

# Euro wrap-up

## Overview

- Bunds followed USTs lower despite a larger than expected moderation in euro area producer price inflation in October.
- Gilts also made losses on a quiet end to the week for UK economic news.
- The coming week will bring October figures for euro area retail sales, German factory orders and industrial production, as well as ECB and BoE survey results on consumer inflation expectations.

**Emily Nicol**

+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.085	+0.093
OBL 1.3 10/27	1.863	+0.079
DBR 1.7 08/32	1.857	+0.052
UKT 1 04/24	3.353	+0.100
UKT 1½ 07/27	3.283	+0.081
UKT 4¼ 06/32	3.166	+0.063

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

Source: Bloomberg

## Euro area

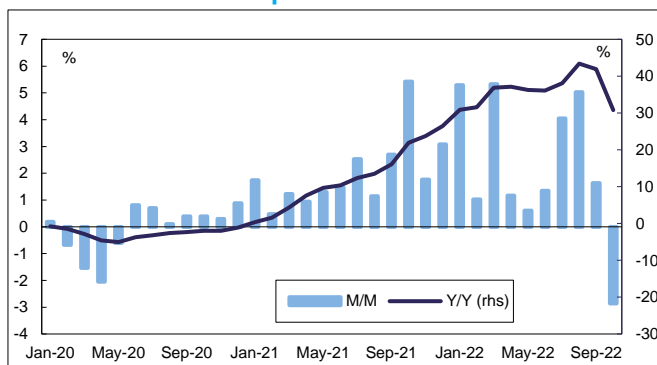
### Euro area PPI inflation falls sharply on lower energy prices

After the [flash euro area CPI](#) estimate for November earlier this week reported a larger than expected fall in headline inflation, today's industrial PPI figures for October suggested that pipeline price pressures had eased significantly too. Indeed, producer goods prices fell for the first time since May 2020 and by a steeper-than-expected 2.9%M/M, the most since the series began. As such, the annual PPI rate dropped a striking 11.2ppts to 30.8%Y/Y, the lowest since January. The decline was driven by energy, with prices falling almost 7%M/M as the cost of extraction of natural gas slumped 39½%M/M, to leave the annual energy inflation rate down 42.3ppts to an admittedly still-lofty 65.8%Y/Y. When excluding energy, producer prices rose 0.5%M/M in line with the average of the previous four months and well down from the average increase (1.9%M/M) from January to May. And so the annual core PPI rate fell to a seven-month low of 14.0%Y/Y and 2ppts below May's peak. This in part reflected another marginal increase in intermediate goods prices, up just 0.2%M/M, compared with the peak rise of almost 4%M/M in April, to leave the respective annual rate down 1.4ppts to 17.4%Y/Y, the lowest for a year. Capital goods prices were also up just 0.3%M/M, with the year-on-year rate of increase moderating to a five-month low of 7.5%. So while consumer goods inflation maintained an upwards trend in October (up 0.7ppt to 15.3%Y/Y) that was largely due to higher food prices. And with the [manufacturing PMI](#) suggesting another notable drop in input costs in November and with demand continuing to slow, consumer goods inflation should be near its peak.

### German trade surplus improves due to a sharp fall in imports

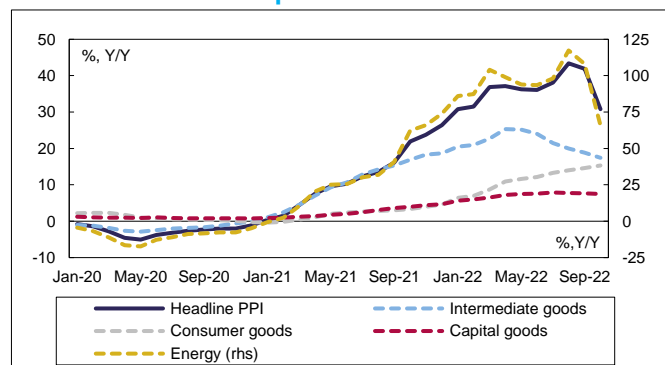
Germany's goods trade numbers came in ahead of expectations in October, with the trade surplus widening €4.1bn to €6.9bn, an eight-month high, albeit still roughly half the average monthly surplus recorded in 2021. This reflected a steeper-than-expected drop in the value of imports (-3.7%M/M), as inflows of goods from other euro area countries fell by more than 5%M/M and from the UK slumped more than 18%M/M. And so this more than offset a second successive drop in the value of exports (-0.6%M/M), with notable declines in shipments to other euro area member states and the US partially offset by a jump in exports to the UK. Of course, the drop in German import values in part reflects changes in prices. Import prices that month fell 1.2%M/M due not least to developments in wholesale energy prices. But this suggests a notable drop in volumes too as demand continues to weaken. Meanwhile, export prices fell a steeper 1.7%M/M, implying that export volumes rose in October for the second month out of the past three. And overall, today's figures suggested that net trade made a modest positive contribution to German GDP growth at the start of the fourth quarter.

