Euro wrap-up

Overview

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- Bunds made losses even as a measure of German inflation dropped more than expected to its series low.
- Gilts also made losses as UK mortgage approvals rebounded despite a further fall in unsecured consumer credit.
- Tuesday will bring the flash estimates of euro area inflation, as well as some national updates on new car registrations, the final manufacturing PMIs and German unemployment data, all for November.

Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.753	+0.017
OBL 0 10/25	-0.754	+0.021
DBR 0 08/30	-0.570	+0.021
UKT 1¾ 09/22	-0.034	+0.026
UKT 0⅝ 06/25	0.007	+0.024
UKT 4¾ 12/30	0.307	+0.025

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

Euro area

Flash German inflation falls to series low…

Ahead of tomorrow's release of the equivalent euro area figures, today's focus was on the flash estimates of inflation in November from Germany, Italy and Spain, which gave contrasting pictures of price movements last month. Contrary to expectations of a rise on the month, German inflation on the EU-harmonised measure fell 0.2ppt to -0.7%Y/Y, matching the series low reached in July 2009. Of course, the record weakness in part reflects the temporary 3ppt cut in VAT implemented from the start of July – which is set to expire at the end of the year – as well as past shifts in energy prices. The detail produced on the national measure – for which the headline CPI rate fell 0.1ppt to -0.3%Y/Y, the lowest since January 2015 – suggested that the additional weakness in November emanated from prices of energy and non-energy industrial goods. In contrast, inflation of food was steady while services ticked higher to suggest that core inflation might have remained little changed.

…but Italian inflation picks up

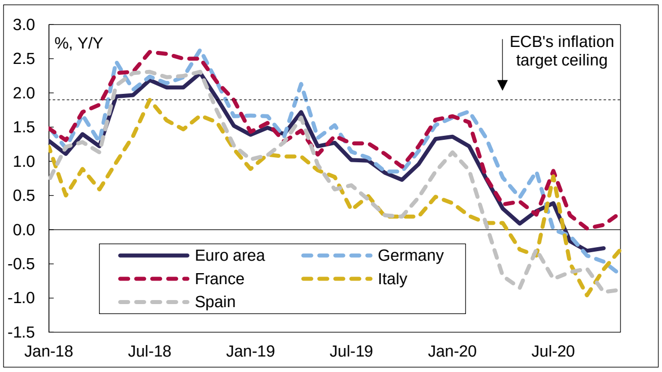
Like last week's French figures, and in contrast to Germany, Italian inflation on the EU-harmonised measure rose in November. Indeed, the increase of 0.3ppt, to -0.3%Y/Y, was larger than expected. While the annual pace of decline of energy prices was little changed, inflation of food, services and non-energy industrial goods all ticked higher. So, core Italian inflation on the EU measure also rose 0.3ppt to 0.3%Y/Y. Finally, in Spain, headline inflation on the EU-harmonised measure remained in negative territory for an eighth successive month, and was unchanged from October at -0.9%Y/Y, thus matching the lowest rate since 2016. While no detail was published alongside the Spanish headline rates, the statistical agency INES reported that higher inflation of electricity was countered by lower inflation of food, suggesting that Spanish core inflation was stable.

The day ahead in the euro area

Looking ahead, the flow of November CPI data concludes tomorrow with the release of flash euro area inflation figures. With the various member state releases moving in different directions, on balance we still expect the euro area headline rate of inflation to remain unchanged at -0.3%Y/Y, the lowest rate since February 2015, with the core rate holding at 0.2%Y/Y. The risks to this forecast are skewed to the upside, however. In addition, we caution that, given pandemic containment measures, a large share of the data will need to be imputed by the statisticians, rendering the inflation rates a less reliable guide to price movements than usual.

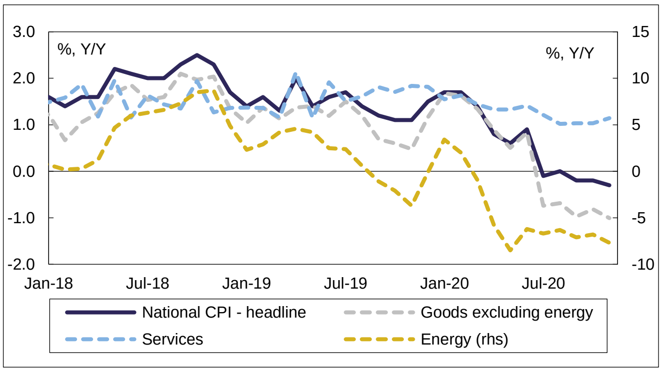
In terms of other hard data, November new car registrations figures for France, Italy and Spain are expected to be weak,

Euro area: CPI inflation by member state*



*EU-harmonised measure Flash estimates for November 2020 for Germany, France, Italy and Spain. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: CPI inflation*



*National measure Flash estimates for November 2020. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

with the closure of showrooms in some member states acting as a restraint. Meanwhile, national labour market data from Germany are expected to show an increase in unemployment in November, with the rate rising to 6.3%, from 6.2% previously, reflecting the recent lockdown-light measures, including the closure of restaurants and leisure centres, which are set to last until 20 December (at least). Survey-wise, tomorrow brings the final November manufacturing PMIs – for which the flash euro area headline index fell 1.2pts to a still-respectable 53.6 – with the indices for Italy and Spain to be published for the first time. We will also hear again from ECB President Lagarde, although the nature of the event – a discussion with Janet Yellen to mark the launch of a new Atlantic Council GeoEconomics Centre – seems unlikely to yield any monetary policy clues ahead of the ECB's next announcement on 10 December.

