

# Euro wrap-up

## Overview

- As euro area export data continued to improve, Bunds were little changed and BTPs made gains while former PM Renzi suggested he would abstain in an Italian parliamentary confidence vote next week.
- Gilts were also little changed even as data showed that UK GDP contracted far less than expected in November.
- After Saturday's CDU leadership election, the coming week brings the ECB's latest policy meeting (Thursday) and the flash January PMIs (Friday).

**Chris Scicluna**

+44 20 7597 8326

### Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.731	+0.005
OBL 0 10/26	-0.736	+0.009
DBR 0 02/31	-0.542	+0.009
UKT 1½ 09/22	-0.145	-0.012
UKT 0% 06/25	-0.044	-0.012
UKT 4¾ 12/30	0.288	-

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

Source: Bloomberg

## Euro area

### Exports maintain uptrend in November

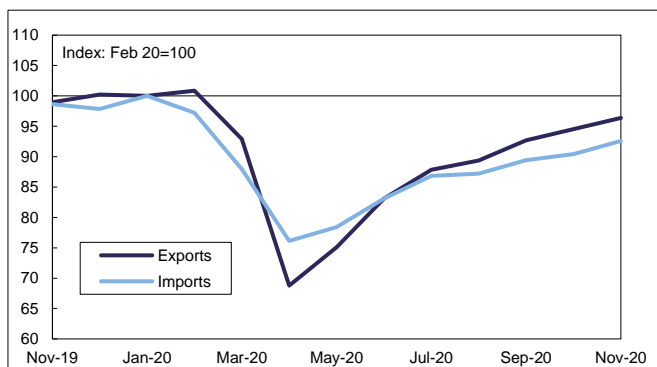
Supporting the continued uptrend in [industrial production](#), today's data for goods trade confirmed a seventh successive increase in euro area exports in November, albeit one that for a change was outpaced slightly by imports. In particular, on a seasonally adjusted basis, the value of euro area exports increased by 2.0%M/M, although that still left them down 4.4% below February's pre-Covid level. Imports rose 2.4%M/M on the same basis to be 4.8% below February's level. As a result, the trade surplus edged down by just €0.1bn to €25.1bn, still the fourth highest level on the series and just £1.3bn below March's record. But over the first two months of Q4, exports were trending roughly 6% over the Q3 level compared to equivalent growth of about 4% in imports, suggesting that net trade provided support to GDP growth in Q4. Exports increased again to most major markets in November, most notably rising 5.6%M/M and 13.6%Y/Y to China reflecting that country's firm recovery in demand and 4.8%M/M and 10.8%Y/Y to the UK on stock-building ahead of the end to the Brexit transition period. But while they also accelerated 5.2%M/M to the US, that left them essentially unchanged from a year earlier.

### The week ahead in the euro area

The coming week brings the first ECB policy meeting of the year on Thursday, along with a handful of top-tier economic data releases. However, politics will likely dominate at the start of the week. Indeed, Italian PM Conte faces confidence votes in the Parliament's Lower House on Monday and, most challenging, the Senate on Tuesday. With former PM Renzi – whose withdrawal of support for the government this week triggered the crisis – having indicated a willingness to abstain, it is perfectly feasible that Conte will survive. Before then, attention tomorrow will be on German politics, as delegates to the virtual congress of Angela Merkel's CDU vote to determine the successor to Annegret Kramp-Karrenbauer as party leader. The candidates are the more centrist Armin Laschet (currently Minister-President of North Rhine-Westphalia and the narrow favourite), the right-wing Friedrich Merz (previously key Merkel rival and BlackRock Germany Supervisory Board Chair), and Norbert Röttgen (Chair of the Bundestag's Foreign Affairs Committee). While the winner of the vote will be well-placed to become the centre-right's choice of candidate to run as successor to Angela Merkel as German Chancellor, he would not be guaranteed that honour. In particular, the CDU's sister CSU party might push for its own leader, Markus Söder, to get the nod, while Health Minister Jens Spahn has also signaled a possible candidacy for the Chancellor role.

