

Euro wrap-up

Overview

- Bunds made losses as ECB Executive Board hawk Schnabel suggested interest rates will need to rise significantly to be sufficiently restrictive to return inflation back to target.
- Gilts also made modest losses as a retail sales survey implied a better end to the year for UK retailers, but a separate survey suggested a significant softening in the labour market.
- Thursday will bring the results of an ECB consumer expectations survey, while euro area IP and UK GDP reports for November are due Friday.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.627	+0.038
OBL 1.3 10/27	2.327	+0.068
DBR 1.7 08/32	2.294	+0.070
UKT 1 04/24	3.466	+0.026
UKT 1½ 07/27	3.461	+0.018
UKT 4¼ 06/32	3.555	+0.030

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

Euro area

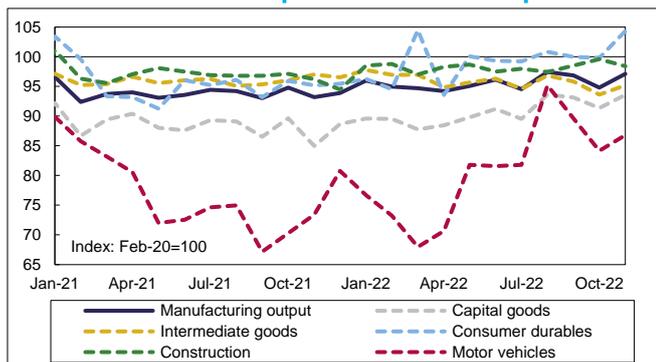
French production on track for Q4 dip despite November rebound

After German industrial production grew modestly in the middle of Q4, the equivalent French data reported a much stronger-than-expected rebound from weakness in October. Indeed, French manufacturing output leapt 2.4%M/M in November, the second-strongest rate registered last year and more than reversing the drop of 2.1%M/M in the prior month. Nevertheless, that left it up just 0.2%3M/3M, and still probably on track for a modest drop over Q4 as a whole. It also left the level of manufacturing output still 2.9% below the pre-pandemic level in February 2020. And with utilities and mining activity weaker, overall industrial production growth was somewhat less vigorous in November (up 2.0%M/M but down 0.8%3M/3M) to be trending more substantively lower over Q4 as a whole. Perhaps inevitably, French manufacturing growth in November was led by a very strong rebound (up more than 90%M/M!) in production of coke and refined petroleum products following the strike-related sharp drop in October. But growth in the factory sector was still widespread in the middle of Q4, and encouragingly firm in machinery and equipment (5.3%M/M and 1.9%3M/3M) and motor vehicles (3.1%M/M and 0.8%3M/3M). Beyond manufacturing and utilities, construction output dropped 1.2%M/M in November to reverse the growth at the start of the quarter, but was still up 1.2%3M/3M. Surveys, however, point to a soft end to the year across the French industrial sector with confidence in manufacturing the lowest since the lockdown of January 2021, new orders in retreat, and the outlook for Q1 highly uncertain too.

Irish IP jumps in November, more than offsetting weakness in the Netherlands

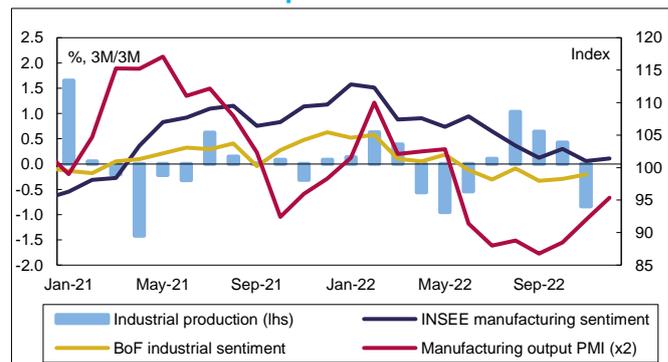
Like in France, Ireland's production figures published yesterday reported a strong rebound in November. Indeed, Irish output jumped 6.4%M/M with manufacturing production up a firmer 7.8%M/M. Of course, Irish production data are notoriously volatile and the latest reading was largely driven (and distorted) by export and contract activities of multinational corporations based in Ireland for accounting purposes. Indeed, Irish manufacturing output in November was 86% above the pre-pandemic level in February 2020, seemingly bloated by activity occurring abroad. Nevertheless, the strength in November failed to fully offset the sharp decline in October (-8.7%M/M), although solid increases over the summer left Irish industrial output still trending almost 3% above the Q3 average. Output data from the Netherlands are often distorted by multinational activities too. But contrasting with Ireland, Dutch production fell in November for the third month out of the past four, by 1.1%M/M. And the 2.0%M/M drop in manufacturing was the steepest for fifteen months, taking it to its lowest level for a year and trending some 1.8% below the Q3 average. Overall, taken together with solid growth in Belgium (2.6%M/M) and Portugal (3.7%M/M), and assuming production in Italy (data due Friday) aligns with the expected increase (0.4%M/M), aggregate euro area IP (also due Friday) should report a decent upturn in November with growth of around 1.0%M/M. Of course, this would reverse merely half the drop recorded in October and would leave output on a modest downwards trend in the middle of Q4.

