course of next year. Aside from the data, the coming week will bring a number of speaking arrangements from ECB figures around 'Euro Finance Week'. Keynote addresses to the Frankfurt European Banking Congress by ECB President Lagarde and Bundesbank's Nagel (Friday) will be the highlight.

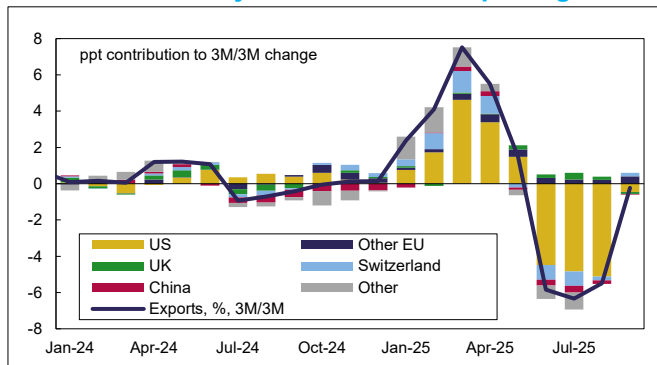
UK

The week ahead in the UK

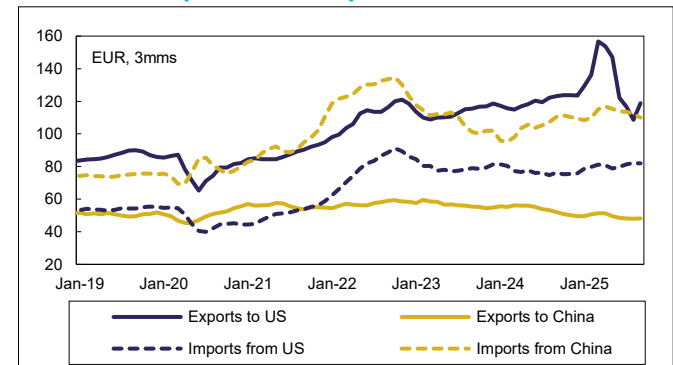
The data highlight for the UK in the coming week will be October's inflation report; the first of two ahead of December's MPC meeting. CPI inflation surprised to the downside in September, with the headline rate holding steady at 3.8%Y/Y for a third consecutive month. In line with our assumption, the MPC judges that this is 'likely to be the peak', a touch lower than initially assumed. Indeed, headline inflation seems bound to resume a disinflationary trend in October, principally reflecting more favourable base effects in the energy component, to reflect smaller increase in Ofgem's household energy price cap compared with October 2024. We expect headline inflation to take a sizeable step down by up to 0.4ppt to 3.4%Y/Y, a touch more than the BoE assumed in its November Monetary Policy Report (3.6%Y/Y). That difference in part reflects our assumption of a slightly larger moderation in services inflation last month; our forecast is for a reduction of 0.2ppt to 4.5%Y/Y. We also assume softer food inflation than the BoE, forecasting it to move broadly sideways compared with a slight uptick by the Bank. With non-energy industrial goods inflation expected to also ease back to a six-month low, we forecast the core CPI rate to ease 0.1ppt to 3.4%Y/Y, which would mark a ten-month low.

Friday will bring the other notable economic data, including the flash November PMIs and October retail sales and public finance statistics. The flash PMIs will perhaps be of most interest, providing a gauge on economic momentum midway through Q4. Encouragingly, the survey pointed towards a recovery in business activity in October, following the sharp deterioration in September tied to the Jaguar Land Rover cyberattack. The resumption of production no doubt contributed to a first monthly above-50 "expansionary reading" in the manufacturing output component (51.6) in 12 months, and its phased nature seems likely to offer some assistance this month too. With the services activity index also partially recovering 2½pts (52.3), the composite output PMI rose to 52.2, broadly consistent with the average between June to August. BoE policymakers will pay attention to the price and employment PMIs, not least after the latter improved significantly in October, signalling some stabilization. That somewhat tallies with today's REC report that suggested a softer pace of decline in permanent placements and job vacancies. We caveat, however, that pre-Budget angst poses a non-negligible downside risk to both business and consumer sentiment. Indeed, with the BRC's retail survey suggestive of more cautious spending ahead

