

Euro wrap-up

Overview

- Bunds made gains as flash estimates of German and Spanish inflation fell back in November, and the Commission's consumer price expectations index fell to a 19-month low.
- Gilts also rose as UK mortgage approvals slumped in October and a lack of demand for consumer credit suggested ongoing subdued spending.
- Wednesday will bring the flash euro area inflation estimate for November, German labour market and French consumer spending figures.

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Daily bond market movements

| Bond | Yield | Change |
|---------------|-------|--------|
| BKO 2.2 12/24 | 2.063 | -0.072 |
| OBL 1.3 10/27 | 1.904 | -0.089 |
| DBR 1.7 08/32 | 1.907 | -0.072 |
| UKT 1 04/24 | 3.255 | -0.064 |
| UKT 1½ 07/27 | 3.221 | -0.046 |
| UKT 4¼ 06/32 | 3.099 | -0.026 |

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

Source: Bloomberg

Euro area

German and Spanish inflation falls back on lower energy prices

Today's flash estimates of inflation in November suggested an easing in price pressures in the euro area. In particular, on the national measure, Germany's consumer prices fell for the first time in a year (-0.5%M/M), compared with an average increase of 0.9%M/M in the previous eleven months, to leave the annual CPI rate down 0.4ppt to 10.0%Y/Y. This principally reflected a fall in energy prices, for which the annual rate declined 4.7ppts to a three-month low of 38.4%Y/Y due to a near-4%M/M drop in petrol prices. That decline more than offset the continued uptrend in food inflation to a new post-reunification high (21.0%Y/Y). But while our estimate of non-energy industrial goods inflation rose further (up 0.4ppt to 8.2%Y/Y), there was also a drop in services inflation, down 0.3ppt from October's 4.0%Y/Y high, with regional data suggesting a larger decline in package holiday costs, presumably due to softer demand. On the EU-harmonised basis, German inflation stood at a firmer 11.3%Y/Y, nevertheless down 0.3ppt from October. Meanwhile, Spanish HICP inflation surprised to the downside in November, dropping 0.7ppt to a ten-month low of 6.6%Y/Y, due to a drop in fuel prices and faster pass-through of recent declines in wholesale natural gas and power prices to consumers. But reflecting a pickup in clothing and footwear prices, core inflation (on the national measure) rose 0.1ppt to 6.3%Y/Y. In addition, consumer price inflation in Belgium fell 1.7ppts to 10.6%Y/Y. So, while ECB President Christine Lagarde yesterday warned that inflation might not yet have peaked and that the outlook remains subject to significant uncertainties, today's data strongly suggest that the flash euro area HICP rate fell back this month by at least 0.4ppt from October's high of 10.6%Y/Y.

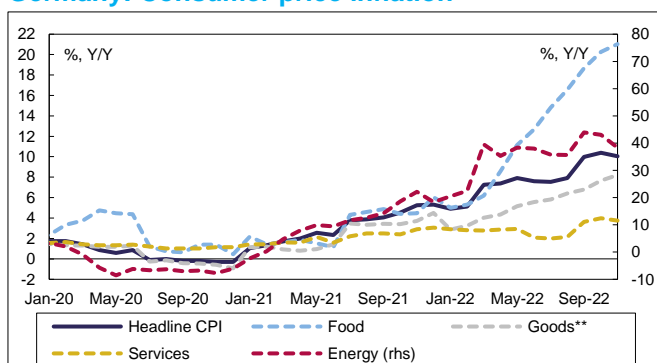
Consumer inflation expectations fall to lowest since summer of 2021

The ECB might also take a little comfort from a renewed easing in inflation expectations. Certainly, the Commission's survey today showed its index of consumer prices expectations for the coming twelve months declining sharply in November to its lowest level since August 2021. Looking at the near-term horizon, the news was generally more encouraging too, with industrial selling-price expectations over the coming three months falling to a fourteen-month low, consistent with the marked drop in the manufacturing input price PMI reported last week. Selling-price expectations also fell in retail to a nine-month low, likely reflecting softer demand. And although it remained stubbornly high this month, the divergence between the services index and long-run average was still notably smaller than in industry and retail.