France: Industrial output – selected components



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: Industrial output and sentiment



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

The coming two days in the euro area

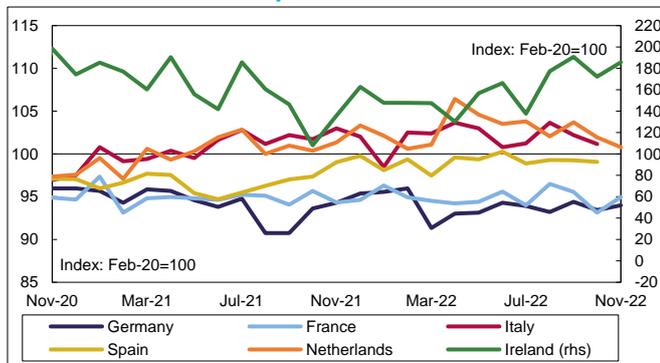
The coming two days will be relatively quiet on the euro area economic data front, with likely of most interest Thursday's ECB consumer expectations survey results for November. This report will be watched for evidence of de-anchoring of price expectations – in October, the median forecast for inflation twelve months ahead rose 0.4ppt to 5.4%Y/Y, while the median forecast for inflation three years ahead moved sideways at 3.0%Y/Y. Meanwhile, ahead of the aforementioned release of euro area November industrial production data on Friday, tomorrow will bring the postponed release of the Spanish figures. Following a disappointing start to the fourth quarter, euro area IP is expected to have risen around 1%M/M, albeit reversing merely half the 2.0%M/M drop in October. Euro area goods trade data for November are also due to be published on Friday, along with the first full-year estimate of German GDP growth in 2022 and final December inflation figures from France and Spain.

UK

Survey suggests pickup in retail sales in December but sixth successive quarterly drop in Q4

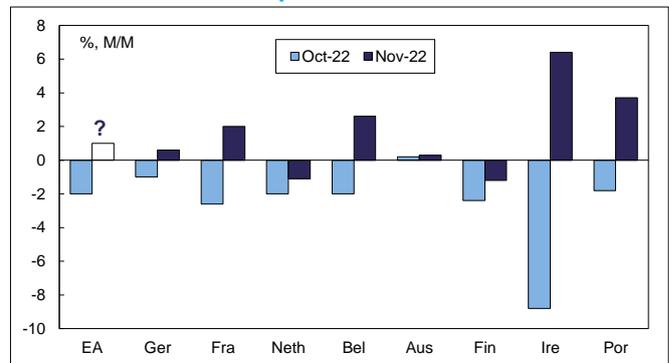
At face value, the latest BRC/KPMG survey results suggested a merrier festive season for UK retailers. Indeed, the survey measure of total sales growth picked up 2.7ppts in December to 6.9%Y/Y, firmly above expectations and the strongest in eleven months. Like-for-like sales were similarly up 6.5%Y/Y, almost 2½ppts stronger on the month. The survey measure of the value of food sales was up 7.9%3M/Y, again significantly outpacing growth in non-food items (up 1.5%3M/Y). However, the strength in the value sales primarily reflects higher prices. Indeed, the BRC shop price index rose 7.3%Y/Y in December, with food prices up 13.3%Y/Y and non-food prices up a moderate 4.4%Y/Y. So, the survey remained consistent with year-on-year declines in December in overall sales volumes, and sales volumes of food and non-food items alike. And while the figures do at least point to positive growth in sales volumes on a month-on-month basis in December, we caution that they failed to act as a reliable guide to the weakness recorded in the official data in November, which saw sales (excluding fuel) dropping 0.3%M/M and 6.1%Y/Y. Indeed, sales on the high street appear to have benefited in part in December from a drop in online sales, due to shoppers' concerns about disruption to deliveries from postal-worker strikes. Certainly, overall, retail sales volumes still look firmly on track to contract in Q4 for the sixth successive quarter.

