

Euro wrap-up

Overview

- As the German ZEW survey reported greater confidence in the outlook, Bunds made modest losses while BTPs made gains as Italian PM Conte was expected to survive his confidence vote in the Senate this evening.
- Gilts were little changed on a quiet day for UK economic news.
- Wednesday will bring final December inflation data for the euro area and UK.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.713	+0.012
OBL 0 10/26	-0.715	+0.011
DBR 0 02/31	-0.524	+0.007
UKT 1¼ 09/22	-0.139	+0.009
UKT 0% 06/25	-0.049	+0.004
UKT 4¾ 12/30	0.285	-0.001

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

Source: Bloomberg

Euro area

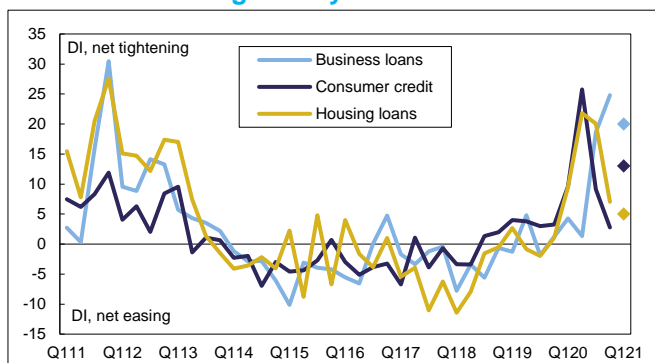
Banks signal further tightening of conditions on business loans

The ECB's latest Bank Lending Survey (BLS) today gave an update on supply and demand conditions for loans at the end of 2020. Most notably, for the second successive quarter, the survey reported a significant net tightening of credit standards on loans to non-financial corporations, most notably in Germany, Spain and France. A net balance of +25% (up 6ppts from the previous quarter) of euro area banks reported such a tightening, with small and medium-sized borrowers seeing a more significant impact than large firms. That was again blamed on heightened perceptions of risks related to the economic outlook and associated concerns about borrowers' creditworthiness due not least to the renewed pandemic containment measures. With those restrictions maintained and, indeed, in many countries made more stringent, banks expect further tightening of credit standards on new business loans in the current quarter. Meanwhile, tallying with the relatively subdued net new lending to firms as last year wore on, firms' demand for new loans or drawing of credit lines reportedly weakened last quarter. While banks reported a continued net increase in demand for inventories and working capital, firms had already accumulated large liquidity buffers in the early months of the pandemic, reducing the need for additional borrowing. Moreover, demand for loans for fixed investment fell. Nevertheless, banks expect a moderate net increase in loan demand from NFCs in the current quarter.

Conditions tighten on loans to households too

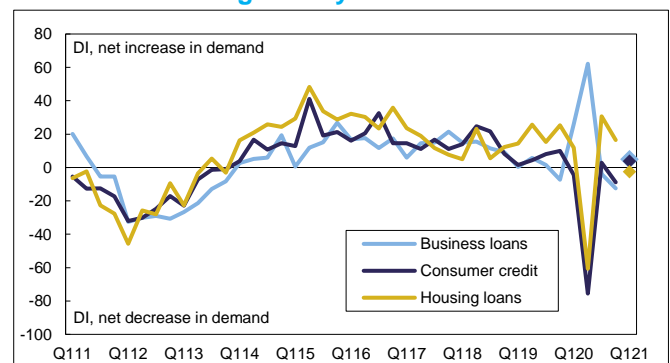
As for loans to business, the BLS suggested that credit standards on new housing loans and consumer credit also tightened last quarter, albeit at a less marked pace than previous quarters. The tightening of conditions on consumer credit was most notable in Spain, and similarly reflected the deterioration of the economic outlook as well as perceptions of a deterioration in borrower creditworthiness. But, consistent with the net repayment in the three months to November, demand for consumer credit reportedly saw a widespread decline, partly due to a deterioration in consumer confidence. In contrast, net demand for housing loans continued to increase in Q4, particularly in Germany and France, supported by historically low interest rates and improving perceptions of housing market prospects. Banks expect a continued net tightening of consumer credit standards this quarter along with a slight decline in housing loan demand. Among the other findings of today's BLS, euro area banks pointed to a favourable impact from recent policy initiatives – whether related to monetary or regulatory policy, or government guarantees – which had helped improve banks' own funding conditions, their balance sheets, and credit conditions on new loans. At the same time, therefore, and given the uncertain economic outlook, policymakers will be aware of the need to avoid a further tightening of financial conditions by withdrawing that policy support prematurely.

ECB Bank Lending Survey: Credit standards*



*Diamonds show expected change to credit standards in Q121.
Source: ECB, Refinitiv and Daiwa Capital Markets Europe Ltd.

