

Euro wrap-up

Overview

- While German producer prices fell for a third successive month, euro area government bonds made big losses as President Lagarde repeated that the ECB intends to “stay the course” on monetary tightening.
- Gilts also made losses despite an unexpected decline in UK retail sales and a renewed decline in consumer confidence.
- The coming week brings flash January PMIs from the euro area and UK, as well as the first estimate of Q4 GDP from Spain.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.552	+0.055
OBL 2.2 04/28	2.195	+0.091
DBR 2.3 02/33	2.163	+0.113
UKT 1 04/24	3.478	+0.023
UKT 1¼ 07/27	3.278	+0.042
UKT 4¼ 06/32	3.359	+0.084

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

Euro area

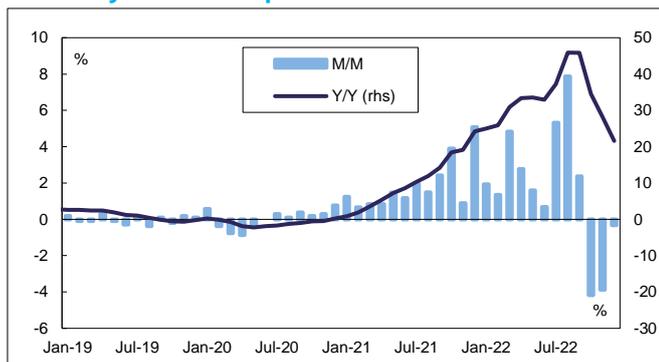
German PPI inflation falls to its lowest since November 2021

This week’s final [euro area inflation](#) figures confirmed that prices of core consumer goods increased at the fastest monthly pace in any December on the series, pushing the annual rate up to a record high of 6.4%Y/Y. But there are reasons to believe that this will mark the peak. Certainly, today’s German PPI figures added to evidence that producer goods price pressures continue to ease. Indeed, producer prices fell for a third consecutive month in December, by 0.4%M/M to be more than 8% below September’s peak. As such, the annual German PPI rate dropped for the third successive month and by a further 6½ppts to 21.6%Y/Y, the lowest since November 2021. The decline was again driven by energy, with prices falling 1%M/M to leave the annual inflation rate of that component down almost 24ppts on the month to 41.9%Y/Y, roughly 100ppts below August’s peak. But even excluding energy, producer prices were flat in December, with the annual increase moderating to 12%Y/Y, an eleven-month low. Indeed, prices of intermediate goods fell for the fifth month out of the past seven, down 0.4%M/M, to leave the respective annual rate down 1½ppts at a nineteen-month low of 12.3%Y/Y. While consumer goods prices rose a slightly faster 0.5%M/M in December due to higher food prices, this was still well below the peak of 3½%M/M in April, and just half the average rate between May and October, to leave the annual rate down 0.2ppt at 17.3%Y/Y. And with wholesale gas prices having fallen to their lowest level in sixteen months this month, surveys having signalled ongoing improvement in supply chains, and recent inflation data beyond Europe more favourable too, euro area producer goods inflation should continue to moderate in the New Year, and should in due course feed through to lower consumer goods inflation too.

German export values slump in December, while French retails sales remain subdued

