

Euro wrap-up

Overview

- Bunds and other European government bonds made gains despite strong German industrial production data and an improved survey of euro area investor sentiment.
- While Johnson and von der Leyen were holding another call to try to find a solution, Gilts made significant gains as the EU-UK negotiations remained deadlocked and seemingly at risk of collapse.
- While attention will remain on the Brexit next steps, tomorrow will bring updates on euro area GDP and employment, French goods trade, and surveys of euro area investors and UK retailers.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.769	-0.012
OBL 0 10/25	-0.782	-0.023
DBR 0 08/30	-0.587	-0.037
UKT 1½ 09/22	-0.094	-0.044
UKT 0% 06/25	-0.042	-0.059
UKT 4% 12/30	0.272	-0.077

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

Source: Bloomberg

Euro area

German industrial production accelerates at start of Q4

As foreshadowed by the strong [turnover and orders data](#) released at the end of last week, German industrial production took a further big step forward at the start of Q4, rising for the sixth successive month and by 3.2%M/M – the most since June – following upwardly revised growth of 2.3%M/M in September. While it was still down some 3.0%Y/Y and 4.9% below the pre-pandemic level, production was also 4.9% above the Q3 average. Surveys, such as the PMIs and ifo indices, point to further growth in November, suggesting that production will certainly make a sizeable contribution to GDP growth in the current quarter. It remains to be seen, however, whether that growth in industrial output will be sufficient to offset the significant weakness in the services sector caused by the pandemic and associated containment measures.

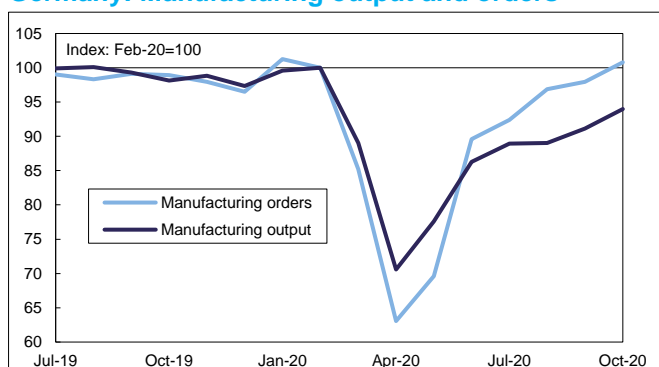
Autos lead the way, for the time being

Within the detail, production of motor vehicles leapt 9.9%M/M but was still 6.4% below February's pre-pandemic level. While production of chemicals was little changed on the month, output of intermediate goods overall rose 4.0%M/M to be down 4.7% from February's level. Production of capital goods increased 5.2%M/M but was still 7.1% below February's level. And weighed by a near-10%M/M drop in pharmaceuticals, production of consumer goods fell 2.4%M/M to be 5.3% below the pre-pandemic level. Energy production was strong, up 4.0%M/M albeit still down 1.0%Y/Y. And construction output rose 1.6%M/M to be up 3.4%Y/Y. Looking ahead, the ifo manufacturing survey points to further, albeit more moderate, output growth in three months' time in many sub-sectors, ranging from chemicals, pharmaceuticals and metals to consumer non-durables. However, expectations for auto firms have turned negative for the first time since April, while food processing firms are also downbeat.

Sentix survey signals surge in optimism about the outlook

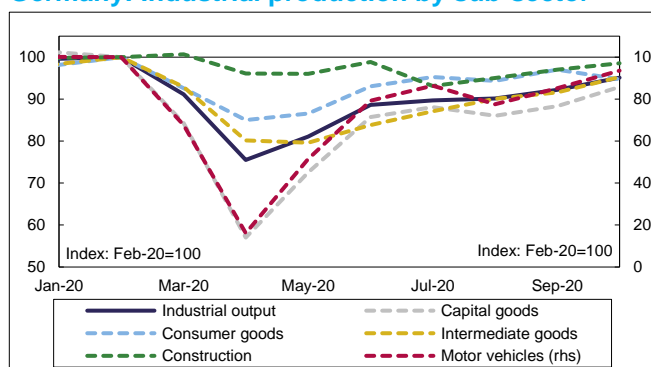
Following strong growth in equity markets in November, today's results of the latest Sentix survey of investors – the first of the December sentiment surveys – was unsurprisingly upbeat. The investors' assessment of current conditions in the euro area improved modestly, up 2pts to -30.25, still firmly in negative territory but the best since the first wave of Covid-19 got underway in March. And thanks to the positive news surrounding vaccine development, the index of expectations for conditions in six months' time jumped 14pts to 29.25, the best since 2015. Expect tomorrow's ZEW survey likewise to provide a reminder of the optimism about the outlook built into to current market valuations.

