

Euro wrap-up

Overview

- As Chancellor Merkel, Chancellor-in-waiting Scholz and German regional leaders agreed new restrictions on unvaccinated people, Bunds made gains despite another record reading for euro area producer price inflation and a further fall in joblessness to its lowest since 2008.
- Gilts also largely made modest gains on a quiet day for top-tier UK data releases.
- Tomorrow will bring euro area retail sales figures, German car sales and production data and final services PMIs.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/23	-0.759	-0.028
OBL 0 10/26	-0.638	-0.036
DBR 0 08/31	-0.379	-0.031
UKT 0 ⁷ / ₈ 01/24	0.527	+0.001
UKT 0 ³ / ₈ 10/26	0.638	-0.015
UKT 0 ¹ / ₄ 07/31	0.798	-0.022

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

Euro area

Euro area producer price inflation exceeds expectations yet again to hit new highs

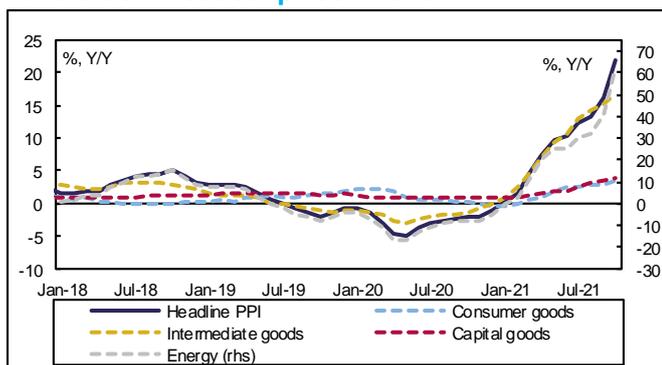
After the flash [euro area CPI](#) estimate earlier this week saw consumer price inflation jump to a 30-year high of 4.9% Y/Y – of which energy accounted for roughly half – today's producer price inflation data confirmed a further intensification of price pressures at the factory gate. Coming in way above expectations, prices rose at a record monthly pace of 5.7% M/M, almost twice that recorded in September, to be up a whopping 21.9% Y/Y, similarly a fresh series high. Energy remained the main driver, with prices up 16.8% M/M to push the annual growth rate up to a hefty 62.5% Y/Y. Producer prices of electricity and gas distribution rose by more than 90% Y/Y. And prices of extraction of natural gas rose more than 190% Y/Y with extraction of oil and petroleum up almost 177% Y/Y. Against the backdrop of severe supply bottlenecks of certain key manufacturing inputs, inflation of intermediate items rose again too, by 1.6ppts to a new euro-era high of 16.8% Y/Y, with prices of chemicals up almost 34% Y/Y and basic metals up 40% Y/Y. And there was evidence of increased pass-through to other categories, with producer inflation of capital goods and consumer durables up to new highs of 3.9% Y/Y and 4.2% Y/Y respectively.

Looking ahead, the evolution of energy prices will likely remain key. With the arrival of colder weather, benchmark European gas prices have risen around 46% over the past month, albeit remaining some way below the early-October peak. But futures project a steady decline from a peak in January through to September next year, by a cumulative 70%. Moreover, following the emergence of the Omicron variant, crude oil prices have fully reversed the near-one-third increase recorded from August to October. So, we see a strong likelihood that the contribution from energy prices will diminish gradually and eventually subtract from producer price inflation from the fourth quarter of next year. And in turn we anticipate consumer energy inflation will fall back significantly during the second half of 2022 too.

Euro area unemployment maintains downwards trend but at a slower pace

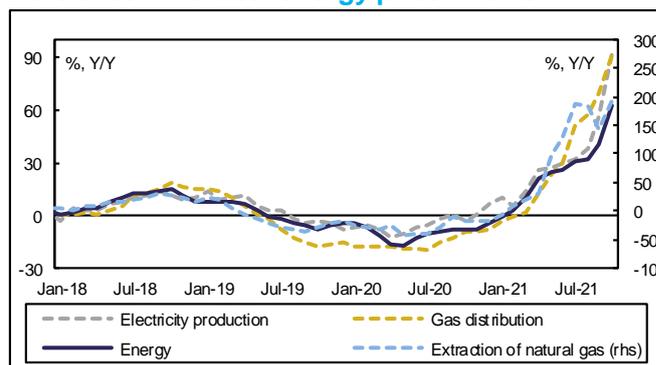
There were no major surprises from today's euro area labour market data, which reported a further decline in joblessness in October for the sixth consecutive month and by 64k. But consistent with a moderating economic recovery at the start of the fourth quarter, today's numbers suggested a notable slowing in the pace of decline, having averaged a monthly drop of 227k in the previous five months. Nevertheless, this left the number of jobless people at 12.05mn, a decline of 1.6mn from a year earlier and down almost 2mn from the post-pandemic peak. And looking through the initial fluctuations in the data at the onset of the pandemic, which were distorted not least by an exodus from the labour force in certain member states as job search became impossible during lockdowns, the number of people unemployed was 24k less than in February 2020, a little

Euro area: Producer price inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Producer energy price inflation



Source: Eurostat and Daiwa Capital Markets Europe Ltd.

more than 200k less than in December 2019 and its lowest since before the Global Financial Crisis. And the unemployment rate fell 0.1ppt to 7.3%, leaving it 1.6ppts lower than the 2020 peak.

