

# Euro wrap-up

## Overview

- Despite a larger than expected decline in euro area headline inflation in November, Bunds made losses as core inflation remained at the series high.
- Gilts also fell as a UK survey suggested another jump in shop price inflation to a record high in November.
- Thursday will bring new figures for euro area unemployment, German retail sales, and UK house prices and inflation expectations.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.113	+0.043
OBL 1.3 10/27	1.939	+0.028
DBR 1.7 08/32	1.939	+0.025
UKT 1 04/24	3.318	+0.062
UKT 1¼ 07/27	3.286	+0.068
UKT 4¼ 06/32	3.176	+0.078

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

## Euro area

### Inflation falls further than expected in November

As foreshadowed by yesterday's flash figures from Germany and Spain, euro area inflation fell back in November, and significantly further than had been initially expected. Indeed, according to today's preliminary estimates, euro area consumer prices dropped 0.1%M/M in November, representing the first decline in sixteen months. As a result, euro area headline HICP inflation fell 0.6ppt from October's series high to 10.0%Y/Y, well below the 10.4%Y/Y median forecast on the Bloomberg survey. The moderation in inflation in part reflected lower energy prices, which declined 1.9%M/M to push the respective annual rate down 6.6ppts to 34.9%Y/Y. Moreover, prices of unprocessed food also retreated from recent highs, falling 0.7%M/M. However, given pressures in the processed food component, inflation of food, alcohol and tobacco overall rose a further 0.5ppt to a new series high of 13.6%Y/Y. Meanwhile, within the core components, services prices fell on the month, with the 0.3%M/M decline the biggest in fourteen months. So, the annual rate of services inflation eased 0.1ppt to 4.2%Y/Y. And with the 0.4%M/M increase in prices of non-energy industrial goods the lowest in four months and matching the rise one year ago, the respective annual rate was unchanged at 6.1%Y/Y. So, while euro area core inflation remained steady at the series high of 5.0%Y/Y, it dropped 7bps from October to 4.95%Y/Y when calculated to two decimal places.

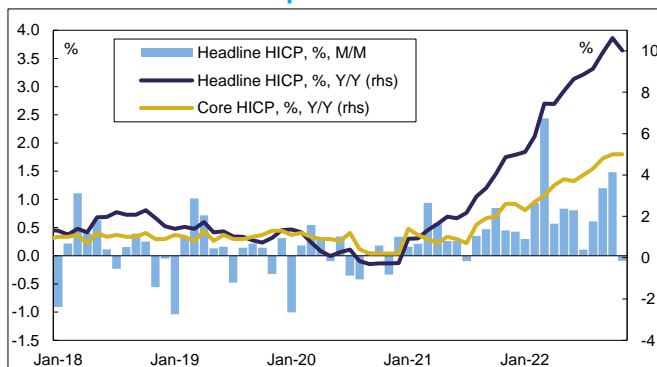
### Headline inflation has now probably peaked

Despite the decline in euro area inflation in November, the average rate over the first two months of Q4 of 10.3%Y/Y was still 1.1ppts above the ECB's baseline forecast published in September. So, the near-term profile for inflation will certainly be revised up when the ECB updates its projections in December. Moreover, many of the hawks on the Governing Council will highlight that the core rate was still unchanged at the series high of 5.0%Y/Y, a level that is far too high for their comfort. So, they will push for a further substantive rate hike at the next monetary policy meeting on 15 December. However, energy and food continued to account for almost two-thirds of inflation in November. The ECB's own analysis suggests that a large share – probably half or more – of core inflation will have been related to the pass-through of higher energy and food prices and other supply-side factors. Importantly, a range of survey indicators, as well as recent developments in producer and wholesale prices, suggest that supply-driven inflation pressures are now declining and are likely to fall steadily further over coming months. And while risks of new adverse shocks persist, we think that consumer price inflation peaked in October.

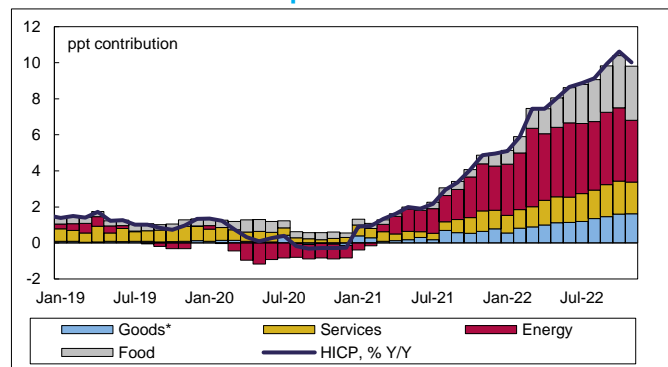
### Inflation should be on clear downwards path by the end of Q1

