

# Euro wrap-up

## Overview

- Bunds made gains as the latest euro area data suggested that bank lending remained sluggish, while there was only a modest improvement in German and French consumer sentiment.
- Despite hawkish comments from a BoE Deputy Governor, Gilts also made gains as a UK survey suggested a further easing in shop price inflation.
- Wednesday will bring flash November inflation estimates from Germany and Spain, as well as the Commission's economic sentiment survey results and UK bank lending figures.

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### Daily bond market movements

Bond	Yield	Change
BKO 3.1 12/25	2.916	-0.047
OBL 2.4 10/28	2.447	-0.057
DBR 2.6 08/33	2.496	-0.050
UKT 3½ 10/25	4.586	-0.022
UKT 4½ 06/28	4.200	-0.039
UKT 3¼ 01/33	4.170	-0.036

\*Change from close as at 4:45pm GMT.  
Source: Bloomberg

## Euro area

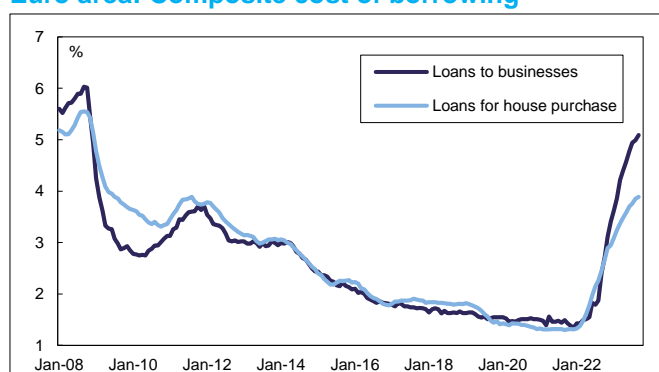
### Bank lending remains sluggish in October, but long-term loans to NFCs remain relatively resilient

Bank lending in the euro area remained sluggish in October, as tight credit conditions and higher interest rates restrained supply and demand. Admittedly, on an unadjusted basis, the net flow of loans for house purchase rebounded in October by more than €10bn to a thirteen-month high of €12bn. However, that left the annual growth rate in the stock of such loans at just 0.3%Y/Y, the second-lowest since early 2015. The net flow of consumer credit dried up to zero, pushing down the respective annual rate to 2.8%Y/Y, below the subdued average of the past year. And, adjusting for sales and securitisations, the net flow of total loans to households of just €150mn left the stock up just 0.6%Y/Y, also the weakest rate since 2015. Net new lending to non-financial corporations was also very subdued in October, at -€0.9bn on an adjusted basis, to be down 0.3%Y/Y, the first year-on-year drop in more than eight years. Net new short-dated lending to firms (i.e. loans to NFCs with a maturity of up to one year) was negative for the eleventh month out of the past twelve at -€4.7bn, to leave the stock of such loans down a steep 9.6%Y/Y, likely reflecting reduced needs for inventories and working capital. In contrast, the net flow of long-dated loans (i.e. those with an average maturity of more than five years) was positive for the fifth month out of the past six at €4.0bn. And that left the stock of long-term loans up 1.1%Y/Y, arguably consistent with some welcome resilience (albeit admittedly modest) in business fixed investment.