Consumers slightly less downbeat, but firms still consider conditions challenging

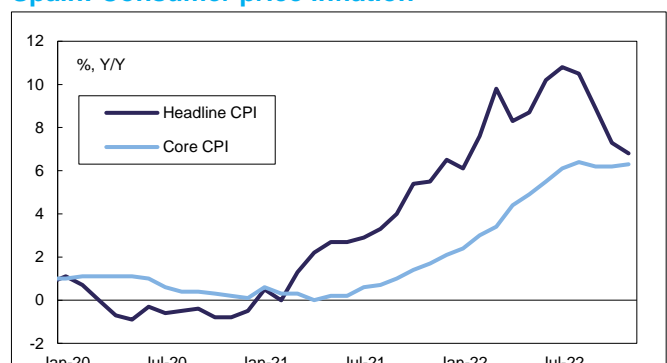
In terms of the general economic outlook, the Commission's survey was also somewhat less downbeat in November, with the euro area Economic Sentiment Index (ESI) rising for the first month in nine, by 1pt to 93.7, suggesting some stabilisation

Germany: Consumer price inflation*



*National measure. **Non-energy industrial goods. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Spain: Consumer price inflation*



*National measure. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

in the economic downturn seen since the summer. Admittedly, this still left it trending some 3.4pts below the Q3 average and 6.5% below the long-run average, adding to evidence that GDP is still on track to contract in Q4. And while there were sizeable increases in the German (+1pt) and Italian ESIs (+4.1pts) this month, they were still trending some 4½pts and 1½pts below their respective Q3 averages, while the French and Spanish ESIs dropped to their lowest since early 2021. The pickup in the euro area ESI was principally driven by an improvement in consumer sentiment, with households seemingly less pessimistic about the outlook for their own finances over the coming year. That reflected not least an expectation of lower inflation, an improved economic outlook and diminishing unemployment concerns, which fell significantly for the first time since February. But the consumer confidence index was still almost 16pts below its level a year ago, with the equivalent indicator for making major purchases down more than 25pts on the year and trending so far in Q4 almost 2pts below the Q3 average. Certainly, today's survey suggested no improvement in confidence among retailers this month and only a limited recovery in services. Moreover, contrasting with the flash PMIs, there was a further deterioration in manufacturing conditions for the ninth consecutive month as new orders continued to decline sharply, while construction sentiment slipped to its second-lowest level for nineteen months.

The day ahead in the euro area

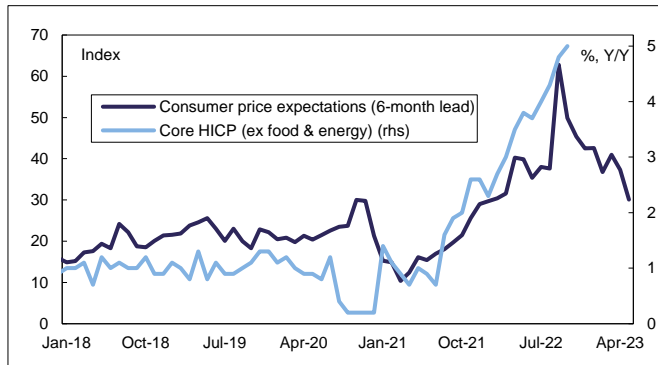
All eyes in the euro area tomorrow will be on the flash aggregate estimate of November inflation. As suggested by today's inflation figures from Germany and Spain, and despite a further upwards drift in food inflation, the headline euro area HICP rate is expected to slip back – thanks to easing energy prices – from October's record high of 10.6%Y/Y, albeit remaining in double-digit territory: we forecast a decline of at least 0.4ppt to 10.2%Y/Y. We will also get national inflation data from France, Italy and Portugal. In addition, Wednesday will bring the release of German labour market figures for November, October consumer spending figures from France and final Q3 GDP figures from France and Italy.

