

# Euro wrap-up

## Overview

- Despite a slump in euro area retail sales at the start of Q4, Bunds followed USTs lower as several ECB members signalled that rates would need to rise further in the New Year.
- Gilts made gains as the final UK services PMIs remained consistent with contraction in November and flagged a notable weakening in demand.
- Tuesday will bring German factory orders figures, European construction PMIs and a UK retail survey.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.088	+0.005
OBL 1.3 10/27	1.874	+0.018
DBR 1.7 08/32	1.872	+0.026
UKT 1 04/24	3.328	-0.032
UKT 1½ 07/27	3.245	-0.019
UKT 4½ 06/32	3.101	-0.049

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

Source: Bloomberg

## Euro area

### Euro area retail sales slump in October as spending on non-essential falls sharply

With households' purchasing power being further diminished by record high inflation at the start of Q4 and consumer confidence still very weak, today's euro area retail sales data unsurprisingly showed that spending on goods slumped in October. In particular, total sales fell 1.8%M/M, the most since last December, underpinned by weakness in Germany (-2.8%M/M), France (-2.7%M/M) and Austria (-4.6%M/M). Illustrating the ongoing hit to disposable income, the deterioration was led by a sharp decline in sales of core items – excluding food and fuel – by more than 2.0%M/M, to their lowest level since lockdowns were relaxed in April 2021. But food store sales (-1.5%M/M) were also the weakest since 2019 as particularly steep price rises in the sector (up a record 15.9%Y/Y in October) continue to dampen spending. Admittedly, there was a modest increase in spending on fuel (0.3%M/M) as the price of petrol fell. But overall, retail sales volumes were down 2.7%Y/Y in October, contrasting markedly with the increase of almost 7%Y/Y in the value of sales. And with consumer goods prices having continued to trend higher in November and households' purchase intentions still close to historical lows, the shortfall in sales volumes relative to values is likely to widen further.

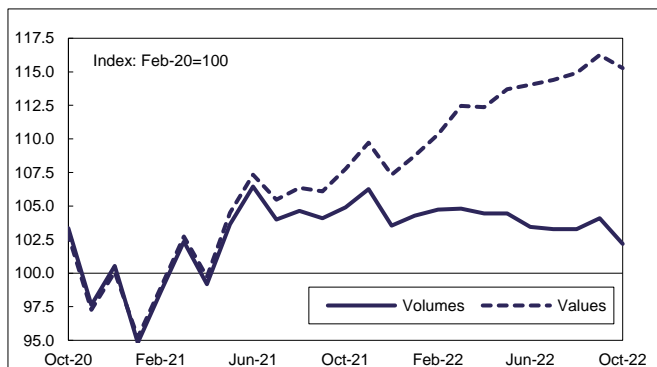
### Services PMIs point to contraction in November, led by a deterioration in France and Germany

There were no major surprises from the final services PMIs in November. Admittedly, the headline euro area activity index was nudged a touch lower from the flash release and October's outturn, by 0.1pt to 48.5. This marked the seventh consecutive monthly decline, the weakest outturn since June 2013 outside of lockdown periods and on track for the steepest quarterly contraction since Q121. And with new business continuing to decline at a similar pace to October, firms in the sector reported the softest jobs growth for twenty months. Germany's services sector was again the weakest performing of the member states, with the activity index down 0.4pt to 46.1. But the most significant deterioration in November was reported in France, where the respective PMI dropped 2.4pts to 49.3, the first sub-50 reading since March 2021 to be trending almost 2pts below the Q3 average. But, having hit a 21-month low in October, Italy's services PMI jumped more than 3pts in November to 49.5, while the equivalent Spanish index rose 1½pts to a four-month high of 51.2, consistent with a return to growth.

