

Euro wrap-up

Overview

- Despite another big upside surprise in the German producer price inflation, Bunds rallied after Germany and Austria tightened lockdown restrictions in the face of sharply rising coronavirus cases.
- Gilts also made significant gains despite a return to growth in retail sales and a rise in consumer confidence, while BoE Chief Economist Pill stated that he was still undecided about how he will vote at next month's MPC.
- The coming week brings several survey results for November including the flash PMIs, the account of the ECB's October policy meeting and speeches from several ECB and BoE policymakers.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.785	-0.027
OBL 0 10/26	-0.639	-0.054
DBR 0 08/31	-0.339	-0.060
UKT 0 ¹ / ₈ 01/24	0.459	-0.054
UKT 0 ³ / ₈ 10/26	0.627	-0.051
UKT 0 ¹ / ₂ 07/31	0.865	-0.056

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

Euro area

Austria and Germany tighten Covid restrictions raising risks of consumption contraction

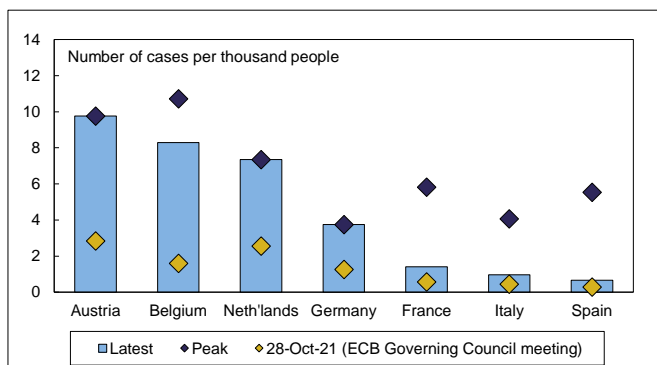
The spread of Covid-19 continues to worsen in several member states in Central and Northern Europe, putting healthcare under strain and pushing up death rates, and adding to the downside risks to the near-term economic outlook too. Having on Monday introduced restrictions only for the unvaccinated, today Austria's Chancellor Schallenberg announced that a national lockdown for all would start on Monday. Initially, the restrictions will last for ten days. But the government retains the option of extending the restrictions to twenty days if judged necessary. Austrians will only be permitted to leave their homes for work, exercise and essential purchases. Schools will remain open but parents are expected to keep their children at home if possible. With take-up in Austria among the lowest of all member states, the Chancellor also announced the intention to make vaccinations against the coronavirus compulsory from 1 February.

Accounting for only 2½% of euro area GDP, events in Austria alone are unlikely to have a significant bearing on overall growth this quarter. But the Netherlands (almost 5% of euro area GDP) has also imposed lockdown-lite restrictions. And in Germany (more than 20% of euro area GDP), the Bundesrat today approved the new restrictions proposed yesterday by Chancellor Merkel and state leaders. The measures limit access for the unvaccinated to leisure activities and hospitality in states where the number of new hospital admissions surpasses three per 100k inhabitants – which currently applies to states accounting for more than 83% of the national population (i.e. all except Hamburg, Lower Saxony, Schleswig-Holstein and Saarland). And further restrictions, such as on contacts, will apply in states where the number of admissions rises above nine per 100k, which currently applies in Saxony-Anhalt and Thuringia. While the spread of the coronavirus remains very subdued in France and Southern Europe where vaccination rates are higher and vaccine passports are commonplace, the reimposition of restrictions in Northern member states – and the possibility of more stringent measures to come – raises the risks of a contraction in consumer spending growth this quarter. In addition, should the current wave of coronavirus last throughout the winter, the ECB might be forced to admit in March that the pandemic phase is not yet over, and so could yet have to extend the PEPP programme into Q2.

