

# Euro wrap-up

## Overview

- Bunds made losses as ECB Chief Economist Lane signalled that he might well recommend a slowing in the pace of tightening at next week's Governing Council meeting.
- Gilts also made losses as a UK retail survey implied a marked drop in sales volumes in November, while the construction PMI also fell more than expected.
- Wednesday brings the ECB's monthly consumer expectations survey, German IP data and an updated euro area Q3 GDP estimate.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.029	-0.070
OBL 1.3 10/27	1.803	-0.074
DBR 1.7 08/32	1.791	-0.082
UKT 1 04/24	3.282	-0.031
UKT 1½ 07/27	3.221	-0.019
UKT 4½ 06/32	3.069	-0.031

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

## Euro area

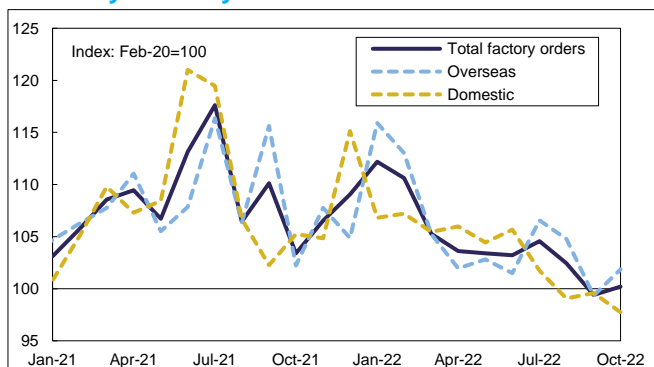
### German factory orders beat expectations in October thanks to one-off bulk orders

German factory orders in October were a touch stronger than expected, rising 0.8%M/M. But this followed a marked drop in September – admittedly revised favourably from -4.5%M/M to -2.9%M/M – and a further six declines in the previous seven months. Moreover, when excluding large one-off contracts, orders fell 1.2%M/M at the start of Q4 to their lowest level since August 2020 to be trending some 2.7% below the Q3 average. Despite a boost from bulk orders, the weakness was domestically driven (-1.9%M/M), offset by increased demand from abroad (2.5%M/M). Capital goods orders (+3.2%M/M) were boosted by a partial rebound in foreign demand for German autos, for which total orders in the sub-sector rose 5½%M/M. But not least reflecting a marked decline in chemicals orders to their lowest level since 2012 bar the onset of the pandemic, orders of intermediate items fell for the third consecutive month to be trending almost 5% below the Q3 average. And while they have recently been particularly volatile, consumer goods orders slumped more than 6.0%M/M. While the manufacturing PMIs signalled a slight improvement in November, the new orders index (38.3) was still consistent with a steep decline, while the equivalent ifo survey measure fell to a nineteen-month low. Of course, the current high level of order backlogs should help to support production in certain sectors over the near term as long as supply bottlenecks continue to ease. However, firms in energy-intensive sectors will likely remain a drag on output. And ahead of tomorrow's IP release, today's manufacturing turnover data (-0.2%M/M) suggested no improvement in production at the start of Q4.

