

Euro wrap-up

Overview

- Bunds were little changed despite an easing in the pace of decline of German car production and an improved French consumer confidence survey.
- Gilts were also little changed as UK PM Johnson reiterated his opposition to a further tightening of anti-Covid restrictions in England.
- Tomorrow will bring Germany's flash December inflation estimate, factory orders data and construction PMIs. The UK's final services PMI is also due.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/23	-0.635	-0.004
OBL 0 10/26	-0.434	-0.006
DBR 0 02/32	-0.088	-
UKT 0 ¹ / ₈ 01/24	0.744	+0.007
UKT 0 ³ / ₈ 10/26	0.907	+0.007
UKT 0 ¹ / ₄ 07/31	1.084	+0.003

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

Source: Bloomberg

Euro area

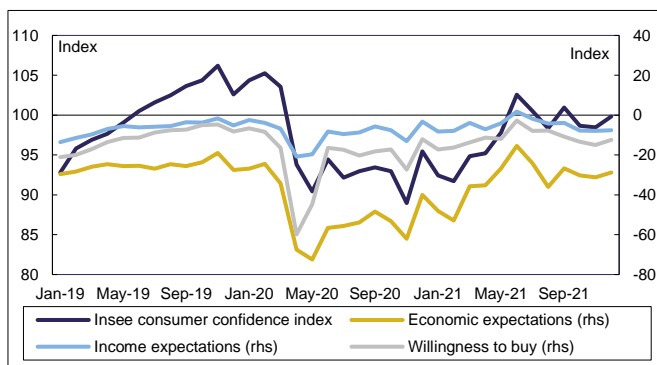
French consumer confidence holding up well

Despite the fresh pandemic wave sweeping across France, consumers remained remarkably upbeat heading into year-end. According to today's INSEE's confidence survey, sentiment unexpectedly improved for the first month in six in December, with the headline indicator rising by 2pts to 100, a three-month high and bang in line with the long-run average. Households were more upbeat about their financial situation and expect a further improvement in economic conditions over the year ahead, with growing expectations that inflation will ease back over the coming twelve months too. While fears about near-term unemployment edged slightly higher last month, they remained substantially lower than levels seen earlier in the year and well below the long-run average. And the share of households considering it to be a suitable time to make major purchases, while still below the most recent peak in July, rose to the highest for three months.

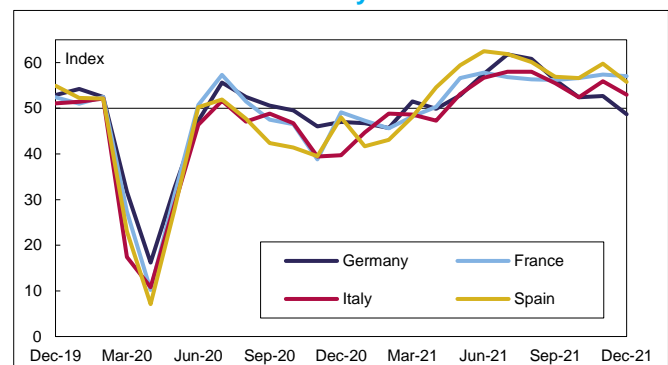
Services PMIs suggests France remains resilient, but elsewhere sees pandemic hit

The services PMI surveys similarly suggested that the euro area's second largest member state is proving broadly resilient to the latest pandemic wave. Indeed, despite tighter restrictions and the upsurge in new coronavirus cases over the Christmas period, the final survey merely brought a very modest downwards revision to the headline French activity index, by 0.1pt to 57.0, implying only a slightly softer pace of growth than in November and a rate that exceeded the average through the second half of last year. This contrasted sharply with Germany's services firms, for whom the respective activity index fell 4pts in December to 48.4, to represent the only member state where the sector suffered a contraction at the end of last year. Over the fourth quarter as a whole, however, Germany's services activity PMI remained in expansionary territory (51.3), albeit more than 8pts lower than the Q3 average. There were also sizeable declines in December in the services activity indices in Italy (down 2.9pts) and Spain (down 4pts), although at 53.0 and 55.8 they both implied ongoing solid growth. In aggregate, the euro area's services PMI fell 2.8pts to 53.1 in December (only marginally softer than the initial estimate), still consistent with ongoing recovery albeit at the softest pace since April. Unsurprisingly given tightened pandemic restrictions, new business also reportedly slowed sharply in December, with tourism being particularly severely impacted by weaker overseas sales due to tightened travel restrictions. Overall, with the manufacturing output PMI (53.8) above the services PMI for the first time since July, the euro area composite output PMI fell 2.1pts to 53.3, to leave the quarterly average in Q4 at 54.3, some 4pts lower than the average in Q3 but still consistent with positive GDP growth.