### Composite PMIs consistent with contraction, price pressures continue to ease

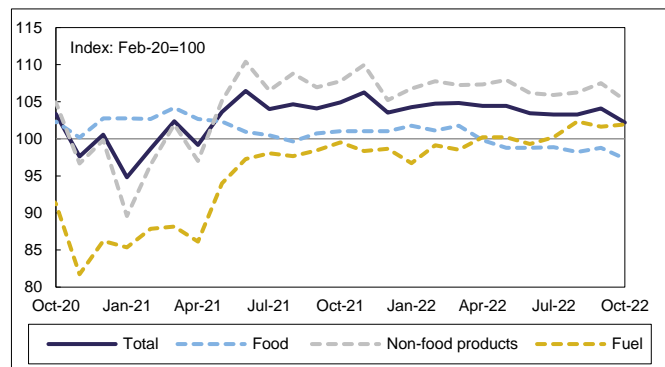
Given the improvement in the [manufacturing](#) survey, the euro area composite PMI rose for the first month in seven in November, by 0.5pt to 47.8. But this still left the index firmly below the key-50 level for the fifth consecutive month and trending so far in Q4 almost 1½pts below the Q3 average. And for the first time since May 2020, the composite PMIs of the

#### Euro area: Retail sales



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

#### Euro area: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

largest member states were all in contractionary territory, with the respective indices in Germany (46.3), France (48.7), Italy (48.7) and Spain (49.6). But with the exception of France, these marked a softer pace of decline than implied in October, suggesting that, while the outlook remains gloomy, the downturn might not be as severe as previously thought. This stance was supported by the euro area Sentix investor survey, which saw a significant improvement in economic conditions at the start of December. In particular, the headline index rose 9.9pts to -21.0, the highest since June 2022 and almost 20pts above October's trough, albeit still leaving the average index in Q4 below Q3 and well below the long-run average. In terms of the inflation outlook, the PMIs confirmed a notable easing in cost burdens, with the composite input price PMI down 3.9pts to a still-lofty 71.6, but nevertheless the lowest for fourteen months. And the respective output price PMI edged lower for the second-successive month (62.8).

## The day ahead in the euro area

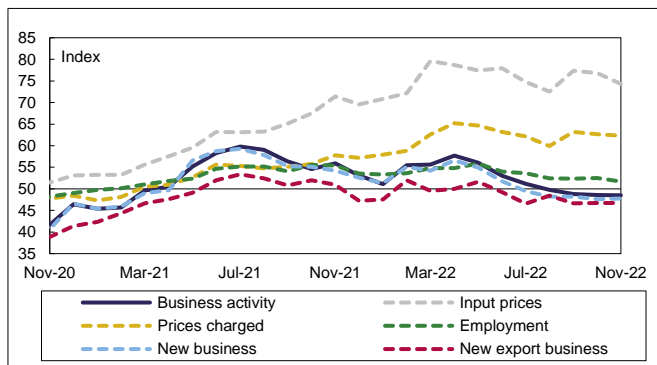
Looking ahead, tomorrow's focus will turn to the manufacturing and construction sectors. In particular, German factory orders for October are expected to post a modest increase of 0.1%M/M, although that would follow a sharp drop of 4.0%M/M in September and leave factory orders 4.8% lower compared to a year earlier, and 1½% below their pre-pandemic level in February 2020. Also due to be published tomorrow are the construction PMIs for November, which are expected to align with the weakness in the manufacturing and service sector surveys and point to ongoing steep contraction in activity in the sector.

