

# Euro wrap-up

## Overview

- Bunds made modest losses as German retail sales beat expectations and the euro area unemployment rate fell for a third successive month.
- While sterling weakened as EU chief negotiator Barnier reportedly flagged risks of a no-deal end to the Brexit transition, and a UK retail survey pointed to renewed downwards pressure on prices, Gilts made gains at the shorter end of the curve.
- Thursday will bring data for euro area retail sales in October and the final services and composite PMIs for November.

**Chris Scicluna**

+44 20 7597 8326

### Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.728	+0.002
OBL 0 10/25	-0.721	+0.002
DBR 0 08/30	-0.523	+0.008
UKT 1% 09/22	-0.054	-0.015
UKT 0% 06/25	0.019	-0.010
UKT 4% 12/30	0.349	+0.005

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

Source: Bloomberg

## Euro area

### Unemployment rate falls for third successive month in October

In line with expectations, the euro area unemployment rate came in at 8.4% in October, 1.0ppt above the level a year earlier. However, September's rate was revised up by 0.2ppt to 8.5%, and so the October reading represented the third successive monthly decline. The number of unemployed persons dropped 86k following declines of more than 110k in both August and September but was still up 1.69mn from the level a year earlier. Among the large member states, on the ILO measure, the rate declined in France, by a further 0.2ppt to 8.6%, taking the decline since July to 0.6ppt. It also fell again in Spain, by 0.1ppt to 16.2%, taking the decline since July to 0.7ppt. In contrast, the equivalent German rate was unchanged at 4.5% for a third month, while Italy's unemployment rate rose 0.1ppt to 9.8%.

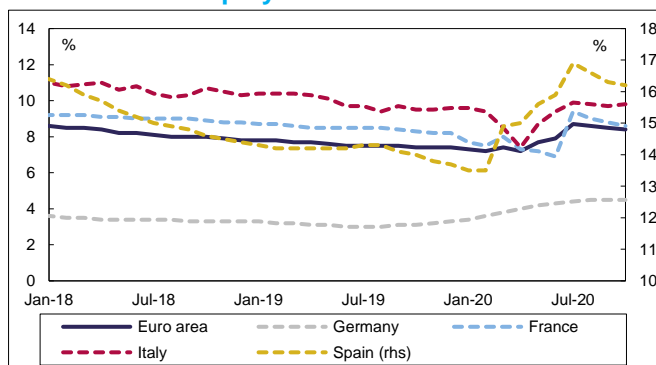
### Joblessness likely to edge up again as second Covid wave takes its toll

The drop in the unemployment rate from July to October partly reflects the stronger-than-expected rebound in GDP in the third quarter (12.6%Q/Q), which has sadly now shifted into reverse due to the second wave of Covid-19 and associated containment measures. So, we expect to see the euro area unemployment rate rise again over the coming couple of months. But the resilience in yesterday's [German](#) figures for November provides some optimism that the labour market shake-out as GDP declines in Q4 will be restrained. Likewise, other data released today reported a fourth successive monthly rise in Spanish registered employment. Of course, this in large part reflects the ongoing support provided to several millions of workers by government short-term work and furlough schemes. So, the hit is again likely manifesting itself predominantly in terms of lower average hours worked, which accounted for more than four-fifths of the decline in total hours worked during the first wave, rather than higher unemployment or inactivity. Workers on temporary and short-term contracts, however, are again likely to be at significant risk of renewed unemployment, having borne the brunt of the shake-out during the first wave.