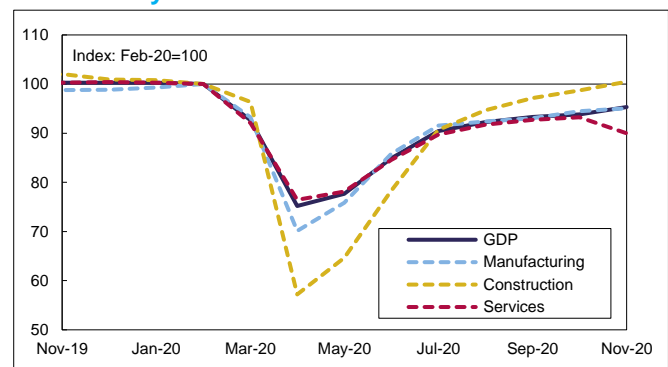
The conclusion of the ECB policy meeting on Thursday is likely to be uneventful, not least given [last month's decision](#) to extend its monetary policy support into 2022. So, the focus of the post-meeting press conference is likely to be the economic outlook in light of the recent intensification of the pandemic, which will likely require the further extension of national

### Euro area: Goods trade\*



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### UK: GDP by sector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

lockdown measures. Indeed, after yesterday's reimposition of a national curfew in France, today saw the Italian government extend and tighten its own restrictions. Judging from her comments earlier this week, however, President Lagarde is likely to insist that the ECB's economic projections, published last month, remain credible.

Data-wise, the coming week brings several economic sentiment surveys, which will provide a first gauge of activity at the start of the year. Given the intensification of the pandemic, we expect to see a weakening in assessments of current conditions even if vaccination programmes are underpinning confidence in the outlook. Most notable will be Friday's preliminary January PMIs for the euro area, Germany and France. The euro area composite PMI is expected to fall from 49.1 in December due primarily to an accelerated decline in activity in the services sector. Also of note will be Thursday's flash Commission estimate of euro area consumer confidence. In terms of hard data, the remaining final CPI releases for December will be published, with Italian, German and euro area numbers out on Monday, Tuesday and Wednesday respectively. The flash estimate of euro area headline inflation remained unchanged in December at -0.3%Y/Y for a fourth month in a row, with the core CPI measure similarly unchanged at the series low of 0.2%Y/Y for a fourth month. Meanwhile, euro area construction figures for November will be published on Tuesday.

## UK

### GDP drops less than expected in November

Having risen in each of the prior six months, the re-imposition of pandemic containment restrictions in November saw UK GDP fall 2.6%M/M to be 8.5% below February's pre-covid level and down 8.6%Y/Y. Services output fell a steep 3.4%M/M to be down almost 10% from February, with consumer-facing services perhaps inevitably worst hit. Indeed, almost four-fifths of the decline in the sector was accounted for by accommodation and food services (down for a third successive month and by a hefty 44.0%M/M), arts, entertainment and leisure (down 14.0%M/M) and retail and wholesale trade (down 5.6%M/M). In contrast, thanks not least to growth of 5.7%M/M in the autos sector, manufacturing rose 0.7%M/M but was still 4.9% below the February level. And construction rose 1.9%M/M to surpass the February level, albeit with new building work still lagging. But weak global demand saw oil and gas extraction fall 4.5%M/M, while utilities output also declined.

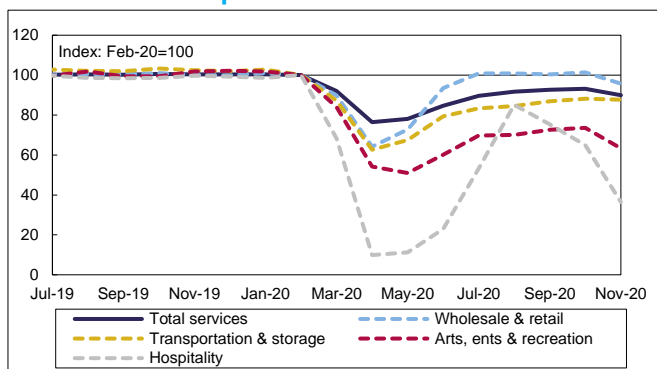
### Q4 contraction in GDP might be avoided

While the drop in GDP in November was the third steepest on the series, it was smaller than expected reflecting the greater ability of many sectors to find ways of coping with the restrictions. And, as a result, the average level of GDP in the first two months of Q4 was still 0.7% above the Q3 average. Some restrictions were eased for much of December. And activity in manufacturing and distribution was ramped up further before year-end to try to dodge the new barriers to trade with the EU. So, although the festive season was a wash-out for hospitality, a full-quarter contraction was likely avoided in Q4. Nevertheless, the recent tightening of lockdown measures has weakened activity once again, and there will be adverse payback for the Brexit-related year-end surge in output. So, while the drop in new covid-19 cases over the past week raises hopes that some restrictions might be lifted before the end of the quarter, UK GDP still seems highly likely to decline in Q1.

