

Euro wrap-up

Overview

- Following the announcement of positive results from the Oxford-AstraZeneca vaccine trials, Bunds made modest losses even as the flash PMIs suggested that euro area GDP is contracting once again.
- Gilts also made losses as the flash PMIs also pointed to a weakening in UK economic activity.
- Tuesday will bring national business survey results from Germany, France and the UK.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.766	+0.003
OBL 0 10/25	-0.762	+0.003
DBR 0 08/30	-0.580	+0.005
UKT 1½ 09/22	-0.037	+0.016
UKT 0% 06/25	0.007	+0.019
UKT 4% 12/30	0.319	+0.019

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

Source: Bloomberg

Euro area

Flash PMIs suggest that euro area GDP is contracting again

The flash November PMIs broadly met expectations to suggest strongly that the euro area economy is contracting again for the first time since May albeit nowhere near as sharply as during the first wave of pandemic. In particular, the headline euro area composite PMI dropped almost 5pts to a six-month low of 45.1, still well above April's trough of 13.6. Inevitably, the decline principally reflected a marked weakening in services activity on account of the recent tightening of pandemic containment measures, with the respective index down more than 5pts to 41.3, similarly the lowest since May but well above April's trough of 12.0. New business placed with service providers also fell at the steepest pace in six months. And given the nature of the restrictions on activity, firms in hospitality, travel and consumer-facing services were predictably cited as worst affected.

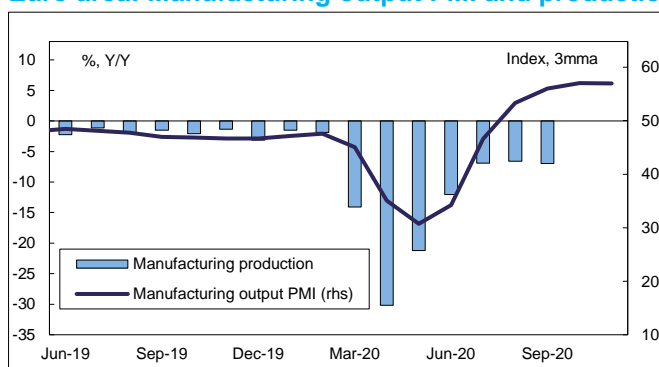
While services activity drops, manufacturing continues to expand

The PMIs also signalled a moderation in growth in manufacturing, for which the euro area output PMI fell almost 3pts to a four-month low. But, at 55.5, it was more than 20pts above April's trough and still consistent with ongoing expansion in the sector, with manufacturing new orders continuing to grow too, albeit at the slowest pace in five months. Among the survey's other findings, employment reportedly fell again in both main sectors and at an accelerated pace in services. But while selling prices for services also declined at a steeper pace in November, prices of manufactured goods reportedly rose the most in eighteen months as input prices increased the most in almost two years and delivery times lengthened the most in six months. And, despite the near-term weakness of output and demand, optimism regarding the coming twelve months improved in both manufacturing and services, perhaps buoyed by news about the development of vaccines – the euro area composite future output index rose to 60.1, the best since February, just before Covid-19 took its toll on the region.

German growth contrasts with drop in output elsewhere in the region

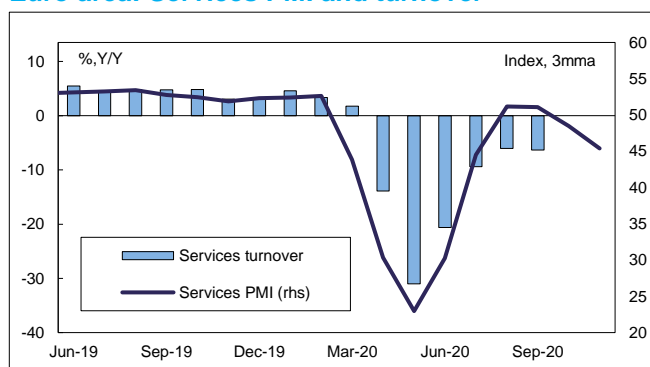
At the country level, partly reflecting the different experiences with the pandemic and associated stringency of containment measures, the PMIs for France were significantly weaker than those for Germany. Indeed, the French services fell 8.5pts to just 38.0, suggesting a marked pace of contraction. The French manufacturing output PMI dropped 2.5pts to 48.5, implying that production dropped for the first time in six months. So, the French composite PMI slumped to just 39.9. In contrast, Germany's PMIs suggested that manufacturing output growth remained very vigorous (moderating 2.4pts to a still-elevated 62.7) while the weakening of services was more moderate (3.3pts to 46.2). So, Germany's composite PMI pointed to ongoing positive GDP growth, albeit down 3pts to a five-month low of 52.0. Conditions in the rest of the euro area were reportedly somewhere between those in the two largest member states. The flash composite PMI for the rest of the region

Euro area: Manufacturing output PMI and production



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

Euro area: Services PMI and turnover



Source: Eurostat, Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

fell almost 5pts to 42.4, implying the steepest pace of contraction since the global financial crisis bar that during the first pandemic wave. And Markit reported a near-stalling of manufacturing output growth alongside a sharper fall in services activity.

