

Euro wrap-up

Overview

- Bunds largely made gains as the account of the ECB's October policy meeting suggested that the Governing Council should keep its options open next month and German consumer confidence fell to a six-month low.
- Gilts also made gains on a quiet day for UK economic news.
- Friday will bring euro area bank lending data along with survey updates on consumer confidence in France and Italy, business sentiment in Italy, and retail activity in the UK.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.756	+0.006
OBL 0 10/26	-0.577	-0.012
DBR 0 08/31	-0.253	-0.022
UKT 0 ¹ / ₈ 01/24	0.548	-0.011
UKT 0 ³ / ₈ 10/26	0.724	-0.012
UKT 0 ¹ / ₄ 07/31	0.963	-0.030

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

Source: Bloomberg

Euro area

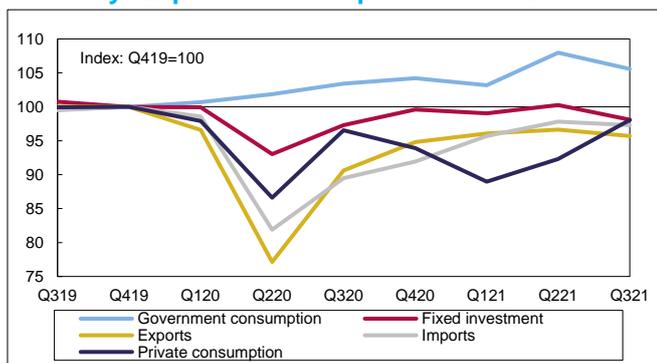
Net PEPP purchases set to end in March but ECB to keep options open next month

Recent days brought speeches from various members of the Governing Council suggesting that a range of views exists in terms of how ECB policy should respond to the current spike in inflation and evolve in 2022. The account of the Governing Council's October meeting, published today, reaffirmed that net purchases under the PEPP could be expected to come to an end by March 2022. However, it also suggested that the policymakers will want to keep their options open on other matters next month. While "most members widely agreed on the expected hump-shaped pattern in the shorter-term inflation outlook", so that the temporary factors pushing inflation higher were considered highly likely to fade, uncertainty around the medium-term outlook was judged to be elevated. The account noted many factors, including the low level of recent pay settlements, that suggest inflation will likely fall back below the ECB's target over the medium term. However, as the data available next month will not resolve all the uncertainties, it was "deemed important for the Governing Council to avoid an overreaction as well as unwarranted inaction" and "keep sufficient optionality in calibrating its monetary policy measures to address all inflation scenarios that might unfold". In terms of interest rates, however, few if any members appear to see a significant probability that the preconditions for a hike next year will be fulfilled. Indeed, the account stated that "market expectations for the future path of the short-term money market interest rate were difficult to reconcile with the ECB's forward guidance on its policy rates". While it was recognized that some market participants might have a different view of the inflation outlook, it was also suggested that others simply might fail to understand the pre-conditions specified in the guidance.

German GDP growth in Q3 fully reliant on consumer as savings normalised

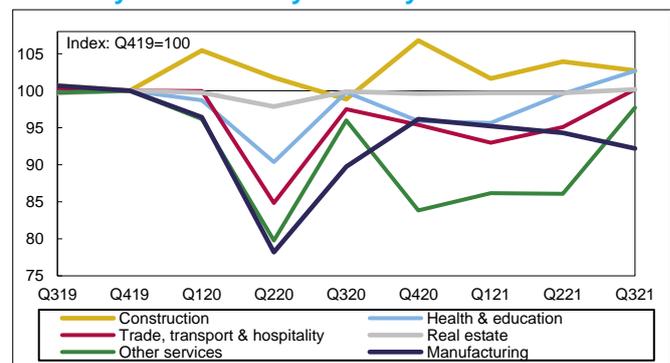
According to today's final estimate, German GDP growth in Q3 was only 0.1ppt softer than previously thought at 1.7%Q/Q. But with that downwards revision reflecting an upwards revision of the same margin to growth in Q2, the level of GDP in Q3 was, as previously estimated, still 1.1% below the pre-pandemic level in Q419. Within the detail, which was published for the first time, growth in Q3 was more than fully explained by a surge in household consumption, which rose a whopping 6.2%Q/Q – the most in a year – to be 2.0% below the pre-pandemic level. Spending on services – not least in hospitality, transport and leisure – rebounded, supported by a marked drop of 4.6ppts in the seasonally adjusted household savings ratio to 12.2%, just 1.5ppts above the pre-pandemic level. Beyond private consumption, all other major expenditure components subtracted from economic growth in Q3. In particular, general government consumption fell a steep 2.2%Q/Q as payback for a surge in Q2. At least in part due to supply bottlenecks, capex weakened too, with fixed investment in machinery and equipment down 3.7%Q/Q and construction investment down 2.3%Q/Q. And with the drop in export volumes (-1.0%Q/Q) steeper than that of imports (-0.6%Q/Q), as production failed to keep up with foreign demand, net trade also subtracted from GDP growth.

