

Euro wrap-up

Overview

- Bunds made losses as a German survey raised hopes of some stabilisation in the business climate in the New Year.
- Longer-dated Gilts also made losses as UK consumer confidence bounced back, while BoE Chief Economist Pill stated that price pressures remained stubbornly high.
- The coming week will bring flash November inflation estimates from the euro area, the Commission sentiment survey results and bank lending figures from the ECB and BoE.

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Daily bond market movements

Bond	Yield	Change
BKO 3.1 12/25	3.065	+0.031
OBL 2.4 10/28	2.616	+0.030
DBR 2.6 08/33	2.643	+0.028
UKT 3½ 10/25	4.677	-0.001
UKT 4½ 06/28	4.320	+0.019
UKT 3¼ 01/33	4.282	+0.033

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

Source: Bloomberg

Euro area

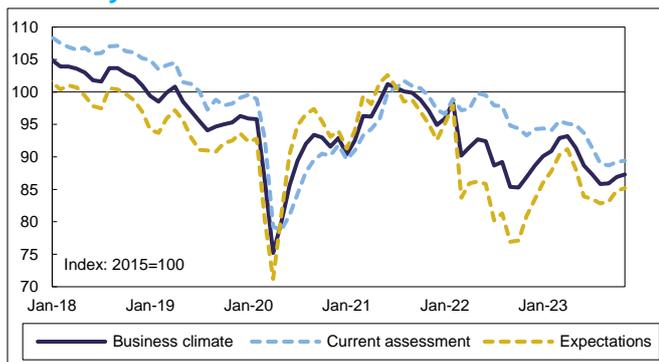
German ifo survey signals some stabilisation in the New Year, but still significant challenges in Q4

Like yesterday's [flash PMIs](#), today's German ifo institute business sentiment survey offered some further tentative signs that the economy was starting to stabilise. Indeed, the headline ifo business climate index rose for a third consecutive month in November, by 0.4pt to 87.3, leaving the index in the first two months of Q4 trending 0.8pt above the Q3 average. But this still left it some 4pts below the average in the first half of the year and roughly 10pts below the pre-pandemic long-run average, still suggestive of very subdued economic conditions. Moreover, the improvement principally reflected reduced pessimism about the outlook over the coming six months, with the respective expectations index rising 0.4pt to a six-month high (85.2) as scepticism among energy-intensive manufacturers, wholesalers and construction firms fell. But while tourism-related companies were reportedly also more optimistic, services firms on the whole were downbeat about both the near-term outlook and current conditions. And while the aggregate current conditions index rose for a second successive month, the increase was more modest (+0.2pt to 89.4) and left it trending a touch below the Q3 average and some 5pts below the average in Q123. Indeed, contrasting with the recent pickup in the manufacturing PMI, the ifo survey suggested still significant challenges in the sector in the fourth quarter. So, overall, today's survey does little to change our expectation that Germany's economy slipped into recession in the second half of the year. And while the economic outlook heading into the New Year appears more encouraging, we do not rule out a further contraction in Q1 as demand for construction remains constrained by higher borrowing costs and a slowing global economy remains a restraint on manufacturing.

Contraction in German GDP in Q3 led by household consumption

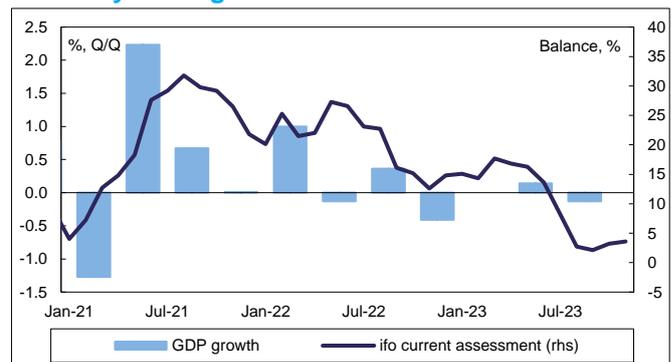
With respect to economic output in the third quarter, there were no major surprises from today's updated German national account figures, which confirmed that the euro area's largest member state contracted 0.1%Q/Q in Q3. This left output down 0.4%Y/Y and just 0.3% above the pre-pandemic benchmark in Q419. Despite strong growth in employee compensation over the past year (6.9%Y/Y), and a boost to real disposable incomes through easing inflation, household consumption remained extremely weak in the third quarter as households maintained a high level of savings, with the ratio only a fraction lower than the six-quarter high reached in Q2. Indeed, despite higher spending on food, beverages and tobacco, household expenditure fell for a third quarter out of the past four in Q3, by 0.3%Q/Q, to leave it down 2.1%Y/Y and some 2½% below the pre-pandemic level. This was in part offset by higher government consumption, which rose for the first quarter in five (0.2%Q/Q). And fixed investment was firmer than expected, rising 0.6%Q/Q, with spending on machinery and equipment back above the pre-pandemic level for the first time and construction rising for a second quarter out of three, albeit still almost 3% below the pre-pandemic benchmark. But the modest positive contribution from fixed investment (0.1ppt) was more than offset by the