Euro area: Industrial production



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Industrial production*



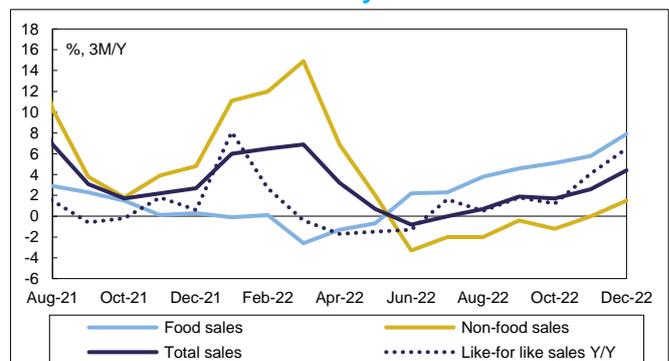
*Euro area figure for November is Daiwa forecast. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: BRC/KPMG retail survey indicators*



*Value of retail sales. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: BRC/KPMG retail survey indicators*



*Value of retail sales. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

REC survey suggests that UK labour market tightness continues to ease

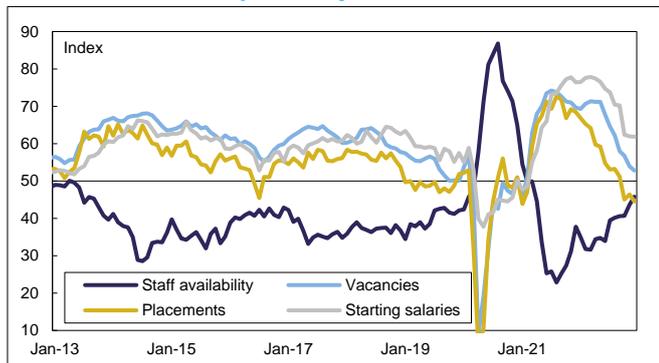
According to the REC/KPMG report on jobs, the UK labour market softened significantly further in December as the likelihood of economic recession and uncertainty about the outlook weighed more heavily. According to the recruitment and employment consultancies surveyed, the number of permanent placements dropped for the third month running in December and by the most since the lockdown of January 2021. Growth in vacancies for permanent roles similarly slowed to the softest since February 2021. And staff availability improved to the least restrictive since March 2021. While the number of temporary billings ticked up, growth remained well below that registered from the summer of 2020 through to September 2022. Growth in starting salaries slowed for the ninth successive month to the softest rate since April 2021. With economic activity likely to continue to contract in the first half of 2023, we expect vacancies to fall, unemployment to rise and wage growth to slow over coming quarters.

The coming two days in the UK

After a quiet few days for top-tier UK economic releases, Friday brings the week's data highlight in the form of the November GDP report. While October saw a moderate rebound – with GDP up 0.5%M/M – as the UK returned to regular working days following the Queen's funeral in September, we expect growth to have returned to negative territory in November as high inflation and rising interest rates hit business and household spending. Retail sales were down 0.4%M/M in November, while high-frequency data suggest a notable decline in restaurant bookings that month too. Survey indicators such as the PMIs suggest that economic activity in manufacturing and services alike also contracted that month. Overall, we think GDP might well have reversed much of the increase in October, broadly in line with the Bloomberg survey consensus (0.3%M/M) to leave it down as much as ½%3M/3M.

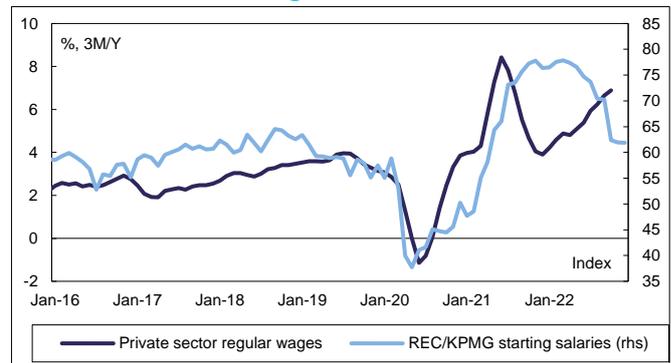
The next edition of the Euro wrap-up will be published on 13 January 2023

UK: REC/KPMG report on jobs indices*



*For permanent positions. Source: S&P Global, Refinitiv & Daiwa Capital Markets Europe Ltd.