France: Consumer confidence



Euro area: Services PMIs by member state



Pace of decline in German auto production moderates further

Tallying with the improved German manufacturing PMIs at the end of last year, today's VDA car production numbers for December showed a further moderation in the annual pace of decline, of more than 20ppts to -10.9%Y/Y, marking the slowest fall since May, after which supply-chain challenges became particularly disruptive. Against this backdrop, new car registrations edged up for the second successive month to their highest level since July. Admittedly, this still left them down 26.9%Y/Y, with full-year sales a notable 10% below the level in 2020 and at a post-reunification low. And despite the recent improvement, a survey published by the German ifo institute today suggested that sentiment in the autos sector had deteriorated at the end of last year to its worst since early 2021, reflecting not least the persistent supply bottlenecks impeding delivery of inputs. There was also a notable deterioration in manufacturers' expectations to the weakest since mid-2020.

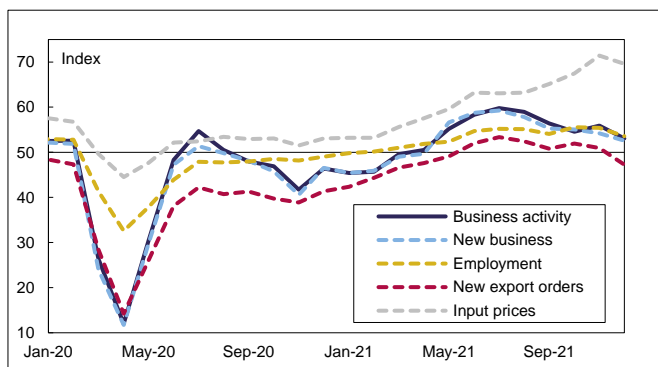
Italian inflation rises to highest since 2008

The final PMI surveys for December once again flagged elevated price pressures across the various sectors and member states. And today's flash Italian inflation numbers showed a further upwards shift in December, not quite as strong as that in Spain (up 1.2ppts to 6.7%Y/Y on the EU-harmonised measure, the highest since 1992) but a contrast to the unchanged rate reported earlier this week in France (3.4%Y/Y). In particular, headline Italian inflation on the EU harmonised measure rose 0.3ppt in December to 4.2%Y/Y, the highest since 2008. This largely reflected a jump in food inflation of 1.3pppts to 2.5%Y/Y. Stronger durable goods prices also pushed non-energy industrial goods inflation up 0.5ppt to 1.1%Y/Y. And partly due to seasonal factors, prices of transport and recreation helped to push up services inflation by 0.1ppt to 1.8%Y/Y, the highest since April 2017. But while energy inflation eased slightly (down 1.6ppts to 29.6%Y/Y), it still accounted for a little more than 60% of headline inflation. And so, core inflation was still subdued at 1.5%Y/Y, nevertheless up 0.2ppt from November and the highest since February 2020.

The day ahead in the euro area

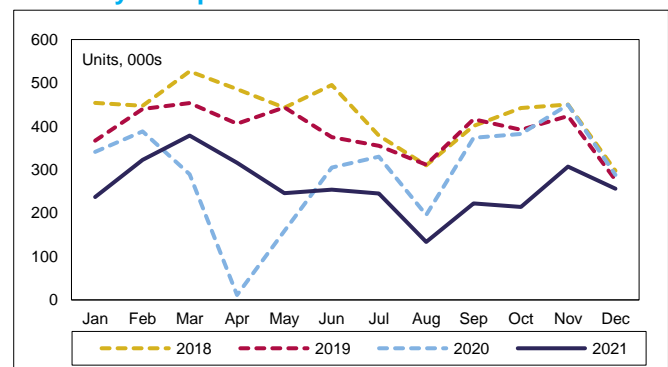
Tomorrow brings German factory orders data for November, which are expected to report a rise of 2.2%M/M, relatively modest compared to October's hefty 6.9%M/M decline, which only in part reflected weakness in bulk orders. A result in line with expectations would leave orders down 1.1%Y/Y, weighed not least by softer overseas orders. In addition, Germany will publish its preliminary CPI inflation data for December. Contrasting the increases in Italy and Spain, as well as the flat reading in France, these are expected to reveal that the EU-harmonised measure eased back 0.4ppt to 5.6%Y/Y, which will likely come ahead of a much steeper step down in January as base effects associated with tax changes fall out of the

