

# Euro wrap-up

## Overview

- After leaders failed to resolve their impasse over the EU budget, Bunds made gains as euro area consumer confidence fell to a six-month low.
- Despite strong retail sales data, Gilts made gains as UK consumer confidence weakened too.
- The coming week brings the flash PMIs and other survey data for November, while one focus will be the EU-UK negotiations, which are now approaching the endgame.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.766	-0.018
OBL 0 10/25	-0.767	-0.015
DBR 0 08/30	-0.586	-0.013
UKT 1½ 09/22	-0.050	-0.012
UKT 0% 06/25	-0.010	-0.014
UKT 4% 12/30	0.301	-0.020

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

Source: Bloomberg

## Euro area

### Consumer confidence drops to six-month low

Given the resurgence of the pandemic across Europe and reintroduction of significant restrictions on activity in several member states, the Commission's flash euro area consumer confidence indicator for November predictably reported a deterioration in sentiment. In particular, the index fell more than 2pts – the most since April – to -17.6, the lowest since May. Recent evidence does, however, suggest a slowing in the spread of the pandemic in France, where the government has signalled an expectation that non-essential stores should be able to reopen in early December, perhaps with Black Friday sales taking place a week later than usual. But French hospitality looks set to be largely shut into mid-January, and there would remain the risk of a renewed tightening of controls on retail in the New Year. Elsewhere, many controls continue to be tightened, e.g. with Madrid's regional government today announcing that traffic would be prevented from entering or leaving the region for ten days from 4 December.

### EU budget and recovery funds likely to be agreed next month, Spain plans maximum take-up

As expected, yesterday evening's teleconference of leaders failed to resolve the impasse over the forthcoming seven-year EU budget and associated recovery grant and loan programme (Next Generation EU). Hungary and Poland - which have been the biggest net beneficiaries of the current multi-year budget – continued to block progress in protest at attempts to link disbursement to the adherence to conditions related to the 'rule of law'. We continue to expect a solution to be found next month, perhaps at the summit on 10 December, to allow the recovery funds to be implemented next year. And we also expect Hungary and Poland to give their consent and participate in Next Generation EU in due course, not least due to the significant amount of money (almost €80bn) that those countries would then be able to raise under the scheme. Other member states also clearly expect progress in due course, with Spain today the first euro area member state to announce its intention to take advantage of the maximum amount of grants and loans available under the scheme. For Spain, that could reach more than €150bn in current prices over the coming five years, with a little more than half of that to be available in grants. Only Italy – which could in due course raise close to €200bn in current prices – would be able to receive more.

### The week ahead in the euro area

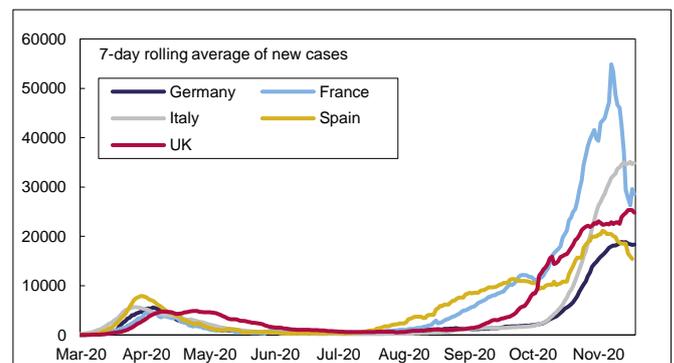
The coming week's euro area data flow will likely be downbeat, with the main November sentiment surveys set to point to a reversal in growth in response to the resurgence in the pandemic and associated re-imposition of restrictions on activity in several member states. Most attention will likely be on Monday's flash PMIs, which are expected to show further declines in the headline euro area services and manufacturing indices, with the former set to drop from 46.9 in October to a six-month

### Restrictions on activity to control the coronavirus

	Ger	Fra	Ita	Sp	NL	Bel	Aus	Eng
Non-essential retail & personal care	✓	X	P	X	✓	X	X	X
Leisure	X	X	P	X	✓	X	X	X
Restaurants & bars	X	X	P	X	X	X	X	X
Social gatherings	X	X	P	X	X	X	X	X
Curfew	P	□	P					
Schools	✓	✓	P	✓	✓	✓	P	✓

Key: ✓ open/allowed. X closed/banned. P partial closures. □ Under consideration.  
Source: Daiwa Capital Markets Europe Ltd.

