

Euro wrap-up

Overview

- Bunds made modest losses as German industrial production and exports maintained their uptrend and euro area unemployment surprisingly fell.
- Gilts also made modest losses on a quiet end to the week for economic news from the UK.
- The coming week brings new November data for UK GDP and euro area IP and goods trade, as well as the account of the ECB's December monetary policy meeting.

Chris Scicluna

+44 20 7597 8326

Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.712	+0.003
OBL 0 10/25	-0.734	+0.006
DBR 0 02/31	-0.523	+0.005
UKT 1% 09/22	-0.142	+0.008
UKT 0% 06/25	-0.050	+0.012
UKT 4% 12/30	0.286	+0.004

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

Euro area

German manufacturing to make solid contribution to GDP growth in Q4

Broadly in line with expectations, German industrial production rose for the seventh successive month in November, increasing by 0.9%M/M following upwardly revised growth of 3.4%M/M in October. That left the average level of IP in the first two months of Q4 5.6% above the average in Q3. Nevertheless, German production in November was still down 2.6%Y/Y and 3.8% below the pre-pandemic level in February. Within the detail of the report, production of durable consumer goods rose 3.7%M/M to surpass the pre-pandemic level. And tallying with yesterday's factory orders data for the same month, production of intermediate goods (up 2.4%M/M) and capital goods (up 1.3%M/M) was firm, although both categories have some way to go to surpass February's level. Production of non-durable consumer items (down 2.9%M/M) fell for a second successive month to be down more than 8% from the pre-pandemic level. By sub-sector, output of motor vehicles rose for a third successive month and by 2.2%M/M but was still 4.6% below February's level. Meanwhile, growth in production of machinery (1.8%M/M), chemicals (1.5%M/M) and pharmaceuticals (3.5%M/M) was also solid but similarly still had further to go to close the gap from before the pandemic. Beyond manufacturing, energy production fell 3.9%M/M to be down 4.6% from February. But construction output rose 1.4% to return back to the pre-pandemic threshold.

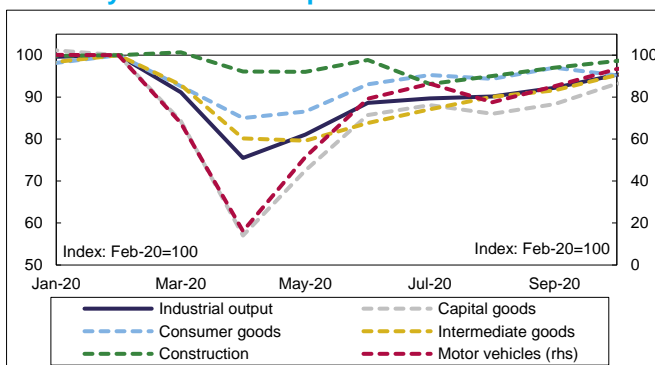
Auto production set to decline in Q1

Surveys point to ongoing German manufacturing growth in December, with a rise of 4.4%M/M last month in the truck-toll mileage index – which often correlates well with developments in the industrial sector – also consistent with ongoing recovery towards year-end. So, the manufacturing sector currently appears on track to make a solid contribution (perhaps of the order of 1½ppts) to German GDP growth in Q4. However, the outlook for Q1 looks less rosy. The ifo manufacturing production expectations index fell almost 2pts in December to 5.1, the lowest since June. And most notably within the detail, auto producers signalled plans to cut production this quarter. German new car registrations jumped 10%Y/Y in December as consumers brought forward purchases ahead of the reversal of the temporary VAT cut from 1st January. But that still left them down 19%Y/Y over 2020 as a whole, while there will be payback for the December surge in coming months. In addition, supply-chain disruption (not least related to semi-conductors) has now compounded concerns about the impact of the intensified pandemic on demand.