## UK

### UK services activity PMI flags notably weaker demand amid cost of living crisis

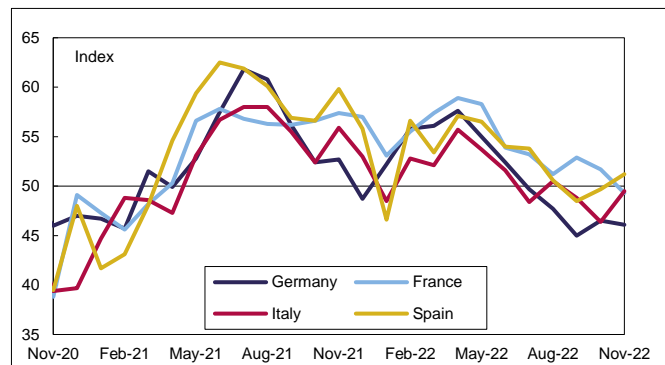
The final UK services PMIs were unrevised from the flash release in November, with the headline activity index having moved sideways at 48.8. Nevertheless, this left the average activity index trending almost 2½pts below the Q3 average, implying another quarter of contraction as demand continues to weaken amid economic uncertainty and the cost of living crisis. And given a fourth consecutive monthly drop in the new business PMI to 47.4, its lowest since the 2016 referendum vote outside of lockdown periods, the near-term outlook remains extremely weak. While today's survey suggested that service sector firms continued to increase their workforces, the pace of jobs growth was the slowest for 21 months, with S&P Global noting reports of job freezes and non-replacement of leavers due to concerns over cost margins. Indeed, contrasting with the euro area survey, the UK PMIs suggested that cost burdens in the sector remained extremely elevated, with the services input price PMI rising 1.9pts to 77.9. And so while the equivalent prices charged PMI fell slightly in November (62.9) it was revised notably higher from the flash release. Overall, the composite output PMI was revised a touch lower from the flash, by 0.1pt to be unchanged on the month at 48.2, the joint-weakest since January 2021 and trending some 2.1pts below the Q3 average.

### Euro area: Services PMIs



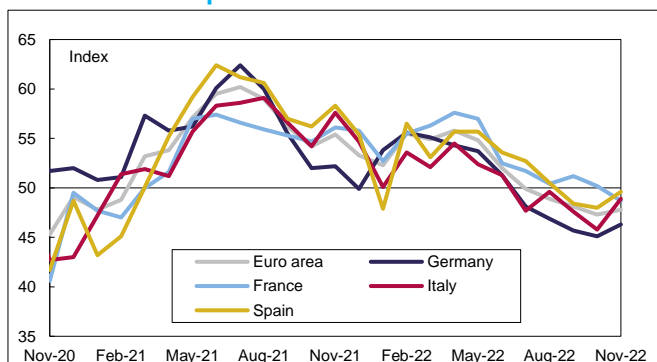
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

### Euro area: Services PMIs



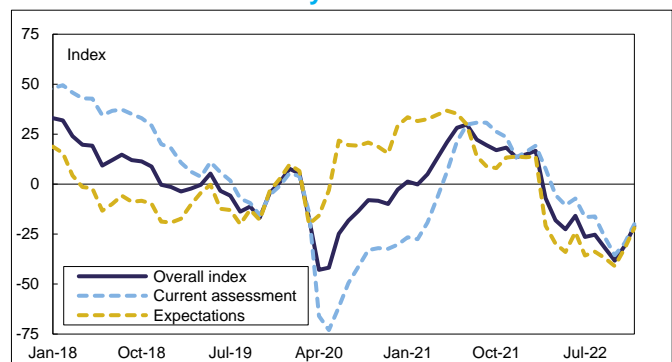
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

### Euro area: Composite PMIs



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

### Euro area: Sentix survey indices



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

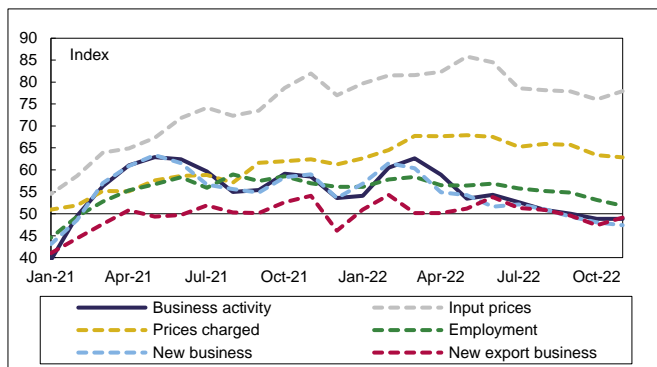
## UK car registrations remain subdued despite stronger growth in November