Near-term outlook remains conditional on containment measures

Looking ahead, the near-term outlook for economic activity in the euro area is highly uncertain. While manufacturing and construction firms continue to be able to operate with minimal restrictions, services remain impaired by containment measures. With politicians having their eye on the festive season, some of those measures will be eased somewhat over the coming few weeks – e.g. French non-essential retail should begin to reopen from early next week, while Italian shops could reopen in many regions for ten days before Christmas – to allow a near-term rebound in economic activity. However, food, accommodation and tourism services will remain under severe restrictions in many member states. And with the current level of new coronavirus cases still elevated, there is a significant risk of renewed tightening of containment measures once Christmas has passed, to restrain GDP in Q1 too.

The day ahead in the euro area

The flow of economic sentiment surveys continues tomorrow, with national business climate indices from Germany and France expected to tally with today's PMIs to suggest a softening of activity in the face of the second wave with significant differences between the two countries. The German ifo business climate index is expected to drop about 2½pts to 90.2, a relatively modest drop which would leave it close to July's reading and just 3pts below September's seven-month high thanks to continued strength in manufacturing. In France, INSEE's measure of manufacturing confidence is expected to fall to a four-month low of 91, well below the long-run average. And given significant deterioration in services, the headline confidence index is expected to plunge to a five-month low of 84. Separately, tomorrow's final Q3 German GDP figures are expected to confirm growth of 8.2%Q/Q in Q3, leaving the level 4.2% below that in Q419.

UK

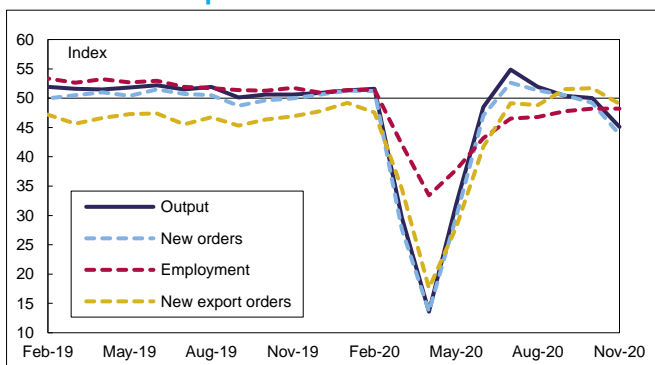
Flash PMIs also point to a drop in GDP despite manufacturing resilience

Much like the euro area, the November flash PMIs suggested that the UK economy went into reverse this month as measures to constrain the spread of the pandemic took their toll on consumer-facing services. Indeed, the flash services activity PMI fell more than 5pts to a six-month low of 45.8. New business and employment in the sector also reportedly fell the most in five and three months respectively. Nevertheless, the services PMI was still more than 32pts above April's record to suggest a far less traumatic contraction than during the first wave. And, as in Germany, manufacturing output in the UK reportedly continued to expand, with the output PMI up 0.5pt to 56.3. As a result, the composite PMI dropped 4.7pts to 47.4, the lowest since May but still almost 40pts above April's record low.

A bumpy profile for activity over coming months

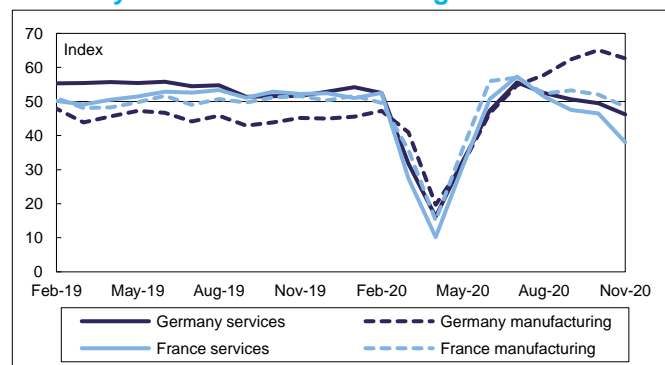
Among other noteworthy detail on the UK survey, the PMIs suggested an acceleration of job cuts, with Markit suggesting that the pace of redundancies remained strong even as more workers in services were furloughed. And they also reported a marked lengthening of manufacturing supplier delivery times amid severe delays at UK ports (with conditions in Felixstowe particularly disrupted of late). That coincided with precautionary inventory accumulation as manufacturers sought to stockpile inputs ahead of the conclusion of the Brexit transition period at year-end. As in the euro area, a relaxation of many containment measures in England early next month – albeit to varying degrees dependent on the extent of the pandemic – should support a rebound in activity in some services. However, the probability of a subsequent tightening of restrictions once the festive season has passed appears high. And, whether or not the UK secures an FTA with the EU by year-end, January seems bound to bring increased costs and disruption related to trade with its closest neighbours.