Germany: ifo business climate indices



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany: GDP growth & ifo current conditions index



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

drag from private inventories (-0.3ppt). And with exports having contracted for a fourth consecutive quarter (-0.8%Q/Q), a steeper decline in imports (-1.3%Q/Q) meant that the contraction in German GDP wasn't steeper in Q3.

The week ahead in the euro area

The coming week will be a busy one for top-tier euro area data, including the release of ECB monetary figures (Tuesday), European Commission confidence survey (Wednesday), flash November inflation estimates and labour market figures (Thursday). In terms of inflation, having taken a big step down in October, by 1.4ppts to a two-year low of 2.9%Y/Y, the euro area's headline HICP rate is expected to ease only slightly further this month, with our forecast for a fall of 0.3ppt to 2.6%Y/Y. This will in part reflect a slightly smaller drag from energy as base effects from last year's spike in prices start to fade. And while the disinflationary trend in food and other core goods inflation will continue, services price inflation is expected to remain sticky and possibly tick slightly higher, to leave the core HICP rate down just 0.2ppt to 4.0%Y/Y. Preliminary inflation figures from Germany, Spain, Belgium and Ireland will offer further guidance on Wednesday, while French and Italian numbers will follow on Thursday.

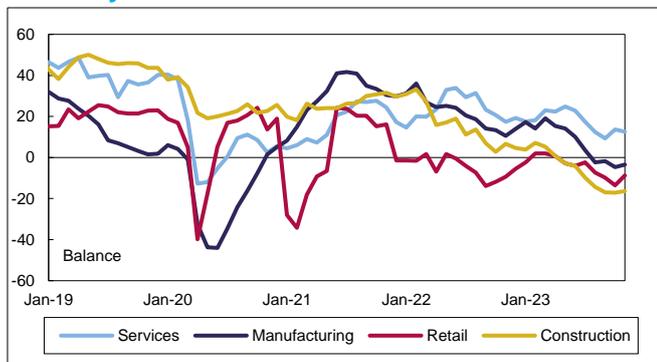
In the face of downside risks to the economic outlook and the lagged impact of the ECB's aggressive interest rate hike cycle, October's monetary figures (Tuesday) are likely to illustrate a further weakening in bank lending at the start of Q4, with demand for housing loans to remain more severely impacted. The Commission's business and consumer surveys – arguably the best guide to euro area GDP growth – might well point to a modest improvement in November, in line with the pickup in the flash [Commission consumer confidence](#) indicator and yesterday's flash PMIs. But having fallen in October (93.3) to its lowest level since the euro crisis (when excluding the initial pandemic slump) and more than 6½% below the long-run average, the headline economic sentiment index will still point to ongoing contraction in the middle of the fourth quarter. The survey's price expectations measures will also be closely watched. Meanwhile, despite slowing economic momentum, the latest euro area unemployment figures will likely reveal ongoing resilience in the labour market in October, with the unemployment rate remaining unchanged at 6.5%, close to a record low of 6.4% recorded over the summer. At the country level, German retail sales and French consumer spending data for October are due to be published, while an updated Italian Q3 GDP estimate will bring the first official expenditure breakdown.

UK

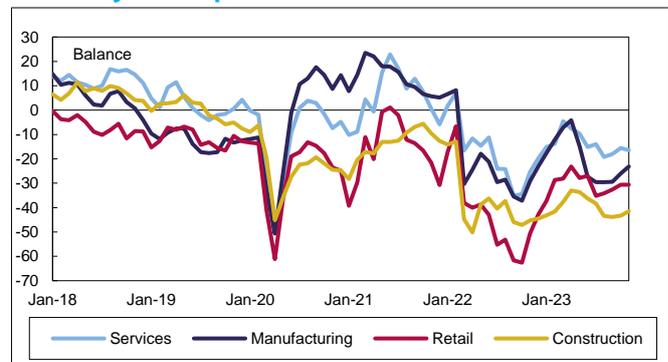
Boost to consumer confidence in November merely maintains sideways trend

