

Euro wrap-up

Overview

- Bunds made modest gains while ECB early TLTRO repayments were at the lower end of expectations.
- Gilts made losses even as UK retail sales figures maintained a downwards trend at the start of Q4 and consumer confidence remained near historical lows.
- The coming week will bring flash PMIs for November, while the ECB account from its 27 October policy meeting will be published on Thursday.

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.062	-0.010
OBL 1.3 10/27	1.972	-0.010
DBR 1.7 08/32	2.010	-
UKT 1 04/24	3.194	+0.063
UKT 1¼ 07/27	3.302	+0.051
UKT 4¼ 06/32	3.246	+0.047

*Change from close as at 4:15pm GMT.

Source: Bloomberg

UK

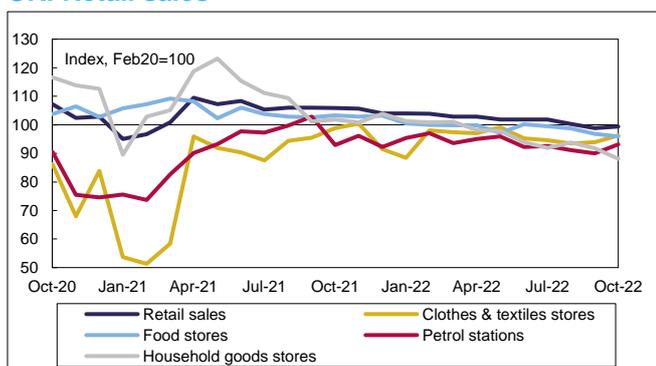
October rebound in sales falls short of expectations to maintain downwards trend

The rebound in UK retail sales at the start of the fourth quarter was lacklustre as household purchasing power continued to be diminished by inflation. Admittedly, sales rose for the first month in three in October, by 0.5%M/M, although this followed a steeper-than-previously-estimated decline in September (-1.5%M/M) when sales were dampened by the additional bank holiday for the Queen's funeral. And so, the downwards trend in place since June 2021 was maintained, with sales falling a steep 2.4%3M/3M, more than 8% below last year's peak and 0.6% below the pre-pandemic level. Within the detail, roughly half of October's growth reflected a bounce in auto fuel sales (3.3%M/M) as petrol prices slipped back. Non-food store sales also rose more than 1%M/M, with strong growth in second-hand goods and clothing. But food store sales fell for the fourth consecutive month, with price increases in the subsector having been particularly acute – indeed, [October's food inflation](#) stood at a record-high 16.5%Y/Y. In nominal terms, the total value of sales rose a stronger 1.8%M/M in October, to be up 4.7%Y/Y, compared to a drop of 6.1%Y/Y in volumes, and more than 14% higher than the pre-pandemic level, illustrating again how households are having to spend more to buy less.

Despite a modest improvement, consumer confidence suggests spending will remain very weak

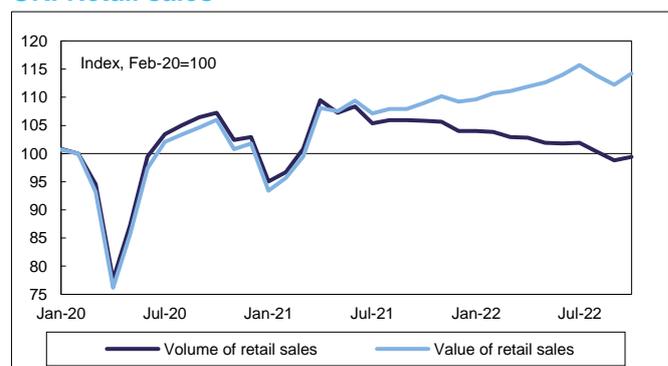
While some consumers may well have delayed non-essential purchases in anticipation of Black Friday discounts this month, yesterday's ONS business insights survey (BICS) still indicated that roughly a quarter of responding businesses judged that their turnover had declined in early November. While an improvement on September, around 45% of businesses in the hospitality sector reported a drop on the month, with more than a quarter of retailers citing decreasing activity. And a similar share expected turnover to decline in December too, with just 13% anticipating an increase. Overall, the survey tallies with falling demand amid still subdued sentiment, with today's GfK consumer confidence survey indicators at near-historical lows in November despite a modest uptick from October. In particular, despite rising for the second successive month, the headline index (-44) in the first two months of Q4 was trending almost 1pt lower than the Q3 average and it remained well below the long-run average (-10). While GfK suggested that the improvement reflected renewed political stability after the appointment of Rishi Sunak as Prime Minister, the confirmation in yesterday's [Autumn Statement](#) that household energy support will be less favourable from April will do nothing to encourage consumers to loosen the purse strings. Indeed, amid double-digit inflation, declining real disposable incomes, rising borrowing costs and an extremely uncertain economic outlook, the survey's purchase intentions measure was still trending almost 3pts below the Q3 average.