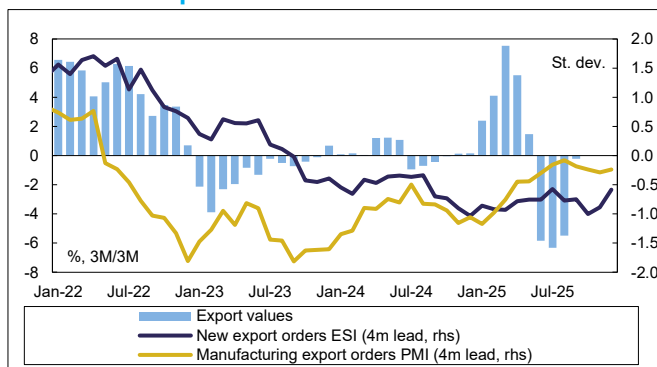
Euro area: Country contribution to exports growth



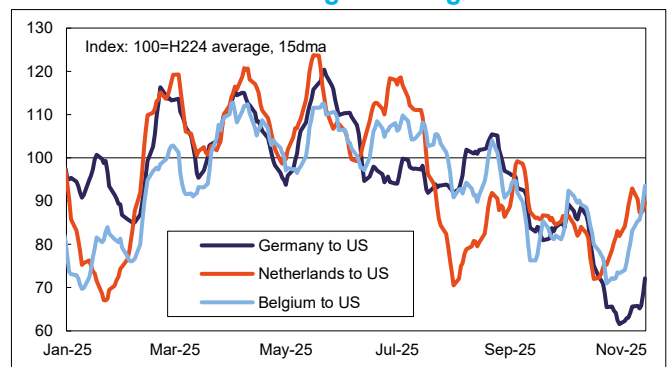
Euro area: Exports to & imports from US & China



Euro area: Export values & sentiment indices



Euro area: Container freight tonnage to the US



of the Budget and Black Friday promotions – and considering that retail sales growth has been positive for four consecutive months now – risks to October's official retail sales release (also due Friday) appear to be to the downside. Finally, ahead of the 26 November Budget – for which reports today speculated that the Chancellor is considering a U-turn on budget plans to hike income taxes due to improved forecasts – October's public finances release (Friday) which will provide an update on the government's borrowing shortfall so far this year.

The next edition of the Euro wrap-up will be published on 19 November 2025

Daiwa economic forecast

		2025			2026			2025	2026	2027
		Q2	Q3	Q4	Q1	Q2	Q3			
GDP		%, Q/Q						%, Y/Y		
Euro area		0.1	0.2	0.3	0.3	0.3	0.3	1.4	1.1	1.4
UK		0.3	0.1	0.2	0.3	0.4	0.4	1.4	1.1	1.5
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.0	2.1	2.2	1.8	1.8	1.6	2.2	1.7	1.9
Core HICP		2.4	2.3	2.5	2.3	1.8	1.6	2.5	1.9	1.8
UK										
Headline CPI		3.5	3.8	3.4	3.0	2.3	2.2	3.4	2.5	1.9
Core CPI		3.7	3.6	3.4	3.2	2.5	2.2	3.6	2.6	1.7
Monetary policy, %										
ECB										
Deposit Rate		2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Refi Rate		2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
BoE										
Bank Rate		4.25	4.00	3.75	3.50	3.25	3.25	3.75	3.25	3.25