Euro area: Composite PMI indices



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

Germany & France: Manufacturing & services PMIs

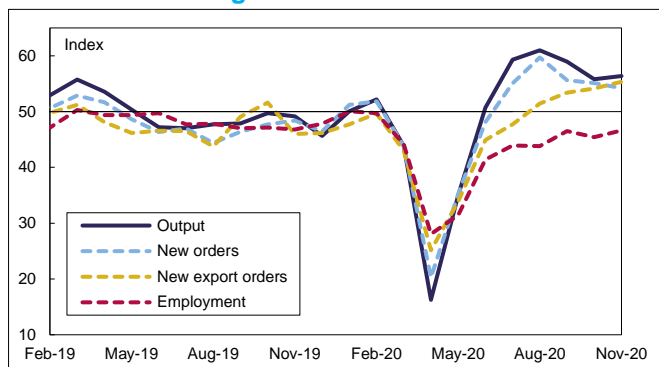


Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

The day ahead in the UK

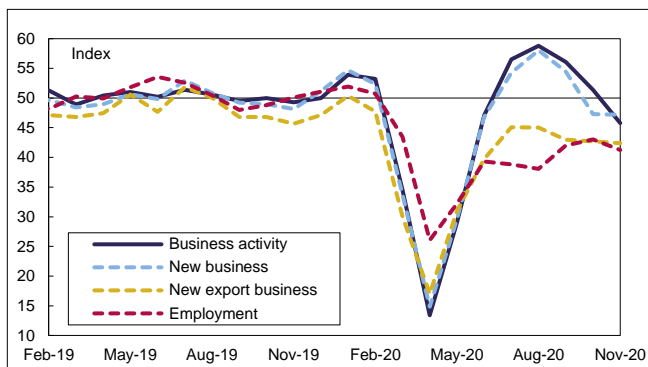
Tomorrow sees the release of the CBI's Distributive Trades survey for November. Last week's strong [retail sales](#) figures suggested that households had started their Christmas shopping early, as a second lockdown loomed. But, with non-essential shops having been forced to close this month, it is likely that the CBI will report the steepest fall in sales volumes since the second quarter.

UK: Manufacturing PMI indices



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

UK: Services PMI indices



Source: Markit, Refinitiv 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	Preliminary manufacturing (services) PMI	Nov	53.6 (41.3)	54.0 (42.5)	54.8 (46.9)	-
	Preliminary composite PMI	Nov	47.4	54.4	50.0	-
Germany	Preliminary manufacturing (services) PMI	Nov	57.9 (46.2)	56.0 (47.0)	58.2 (49.5)	-
	Preliminary composite PMI	Nov	52.0	50.4	55.0	-
France	Preliminary manufacturing (services) PMI	Nov	49.1 (38.0)	49.2 (41.0)	51.3 (46.5)	-
	Preliminary composite PMI	Nov	39.9	34.0	47.5	-
UK	Preliminary manufacturing (services) PMI	Nov	55.2 (45.8)	50.3 (42.0)	53.7 (51.4)	-
	Preliminary composite PMI	Nov	47.4	43.6	52.1	-

Auctions







Country	Auction
- Nothing to report -	

- Nothing to report -







Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany		07.00 Final GDP Q/Q% (Y/Y%)	Q3	8.2 (-4.3)	-9.7 (-11.3)
		09.00 Ifo business climate	Nov	90.2	92.7
		09.00 Ifo current assessment (expectations)	Nov	87.6 (93.5)	90.3 (95.0)
France		07.45 Insee business confidence	Nov	84	90
		07.45 Insee manufacturing confidence (production outlook)	Nov	91 (-14)	93 (-12)
UK		11.00 CBI distributive trades, reported sales	Nov	-	-23

Auctions and events

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			

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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