

Euro wrap-up

Overview

- Bunds made substantial gains as the flash euro area PMIs signalled a significant weakening in economic activity, with a steeper pace of contraction in Germany and France.
- Gilts also made gains as the flash UK PMIs pointed to stagnation in the middle of the Q4.
- The coming week will bring flash euro area inflation estimates for November, the Commission's sentiment survey and bank lending figures from the euro area and UK.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	1.981	-0.114
OBL 2½ 10/29	2.051	-0.087
DBR 2.6 08/34	2.238	-0.076
UKT 4½ 01/27	4.315	-0.060
UKT 4½ 07/29	4.235	-0.058
UKT 4½ 07/34	4.384	-0.057

*Change from close as at 5.00pm GMT.
Source: Bloomberg

Euro area

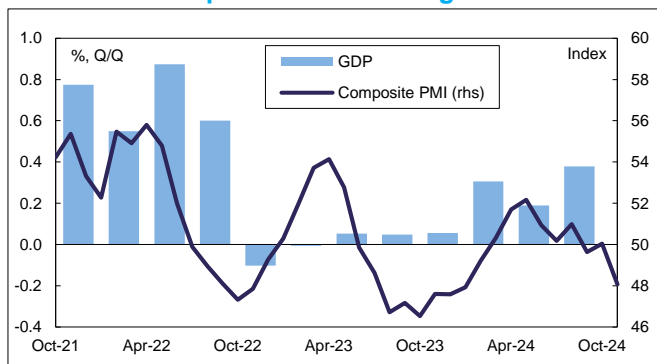
Flash PMIs flag need for further ECB rate cuts as activity shifts firmly into reverse

According to the flash PMIs, euro area economic activity weakened significantly in November, underscoring the need for further ECB policy easing to reboot growth. The flash euro area composite PMI fell a chunky 1.9pts to a 10-month low of 48.1, firmly in contractionary territory. And the deterioration was broad-based, with weakening in services and manufacturing alike, and a worsening of momentum across the member states. Most notably, the flash euro area services PMI fell the most in 15 months (a hefty 2.4pts) to 49.2, suggesting a reversal in activity in the sector for the first time since January. While the manufacturing output PMI fell by a smaller amount (0.7pt), at 45.1 it suggested contraction for the twentieth successive month on the survey. Among the member states, the reversal in France was most striking, with the composite PMI down 3.3pts to 44.8, also a 10-month low, as the summer Olympics feel-good factor in services disintegrated and manufacturing output dropped at a faster pace against the backdrop of toxic political and fiscal uncertainty. The German composite PMI fell almost 1½pt to a 9-month low (47.3), with services activity reportedly joining factory output in reverse for the first time since February. And beyond the two largest member states, the flash composite PMIs suggested that economic output slowed to a 12-month low (50.7).

Deterioration in forward-looking indicators more than negates signs of temporary price pressures

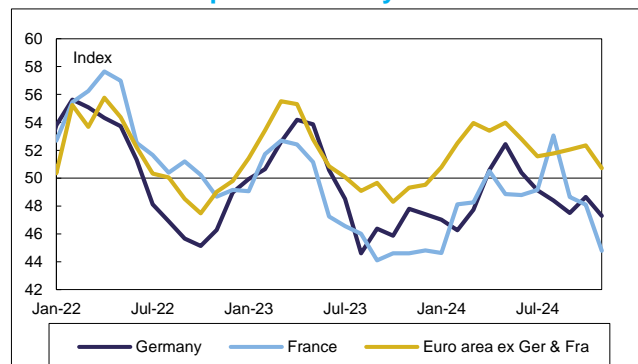
Just as the weakening in economic activity reported in November by the flash PMIs was disappointing, the survey's forward-looking indicators raised significant concerns that the euro area economic outlook has deteriorated again. According to the respective composite index, new orders fell for the sixth successive month, and at the sharpest pace so far this year, with an accelerated rate of decline in demand in both manufacturing and services. External demand also reportedly waned the most so far this year, with new export orders down markedly and seemingly to a greater extent than new domestic orders. Backlogs of work also declined. And the survey's index of confidence in the year-ahead outlook worsened for the sixth successive month and the most in more than two years to the lowest level in more than a year. So, the flash PMIs also suggested that firms cut staff headcount for the fourth successive month in November, with employment in the factory sector reportedly down the most since August 2020 and – consistent with recent news headlines – job cuts centred in Germany. Meanwhile, although the survey indicators of input costs and output prices also ticked up due to developments in the services sector, they remained softer than the average for the year to-date. So, the ECB would be wise to look through that evidence of a modest inflationary impulse in November, which will anyway have been broadly consistent with its latest projections. Instead, the more comprehensive evidence of a reversal of growth momentum suggests that its GDP outlook is far too overoptimistic, underscoring the likelihood of a further easing of underlying price pressures ahead and strengthening

