

# Euro wrap-up

## Overview

- Bunds made gains even as consumer inflation expectations remained elevated, German IP data for October beat expectations and euro area Q3 GDP growth was revised up.
- Gilts also made gains as a measure of UK house prices fell the most in fourteen years.
- The data focus over the back end of the week will be on UK surveys of the labour and housing markets and inflation expectations.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	1.981	-0.035
OBL 1.3 10/27	1.769	-0.030
DBR 1.7 08/32	1.769	-0.020
UKT 1 04/24	3.185	-0.024
UKT 1¼ 07/27	3.151	-0.053
UKT 4¼ 06/32	3.039	-0.031

\*Change from close as at 4:00pm GMT.  
Source: Bloomberg

## Euro area

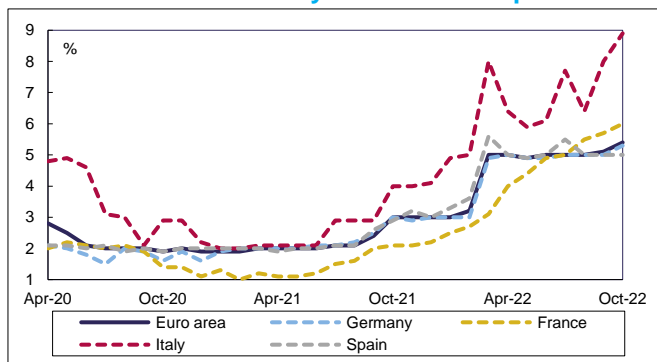
### Consumer inflation expectations still too high for hawks' comfort

Given persisting concerns about second-round effects on wage- and price-setting from current high rates of inflation, the findings of the ECB's latest consumer survey will be scrutinised by Governing Council members ahead of next week's monetary policy meeting. As far as the hawks are concerned, household inflation expectations will still be considered too high for comfort. Indeed, some of the survey detail will likely have added to worries that household expectations are increasingly becoming de-anchored from the ECB's target. To start with, the median inflation expectation for twelve months ahead rose 0.3ppt to a new series high of 5.4%Y/Y, with the respective figures rising in each of the three largest member states, and most strikingly in Italy (up 0.9ppt to 8.9%Y/Y). Admittedly, the survey's median inflation expectation for three years ahead was unchanged. But at 3.0%Y/Y, this was still 1ppt above the ECB's target, to which it had been broadly well-anchored throughout the first eighteen months of the pandemic. The median inflation expectation three years ahead rose in France, Italy and Spain, but was stable in Germany and dropped significantly in Belgium. But of the larger member states, only in Germany and France (both 2.9%Y/Y) are such medium-term inflation expectations still below 3.0%Y/Y. Moreover, there remains an increasing upside skew to the distribution of inflation expectations. Strikingly, the mean inflation expectation for the coming twelve months rose 0.8ppt to 8.1%Y/Y while the equivalent measure for three years ahead edged up 0.1ppt to 4.9%Y/Y. Both figures reached new series highs.

### German IP drops less than feared, but energy-intensive subsectors remain firmly in reverse

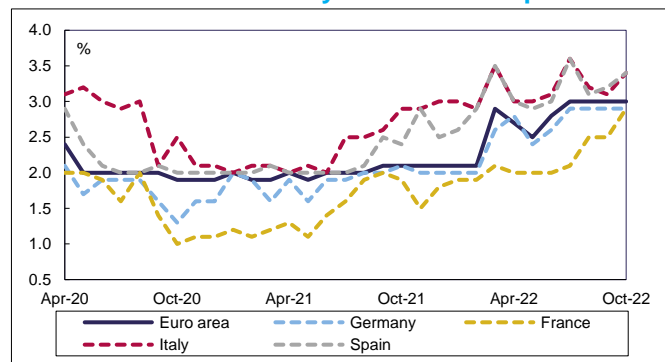
German industrial production fared a touch better than expected in October, dropping just 0.1%M/M from upwardly revised growth of 1.1%M/M in the prior month. That left it unchanged from the level a year earlier but still about 5½% below the pre-pandemic level in February 2020. The headline figure was flattered by a surge in construction output, which rebounded 4.2%M/M following weakness over the prior two months. But that was partially offset by a drop in energy output of 7.6%M/M to the lowest level since May 2020, in part reflecting unseasonably warm weather but also likely reflecting efforts by German industry to use less natural gas. Indeed, production by energy-intensive manufacturers fell a further 3.6%M/M to be down 12.6%Y/Y. Within that component, the chemicals subsector continued to retrench markedly, with production down a whopping 6.8%M/M and 21.5%Y/Y, to be at the lowest level since 2009. In contrast, overall manufacturing and mining output was down just 0.4%M/M to be still up 0.8%Y/Y, supported not least by output of capital goods (up for the third month and by 1.4%M/M to be up 5.4%Y/Y). However, having rebounded 9.5%M/M the previous month on diminished supply-chain strains, production of motor vehicles dropped 2.1%M/M in October, but were still up 13.9%Y/Y. Of course, surveys and new orders data point to a likely fall in industrial production over Q4 as a whole, led by continued efforts to conserve energy. However,