### SAFE survey points to subdued demand for loans but easing price and wage expectations too

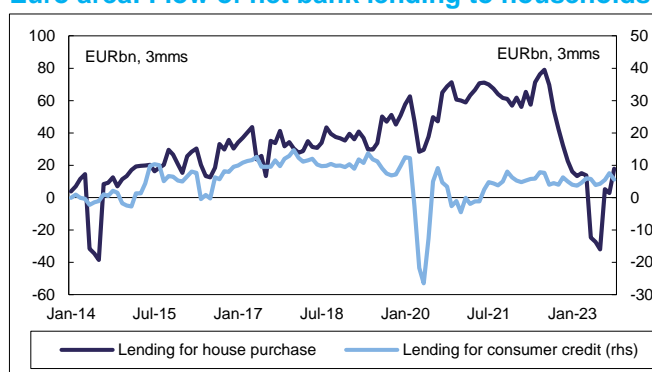
The results of the ECB's Survey on Access to Finance of Enterprises (SAFE) for April to September, also released today, tallied with the subdued lending data, reporting that only a small net share of firms (just 5%, up 1ppt from the prior period) saw an increased need for bank loans. But a net share of 10% of firms reported a deterioration in the availability of bank loans, while a net share of 86% reported an increase in bank interest rates and other costs of bank financing. And a majority of firms expected a further decline in the availability of all types of external financing, but particularly bank loans, in coming months as the ECB's tightening of monetary conditions continues to bite more forcefully. Among other detail on the survey, 9% of euro area enterprises reported encountering major difficulties in running their business and servicing their debts, the highest share since the early stages of the pandemic and the euro crisis before that. A larger net share of firms also reported a deterioration in profits, in part related to higher interest rates as well as other cost pressures. But firms expected their selling prices to rise by 3.7% over the next 12 months, down 2.4ppts from the previous survey. And they expected their employees' wages to rise by 4.3%, 1.1ppt less than in the prior survey, similarly consistent with ongoing gradual disinflation ahead.

### Euro area: Composite cost of borrowing



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Flow of net bank lending to households



Source: ECB and Daiwa Capital Markets Europe Ltd.

## Bank deposits down for eleventh month out of past twelve

Finally, given the higher interest rates available on other assets, total deposits at euro area banks fell for the eleventh month out of the past twelve in October, by a net €31bn, to be down 2.2%Y/Y. While NFCs increased their deposits, households, government entities and other financial corporations reduced their deposits. And households and NFCs alike continued to shift funds into higher-yielding time deposits from sight deposits. As a result, while the rate of growth in M3 money supply moderated for a second successive month, by 0.2ppt to -1.0%Y/Y, the narrower M1 measure, which also excludes sight deposits, fell 0.1ppt to -10.0%Y/Y, the second weakest reading (after August) on the series.

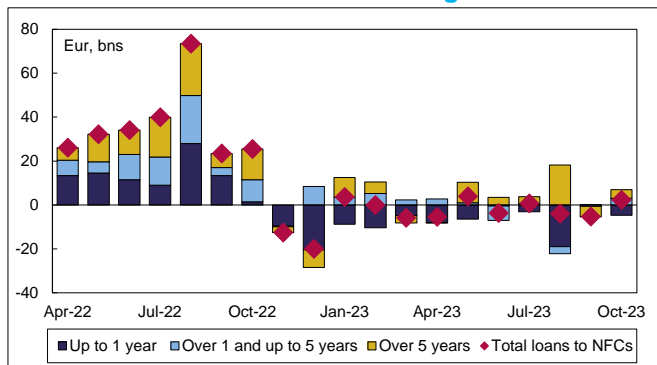
## German consumer confidence ticks slightly higher, but suggests still very low spending intentions

While today's household surveys from Germany and France suggested that consumers are perhaps starting to feel some benefit from the recent improvement in purchasing power amid easing consumer price inflation, they still appear cautious about their spending intentions in the face of ongoing uncertainties and rising fears of unemployment. According to Germany's GfK survey, the headline confidence indicator – presented as a forecast for December – rose for the first month in four, by 0.5pt to -27.8. But this was still significantly closer to last year's trough (-42.8) than the long-run average (2.6), with the survey detail indicating relatively broad-based pessimism. Admittedly, German consumers were marginally less downbeat about prospects for the wider economy this month. But while expectations for inflation in the year ahead fell to the lowest level in more than three years, households were again more pessimistic about their income expectations, perhaps reflecting rising concerns about near-term job prospects. Certainly, this would tally with the latest ifo institute employment barometer, which today suggested that the willingness of German firms to hire new staff over the coming three months fell back in November, with manufacturers and retailers still planning to make do with fewer workers, while the respective balance for construction firms implied the sharpest cuts to headcount since August 2010. And so, with savings intentions still well above average given not least the recent pick up in interest rates, it is hardly surprising to see that consumer purchase intentions remain relatively subdued and well below average.

