

# Euro wrap-up

## Overview

- Despite a sharp deterioration in German and French consumer confidence, shorter-dated Bunds made losses as the hawkish Executive Board member Schnabel cautioned against cutting interest rates into accommodative territory.
- Gilts followed USTs higher on a quiet day for UK economic news.
- Thursday will bring flash November estimates from Germany and Spain, as well as the Commission's sentiment survey and ECB bank lending figures.

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### Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	2.027	+0.021
OBL 2½ 10/29	2.013	-0.013
DBR 2.6 08/34	2.165	-0.019
UKT 4½ 01/27	4.307	-0.017
UKT 4½ 07/29	4.208	-0.037
UKT 4½ 07/34	4.307	-0.043

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

Source: Bloomberg

## Euro area

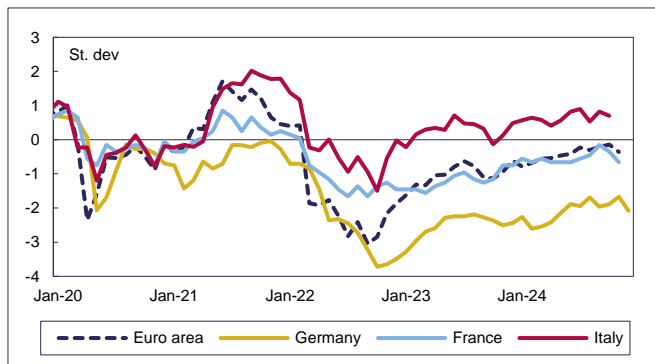
### Consumer confidence slumps in Germany and France amid heightened political uncertainties

Amid heightened political uncertainties in Germany and France, concerns of job losses amid lacklustre economic growth, and a US election result that appears unfavourable for Europe, surveys point to significant deterioration in sentiment this month. With respect to business confidence, the [flash euro area PMIs](#) fell in November to a level consistent with non-negligible contraction. And while many ECB policymakers – including Executive Board member Schnabel in an interview with Bloomberg published today – have reiterated their expectation of a consumption-led recovery helped by rising real incomes and falling interest rates, the worsening in consumer confidence flagged in last week's flash Commission indicator raises doubts about the extent to which household spending will support growth this quarter. Admittedly, overall in the euro area, consumer confidence remains close to the long-run average, with above-trend sentiment in Southern European countries benefitting from recent firm economic growth related not least to a strong summer tourist season and NGEU-related investments. But today's national German and French surveys illustrated the weakness in the largest two member states. In particular, the headline German GfK consumer confidence index – presented as a forecast for December – fell a chunky 4.9pts – the most since October 2022 – to a seven-month low of -23.3. Meanwhile, the INSEE survey recorded a second-successive monthly drop in the French headline household confidence index, by 3pts – similarly the steepest since September 2022 – to 90. While this was comfortably above the averages in 2022 and 2023, it was nevertheless a five-month low and some 10% below the long-run average.

### Spending intentions broadly stable despite worsening income expectations

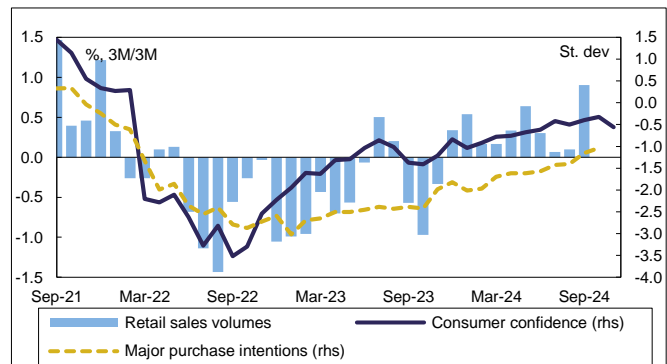
With German federal elections scheduled for February and the possibility of a French parliamentary no-confidence vote on the Barnier government next month, political uncertainty is likely to be one driver for greater wariness about the economic outlook. Households were also more downbeat about income expectations, perhaps unsurprisingly amid signs that German unions are prioritising job security over pay rises amid threats of factory shutdowns, increasing jobless claims and the steady decline in job vacancies over past quarters. Unemployment fears also jumped in France to the highest since mid-2021. Nevertheless, with household savings intentions at historically high levels, today's surveys also suggested that readiness to make big-ticket purchases remained broadly stable in November, close to the top of the range of the past couple of years. As such, we expect to see only a softening in spending growth rather than a significant decline in expenditure in Q4. However, overall, not least reflecting payback for the one-off factors boosting GDP in Q3, we maintain our view that economic activity in Germany and France will move sideways (at best) this quarter, hindering the overall recovery of the euro area.

