

Euro wrap-up

Overview

- Longer-dated Bunds made further gains as the German ifo business survey tallied with last week's flash PMIs to suggest a deterioration in conditions in Q4.
- Gilts followed USTs higher on a quiet day for UK economic news.
- Surveys will dominate the European dataflow over coming days, with the UK's BRC shop price and CBI retail indicators due tomorrow and German and French consumer confidence indices due Wednesday.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	2.001	+0.017
OBL 2½ 10/29	2.037	-0.017
DBR 2.6 08/34	2.203	-0.036
UKT 4½ 01/27	4.312	-0.003
UKT 4½ 07/29	4.213	-0.022
UKT 4½ 07/34	4.342	-0.043

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

Euro area

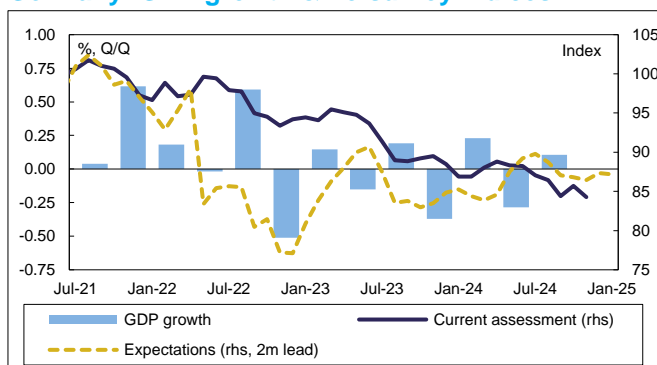
German ifo survey reinforces message from flash PMIs to suggest renewed contraction in Q4

Like Friday's [flash PMIs](#), today's ifo business survey offered a gloomy assessment, suggesting that Germany's return to positive economic growth in Q3 will prove temporary. Indeed, the headline business climate index fell in November by 0.8pt to 85.7, close to the bottom of the range of the past two years and some 9% below the long-run average. The deterioration principally reflected a worsening in the current business situation, with the respective index down 1.4pts to 84.3, the lowest since the global financial crisis when excluding the initial Covid-19 slump in Q220 and more than 12% below the long-run average. So far in Q4, that current conditions index has been trending some 1pt below the Q3 level, pointing to renewed contraction this quarter. While services had been expected to support economic growth in Q4, today's ifo survey, like the PMIs, suggested that the deterioration in conditions this month was centred primarily on that sector. Constructors were also more pessimistic in November. And while retailers considered current conditions to be marginally less downbeat in November, likely reflecting rising real disposable incomes, manufacturers remained very downbeat.

Pessimism for the coming six months widespread across sectors

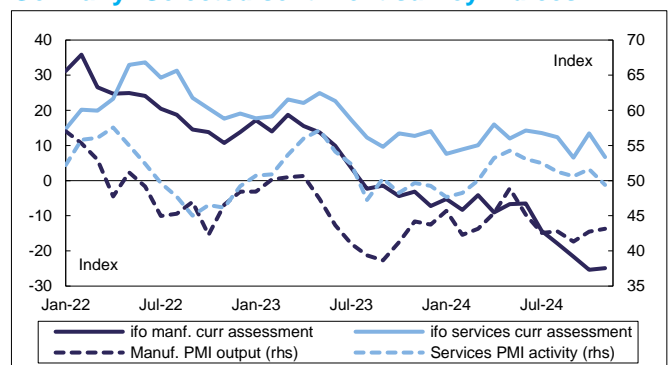
Germany's economic outlook remains downbeat. Manufacturers remain squeezed by increased competition, not least from China, while the energy price shock continues to take its toll, and the threat of higher tariffs when President-elect Trump returns to office in January poses a further downside risk. Admittedly, US importers could bring forward demand for German goods in the hope of evading tariffs. If so, that might provide a near-term boost to exports from certain subsectors. But uncertainty about possible future tariffs is likely to significantly deter German business investment in the factory sector, weighing particularly on demand for capital and intermediate goods. And so, it was no surprise that today's ifo survey – like last week's PMIs – suggested that manufacturing firms have become more downbeat about the outlook, with the respective expectations index falling back below the average for the year to-date. That also tallies with recent data for new orders, for which the pickup in Q3 largely reflected bulk one-off items, while core orders maintained a modest downtrend. And with the exception of a few subsectors – such as electrical equipment and other transport equipment – factory order backlogs continue to decline, with the stock of unfilled orders in the autos sector at the lowest since 2017. Beyond manufacturing, things look no better. The ifo survey flagged greater pessimism among services with respect to the outlook over the coming six months. And with still-elevated borrowing costs continuing to weigh, construction firms were the most downbeat about the outlook for seven months. Overall, therefore, today's survey implied little improvement on the horizon, suggesting that German GDP will likely contract slightly in Q4 and grow only minimally in the first half of 2025.