German PPI inflation surprises on the upside again, rising most since 1951

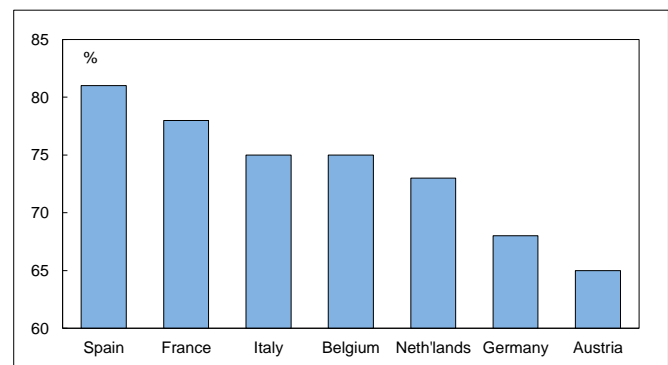
Once again, Germany's producer price inflation surprised significantly on the upside in October pointing the likelihood of a further significant rise in the euro area rate (data not due until early December). In particular, prices at the factory gate rose a hefty 3.8%M/M, the highest this sequence, to push the annual PPI rate up 4.2pts to 18.4%Y/Y, the loftiest reading since November 1951. Perhaps inevitably, the jump was driven by higher energy prices, which rose by more than 12%M/M to be

Euro area: Covid cases in selected countries



Source: Our World in Data and Daiwa Capital Markets Europe Ltd.

Euro area: Vaccination rates in selected countries



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

up 48%Y/Y, powered by significantly higher inflation of natural gas (81%Y/Y) and electricity (49.6%Y/Y). When excluding energy, producer price inflation rose 0.6ppt to 9.2%Y/Y, of which producer intermediate goods inflation rose 0.7ppt to an extremely strong 18.1%Y/Y as increases in the prices of metals remained elevated. And while the respective rates of growth were substantially softer, inflation of producer capital and consumer durable goods also continued their upwards trends, to 3.2%Y/Y and 3.4%Y/Y respectively, suggesting some increased pass-through from higher costs of energy, materials and components.

The week ahead in the euro area

The coming week will bring the release of a number of key survey indices, including the European Commission's preliminary consumer confidence indicator (Monday) and flash PMIs (Tuesday). Against the backdrop of rising coronavirus cases across certain member states, and higher prices eroding household disposable income, consumer confidence is likely to have moderated in November. And with firms facing persistent supply bottlenecks, labour shortages and higher input costs, the latest PMIs are likely to point to a further moderation in recovery momentum this month too. Among the country indicators, Germany's ifo and France's INSEE business surveys (Wednesday) will be followed by consumer confidence indices from Germany (Thursday), France and Italy (Friday). In terms of hard data, Tuesday will bring updated German GDP figures for Q3, which will include the first official expenditure breakdown. The initial release suggested that Germany's economy grew by 1.8%Q/Q, seemingly driven principally by household expenditure. Friday will also see the release of the ECB's latest bank lending figures. In other news, Thursday will bring the ECB's account from the [28 October Governing Council meeting](#), after which President Lagarde tried to push back on market pricing of a rate hike in 2022 but also suggested that the PEPP programme was likely to conclude in March. The account will be watched closely for any insights into what might be announced at December's policy-setting meeting regarding the future path of asset purchases. Meanwhile, various Governing Council members including President Lagarde and influential Executive Board member Schnabel are due to speak at the ECB legal conference at the end of the week.

UK

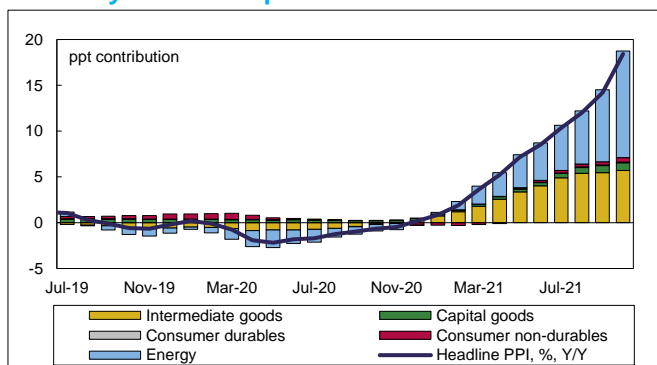
Retail sales rise for first month in six as consumers start shopping for Christmas