### Coronavirus cases



Source: ECDC and Daiwa Capital Markets Europe Ltd.

low. And so, the euro area composite PMI is highly likely to slip below 50 for the first time in five months. Given the more severe pandemic situation, France's flash PMIs seem bound to be significantly weaker than those of Germany.

Among other confidence indicators due, the more comprehensive sentiment survey results from the European Commission (Friday), and national business climate indices from Germany's ifo Institute and France's INSEE (both Tuesday) and Italy's Istat (Friday), will similarly likely highlight a deterioration in conditions in November to increase expectations of a reversal in euro area GDP in Q4. And while the picture is somewhat less bleak in Germany, where the increase in coronavirus cases has been more moderate than elsewhere in the euro area, the latest GfK consumer confidence survey (Thursday) will no doubt reveal that households remain nervous about the economic outlook. Other data to be published in the coming week include euro area bank lending figures for October (due on Thursday) and a first look at inflation in November, with preliminary French figures due out on Friday.

## UK

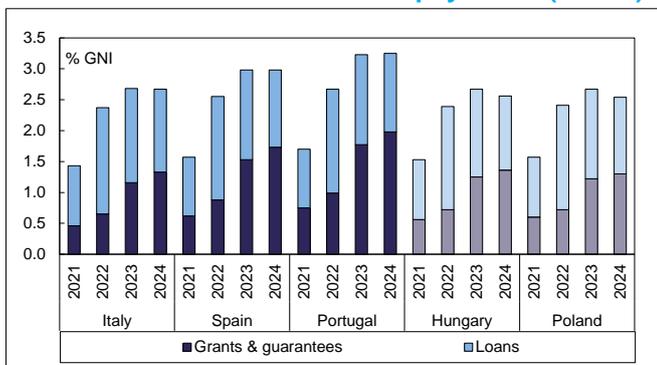
### Retail sales surge again as consumers bring forward Christmas shopping

UK retail sales continue to beat expectations, rising for a sixth successive month in October and by a firm 1.2%M/M to be up 5.8%Y/Y and 6.7% above February's pre-pandemic level. Within the detail, there was further solid growth in sales at household goods stores (3.2%M/M) and department stores (3.1%M/M) as well in non-store (i.e. largely online) retailing (6.4%M/M). Indeed, the ONS reported feedback from retailers that many households had started Christmas shopping early this year – echoing the assessment made earlier this week by the [Bank of France](#) when reporting its own survey of French retail sales. Of the major categories of sales, only food (-0.3%M/M), clothing (-1.2%M/M) and sales at petrol stations (-0.2%M/M) fell last month. And as consumers continue to buy more goods with money that would otherwise be spent on services only sales of clothing (-13.8%) and auto fuel (-8.8%) remain down on February's pre-pandemic level. Meanwhile, reflecting the trend for increased shopping online, which appears to have been given a boost by the pandemic's second wave, non-store sales were up almost 45% from February.