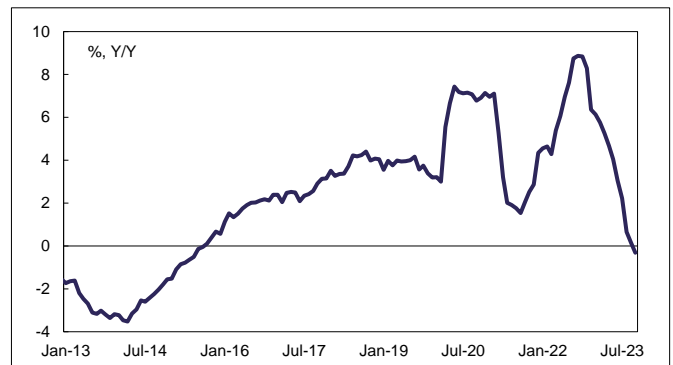
## French consumer confidence jumps in November, but remains well below average

The INSEE household survey suggested a more marked improvement in French consumer sentiment in the middle of Q4, with the headline index rising for a second successive month and by a stronger-than-expected 3pts to 87, the highest level since April 2022. Admittedly, this left it well below the long-run average (100). But the survey detail suggested that household perceptions of the outlook for the economy and personal incomes improved in November, with the respective indices now

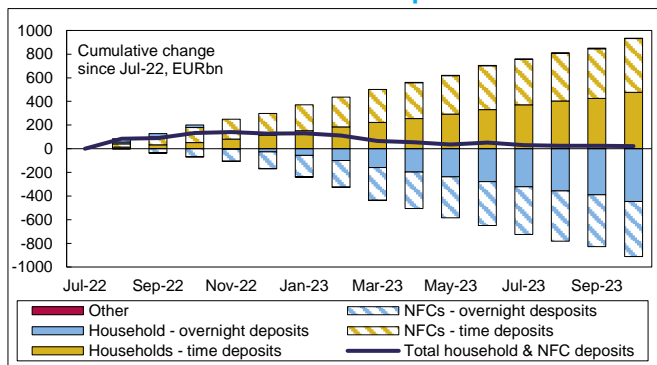
### Euro area: Flow of net bank lending to NFCs



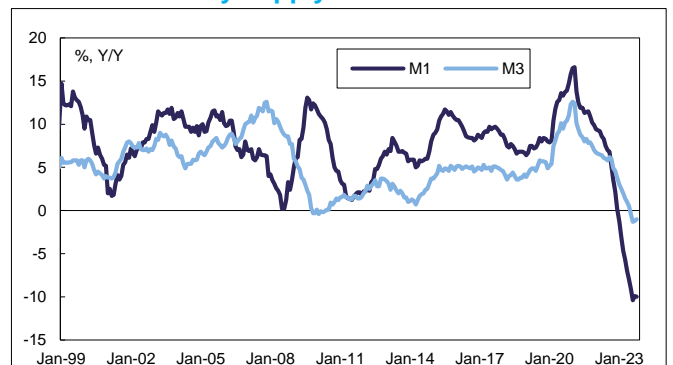
### Euro area: Stock of loans to NFCs\*



### Euro area: Household & NFC deposits



### Euro area: Money supply



closer to the long-run average than the recent trough, no doubt also benefiting from a moderation in inflation expectations. But while still below the series average, the share of households concerned about unemployment rose significantly in November to its highest in more than two years. So, while household willingness to make major purchases improved to the highest in a year in November, it was still very low by historical standards. And with savings intentions elevated, today's survey suggests that consumer expenditure is unlikely to provide a significant boost to French economic growth this quarter and possibly into the New Year too.

