

Euro wrap-up

Overview

- Longer-dated Bunds made modest gains as German factory orders fell back while OATs rallied as the French far-right RN party pledged to cut the government deficit if it came to office next year.
- While hawkish BoE policymaker Catherine Mann reiterated her view that the UK labour market is not weak enough to tame inflation, Gilts also closed the day higher.
- Wednesday will bring German industrial production figures.

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Daily bond market movements

Bond	Yield	Change
BKO 3 12/28	3.101	-
OBL 2.9 10/31	3.245	-
DBR 3 08/36	3.475	-0.014
UKT 4 05/29	4.814	-0.031
UKT 4½ 03/31	4.921	-0.031
UKT 4¾ 07/36	5.903	-0.043

*Change from close as at 5.00pm BST.

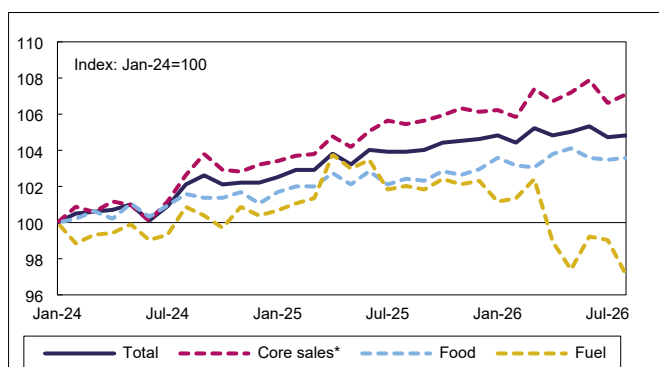
Source: Bloomberg

Euro area

Retail sales on track for first quarterly decline since Q423

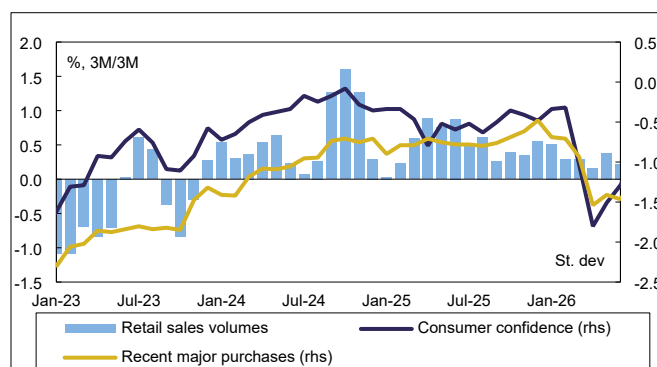
With consumer confidence having deteriorated over the summer and household disposable incomes further eroded by the spike in energy prices, today's euro area retail sales data were predictably subdued. Having fallen sharply at the start of the third quarter, sales volumes rose just 0.1%M/M in August as a partial rebound in Germany was offset by a steep decline in France. As a result, aggregate sales were down on a three-month basis (-0.1%3M/3M) for the first time since November 2023, reinforcing our view that household consumption slowed significantly relative to Q2. Unsurprisingly, due to the renewed rise in wholesale energy prices and sharp drop in fuel sales in France, sales at petrol stations in the euro area fell for a fourth month in five (-1.9%M/M) to the lowest level in three years. Food sales were also subdued, rising just 0.1%M/M despite the significant recent easing of price pressures in the category. Somewhat more encouragingly, core sales (excluding food & fuel) rose in August by 0.5%M/M led by a partial rebound in online sales. But having previously fallen by the most in almost three years, core sales were still tracking almost ½% below the Q2 level. Moreover, the deterioration in consumer confidence and retailers' assessments of recent sales trends to the lowest levels since June does not bode well for spending heading into quarter-end. Nevertheless, the Commission survey suggested some resilience in underlying demand, with the share of households making major purchases reportedly rising in September to its highest level since March. And willingness to make major purchases over the next 12 months remained broadly in line with the average of the past couple of years. Moreover, while higher energy prices are likely to remain a headwind to household spending in most member states, the German government's cut in duty on petrol and diesel from 1 October should help cushion spending.