Euro area: Services PMIs



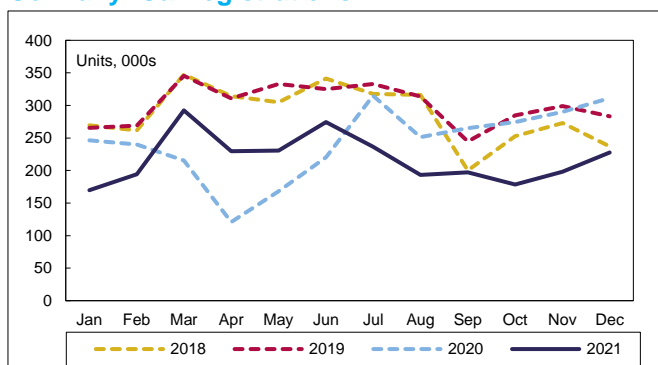
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

Germany: Car production



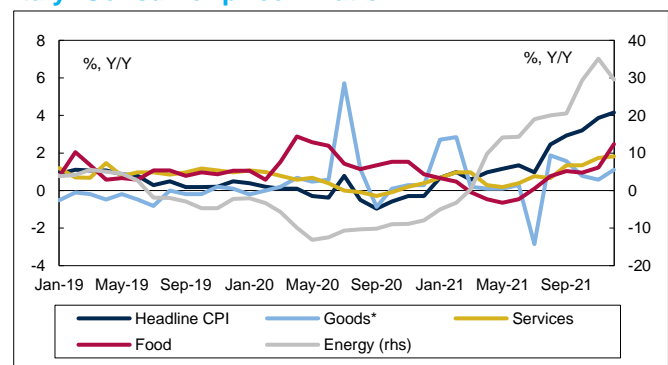
Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Germany: Car registrations



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Italy: Consumer price inflation



*Non-energy industrial goods. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.














calculation. In contrast, euro area producer price figures for November are forecast to reveal that price pressures at the factory gate intensified in the middle of Q4 due not least to energy price pressures, with the headline PPI rate likely to rise about 1ppt close to 23%Y/Y. Meanwhile, the latest construction PMIs are expected to suggest that German firms in the sector continue to underperform with the respective production index probably still firmly below 50. In contrast, Italian construction firms are likely to continue to report solid growth in output after the equivalent index rose to a series high of 65.5 in November.

UK

The day ahead in the UK

After a quiet day for UK data today, tomorrow brings the release of the final service sector and composite PMIs for December as well as the latest new car registration figures. The flash PMIs suggested a hit to the economic recovery heading towards Christmas as the emergence of the Omicron strain and more stringent pandemic restrictions took their toll on services. The flash data reported a larger decline in the headline services activity PMI than had been expected, with the 5.3pts drop the largest since January to leave the index at 53.2, down more than 9½pts from the summer peak.










European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Final services (composite) PMI	Dec	53.1 (53.3)	53.1 (53.4)	55.9 (55.4)	-
Germany	 Final services (composite) PMI	Dec	48.7 (49.9)	48.4 (50.0)	52.7 (52.2)	-
	 New car registrations Y/Y%	Dec	-26.9	-	3	-
France	 Final services (composite) PMI	Dec	57.0 (55.8)	57.1 (55.6)	57.4 (55.6)	-
	 INSEE consumer confidence	Dec	100	97	99	98
Italy	 Services (composite) PMI	Dec	53.0 (54.7)	54.0 (56.1)	55.9 (57.6)	-
	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Dec	3.9 (4.2)	3.8 (4.2)	3.8 (3.9)	3.7 (-)
Spain	 Services (composite) PMI	Dec	55.8 (55.4)	57.4 (56.0)	59.8 (58.3)	-
Auctions						
Country	Auction					
Germany	 sold €3.13bn of 0% 2032 bonds at an average yield of -0.09%					
Spain	 sold €1.39bn of 0% 2024 bonds at an average yield of -0.392%					
	 sold €1.70bn of 0% 2028 bonds at an average yield of 0.122%					
	 sold €2.03bn of 0.85% 2037 bonds at an average yield of 1.042%					
	 sold €558mn of 0.65% 2027 inflation-linked bonds at an average yield of -1.704%					




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		08.30 Construction PMI	Dec	-	53.3
		10.00 PPI Y/Y%	Nov	22.9	21.9
Germany		07.00 Factory orders M/M% (Y/Y%)	Nov	2.2 (-1.1)	-6.9 (-1.0)
		08.30 Construction PMI	Dec	-	47.9
		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Dec	5.1 (5.6)	5.2 (6.0)
France		08.30 Construction PMI	Dec	-	51.6
Italy		08.30 Construction PMI	Dec	-	65.5
UK		09.00 New car registrations Y/Y%	Dec	-	1.7
		09.30 Final services (composite) PMI	Dec	53.2 (53.2)	58.5 (57.6)

Auctions and events

France		09.50 Auction: 0% 2032 bonds
		09.50 Auction: 0.5% 2040 bonds
		09.50 Auction: 0.75% 2053 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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