Of course, the inflation outlook remains highly uncertain. However, we currently forecast headline inflation to remain close to 10.0%Y/Y in December. And thanks not least to base effects associated with past increases in energy prices, we expect it to

#### Euro area: Consumer price inflation



#### Euro area: Consumer price inflation



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

decline steadily over 2023, to below 8.0%Y/Y by the end of Q1 and below 3.0%Y/Y before year-end. Admittedly, we expect core inflation to rise again in December, to fall only modestly in Q1 and to remain above 4.0%Y/Y until Q2. However, as declining domestic spending should limit demand-driven pressures on services and core goods prices, inflation expectations remain well anchored, and wage settlements do not point to lasting second-round effects, we expect core inflation to decline back close to 2.0%Y/Y by year-end. So, with rates now back close to neutral territory, and leading indicators still pointing to recession, today's data strengthen the case for a smaller rate hike, of 50bps, at the ECB's next monetary policy meeting on 15 December. And we continue to expect a further slowing in the pace of tightening in Q123, at the end of which the case for further hikes should have significantly diminished.

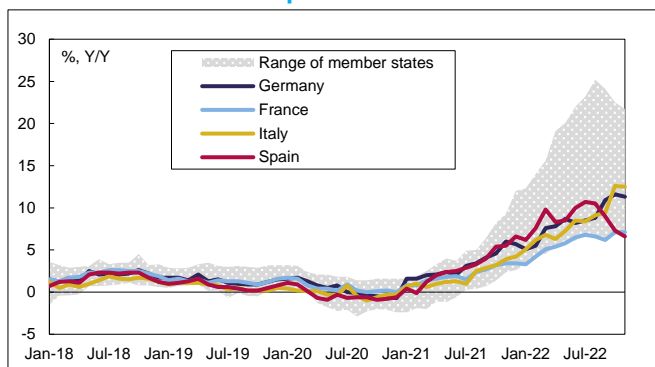
## French spending on goods slumps in October

Consistent with the Bank of France retail sales survey, today's INSEE numbers on household consumption of goods also implied a weak start to the fourth quarter. In particular, spending fell 2.8%M/M in October, the most since April 2021, to be down 5.9%Y/Y, the steepest annual drop for almost two years. Admittedly, the decline primarily reflected a steep drop in spending on energy (-7.9%M/M) as mild temperatures that month helped to reduce electricity and gas consumption – indeed, excluding petroleum products, energy consumption was the lowest since the start of 2018. But spending on other goods was also weaker, down a collective 1.8%M/M, with INSEE flagging notable declines in spending on phones, autos and clothing. With food price inflation at a record high (12.2%Y/Y), food sales also maintained the downwards trend in place since last November to be down 1.4%M/M and 7.9%Y/Y. So, with INSEE's household survey suggesting that readiness to make major purchases is at a historically low level, today's data strongly suggest that goods consumption will subtract from GDP growth for the fifth consecutive quarter in Q4, with spending on services unlikely to provide an offsetting impulse this quarter.

## The day ahead in the euro area

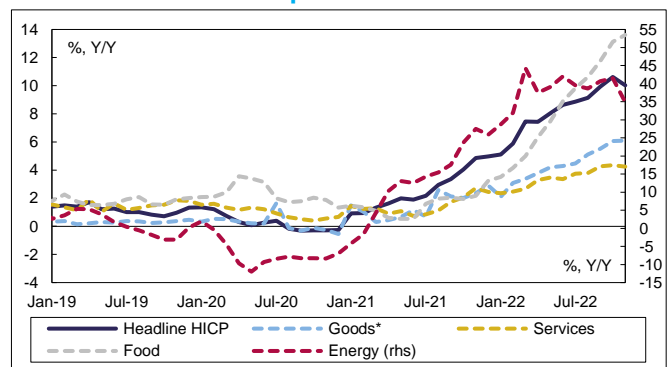
Tomorrow will bring euro area unemployment figures for October. Despite the deterioration in the euro area economic outlook, increasing concerns about global recession risks, and a steady decline in the Commission survey measure of firms' employment intentions, the euro area's jobless rate is expected to have moved sideways from September's record-low 6.6%. Certainly, the German ILO unemployment rate was estimated to be unchanged at 2.9%, while Spanish figures reported an unseasonably large drop in unemployment last month. Given historically subdued consumer confidence and double-digit inflation, German retail sales figures are expected to have fallen at the start of Q4. The final manufacturing PMI surveys and new car registrations for November are also due. Separately, ECB Chief Economist Philip Lane will give a keynote speech on 'inflation diagnostics'.

