

# Euro wrap-up

## Overview

- Bunds made modest gains despite an upside surprise to the Commission's flash consumer confidence indicator, while a BoF retail sales survey signalled a sharp decline in spending at the start of Q4.
- Gilts followed USTs higher on a quiet day for top-tier UK data releases.
- Wednesday brings the flash PMIs for November.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.069	+0.004
OBL 1.3 10/27	1.950	-0.009
DBR 1.7 08/32	1.970	-0.015
UKT 1 04/24	3.144	-0.058
UKT 1½ 07/27	3.220	-0.055
UKT 4¼ 06/32	3.135	-0.046

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

## Euro area

### Euro area consumer confidence surprises on upside, but still consistent with weak spending

While record high [inflation](#) and rising borrowing costs continue to diminish household purchasing power, today's European Commission consumer confidence indicator reported a surprisingly robust improvement in November, by 3.6pts to -23.9, a five-month high. But the index was still uncomfortably close to September's trough (-28.8), only fractionally above the low-point during the initial pandemic slump (-24.5) and 14pts lower than the long-run average, suggesting that consumers remain apprehensive of the economic outlook. Among member state consumer surveys already published, confidence rose in the Netherlands (+2pts to -57) and Belgium (+5pts to -22), but slipped back in Ireland (-0.8pt to -57), with all remaining close to historical lows. While survey respondents were somewhat less pessimistic about the economic outlook and their financial situations for the year ahead, and Dutch consumers were a little less reluctant to make major purchases, households in Belgium were more concerned about unemployment. Overall, these surveys point to a still very subdued spending outlook, and do nothing to change our view that consumption will be a drag on GDP growth in Q4, and probably in Q1 too.

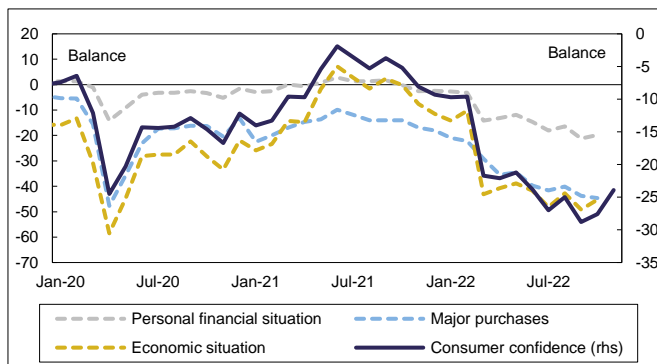
### BoF retail sales survey flags weak spending amid low confidence and high prices

Like elsewhere, French consumer confidence has fallen since the summer to historically low levels, the effect of which was illustrated in the Bank of France's latest retail sales survey. Indeed, the survey's estimate of sales volumes slumped 3.7%M/M in October, the steepest monthly drop since April 2021 when the relaxation of lockdown restrictions allowed increased spending on services. Admittedly, the decline in October followed a strong increase in September as improved supply facilitated a rebound in spending on new autos. But the near-10%M/M acceleration in autos sales in September was almost fully reversed in October, with clothing sales down more than 6%M/M and DIY store sales down 5.0%M/M. Almost half the monthly drop in total sales was accounted for by a sharp decline in food (-3.3%M/M), as consumers scaled back purchases in the face of particularly acute price increases in the subsector (12%Y/Y). Overall, the survey measure of retail sales was almost 5½% lower than a year earlier and a little more than 2% below the Q3 average.