### Construction PMIs signal marked contraction in Q4 as activity in Germany and France collapses

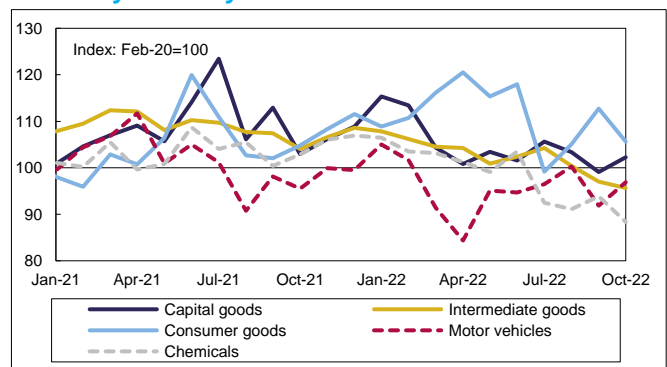
November's construction PMIs offered a bleak assessment too. In particular, the euro area activity index fell for the twelfth month out of the past thirteen, by 1.3pts to 43.6, a level that was last weaker in May 2020, with the contraction most pronounced in housing (40.2) and civil engineering (41.3). Reflecting not least heightened uncertainties about the economic outlook and higher borrowing costs, firms reported the eighth consecutive decline in new orders and by the largest margin since the first lockdown. And with cost burdens in the sector still elevated, firms remained among the most pessimistic for the past two years. Among the member states, there was a further collapse in the French activity PMI, to 40.7, led by a slump in new orders with firms citing particular weakness in demand from the public sector. The performance in German construction was little better, with the output PMI falling to just 41.5, similarly the weakest since early 2021. Admittedly, the PMIs suggested a return to modest growth in Italy's construction sector (52.0), with the first increase in order volumes since May.

### Germany: Factory orders



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

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Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

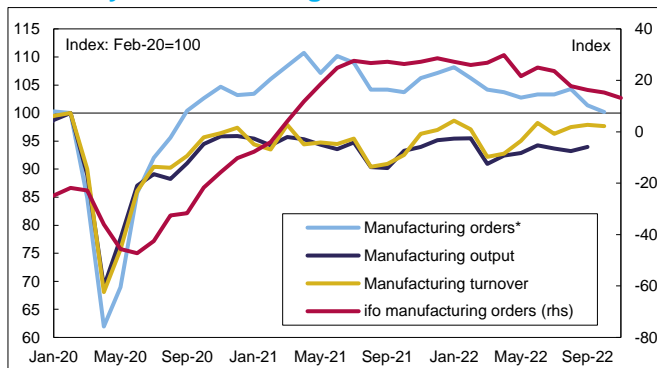
## Comments suggest ECB Chief Economist will recommend a 50bp hike next week

In an interview with Milano Finanza published today, comments from ECB Chief Economist Philip Lane implied that he is most likely to recommend a hike of 50bps at next week's monetary policy meeting. While there is clearly a range of views on the Governing Council, and many of the hawks will inevitably advocate another hike of 75bps, Lane's recommendation will provide the key steer for the Governing Council's discussion on the appropriate next step for tightening. And certain other bellwether members (Villeroy and Makhlouf, the national bank governors of France and Ireland respectively) have over recent days suggested their readiness to support a hike of 50bps, which thus remains our expectation. In particular, while Lane thought the decisions to hike by 75bps in September and October were "relatively straightforward" given the low level of rates back then, he insisted that the forthcoming meeting would have to take account of the significantly higher starting point, given that the ECB has now hiked by a cumulative 200bps so far this cycle. Meanwhile, in terms of Quantitative Tightening, Lane noted that – as for the Fed, and in line with expectations – when it eventually starts, ECB QT should operate "in the background, in a predictable, measured way", ensuring that rates remain the primary instrument. In addition, in terms of the inflation outlook, he judged that "it is likely we are close to peak inflation. But whether this already is the peak or whether it will arrive at the start of 2023, is still uncertain." And while he expects second-round effects "to drive inflation next year and in 2024", he did not disagree that inflation should be back close to the 2.0% target in 2025.

## The day ahead in the euro area

In terms of tomorrow's economic data releases, likely of most significance for next week's Governing Council policy decision will be the ECB's monthly consumer expectations survey results. An important focus will be consumer price expectations three-years ahead, which in September were unchanged at 3.0%Y/Y, de-anchored from the ECB's target. Wednesday also brings the aforementioned German industrial production data for October, which are expected to show that output fell at the start of Q4: The Bloomberg survey consensus is for a drop of 0.6%M/M, to be down 0.7%Y/Y%. Meanwhile, an updated estimate of euro area Q3 GDP data will include a detailed expenditure breakdown and the member states' employment figures. Preliminary estimates 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 in Q3 expected to have been underpinned by household consumption while net trade was likely a drag.