Germany: Expenditure components of GDP



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Real GVA by industry



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

German consumer confidence falls to six-month low on Covid-19 spreads

With the increased spread of pandemic, however, household consumption growth looks set to be at best absent in Q4. With the seven-day new Covid-19 incidence rate up to a new high today of 420 per 100k, up from 337 one week ago, and hospitalizations continuing to rise, some restrictions have been re-imposed and tighter ones – as well as a degree of mandatory vaccinations for certain key workers – are likely to be on their way. And, perhaps unsurprisingly, the adverse trends have hit consumer confidence. Based on its latest survey results, GfK's headline consumer confidence index – published as a forecast for the coming month – dropped a steeper-than-expected 2.6pts to a six-month low of -1.6. Within the detail, expectations for the economic outlook and personal incomes fell in November to seven-month lows. And willingness to buy fell to the lowest level since February. With German private consumption having dropped 2.7%Q/Q and 5.3%Q/Q in Q420 and Q121 as last winter's wave of pandemic took hold, that might suggest that a renewed decline in the current quarter is likely.

The day ahead in the euro area

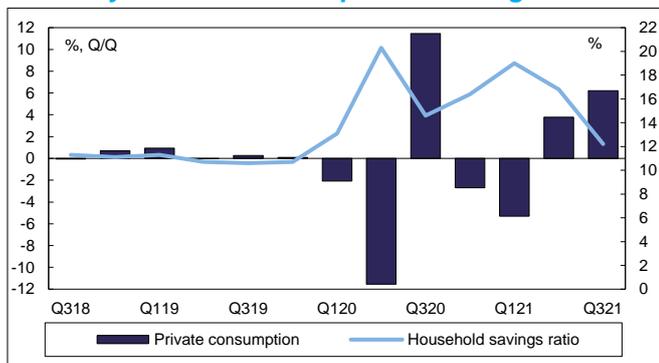
The flow of economic sentiment surveys continues tomorrow with the release of French and Italian consumer confidence figures for November, as well as Italian business sentiment numbers for the same month. Following today's drop in German consumer confidence, the figures from the next two largest member states are expected to move broadly sideways, although the risks to consumer confidence going forward are likely to be skewed to the downside given the sharply rising number of coronavirus cases across the continent. Tomorrow also brings the release of euro area bank lending figures for October. In addition, ECB President Lagarde and Board members Schnabel and Panetta will speak publicly at the central bank's legal conference.

UK

The day ahead in the UK

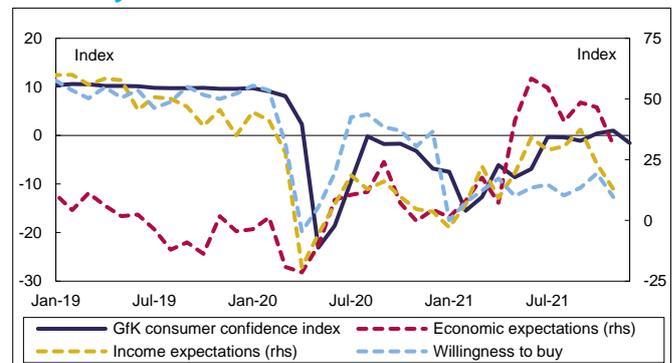
Tomorrow will bring the CBI's latest distributive trades survey, which will provide an update on conditions in the retail sector in November, as well as the latest car registrations data from the SMMT. From the BoE, Chief Economist Huw Pill is due to speak at a CBI event about the economic outlook. While he recently suggested that he had yet to decide how he will vote at December's key MPC meeting, he also suggested that he was now looking for reasons not to hike.

Germany: Private consumption & savings ratio*



*Seasonally adjusted. Source: Bloomberg, Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Consumer confidence



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

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Final GDP Q/Q% (Y/Y%)	Q3	1.7 (2.5)	1.8 (2.5)	1.6 (9.8)	-
	 GfK consumer confidence	Dec	-1.6	-1.0	0.9	1.0
Spain	 PPI Y/Y%	Oct	31.9	-	23.6	23.8
Auctions						
Country	Auction					
Italy	 sold €1bn of 0.4% 2030 inflation-linked bonds at an average yield of -0.65%					
	 sold €2.25bn of 0% 2024 bonds at an average yield of -0.26%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases						
Economic data						
Country	GMT Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous		
Euro area	 09.00 M3 money supply Y/Y%	Oct	7.4	7.4		
France	 07.45 INSEE consumer confidence	Nov	98	99		
Italy	 09.00 ISTAT consumer (manufacturing) confidence	Nov	117.0 (114.0)	118.4 (114.9)		
	 09.00 ISTAT economic sentiment	Nov	-	115.0		
UK	 11.00 CBI distributive trades, reported sales	Nov	-	27		
	 - SMMT car registrations Y/Y%	Nov	-	-24.6		
Auctions and events						
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.

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