### German retail rebound in October beats expectations

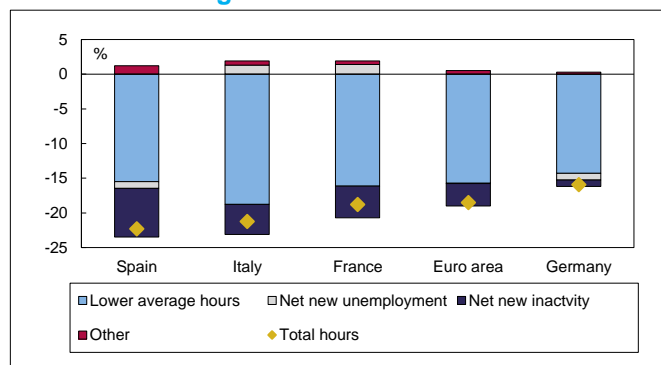
Ahead of the release tomorrow of the equivalent figures for the euro area as a whole, today's German retail sales data reported a vigorous rebound in October and by more than expected. In particular, following a revised drop of 1.9%M/M in September, retail turnover rose 2.6%M/M in real terms to be up a whopping 8.2%Y/Y and 5.9% above February's pre-pandemic level. Sales of food and beverages were up 7.3%Y/Y, while non-food sales were up a stronger 9.0%Y/Y. Online and mail order sales up almost 30%Y/Y. Mirroring trends elsewhere in Europe, trade in furniture, household appliances and building materials also remained vigorous, up 14.2%Y/Y. In contrast, sales of clothes, textiles and shoes remained weak, down 6.4%Y/Y. So, with certain exceptions, the post-pandemic European trend of consumers spending more on goods at the expense of (or at least in part thanks to lower) spending on services appears to continue. And, in Germany, spending on big-

### Euro area: Unemployment rates



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Change in hours worked – first wave\*



\*Q419 versus Q220. Source: ECB and Daiwa Capital Markets Europe Ltd.

ticket items also appears to have benefited from the temporary 3ppt cut in the main rate of VAT from 1 July. While non-essential stores in Germany have remained open, the intensification of the pandemic over recent weeks raises uncertainty over the profile of sales over the remainder of Q4. However, we strongly expect retail sales to post another quarter of solid growth, albeit somewhat softer than the rise of 3.9%Q/Q in Q3, to partly offset the inevitable renewed weakness in spending in services related to greater social distancing and pandemic containment measures.

### Producer prices fall at slower pace due to oil but stronger euro set to weigh

Euro area producer price inflation rose 0.3ppt in October to an eight-month high of -2.0%Y/Y due to a softer pace of decline of prices of energy (-7.6%Y/Y) and, probably associated with that, intermediate goods (-1.3%Y/Y). However, factory gate inflation of capital goods remained unchanged at the near-four-year low of 0.8%Y/Y. And producer prices of consumer goods rose just 0.3%Y/Y, down 0.1ppt for a fourth successive month and the lowest in nineteen months. Looking ahead, oil price movements mean that energy costs will increasingly add to inflation of producer and consumer goods over coming months. However, the strength of the euro – which today was up more than 9%Y/Y against the dollar and more than 5%Y/Y in broad trade-weighted terms – could weigh on prices of imported consumer goods by a further 1.0% or more within twelve months. And after consumer price inflation of non-energy industrial goods already fell to the series low of -0.3%Y/Y in November, that could subtract a further 0.25ppt or more from headline CPI inflation too by the end of next year too.

### The day ahead in the euro area

Tomorrow will bring euro area retail sales data for October. Given strong results from Germany and France, we expect euro area retail sales to have risen by at least 1.0%M/M to be up 3.0%Y/Y or more. Survey-wise, Thursday brings the release of the final service sector and composite PMIs for the euro area, Germany and France, as well as the first release of the equivalent figures for Italy and Spain. The flash headline euro area composite PMI dropped almost 5pts to a six-month low of 45.1, albeit 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.

## UK

### Brexit uncertainty persists while shop price deflation intensifies

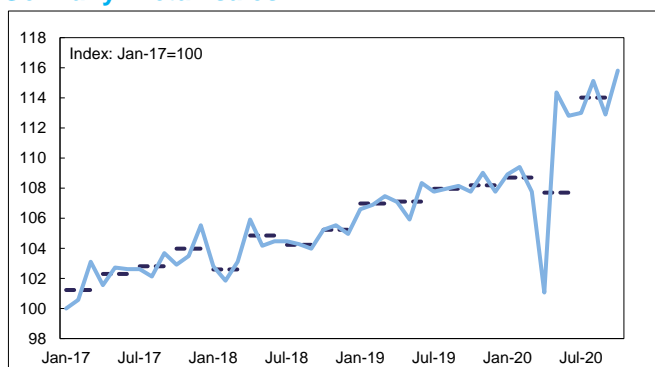
Attention today remained primarily on the EU-UK negotiations, with reports providing mixed messages about the chances of a deal over coming days. While reports yesterday suggested that the talks had now entered the so-called 'tunnel' phase during which both teams would make commitments to avoid media briefings, chief EU negotiator Michel Barnier this morning briefed EU ambassadors on progress. While there had supposedly been progress on certain issues, some member states – including those seeking to retain significant access to UK fishing territory – seemingly called for enhanced preparations for no deal. And if the UK government presses ahead next week with draft clauses in the Finance Bill that were inconsistent with the Withdrawal Agreement, Barnier judged that the talks would be 'in crisis'.