Germany: GDP growth & ifo survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Selected sentiment survey indices



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

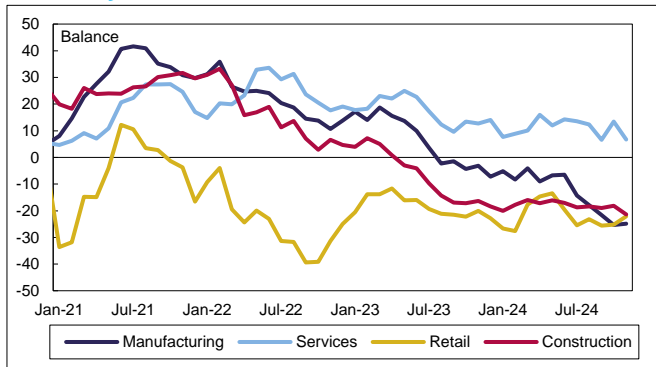
The coming two days in the euro area

With no top-tier euro area economic data scheduled tomorrow the next releases of note will be Wednesday's national consumer confidence survey results. After last week's flash Commission consumer confidence indicator surprised to the downside – falling by the most since September 2023 to a five-month low – the German GfK and French INSEE surveys will provide further insights from the two largest member states, likely attributing renewed pessimism to heightened political uncertainty.

The coming two days in the UK

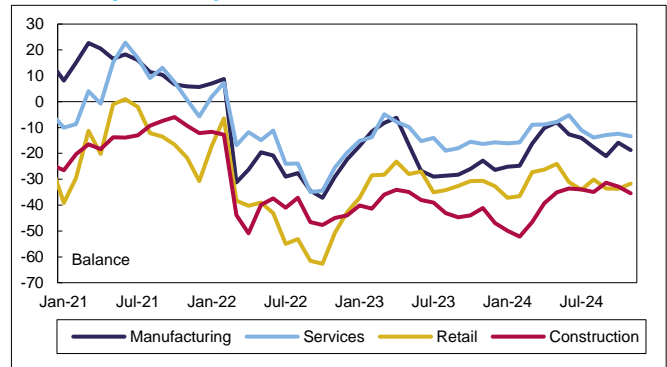
Following a quiet start to the week for UK data releases, Tuesday will bring an update of retailers' pricing trends in November via the BRC's shop price survey. In recent months, the survey has reflected gradual food price disinflation, as well as more aggressive discounting by non-food businesses in response to weaker consumer demand. The prospect of further price-cutting, in view of the festive season, could also reflect positively on the CBI's reported retail sales indicator.

