

Euro wrap-up

Overview

- While Germany's government announced a tightening of its pandemic containment measures over the weekend, Bunds made losses as hopes of a deal between the EU and UK increased.
- Gilts made significant losses as reports suggested that the EU had eased demands on the post-Brexit level playing field.
- Tuesday will bring data regarding the UK labour market and Italian trade as well as the final estimates of French and Italian inflation in November.

Chris Scicluna

+44 20 7597 8326

Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.781	+0.013
OBL 0 10/25	-0.803	+0.014
DBR 0 08/30	-0.620	+0.019
UKT 1½ 09/22	-0.107	+0.025
UKT 0% 06/25	-0.068	+0.034
UKT 4% 12/30	0.218	+0.049

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

Source: Bloomberg

Euro area

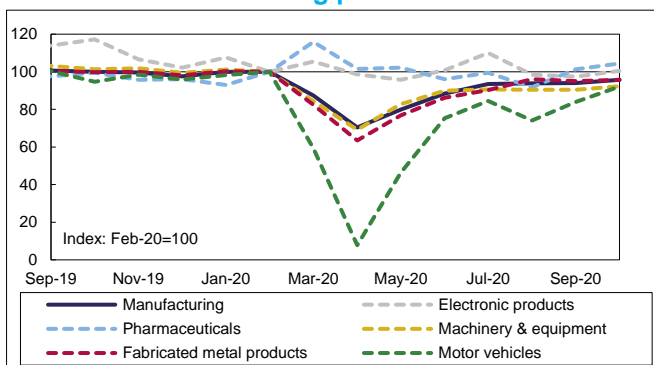
Acceleration in manufacturing at start of Q4 thanks to surge in autos

As signalled by the data from the [larger member states](#), euro area industrial production accelerated at the start of Q4, rising 2.1%M/M, the most in three months, to be 2.3% above the Q3 average. That also left it down 3.8%Y/Y and 3.5% below the February level. Manufacturing output rose 1.9%M/M to be down 4.2% from February, but – boosted in part by unseasonably cold weather in parts of France –energy output rose 1.8%M/M to be 1.4% above the pre-pandemic level. Tallying with recent data for orders, production of capital goods rose 2.6%M/M, the best in three months, but was still 5.4% below February's level. Output with machinery and equipment rose 2.0%M/M, the most since June but was down almost 8% from February. Output of intermediate items rose 2.1%M/M to be about 3% below February's level, with chemicals up about 2½%M/M for the third successive month to be only about ½% below the pre-pandemic level. But with production of non-durables flat, output of consumer goods was up just 0.2%M/M despite further strong growth in pharmaceuticals (up 3.2%M/M to be up 4.5% from February). And most striking was the further surge in production of motor vehicles, which rose 9.8%M/M in October after growth of 13.4%M/M the prior month, but was still down almost 8% from February's level. Industrial production growth in October was geographically widespread, led by Belgium (6.9%M/M) and Germany (3.4%M/M). Surveys and orders data point to further growth in November, albeit centred more narrowly on Germany. But the flash December manufacturing PMIs, due Wednesday, will be watched closely for signs of a loss of momentum heading into the New Year, when ongoing weakness in services and the end of Brexit-related stock-building will likely weigh heavily.

Germany tightens restrictions, BoF gauges impact of November containment measures

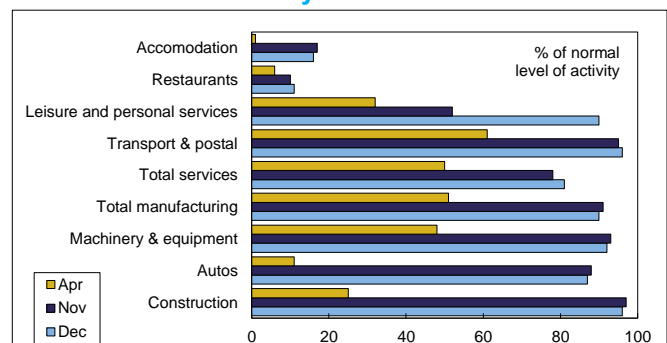
With new cases and deaths from the pandemic up to record highs, the weekend brought confirmation from Germany of an extension and tightening of its pandemic containment measures. Most notably, from Wednesday, all nonessential shops and services (including hairdressers) will close until 10 January, with schools also urged to send students home and extend the winter break to the same date. Meanwhile, in France, based on its latest business survey, the Bank of France today gave an updated estimate of the economic impact of that country's lockdown last month. While the level of manufacturing and construction activity was judged to be little changed from October, the containment measures were estimated to have reduced the level in services by about 15% last month, roughly half the shortfall suffered at the peak of the first wave in April. Among the worst hit sub-sectors, catering activity was estimated to be about 90% below normal while accommodation was operating at less than 80% below normal levels. Overall, the BoF estimated that overall GDP was about 11% below the pre-Covid level last month, having been down about 4% in October. And while construction was expected to weaken in December, the relaxation of some measures this month was expected to leave services activity down about 9% and GDP roughly 8% below the pre-Covid level. And as a result, the BoF expects GDP to fall 4.0%Q/Q in Q4.