### Trade deficit widened in November as imports outpaced exports

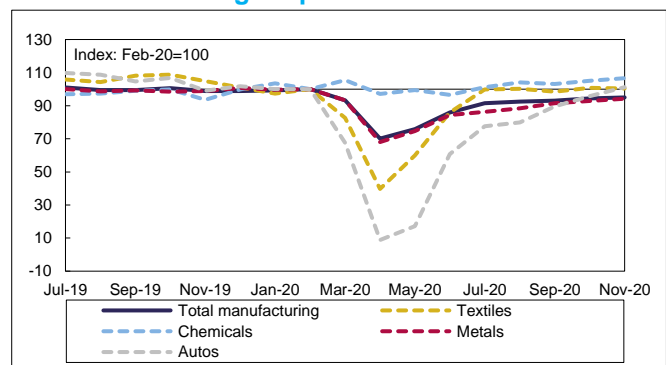
Judging from the latest trade data, the impact of stockpiling ahead of the end of the Brexit transition period was initially greater for imports than exports. With the value of imports of goods and services rising by 4.9%M/M but exports up by 3.9%M/M, the underlying trade deficit (excluding non-monetary gold) rose by £0.6bn in November to £1.5bn, the highest in more than a year. Looking through the recent volatility, the trend similarly saw imports (up 10.1%3M/3M) clearly outpace exports (4.0%3M/3M), with stockpiling of machinery and cars and associated parts important drivers against the backdrop of the threat of tariffs as well as non-tariff barriers at the start of 2021. Notwithstanding the impact of disruption at UK ports last month, we expect to see a further surge in both imports and exports last month before marked declines in January and over Q1 as a whole.

#### UK: Services output



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Manufacturing output












Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

## The week ahead in the UK

In a busy week for UK economic data, Friday's release of the December retail sales figures will likely provide further evidence as to whether a contraction in GDP was avoided in Q4. Non-essential stores in England were able to reopen on the 2 December for a little over three weeks and the latest BRC retail survey suggested that shoppers spent more in the run up to Christmas, particularly of food and online. Retail sales, excluding fuel, are forecast to have risen 0.5%M/M in December, after dropping 2.6%M/M previously, leaving them 7.1% higher compared to a year earlier. Friday also sees the release of the December public finances data and GfK consumer confidence survey, as well as the flash PMI estimates for January – these are expected to suggest that activity in the services sector fell at the start of year, while growth in the manufacturing sector slowed as the boost from stock-building ahead of the end of the Brexit transition period wore off. So, the composite PMI is likely to fall firmly below the key 50 level to the lowest since May. The other top-tier release comes on Wednesday with the release of December inflation data. Headline inflation is expected to rise to 0.5%Y/Y in December, after falling to 0.3%Y/Y in November.





































## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Total trade balance €bn	Nov	<b>25.1</b>	22	25.9	<b>25.2</b>
France	 Final CPI (EU-harmonised CPI) Y/Y%	Dec	<b>0.0 (0.0)</b>	0.0 (0.0)	0.2 (0.2)	-
Spain	 Final CPI (EU-harmonised CPI) Y/Y%	Dec	<b>-0.5 (-0.6)</b>	-0.5 (-0.6)	-0.8 (-0.8)	-
UK	 Monthly GDP M/M% (3M/3M)	Nov	<b>-2.6 (4.1)</b>	-4.6 (3.4)	0.4 (10.2)	<b>0.6 (10.5)</b>
	 Industrial production M/M% (Y/Y%)	Nov	<b>-0.1 (-4.7)</b>	0.5 (-4.2)	1.3 (-5.5)	<b>1.1 (-5.8)</b>
	 Manufacturing production M/M% (Y/Y%)	Nov	<b>0.7 (-3.8)</b>	1.0 (-4.8)	1.7 (-7.1)	<b>1.6 (-6.1)</b>
	 Construction output M/M% (Y/Y%)	Nov	<b>1.9 (-1.4)</b>	0.5 (-8.0)	1.0 (-7.5)	<b>1.5 (-2.2)</b>
	 Index of services M/M% (3M/3M%)	Nov	<b>-3.4 (3.7)</b>	-5.8 (2.5)	0.2 (9.7)	<b>0.5 (10.0)</b>
	 Goods trade balance £bn	Nov	<b>-16.0</b>	-11.0	-11.9	<b>-13.3</b>
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/ <i>Daiwa forecast</i>	Previous
<b>Monday 18 January 2021</b>					
Italy		09.00 Final CPI (EU-harmonised CPI) Y/Y%	Dec	-0.1 (-0.3)	-0.2 (-0.3)
UK		00.01 Rightmove house prices M/M% (Y/Y%)	Jan	-	-0.6 (6.6)
<b>Tuesday 19 January 2021</b>					
EMU		07.00 New car registrations Y/Y%	Dec	-	-12.0
		10.00 Construction output M/M% (Y/Y%)	Nov	-	0.5 (-1.4)
Germany		07.00 Final CPI (EU-harmonised CPI) Y/Y%	Dec	-0.3 (-0.7)	-0.3 (-0.7)
		10.00 ZEW current situation (expectations)	Jan	-70.0 (55.0)	-66.5 (55.0)
France		- Bank of France retail survey, turnover Y/Y%	Dec	-	-24.5
Italy		09.00 Total trade balance €bn	Nov	-	7.6
<b>Wednesday 20 January 2021</b>					
EMU		10.00 CPI (Core CPI) Y/Y%	Dec	-0.3 (0.2)	-0.3 (0.2)
Germany		07.00 PPI Y/Y%	Dec	-0.4	-0.5
Spain		08.00 House transactions Y/Y%	Nov	-	-13.3
UK		07.00 CPI (Core CPI) Y/Y%	Dec	0.5 (1.3)	0.3 (1.1)
		07.00 PPI input prices (output prices) Y/Y%	Dec	- (-0.7)	-0.5 (-0.8)
		09.30 House price index Y/Y%	Nov	-	5.4
<b>Thursday 21 January 2021</b>					
EMU		12.45 ECB main refinancing rate %	Jan	<u>0.00</u>	0.00
		12.45 ECB marginal lending facility %	Jan	<u>0.25</u>	0.25
		12.45 ECB deposit facility rate %	Jan	<u>-0.50</u>	-0.50
		15.00 European Commission consumer confidence	Jan	-15	-13.9
France		07.45 INSEE business confidence	Jan	-	91
		07.45 INSEE manufacturing confidence (production output)	Jan	94 (-)	93 (-4)
Italy		09.00 Industrial orders M/M% (Y/Y%)	Nov	-	3.0 (1.2)
		09.00 Industrial sales M/M% (Y/Y%)	Nov	-	2.2 (-1.7)
Spain		09.00 Trade balance €bn	Nov	-	0.6
UK		11.00 CBI industrial trends survey, total orders (business optimism)	Jan	-35 (-)	-25 (0)
<b>Friday 22 January 2021</b>					
EMU		09.00 Preliminary manufacturing (services) PMI	Jan	54.5 (45.0)	55.2 (46.4)
		09.00 Preliminary composite PMI	Jan	48.0	49.1
Germany		08.30 Preliminary manufacturing (services) PMI	Jan	57.2 (45.0)	58.3 (47.0)
		08.30 Preliminary composite PMI	Jan	49.8	52.0
France		08.15 Preliminary manufacturing (services) PMI	Jan	50.3 (49.1)	51.1 (49.1)
		08.15 Preliminary composite PMI	Jan	49.6	49.5
UK		00.01 GfK consumer confidence	Jan	-30	-26
		07.00 Retail sales including fuel M/M% (Y/Y%)	Dec	1.5(4.8)	-3.8 (2.4)
		07.00 Retail sales excluding fuel M/M% (Y/Y%)	Dec	1.0 (7.1)	-2.6 (5.6)
		07.00 Public sector net borrowing £bn	Dec	31.5	30.8
		09.30 Preliminary manufacturing (services) PMI	Jan	53.0 (45.5)	57.5 (49.4)
		09.30 Preliminary composite PMI	Jan	46.5	50.4

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 18 January 2021</b>		
EMU	-	Video conference of the Eurogroup
UK	13.30	BoE Governor Bailey participates in event on 'Sustainable Recovery and Sustainable Growth'
<b>Tuesday 19 January 2021</b>		
EMU	10.00	Euro area Bank lending survey
	-	EU finance ministers meet
UK	18.00	BoE Chief Economist Haldane scheduled to speak
<b>Wednesday 20 January 2021</b>		
Germany	10.30	Auction: €1.5bn of 0% 2050 bonds
UK	17.00	BoE Governor Bailey and Financial Stability Director Brazier take questions from Citizens' Panel
<b>Thursday 21 January 2021</b>		
EMU	12.45	ECB monetary policy announcement
	13:30	ECB President Lagarde holds press conference
France	09.50	Auction: 0% 2024 bonds
	09.50	Auction: 0.75% 2028 bonds
	10.50	Auction: €2.5bn of 0.1% 2031 index-linked bonds
Spain	09.45	Auction: 0% 2026 bonds
	09.45	Auction: 0.8% 2027 bonds
	09.45	Auction: 1.85% 2035 bonds
	09.45	Auction: 1.2% 2040 bonds
UK	09.30	BoE publishes Credit conditions survey Q420
	10.00	Auction: £3.25bn of 0.125% 2024 bonds
<b>Friday 22 January 2021</b>		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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