### Sales set to drop in November on English lockdown

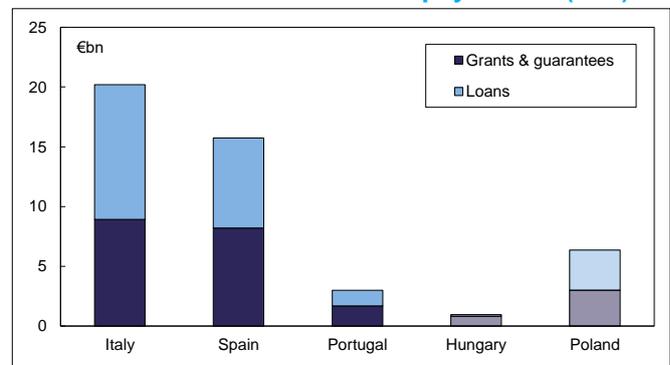
The closure of non-essential retailing in England from early November, as well as the likelihood of some payback for early Christmas shopping, means that the remainder of Q4 will likely be significantly softer for sales. Springboard's footfall index was down 56%Y/Y in the week ending 15 November, and it would be no surprise to see sales drop this month back well

### Next Generation EU: Illustrative payments (% GNI)



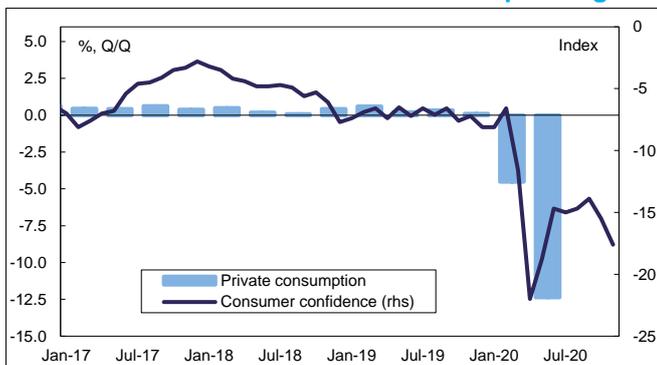
Source: Darvas, Bruegel (November 2020) and Daiwa Capital Markets Europe Ltd.

### Next Generation EU: Illustrative payments\* (€bn)



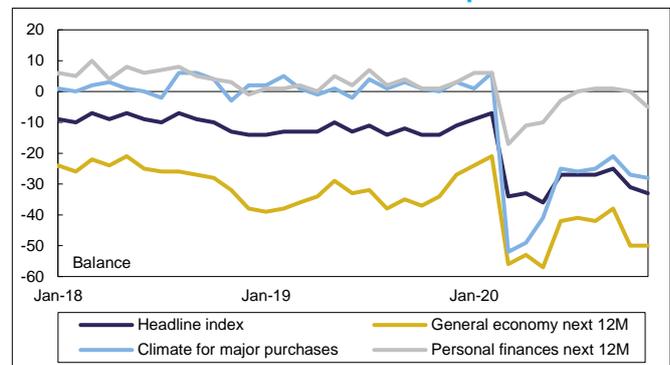
\*Current prices over 2021-26. Source: Darvas, Bruegel (November 2020) and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumer confidence and spending



Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

### UK: Consumer confidence and components



Source: GfK, Refinitiv and Daiwa Capital Markets Europe Ltd.

below the pre-pandemic level. Despite the extension of the government's Job Retention Scheme, the recent steady rise in joblessness will also likely weigh on overall spending, as will a deterioration in household sentiment – indeed, the GfK consumer confidence index fell 2pts in November to -33, the lowest since May and just 3pts above the trough during the first wave of pandemic. Pessimism increased largely regarding individuals' perceptions of their own financial situation. Nevertheless, the drop in sales over the near term will be nowhere near as steep as during the first lockdown – sales fell as much 18%/M/M in April – as consumers are now exploiting new ways to purchase goods, such as click-and-collect services. Moreover, while a further closure of non-essential retailing in the New Year can't be ruled out, retail sales look set to rebound back above the pre-pandemic level and stay there as and when the English high street reopens.