UK: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

The week ahead in the UK

Sentiment surveys will dominate the UK data flow in the coming week, kicking off with the flash PMIs on Wednesday. While October's survey suggested some stabilisation in the manufacturing sector at the start of Q4, it also implied ongoing steep contraction (45.0), with the services activity index declining to a 21-month low (48.8). And given increasingly squeezed budgets, we would expect little improvement in the November PMIs, to be therefore consistent with contraction in Q4. The CBI industrial trends survey (Thursday) is similarly expected to illustrate declining orders in the manufacturing sector in November. Ahead of these surveys we will get the October public finance figures on Tuesday. On Thursday, a Bank of England watchers' conference will include keynote speeches from BoE Deputy Governor Ramsden and ECB Executive Board member Schnabel, as well as panel appearances from BoE Chief Economist Pill and external MPC member Mann.

Euro area

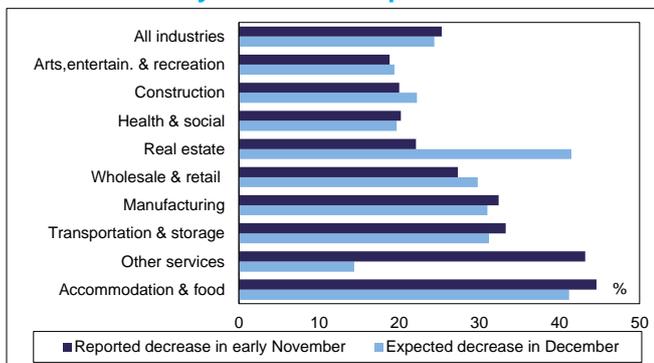
Early TLTRO repayments at the lower end of expectations

The ECB announced today that the amount of TLTRO-iii loans to be repaid by banks ahead of schedule next week was firmly at the lower end of expectations at just €296bn, less than 15% of the outstanding stock of such loans. The repayments followed the decision by the Governing Council last month to change the terms of the TLTRO-iii funds, most notably by increasing the interest rates to be applied on these loans from 23 November. The repayment will leave just over €1.8trn of TLTRO-iii loans outstanding. However, excess liquidity will remain much higher at about €4.4trn. The relatively low level of repayment this month might well reflect the little time available to banks to decide what to do since the ECB's policy announcement on 27 October. As such, we might expect to see further more substantial repayments on the next voluntary repayment date on 21 December. However, until QT - which looks bound to start in the first quarter - is well advanced, excess liquidity will remain very high, acting as a distortion on the market for euro area government collateral and complicating somewhat monetary policy normalisation.

The week ahead in the euro area

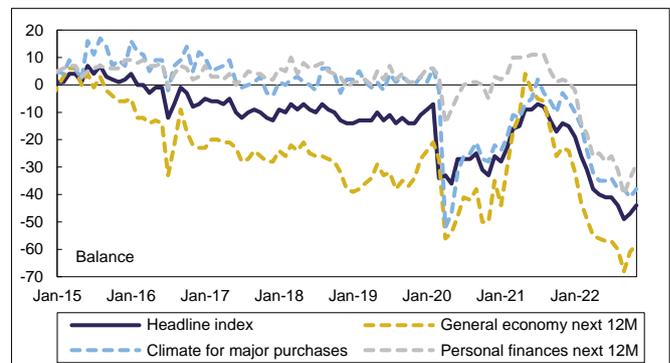
After some arguably more hawkish comments from ECB President Lagarde today, noting that interest rates are expected to rise further and suggesting that merely withdrawing accommodation may not be enough to bring inflation back in a timely manner, the coming week's account from the ECB's [27 October Governing Council](#) meeting will be of note. This meeting saw interest rates hiked by 75bps taking the Deposit Rate to 1.50%, but offered somewhat less hawkish guidance than of late suggesting that a slower pace of tightening might be more likely at future meetings. Meanwhile, the data flow in the euro area in the coming week will be focused on November sentiment indicators, with arguably most noteworthy being the flash