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		GDP – second estimate Q/Q% (Y/Y%)	Q3	0.2 (1.4)	<u>0.2 (1.3)</u>	0.1 (1.5)	-
		Employment – first estimate Q/Q% (Y/Y%)	Q3	0.1 (0.5)	<u>0.1 (0.5)</u>	0.1 (0.6)	-
		Trade balance €bn	Sep	18.7	-	9.7	10.6
France		Final HICP (CPI) Y/Y%	Oct	0.8 (0.9)	<u>0.9 (1.0)</u>	1.1 (1.2)	-
Spain		Final HICP (CPI) Y/Y%	Oct	3.2 (3.1)	<u>3.2 (3.1)</u>	3.0 (3.0)	-
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 forecast</i>	Previous
Monday 17 November 2025						
Italy		09.00	Final HICP (CPI) Y/Y%	Oct	<u>1.3 (1.2)</u>	1.8 (1.6)
UK		00.01	Rightmove house prices M/M% (Y/Y%)	Nov	-	0.3 (-0.1)
Tuesday 18 November 2025						
- Nothing scheduled -						
Wednesday 19 November 2025						
Euro area		09.00	ECB current account balance €bn	Sep	-	11.9
		10.00	Final headline (core) HICP Y/Y%	Oct	<u>2.1 (2.4)</u>	2.2 (2.4)
		10.00	Preliminary labour costs Y/Y%	Q3	-	3.6
		10.00	Preliminary job vacancy rate %	Q3	-	2.2
UK		07.00	Headline (core) CPI Y/Y%	Oct	<u>3.4 (3.4)</u>	3.8 (3.5)
		07.00	PPI – output (input) prices Y/Y%	Oct	3.4 (0.6)	3.4 (0.8)
		09.30	House price index Y/Y%	Sep	-	3.0
Thursday 20 November 2025						
Euro area		10.00	Construction output M/M% (Y/Y%)	Sep	-	-0.1 (0.1)
		15.00	Preliminary Commission consumer confidence indicator	Nov	-14.0	-14.2
Germany		07.00	PPI Y/Y%	Oct	-1.7	-1.7
UK		11.00	CBI industrial trends survey – total orders (selling prices) balance %	Nov	-	-38 (16)
Friday 21 November 2025						
Euro area		09.00	Preliminary services (manufacturing) PMI	Nov	52.8 (50.q)	53.0 (50.0)
		09.00	Preliminary composite PMI	Nov	52.5	52.5
		10.00	Negotiated wages Y/Y%	Q3	2.75	3.98
Germany		08.30	Preliminary services (manufacturing) PMI	Nov	54.0 (49.8)	54.6 (49.6)
		08.30	Preliminary composite PMI	Nov	53.5	53.9
France		07.45	INSEE business (manufacturing) confidence indicator	Nov	97 (100)	97 (101)
		07.45	INSEE production outlook (own company) indicator	Nov	-	-11 (18)
		08.15	Preliminary services (manufacturing) PMI	Nov	48.5 (49.0)	48.0 (48.8)
		08.15	Preliminary composite PMI	Nov	48.2	47.7
		-	Retail sales Y/Y%	Oct	-	-1.2
UK		00.01	GfK consumer confidence indicator	Nov	-18	-17
		07.00	Retail sales – incl. auto fuels M/M% (Y/Y%)	Oct	0.0 (1.4)	0.5 (1.5)
		07.00	Retail sales – excl. auto fuels M/M% (Y/Y%)	Oct	-0.4 (2.6)	0.6 (2.3)
		07.00	Public sector net borrowing £bn	Oct	15.0	20.2
		09.30	Preliminary services (manufacturing) PMI	Nov	52.0 (49.3)	52.3 (49.7)
		09.30	Preliminary composite PMI	Nov	51.8	52.2

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 17 November 2025		
Euro area	 08.15	ECB Vice President de Guindos gives opening remarks to the 28 th Euro Finance Week, Frankfurt
	 10.00	European Commission to publish Autumn economic forecasts
UK	 13.20	MPC external member Mann opens KCL 'understanding business conditions, expectations & uncertainty' conference, London*
Tuesday 18 November 2025		
UK	 10.00	Auction: to sell £1.25bn of 4.75% 2030 bonds
	 13.00	BoE Chief Economist Pill gives fireside chat on monetary policy in an uncertain world hosted by Natixis CIB, London
	 17.00	MPC external member Dhingra gives speech on income growth and consumption at the University of Sheffield
Wednesday 19 November 2025		
UK	 10.00	Auction: to sell £4.5bn of 4.75% 2035 bonds
Thursday 20 November 2025		
France	 09.50	Auction: to sell up to €12bn of 2.4% 2028, 2.7% 2031, 1.5% 2031 & 3.5% 2033 bonds
	 10.50	Auction: to sell up to €1bn of 0.1% 2036, 1.8% 2040 & 0.1% 2053 inflation-linked bonds
Spain	 09.30	Auction: to sell 3% 2033, 3.2% 2035 & 4% 2054 bonds
UK	 10.00	Auction: to sell £300mn of 0.25% 2052 inflation-linked bonds
	 12.00	MPC external member Dhingra gives speech on 'navigating the future of trade and tariffs' in lecture at the University of Bristol
Friday 21 November 2025		
Euro area	 08.00	ECB President Lagarde gives keynote speech to the 35 th Frankfurt European Banking Conference (EBC)
	 13.00	ECB Governing Council member & Bundesbank President Nagel gives keynote speech to the 35 th Frankfurt EBC
UK	 15.40	BoE Chief Economist Pill on panel discussing the 'future of the world's leading currencies', Switzerland*

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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