Germany: Manufacturing output and orders



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Industrial production by sub-sector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

Looking ahead to tomorrow, the ZEW investor sentiment survey for December will be published. Contrary to today's Sentix survey results, the imposition of restrictions on many service sector activities last month, and their extension to 10 January, is expected to contribute to a modest fall in the German current situation balance – the Bloomberg consensus is for a reading of -66.0, close to September's level, from -64.3 in November. However, the expectations balance is expected to edge higher to 46.0, some way below September's high of 77.4 but still a historically high level, supported by optimism surrounding the development of vaccines.

Tomorrow also brings the release of revised Q3 euro area GDP figures (current growth estimate of 12.6%Q/Q), which will be accompanied by the expenditure components for the first time – household consumption, fixed investment and net trade will all have made substantive positive contributions. Final employment figures for Q3 are expected to align with the preliminary estimate, which showed a moderate 0.3%Q/Q increase, following a 2.9%Q/Q fall in Q2. Goods trade data for October are also due from France.

UK

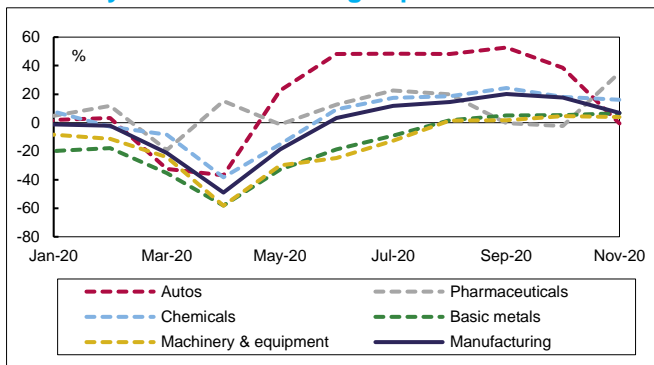
Sterling weakens as outcome of Johnson call with von der Leyen is awaited

Brexit uncertainty spooked the markets today, weakening sterling and giving a big boost to Gilts as the negotiations between the UK and EU remained deadlocked. With the UK right-wing tabloids full of threats that PM Johnson was ready to walk away from the talks and press ahead with domestic legislation incompatible with the Withdrawal Treaty, fears rose of an imminent collapse in the negotiations. At the time of writing, however, Johnson was in discussions with Commission President von der Leyen, leaving the door open to a deal, either imminently or at least by Thursday's EU summit, which was increasingly being presented as the key deadline.

The day ahead in the UK

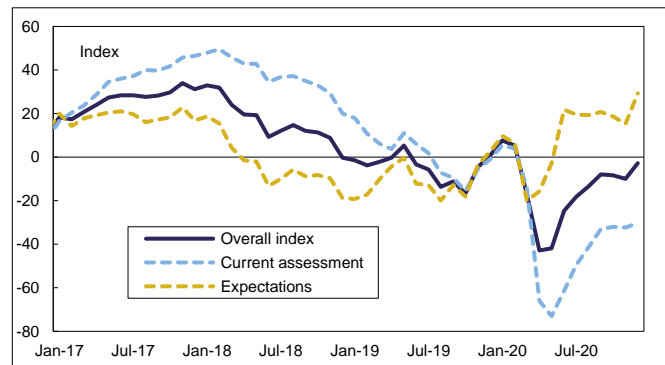
Data-wise, tomorrow sees the release of the BRC retail sales survey for November, which will highlight the impact of the closure of non-essential stores last month.

Germany: ifo manufacturing expectations indices





Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Sentix investor sentiment indices











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	 Sentix investor confidence	Dec	-2.7	-7.8	-10.0	-
Germany	 Industrial production M/M% (Y/Y%)	Oct	3.2 (-3.0)	1.6 (-4.6)	1.6 (-7.3)	2.3 (-6.7)
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/ <i>Daiwa forecast</i>	Previous	
EMU		10.00 Final employment Q/Q% (Y/Y%)	Q3	0.9 (-2.0)	-2.9 (-3.1)	
		10.00 Final GDP Q/Q% (Y/Y%)	Q3	12.6 (-4.4)	-11.8 (-14.8)	
Germany		10.00 ZEW current situation (expectations)	Dec	-67.5 (40.5)	-64.3 (32.8)	
France		06.30 INSEE total payrolls Q/Q%	Q3	-	-0.9	
		07.45 Trade balance €bn	Oct	-5.4	-5.7	
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	Nov	-	5.2	
Auctions and events						
UK		10.00 Auction: £3.25bn of 0.125% 2024 bonds				
		10.00 Auction: £2bn of 0.625% 2050 bonds				

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

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