German exports up again, but outpaced by imports in November

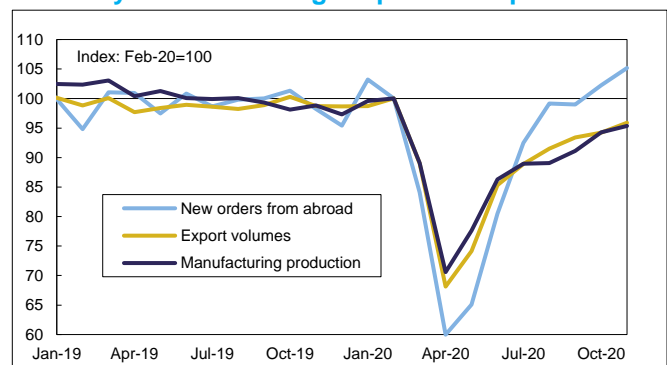
The recovery in German manufacturing production over recent months owes in part to firm external demand. Indeed, the value of German goods exports also rose for a seventh successive month in November and by 2.2%M/M. On the same

Germany: Industrial output



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing output and exports



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

basis, however, German import growth was firmer at 4.7%M/M. So, the goods trade surplus narrowed by €1.8bn to a three-month low of €16.4bn, still nevertheless well above the average of the first ten months of 2020. Compared to a year earlier, export values were down 1.3%Y/Y but imports were down a minimal 0.1%Y/Y. By destination, the value of exports to EU countries were down a little more than the total, by 1.7%Y/Y, while their imports from those countries were up 2.6%Y/Y. In marked contrast, exports to the UK ahead of the end of the Brexit transition were up a vigorous 6.6%Y/Y while German imports from the UK were down 9.7%Y/Y. Exports and imports to China were up 14.3%Y/Y and 5.4%Y/Y respectively. But exports and imports to the US were down 3.1%Y/Y and 1.5%Y/Y respectively. Adjusting for prices, growth in export volumes of 1.8%M/M was outpaced by growth in imports (4.3%M/M). And while export volumes were still down more than 5% from February's pre-pandemic level, imports were down less than 2½% from that threshold. Nevertheless, on average in the first two months of Q4, volumes of exports and imports were both up close to 4% from the Q3 average, suggesting a broadly neutral contribution to GDP growth from net trade.

French IP drops due to fall in energy output

In contrast to Germany, French industrial production fell 0.9%M/M in November to be down 4.1% from February's pre-Covid level. The decline, however, reflected a drop of 10.1%M/M in energy production, while manufacturing (up 0.5%M/M) and construction (up 3.6%M/M) rose. Nevertheless, compared to February's pre-pandemic level, manufacturing output was still down 4.2% while construction was down 3.6%. Within the detail in the manufacturing sector, production of transport equipment grew 1.6%M/M but was still down 12.0% from February while output of machinery and equipment was down 0.2%M/M and 2.7% below February's level. Like in Germany, output of intermediate (2.4%M/M) and capital goods (1.1%M/M) was stronger. But production of consumer goods, both durables (-1.7%M/M) and non-durables (-2.0%M/M), fell back. And output of all main categories was still down on the respective pre-pandemic levels. Meanwhile, the value of French goods exports rose for a seventh successive month in November and by 1.1%M/M. That, however, left them down 6.0%Y/Y and 6.6% below February's level. Compared to that pre-pandemic level, exports were up to Germany, China and Hong Kong, South Korea and Turkey, but still down to most other major destinations, including the US and UK. Imports fell 1.5%M/M to be down 7.1%Y/Y and 8.5% below February's level.

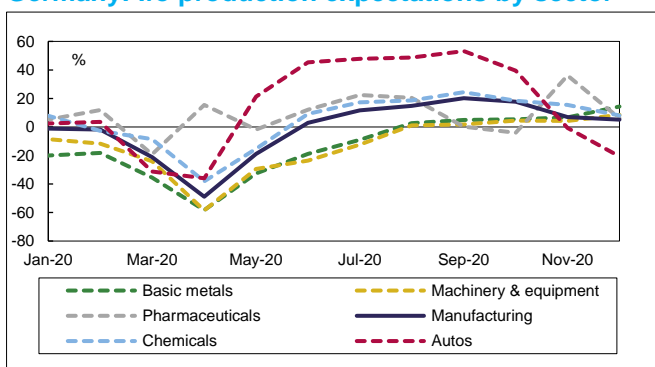
Euro area unemployment rate down again in November