Euro area: Composite PMI & GDP growth



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

Euro area: Composite PMIs by member state



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

the case for significant easing ahead. Indeed, the OIS market responded to today's flash PMIs by pricing in 150bps of ECB rate cuts over the coming 12 months for the first time in more than a month.

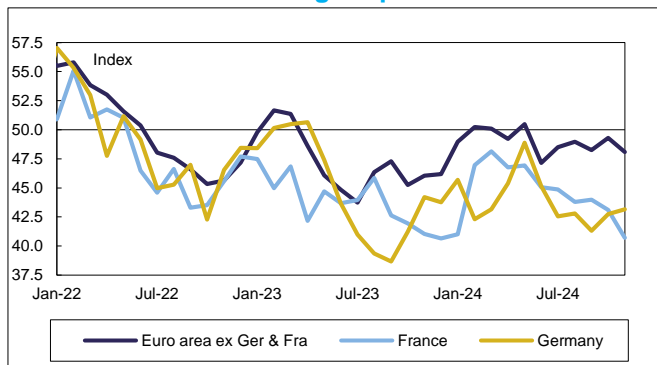
German GDP growth in Q3 revised down

Compounding the broadly negative tone of today's dataflow, economic activity in Q3 looks a little less firm than it did previously as German GDP growth was revised down 0.1ppt from the initial estimate to just 0.1%Q/Q. Given the possibility of downward revisions to the figures from other member states, not least Ireland, there is a non-negligible chance of a downwards revision to euro area growth from its initial surprisingly high estimate of 0.4%Q/Q. With German GDP also now estimated to have contracted 0.3%Q/Q in Q2, it was down 0.2% from Q1 in Q3, and down 0.3%Y/Y (working day adjusted) to be a mere 0.1% above the pre-pandemic level in Q419. The expenditure breakdown, which was published for the first time, confirmed that German GDP growth in Q3 was led by private consumption, which rose 0.3%Q/Q, the most in more than two years, as stronger real disposable income (up 1.3%Y/Y) finally gave a boost to spending despite a further increase in the savings ratio. That, however, left it up just 0.1%Y/Y. Government consumption rose 0.4%Q/Q to be up 2.5%Y/Y. But fixed investment fell for the fifth quarter in the past six (albeit by just -0.1%Q/Q), weighed by further declines in construction, machinery and equipment, to be down a steep 2.9%Y/Y. Indeed, construction and machinery investment both fell to their lowest levels in more than a decade, 10% or more below the equivalent pre-pandemic benchmarks. Export volumes fell 1.9%Q/Q, the most in four years to a three-year low. So, with imports up for a third successive quarter, GDP growth was only positive in Q3 thanks to the biggest contribution from inventories (0.7ppt) in 2½ years. The likelihood of a negative contribution from stock-building in Q4, as well as the evidence of a softening in spending suggested by survey indicators such as today's flash PMIs, points to a stagnant end to the year for German GDP at best.