Euro area: Retail sales volumes



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales & consumer confidence



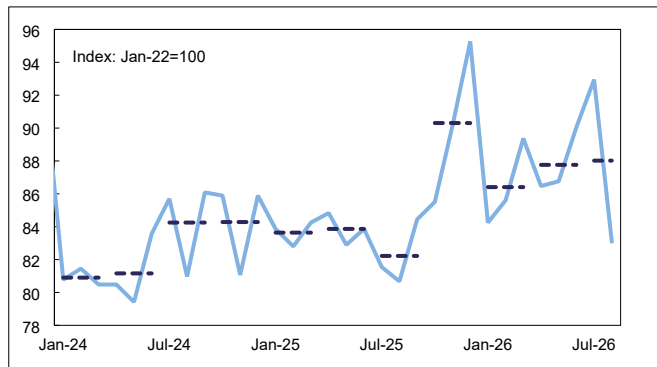
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

German factory orders drop sharply in August following large one-off orders earlier in summer

While German factory orders were widely expected to give back some of the strength recorded over the three months to July, today's data for August disappointed. Indeed, new orders fell 10.6%M/M, the steepest decline since January, to their lowest level in a year. However, smoothing for monthly volatility, orders were still up 1.3%3M/3M. Moreover, the weakness largely reflected a drop in large-scale orders following the more-than-doubling of non-auto transport equipment orders in July. Excluding such one-offs, core orders were broadly unchanged in August and, despite declines in the previous four months, remained more than 5½% higher than a year earlier. Notwithstanding the sharp decline in August (-17.3%M/M), domestic orders maintained an uptrend over the summer, trending in the first two months of Q3 almost 6% above the Q2 level. The detail also pointed to continued strong ICT-related demand, with orders for computers and related parts rising to a series high in August. Moreover, the latest ifo electronics survey suggested that conditions improved further towards the end

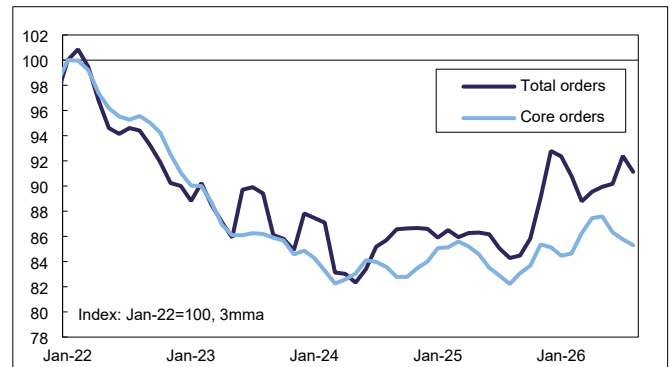
of the quarter, with another strong order intake in September and firms the most upbeat about the production outlook since the series began in the early 1990s. While new electrical machinery orders fell back in August, they remained close to the top of the range of the past couple of years. And increased government defence spending boosted orders of weapons and ammunition over the quarter. By contrast, although auto orders rose in August, they remained on a clear downward trend, tracking around 8% below their Q2 level. Moreover, the latest ifo survey pointed to a further deterioration in business conditions in the sector in September, with weak demand weighing increasingly on production expectations. So, while today's data suggest that firm underlying demand should continue to support manufacturing production over coming quarters, persistent weakness in the automotive sector is likely to continue to act as a drag on broader industrial output.

Germany: New factory orders*



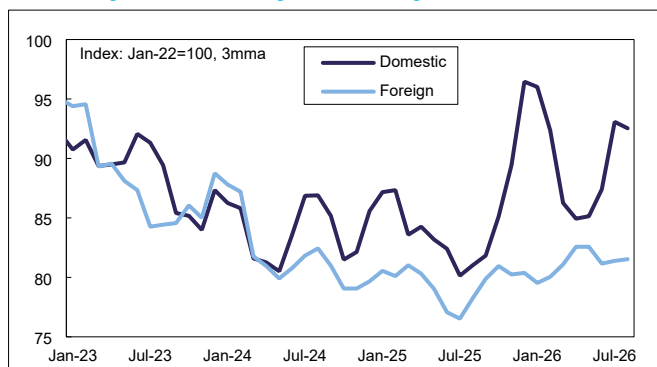
*Dashed dark blue line represents quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders*



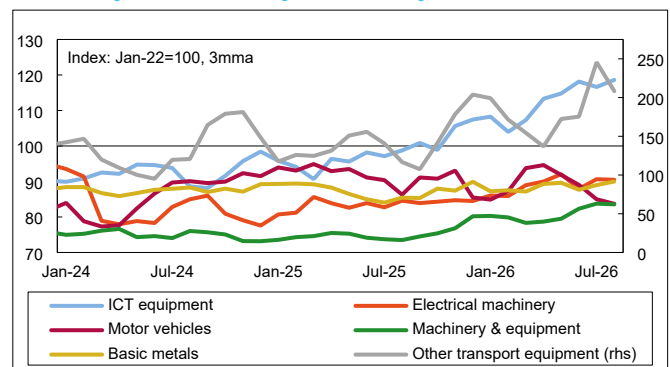
*Core orders exclude large-scale orders. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders, by destination