UK: BICS survey – turnover expectations



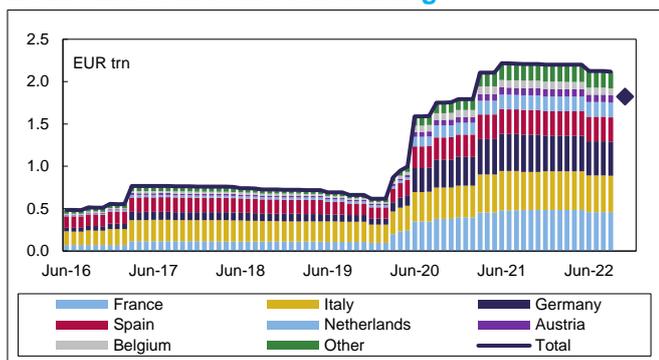
Source: ONS business insights survey and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence



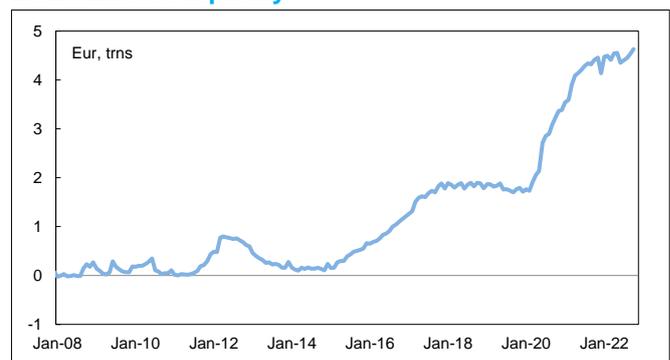
Source: Refinitiv, GfK and Daiwa Capital Markets Europe Ltd.

ECB: TLTROs-iii loans outstanding*



*Diamond represents Daiwa estimate for November 2022.
 Source: ECB and Daiwa Capital Markets Europe Ltd.

ECB: Excess liquidity



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

PMIs on Wednesday. Having slumped in October – when the manufacturing output PMI fell 2.5pts to 43.8, the lowest since May 2020, while the services activity PMI (48.6) was the weakest since February 2021 – the indices might well suggest some stabilisation in November, albeit still signalling contraction. Ongoing challenging business conditions will likely be flagged by the German Ifo and French INSEE surveys (Thursday) and the Italian ISTAT indices (Friday). The Commission's preliminary consumer confidence indicator (Tuesday) is also expected to report still very fragile household sentiment amid record high inflation, rising borrowing costs and concerns about energy supply. Equivalent surveys are also due from Germany, France and Italy on Friday. Among other member state data releases, German PPI figures for October (Monday) will be watched for further signs of easing pipeline pressures. Meanwhile, updated German Q3 GDP data (Friday) are expected to align with the flash release that reported (surprisingly robust) growth of 0.3%Q/Q. However, the first official expenditure breakdown will likely confirm that household consumption was the main driver of growth, but net trade was a drag.

The next edition of the Euro wrap-up will be published on 22 November 2022

Daiwa economic forecasts

	2022			2023			2022	2023	2024
	Q2	Q3	Q4	Q1	Q2	Q3			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.8	0.2	-0.3	-0.3	-0.1	0.1	3.3	-0.2	0.8
UK 	0.2	-0.2	-0.4	-0.3	-0.5	-0.3	4.3	-1.2	0.1
Inflation, %, Y/Y									
Euro area									
Headline HICP 	8.0	9.3	10.5	9.2	7.3	5.6	8.5	6.3	2.0
Core HICP 	3.7	4.4	5.2	4.9	4.1	3.4	4.0	3.6	2.0
UK									
Headline CPI 	9.2	10.0	10.9	10.2	9.9	8.9	9.1	9.0	4.2
Core CPI 	6.0	6.3	6.6	6.2	5.1	4.6	6.0	5.0	3.9
Monetary policy, %									
ECB									
Refi Rate 	0.00	1.25	2.50	3.00	3.00	3.00	2.50	3.00	2.25
Deposit Rate 	-0.50	0.75	2.00	2.50	2.50	2.50	2.00	2.50	1.75
BoE									
Bank Rate 	1.25	2.25	3.50	4.25	4.25	4.25	3.50	4.25	3.25