The week ahead in the euro area

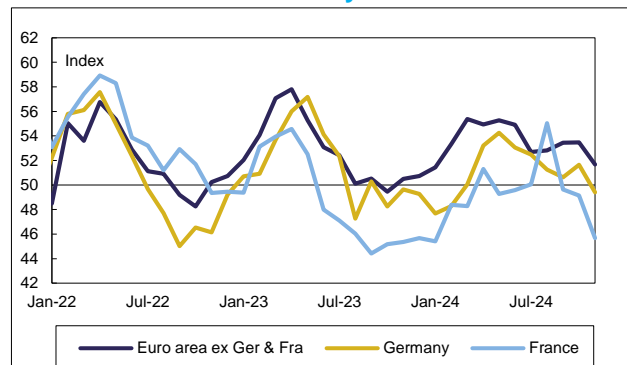
It will be a congested week ahead for euro area data releases, the highlight of which will be flash euro area inflation estimates for November on Friday. As favourable energy base effects continue to fade in November, we expect headline inflation to increase again, by a further 0.3ppt to 2.3%Y/Y, which would be the highest since July. Moreover, base effects in the non-energy industrial goods and services components due to an unusually large drop in prices a year ago will also push core inflation higher, with our expectation for an increase of 0.2ppt to 2.9%Y/Y being a touch above the Bloomberg consensus. Flash inflation estimates from Germany, Spain, Belgium and Ireland (Thursday) will also provide further insight into the euro area release. Separately, the ECB's latest consumer survey for October (also due Friday) is expected to show that households' medium-term inflation expectations remain well anchored close to the 2% target.

Euro area: Manufacturing output PMIs



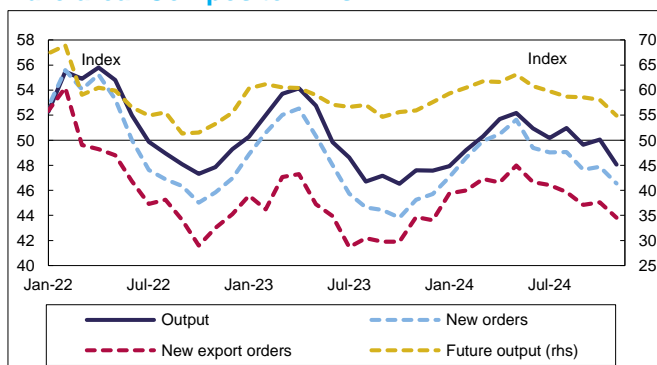
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Services activity PMIs



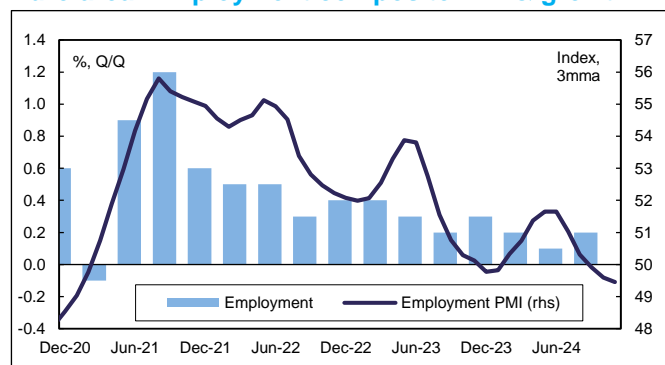
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Composite PMIs



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

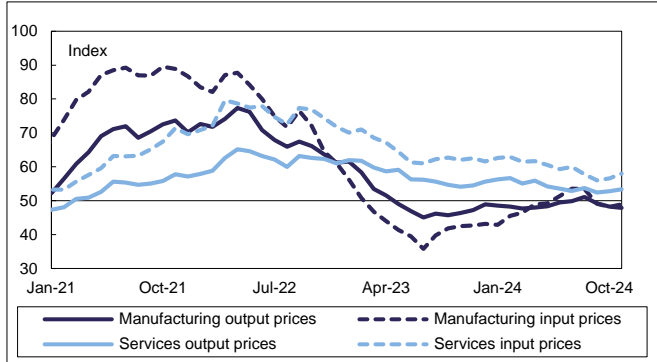
Euro area: Employment composite PMI & growth