UK retail sales volumes increased for the first time in six months in October, rising 0.8%M/M following an upwardly revised reading of 0.0%M/M the prior month. So, while sales were up 5.8% from the pre-pandemic level in February 2020, they were still down a sizeable 2.2%3M/3M. Growth last month came exclusively from stores of core (i.e. non-food and non-fuel) items, where sales rose 4.2%M/M, anecdotally as consumers started buying for Christmas earlier than usual amid fears of being caught short by supply shortages closer to the festive season. Within the core category, clothes store sales rose 6.2%M/M, rising to within 0.5% of the pre-pandemic level. Meanwhile, food store sales fell 0.3%M/M but were still some 3.4% above the pre-pandemic level. And with shoppers feeling more comfortable about returning to the shops, the share of sales online fell to 27.3%, the lowest since March 2020 but still more than 7ppts above the pre-pandemic level. Fuel sales fell 6.4%M/M to be 5.0% below their February 2020 level.

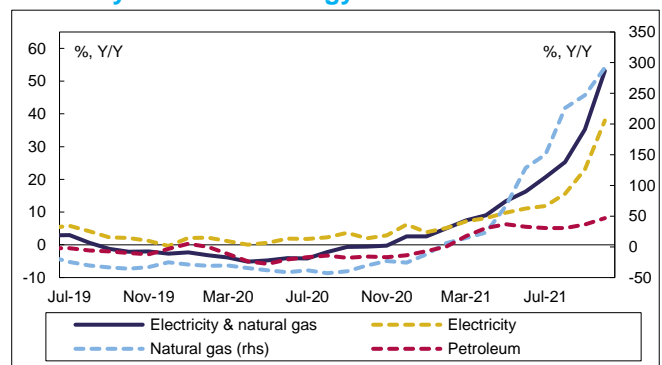
Consumer confidence a touch firmer, also providing more cover for a December rate hike

Growth in October took the level of retail sales 0.6% above the Q3 average, seemingly representing a platform for positive growth over Q4 as a whole. However, we suspect that sales will edge lower as Christmas approaches, as festive demand is satisfied earlier than normal and supply constraints bind. And falling real disposable incomes amid higher prices (the retail price deflator rose to 3.8%3M/Y in October), as well as reductions to Universal Credit benefits and the end of furlough, will also likely weigh. However, the latest GfK survey consumer confidence indicator ticked up this month to support our expectation of only a modest rise in spending over the fourth quarter. Having dropped to an eight-month low in October, the headline GfK indicator rose 3ppts in November to -14, back in line with the average of the year to-date. The improvement was

Germany: Producer price inflation



Germany: Producer energy inflation

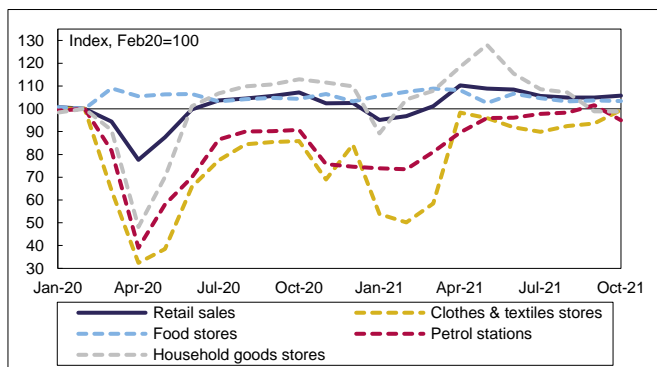


in part related to slightly better perceptions of the economic situation (both forward- and backward-looking), while the climate for making major purchases was judged to be the most favourable since August. Overall, therefore, after this week's stronger [jobs](#) and [inflation](#) figures, today's sales and confidence data arguably provide additional cover for a BoE rate hike next month. However, the relatively hawkish BoE Chief Economist Huw Pill today again suggested that, like in November, the December rate decision would be "finely balanced". Indeed, acknowledging that the risks to the economic outlook were "two-sided", he said "there's a genuine uncertainty even in my own mind about how I'll vote".