UK

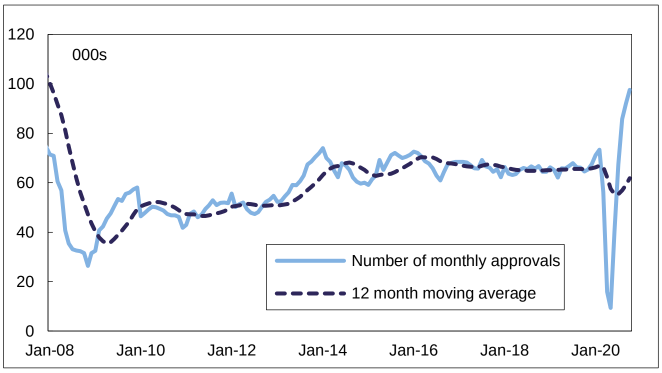
Mortgage approvals up to highest since 2007

Activity in the housing market continues to strengthen benefiting not least from a boost from the temporary stamp duty holiday that will last until March. In particular, today's BoE bank lending data showed that UK mortgage approvals rose a further 5.4k in October to 97.5k, the highest level since September 2007. The RICS residential market survey suggested that new buyer enquiries remained elevated last month, with a net balance of +46% of respondents citing an increase in demand. Together with strong growth in traffic at the main property websites, that suggests that mortgage approvals will remain elevated over the near term. Nevertheless, some of the recent surge reflects catchup after the sharp drop in activity in the first half of the year, with the twelve-month moving average of approvals still below levels in Q1. Moreover, with joblessness set to continue to rise in the New Year – the OBR last week forecast the unemployment rate to peak at 7.5% in Q2 – and mortgage rates ticking up, we expect the housing market to lose steam once the stamp duty holiday comes to an end unless the government offers new support for home buyers.

Households continue to pay back unsecured debt

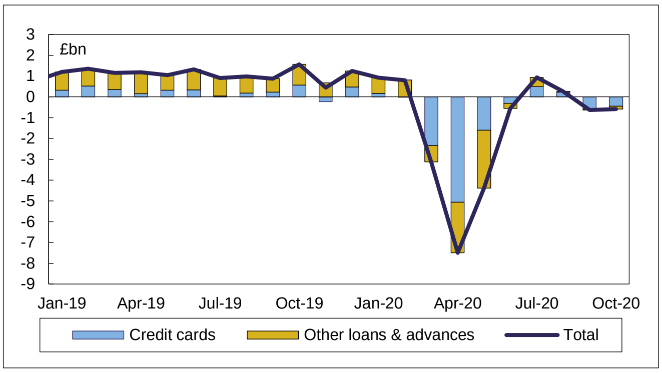
On net, households borrowed an extra £4.3bn secured against their homes last month, above the average in the six months before the pandemic hit in February. But mirroring developments in the euro area, the solid recovery in UK mortgage borrowing contrasts the continued desire of households to reduce unsecured debt. Indeed, households made net repayments unsecured debt of £0.6bn last month, with declines in both credit card borrowing and other loans. As a result, the stock of total consumer credit was down 8.8%Y/Y to the lowest level since September 2017. While that partly reflects reduced demand for credit as households sit on an increased stock of savings (household deposits rose by £12.3bn, the

UK: Mortgage approvals



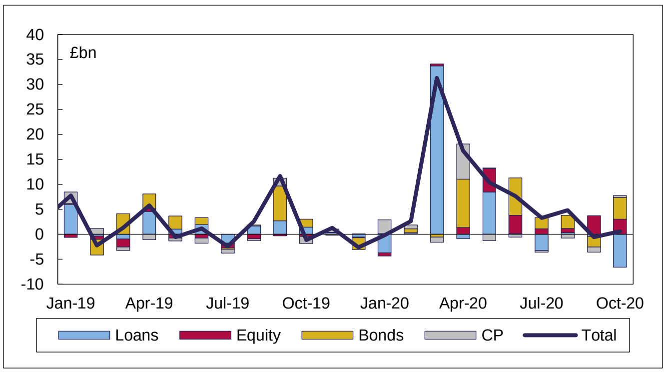
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Consumer credit



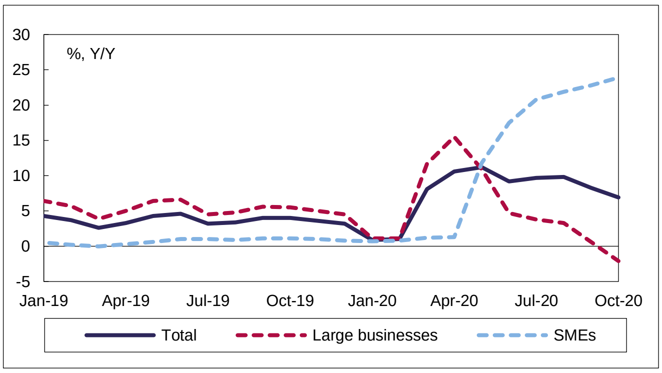
Source: Bank of England and Daiwa Capital Markets Europe Ltd.