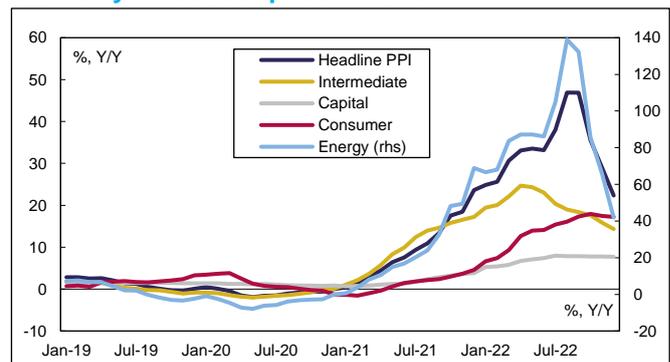
While various indicators suggest that the economic downturn in the final quarter of the year was less pronounced than initially feared, today’s German export and French retail numbers also served as a reminder that Q4 GDP growth was at best highly subdued. In particular, the value of Germany’s goods shipments to outside the EU – which accounts for roughly half of all its exports – slumped 9.6%M/M in December, the biggest monthly drop since April 2020, with sizeable declines to the US, China and UK. Admittedly, over the fourth quarter as a whole, the drop of 0.7%Q/Q was small beer compared with the average quarterly increase of more than 4%Q/Q in the previous four quarters. And while the respective December data are not yet available, when adjusting for price effects, exports volumes in October and November were trending 3.3% above the Q3 average, with imports almost 1% lower on the same basis. So, net trade still appears to have provided welcome support to German GDP growth in Q4. Meanwhile, in the euro area’s second-largest economy, today’s Bank of France retail survey suggested only modest growth in sales volumes in December, of 0.5%M/M. Solid growth in food and clothing was largely offset by falls in spending on new autos and consumer electronics. And given weakness earlier in the quarter, the survey’s

Germany: Producer price inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Producer price inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

measure of total French retail sales in Q4 contracted 1%Q/Q, with falls in food (2.7%Q/Q) and new autos (-5.0%Q/Q) most striking, suggesting a weak end to 2022 for French household consumption.

The week ahead in the euro area

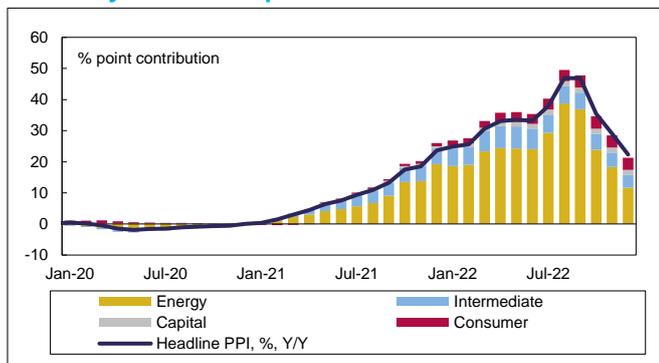
The data flow in the euro area in the coming week will be focused on January sentiment indicators, with most notable being the flash PMIs on Tuesday, which should now suggest further stabilisation in economic conditions at the start of the year. Indeed, having risen in December (49.3) for a second consecutive month, the composite output PMI is forecast to rise to 50 in January, admittedly a level that merely implies stagnation rather than a return to positive growth. With energy prices having fallen at the start of the year and supply constraints continuing to ease, the survey is also likely to report a further slight moderation in price pressures. The German ifo, French INSEE and Italian ISTAT indices are due on Wednesday, Tuesday and Thursday respectively are likely to provide a similar story. Meanwhile, the Commission's preliminary consumer confidence indicator (Monday) is expected to move higher from a low level in January as concerns about energy supply receded, and as [inflation](#) and future price [expectations](#) edge lower. Among other releases, Friday also brings euro area bank lending data for December as well as a first look at Q4 GDP in the shape of the initial estimate from Spain (which is likely to be little better than flat on the quarter). ECB public speakers include President Lagarde and Executive Board member Panetta on Monday.

UK

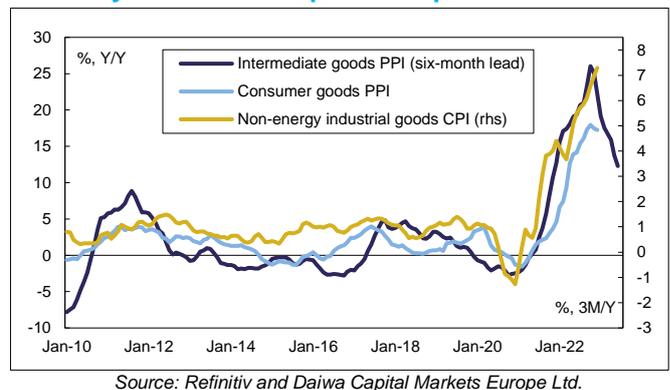
Retail sales weaker than expected in December to confirm sixth successive quarterly drop in Q4