Euro area: Manufacturing production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: Level of activity relative to 'normal'*



*Based on Bank of France business survey. Source: Bank of France and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

Ahead of the release of the equivalent euro area figures on Thursday, tomorrow will bring the final estimates of French and Italian inflation in November. According to the flash estimates on the EU-harmonised measure, French inflation edged up 0.1ppt to 0.2%Y/Y while the pace of decline in Italian prices eased 0.3ppt to -0.3%Y/Y. Italian goods trade data for October are also due tomorrow.

UK

Talks continue as reports suggest a softening of positions on the level playing field

Talks between the EU and UK continued in Brussels today after yesterday's self-imposed deadline passed with no agreement. But following a "constructive and useful phone call" between Commission President von der Leyen and UK PM Johnson which supposedly "discussed the major unresolved topics", the leaders jointly decided that "it is responsible at this point to go the extra mile" and "continue the talks and to see whether an agreement can even at this late stage be reached". While EU chief negotiator Barnier reportedly suggested to ambassadors today that it might be possible, we won't hold our breath for an agreement this week, not least as reports from the UK side suggest the talks could go right up until Christmas, which would deliberately leave minimal time for scrutiny of any deal before ratification in the European Parliament and Westminster.

However, reports suggest that the position of both sides on the level playing field have now softened to boost hopes that a deal will eventually be reached. In particular, EU demands for a so-called "ratchet clause", that would have sought to compel the UK to follow the EU if and when it tightened labour or environmental standards or else find its exports subject to tariffs, have allegedly been modified. And with UK consent, the negotiators are reportedly now attempting to define more precisely what might represent unfair competition and the process for triggering offsetting measures if required. While significant differences remain on certain other issues, e.g. fish, the path to an eventual deal appears clearer. As such, our baseline scenario continues to assume that an agreement will eventually be reached and – despite European Parliament irritation at the tight deadline – duly ratified.




The day ahead in the UK

A busy week for top-tier UK economic data gets underway tomorrow with the latest labour market figures. With many firms likely to have planned redundancies well before the government announced its U-turn to extend the Job Retention Scheme, payroll employment seems highly likely to drop again while the ILO unemployment rate will likely rise above 5.0% to its highest level since 2015.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Industrial production M/M% (Y/Y%)	Oct	2.1 (-3.8)	1.8 (-4.4)	-0.4 (-6.8)	-
France	 Bank of France business survey, industrial sentiment	Nov	96	95	97	-
UK	 Rightmove house price index M/M% (Y/Y%)	Dec	-0.6 (6.6)	-	-0.5 (6.3)	-








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/ <i>Daiwa forecast</i>	Previous
France		07.45 Final CPI (EU-harmonised CPI) Y/Y%	Nov	0.2 (0.2)	0.0 (0.1)
Italy		09.00 Final CPI (EU-harmonised CPI) Y/Y%	Nov	-0.2 (-0.3)	-0.3 (-0.6)
		10.00 Total trade balance €bn	Oct	-	5.8
UK		07.00 Unemployment claimant count rate % (change '000s)	Nov	-	7.3 (-29.8)
		07.00 Average earnings including bonuses (excluding bonuses) 3M/Y	Oct	2.2 (2.6)	1.3 (1.9)
		07.00 ILO unemployment rate %	Oct	5.1	4.8
		07.00 Employment change '000s, 3M/3M	Oct	-250	-164

Auctions and events

EMU		14.00 ECB's Lane scheduled to speak
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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