### German PPI inflation eases as energy prices fall sharply

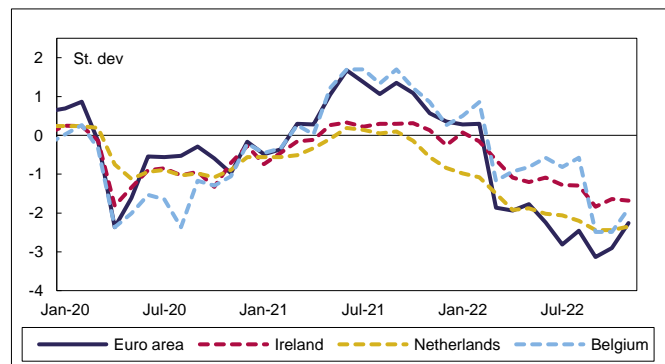
More encouragingly, yesterday's German PPI figures for October were significantly lower than expectations, further suggesting that, in line with signals from recent surveys, pipeline price pressures are moderating. In particular, producer prices fell for the first month since May 2020, by 4.2%M/M, the steepest since the series began in the mid-1970s. This saw the annual rate drop 11.3ppts to 34.5%Y/Y, a four-month low. The decline was driven by energy, with prices falling almost 10½%M/M, to leave the annual rate down 46.6ppts at an admittedly still-lofty 85.6%Y/Y. When excluding energy, prices were up 0.4%M/M for the fourth consecutive month, well down from the peak of 3.0%M/M in April and the average increase from January to May of 2.0%M/M. And so, the annual core PPI rate (ex-energy) fell to an eight-month low of 13.7%Y/Y. That in part reflected a further negligible increase in intermediate

### Euro area: Consumer confidence



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

### Euro area: Consumer confidence



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

goods prices, up just 0.1%M/M, compared with the peak rise above 4%M/M in April, to leave the respective annual rate down 0.9ppt to 15.9%Y/Y in October, a fifteen-month low. Capital goods prices were also up a further 0.4%M/M, in line with the average over the previous two months, to leave the respective annual rate unchanged at 7.8%Y/Y, but 0.2ppt below July's peak. Admittedly, producer price inflation of consumer goods rose to a new series high (up 0.7ppt to 17.9%Y/Y). But that was mainly due to rising food prices. And with demand slowing and other input costs continuing to moderate, the annual rate of consumer goods PPI should also now be close to its peak, which would help CPI inflation to fall back in the New Year too.

**EU cap on wholesale gas prices positive, but a relatively high bar to activate**

A proposed cap on gas and electricity prices for German households and businesses from 1 March should also improve the inflation outlook. In addition, in a bid to avoid another repeat of the summer spike in gas prices, the European Commission today set out plans to cap the one-month forward wholesale gas price should it hit €275MWh for two weeks straight and if it is €58MWh higher than the reference price for LNG for ten consecutive days within that period. Admittedly, the cap is more than twice the current level and appears to be a relatively high bar to activate – indeed, the Dutch month forward contract exceeded €275MWh for merely five consecutive days at its peak during August.

**The day ahead in the euro area**

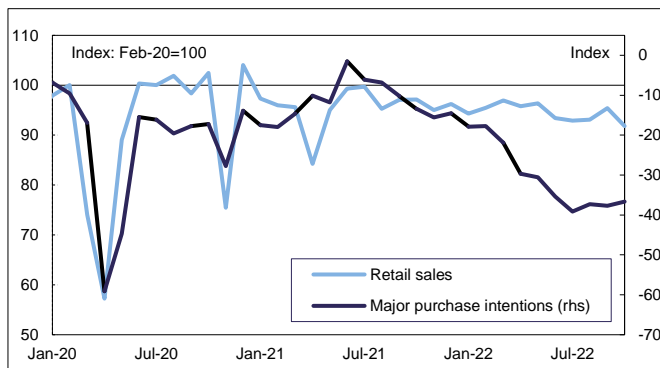
The data flow in the euro area tomorrow turns to business conditions, with the flash PMIs to provide an update on activity this month. Having slumped in October – when the manufacturing output PMI fell 2.5pts to 43.8, the lowest since May 2020, while the services activity PMI (48.6) was the weakest since February 2021 – the indices might well suggest some stabilisation in November, perhaps reflecting an easing in cost burdens, albeit still signalling contraction.