Source: Bloomberg, ECB, BoE 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
UK 	GfK consumer confidence	Nov	-44	-46	-47	-
	Retail sales including auto fuel M/M% (Y/Y%)	Oct	0.6 (-6.1)	0.5 (-6.5)	-1.4 (-6.9)	-1.5 (-6.8)
	Retail sales excluding auto fuel M/M% (Y/Y%)	Oct	0.3 (-6.7)	0.6 (-6.8)	-1.5 (-6.2)	- (-6.1)

Auctions

Country	Auction
- Nothing to report -	

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> <i>forecast/actual</i>	Previous
Monday 21 November 2022					
Germany 	07.00	PPI M/M% (Y/Y%)	Oct	0.8 (41.9)	2.3 (45.8)
Tuesday 22 November 2022					
Euro area 	09.00	ECB current account balance €bn	Sep	-	-26.3
	15.00	European Commission preliminary consumer confidence	Nov	-26.0	-27.6
UK 	07.00	Public sector net borrowing excluding banks £bn	Oct	20.0	20.0
Wednesday 23 November 2022					
Euro area 	09.00	Preliminary manufacturing (services) PMI	Nov	46.0 (48.0)	46.4 (48.6)
	09.00	Preliminary composite PMI	Nov	47.0	47.3
Germany 	08.30	Preliminary manufacturing (services) PMI	Nov	45.0 (46.4)	45.1 (46.5)
	08.30	Preliminary composite PMI	Nov	44.9	45.1
France 	08.15	Preliminary manufacturing (services) PMI	Nov	46.9 (50.6)	47.2 (51.7)
	08.15	Preliminary composite PMI	Nov	49.5	50.2
UK 	09.30	Preliminary manufacturing (services) PMI	Nov	45.8 (48.0)	46.2 (48.8)
	09.30	Preliminary composite PMI	Nov	47.5	48.2
Thursday 24 November 2022					
Germany 	09.00	ifo business climate	Nov	85.0	84.3
	09.00	ifo current assessment (expectations) balance	Nov	93.9 (77.0)	94.1 (75.6)
France 	07.45	INSEE business confidence	Nov	101	102
	07.45	INSEE manufacturing confidence (production outlook)	Nov	102 (-)	103 (-8)
UK 	11.00	CBI industrial trends survey, total orders (selling prices)	Nov	-8 (-)	-4 (46)
Friday 25 November 2022					
Germany 	07.00	GfK consumer confidence	Dec	-39.6	-41.9
	07.00	GDP – second estimate Q/Q% (Y/Y%)	Q3	<u>0.3 (1.2)</u>	0.1 (1.6)
France 	07.45	INSEE consumer confidence	Nov	83	82
Italy 	09.00	ISTAT business (manufacturing) sentiment	Nov	- (99.5)	104.5 (100.4)
	09.00	ISTAT consumer confidence	Nov	91.0	90.1

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 21 November 2022		
Euro area 	-	ECB's Vasle, Holzmann, Centeno & Nagel scheduled to speak at various events
UK 	09.05	BoE's Deputy Governor Cunliffe scheduled to speak
Tuesday 22 November 2022		
Euro area 	10.15	ECB's Rehn scheduled to speak
	18.00	ECB's Nagel scheduled to speak
Germany 	10.30	Auction: €3bn of 1.30% 2027 bonds
Wednesday 23 November 2022		
Euro area 	08.30	ECB's de Guindos scheduled to speak
Germany 	10.30	Auction: €1bn of 1.8% 2053 bonds
UK 	11.30	Auction: £3.5bn of 0.25% 2025 bonds
Thursday 24 November 2022		
Euro area 	12.30	ECB publishes account of October policy meeting
	13.00	ECB's Schnabel scheduled to speak at BoE Watchers' Conference
Italy 	10.00	Auction: 2Y fixed and index-linked bonds
UK 	-	BoE's Ramsden, Pill & Mann scheduled to speak at BoE Watchers' Conference
Friday 25 November 2022		
Euro area 	07.30	ECB's Muller scheduled to speak

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>

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Opinions [and/or estimates] reflect a judgment as at the date of publication and are subject to change without notice. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.