

# Euro wrap-up

## Overview

- Longer-dated Bunds made losses as ECB President Lagarde suggested that she would be surprised if euro area inflation has already peaked.
- Gilts made modest gains as a UK retail survey offered a gloomy assessment of the sales outlook in the run up to Christmas.
- Tomorrow will bring flash November inflation estimates from Germany and Spain, the Commission's economic sentiment surveys and BoE lending figures.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.510	-0.009
OBL 1.3 10/27	2.002	+0.003
DBR 1.7 08/32	1.986	+0.018
UKT 1 04/24	3.288	-0.008
UKT 1¼ 07/27	3.262	-0.023
UKT 4¼ 06/32	3.117	-0.004

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

## Euro area

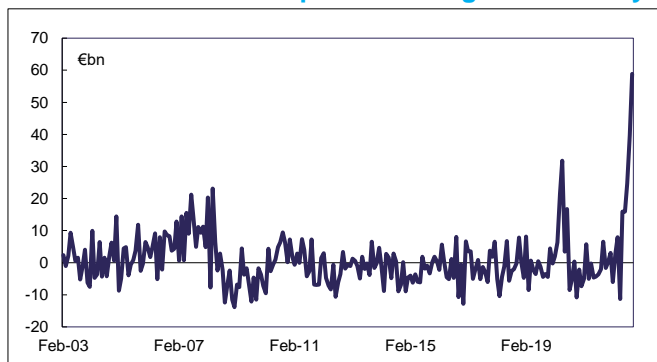
### Mortgage lending slows but growth in loans to NFC remains steady (for the time being)

The aggressive tightening of euro area monetary policy since the summer has been passed on swiftly to bank lending conditions. The ECB's Q3 [Bank Lending Survey](#) reported the sharpest tightening of standards on business loans since the euro crisis and the most marked tightening of standards for housing loans since the Global Financial Crisis. Interest rates on new loans have inevitably increased sharply too, with the average composite cost of new loans to non-financial corporations and for house purchase in September up more than 100bps from the end of last year to above 2.40%. With the economic outlook highly uncertain and real household incomes falling, perhaps unsurprisingly, today's monetary data for October reported a further notable slowing in mortgage lending. The flow of such loans dropped more than €7.0bn last month to just €8.0bn, the smallest amount since the first wave of Covid-19 in April 2020. And, as a result, annual growth in the stock of loans for house purchase slowed 0.3ppt to 4.8%Y/Y, 1.0ppt below last summer's peak and the softest rate since early 2021. The flow of new lending to NFCs on an adjusted basis also slowed in October, down €12.6bn to €24.0bn. But while that was an eight-month low, the annual growth rate remained elevated at 8.9%Y/Y. While the flow of new loans of up to 1Y maturity paused on the month, the stock was still up a vigorous 16.9%Y/Y, likely reflecting the need for short-term liquidity to cover increased costs related to energy and other inputs. Growth in long-term loans (i.e. of maturities greater than 5Y), which relates more to fixed investment needs, picked up on the month but remained more subdued at 4.7%Y/Y. The ECB's Bank Lending Survey suggested that downward revisions to plans for fixed investment will likely have a dampening effect on firms' loan demand over the near term.

### Flow into household deposits falls to near 5-year low, but NFC time deposits rise most on record

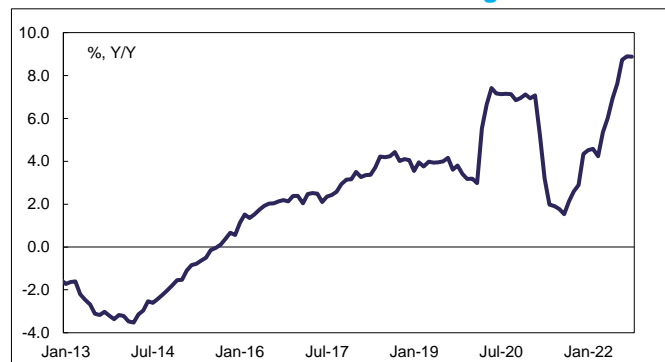
Higher interest rates have been passed through to deposits too. For example, the composite rate on new business deposits rose more than 50bps in September to an eight-year high of 0.74%, having been negative as recently as June. And the equivalent rate for households – who had previously escaped the negative rate – rose more than 20bps in September to a six-year high of 0.69%. Nevertheless, with real incomes squeezed and many consumers seemingly having to draw down on savings to maintain spending, the net flow of new household deposits slowed by more than €25bn in October to below €15bn for the first time in almost five years. Deposits placed by NFCs picked up, however, with the net flow with an agreed maturity up to two years leaping to a series high of €58.9bn, while the stock of overnight deposits fell for a second successive month.