Defying expectations of a rise, the euro area unemployment rate fell by 0.1ppt in November for the fourth successive month to 8.3%, 0.9ppt above the level a year earlier. The drop in the number of unemployed persons accelerated to 172k following average declines of a little less than 120k in the prior three months, but the total was still up 1.425mn from a year earlier. Among the large member states, the unemployment rate in France rose for the first time since July due to the renewed lockdown that month, albeit merely reversing the prior month's 0.2ppt decline to 8.8%. Spain's rate also rose for the first time in five months and by 0.2ppt to 16.4%. In contrast, the equivalent German rate was unchanged at 4.5% for a fourth month, while Italy's dropped a marked 0.6ppt to 8.9%, the lowest since May. Of course, government short-term working schemes continued to subsidise millions of jobs in November, supporting about 2mn workers in Germany alone. And in the face of the intensified pandemic, many people out of work were not able to search for a new job and so were classified as inactive rather than unemployed. Indeed, the sharp drop in Italy's unemployment rate partly reflected a sharp increase in the number of inactive people (73k), which exceeded the increase in employment (63k) in November.

The week ahead in the euro area

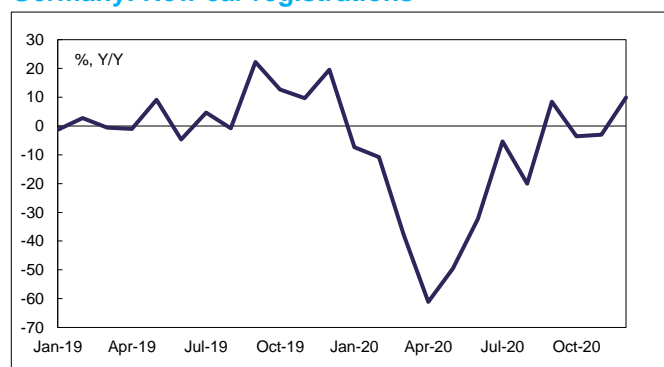
After a busy start to the year, the economic data calendar is somewhat quieter in the coming week. Sentiment surveys feature at the start of the week, with the euro area Sentix investor confidence survey for January out on Monday, followed by the December business sentiment survey from the Bank of France on Tuesday, which will illustrate the economic impact of the lifting of the national lockdown arrangements last month. In terms of hard data, Spanish and Italian IP data for November will be published on Monday and Wednesday respectively, with the aggregate euro area measure also out on Wednesday. Despite today's increases in German production, weakness across other member states will likely mean that aggregate industrial output broadly flat on the month in November following October's increase of 2.1%M/M. On Thursday, we will get the whole-year GDP figure for Germany – we forecast a contraction of 5.5%Y/Y in 2020. The end of the week sees the release of euro area trade data for November, as well as final French and Spanish inflation data for December. Beyond the

Germany: Ifo production expectations by sector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: New car registrations



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

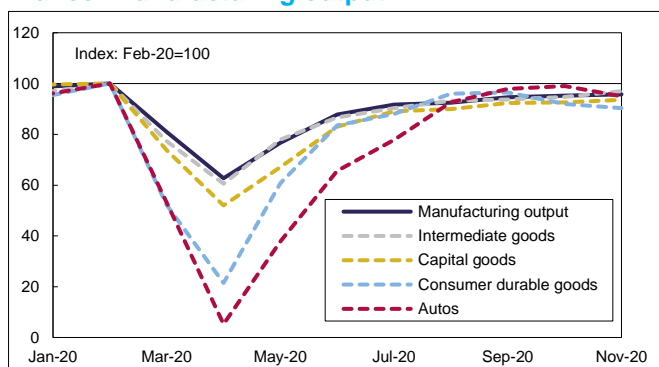
economic data, Thursday sees the publication of the ECB's minutes of the [9-10 December policy](#) meeting when the Governing Council extended and augmented its asset purchase and liquidity schemes. In addition, ECB President Lagarde is due to moderate a panel discussion during the One Planet Summit on Monday, while on Thursday she will take part in a Q&A session with Reuters.