## UK fiscal figures better than expected, but OBR unlikely to bring good news next week

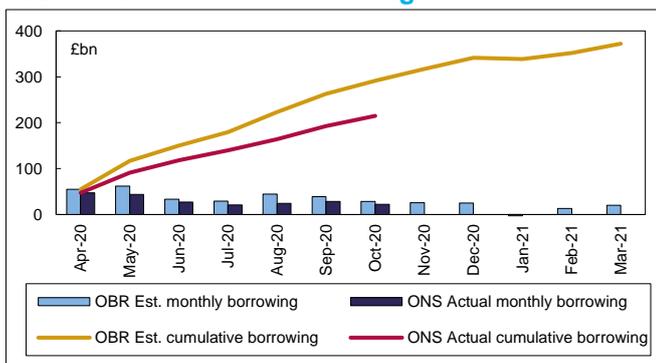
The October public finance figures were better than expected. Public sector net borrowing (excluding public sector banks) reached £22.3bn, more than £10bn above the level a year earlier and inevitably a record for the month, but still almost £8bn below the Bloomberg median forecast. Cumulative net borrowing in the first seven months of FY20/21 reached £214.9bn, almost £170bn more than in the same period last year. That was still more than £75bn less than predicted by the OBR in its most recent projections published in June, which forecast total borrowing of £372.1bn over FY20/21 as a whole. The lower-than-expected deficit so far largely appears to reflect a stronger rebound in GDP than assumed by the OBR, supporting tax revenues. However, the extension of the Job Retention Scheme and hospitality VAT cut through to end-March, as well as the costs of government guaranteed loans and a likely drop in GDP in the current quarter due to the English lockdown, all point to higher borrowing than expected over the near term. As such, the OBR's updated forecast for full-year borrowing – to be published on Wednesday along with the announcement of the government's updated spending plans – is unlikely to be revised significantly lower. In response, the government is already considering a reduction in the support provided by fiscal policy from April on. Reports today suggest that a public sector wage freeze is on the near-term agenda, while some tax rises could be implemented from FY22-23. With the UK economy soon to be subject to a big adverse shock from the end of the Brexit transition period, such fiscal tightening is only one reason to expect the UK economic recovery to continue to lag that of its peers over the coming couple of years.

## The week ahead in the UK

The main focus in the UK in the coming week will be the negotiations between the EU and UK on the post-transition Brexit arrangements. Recent days brought media reports of optimism that a deal might be announced as soon as Tuesday, which should allow sufficient time for ratification by the European Parliament before year-end. Today the European Commission reportedly briefed EU ambassadors that 95% of a new EU-UK treaty on the future relationship had been agreed, and that there had been progress on state aid rules. However, further progress was still reportedly required on a range of issues related to energy, road haulage, aviation and rules of origin, as well as the long-standing obstacles of the level playing field, governance and fish. Given the significant political sensitivities associated with the outstanding issues, we suspect that a final agreement will need to be brokered personally between Von Der Leyen and UK PM Johnson.

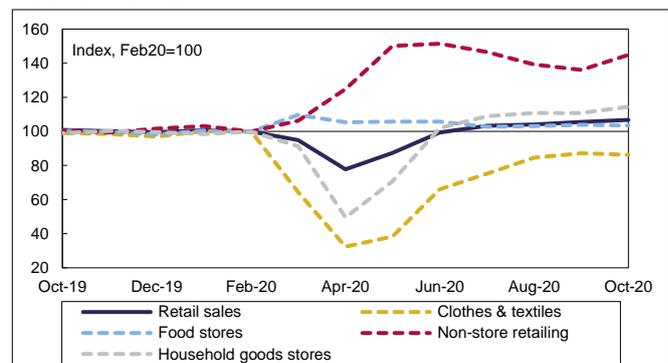
Data-wise, as in the euro area, the main focus will be Monday's flash PMIs for November. Given the closure of many face-to-face services in England this month, the services PMI is likely to fall from 51.4 in October to below 50 for the first time since June. While Brexit-related stock-building might provide some support, we also expect the manufacturing PMI to fall back from 53.7 in October, probably to a five-month low. The CBI distributive trade survey results, due Tuesday, will provide insight into retail and vehicle sales this month, and also seems bound to be weak given the closure of non-essential stores and showrooms in England. Wednesday will bring the aforementioned announcement from the Chancellor of his public spending plans for the coming fiscal year, while the OBR will publish updated economic and fiscal forecasts and the DMO will receive an updated Gilt remit.

