

Euro wrap-up

Overview

- Bunds were little changed as the German ifo business survey suggested resilience to the second wave of pandemic.
- While UK retail sales data beat expectations, Sterling depreciated and Gilts made significant gains as an agreement between the EU and UK on fish remained elusive.
- For the time being the focus will remain on the Brexit negotiations, while Monday will bring the flash estimate of euro area consumer confidence in December.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.793	-0.004
OBL 0 10/25	-0.753	+0.001
DBR 0 08/30	-0.575	-0.001
UKT 1½ 09/22	-0.107	-0.039
UKT 0% 06/25	-0.052	-0.042
UKT 4% 12/30	0.241	-0.043

*Change from close as at 4:00pm GMT.

Source: Bloomberg

Euro area

Ifo survey likely exaggerates German economic resilience to second wave

Like Wednesday's flash PMIs, today's ifo survey results for December suggested that German business sentiment remains relatively resilient in the face of the second wave of Covid-19. The ifo headline business climate index rose for the first month in three, up 1.2pts to 92.1, back above the 2020 average albeit unsurprisingly still below the range of the decade before the pandemic. Despite the continued intensification of the spread of Covid-19, somewhat surprisingly German firms suggested that current conditions had improved to the best since March. And optimism regarding the coming six months rose for the first time since September, albeit remaining some way below the average of the past six months and below the long-run average. We caution, however, that the ifo institute noted that a 'large majority' of the survey responses were submitted before this week's extension and tightening of pandemic containment measures.

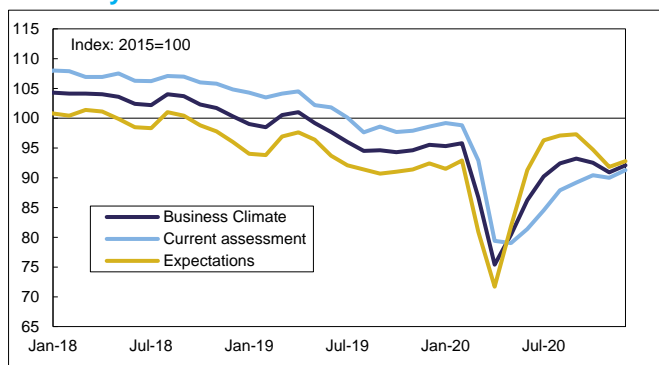
Manufacturing strength supports other sectors

At the sectoral level, the ifo indices tallied with the flash PMIs reporting improvement, on average, in manufacturing and services alike, although it is the former sector which stands out. Indeed, the survey measure of the current situation in manufacturing rose to the highest level since January. And firms in that sector were also significantly more upbeat about the outlook for the coming six months, with the chemicals and mechanical engineering sub-sectors reportedly particularly optimistic. Services firms were on average also more positive about current conditions, with optimism among transport and logistics companies tallying with the recent strength in truck mileage (see chart), which itself reflects ongoing strength in manufacturing. But services were less positive about the outlook, with those sub-sectors most affected by the pandemic – including tourism and accommodation – unsurprisingly downbeat. Confidence among wholesalers also benefited from positivity surrounding the manufacturing sector. But while firms in retail and construction also reported an improvement in current conditions, expectations for the coming six months in both sectors were more pessimistic.

The coming two weeks in the euro area

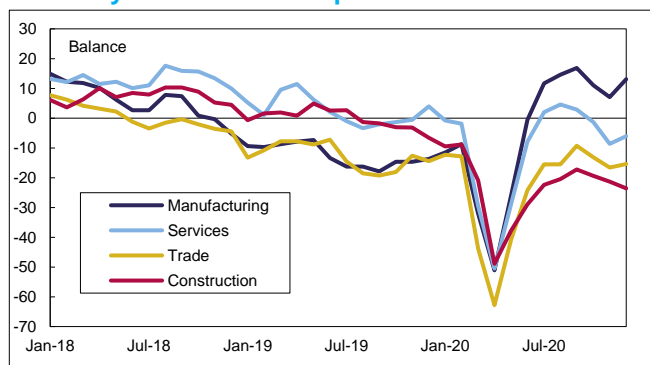
Given the festive season, the remainder of the year will be especially quiet for new economic data releases. The coming week most notably brings a smattering of further economic sentiment survey results for December, including on Monday the Commission's flash estimate of euro area consumer confidence, which last month fell to its lowest level since May. In addition, the German GfK consumer confidence indices are due on Tuesday, with the broader ISTAT Italian economic sentiment indices out on Wednesday. The week after Christmas will bring German and Spanish retail sales figures for November, as well as the flash estimate of Spanish inflation in December – the first from any of the member states.