German and French jobless below pre-pandemic level, but Spanish still way above

Among the country detail, France recorded the largest drop in unemployment in October, by 48k, taking the cumulative decline since June to almost 200k and the jobless rate to 7.6%, 0.1ppt lower than in February 2020 and just 0.3ppt above the series low. While German unemployment maintained a downwards trend, the pace of decline (-17k) was the softest since the start of the year, therefore leaving the unemployment rate unchanged at 3.3%, matching the rate at the end of 2019. Italy bucked the trend with the unemployment rate rising 0.2ppt to 9.4%. And while Spain's unemployment rate fell to 14.5%, to be more than 2ppts lower than the pandemic peak, it remained 0.7ppt higher than the pre-pandemic rate. Indeed, Spain is the only one of the larger member states to still have unemployment considerably higher than the pre-pandemic level.

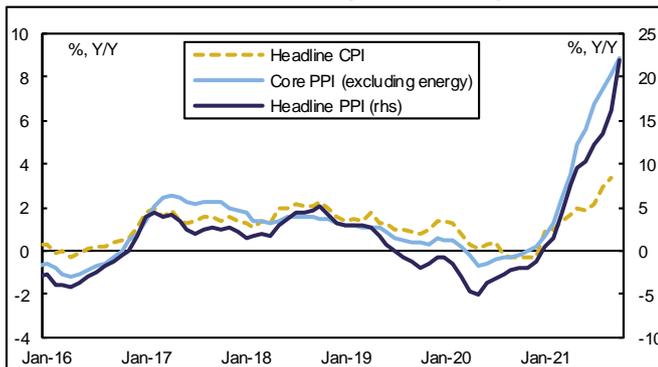
Spain's labour market maintained recovery in November

But, according to the Spanish Labour Ministry, there were further improvements in November, with unemployment (on a non-seasonally adjusted basis) falling (-74.4k) by the most in any November since the start of the series in 1975. On a seasonally adjusted basis, unemployment fell 98k last month, taking the cumulative decline since April to 760k. And this left the number of people employed at 19.77mn, a little more than 290k above the pre-pandemic level. There was also a record number of new contracts signed for the month of November, of which 14% were for permanent placements. Admittedly, the employment levels continue to be flattered to some extent by the government's job retention scheme (ERTE), which in November was estimated to be still supporting 126k people, albeit around 65k less than in the previous month. While the recent pick up in new coronavirus cases remains more limited in Spain than most other member states, concerns about the new Omicron variant and a likely drop in tourism activity might yet see the labour market weaken over the near term, particularly once the ERTE scheme terminates at the end of February. Meanwhile, with outgoing German Chancellor Merkel agreeing with her successor Olaf Scholz and the sixteen regional premiers to introduce new curbs – including no entry to restaurants, theatres and non-essential stores – on the roughly 12 million members of the adult population who remain unvaccinated, reduced mobility and spending in services might be expected to have a negative impact on Germany's labour market too.

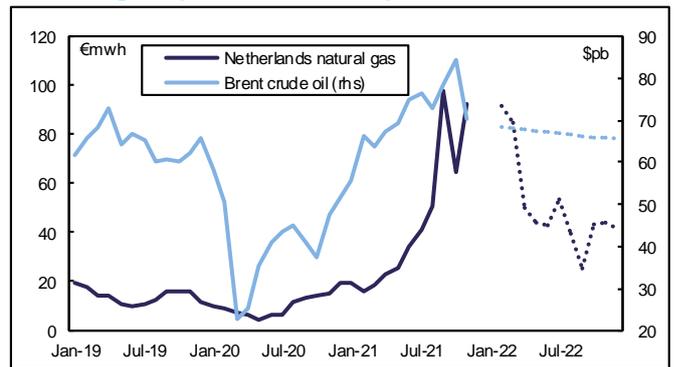
The day ahead in the euro area

Looking ahead, tomorrow brings the release of data on euro area retail sales, which are forecast to have risen 0.3%MM in October, reversing a decline of the same magnitude in September. However, with retail sales in [Germany, France and Spain](#) having surprised on the downside, aggregate euro area retail sales could also undershoot expectations. Tomorrow also sees

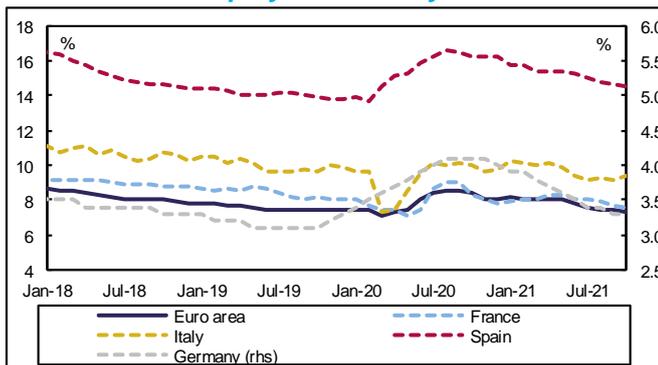
Euro area: Consumer and production price inflation