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

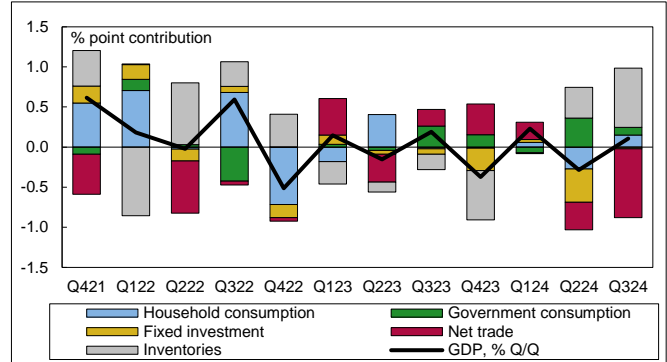
With downside risks to euro area growth mounting, the coming week's business sentiment surveys will also feature prominently in policymakers' considerations. In particular, the Commission's comprehensive economic sentiment survey (Thursday) will provide another yardstick for activity to compare with today's downbeat flash PMIs, though we suspect that these too will likely reflect heightened political uncertainties in Germany, France and the US. The former is likely to precipitate a deterioration in business sentiment within the German ifo institute survey (Monday), which will also provide an update on conditions in the construction and retail sectors. Meanwhile, after the downside surprise in this week's Commission flash consumer confidence indicator (-13.7), the German GfK and French INSEE releases will provide further insight (Wednesday). In addition, the ECB's monetary figures (Thursday) might well report a further very modest recovery in bank lending as less restrictive monetary policy starts to feed through to lower borrowing costs. Meanwhile, the end of the week will also bring final estimates of French GDP in Q3 after initial estimates (0.4%Q/Q) pointed towards a temporary boost from the summer Olympic games.

Euro area: Services & manufacturing price PMIs



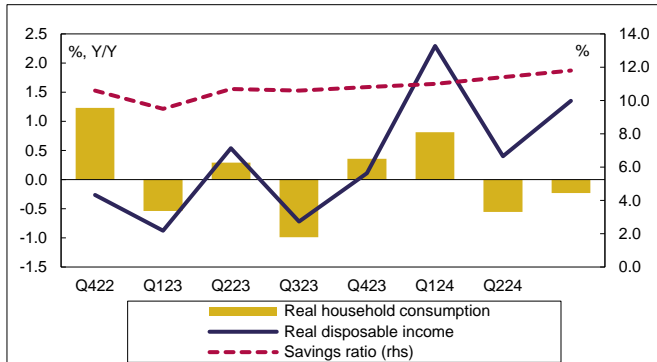
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Contributions to GDP growth



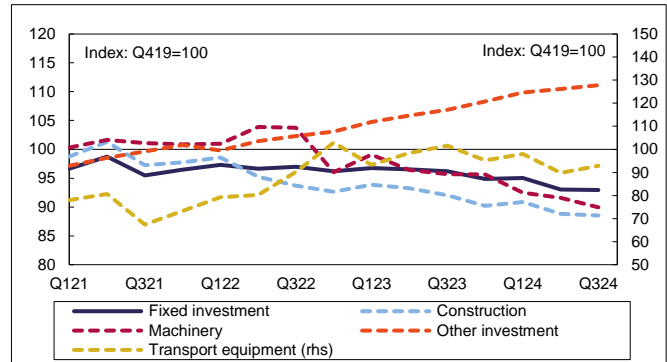
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Household consumption & drivers



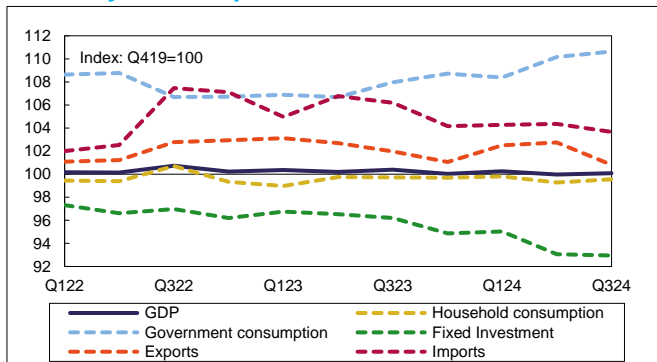
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Fixed investment



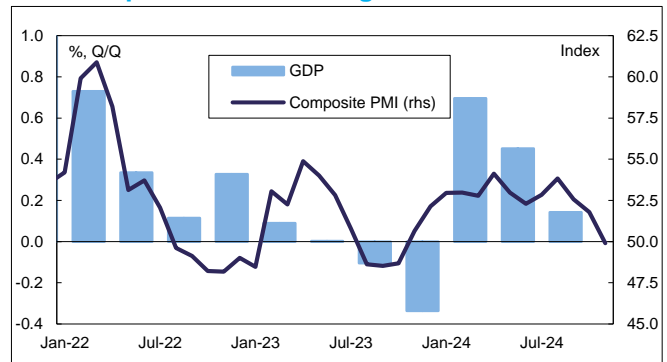
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: GDP expenditure levels