Germany: ifo current conditions indices



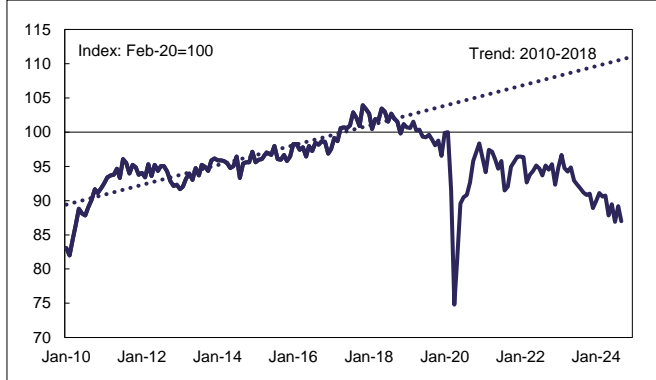
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo expectations indices



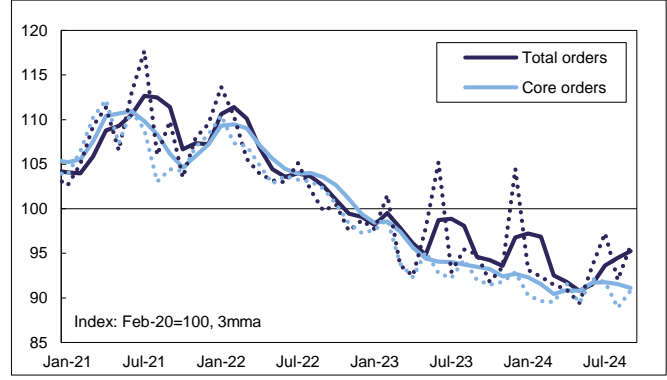
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing production



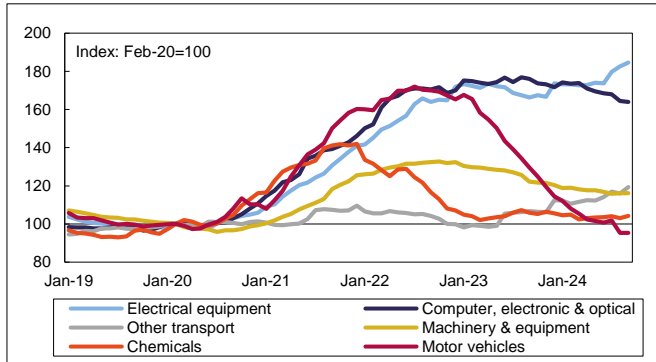
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Factory orders*



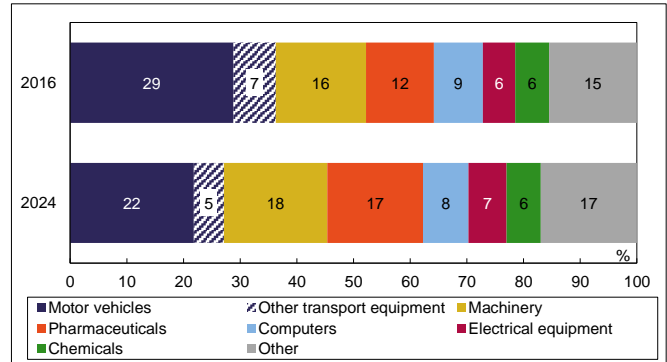
*Dotted lines represent unsmoothed data. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing order backlogs



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Share of exports to US






Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 27 November 2024

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 ifo business climate indicator	Nov	85.7	86.0	86.5	-
	 ifo current assessment (expectations) indicator	Nov	84.3 (87.2)	85.5 (87.0)	85.7 (87.3)	-
Spain	 PPI Y/Y%	Oct	-3.9	-	-5.2	-



Auctions

Country	Auction
- Nothing to report -	





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tuesday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
UK	 00.01	BRC shop price index Y/Y%	Nov	-0.6	-0.8
	 11.00	CBI distributive trades survey – reported sales volumes %	Nov	-15	-6



Auctions and events

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			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	 07.00	GfK consumer confidence indicator	Dec	-18.8	-18.3
France	 07.45	INSEE consumer confidence indicator	Nov	94	94

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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