UK: Net finance raised by PNFCs



Source: Bank of England and Daiwa Capital Markets Europe Ltd.

UK: Lending to SMEs and large businesses



Source: Bank of England and Daiwa Capital Markets Europe Ltd.

most since May), it also likely reflects less generous supply, with banks having tightened their credit standards and increased the effective interest rate on new personal loans, which rose a substantive 37bps to 5.15% in October, while the average rate on credit card borrowing remained elevated at close to 18.0%.

Firms also remain cautious, accumulating deposits and paying down bank debt

Meanwhile, business deposits rose by £13.0bn in October, down from the average of £28.8bn between March and June but a significant contrast from the average £0.4bn of withdrawals in the six months to February. Indeed, private corporates also repaid £6.6bn of bank loans last month. That almost fully offset the £7.8bn raised from financial markets – which included £3.0bn of equity, and net issuance of £4.3bn of bonds and £0.4bn of commercial paper – to suggest that firms remain cautious in light of the twin uncertainties of the pandemic and end to the Brexit transition. The repayment of corporate loans was explained entirely by large firms, however, whose stock of borrowing was down 2.1%Y/Y, the weakest since January 2015. In contrast, SMEs borrowed a further £1.3bn on net in October, to leave their stock of borrowing up at a record rate of almost 24.0%Y/Y.

The day ahead in the UK

All eyes tomorrow will remain on the negotiations with the EU, which are approaching the end-game as time for ratification becomes increasingly scarce. Reports today suggested that there remained no breakthrough on the key outstanding issues of the level playing field, governance and fish. Data-wise, tomorrow brings the Nationwide house price index and final manufacturing PMI data for November. House price inflation is expected to fall back slightly from the more than five-year high of 5.8%Y/Y the prior month. Meanwhile, the headline manufacturing PMI is likely to remain close to the flash estimate, which rose 1.5pts to a three-month high of 55.2.

European calendar

Today's results

Economic data

Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Germany	Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	**-0.3 (-0.7)**	-0.2 (-0.4)	-0.2 (-0.5)	-
Italy	Preliminary CPI (EU- harmonised CPI) Y/Y%	Nov	**-0.2 (-0.3)**	-0.2 (-0.5)	-0.3 (-0.6)	-
Spain	Preliminary CPI Y/Y% (Y/Y%)	Nov	**-0.8 (-0.9)**	-0.8 (-0.7)	-0.8 (-0.9)	-
UK	Lloyds business barometer	Nov	**-21**	-	-18	-
	Net lending secured on dwellings (mortgage approvals '000s)	Oct	**4.3 (97.5)**	4.5 (82.0)	4.8 (91.5)	-
	Net consumer credit £bn (Y/Y%)	Oct	**-0.6 (-5.6)**	0.2 (-)	-0.6 (-4.6)	-
	M4 money supply Y/Y%	Oct	**12.9**	-	12.3	-

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country		GMT	Release	Period	Market consensus/ *Daiwa forecast*	Previous
EMU		09.00	Final manufacturing PMI	Nov	53.6	54.8
		10.00	Preliminary CPI (core CPI) Y/Y%	Nov	*-0.3 (0.2)*	-0.3 (0.2)
Germany		08.55	Final manufacturing PMI	Nov	57.9	58.2
		08.55	Unemployment change '000s (rate %)	Nov	8.0 (6.3)	-35.0 (6.2)
France		08.50	Final manufacturing PMI	Nov	49.1	51.3
		-	New car registrations* Y/Y%	Nov	-	-9.5
Italy		08.45	Manufacturing PMI	Nov	52.0	53.8
		09.00	Final GDP Q/Q% (Y/Y%)	Q3	16.1 (-4.7)	-12.8 (-17.7)
		17.00	New car registrations Y/Y%	Nov	-	-0.2
Spain		08.15	Manufacturing PMI	Nov	50.7	52.5
		-	New car registrations* Y/Y%	Nov	-	-21
UK		09.30	Final manufacturing PMI	Nov	55.2	53.7
		07.00	Nationwide house price index M/M% (Y/Y%)	Nov	0.2 (5.4)	0.8 (5.8)

Auctions and events

Country		GMT	Event
EMU		10.00	OECD publishes Economic Outlook
		17.00	ECB President Lagarde scheduled to speak
UK		10.00	Auction: £3bn of 0.125% 2026 bonds
		11.30	Auction: £2.25bn of 1.25% 2041 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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