## The day ahead in the euro area

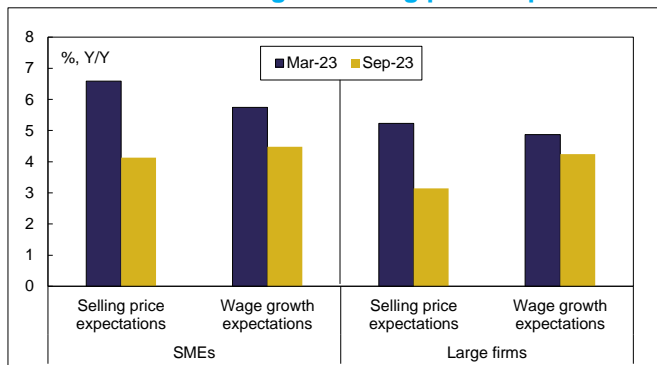
Ahead of Thursday's flash euro area inflation estimate for November, a key data focus tomorrow will be the equivalent consumer price inflation releases from various member states including Germany, Spain, Belgium and Ireland. The German HICP rate is expected to take a further step down this month, by around  $\frac{1}{2}$ ppt to 3.5%Y/Y, reflecting ongoing disinflation in food, core goods and services. In contrast, the Spanish HICP rate is expected to rise for a fifth consecutive month in November, by 0.2ppt to 3.7%Y/Y, reflecting a faster pass through of the recent uptick in wholesale gas prices to consumer energy inflation. The European Commission's latest sentiment surveys will also be watched for an update on household and business price expectations in November, including signs of ongoing stickiness in services and retail prices. The Commission's survey will also provide an update into economic momentum in the middle of Q4, with the headline sentiment index (ESI) likely to report a modest improvement, in line with the pickup in the flash Commission consumer confidence indicator and last week'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  $6\frac{1}{2}\%$  below the long-run average, the euro area's ESI will still point to contraction in the middle of the fourth quarter.

## UK

### Shop price inflation maintains downwards trajectory, but services price pressures remain a concern

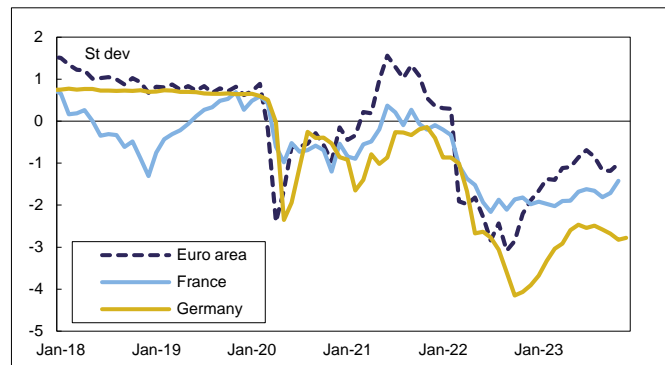
According to the latest BRC survey, UK shop price inflation moderated for a sixth successive month in November as fierce competition among retailers in the run up to Christmas combined with lower input cost burdens. Indeed, the BRC's gauge saw shop price inflation drop a further 0.9ppt to 4.3%Y/Y, the lowest for seventeen months and 4.7ppts below May's peak. The easing in price pressures was widespread, with another notable drop in food inflation, by 1.0ppt to 7.8%Y/Y, the lowest since August 2022, with lower domestic energy prices helping to ease operating cost pressures, particularly of dairy products. Ambient food inflation also maintained a downwards trend but remain higher than fresh foods, with imported goods

### Euro area: Firms' wage & selling price expectations



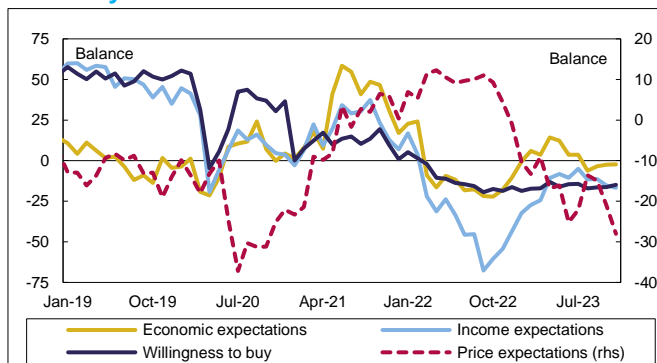
Source: ECB SAFE survey and Daiwa Capital Markets Europe Ltd.