### UK: Public sector net borrowing



Source: ONS, OBR and Daiwa Capital Markets Europe Ltd.

### UK: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

## Daiwa economic forecasts

		2020				2021		2020	2021	2022
		Q1	Q2	Q3	Q4	Q1	Q2			
<b>GDP growth, %, Q/Q</b>										
Euro area		-3.7	-11.8	12.6	-2.7	2.6	1.8	-7.3	5.6	3.1
Germany		-1.9	-9.8	8.2	-1.0	1.5	1.2	-5.7	3.8	2.7
France		-5.9	-13.7	18.2	-5.0	3.5	2.5	-9.5	7.2	3.4
Italy		-5.5	-13.0	16.1	-2.0	2.1	1.5	-8.7	6.5	2.9
Spain		-5.2	-17.8	16.7	-4.0	4.5	2.5	-11.8	7.5	4.8
UK		-2.5	-19.8	15.5	-1.8	2.2	3.5	-11.1	6.9	5.4
<b>Inflation, %, Y/Y</b>										
Euro area										
Headline CPI		1.1	0.2	0.0	-0.3	0.0	0.6	0.2	0.6	1.1
Core CPI		1.1	0.9	0.6	0.2	0.4	0.4	0.7	0.5	0.8
UK										
Headline CPI		1.7	0.6	0.6	0.6	0.9	1.9	0.9	1.6	1.6
Core CPI		1.6	1.4	1.3	1.3	1.6	2.1	1.4	1.8	1.4
<b>Monetary policy</b>										
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)		750	1350	1350	1850	1850	1850	1850	1850	1850
BoE										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases (€bn)		645	745	745	895	895	895	895	895	895

\*Monthly target €bn, end of period. \*\*Monthly target £bn, 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	
EMU	 European Commission's preliminary consumer confidence index	Nov	<b>-17.6</b>	-17.7	-15.5		
Germany	 PPI Y/Y%	Oct	<b>-0.7</b>	-0.8	-1.0		-
Italy	 Industrial orders M/M% (Y/Y%)	Sep	<b>-6.4 (3.2)</b>	-	15.1 (6.1)		<b>13.5 (5.8)</b>
	 Industrial sales M/M% (Y/Y%)	Sep	<b>-3.2 (-4.6)</b>	-	5.9 (-3.8)		<b>5.6 (-3.6)</b>
UK	 GfK consumer confidence survey	Nov	<b>-33</b>	-34	-31		-
	 Retail sales including fuel M/M% (Y/Y%)	Oct	<b>1.2 (5.8)</b>	-0.3 (4.1)	1.5 (4.7)		<b>1.4 (4.6)</b>
	 Retail sales excluding fuel M/M% (Y/Y%)	Oct	<b>1.3 (7.8)</b>	0.0 (5.9)	1.6 (6.4)		<b>1.5 (-)</b>
	 Public sector net borrowing £bn	Oct	<b>21.6</b>	31.5	35.4		<b>27.9</b>
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Coming week's data calendar