At face value, today's UK new car registrations figures were encouraging, with sales up 23.5%Y/Y in November, as manufacturers continued to fulfil backorders as supply constraints ease. The pickup this month was driven by a near-45% increase in fleet registrations (51% of the market share) and more than doubling of business registrations, albeit accounting for a small share of the market (3.1%). Meanwhile, private registrations were up a more modest 2.7%Y/Y. But overall registrations were still almost 8% lower than in November 2019 before the pandemic. Moreover, in the year to date, sales were still down almost 3½% compared with 2021, and almost one third below the equivalent period in 2019. So while an easing in supply bottlenecks and still hefty backlog of orders might well continue to support registrations over the near term, demand for new cars will continue to fade amid higher borrowing costs, low consumer confidence and diminished disposable income.

## The day ahead in the UK

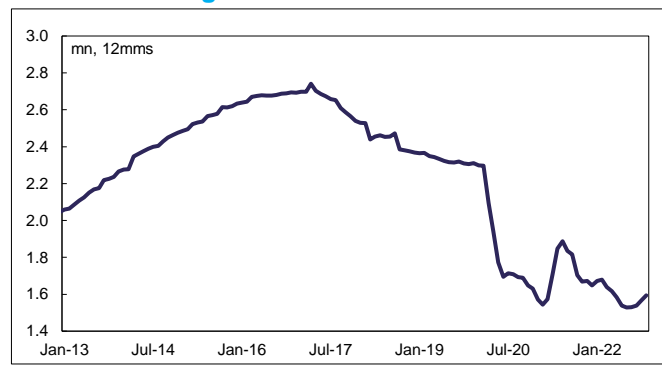
In the UK tomorrow, the BRC retail sales monitor for November is likely to suggest still very weak consumer spending despite Black Friday discounting, as households face increasingly squeezed budgets. Meanwhile, in contrast to the euro area, the UK construction PMI is expected to remain above the key 50 expansion/contraction level suggesting activity remains somewhat more stable in the sector. The headline construction index is expected to come in at 52.0 in November, down from 53.2 in October.

### UK: Services PMIs



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

### UK: New car registrations












Source: Refinitiv, SMMT 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	 Final services (composite) PMI	Nov	<b>48.5 (47.8)</b>	<u>48.6 (47.8)</u>	48.6 (47.3)	-
	 Sentix investor confidence	Dec	<b>-21.0</b>	-27.5	-30.9	-
	 Retail sales M/M% (Y/Y%)	Oct	<b>-1.8 (-2.7)</b>	-2.5 (-3.0)	0.4 (-0.6)	<b>0.8 (0.0)</b>
Germany	 Final services (composite) PMI	Nov	<b>46.1 (46.3)</b>	<u>46.4 (46.4)</u>	46.5 (45.1)	-
France	 Final services (composite) PMI	Nov	<b>49.3 (48.7)</b>	<u>49.4 (48.8)</u>	51.7 (50.2)	-
Italy	 Services (composite) PMI	Nov	<b>49.5 (48.9)</b>	47.1 (46.5)	46.4 (45.8)	-
Spain	 Services (composite) PMI	Nov	<b>51.2 (49.6)</b>	50.1 (48.5)	49.7 (48.0)	-
UK	 New car registrations Y/Y%	Nov	<b>23.5</b>	-	26.4	-
	 Final services (composite) PMI	Nov	<b>48.8 (48.2)</b>	<u>48.8 (48.3)</u>	48.8 (48.2)	-

#### Auctions

Country	Auction
UK	 BoE sold £750mn of 2026-2028 gilts, with bid to cover ratio of 2.43x


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	08.30	Construction PMI	Nov	-	44.9
Germany	07.00	Factory orders M/M% (Y/Y%)	Oct	0.1 (-4.8)	-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

#### Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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