### Euro area: Consumer confidence indices



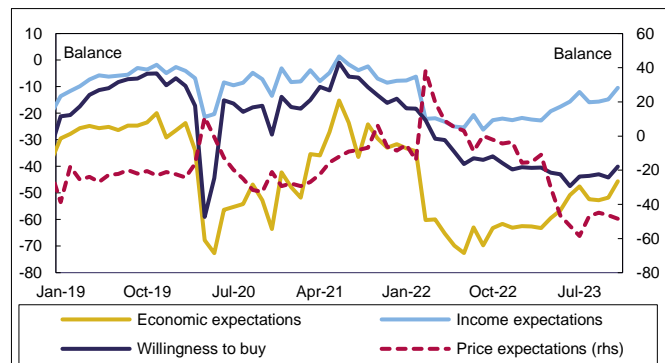
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

### Germany: Consumer confidence indices



Source: GfK, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

### France: Consumer confidence indices



Source: INSEE, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

reportedly being impacted by weaker sterling. The moderating trend in non-food inflation also continued, dropping 0.9ppt to 2.5%Y/Y, similarly the lowest since June 2022, with the BRC noting in particular discounting in health and beauty products. While today's release supports the view that consumer core goods and food inflation will maintain a downwards trend over coming months too, it is the stickiness in services inflation – that is not captured in the shop price index – that remains of most concerns for the majority on the MPC. Certainly, BoE Deputy Governor Ramsden today reiterated that still elevated services inflation was evidence that current inflationary pressures have become more domestically driven, reflecting not least still strong private sector regular wage growth. And, for this reason, he judged that the MPC still had a significant challenge ahead in bringing underlying inflation back towards the Bank's 2% target. So, once again, he reiterated that interest rates would have to stay high for an extended period.

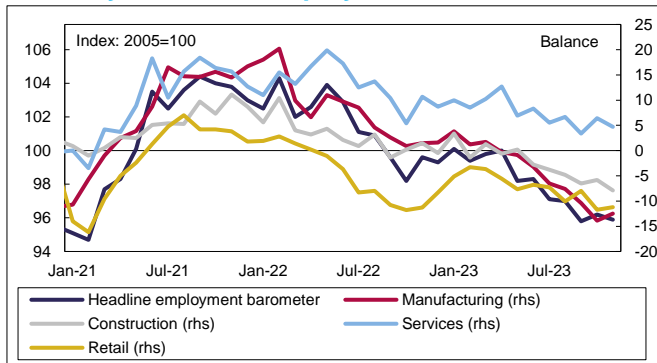
**Survey suggests retail sales remain weak despite discounting**

While the steady decline in consumer goods inflation is positive news for household budgets, the findings of yesterday's CBI distributive trades survey implied that purse strings remain tight. Indeed, this survey suggested that retail volumes fell compared with a year ago for the seventh consecutive month. Admittedly, the respective survey index (-11) was less negative than in October (-36) but it nevertheless remained well below the long-run average, with retailers suggesting that sales were weak for the time of the year. And while this survey was conducted before Black Friday and Cyber Monday, initially retailers expected sales to decline relative a year ago once again in December. Certainly, the findings of the latest [consumer confidence](#) survey suggest that households appear more inclined to save rather than spend.