Data-wise, meanwhile, in a week that has seen the Arcadia Group go into administration and the Debenhams chain announce that it will close all of its 124 stores after more than 240 years in business – developments which together have placed 25k jobs at risk – the BRC shop price index for November released overnight unsurprisingly suggested that competition on the high street remains fierce. In particular, the pace of decline in shop prices on the survey accelerated by 0.56ppt last month to -1.8%Y/Y, the steepest decline since May.

### The day ahead in the UK

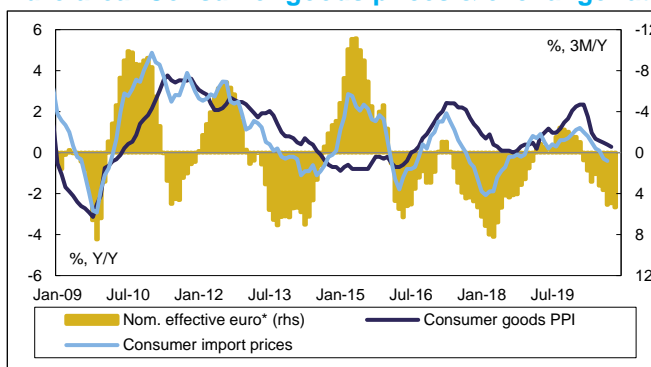
Brexit will remain at the forefront tomorrow, leaving little attention on the UK economic data calendar, which, like in the euro area, brings November's final services and composite PMIs. The flash services PMI fell more than 5pts to a six-month low of 45.8, albeit still more than 32pts above April's record low to suggest a far less traumatic contraction than during the first wave. The composite PMI dropped 4.7pts to 47.4, the lowest since May but still almost 40pts above April's record low.

#### Germany: Retail sales\*



\*Dashed dark blue line shows quarterly average. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Euro area: Consumer goods prices & exchange rate



\*Broad trade-weighted euro.  
 Source: 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	PPI Y/Y%	Oct	<b>-2.0</b>	-2.3	-2.4	<b>-2.3</b>
	Unemployment rate %	Oct	<b>8.4</b>	8.4	8.3	<b>8.5</b>
Germany	Retail sales M/M% (Y/Y%)	Oct	<b>2.6 (8.2)</b>	1.2 (5.8)	-2.2 (6.5)	<b>-1.9 (7.0)</b>
Italy	Preliminary unemployment rate %	Oct	<b>9.8</b>	9.9	9.6	<b>9.7</b>
Spain	Unemployment change '000s	Nov	<b>25.3</b>	55.0	49.6	-
UK	BRC shop price index Y/Y%	Nov	<b>-1.8</b>	-1.3	-	-

### Auctions

Country	Auction
Germany	sold €1.64bn of 0% 2025 bonds at an average yield of -0.72%
UK	sold £1bn of 0.125% 2028 index-linked bonds at an average yield of -2.95%
	sold £2.75bn of 0.25% 2031 bonds at an average yield of 0.41%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tomorrow's releases

### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	09.00	Final services (composite) PMI	Nov	41.3 (45.1)	46.9 (50.0)
	10.00	Retail sales M/M% (Y/Y%)	Oct	0.7 (2.6)	-2.0 (2.2)
Germany	08.55	Final services (composite) PMI	Nov	46.2 (52.0)	49.5 (55.0)
	-	New car registrations* Y/Y%	Nov	-	-3.6
France	08.50	Final services (composite) PMI	Nov	38.0 (39.9)	46.5 (47.5)
Italy	08.45	Services (composite) PMI	Nov	40.8 (43.5)	46.7 (49.2)
Spain	08.15	Services (composite) PMI	Nov	36.6 (40.2)	41.4 (44.1)
UK	09.30	Final services (composite) PMI	Nov	45.8 (47.4)	51.4 (52.1)

### Auctions and events

France	09.50	Auction: 5.75% 2032 bonds
	09.50	Auction: 1.25% 2036 bonds
	09.50	Auction: 2% 2048 bonds
	09.50	Auction: 4.5% 2041 bonds
UK	09.30	BoE's Monthly Decision Maker Panel data published

\*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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