ECB Bank Lending Survey: Loan demand*



*Diamonds show expected growth in loan demand in Q121.
Source: ECB, Refinitiv and Daiwa Capital Markets Europe Ltd.

Construction output up in November but trend is broadly sideways

Tallying with the aforementioned relatively favourable conditions in the housing market – which saw house prices up a firm 4.9%Y/Y in Q320 – building activity including residential construction grew 0.7%M/M in November following a rise of 1.2%M/M in October. And having dropped 2.1%M/M in October, civil engineering activity rebounded 3.1%M/M in November. As a result, having been unchanged at the start of Q4, euro area construction output rose in November by 1.4%M/M, the most since August. At the country level, growth was led by Germany (1.4%M/M) and France (3.7%M/M), but activity in the sector fell in Spain for a fifth successive month (-1.4%M/M). Given the flat start to Q4, the average level of construction output in the first two months of Q4 was little different to the average in Q3. And, reflecting recent underwhelming survey indicators, we expect the broad trend in the sector to be sideways for a while yet, with growth in residential construction offsetting weakness in commercial and civil work.

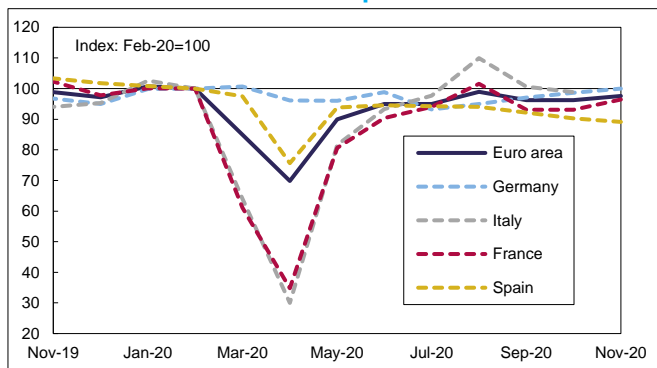
ZEW survey underscores optimism about the outlook despite restrictions on activity

Like last week's Sentix euro area indices, today's ZEW investor survey results flagged a further improvement in expectations about German economic conditions in six months' time, buoyed not least by optimism about the likely impact of vaccination programmes, despite the relatively slow start to their implementation. Indeed, the ZEW's index of expectations in Germany's outlook rose 6.8pts to 61.8, the highest since the second wave of pandemic began in September. However, the survey index of current conditions remained effectively unchanged and significantly negative at -66.4, below the average of the previous four months. And while we might expect the optimism in the outlook to be reflected in other surveys this month, we would not expect to see a significant improvement in gauges of current conditions until the current wave of pandemic subsides significantly to allow a loosening of restrictions on the services sector.

German surge saw new car registrations rebound in December

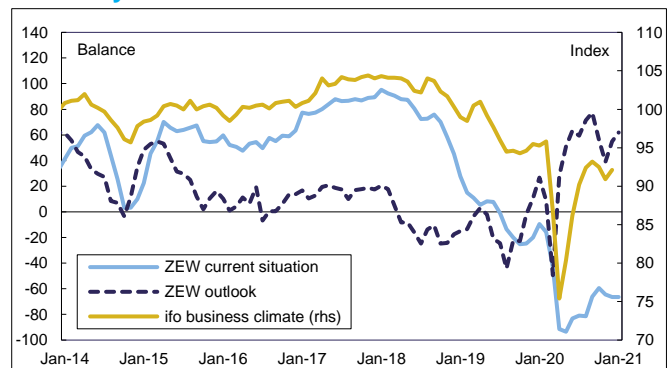
According to the ACEA, new car registrations in the euro area fell 2.8%Y/Y in December to be down 24.2%Y/Y over 2020 as a whole. For the EU27 as a whole, registrations were down a similar 3.3%Y/Y in December to be down 23.7%Y/Y in 2020 – the steepest drop on the series – at 9.94mn with double-digit percentage declines in every member state. However, the year-on-year decline masked a rebound on the month on a seasonally-adjusted basis, with registrations rising 10.4%M/M in December having dropped 7.2%M/M the prior month. The better showing in December reflected the jump of 9.9%Y/Y in Germany, as buyers rushed to beat the rise in VAT at the start of this year. But German registrations were still down 19.1%Y/Y in 2020 as a whole. And sales ended the year on a soft note in the majority of member states, including Italy (down 14.9%Y/Y to be down 27.9%Y/Y in 2020 as a whole) and France (down 11.8%Y/Y to be down 25.5%Y/Y last year).