**The day ahead in the UK**

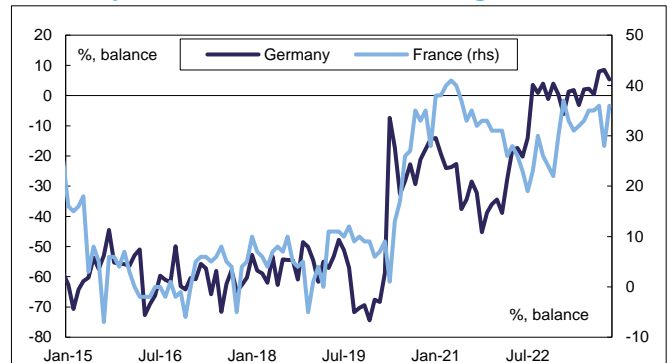
In the UK, the key data focus tomorrow will be the BoE's latest monetary data for October, which are likely to illustrate the ongoing impact of the BoE's aggressive tightening cycle. While mortgage interest rates have moderated from the summer peak they remain well above levels seen two years ago. And 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.

**Germany: Business employment intentions**



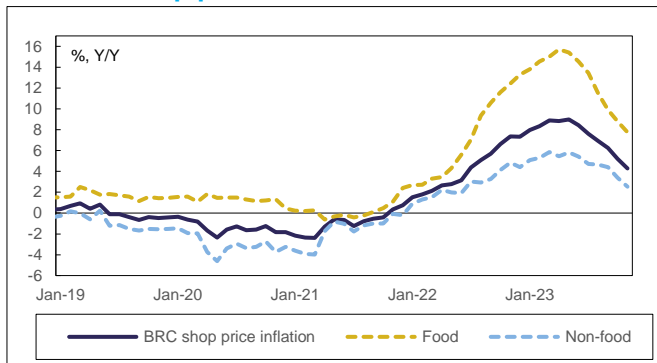
Source: ifo institute, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

**Germany & France: Consumer savings intentions**



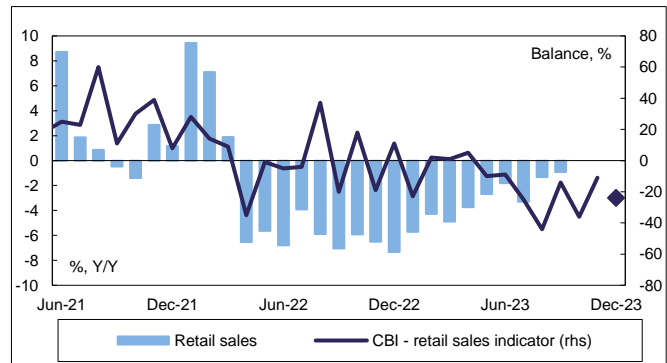
Source: INSEE, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

**UK: BRC shop price inflation**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK: Retail sales\***



\*Diamond represents survey forecast for December. Source: CBI, Macrobond 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	M3 money supply Y/Y%	Oct	-1.0	-0.9	-1.2	-
Germany	GfK consumer confidence index	Dec	-27.8	-27.8	-28.1	-28.3
France	INSEE consumer confidence index	Nov	87	84	84	-
UK	BRC shop price index Y/Y%	Nov	4.3	-	5.2	-
Auctions						
Country	Auction					
UK	sold £2.75bn of 3.75% 2053 bonds at an average yield of 4.664%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Yesterday's results

Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	CBI distributive trades survey, reported retail sales balance	Nov	-11	-	-36	-
Auctions						
Country	Auction					
- Nothing to report -						

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	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	-16.9	-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)
Auctions and events						
Germany		10.30	Auction: €3.50bn of 2.6% 2033 bonds			
Italy		10.00	Auction: €3.0bn of 4.1% 2029 bonds			
		10.00	Auction: €3.5bn of 4.2% 2034 bonds			
		10.00	Auction: €1.0bn of floating-rate 2026 bonds			
UK		10.00	Auction: £4.25bn of 3.5% 2025 bonds			
		15.05	BoE Governor Bailey scheduled to speak			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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