### Euro area: Consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Retail sales & consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## The day ahead in the euro area

Ahead of Friday's preliminary euro area inflation release, tomorrow's flash HICP estimates from Germany and Spain will provide an early gauge of price developments in November. Headline inflation in both member states is expected to rise, in line with our expectations for the euro area aggregate, owing principally to unfavourable energy base effects. The increase in the energy component is expected to be most pronounced in Spain, where the Bloomberg survey consensus for the EU harmonised measure is a rise of 0.6ppt to 2.4%Y/Y, whilst the German rate is expected to increase 0.2ppt to 2.6%Y/Y. German services and core inflation could also tick higher in November owing to base effects related to a larger-than-normal fall in airfares in November last year. Following the downside surprise to last week's flash PMIs, policymakers will also pay close attention to tomorrow's Commission consumer and business sentiment surveys. The results will likely confirm that consumer confidence in the euro area fell back to a five-month low. But a decline in business sentiment will also likely take the headline Economic Sentiment Indicator down to 12-month low, some 5% below the long-run average. Notwithstanding the recent worsening in confidence, tomorrow's euro area monetary statistics should show that bank lending continued a gradual recovery in October, benefitting from recent interest rate cuts from the ECB, albeit with the annual growth rate still firmly negative in real terms.

## UK

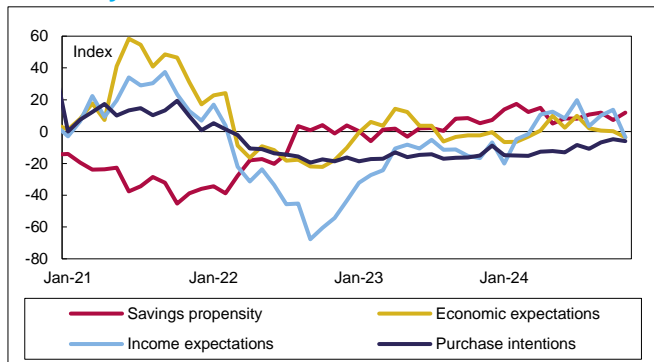
### UK retailers suggest sales remain weak for the time of the year despite heavy discounting

Just as today's European consumer surveys reported greater pessimism, yesterday's CBI distributive trades survey painted a downbeat picture for UK retail spending in the middle of Q4. Indeed, despite the latest BRC shop price survey signalling further heavy discounting in November to entice consumers to the high street, the CBI's headline sales volumes balance fell a steeper-than-expected 12pts to -18%, a four-month low, and the softest November reading in two years. Indeed, almost 50% of respondents reported a decline in sales compared with a year earlier, with retailers suggesting that sales were once again weak for the time of the year for a sixth successive month. Admittedly, the deterioration this month might well in part reflect a calendar effect, with Black Friday falling outside of the survey sample this November. However, with consumer confidence having slipped back over recent months as incomes were hit by a hike in household energy bills, retailers remained pessimistic about the sales outlook for December. So, having risen a solid 1½%3M/3M in Q3, but having fallen almost 1%M/M in October, yesterday's survey raises the possibility that retail sales contracted in Q4.