With real disposable incomes per person falling at the sharpest pace since records began more than sixty years ago, and harsh winter weather and increased strike action also deterring spending, UK retail sales volumes ended 2022 on a very soft note, falling 1.0%M/M in December. Following a drop of 0.5%M/M the prior month, that left them down in Q4 for the sixth successive quarter and by 1.0%Q/Q. The decline in sales in December contrasted expectations of modest growth on the month. But it was no surprise that the ONS cited feedback from retailers that consumers were seeking to cut back spending in the face of affordability concerns. The drop in December left sales volumes down 5.8%Y/Y, to be 1.7% below the pre-pandemic level in February 2020 and more than 10% below their peak in April 2021. Within the detail, non-food store sales fell 2.1%M/M in December while food store sales fell 0.3%M/M, and sales at department stores fell 3.1%M/M. Clothing and household goods stores both bucked the trend, with sales up 1.0%M/M and 1.5%M/M, perhaps reflecting lower inflation in both categories that month. As suggested by surveys, the share of total sales online declined as households were seemingly deterred by concerns about the reliability of deliveries, not least given postal strikes. Meanwhile, total sales values fell 1.2%M/M in December. But given high inflation over previous months, they were still some 13.6% above the pre-pandemic level and were also up 0.6%Q/Q in Q4.

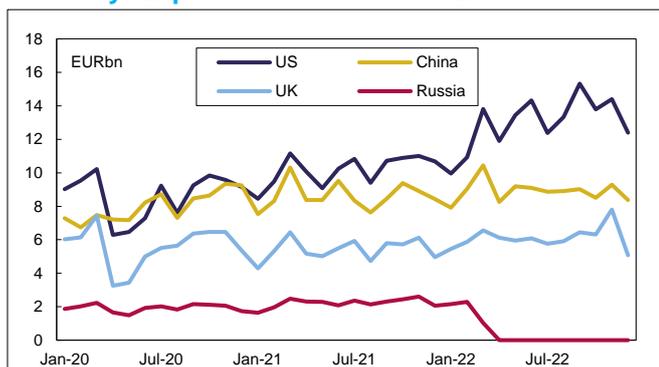
Germany: Producer price inflation & contributions



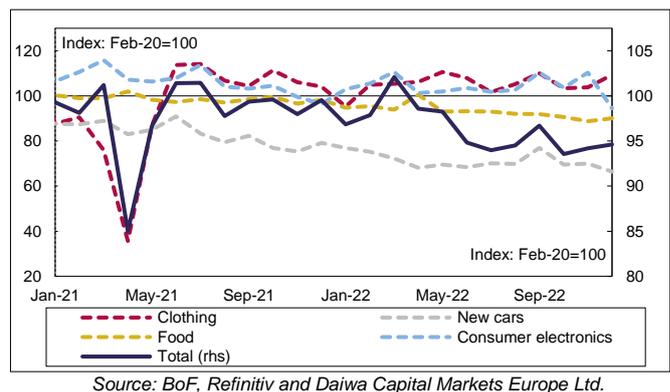
Germany: Consumer & producer price inflation



Germany: Exports to selected non-EU countries*



France: Retail sales



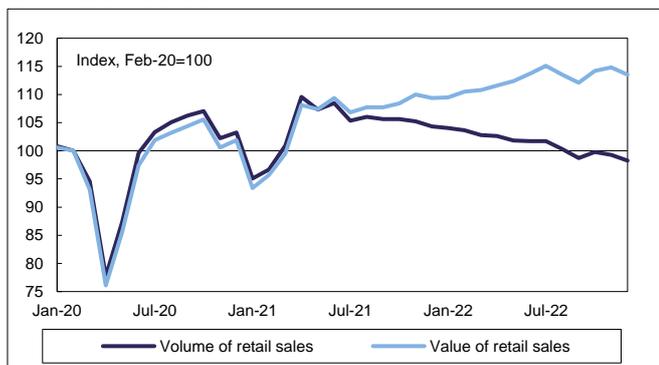
Consumer confidence falls at start of 2023 to underscore weak spending outlook