### Euro area: Consumer 1-year inflation expectations\*



\*Median inflation expectations for the next 12 months.  
Source: ECB and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumer 3-year inflation expectations\*



\*Median inflation expectations 3 years ahead.  
Source: ECB and Daiwa Capital Markets Europe Ltd.

healing supply chains and accumulated order backlogs should provide some support to limit the extent of the overall contraction in the sector.

### Irish IP falls sharply in October reinforcing the euro area downtrend

Today's Irish manufacturing data suggested a disappointing start to the fourth quarter in another member state which often has a very significant bearing on the aggregate euro area production figure. In particular, Irish industrial output fell a very steep 10.7%M/M in October, with growth revised notably lower in September too, albeit to a still-lofty 7.1%M/M. The drop in manufacturing was even steeper at more than 15%M/M, to a level more than 5½% below the Q3 average but still roughly 57% higher than a year earlier. While Irish production figures are notoriously volatile and are often distorted by the activities of multinational corporations, the downward step in output aligns with data already published in France (-2.6%M/M), Belgium (-2.0%M/M) and Portugal (-1.8%M/M). And so, consistent with the various business surveys, including the PMIs and European Commission economic sentiment indices, euro area manufacturing output appears to have started the fourth quarter firmly on the back foot, having provided a modest contribution to GDP growth for the third consecutive quarter in Q3.

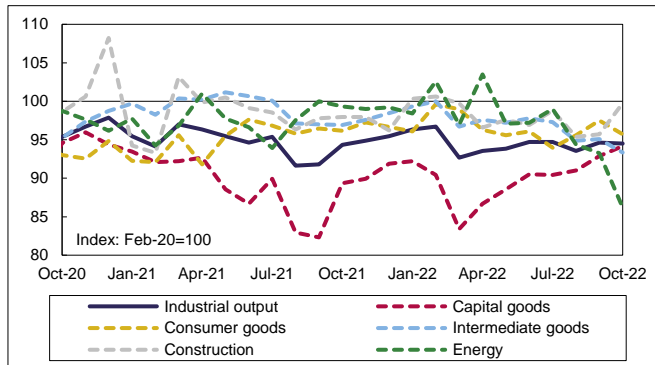
### Euro area GDP revised a touch higher in Q3, with consumption and capex driving growth

In terms of the third quarter's national accounts, updated figures published today confirmed a modest upwards revision to euro area GDP growth, by 0.1ppt to 0.3%Q/Q, reflecting last week's similar adjustment in Germany (0.4%Q/Q). But while this left euro area economic output more than 2% above the pre-pandemic level and up 0.8%YY, it still marked a notable moderation in momentum from the first half of the year when GDP growth averaged 0.7%Q/Q. Growth in Q3 was nevertheless underpinned by solid domestic demand, with household expenditure up 0.9%Q/Q to contribute 0.3ppt, while fixed investment jumped 3.6%Q/Q (0.8ppt) amid a surge in R&D activity (16½%Q/Q) and spending on transport equipment (7%Q/Q). In contrast, construction investment fell for the second successive quarter, while government spending moved sideways. And with the rise in imports (2.0%Q/Q) significantly outpacing exports (0.9%Q/Q), net trade subtracted more than 1ppt from GDP growth, the most since the end of 2019.