UK: Private sector wages



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

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France	 Industrial production M/M% (Y/Y%)	Nov	2.4 (0.7)	0.8 (-1.3)	-2.6 (-2.7)	-2.5 (-)
	 Manufacturing production M/M% (Y/Y%)	Nov	2.0 (4.2)	-	-2.0 (0.0)	-2.1 (-)
UK	 BRC retail sales monitor, like-for-like sales Y/Y%	Dec	6.5	-	4.1	-

Auctions

Country	Auction
Germany	 sold €308mn of 0.10% 2033 index-linked bonds at an average yield of 0.16%
UK	 sold: £3bn of 3.25% 2033 bonds at an average yield of 3.697%
	 BoE sold £5.26bn of gilts from 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
Italy	09.00	 Retail sales M/M% (Y/Y%)	Nov	-	-0.4 (1.3)
Spain	08.00	 Industrial production M/M% (Y/Y%)	Nov	-0.4 (0.1)	-0.4 (2.5)

Auctions and events

Germany	10.30	 Auction: €5bn of 0.00% 2033 bonds
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
- Nothing scheduled -					

Auctions and events

Euro area	 09.00	ECB publishes Economic Bulletin
	 09.00	ECB publishes Consumer Expectations Survey results for November
Italy	 10.00	Auction: €3.5bn of 3.5% 2026 bonds
	 10.00	Auction: €3.5bn of 3.85% 2029 bonds
Spain	 09.30	Auction: 2.80% 2026 bonds
	 09.30	Auction: 0.80% 2029 bonds
	 09.30	Auction: 2.90% 2046 bonds
	 09.30	Auction: 0.70% 2033 index-linked bonds
UK	 17.00	BoE's Mann scheduled to speak on the challenges facing the UK economy and monetary policy

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	 10.00	Industrial production M/M% (Y/Y%)	Nov	<u>1.0 (1.0)</u>	-2.0 (3.4)
	 10.00	Trade balance €bn	Nov	-20.0	-28.3
Germany	 09.00	GDP Y/Y%	2022	1.8	2.6
France	 07.45	Final CPI M/M% (Y/Y%)	Dec	<u>-0.1 (5.9)</u>	0.3 (6.2)
	 07.45	Final HICP M/M% (Y/Y%)	Dec	<u>-0.1 (6.7)</u>	0.4 (7.1)
Italy	 09.00	Industrial production M/M% (Y/Y%)	Nov	0.4 (-)	-1.0 (-1.6)
Spain	 08.00	Final CPI M/M% (Y/Y%)	Dec	<u>0.3 (5.8)</u>	-0.1 (6.8)
	 08.00	Final HICP M/M% (Y/Y%)	Dec	<u>0.1 (5.6)</u>	-0.3 (6.7)
UK	 07.00	GDP M/M% (3M/3M)	Nov	<u>-0.3 (-0.4)</u>	0.5 (-0.3)
	 07.00	Industrial production M/M% (Y/Y%)	Nov	-0.3 (3.1)	0.0 (-2.4)
	 07.00	Manufacturing production M/M% (Y/Y%)	Nov	-0.3 (-5.3)	0.7 (-4.6)
	 07.00	Index of services M/M% (3M/3M%)	Nov	-0.2 (-0.2)	0.6 (-0.1)
	 07.00	Construction output M/M% (Y/Y%)	Nov	-0.3 (5.7)	0.8 (7.4)
	 07.00	Goods trade balance (excluding precious metals) £bn	Nov	-14.9 (-)	-14.5 (-19.7)
	 -	PPI output prices* M/M% (Y/Y%)	Nov	0.3 (16.4)	0.9 (17.1)
	 -	PPI input prices* M/M% (Y/Y%)	Nov	0.2 (18.0)	0.7 (19.5)

Auctions and events

- Nothing scheduled -

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

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