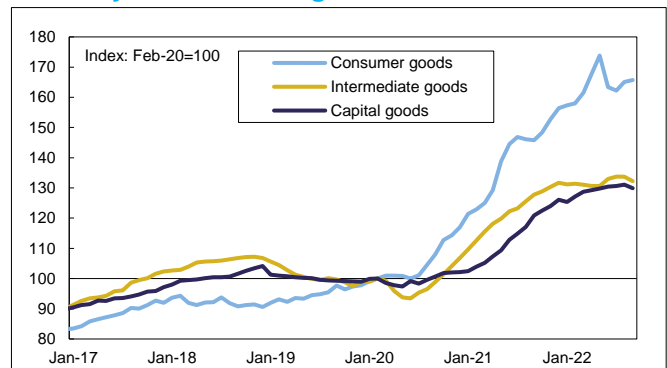
### Germany: Manufacturing indicators



\*Excluding large orders.

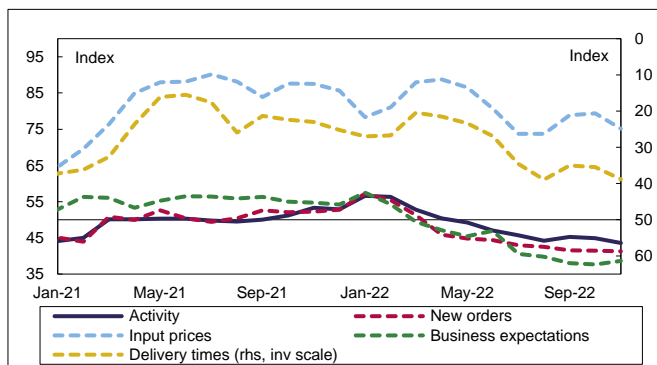
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: Manufacturing order levels



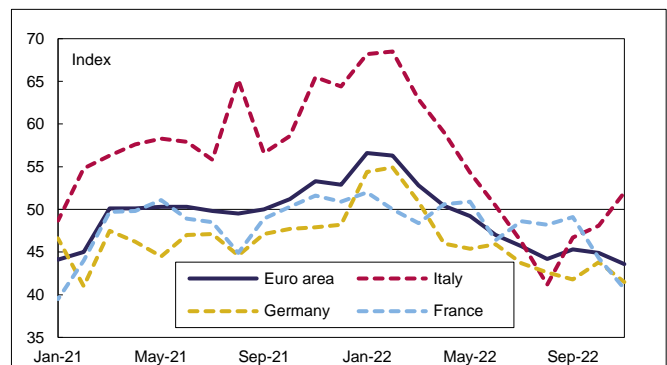
Source: Bundesbank and Daiwa Capital Markets Europe Ltd.

### Euro area: Construction PMIs



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

### Euro area: Construction PMIs



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

## UK

### BRC retail survey suggests boost to value of sales in November due to higher prices

At face value, the BRC's retail monitor suggested a marked boost to sales in November supported by Black Friday discounting and the start of the FIFA World Cup. Indeed, the survey measure for the value of like-for-like sales jumped 4.1%Y/Y, the strongest growth since January. But with shop price inflation rising by almost 7½%Y/Y, retail volumes appear to have declined sharply compared with a year ago. While the value of food sales rose 5.8%3M/Y in November, non-food sales were merely flat compared with a year earlier despite the significant rise in prices, suggesting that consumers continue to scale back on non-essential items. And with prices of essentials to remain elevated for the time being, borrowing costs continuing to rise, and consumer confidence near historical lows, we expect discretionary spending to maintain a downwards trend leading up to Christmas and into the New Year.