The week ahead in the UK

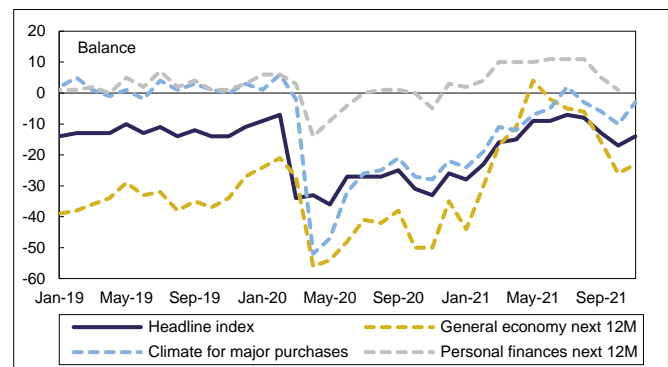
November business surveys dominate the UK's dataflow in the coming week, with arguably most noteworthy being Tuesday's flash PMIs. After the survey implied an unexpected jump in service sector activity at the start of the fourth quarter, the headline services PMI might have moderated this month as subdued consumer confidence amid higher prices and lower real disposable incomes likely weighed on demand. And the manufacturing survey is likely to signal that ongoing supply-side disruption continued to restrain production and keep price pressures elevated. A similar message is expected from the CBI's industrial trends survey on Wednesday, while the SMMT car production numbers for October (on Friday) will illustrate how these constraints are especially binding in the autos sectors. Thursday will also bring the CBI's latest distributive trades survey, which will provide an update on conditions in the retail sector in November. From the BoE, Governor Bailey will talk publicly on Thursday, while Chief Economist Pill (Friday) and dovish external members Haskel (Tuesday and Thursday) and Tenreyro (Wednesday) also giving speeches which might signal how they are likely to vote at December's key MPC meeting.

UK: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence



Source: GfK, Refinitiv and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

	2021		2022				2021	2022	2023
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q									
Euro area	2.2	0.8	0.8	0.9	0.7	0.6	5.1	4.2	2.1
UK	1.3	0.9	0.4	0.4	0.4	0.6	6.9	3.7	1.8
Inflation forecasts %, Y/Y									
Euro area									
Headline CPI	2.8	4.2	3.4	3.6	2.8	1.8	2.5	2.9	1.4
Core CPI	1.4	2.2	1.6	2.3	1.9	1.5	1.4	1.8	1.3
UK									
Headline CPI	2.8	4.6	5.0	4.6	4.0	2.4	2.5	4.0	1.8
Core CPI	2.6	3.7	4.0	3.5	2.9	2.0	2.3	3.1	2.0
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	0.25	0.50	0.50	0.50	0.10	0.50	0.75
Gilt purchases* (£bn)	875	875	875	875	866	866	875	866	833







*Target end of period. Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 23rd November 2021

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 ECB current account balance €bn	Sep	18.7	-	13.4	17.1
Germany	 PPI Y/Y%	Oct	18.4	16.2	14.2	-
UK	 GfK consumer confidence	Nov	-14	-18	-17	-
	 Retail sales including auto fuels M/M% (Y/Y%)	Oct	0.8 (-1.3)	0.5 (-1.9)	-0.2 (-1.3)	0.0 (-0.6)
	 Retail sales excluding auto fuels M/M% (Y/Y%)	Oct	1.6 (-1.9)	0.6 (-2.8)	-0.6 (-2.6)	-0.4 (-1.9)
	 Public sector net borrowing, excluding banks, £bn	Oct	18.8	14.0	21.8	20.7



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/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 EU27 new car registrations Y/Y%	Oct	-30.3	-	-23.1	-
France	 BoF retail sales survey %M/M	Oct	-0.9	-	2.8	-

















Auctions

Country	Auction
France	 sold €3.05bn of 0% 2024 bonds at an average yield of -0.69%  sold €2.60bn of 0% 2027 bonds at an average yield of -0.37%  sold €1.85bn of 2.75% 2027 bonds at an average yield of -0.37%  sold €565mn of 0.1% 2026 inflation-linked bonds at an average yield of -2.38%  sold €573mn of 0.1% 2028 inflation-linked bonds at an average yield of -1.775%  sold €608mn of 0.7% 2030 inflation-linked bonds at an average yield of -1.975%
Spain	 sold €1.49bn of 0% 2027 bonds at an average yield of -0.114%  sold €865mn of 0.6% 2029 bonds at an average yield of 0.178%  sold €1.76bn of 0.5% 2031 bonds at an average yield of 0.465%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.


















The coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa</i> forecast/actual	Previous
Monday 22 November 2021					
Euro area 	15.00	European Commission's preliminary consumer confidence	Nov	-5.4	-4.8
Spain 	09.00	Trade balance €bn	Sep	-	-3.9
Tuesday 23 November 2021					
Euro area 	09.00	Preliminary manufacturing (services) PMI	Nov	57.5 (53.5)	58.3 (54.6)
	09.00	Preliminary composite PMI	Nov	53.3	54.2
Germany 	07.00	Final GDP Q/Q% (Y/Y%)	Q3	1.8 (2.5)	1.6 (9.8)
	08.30	Preliminary manufacturing (services) PMI	Nov	57.0 (52.0)	57.8 (52.4)
	08.30	Preliminary composite PMI	Nov	51.0	52.0
France 	08.15	Preliminary manufacturing (services) PMI	Nov	53.1 (54.2)	53.6 (56.6)
	08.15	Preliminary composite PMI	Nov	53.3	54.7
UK 	09.30	Preliminary manufacturing (services) PMI	Nov	57.0 (58.0)	57.8 (59.1)
	09.30	Preliminary composite PMI	Nov	57.2	57.8
Wednesday 24 November 2021					
Germany 	09.00	Ifo business climate	Nov	96.7	97.7
	09.00	Ifo current assessment balance (expectations)	Nov	99.0 (94.4)	100.1 (95.4)
France 	07.45	INSEE business confidence	Nov	112	113
	07.45	INSEE manufacturing confidence (production outlook)	Nov	106 (-)	107 (21)
UK 	11.00	CBI industrial trends survey, total orders (selling prices)	Nov	7 (-)	9 (59)
Thursday 25 November 2021					
Germany 	07.00	GfK consumer confidence	Dec	-1.0	0.9
Spain 	08.00	PPI Y/Y%	Oct	-	23.6
UK 	11.00	CBI distributive trades, reported sales*	Nov	-	27
Friday 26 November 2021					
Euro area 	09.00	M3 money supply Y/Y%	Oct	7.4	7.4
France 	07.45	INSEE consumer confidence	Nov	97	99
Italy 	09.00	ISTAT consumer (manufacturing) confidence	Nov	116.0 (114.0)	118.4 (114.9)
	09.00	ISTAT economic sentiment	Nov	-	115.0
UK 	-	SMMT car production Y/Y%	Oct	-	-41.5

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

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 22 November 2021		
Euro area 	17.50	ECB Vice President de Guindos scheduled to speak at online event organised by the Bank of Spain
Tuesday 23 November 2021		
Euro area 	18.40	ECB Vice President de Guindos scheduled to speak at an event – 'The night of the economy'
UK 	11.00	BoE's Haskel scheduled to speak at an event – 'High inflation now and then'
	15.00	BoE Governor Bailey and Deputy Governor Cunliffe to testify before House of Lords on central bank digital currencies
Wednesday 24 November 2021		
Euro area 	10.10	ECB's Panetta scheduled to speak
	16.00	ECB's Schnabel scheduled to speak at an event – 'New deals, markets and governance'
Germany 	10.30	Auction: €2bn of 0% 2036 bonds
UK 	14.30	BoE's Tenreyro scheduled to speak at Oxford Economics Society
Thursday 25 November 2021		
Euro area 	08.00	ECB's Villeroy scheduled to speak
	09.00	ECB's Schnabel scheduled to speak
	12.30	ECB publishes account of October policy meeting
	13.30	ECB President Lagarde gives opening remarks at the ECB's Legal conference
Italy 	10.00	Auction: Fixed rate and index-linked bonds
UK 	14.30	BoE's Haskel to give introductory remarks at a BoE/NIESR event
	17.00	BoE Governor Bailey scheduled to speak at a Cambridge Union event
Friday 26 November 2021		
Euro area 	-	ECB President Lagarde and Board members Schnabel and Panetta speak at ECB's Legal conference
UK 	13.00	BoE Chief Economist Pill scheduled to speak at a CBI event on the economic outlook

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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. 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 MiFID 2 Professional (or equivalent) Clients and should not therefore be distributed to such Retail Clients. 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>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: <https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>