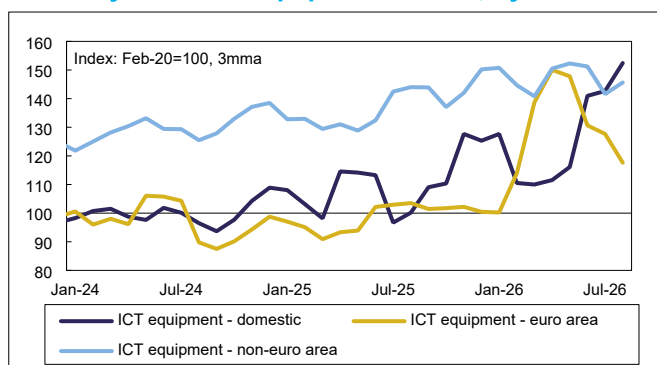
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders, by sector



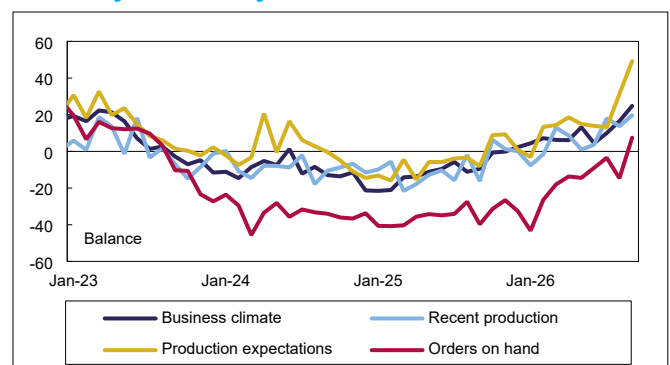
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New ICT equipment orders, by destination



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo survey – ICT sector conditions



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

On Wednesday, German industrial production data for August will provide a further gauge of manufacturing sector momentum over the summer. While output is expected to have risen modestly for the first time in three months, we see the risks skewed to the downside, with today's figures reporting flat manufacturing turnover in August. Higher energy costs and extremely low Rhine water levels are likely again to have weighed on output in certain subsectors. Moreover, today's French industrial production data suggested that conditions across the region remained subdued, with output falling for a third month in the past four (-0.3%M/M) and trending around 0.8% below its Q2 average. That largely reflected weakness in energy generation and utilities output. But while French manufacturing production rose for the first time in four months (+0.3%M/M), it too remained well below its average level in Q2 as a sizeable drop in autos and other transport goods offset much of the boost from machinery and equipment, chemicals, coke and refined petroleum products.

The day ahead in the UK

It should be another quiet day UK economic news, with no top-tier data due for release.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Construction PMI	Sep	43.4	-	43.0	-
	 Retail sales M/M% (Y/Y%)	Aug	0.1 (0.8)	0.1 (1.0)	-0.6 (0.6)	- (0.4)
Germany	 Factory orders M/M% (Y/Y%)	Aug	-10.6 (2.7)	-1.0 (13.1)	2.5 (13.1)	3.2 (14.0)
	 Construction PMI	Sep	43.5	-	48.7	-
France	 Industrial production M/M% (Y/Y%)	Aug	-0.3 (0.3)	0.3 (1.3)	-0.4 (-0.5)	-0.6 (-0.6)
	 Construction PMI	Sep	39.8	-	37.3	-
Italy	 Construction PMI	Sep	46.5	-	41.7	-
Spain	 Industrial production M/M% (Y/Y%)	Aug	-0.7 (1.5)	-0.5 (2.4)	0.6 (2.3)	- (2.5)
UK	 Construction PMI	Sep	46.1	-	44.3	-

Auctions

Country	Auction
Germany	 sold €4.53bn of 3.0% 2028 bonds at an average yield of 3.1%
UK	 sold £1.25bn of 1.125% 2035 linker bonds at an average yield of 1.86%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	 07.00	Industrial production M/M% (Y/Y%)	Aug	0.4 (0.7)	-1.1 (-1.6)
France	 07.45	Trade balance €bn	Aug	-	-6.7

Auctions and events

Germany	 10.30	Auction: to sell up to €4.0bn of 3.3% 2033 bonds
UK	 10.00	Auction: to sell up to £1.0bn of 0.125% 2028 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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