Coming on the back of the improvement in yesterday's flash PMIs, today's GfK consumer survey, at face value at least, might have raised UK retailers' hopes that households will start to loosen their purse strings in the lead up to Christmas. In

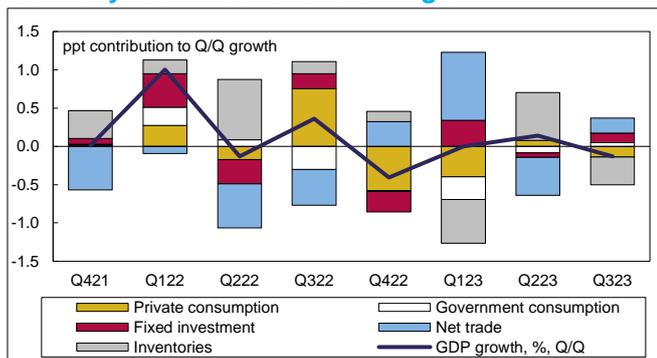
Germany: ifo current assessment indices



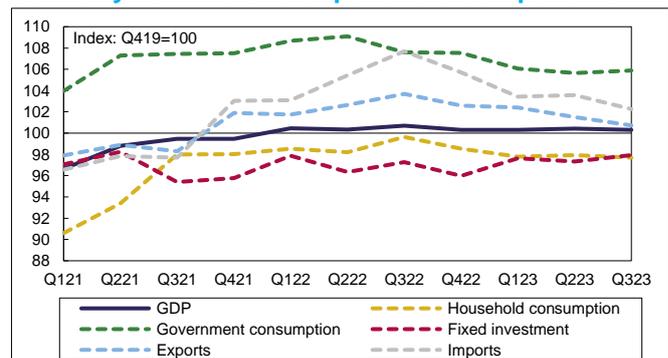
Germany: ifo expectations indices



Germany: Contributions to GDP growth



Germany: GDP level & expenditure components

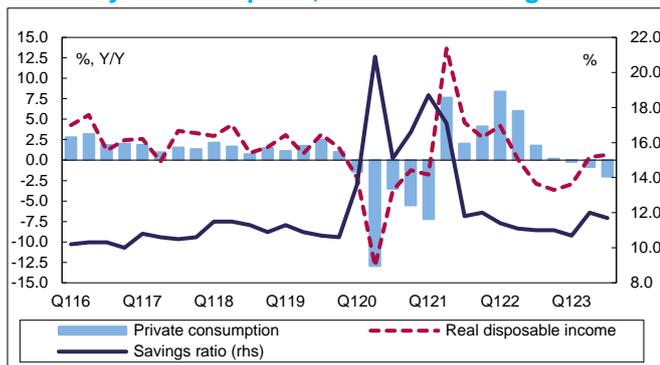


particular, the headline confidence indicator jumped 6pts in November to -24, with the survey suggesting that households were notably less downbeat about the economic outlook over the coming twelve months, with households' financial expectations seemingly boosted by declining energy bills and the cost of living payment in October. But the bounce back this month followed a steeper fall in October, to leave the headline consumer confidence index trending some 1.7pts below the Q3 average and almost 18pts below the average in the five years before the pandemic. And although the survey's gauge for purchase intentions jumped a striking 10pts in November, this followed a larger slump at the start of the fourth quarter to be trending some 3½pts below the Q3 average – hardly indicative of a sudden surge in spending. Indeed, today's survey suggested that against the backdrop of rising economic uncertainties and higher interest rates, households preferred to boost their savings, with the respective index rising to its highest since the start of 2008. And so, while households might well take advantage of Black Friday discounting this month, any boost to retail sales will continue to lack vigour in the run up to Christmas.

The week ahead in the UK

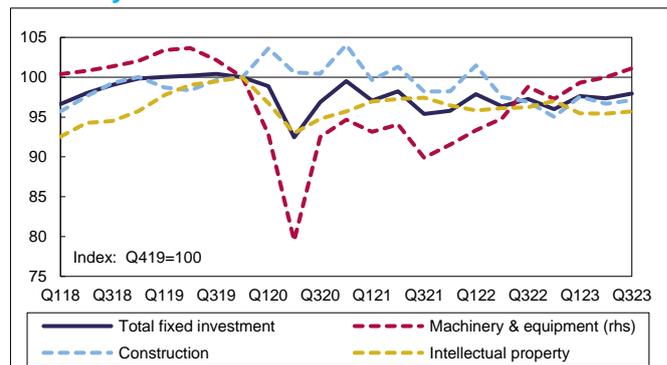
A key economic release from the UK in the coming week will be the BoE's latest monetary data for October on Wednesday, which are likely to illustrate the ongoing impact of the BoE's aggressive tightening cycle since late 2019. While mortgage interest rates have moderated from the summer peak they remain well above levels seen two years ago. And with credit availability declining and demand weak amid the ongoing adjustment in the housing market, secured lending is likely to have remained lacklustre in October. Indeed, given the decline in the number of mortgage approvals in September to close to the bottom of the recent range, we might well see another monthly net repayment in October. Consumer credit and business lending is also expected to remain very subdued. Meanwhile, the BRC shop price index (Tuesday) might well report a further moderation in the headline inflation rate as retailers start to pass on lower input costs in the face of weak demand. Other November indicators include the CBI distributive trades survey (Monday), Lloyds business barometer (Thursday) and the final manufacturing PMIs (Friday).