UK

Mortgage approvals slump and demand for credit remains subdued

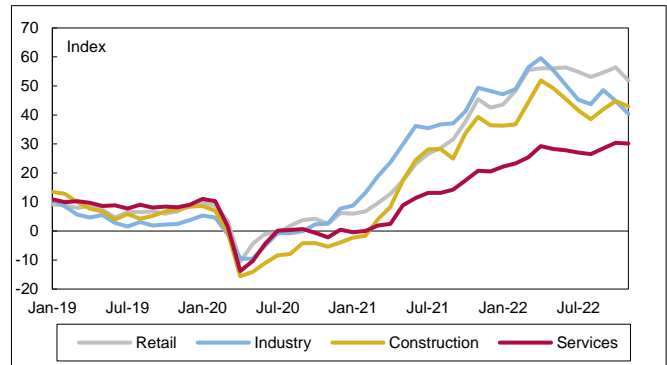
After the Zoopla housing market report yesterday suggested that new enquiries at estate agents dropped a steep 44% in October, today's BoE suggested that mortgage approvals fell sharply last month amid the surge in mortgage interest rates. Indeed, the number of approvals for new house purchases fell from 66k in September to 59k in October, roughly 10k below the average over the previous twelve months and the lowest since the start of 2015 when excluding the first four months of the pandemic. So, while the flow of new mortgage lending remained relatively robust in October at £4.0bn, this was still the lowest since last November, and it will fall sharply further over coming months as the impact of higher mortgage rates takes

Euro area: Consumer price inflation & expectations*



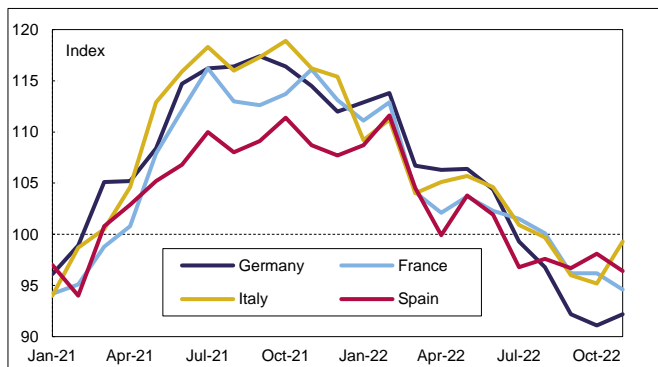
*Twelve-months ahead. Source: EC, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Selling price expectations*



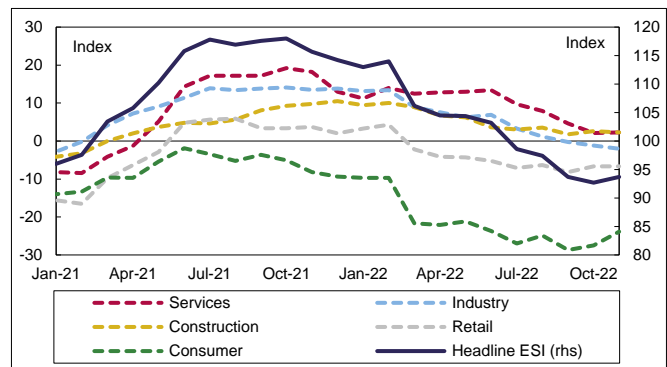
*Three-months ahead. Source: EC, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Economic sentiment indices



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

Euro area: Economic sentiment indices



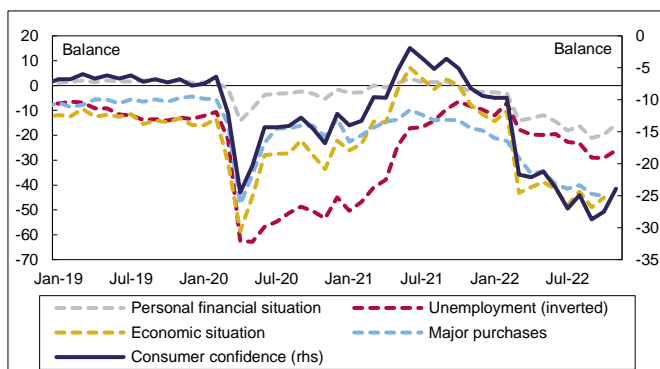
Source: EC, Refinitiv and Daiwa Capital Markets Europe Ltd.