#### Euro area: NFC new deposits with agreed maturity\*



\*Up to 2Y maturity. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Euro area: Loans to NFCs outstanding\*



\*Adjusted for sales & securitisations.  
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

## The day ahead in the euro area

Ahead of Wednesday's release of flash euro area inflation data for November, tomorrow brings preliminary HICP figures for Germany and Spain. Reflecting a slowing in energy price inflation, the German headline HICP rate is expected to ease somewhat, to 11.3%Y/Y, from 11.6%Y/Y in October. The equivalent Spanish rate is also forecast to fall 0.2ppt to 7.1%Y/Y, a ten-month low. Also of note tomorrow will be the European Commission business and consumer sentiment surveys – arguably the most reliable guide to euro area economic activity – for November. Given the improvement in the [flash consumer confidence](#) index and stabilisation in the [flash PMIs](#), the headline Economic Sentiment Indicator is likely to have increased from October's near-two-year low (92.5), albeit remaining below the long-run average and suggestive of a slowing economic trend.

## UK

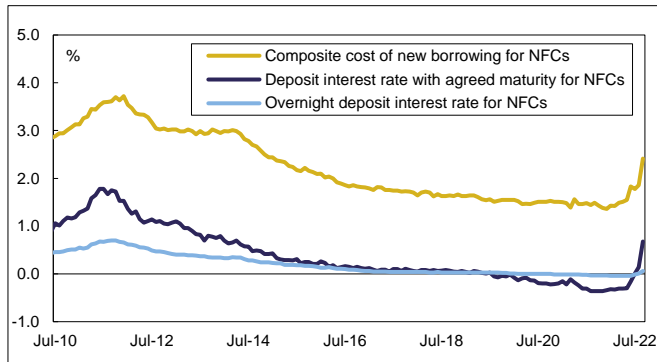
### UK retailers offer a gloomy assessment of sales outlook in the run up to Christmas

The CBI distributive trades survey offered a predictably gloomy assessment of UK retail conditions, as increasingly diminished household budgets and caution over heightened economic uncertainties offset any potential boost to spending from Black Friday discounting. In particular, the survey's headline gauge of the volume of retail sales in the year to November fell sharply, by 37ppts to -19%. Admittedly, this indicator has been particularly volatile over recent months and offered a relatively poor guide to official sales growth in October. But when smoothing on a three-month basis, the index fell 19ppts to -7%, the steepest drop since June. Retailers were also lacking in festive cheer about the outlook for December, with sales expected to decline at a similar pace, albeit the implied level of sales was considered to be broadly in line with seasonal norms. Moreover, along with the sharpest decline in orders placed on suppliers since February 2021, retailers saw a marked rise in their stocks relative to demand. Against this backdrop, retailers assessed business conditions to be as downbeat as in the three months to August, which itself had been the weakest since the first wave of Covid-19 in May 2020. And so retailers reported a slump in employment growth in the year to November, with a further fall in job growth anticipated in December and investment intentions for the year ahead the weakest since May 2020.

### The day ahead in the UK

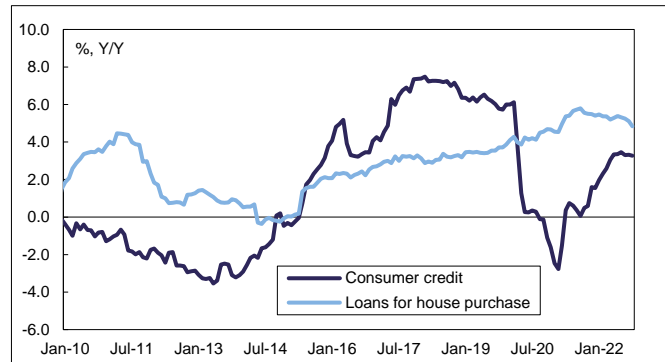
Looking ahead, tomorrow brings the release of the BoE's lending figures, which are likely to suggest that demand for consumer credit remained extremely subdued due to the recent jump in borrowing costs. Meanwhile, growth in secured lending is likely to have remained relatively robust last month, albeit with these mortgages based on offers under significantly