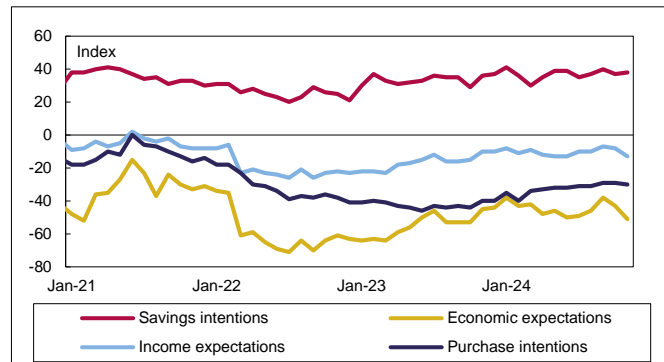
### The day ahead in the UK

With no major releases scheduled for Thursday, it should be a quiet day ahead for UK economic news.

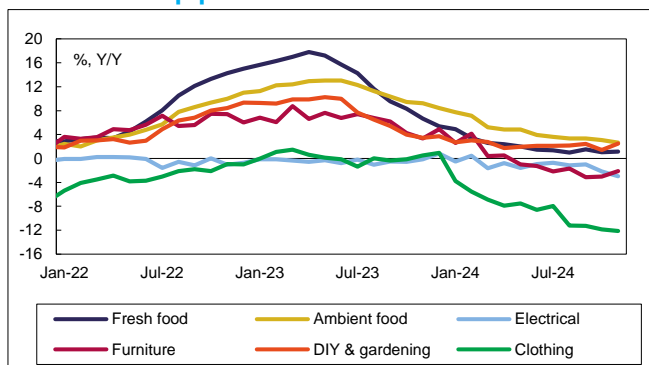
#### Germany: Consumer confidence indices



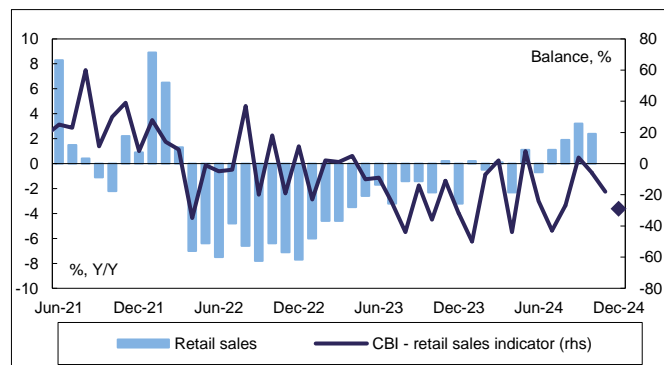
#### France: Consumer confidence indices



#### UK: BRC shop price inflation





#### UK: Retail sales



## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 GfK consumer confidence indicator	Dec	<b>-23.3</b>	-18.8	-18.3	-18.4
France	 INSEE consumer confidence indicator	Nov	<b>90</b>	94	94	93



#### Auctions

Country	Auction
- Nothing to report -	





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tuesday's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
UK	 BRC shop price index Y/Y%	Nov	<b>-0.6</b>	-0.6	-0.8	-
	 CBI distributive trades survey – reported sales volumes %	Nov	<b>-18</b>	-15	-6	-










#### Auctions

Country	Auction
Germany	 sold €3.35bn of 2.5% 2029 bonds at an average yield of 2.04%
Italy	 sold €2bn of 3.1% 2026 bonds at an average yield of 2.47%
	 sold €1bn of 1.5% 2029 inflation-linked bonds at an average yield of 1.16%
	 sold €750mn of 0.1% 2033 inflation-linked bonds at an average yield of 1.51%






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Thursday's releases

#### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	 09.00	M3 money supply Y/Y%	Oct	3.4	3.2
	 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)
	 10.00	Final Commission consumer confidence indicator	Nov	<u>-13.7</u>	-12.5
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	97.4	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	2.4 (2.3)	1.8 (1.8)

#### Auctions and events

Euro area	 17.00	ECB Chief Economist Lane to deliver speech in Paris
Italy	 10.00	Auction: to sell €3.25bn of 3% 2029 bonds
	 10.00	Auction: to sell €1.5bn of 2032 floating bonds
	 10.00	Auction: to sell €1.5bn of 2.45% 2033 bonds
	 10.00	Auction: to sell €2bn of 3.85% 2035 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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