Looking ahead, ongoing declines in real disposable incomes as well as continued disruption from strikes point to the likelihood of a further fall in retail sales volumes and overall real consumer spending in Q1. Indeed, according to the GfK survey, consumer confidence has deteriorated at the start of 2023. Following three successive monthly improvements from September's record low in the wake of the Truss crisis, the headline GfK index dropped 3pts in January to -45, a level that was only worse on the series last September and October. The survey detail reported that households judged that their personal financial situation and economic conditions had recently deteriorated. And so, while they were a touch less downbeat about the outlook for their financial health over the coming twelve months, they also downgraded their assessment of the climate for making major purchases to the worst since October and a level rarely lower on the series.

The week ahead in the UK

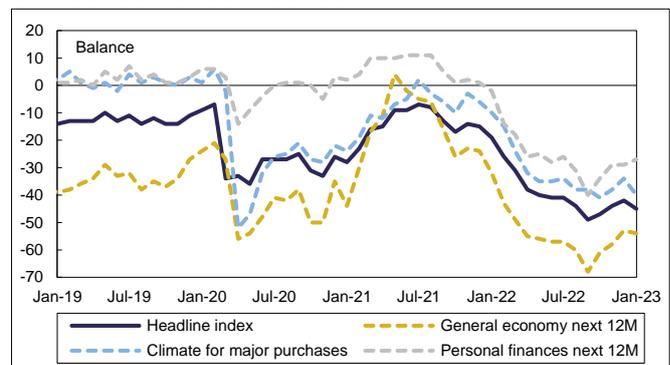
Like in the euro area, Tuesday's release of the January preliminary PMIs is of most interest in the UK's data calendar for the coming week. In December 2022, the composite PMI jumped to 49.0, from 48.2 previously, due to tentative signs of recovery in the services sector at the end of the year. But the anticipated further improvement at the start of the New Year is likely to be more moderate, with the Bloomberg survey median forecast for the composite index up just 0.3pt to 49.3 and therefore still in contractionary territory. The latest CBI industrial trends and distributive trades reports are also due on Tuesday and Thursday respectively. Producer price pressures will also be of interest in these surveys, while Wednesday will bring the postponed release of PPI figures for November and December, with possible significant revisions to past data following data quality checks. Finally, the latest public finances figures for December will be published on Tuesday.

UK: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

	2022			2023			2022	2023	2024
	Q2	Q3	Q4	Q1	Q2	Q3			
GDP	%, Q/Q						%, Y/Y		
Euro area	0.8	0.3	-0.1	0.0	0.1	0.1	3.4	0.5	1.0
UK	0.1	-0.3	-0.1	-0.2	-0.3	-0.1	4.1	-0.7	0.3
Inflation, %, Y/Y									
Euro area									
Headline HICP	8.0	9.3	10.0	7.9	6.0	4.3	8.4	5.1	1.8
Core HICP	3.7	4.4	5.1	4.9	4.1	3.2	3.9	3.6	2.0
UK									
Headline CPI	9.2	10.0	10.7	9.7	7.8	6.4	9.1	6.9	2.5
Core CPI	6.0	6.3	6.4	5.9	4.8	3.9	5.9	4.4	2.5
Monetary policy, %									
ECB									
Refi Rate	0.00	1.25	2.50	3.25	3.50	3.50	2.50	3.50	3.00
Deposit Rate	-0.50	0.75	2.00	2.75	3.00	3.00	2.00	3.00	2.50
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.