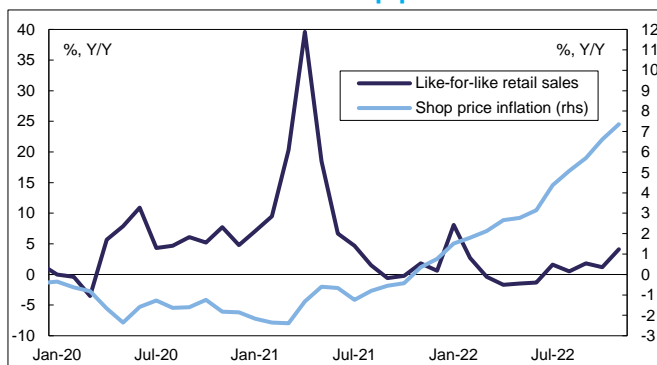
### Construction PMI flags a marked slowdown in Q4

The impact of higher borrowing costs and waning demand was also evident in today's UK construction PMIs, with the activity index down 2.8pts to a three-month low of 50.4, consistent with stagnation in the sector. The slowdown was broad-based, with the commercial activity PMI down more than 3pts to 51.1, housing index down more than 1pt to 50.0, and civil engineering component down almost 2pts to 46.8. While the survey component suggested a modest pickup in new orders in November (51.6) and a further easing in (admittedly still elevated) input costs to the lowest in 22 months, firms were the most downbeat about expectations for the twelve months ahead since May 2020. As such, they also signalled the softest jobs growth in the sector since the start of 2021, a trend that will likely be maintained as the downwards adjustment in the housing market continues to play out over coming quarters.

### The day ahead in the UK

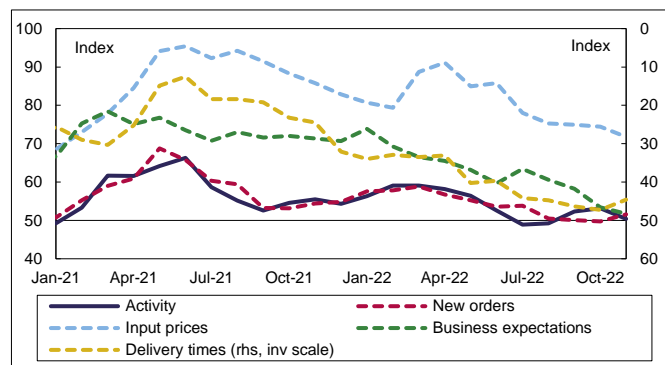
It should be a very quiet day ahead in the UK, with no key economic data releases scheduled.

#### UK: BRC retail sales and shop price inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### UK: Construction PMIs










Source: Refinitiv, S&P Global 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	 Construction PMI	Nov	43.6	-	44.9	-
Germany	 Factory orders M/M% (Y/Y%)	Oct	0.8 (-3.2)	0.1 (-3.9)	-4.0 (-10.8)	-2.9 (-9.8)
	 Construction PMI	Nov	41.5	-	43.8	-
France	 Construction PMI	Nov	40.7	-	44.3	-
Italy	 Construction PMI	Nov	52.0	-	48.1	-
UK	 BRC retail sales monitor, like-for-like Y/Y%	Nov	4.1	-	1.2	-
	 Construction PMI	Nov	50.4	52.1	53.2	-






### Auctions

Country	Auction
Germany	 sold €4.02bn of 2.2% 2024 bonds at an average yield of 2.11%
UK	 sold £3.25bn of 4.125% 2027 bonds at an average yield of 3.472%
	 sold £2.25bn of 1.125% 2039 bonds at an average yield of 3.514%
	 BoE sold £983.6mn of index-linked gilts under its financial stability purchase 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	GDP – revised estimate Q/Q% (Y/Y%)	Q3	0.2 (2.1)	0.8 (4.3)
	 10.00	Employment – revised estimate Q/Q% (Y/Y%)	Q3	0.2 (1.7)	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)

### Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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