### Euro area: Consumer price inflation



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

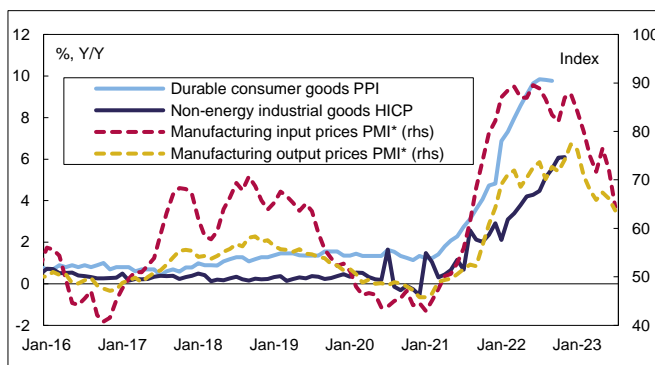
### Euro area: Consumer price inflation



\*Non-energy industrial goods.

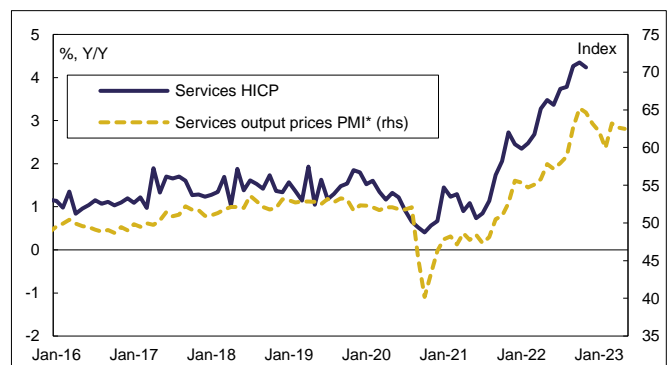
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Goods inflation – selected indicators



\*Eight-month lead. Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

### Euro area: Services inflation – selected indicators



\*Six-month lead. Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

## UK

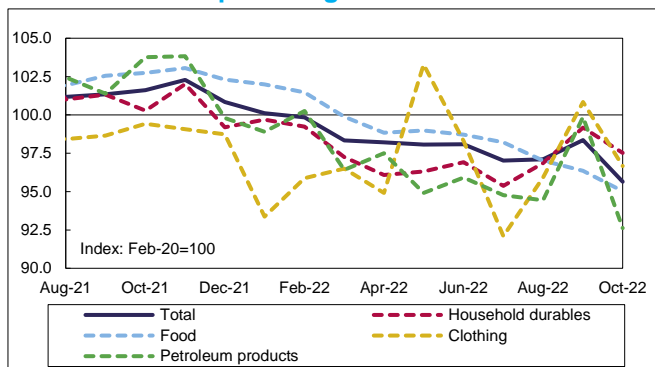
### Shop price inflation jumps to a new series high, with widespread price pressures

According to the BRC, UK shop price inflation jumped again in November, as retailers continued to pass on some additional cost burdens amid ongoing supply-side pressures and significant energy expenses. This survey suggested that prices rose a further 0.9%M/M, to leave the annual inflation rate up 0.8ppt to a series-high 7.4%Y/Y. Food inflation rose a further 0.8ppt to 12.4%Y/Y, with non-food inflation up almost 5%Y/Y, with the BRC noting particularly high increases in prices of sports and recreation equipment. Of course, not least due to intense competition on the high street, as well as the exclusion of prices of energy, cars and services, shop price inflation will continue to track well below CPI inflation. So, with today's release implying a further squeeze on already exceptionally tight household budgets, consumer spending seems bound to be extremely depressed this quarter and into the New Year.

### The day ahead in the UK

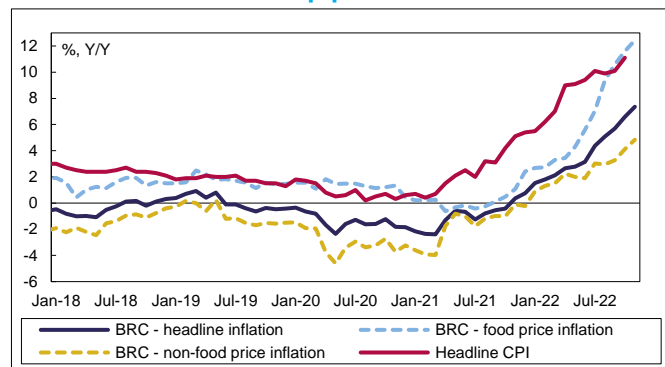
In terms of the inflation outlook, the BoE will tomorrow publish its November Decision Maker Panel survey results, with particular interest on firms' expectations for their own output prices in the year ahead, CPI inflation and expected wage growth. Thursday will also bring the Nationwide house price report for November. Given waning buyer enquiries since the spring and the jump in mortgage interest rates, house prices are expected to have declined for the second successive month, to leave the annual growth rate down to its lowest since February 2021. The final manufacturing PMIs for November are also due – the preliminary results saw the output component rise for the third consecutive month, albeit to a still-contractionary 45.4, with new orders declining sharply as the survey implied the weakest external demand since the onset of the pandemic.