### Euro area: Producer price inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

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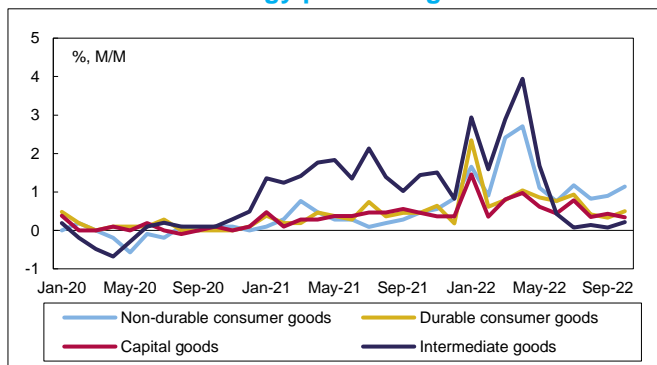
## French IP slumps as energy production hit by strikes

Today's French IP figures for October suggested a challenging start to the fourth quarter, reporting the steepest monthly fall (-2.6%M/M) since February 2021. Admittedly, the drop principally reflected a slump in manufacturing of coke and refined petroleum (-46.3%M/M) due to strikes at refineries that month. But the weakness in October was also broad-based, with notable monthly declines in production of autos (-5.8%M/M), chemicals (-4.9%), machinery and equipment (-3.5%), computer & electronic parts (-7.2%) and energy output (-7.6%). The exception was construction, where activity rose for the third consecutive month (+1.1%M/M). Of course, resumption of work at France's oil refineries at the start of November should provide a boost to output last month. And this week's manufacturing PMIs reported a pickup in the output component. However, at 45.6, it was still consistent with marked contraction, suggesting that the manufacturing sector will be a drag on GDP growth in Q4.

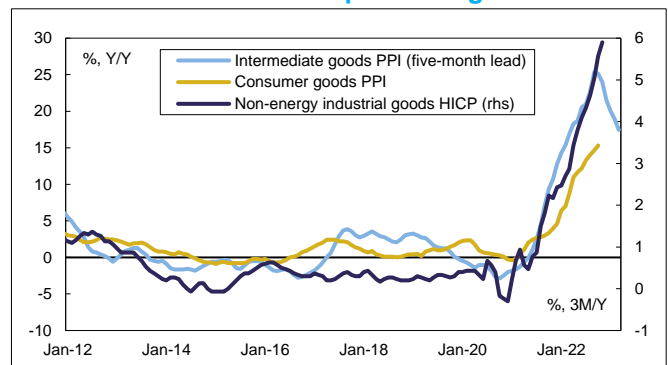
## The week ahead in the euro area

The coming week's data flow will bring further insight into the euro area's economic momentum at the start of Q4. On Monday, the focus will be on euro area retail sales data for October, which following dire results from Germany (-2.8%M/M) and France (-2.7%M/M) are expected to have fallen around 2½%M/M (-3.5%Y/Y%), further highlighting the dampening effect of low consumer confidence and record inflation on spending power. The final services and composite PMIs for November (Monday) and construction PMIs (Tuesday) are expected to flag a gloomy outlook in these sectors too, with the headline activity indices likely to remain below the key 50 level, indicative of a contraction in output. And the picture is no brighter in the industrial sector, with a number of key releases from member states to flag ongoing challenges, including German factory orders and industrial production numbers for October (Tuesday and Wednesday respectively), as well as French trade data (Wednesday) and Spanish IP numbers (Friday). German factory orders have been on a downwards trend since the start of the year and coupled with deteriorating survey evidence suggest that German production is likely to fall back in Q4 and into the New Year. We will also get an updated estimate of euro area Q3 GDP data (Wednesday), which will include a detailed expenditure breakdown and country breakdown for employment figures. The preliminary estimate reported euro area Q3 GDP growth of 0.2%Q/Q, a marked deceleration from the pace of recovery in the first half of the year when growth averaged 0.7%Q/Q, with the expansion last quarter expected to have been underpinned by household consumption while net trade was likely a drag on growth. Separately, Monday sees ECB President Lagarde give a keynote speech on 'transitions towards a greener economy' while Wednesday brings a speech from Chief Economist Lane and the publication of the ECB's consumer expectations survey results.