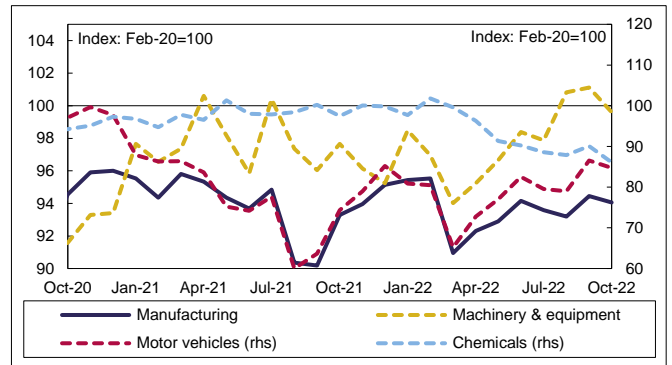
### The coming two days in the euro area

It should be a relatively quiet end to the week for top-tier euro area releases, with just Spanish industrial production numbers for October and house price data for Q3 due on Friday.

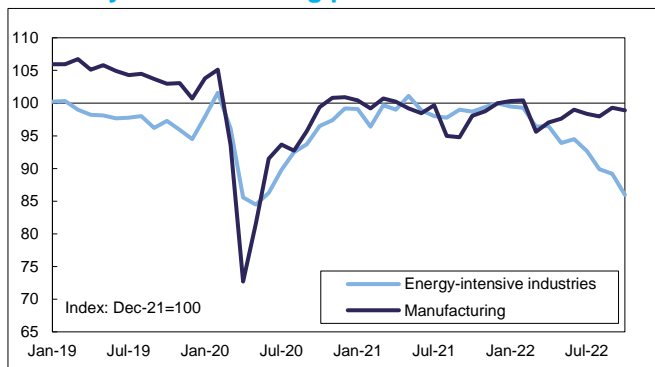
#### Germany: Industrial production



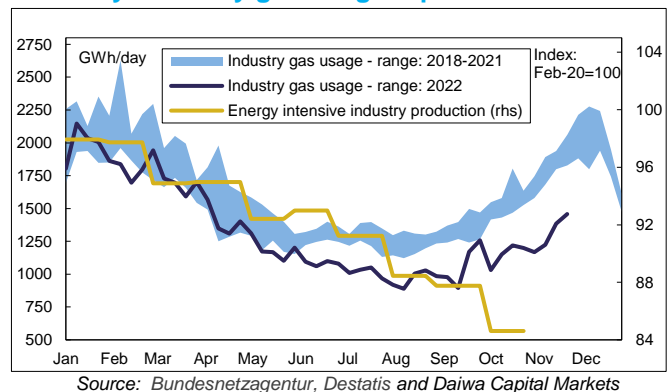
#### Germany: Manufacturing production



#### Germany: Manufacturing production



#### Germany: Industry gas usage & production

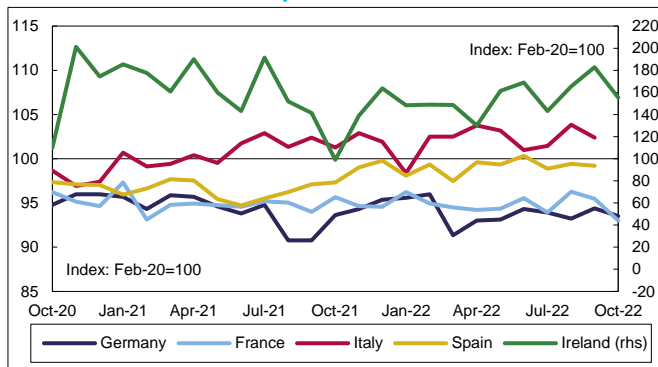


**UK**

**The coming two days in the UK**

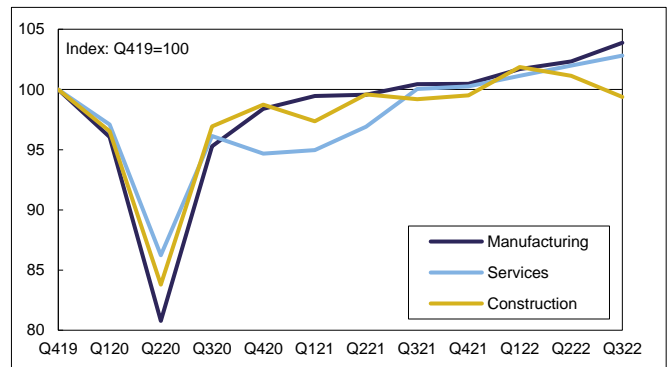
After the Halifax house price index today reported the steepest monthly decline for fourteen years in November (-2.3%M/M), tomorrow's RICS residential survey is also expected to report a further slump in housing market activity amid weakening demand and higher borrowing costs – BoE figures on quoted interest rates edged only marginally lower last month from October's high, with for example the average rate on a 2Y mortgage based on a 75% LTV ratio down just 3bps to 5.97%. Meanwhile, ahead of next week's MPC meeting, Thursday's release of the REC report on jobs will provide an update on labour market conditions in November, while Friday's release of the BoE's quarterly inflation attitudes survey will be watched for any signs of further de-anchoring in medium-term expectations.

**Euro area: Industrial production**



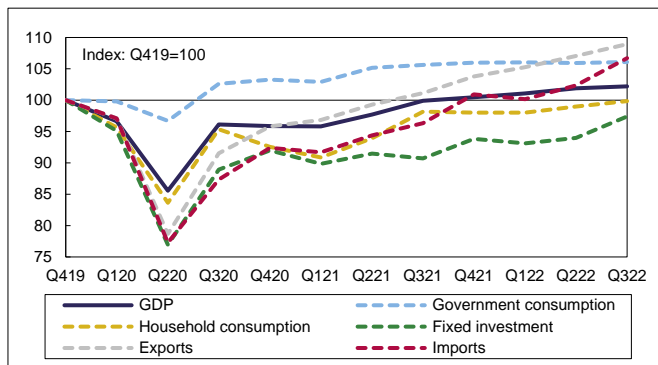
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