### The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 23 November 2020</b>					
EMU		09.00 Preliminary manufacturing (services) PMI	Nov	54.0 (42.5)	54.8 (46.9)
		09.00 Preliminary composite PMI	Nov	54.4	50.0
Germany		08.30 Preliminary manufacturing (services) PMI	Nov	56.0 (47.0)	58.2 (49.5)
		08.30 Preliminary composite PMI	Nov	50.4	55.0
France		08.15 Preliminary manufacturing (services) PMI	Nov	49.2 (41.0)	51.3 (46.5)
		08.15 Preliminary composite PMI	Nov	34.0	47.5
UK		09.30 Preliminary manufacturing (services) PMI	Nov	50.3 (42.0)	53.7 (51.4)
		09.30 Preliminary composite PMI	Nov	43.6	52.1
<b>Tuesday 24 November 2020</b>					
Germany		07.00 Final GDP Q/Q% (Y/Y%)	Q3	8.2 (-4.3)	-9.7 (-11.3)
		09.00 Ifo business climate	Nov	90.6	92.7
		09.00 Ifo current assessment (expectations)	Nov	88.0 (93.5)	(90.3 (95.0))
France		07.45 Insee business confidence	Nov	84	90
		07.45 Insee manufacturing confidence (production outlook)	Nov	91 (-)	93 (-12)
		07.45 Insee consumer confidence	Nov	92	94
UK		11.00 CBI distributive trades, reported sales	Nov	-	-23
<b>Wednesday 25 November 2020</b>					
Spain		08.00 PPI Y/Y%	Oct	-	-3.3
<b>Thursday 26 November 2020</b>					
EMU		09.00 M3 money supply Y/Y%	Oct	10.4	10.4
Germany		07.00 GfK consumer confidence	Dec	-4.9	-3.1
<b>Friday 27 November 2020</b>					
EMU		10.00 European Commission economic confidence	Nov	86.2	90.9
		10.00 European Commission industrial (services) confidence	Nov	-11.0 (-15.0)	-9.6 (-11.8)
		10.00 European Commission final consumer confidence	Nov	-17.6	-15.5
France		07.45 Final GDP Q/Q% (Y/Y%)	Q3	18.2 (-4.3)	-13.8 (-18.9)
		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	-	0.0 (0.1)
		07.45 PPI Y/Y%	Oct	-	-2.4
		07.45 Consumer spending M/M% (Y/Y%)	Oct	-	-5.1 (-1.3)
Italy		09.00 Istat economic sentiment	Nov	-	92.9
		09.00 Istat consumer (manufacturing) confidence	Nov	99.5	102 (95.6)
		10.00 PPI Y/Y%	Oct	-	-3.8
Spain		08.00 Retail sales Y/Y%	Oct	-3.5	-3.3

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 23 November 2020</b>		
EMU	 13.10	ECB's Schnabel scheduled to speak
UK	 09.30	BoE's Chief Economist Haldane scheduled to speak
	 15:30	BoE Governor Bailey speaks before the UK parliament's Treasury Committee
<b>Tuesday 24 November 2020</b>		
EMU	 13.15	ECB's Schnabel scheduled to speak
	 14.00	ECB President Lagarde scheduled to speak
	 17:45	ECB Chief Economist Lane scheduled to speak
UK	 10.00	Auction: £2.75bn of 1.25% 2027 bonds
	 11.00	BoE's Haskel scheduled to speak
	 11.30	Auction: £1.25bn of 1.75% 2057 bonds
<b>Wednesday 25 November 2020</b>		
EMU	 07.00	ECB's Research Bulletin published
	 09.30	ECB's November Financial Stability Review published
Italy	 10.00	Auction: fixed rate and index-linked bonds
UK	 13.00	Government to announce spending review outcome, OBR to publish updated forecasts and DMO to receive new Gilt remit
<b>Thursday 26 November 2020</b>		
EMU	 09.00	ECB's Monetary developments in the euro area published
	 12.00	ECB Chief Economist Lane scheduled to speak
	 12.30	ECB's account of the monetary policy meeting on 28-29 October published
	 13.30	ECB's Schnabel scheduled to speak
UK	 09.30	BoE's October Capital Issuance data published
<b>Friday 27 November 2020</b>		
EMU	 09.30	ECB's Panetta scheduled to speak
	 10.00	ECB's Schnabel scheduled to speak
Italy	 10.00	Auction: 5Y and 10Y bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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