its toll on demand. Indeed, the effective interest rate assumed on new mortgages processed in October rose 'just' 25bps to 3.09%. Meanwhile, given the steady rise in borrowing rates and increased economic uncertainties, demand for unsecured lending remained relatively subdued, with the net flow of credit of £0.8bn, below the previous six-month average (£1.3bn). And with households (that are able to) having deposited an additional £6.2bn in banks in October, with a record monthly flow into time deposits, today's figures again suggest that in the face of historically low confidence and increasingly squeezed household budgets, consumer spending remained extremely depressed at the start of Q4.

The day ahead in the UK

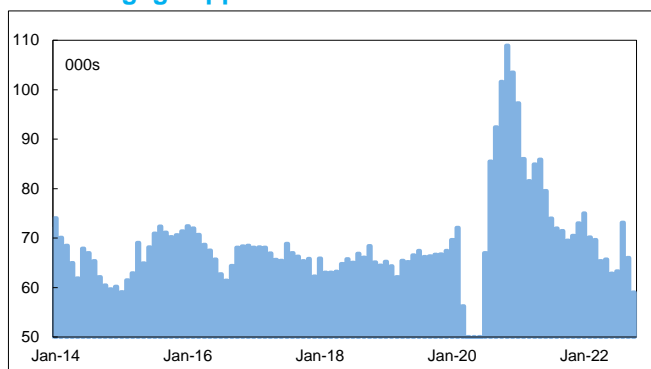
The erosion of household disposable income will be illustrated by the BRC shop price index tomorrow, which is likely to report another notable rise in food inflation as retailers continue to offload some of their additional costs onto consumers. Tomorrow will also see BoE Chief Economist Huw Pill speak at an economic event in the morning.

Euro area: Consumer confidence indices



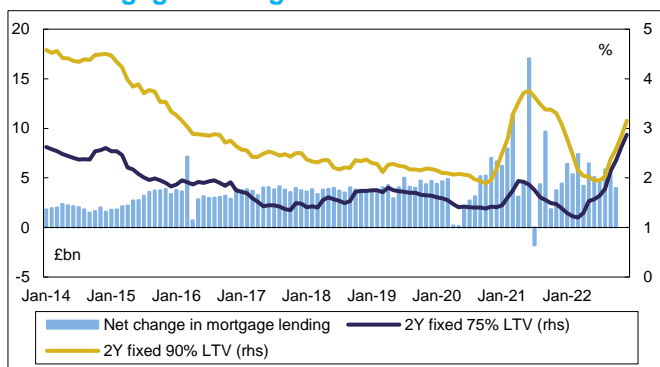
Source: EC, Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Mortgage approvals



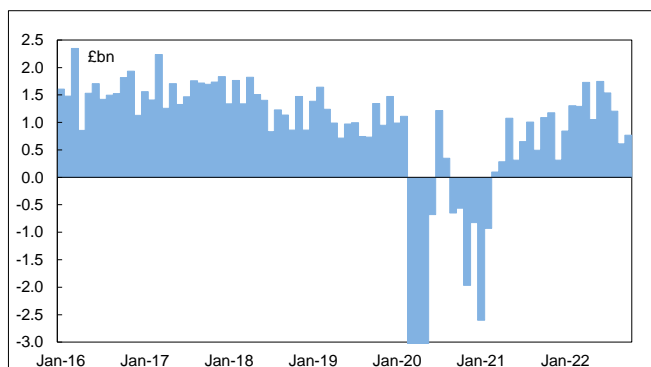
Source: BoE, Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Mortgage lending and interest rates*



*Quoted rates have three-month lead. Source: BoE, Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Consumer credit flows