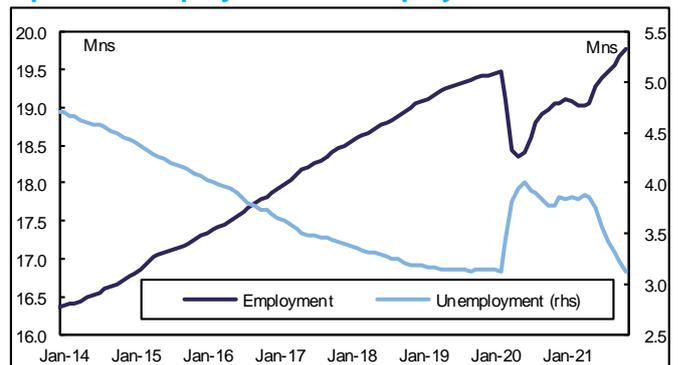
Oil and gas spot and futures prices*



Euro area: Unemployment rate by member state



Spain: Unemployment and employment



the release of German new car sales and production data for November, which are expected to show another sharp drop in both output and sales, in line with yesterday's disappointing car sales figures from the other larger [member states](#). In addition, French industrial production figures for October are expected to show manufacturing output rising 0.8% M/M, which would leave it 0.5% lower compared to a year earlier, highlighting the ongoing disruption from supply constraints and in particular semiconductor shortages. We will also get the final service sector and composite PMIs for November. The flash euro area output PMI for services (56.6) suggested an acceleration in activity. And by extension, for the first time in four months, the euro area composite output PMI was higher too (up 1.6pts to 55.8). Nevertheless, that was still the second-lowest reading since April. And with approximately 85-90% of firms having submitted their survey responses well before the latest intensification of the pandemic, we would expect to see a downwards revision to the headline services activity index. In terms of ECB-speak, President Lagarde will participate in an online Q&A on 'A new vision for a better tomorrow', while ECB Chief Economist Lane will chair a policy panel at the Bank's fiscal policy and EMU governance conference.

UK

The day ahead in the UK

Like in the euro area, tomorrow brings the release of the final UK service sector and composite PMIs for November. The flash releases signalled another month of decent growth in output and jobs amid ongoing price pressures. Admittedly, the preliminary headline services activity index fell back on the month, although at 58.6 it remained consistent with solid expansion and at a pace above the long-run average. Meanwhile, BoE external MPC member Saunders is due to speak about the outlook for inflation and monetary policy.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 PPI M/M% (Y/Y%)	Oct	5.4 (21.9)	3.8 (19.0)	2.7 (16.0)	2.8 (16.1)
	 Unemployment rate %	Oct	7.3	7.3	7.4	-
Italy	 Unemployment rate %	Oct	9.4	9.1	9.2	-
Spain	 Unemployment change '000s	Nov	-74.4	-	-0.7	-
Auctions						
Country	Auction					
France	 sold €2.22bn of 2.5% 2030 bonds at an average yield of -0.19%					
	 sold €677mn of 4.5% 2041 bonds at an average yield of 0.38%					
	 sold €1.10bn of 3.25% 2045 bonds at an average yield of 0.5%					
Spain	 sold €1.13bn of 2.15% 2025 bonds at an average yield of -0.421%					
	 sold €899mn of 0.5% 2031 bonds at an average yield of 0.386%					
	 sold €475mn of 0.7% 2033 inflation-linked bonds at an average yield of -1.047%					

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 Final services (composite) PMI	Nov	56.6 (55.8)	54.6 (54.2)
		10.00 Retail sales M/M% (Y/Y%)	Oct	0.3 (1.4)	-0.3 (2.5)
Germany		08.55 Final services (composite) PMI	Nov	53.4 (52.8)	52.4 (52.0)
		- New car registrations* Y/Y%	Nov	-	-34.9
France		07.45 Industrial production M/M% (Y/Y%)	Oct	0.6 (-0.4)	-1.3 (0.8)
		07.45 Manufacturing production M/M% (Y/Y%)	Oct	0.8 (-0.5)	-1.4 (0.1)
		08.50 Final services (composite) PMI	Nov	58.2 (56.3)	56.6 (54.7)
Italy		08.45 Services (composite) PMI	Nov	54.3 (55.9)	56.6 (56.2)
Spain		08.15 Services (composite) PMI	Nov	58.6 (57.5)	56.6 (56.2)
UK		09.30 Final services (composite) PMI	Nov	58.6 (57.7)	59.1 (57.8)

Auctions and events

Euro area		08.30 ECB President Lagarde to participate in an online Q&A on 'A new vision for a better tomorrow'
		13.00 ECB Economist Lane to chair a policy panel at ECB conference on fiscal policy and EMU governance
UK		11.00 BoE's Saunders scheduled to speak on 'The outlook for inflation and monetary policy'

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

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