#### France: Consumption of goods



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Consumer and shop price inflation


















Source: 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	 Preliminary HICP M/M% (Y/Y%)	Nov	<b>-0.1 (10.0)</b>	<u>0.1 (10.2)</u>	1.5 (10.6)	-
	 Core CPI Y/Y%	Nov	<b>5.0</b>	<u>5.1</u>	5.0	-
Germany	 Unemployment claims change 000s (rate %)	Nov	<b>17.0 (5.6)</b>	13.5 (5.5)	8.0 (5.5)	<b>9.0 (-)</b>
France	 Final GDP Q/Q% (Y/Y%)	Q3	<b>0.2 (1.0)</b>	<u>0.2 (1.0)</u>	0.5 (4.2)	-
	 Preliminary CPI M/M% (Y/Y%)	Nov	<b>0.4 (6.2)</b>	0.3 (6.1)	1.0 (6.2)	-
	 Preliminary HICP M/M% (Y/Y%)	Nov	<b>0.5 (7.1)</b>	0.3 (7.0)	1.2 (7.1)	-
UK	 PPI M/M% (Y/Y%)	Oct	<b>-0.1 (24.7)</b>	-	1.0 (28.5)	<b>-(28.7)</b>
	 Consumer spending M/M% (Y/Y%)	Oct	<b>-2.8 (-5.9)</b>	-1.0 (-5.5)	1.2 (-3.0)	<b>1.3 (-2.9)</b>
	 Retail sales Y/Y%	Oct	<b>1.0</b>	-	0.1	<b>0.4</b>
Italy	 Final GDP Q/Q% (Y/Y%)	Q3	<b>0.5 (2.6)</b>	<u>0.5 (2.6)</u>	1.1 (4.9)	-
	 Preliminary CPI M/M% (Y/Y%)	Nov	<b>0.5 (11.8)</b>	0.1 (11.3)	3.4 (11.8)	-
	 Preliminary HICP M/M% (Y/Y%)	Nov	<b>0.6 (12.5)</b>	0.4 (12.1)	3.8 (12.6)	-
Spain	 Retail sales Y/Y%	Oct	<b>1.0</b>	-	0.1	<b>0.4</b>
UK	 Lloyds business barometer	Nov	<b>10</b>	-	15	-
	 BRC shop price index Y/Y%	Nov	<b>7.4</b>	-	6.6	-

#### Auctions

Country	Auction
Germany	 €2.39bn of 1.70% 2032 bonds at an average yield of 1.95%
UK	 BoE sold £1.499bn 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	09.00	Final manufacturing PMI	Nov	47.3	46.4
	10.00	Unemployment rate %	Oct	6.6	6.6
Germany	07.00	Retail sales M/M% (Y/Y%)	Oct	-0.6 (-2.9)	1.0 (-0.6)
	08.55	Final manufacturing PMI	Nov	46.7	45.1
France	08.50	Final manufacturing PMI	Nov	49.1	47.2
	-	New car registrations* Y/Y%	Nov	-	5.5
Italy	08.45	Manufacturing PMI	Nov	47.0	46.5
	17.00	New car registrations Y/Y%	Nov	-	14.6
Spain	08.15	Manufacturing PMI	Nov	-	44.7
	-	New car registrations* Y/Y%	Nov	-	11.7
UK	07.00	Nationwide house price index M/M% (Y/Y%)	Nov	-0.4 (5.8)	-0.9 (7.2)
	09.30	Final manufacturing PMI	Nov	46.2	46.2

#### Auctions and events

Euro area	16.45	ECB Chief Economist Lane scheduled to speak
France	09.50	Auction: 0.00% 2031 bonds
	09.50	Auction: 0.50% 2040 bonds
	09.50	Auction: 3.25% 2045 bonds
	09.50	Auction: 0.75% 2052 bonds
Spain	09.30	Auction: 1.45% 2027 bonds
	09.30	Auction: 0.1% 2031 bonds
	09.30	Auction: 0.85% 2037 bonds
UK	09.30	BoE publishes Monthly Decision Maker Panel data
	10.00	Auction: £2.25bn of 1.25% 2051 bonds
	-	BoE to sell Gilts in 'financial stability portfolio' purchased during 28 September – 14 October

\*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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