Germany: Consumption, income & savings



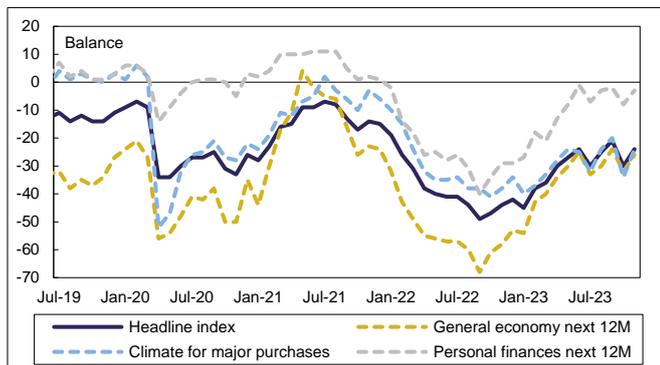
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany: Fixed investment



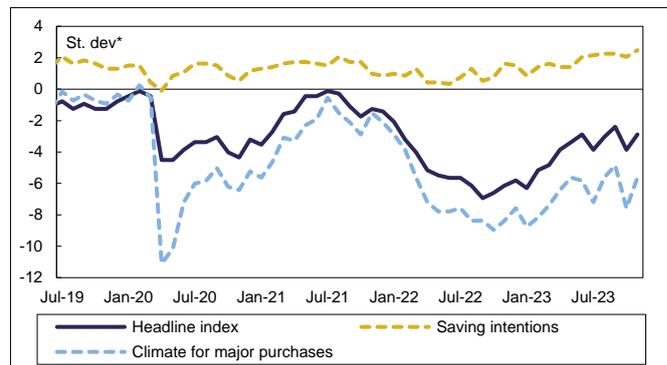
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence indices



Source: GfK, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence indices



*From pre-pandemic five-year average. Source: GfK, Macrobond and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 28 November 2023

Daiwa economic forecasts

	2023		2024				2023	2024	2025
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	%, Q/Q						%, Y/Y		
Euro area 	-0.1	-0.1	0.1	0.2	0.3	0.3	0.5	0.3	1.4
UK 	0.0	0.1	0.1	0.1	0.1	0.2	0.5	0.3	0.7
Inflation, %, Y/Y									
Euro area									
Headline HICP 	5.0	2.9	2.8	2.2	1.7	2.1	5.5	2.2	1.8
Core HICP 	5.1	4.1	3.0	1.8	1.4	1.7	5.0	2.0	1.7
UK									
Headline CPI 	6.7	4.5	4.1	2.6	2.8	2.8	7.4	3.1	2.1
Core CPI 	6.4	5.6	5.1	3.3	2.8	2.7	6.2	3.4	2.0
Monetary policy, %									
ECB									
Refi Rate 	4.50	4.50	4.50	4.25	4.00	3.75	4.50	3.75	3.25
Deposit Rate 	4.00	4.00	4.00	3.75	3.50	3.25	4.00	3.25	2.75
BoE									
Bank Rate 	5.25	5.25	5.25	5.25	5.00	4.75	5.25	4.75	3.00