Germany: ifo business climate indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: ifo business expectations indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK

Brexit deal likely in days, as fishing rights wait to be divvied up

If the statements from both sides over the past 24 hours were anything to go by, no deal might seem the most likely outcome from the EU-UK negotiations. So, for example, after a call yesterday evening between the UK and European Commission leaders, Downing Street issued a statement asserting that “the negotiations were now in a serious situation. Time was very short and it now looked very likely that agreement would not be reached unless the EU position changed substantially”. Today’s comments to the European Parliament by Chief EU negotiator Barnier were along similar lines although obviously inverted the blame for the impasse. Unsurprisingly, both highlighted that fishing rights remain the main obstacle to a deal, with Barnier today noting that, if the UK insists on cutting access to its waters, then the EU would have the right to impose barriers on access for UK fish products to the Single Market. The hard bargaining is expected to continue for a while yet and another call between von der Leyen and Johnson seems likely to take place over the weekend. But we still expect an agreement to be reached in the coming days to allow for ratification by the UK Parliament and EU Council. And even if there is no time for European Parliament ratification, there should be scope for its provisional application from the start of 2021.

Drop in retail sales relatively modest given stores shutdown last month

With non-essential stores in England closed from 5 November through to 2 December, and further containment measures impacting sales in Wales and Scotland at the start and end of the month respectively, UK retail sales inevitably fell back last month. But with shoppers able to take advantage of online sales (up nearly 75%Y/Y) and click-and-collect services, the drop was very shallow compared to the plunge of more than 18%M/M in April at the peak of the first wave. In particular, following six successive months of positive growth, total sales fell 3.8%M/M in November to be still 2.4% higher than a year earlier and 2.6% above February’s pre-pandemic level. Sales were dragged lower particularly by clothing (down 19.0%M/M and almost 30%Y/Y) and fuel (down 16.6%M/M and more than 25%Y/Y). Sales of food (up 3.1%M/M) and household goods (up 1.6%M/M) were the only categories to show positive growth. With non-essential stores having reopened this month, sales of goods are likely to be firmer this month, particularly with households spending less on eating and drinking out and entertainments. Moreover, the headline measure on the GfK consumer confidence survey rose 7pts in December to a three-month high, moving back into the range prevailing from June to September before the second wave of pandemic. All of the key survey components improved, including the assessment of the climate for making major purchases. Yesterday’s announcement by the government of an extension to the Job Retention Scheme by a further month to end-April might also help to support sentiment into the New Year. We note, however, the significant deterioration in the path of the pandemic over recent days, and so a further shutdown of non-essential retail after Christmas would come as no surprise at all.

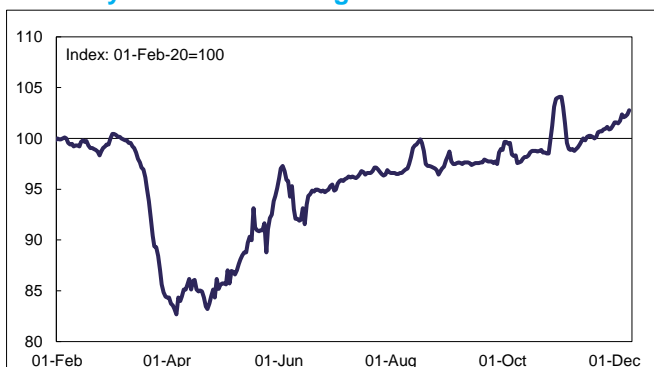
The coming two weeks in the UK

While the current trajectory of the pandemic in the UK – and particularly in London and the South East – remains a key concern, Brexit will obviously be the principle focus over the coming fortnight. And, as in the euro area, the remainder of the year will be very quiet for economic data. Among the few releases scheduled in the coming week, the CBI’s distributive trades survey on Monday will give a snapshot of the strength of pre-Christmas retail sales. The following day will bring revised Q3 GDP data (current estimate of growth of 15.5%Q/Q but -9.6%Y/Y) and public finance figures for November. The Nationwide house price data for December are also due before New Year.