Euro area: Construction output



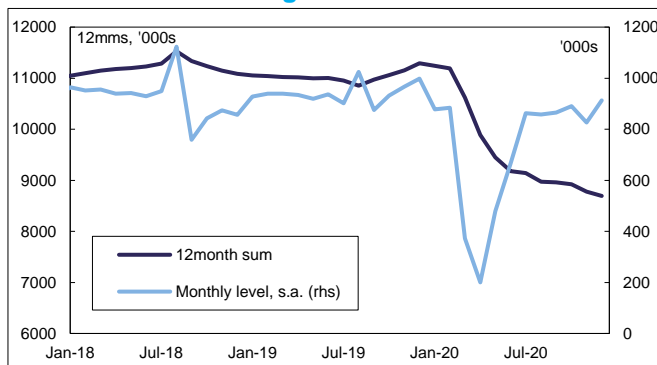
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: ZEW and ifo sentiment indices



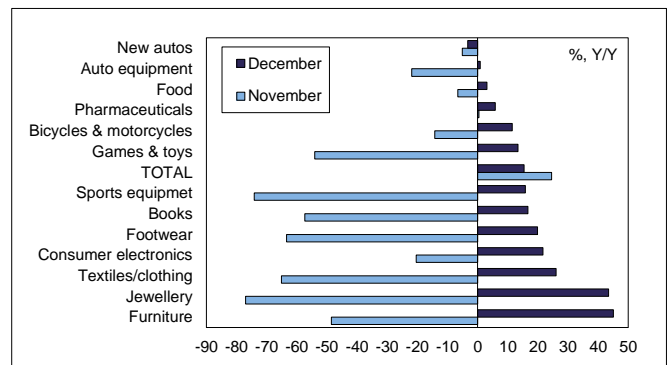
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: New car registrations



Source: ACEA, ECB, Bloomberg and Daiwa Capital Markets Europe Ltd.

France: Retail sales



Source: Bank of France, Refinitiv and Daiwa Capital Markets Europe Ltd.

Retail sales also recovered in France towards year-end

Judging from the latest Bank of France retail sales survey, however, cars were the only major category to see a drop in sales from a year earlier in December. In particular, having dropped 24.6%Y/Y on the survey measure in November in response to the closure of non-essential stores for most of that month, French retail sales reportedly rebounded 15.4%Y/Y last month. The postponement of Black Friday sales to December accentuated the rebound, while a weak level of sales in the same month of 2019 further flattered the figures. Sales of manufactured goods (up 22.9%Y/Y) significantly outpaced sales of food items, with notable growth in certain items – such as furniture (45.1%Y/Y) and household appliances (+ 37.5%Y/Y) that have repeatedly fared well during the pandemic. We caution, however, that the Bank of France figure will not necessarily match the official figure, measured on an EU-harmonised basis, on which sales fell 18.0%M/M and 15.7%Y/Y in November.

The day ahead in the euro area







Looking ahead, tomorrow sees the release of final euro area CPI figures for December. 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. And with the final figures on the EU-harmonised measure matching the preliminary estimates in Germany (-0.7%Y/Y), France (0.0%Y/Y), Spain (-0.6%Y/Y) and Portugal (-0.3%Y/Y), there seems every reason to expect the final euro area numbers to do likewise.

UK



The day ahead in the UK

Like in the euro area, the data highlight in the UK tomorrow will be the release of December CPI. Headline inflation is expected to rise to 0.5%Y/Y in December, after falling 0.4ppt to 0.3%Y/Y in November due to clothing discounts. PPI figures for December will also be published tomorrow as well as house price data for November. In other news, BoE Governor Bailey and Financial Stability Director Brazier will take questions from the Citizens' Panel.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
EMU	 EU-27 new car registrations Y/Y%	Dec	-3.3	-	-12.0	-	
	 Construction output M/M% (Y/Y%)	Nov	1.4 (-1.3)	-	0.5 (-1.4)	0.0 (-1.9)	
Germany	 Final CPI (EU-harmonised CPI) Y/Y%	Dec	-0.3 (-0.7)	-0.3 (-0.7)	-0.3 (-0.7)	-	
	 ZEW current situation (expectations)	Jan	-66.4 (61.8)	-70.0 (55.0)	-66.5 (55.0)	-	
France	 Bank of France retail survey, total sales Y/Y%	Dec	15.4	-	24.6	-	
Italy	 Total trade balance €bn	Nov	6.8	-	7.6	-	
Auctions							
Country	Auction						
- Nothing to report -							





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Italy	 Final CPI (EU-harmonised CPI) Y/Y%	Dec	-0.1 (-0.3)	-0.1 (-0.3)	-0.2 (-0.3)	-	
UK	 Rightmove house prices M/M% (Y/Y%)	Jan	-0.9 (3.3)	-	-0.6 (6.6)	-	
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 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

Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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