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Germany 	GDP – second estimate Q/Q% (Y/Y%)	Q3	-0.1 (-0.4)	-0.1 (-0.3)	0.1 (0.0)	-	
	Ifo business climate index	Nov	87.3	87.5	86.9	-	
	Ifo current assessment (expectations) index	Nov	89.4 (85.2)	89.5 (85.9)	89.2 (84.7)	- (84.8)	
Spain 	PPI Y/Y%	Oct	-7.8	-	-8.6	-8.5	
UK 	GfK consumer confidence index	Nov	-24	-28	-30	-	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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 27 November 2023						
UK		11.00	CBI distributive trades survey, reported retail sales balance	Nov	-	-36
Tuesday 28 November 2023						
Euro area		09.00	M3 money supply Y/Y%	Oct	-0.9	-1.2
Germany		07.00	GfK consumer confidence index	Dec	-27.8	-28.1
France		07.45	INSEE consumer confidence index	Nov	84	84
UK		00.01	BRC shop price index Y/Y%	Nov	-	5.2
		-	Nationwide house price index* M/M% (Y/Y%)	Nov	-0.3 (-2.3)	0.9 (-3.3)
Wednesday 29 November 2023						
Euro area		10.00	European Commission economic sentiment index	Nov	93.5	93.3
		10.00	European Commission industrial (services) confidence index	Nov	-9.0 (4.2)	-9.3 (4.5)
		10.00	European Commission final consumer confidence index	Nov	<u>-16.9</u>	-17.8
Germany		13.00	Preliminary HICP (CPI) Y/Y%	Nov	2.7 (3.5)	3.0 (3.8)
Italy		09.00	ISTAT business (manufacturing) confidence index	Nov	- (96.0)	103.0 (96.0)
		09.00	ISTAT consumer confidence index	Nov	102.0	101.6
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Nov	3.7 (3.7)	3.5 (3.5)
		08.00	Retail sales Y/Y%	Oct	-	6.5
UK		09.30	Net consumer credit £bn (Y/Y%)	Oct	1.5 (-)	1.4 (8.0)
		09.30	Net mortgage lending £bn (mortgage approvals '000s)	Oct	0.4 (45.8)	-0.9 (43.3)
Thursday 30 November 2023						
Euro area		10.00	Preliminary HICP (core HICP) Y/Y%	Nov	<u>2.6 (4.0)</u>	2.9 (4.2)
		10.00	Unemployment rate %	Oct	6.5	6.5
Germany		07.00	Retail sales M/M% (Y/Y%)	Oct	0.4 (-2.5)	-0.6 (-4.4)
		08.55	Unemployment change '000s (rate %)	Nov	22.5 (5.8)	30.0 (5.8)
France		07.45	Preliminary HICP (CPI) Y/Y%	Nov	4.1 (3.7)	4.5 (4.0)
		07.45	Consumer spending M/M% (Y/Y%)	Oct	-0.2 (-0.2)	0.2 (-3.0)
		07.45	PPI Y/Y%	Oct	-	-1.7
		07.45	Final GDP Q/Q% (Y/Y%)	Q3	<u>0.1 (0.7)</u>	0.6 (1.1)
Italy		10.00	Preliminary HICP (CPI) Y/Y%	Nov	1.1 (1.0)	1.8 (1.7)
UK		00.01	Lloyds business barometer	Nov	-	39
Friday 01 December 2023						
Euro area		09.00	Final manufacturing PMI	Nov	<u>43.8</u>	43.1
Germany		08.55	Final manufacturing PMI	Nov	<u>42.3</u>	40.8
France		08.50	Final manufacturing PMI	Nov	<u>42.6</u>	42.8
		-	New car registrations* Y/Y%	Nov	-	21.9
Italy		08.45	Manufacturing PMI	Nov	45.5	44.9
		09.00	Final GDP Q/Q% (Y/Y%)	Q3	<u>0.0 (0.0)</u>	-0.4 (0.3)
		17.00	New car registrations Y/Y%	Nov	-	20.0
Spain		08.15	Manufacturing PMI	Nov	45.5	45.1
		-	New car registrations* Y/Y%	Nov	-	18.1
UK		09.30	Final manufacturing PMI	Nov	<u>46.7</u>	44.8

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

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 27 November 2023		
Euro area 	14.00	ECB President Lagarde scheduled to speak before EU Parliament's economic and monetary affairs committee
Tuesday 28 November 2023		
Euro area 	18.30	ECB Chief Economist Lane scheduled to speak at seminar on macroeconomic policy
UK 	10.00	Auction: £2.75bn of 3.75% 2053 bonds
	17.00	BoE's Haskel scheduled to speak – 'UK inflation: how did we get here and where are we going?'
Wednesday 29 November 2023		
Germany 	10.30	Auction: €3.50bn of 2.6% 2033 bonds
Italy 	10.00	Auction: 5Y and 10Y bonds
UK 	10.00	Auction: £4.25bn of 3.5% 2025 bonds
	15.05	BoE Governor Bailey scheduled to speak
Thursday 30 November 2023		
Euro area 	09.30	ECB's Panetta scheduled to speak
	15:30	ECB President Lagarde speaks at ECB Forum on banking supervision
Friday 01 December 2023		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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