**UK**

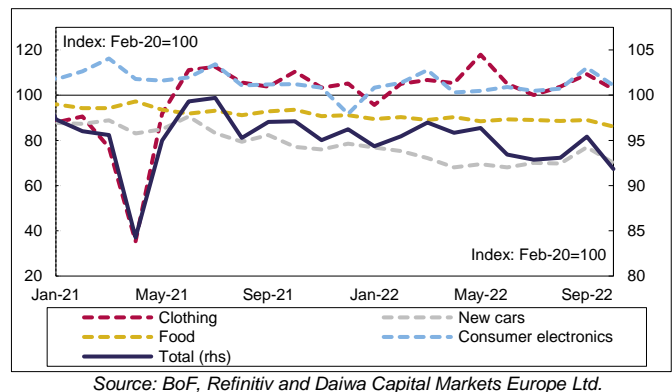
**The day ahead in the UK**

Focus in the UK tomorrow will also turn to the flash PMIs for November. While October's survey suggested some stabilisation in conditions in the manufacturing sector at the start of Q4, it also implied ongoing steep economic 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 a second successive quarter of contraction in GDP in Q4. Separately, Chancellor Hunt will testify before the Treasury Select Committee on last week's Autumn Statement, while BoE Chief Economist Pill will give a speech on returning inflation to target.

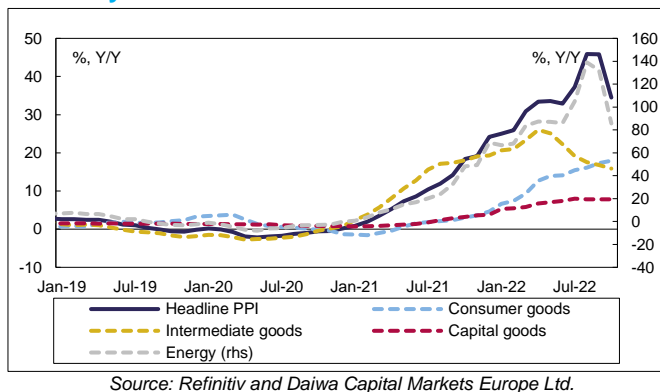
**France: Retail sales & consumer confidence**



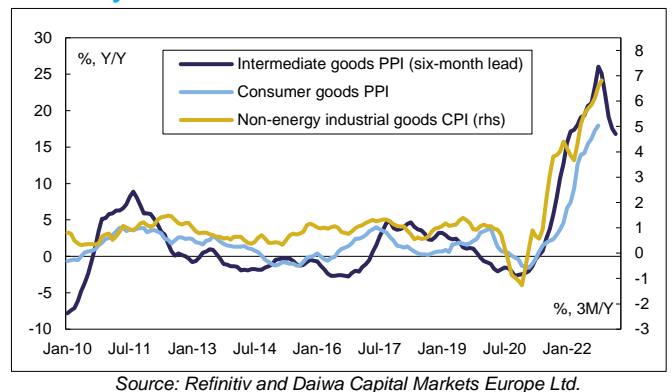
**France: Retail sales**



**Germany: PPI inflation**






**Germany: CPI & PPI inflation**




## 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	<b>-8.1</b>	-	-26.3	<b>-26.9</b>
	 European Commission preliminary consumer confidence	Nov	<b>-23.9</b>	-26.0	-27.6	<b>-27.5</b>
UK	 Public sector net borrowing excluding banks £bn	Oct	<b>13.5</b>	20.0	20.0	<b>17.8</b>


#### Auctions

Country	Auction
Germany	 sold €2.58bn of 1.30% 2027 bonds at an average yield of 1.99%


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
Germany	 PPI M/M% (Y/Y%)	Oct	<b>-4.2 (34.5)</b>	0.8 (41.9)	2.3 (45.8)	-









#### Auctions

Country	Auction
UK	 BoE sold £750mn of 2026-2028 gilts






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	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

#### Auctions and events

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
	 15.00	Chancellor Hunt to testify to Treasury Select Committee on his Autumn Statement
	 15.00	BoE Chief Economist Pill to give a speech on 'returning inflation to target'

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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