#### Euro area: Interest rates on NFC loans & deposits



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

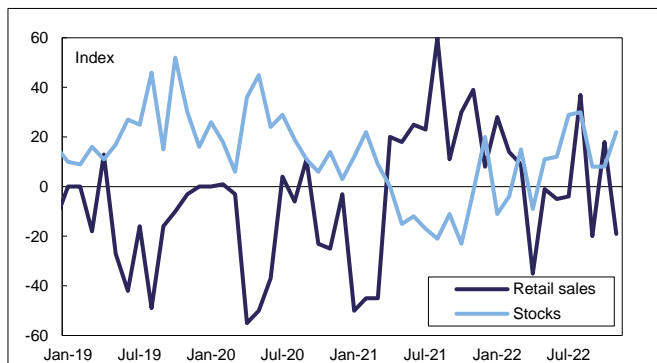
#### Euro area: Loans to households outstanding\*



\*Adjusted for sales & securitisations.

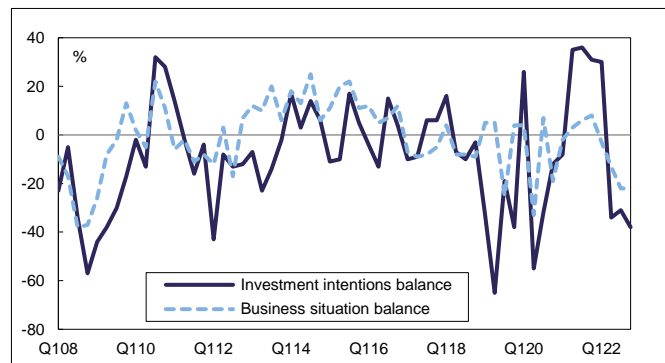
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Retail sales & stock levels



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

#### UK: Retail conditions & investment intentions



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

lower interest rates than at present. In contrast, with the average interest rate on a 2Y fixed 75% LTV 184bps higher than in September, we expect to see a sharp drop in the number of approvals for new house purchases in October. Tomorrow also sees the BoE begin sales of its Gilts purchased during the period of market stress between 28 September and 14 October, in the first of this week's three "demand-led" operations. In terms of BoE communication, hawkish external member Catherine Mann will speak on a panel.


## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 M3 money supply Y/Y%	Oct	5.1	6.1	6.3	-
UK	 CBI distributive trades survey, reported retail sales	Nov	-19	-	18	-












#### Auctions

Country	Auction
UK	 BoE sold €750mn of 2030-32 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	 10.00	EC Economic Sentiment Indicator	Nov	93.0	92.5
	 10.00	EC industrial (services) confidence	Nov	-0.5 (2.0)	-1.2 (1.8)
	 10.00	EC final consumer confidence	Nov	-23.9	-27.5
Germany	 13.00	Preliminary CPI M/M% (Y/Y%)	Nov	-0.2 (10.3)	0.9 (10.4)
	 13.00	Preliminary HICP M/M% (Y/Y%)	Nov	0.1 (11.3)	1.1 (11.6)
Italy	 10.00	PPI M/M% (Y/Y%)	Oct	-	3.5 (53.0)
Spain	 08.00	Preliminary CPI M/M% (Y/Y%)	Nov	0.1 (7.4)	0.3 (7.3)
	 08.00	Preliminary HICP M/M% (Y/Y%)	Nov	0.1 (7.1)	0.1 (7.3)
UK	 09.30	Net consumer credit £bn (Y/Y%)	Oct	0.9 (-)	0.7 (7.2)
	 09.30	Net mortgage lending £bn (approvals)	Oct	5.0 (60.0)	6.1 (66.8)
	 09.30	M4 money supply Y/Y%	Oct	-	5.4

#### Auctions and events

Euro area	 08.10	ECB's de Guindos scheduled to speak
	 13.30	ECB's Schnabel scheduled to speak
Italy	 10.00	Auction: €3.00bn of 4.40% 2033 bonds
	 10.00	Auction: €1.25bn of 2030 floating-rate bonds
UK	 12.35	BoE's Mann scheduled to speak
	 -	BoE to start selling of Gilts in 'financial stability portfolio' purchased during 28 September – 14 October

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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