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Composite PMI & GDP growth



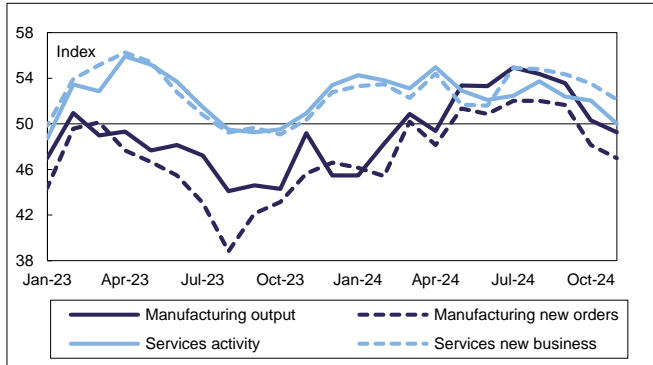
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK

UK PMIs drop the most since August 2023 to signal stagnation in the middle of Q4

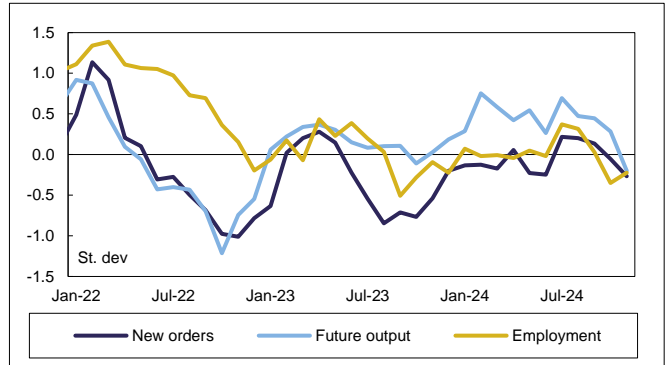
Like in the euro area, today's flash UK PMIs disappointed expectations in November, with a broad-based deterioration suggesting that higher business taxes and heightened geopolitical uncertainty will act as a constraint on economic activity over the near term. Indeed, the flash composite output PMI fell for a third consecutive month, by a chunky 1.9pts – the most since August 2023 – to a 13-month low of 49.9, suggesting that GDP growth has been broadly flat so far in Q4 having slowed sharply to 0.1%Q/Q in Q3. The weakening was led by the services PMI (down 2pts to 50.0) signalling stagnation in the sector for the first time in over a year. While the manufacturing output PMI fell by a smaller amount, it was still down for a third month and at 49.2 suggested contraction for the first time since April. And with backlogs down for the 19th consecutive month and new orders having slowed sharply over the past six months to a 12-month low (51.4), economic activity looks set to remain lacklustre over coming months too. The decline in new factory orders was the steepest since February and attributed to weaker global demand, lower investment and intense competition in export markets. Car manufacturers also reported a slump in domestic demand. Perhaps given concerns about the potential impact of higher US tariffs on global exports, firms were the most downbeat about future output for the year ahead since December 2022. So, while there has been limited evidence of job redundancies, today's survey pointed to a decline in employment. While job growth might be

UK: Services & manufacturing output PMIs



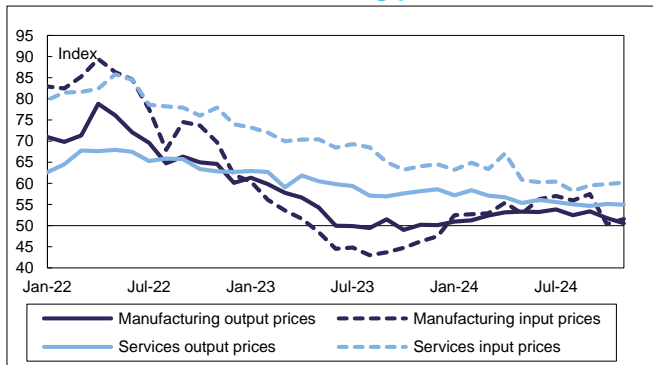
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Selected composite PMI components