The next edition of the Euro wrap-up will be published on 24 January 2023

The coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous	
Monday 23 January 2023						
Euro area		15.00	European Commission preliminary consumer confidence	Jan	-20.0	-22.2
Tuesday 24 January 2023						
Euro area		09.00	Preliminary manufacturing (services) PMI	Jan	48.5 (50.2)	47.8 (49.8)
		09.00	Preliminary composite PMI	Jan	49.9	49.3
Germany		07.00	GfK consumer confidence	Feb	-33.0	-37.8
		08.30	Preliminary manufacturing (services) PMI	Jan	48.0 (49.7)	47.1 (49.2)
		08.30	Preliminary composite PMI	Jan	49.6	49.0
France		07.45	INSEE business (manufacturing) confidence	Jan	103 (102)	102 (101)
		08.15	Preliminary manufacturing (services) PMI	Jan	49.7 (49.7)	49.2 (49.5)
		08.15	Preliminary composite PMI	Jan	49.7	49.1
UK		07.00	Public sector net borrowing excl. banks £bn	Dec	18.0	22.0
		09.30	Preliminary manufacturing (services) PMI	Jan	45.7 (49.7)	45.3 (49.9)
		09.30	Preliminary composite PMI	Jan	49.3	49.0
		11.00	CBI industrial trends, total orders (selling prices)	Jan	-	-6 (52)
Wednesday 25 January 2023						
Germany		09.00	ifo business climate	Jan	90.1	88.6
		09.00	ifo current assessment (expectations)	Jan	95.0 (85.0)	94.4 (83.2)
France		11.00	Total jobseekers '000s	Q4	-	2946
Spain		08.00	PPI M/M% (Y/Y%)	Dec	-	-2.2 (20.7)
UK		07.00	PPI output prices M/M% (Y/Y%)	Nov & Dec	0.3 (16.4)	0.9 (17.1)
		07.00	PPI input prices M/M% (Y/Y%)	Nov & Dec	0.2 (17.9)	0.7 (19.5)
Thursday 26 January 2023						
Italy		09.00	ISTAT business (manufacturing) sentiment indicator	Jan	-	107.8 (101.4)
		09.00	ISTAT consumer confidence	Jan	102.3	102.5
UK		11.00	CBI distributive trades survey, retailing reported sales	Jan	-	11
Friday 27 January 2023						
Euro area		09.00	M3 money supply Y/Y%	Dec	4.6	4.8
France		07.45	INSEE consumer confidence	Jan	83	82
Spain		08.00	Preliminary GDP Q/Q% (Y/Y%)	Q4	<u>0.0 (2.1)</u>	0.1 (4.4)

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

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 23 January 2023		
Euro area 	14.30	ECB's Panetta scheduled to speak at Committee Hearing on Economic & Monetary Affairs
	17.45	ECB President Lagarde scheduled to speak at reception in Germany
Tuesday 24 January 2023		
Euro area 	08.10	ECB's Knot scheduled to speak
	09.45	ECB President Lagarde scheduled to speak - 'The euro as a guarantee of resilience'
Germany 	10.30	Auction: €1.5bn 0.0% 2025 bonds
Wednesday 25 January 2023		
Germany 	10.30	Auction: €1.5bn 1.0% 2038 bonds
	10.30	Auction: €1.0bn 2.5% 2044 bonds
Thursday 26 January 2023		
Italy 	10.00	Auction: 2Y bonds
Friday 27 January 2023		
- Nothing to report -		

Source: Bloomberg 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
Germany 	PPI M/M% (Y/Y%)	Dec	-0.4 (21.6)	-1.2 (20.7)	-3.9 (28.2)	-
France 	BoF survey - retail sales M/M% (Y/Y%)	Dec	0.5 (-5.0)	-	1.0 (-3.1)	0.7 (-3.9)
UK 	GfK consumer confidence	Jan	-45	-40	-42	-
	Retail sales including auto fuels M/M% (Y/Y%)	Dec	-1.0 (-5.8)	0.5 (-4.0)	-0.4 (-5.9)	-0.5 (-5.7)
	Retail sales excluding auto fuels M/M% (Y/Y%)	Dec	-1.1 (-6.1)	0.4 (-4.4)	-0.3 (-5.9)	- (-5.6)

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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