Source: BoE, Refinitiv 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 |
|-----------|--|--------|--------------------|--|------------|-------------------|
| Euro area |  EC Economic Sentiment Indicator | Nov | 93.7 | 93.0 | 92.5 | 92.7 |
| |  EC industrial (services) confidence | Nov | -2.0 (2.3) | -0.5 (1.9) | -1.2 (1.8) | -(2.0) |
| |  EC final consumer confidence | Nov | -23.9 | -23.9 | -27.5 | - |
| Germany |  Preliminary CPI M/M% (Y/Y%) | Nov | -0.5 (10.0) | -0.2 (10.4) | 0.9 (10.4) | - |
| |  Preliminary HICP M/M% (Y/Y%) | Nov | 0.0 (11.3) | 0.1 (11.4) | 1.1 (11.6) | - |
| Italy |  PPI M/M% (Y/Y%) | Oct | -4.3 (33.7) | - | 3.5 (53.0) | -(52.9) |
| Spain |  Preliminary CPI M/M% (Y/Y%) | Nov | -0.1 (6.8) | 0.1 (7.4) | 0.3 (7.3) | - |
| |  Preliminary HICP M/M% (Y/Y%) | Nov | -0.5 (6.6) | 0.1 (7.4) | 0.1 (7.3) | - |
| UK |  Net consumer credit £bn (Y/Y%) | Oct | 0.8 (7.0) | - | 0.7 (7.2) | 0.6 (7.1) |
| |  Net mortgage lending £bn (approvals) | Oct | 4.0 (59.0) | - | 6.1 (66.8) | 5.9 (66.0) |
| |  M4 money supply Y/Y% | Oct | 4.8 | - | 5.4 | - |















Auctions

| Country | Auction |
|---------|---|
| Italy |  sold €3.0bn of 4.4% 2033 bonds at an average yield of 3.96% |
| |  sold €1.25bn of 2030 floating-rate bonds at an average yield of 3.21% |
| UK |  BoE sold £346mn of longer-dated and index-linked gilts from its financial stability portfolio |



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 | Preliminary HICP M/M% (Y/Y%) | Nov | <u>0.1 (10.2)</u> | 1.5 (10.7) |
| |  10.00 | Core CPI Y/Y% | Nov | <u>5.1</u> | 5.0 |
| Germany |  08.55 | Unemployment claims change 000s (rate %) | Nov | 12.5 (5.5) | 8.0 (5.5) |
| France |  07.45 | Final GDP Q/Q% (Y/Y%) | Q3 | <u>0.2 (1.0)</u> | 0.5 (4.2) |
| |  07.45 | Preliminary CPI M/M% (Y/Y%) | Nov | 0.3 (6.1) | 1.0 (6.2) |
| |  07.45 | Preliminary HICP M/M% (Y/Y%) | Nov | 0.3 (7.0) | 1.2 (7.1) |
| |  07.45 | PPI M/M% (Y/Y%) | Oct | - | 1.0 (28.5) |
| |  07.45 | Consumer spending M/M% (Y/Y%) | Oct | -0.9 (-4.9) | 1.2 (-3.0) |
| Italy |  09.00 | Final GDP Q/Q% (Y/Y%) | Q3 | <u>0.5 (2.6)</u> | 1.1 (4.9) |
| |  10.00 | Preliminary CPI M/M% (Y/Y%) | Nov | 0.1 (11.3) | 3.4 (11.8) |
| |  10.00 | Preliminary HICP M/M% (Y/Y%) | Nov | 0.3 (12.0) | 3.8 (12.6) |
| Spain |  08.00 | Retail sales Y/Y% | Oct | - | 0.1 |
| UK |  00.01 | Lloyds business barometer | Nov | - | 15 |
| |  00.01 | BRC shop price index Y/Y% | Nov | - | 6.6 |

Auctions and events

| | | |
|---------|---|-----------------------------------|
| Germany |  10.30 | Auction: €3bn of 1.70% 2032 bonds |
| UK |  08.30 | BoE's Pill scheduled to speak |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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