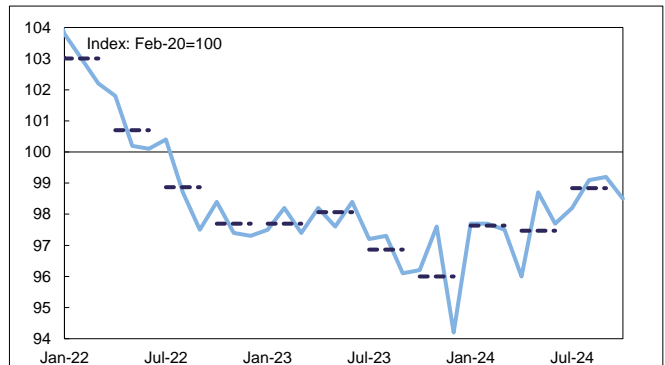
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Services & manufacturing price PMIs



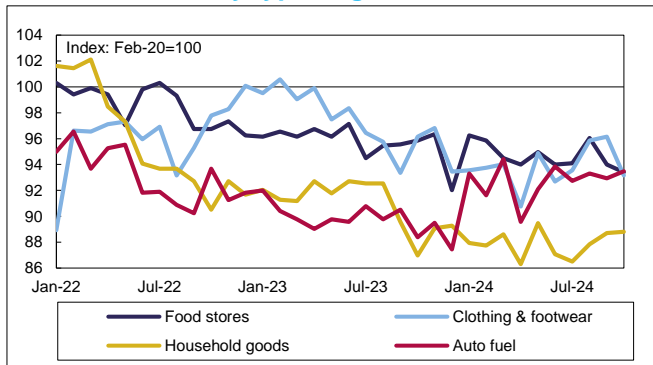
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales*



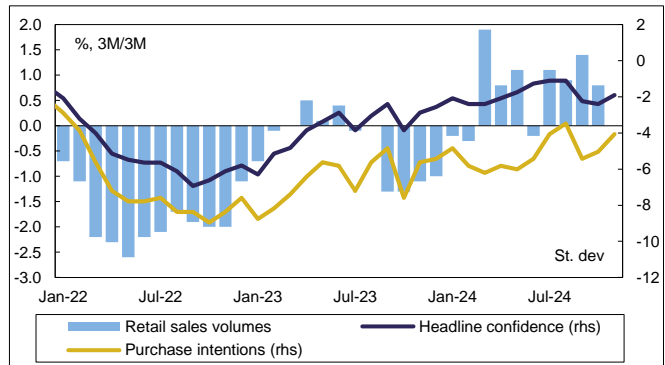
*Dashed lines represent quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales by type of good



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales & consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

further constrained in due course by increased National Insurance Contribution payments, firms reported that input cost growth in November was no stronger than the historical average. And, limited by the lack of demand, the respective index for prices charged moderated to the lowest since January 2021, albeit still above the long-run average.










Retail sales decline in October, but consumer confidence improves in November

Given the decline in consumer confidence ahead of the government's budget announcements, and with the near-10% hike in household energy bills that month having hit real incomes, UK consumers were widely expected to rein in spending in October. Today's retail sales figures confirmed a first monthly fall in four, by a steeper-than-expected 0.7%M/M. Within the detail, the decline was led by department stores. Clothing and footwear sales (-3.1%M/M) recorded the steepest monthly drop since April as demand for winter attire was dampened by unseasonably warm weather. Food store sales fell for a second-successive month (-0.6%M/M), while online sales also slipped to a three-month low. And the decline in sales would have been steeper still in the absence of a modest increase in auto fuel sales, which were boosted by lower petrol prices. The ONS also flagged the timing of the autumn half term – this year incorporated in the November release while it usually falls in October – that might have also depressed sales this year. Overall, despite a downwards revision to total retail sales growth in September (by 0.2ppt to 0.1%M/M), this still left them up a decent 0.8%3M/3M (0.9%3M/3M ex auto fuel) in October, with the annual rise of 2.5%3M/Y (2.3%3M/Y) the strongest since March 2022. Today's GfK consumer confidence survey also suggested the households have now shaken off some budget concerns, with the headline indicator rising for the first month in three in November, by 3pts to -18. Admittedly, this remained 5pts below August's near-two-year high and well below the long-run average, with the respective indices for the economic outlook and income expectations similarly well below the summer peaks. But today's survey also signalled a further improvement in consumer purchase intentions in November, to the second-highest level since February 2022, perhaps suggesting softer rather than declining spending growth in Q4.