UK

The week ahead in the UK

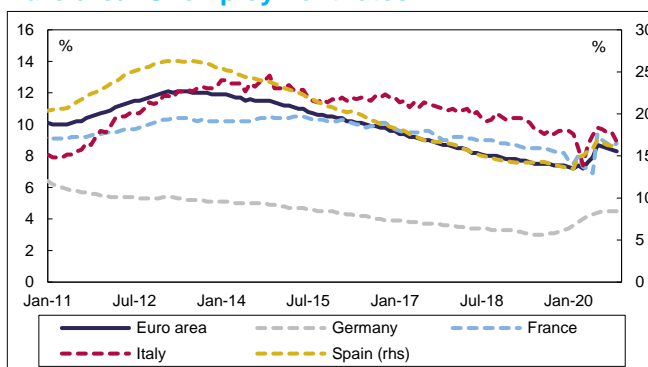
The UK economic data highlight of the coming week will be Friday's monthly GDP release for November. We expect the economy to have shifted back into reverse as new restrictions on activity were brought in to curb the rising number of coronavirus cases. GDP is expected to fall 4.6%M/M in November, after growth already slowed significantly to just 0.4%M/M in October. The drop in output, however, should be concentrated in the services sector. Indeed, manufacturing production is likely to have benefited from stock-building ahead of the end of the Brexit transition period while construction output likely continued to grow against the backdrop of the strong rebound in housing market activity. Ahead of the GDP figures, Tuesday will bring the BRC retail sales monitor for December, which will provide an insight into how the restrictions affected spending at the end of the year. In addition, the RICS house price survey for December will be published on Thursday. In other news, BoE Deputy Governor Broadbent will be speaking on Tuesday about the impact of Covid on the composition of spending.

France: Manufacturing output



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Unemployment rates












Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

	2020	2021				2022	2020	2021	2022
	Q4	Q1	Q2	Q3	Q4	Q1			
GDP growth, %, Q/Q									
Euro area	-2.2	-0.5	2.0	1.7	1.2	1.0	-7.2	3.2	4.2
Germany	-0.5	-0.5	1.8	1.2	1.0	0.8	-5.5	2.8	3.4
France	-3.5	0.5	2.5	2.0	1.0	0.8	-8.9	5.7	4.0
Italy	-3.0	0.5	1.2	1.5	1.5	1.2	-9.0	4.0	4.3
Spain	-2.5	0.8	2.0	2.5	1.5	1.0	-11.4	4.7	5.5
UK	-1.2	-4.0	5.5	2.5	2.2	1.5	-10.4	2.9	7.6
Inflation forecasts, %, Y/Y									
Euro area									
Headline CPI	-0.3	0.3	0.9	1.2	1.5	1.2	0.3	1.0	1.2
Core CPI	0.2	0.7	0.7	1.0	1.2	0.8	0.7	0.9	0.9
UK									
Headline CPI	0.5	0.6	1.5	1.4	1.6	1.7	0.9	1.3	1.6
Core CPI	1.2	1.2	1.7	1.5	1.4	1.4	1.4	1.5	1.3
Monetary policy									
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)	1850	1850	1850	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)	895	895	895	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
EMU	 Unemployment rate %	Nov	8.3	8.5	8.4	-
Germany	 Industrial production M/M% (Y/Y%)	Nov	0.9 (-2.6)	0.8 (-2.3)	3.2 (-3.0)	3.4 (-2.7)
	 Trade balance €bn	Nov	17.2	19.2	19.4	-
	 New car registrations Y/Y%	Dec	10.0	-	-3.0	-
France	 Industrial production M/M% (Y/Y%)	Nov	-0.9 (-4.6)	-1.0 (-5.0)	1.6 (-4.2)	1.9 (-3.9)
	 Manufacturing production M/M% (Y/Y%)	Nov	0.5 (-4.3)	-2.0 (-5.9)	0.5 (-5.7)	0.8 (-5.4)
	 Consumer spending M/M% (Y/Y%)	Nov	-18.9 (-17.1)	-15.9 (-14.2)	3.7 (2.7)	3.9 (3.0)
	 Trade balance €bn	Nov	-3.6	-	-4.8	-4.6
Italy	 Preliminary unemployment rate %	Nov	8.9	10.0	9.8	9.5
Auctions						
Country	Auction					
- Nothing to report -						
















Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

The coming week's key data releases						
Country	GMT	Release	Period	Market consensus/ Daiwa forecast	Previous	
Monday 11 January 2021						
EMU	 09.30	Sentix investor confidence	Jan	1.0	-2.7	
Spain	 08.00	Industrial production M/M% (Y/Y%)	Nov	0.0 (-2.2)	1.0 (-1.6)	
Tuesday 12 January 2021						
France	 -	Bank of France industrial sentiment	Dec	97	96	
UK	 00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Dec	-	7.7	
Wednesday 13 January 2020						
EMU	 10.00	Industrial production M/M% (Y/Y%)	Nov	0.3 (-3.2)	2.1 (-3.8)	
Italy	 09.00	Industrial production M/M% (Y/Y%)	Nov	0.0 (-2.6)	1.3 (-2.1)	
Thursday 14 December 2021						
Germany	 09.00	GDP Y/Y%	2020	-5.5	0.6	
UK	 00.01	RICS house price balance %	Dec	61	66	
Friday 15 January 2021						
EMU	 10.00	Total trade balance €bn	Nov	22	25.9	
France	 07.45	Final CPI (EU-harmonised CPI) Y/Y%	Dec	0.0 (0.0)	0.2 (0.2)	
Spain	 08.00	Final CPI (EU-harmonised CPI) Y/Y%	Dec	-0.5 (-0.6)	-0.8 (-0.8)	
UK	 07.00	Monthly GDP M/M% (3M/3M)	Nov	-4.6 (3.4)	0.4 (10.2)	
	 07.00	Industrial production M/M% (Y/Y%)	Nov	0.4 (-4.2)	1.3 (-5.5)	
	 07.00	Manufacturing production M/M% (Y/Y%)	Nov	1.0 (-4.8)	1.7 (-7.1)	
	 07.00	Construction output M/M% (Y/Y%)	Nov	0.9 (-7.5)	1.0 (-7.5)	
	 07.00	Index of services M/M% (3M/3M%)	Nov	-5.8 (2.5)	0.2 (9.7)	
	 07.00	Goods trade balance £bn	Nov	-11.0	-11.9	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 11 January 2021		
EMU	 14.40	ECB President Lagarde moderates panel discussion at One Planet Summit
Tuesday 12 January 2021		
EMU	 09.00	ECB publishes its Monthly Bulletin
	 17.20	ECB's Hernández de Cos scheduled to speak
Germany	 10.30	Auction: €400mn of 0.5% 2030 index-linked bonds
	 10.30	Auction: €200mn of 0.1% 2046 Index-linked bonds
UK	 10.00	BoE Deputy Governor Broadbent scheduled to speak
	 10.00	Auction: £3bn of 0.125% 2028 bonds
	 11.30	Auction: £1.25bn of 1.625% 2054 bonds
Wednesday 13 January 2021		
EMU	 08.30	ECB's Villeroy scheduled to speak
	 09.00	ECB President Lagarde participates in Q&A during Reuters Next event
Germany	 10.30	Auction: €5bn of 2026 bonds
UK	 10.00	Auction: £300mn of 0.125% 2065 index-linked bonds
Thursday 14 January 2021		
EMU	 14:30	ECB publishes the account of the 9-10 December MPC meeting
	 16.00	ECB's Hernández de Cos scheduled to speak
Italy	 10.00	Auction: 3Y and 7Y bonds
Friday 15 January 2021		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 13 January 2021

Access our research blog at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.