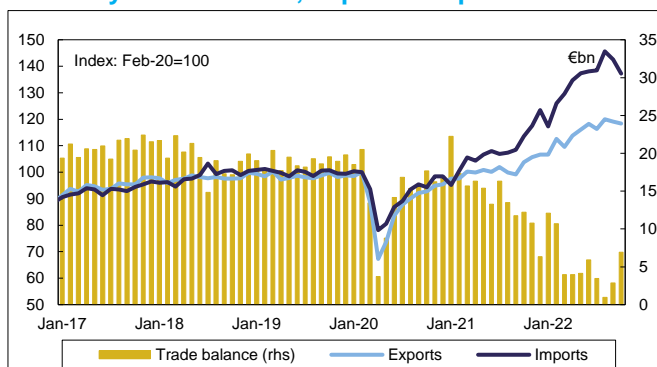
### Euro area: Non-energy producer goods inflation



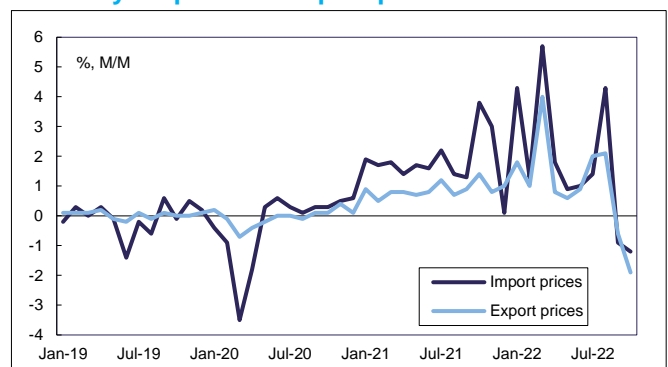
### Euro area: Consumer and producer goods inflation



### Germany: Goods trade, export & import values\*



### Germany: Import and export prices

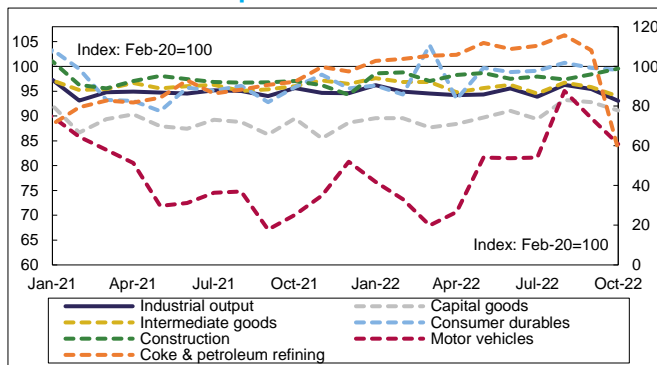


## UK

### The week ahead in the UK

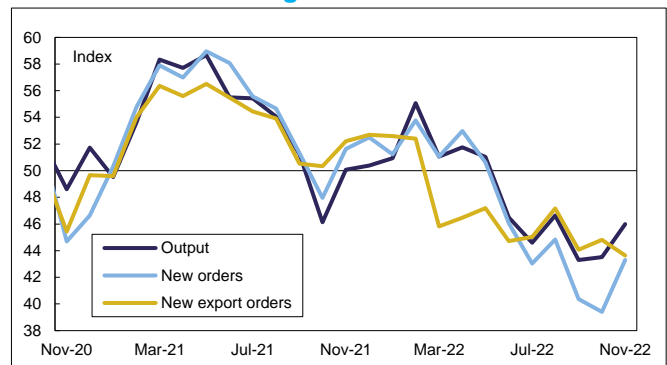
Like in the euro area, the coming week brings the release of the final services and composite PMIs on Monday, followed by the construction PMIs on Tuesday. The flash UK PMIs for November suggested some stabilisation, with the headline composite PMI rising for the first month in five, albeit by just 0.1pt to 48.3, to be still trending so far in Q4 some 2pts lower than the Q3 average and consistent with a steeper pace of contraction. Meanwhile, the BRC retail sales monitor for November (Tuesday) is likely to suggest still very weak consumer spending despite Black Friday discounting, as households face increasingly squeezed budgets. Thursday sees the release of the RICS residential survey for November, which will further flag a weakening housing market amid lower demand and higher borrowing costs. Meanwhile, ahead of the MPC's policy-setting announcement on 15 December, Friday's release of the Bank of England's quarterly inflation attitudes survey and the REC/KPMG report on jobs will be closely watched.