**Euro area: GVA levels**



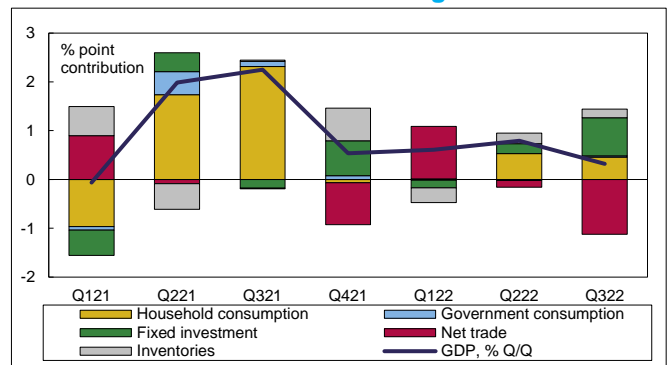
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

**Euro area: GDP levels**



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

**Euro area: Contributions to GDP growth**








Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

**The next edition of the Euro wrap-up will be published on 9<sup>th</sup> December 2022**


## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Final GDP Q/Q% (Y/Y%)	Q3	<b>0.3 (2.3)</b>	<u>0.2 (2.1)</u>	0.8 (4.3)	-
	 Final employment Q/Q% (Y/Y%)	Q3	<b>0.3 (1.8)</b>	<u>0.2 (1.7)</u>	0.4 (2.7)	-
Germany	 Industrial production M/M% (Y/Y%)	Oct	<b>-0.1 (0.0)</b>	-0.6 (-0.7)	0.6 (2.6)	<b>1.1 (3.1)</b>
France	 Trade balance €bn	Oct	<b>-12.2</b>	-	-17.5	<b>-17.2</b>
Italy	 Retail sales M/M% (Y/Y%)	Oct	<b>-0.4 (1.3)</b>	-0.5 (-)	0.5 (4.1)	<b>0.5 (4.0)</b>


#### Auctions

Country	Auction
UK	 BoE sold £1.72bn of gilts under financial stability buying 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
UK	 00.01	RICS house price balance %	Nov	-10	-2



#### Auctions and events

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


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Friday's releases

#### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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

#### Auctions and events

UK	 09.30	BoE publishes its Inflation Attitudes Survey results
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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