The next edition of the Euro wrap-up will be published on 4 January 2021

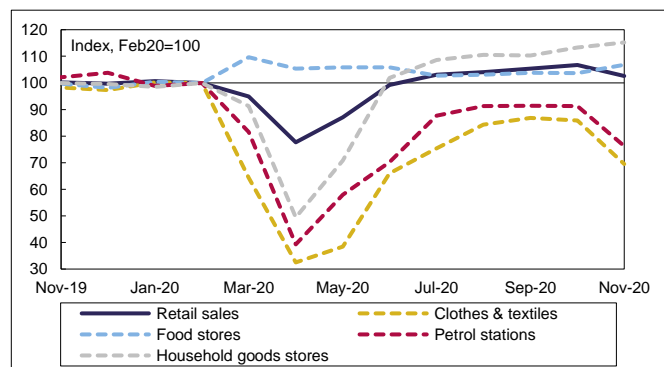


Germany: Truck toll mileage index


















Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

UK: Retail sales












Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

		2020				2021		2020	2021	2022
		Q1	Q2	Q3	Q4	Q1	Q2			
GDP growth, %, Q/Q										
Euro area		-3.7	-11.7	12.5	-2.5	1.0	1.6	-7.2	4.2	3.8
Germany		-1.9	-9.8	8.5	-1.0	0.7	1.2	-5.6	3.2	3.2
France		-5.9	-13.8	18.7	-3.5	1.5	2.0	-8.9	6.4	3.8
Italy		-5.5	-13.0	15.9	-3.0	1.2	1.2	-9.0	4.8	4.3
Spain		-5.2	-17.8	16.7	-4.0	1.5	2.0	-11.8	4.2	5.5
UK		-2.5	-19.8	15.5	-1.5	0.4	2.0	-11.0	4.0	6.6
Euro area										
Headline CPI		1.1	0.2	0.0	-0.3	0.3	0.9	0.3	1.0	1.2
Core CPI		1.1	0.9	0.6	0.3	0.8	0.8	0.7	1.0	0.9
UK										
Headline CPI		1.7	0.7	0.6	0.5	0.6	1.5	0.9	1.3	1.6
Core CPI		1.6	1.4	1.3	1.2	1.2	1.7	1.4	1.5	1.3
ECB										
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
PEPP envelope* (€bn)		750	1350	1350	1850	1850	1850	1850	1850	1850
BoE										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases** (£bn)		645	745	745	895	895	895	895	895	895

*Monthly target €bn, end of period. **Monthly target £bn, end of period.
Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Germany	 PPI Y/Y%	Nov	-0.5	-0.6	-0.7	-	
	 Ifo business climate	Dec	92.1	89.8	90.7	90.9	
	 Ifo current assessment (expectations)	Dec	91.3 (92.8)	89.0 (93.0)	90.0 (91.5)	-	
Italy	 PPI Y/Y%	Nov	-2.8	-2.9	-2.9	-	
Spain	 Trade balance €bn	Oct	-0.6	-	-1.5	-	
UK	 GfK consumer confidence	Dec	-26	-31	-33	-	
	 Retail sales including fuel M/M% (Y/Y%)	Nov	-3.8 (2.4)	-1.3 (5.2)	1.2 (5.8)	1.3 (5.8)	
	 Retail sales excluding fuel M/M% (Y/Y%)	Nov	-2.6 (5.6)	-2.1 (-)	1.3 (7.8)	1.4 (7.8)	
	 CBI industrial trends survey, total orders	Dec	-25	-	-40	-	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming weeks' data calendar

The coming two weeks' key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 21 December 2020					
EMU		15.00 European Commission preliminary consumer confidence	Dec	-17.3	-17.6
UK		00.01 Lloyds business barometer	Dec	-	-21
		11.00 CBI distributive trades survey, reported sales	Dec	-	-21
Tuesday 22 December 2020					
Germany		07.00 GfK consumer confidence	Jan	-8.4	-6.7
UK		07.00 Final GDP Q/Q% (Y/Y%)	Q3	15.5 (-9.6)	-19.8 (-21.5)
		07.00 Public sector net borrowing £bn	Nov	27.3	21.6
Wednesday 23 December 2020					
France		07.45 PPI Y/Y%	Nov	-	0.1 (-2.0)
Italy		09.00 ISTAT economic sentiment	Dec	-	82.8
		09.00 ISTAT consumer confidence (manufacturing)	Dec	97.9 (90.5)	98.1 (90.2)
Spain		08.00 Final GDP Q/Q% (Y/Y%)	Q3	16.7 (-8.7)	-17.8 (-21.5)
		08.00 PPI Y/Y%	Nov	-	-4.1
Thursday 24 December 2020					
- Nothing scheduled -					
Friday 25 December 2020					
- Christmas Day -					
Monday 28 December 2020					
Germany		- Retail sales* M/M% (Y/Y%)	Nov	-2.0 (4.3)	2.6 (8.6)
Spain		08.00 Retail sales Y/Y%	Nov	-	-2.7
UK		- Nationwide house price index* M/M% (Y/Y%)	Dec	-	0.9 (6.5)
Tuesday 29 December 2020					
- Nothing scheduled -					
Wednesday 30 December 2020					
Spain		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Dec	-0.7 (-0.7)	-0.8 (-0.8)
Thursday 31 December 2020					
- Nothing scheduled -					
Friday 01 January 2021					
France		- New car registrations* Y/Y%	Dec	-	-27.0
Italy		- New car registrations* Y/Y%	Dec	-	-8.3
Spain		- New car registrations* Y/Y%	Dec	-	-18.7

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

The coming two weeks' key events & auctions

Country	GMT	Event / Auction
Monday 21 – Wednesday 23 December 2020		
- Nothing scheduled -		
Thursday 24 December 2020		
EMU		- ECB holiday: Christmas Eve
Friday 25 December 2020		
EMU		- Christmas Day holiday
UK		- Christmas Day holiday
Monday 28 – Thursday 31 December 2020		
- Nothing scheduled -		
Friday 01 January 2021		
EMU		- New Year's Day holiday
UK		- New Year's Day holiday

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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