#### France: Industrial production












Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### France: Manufacturing PMIs



Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

## Daiwa economic forecasts

	2022			2023			2022	2023	2024
	Q2	Q3	Q4	Q1	Q2	Q3			
<b>GDP</b>	<b>%, Q/Q</b>						<b>%, Y/Y</b>		
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	-0.5	-0.3	-0.5	-0.3	4.3	-1.2	0.1
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline HICP 	8.0	9.3	10.2	8.5	6.6	4.9	8.4	5.7	2.0
Core HICP 	3.7	4.4	5.1	4.8	4.0	3.3	3.9	3.5	2.0
UK									
Headline CPI 	9.2	10.0	11.1	10.5	8.6	7.6	9.2	8.0	3.9
Core CPI 	6.0	6.3	6.6	6.1	5.0	4.6	6.0	4.9	3.9
<b>Monetary policy, %</b>									
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
Euro area	PPI M/M% (Y/Y%)	Oct	<b>-2.9 (30.8)</b>	-2.0 (31.7)	1.6 (41.9)	-
Germany	Trade balance €bn	Oct	<b>6.9</b>	5.2	3.7	<b>2.8</b>
Spain	Unemployment change '000s	Nov	<b>-33.5</b>	-	-27.0	-
Auctions						
Country	Auction					
UK	BoE sold £1.412bn of long-term and index-linked gilts from its financial stability portfolio					


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 forecast/actual</i>	Previous	
<b>Monday 05 December 2022</b>						
Euro area		09.00	Final services (composite) PMI	Nov	<u>48.6 (47.8)</u>	48.6 (47.3)
		09.30	Sentix investor confidence	Dec	-28.0	-30.9
		10.00	Retail sales M/M% (Y/Y%)	Oct	-2.5 (-3.0)	0.4 (-0.6)
Germany		08.55	Final services (composite) PMI	Nov	<u>46.4 (46.4)</u>	46.5 (45.1)
France		08.50	Final services (composite) PMI	Nov	<u>49.4 (48.8)</u>	51.7 (50.2)
Italy		08.45	Services (composite) PMI	Nov	47.1 (46.5)	46.4 (45.8)
Spain		08.15	Services (composite) PMI	Nov	50.1 (48.5)	49.7 (48.0)
UK		09.00	New car registrations Y/Y%	Nov	-	26.4
		09.30	Final services (composite) PMI	Nov	<u>48.8 (48.3)</u>	48.8 (48.2)
<b>Tuesday 06 December 2022</b>						
Euro area		08.30	Construction PMI	Nov	-	44.9
Germany		07.00	Factory orders M/M% (Y/Y%)	Oct	0.1 (-3.9)	-4.0 (-10.8)
		08.30	Construction PMI	Nov	-	43.8
France		08.50	Construction PMI	Nov	-	44.3
Italy		08.30	Construction PMI	Nov	-	48.1
UK		00.01	BRC retail sales monitor, like-for-like Y/Y%	Nov	-	1.2
		09.30	Construction PMI	Nov	52.1	53.2
<b>Wednesday 07 December 2022</b>						
Euro area		10.00	Final GDP Q/Q% (Y/Y%)	Q3	<u>0.2 (2.1)</u>	0.8 (4.3)
		10.00	Final employment Q/Q% (Y/Y%)	Q3	<u>0.2 (1.7)</u>	0.4 (2.7)
Germany		07.00	Industrial production M/M% (Y/Y%)	Oct	-0.6 (-0.7)	0.6 (2.6)
France		07.45	Trade balance €bn	Oct	-	-17.5
Italy		09.00	Retail sales M/M% (Y/Y%)	Oct	-	0.5 (4.1)
<b>Thursday 08 December 2022</b>						
UK		00.01	RICS house price balance %	Nov	-10	-2
<b>Friday 09 December 2022</b>						
Spain		08.00	Industrial production M/M% (Y/Y%)	Oct	-0.4 (2.8)	-0.3 (3.6)
UK		09.30	BoE inflation expectations next 12 months Y/Y%	Nov	-	4.9

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 05 December 2022</b>		
Euro area	 01.45	ECB President Lagarde scheduled to speak at South East Asian Central Bank conference
	 08.00	ECB's Villeroy scheduled to speak
<b>Tuesday 06 December 2022</b>		
Germany	 10.30	Auction: €5.00bn of 2.2% 2024 bonds
UK	 10.00	Auction: £3.25bn of 4.125% 2027 bonds
	 10.00	Auction: £2.25bn of 1.125% 2039 bonds
<b>Wednesday 07 December 2022</b>		
Euro area	 07.10	ECB Chief Economist Lane scheduled to speak
	 09.00	ECB publishes consumer expectations survey results for October
	 14.30	ECB's Panetta scheduled to speak
UK	 10.00	Auction: £700mn of 0.125% 2031 index-linked bonds
<b>Thursday 08 December 2022</b>		
Euro area	 12.00	ECB President Lagarde scheduled to speak
	 16.00	ECB's Villeroy scheduled to speak
UK	 01.01	REC/KPMG report on jobs
<b>Friday 09 December 2022</b>		
UK	 09.30	BoE publishes its Inflation Attitudes Survey results

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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