The week ahead in the UK

The main event at the start of the coming week in the UK will be the BoE Watchers' Conference in London, where MPC members – Deputy Governor Lombardelli and dovish external member Dhingra – will deliver commentary on monetary policy and inflation dynamics. But aside from this, on the data front, it will be a relatively quiet week for UK releases. The sole non-survey-based release will be October's money and credit data (Friday), which in recent months has noted a pick-up in mortgage lending. And while demand for credit more broadly is expected to edge up over Q4, as signalled by the BoE's latest quarterly Credit Conditions Survey and as gradual cuts in Bank Rate feed through to borrowing rates, heightened caution ahead of budget might well have seen a dip in mortgage approvals from September's more than two-year high (65.7k). Meanwhile, the BRC shop price survey (Tuesday) will provide an update of retailers pricing trends in November, having in recent months reflected gradual food price disinflation, as well as more aggressive price-cutting by non-food businesses in the face of subdued demand. But the prospect of ongoing discounting ahead of the festive season could also reflect positively on the CBI's reported retail sales measure (also due Tuesday).































Daiwa economic forecasts

	2024			2025			2024	2025	2026
	Q2	Q3	Q4	Q1	Q2	Q3			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.2	0.4	0.1	0.3	0.3	0.3	0.8	1.0	1.3
UK 	0.5	0.1	0.2	0.3	0.4	0.4	0.9	1.3	1.5
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.5	2.2	2.3	2.1	1.8	1.8	2.4	2.0	1.9
Core HICP 	2.8	2.8	2.8	2.5	1.9	1.8	2.9	2.1	1.8
UK									
Headline CPI 	2.1	2.0	2.5	2.5	2.3	2.6	2.5	2.4	2.1
Core CPI 	3.6	3.3	3.4	3.5	2.5	2.3	3.7	2.6	2.0
Monetary policy, %									
ECB									
Deposit Rate 	3.75	3.50	3.00	2.50	2.25	2.25	3.00	2.25	2.25
Refi Rate 	4.25	3.65	3.15	2.65	2.40	2.40	3.15	2.40	2.40
BoE									
Bank Rate 	5.25	5.00	4.75	4.50	4.25	4.00	4.75	3.75	3.75

Source: Bloomberg, ECB, BoE 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 forecast/</i>	Previous
Monday 25 November 2024					
Germany		09.00 ifo business climate indicator	Nov	86.3	86.5
		09.00 ifo current assessment (expectations) indicator	Nov	85.5 (87.2)	85.7 (87.3)
Spain		08.00 PPI Y/Y%	Oct	-	-5.2
Tuesday 26 November 2024					
UK		00.01 BRC shop price index Y/Y%	Nov	-0.7	-0.8
		11.00 CBI distributive trades survey – reported sales volumes %	Nov	-	-6
Wednesday 27 November 2024					
Germany		07.00 GfK consumer confidence indicator	Dec	-18.4	-18.3
France		07.45 INSEE consumer confidence indicator	Nov	93	94
Thursday 28 November 2024					
Euro area		09.00 M3 money supply Y/Y%	Oct	3.4	3.2
		10.00 Final Commission consumer confidence indicator	Nov	<u>-13.7</u>	-12.5
		10.00 Commission economic sentiment indicator	Nov	95.2	95.6
		10.00 Commission industrial (services) confidence indicator	Nov	-13.0 (6.5)	-13.0 (7.1)
Germany		13.00 Preliminary HICP (CPI) Y/Y%	Nov	2.6 (2.3)	2.4 (2.0)
Italy		09.00 ISTAT consumer confidence indicator	Nov	97.8	97.4
		09.00 ISTAT business (manufacturing) confidence indicator	Nov	-(85.0)	93.4 (85.8)
		09.00 PPI Y/Y%	Nov	-	-2.7
Spain		08.00 Preliminary HICP (CPI) Y/Y%	Nov	2.6 (2.4)	1.8 (1.8)
Friday 29 November 2024					
Euro area		09.00 ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Oct	2.3 (2.1)	2.4 (2.1)
		10.00 Preliminary headline (core) HICP Y/Y%	Nov	<u>2.3 (2.9)</u>	2.0 (2.7)
Germany		07.00 Retail sales M/M% (Y/Y%)	Oct	-	1.3 (0.9)
		08.55 Unemployment rate % (change 000s)	Nov	6.1 (15)	6.1 (27)
France		07.45 Preliminary HICP (CPI) Y/Y%	Nov	1.8 (1.4)	1.6 (1.2)
		07.45 GDP – final estimate Q/Q% (Y/Y%)	Q3	<u>0.4 (1.3)</u>	0.2 (1.0)
		07.45 Consumer spending M/M% (Y/Y%)	Oct	-	0.1 (-0.1)
		07.45 PPI Y/Y%	Oct	-	-7.0
		07.45 Final payrolls (private sector) Q/Q%	Q3	- (-0.1)	0.0 (-0.1)
Italy		10.00 Preliminary HICP (CPI) Y/Y%	Nov	1.3 (1.3)	1.0 (0.9)
Spain		08.00 Retail sales Y/Y%	Oct	-	4.1
UK		00.01 Lloyds business barometer (own price expectations)	Nov	-	44 (61)
		09.30 Net consumer credit £bn (Y/Y%)	Oct	1.3 (-)	1.2 (7.5)
		09.30 Net mortgage lending £bn (mortgage approvals 000s)	Oct	2.4 (64.0)	2.5 (65.6)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions














Country	GMT	Event / Auction
Monday 25 November 2024		
Euro area 	16.30	ECB Chief Economist Lane delivers speech at BoE Watchers' Conference, London
UK 	09.00	BoE Deputy Governor Lombardelli delivers speech at BoE Watchers' Conference, London
	10.30	BoE external MPC Member Dhingra speaks on panel at BoE Watchers' Conference, London
Tuesday 26 November 2024		
Germany 	10.30	Auction: to sell €4bn of 2.5% 2029 bonds
Italy 	10.00	Auction: to sell €2bn of 3.1% 2026 bonds
	10.00	Auction: to sell €1bn of 1.5% 2029 inflation-linked bonds
	10.00	Auction: to sell €750mn of 0.1% 2033 inflation-linked bonds
Wednesday 27 November 2024		
- Nothing scheduled -		
Thursday 28 November 2024		
Italy 	10.00	Auction: to sell bonds*
Friday 29 November 2024		
UK 	10.30	BoE to publish Financial Stability Report

*Details to be announced. 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
Euro area 	Preliminary manufacturing (services) PMI	Nov	45.2 (49.2)	46.0 (51.6)	46.0 (51.6)	-
	Preliminary composite PMI	Nov	48.1	50.0	50.0	-
Germany 	GDP – final estimate Q/Q% (Y/Y%)	Q3	0.1 (-0.3)	0.2 (-0.2)	-0.3 (-0.1)	- (-0.3)
	Preliminary manufacturing (services) PMI	Nov	43.2 (49.4)	43.0 (51.7)	43.0 (51.6)	-
	Preliminary composite PMI	Nov	47.3	48.7	48.6	-
France 	Preliminary manufacturing (services) PMI	Nov	43.2 (45.7)	44.5 (49.0)	44.5 (49.2)	-
	Preliminary composite PMI	Nov	44.8	48.3	48.1	-
	Retail sales Y/Y%	Oct	-0.2	-	-0.5	-0.3
UK 	Retail sales – including auto fuel M/M% (Y/Y%)	Oct	-0.7 (2.4)	-0.3 (3.4)	0.3 (3.9)	0.1 (3.2)
	Retail sales – excluding auto fuel M/M% (Y/Y%)	Oct	-0.9 (2.0)	-0.4 (3.3)	0.3 (4.0)	0.1 (3.2)
	Preliminary manufacturing (services) PMI	Nov	48.6 (50.0)	50.0 (52.0)	49.9 (52.0)	-
	Preliminary composite PMI	Nov	49.9	51.7	51.8	-
	GfK consumer confidence indicator	Nov	-18	-22	-21	-

Auctions

Country	Auction
- Nothing to report -	

. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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