Euro wrap-up

Overview

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- Bunds made further gains as flash German inflation estimates for November undershot expectations, while the Commission survey and bank lending data were consistent with soft euro area GDP growth in Q4.
- OATs outperformed as the French government appeared to make concessions to the opposition parties in an attempt to pass its Budget.
- Gilts also made modest gains on a quiet day for UK economic news.
- Friday will bring flash November estimates of euro area inflation, along with figures for German and French consumer spending and UK bank lending.

Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	1.987	-0.036
OBL 2½ 10/29	1.967	-0.039
DBR 2.6 08/34	2.123	-0.034
UKT 4⅛ 01/27	4.271	-0.024
UKT 4⅛ 07/29	4.145	-0.032
UKT 4¼ 07/34	4.276	-0.017

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

Euro area

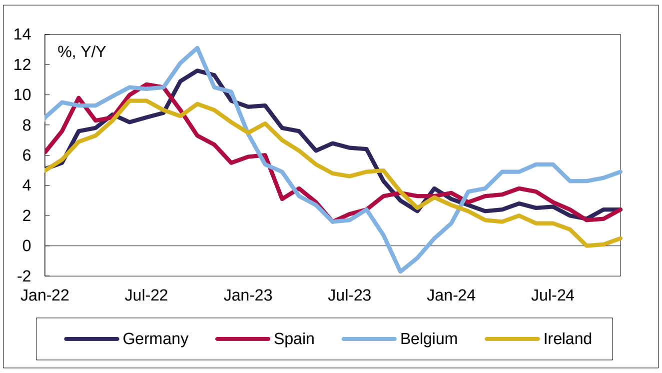
German HICP inflation unchanged in November to undershoot expectations

The flash estimates of German inflation in November undershot expectations to raise the likelihood that tomorrow's euro area figures will also come in below the market consensus. Contrary to the consensus expectation of an increase of 0.2ppt on the month, the German EU-harmonised HICP measure was notably unchanged at 2.4%Y/Y in November. And the national CPI rate rose 0.2ppt – slightly less than expected – to 2.2%Y/Y. As expected, the detail on the CPI measure suggested that much of the upwards pressure came from energy (up 1.8ppts to -3.7%Y/Y) as the steep declines in prices of household electricity, gas and auto fuel a year ago were not repeated this month. In contrast, however, food inflation moderated 0.5ppt to 1.8%Y/Y. In terms of core items, services inflation was unchanged at 4.0%Y/Y. Data from the German states suggest that a further rise in insurance was offset by a moderation in consumer-facing services such as hospitality as well as the highly volatile package holiday component. But with our estimate of non-energy industrial goods inflation up 0.2ppt to 1.4%Y/Y, German core inflation on the national measure edged up 0.1ppt to a six-month high of 3.0%Y/Y, an increase that we expect to be mirrored tomorrow in euro area core inflation.

Inflation in Spain, Belgium and Ireland up on higher energy prices

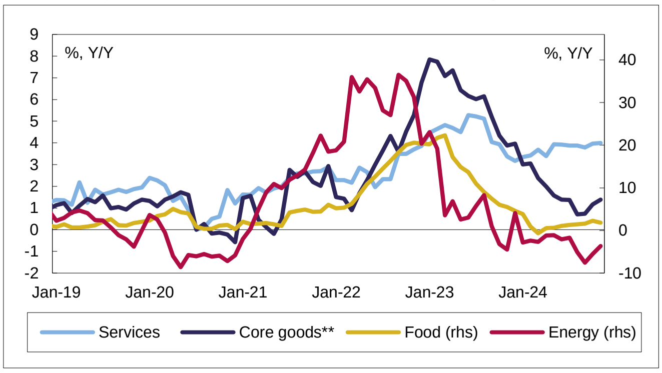
While the increase in Spanish inflation was pronounced in November, it was nevertheless in line with expectations. Headline inflation – on both the EU-harmonised and national measures – jumped 0.6ppt to 2.4%Y/Y, the highest since August, albeit still roughly 1ppt below the rate at the start of the year. The Spanish statistical office attributed the upwards pressure to higher electricity and auto fuel prices, which contrasted the steep declines a year ago. So, when excluding energy and fresh food prices, Spain's national core CPI rate moderated slightly by 0.1ppt to 2.4%Y/Y, matching September's more than 2½-year low. HICP inflation in Belgium and Ireland also ticked up 0.4ppt to 4.9%Y/Y and 0.5%Y/Y, similarly reflecting energy base effects. So, despite the downside surprise in Germany, assuming an uptick in French, Italian and Dutch inflation when those figures are published tomorrow, we maintain our view that euro area headline inflation rose 0.2ppt to 2.2%Y/Y – 0.1ppt below the Bloomberg consensus – with core inflation up a more modest 0.1ppt to 2.9%Y/Y. With inflation likely to edge higher still around the turn of the year, today's Commission survey signalled an increase in household inflation expectations for the coming twelve months, with the respective index the highest since March 2023. But more reassuringly for policymakers, selling-price intentions in the services sector fell in November back close to September's near-three-year low.

Euro area: HICP inflation in selected member states



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: CPI inflation – selected components*



*National measure. **Non-energy industrial goods. Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

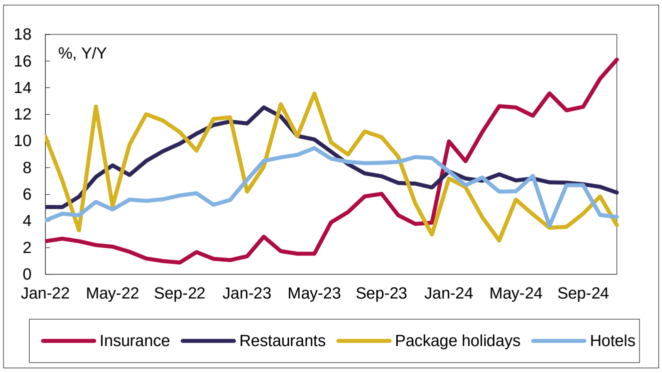
Commission survey suggests that sentiment remained broadly stable despite rising uncertainties

Contrasting the marked deterioration in the flash PMIs, the Commission's headline sentiment indicator – sometimes a more reliable guide to euro area GDP growth – suggested that economic conditions remained broadly stable in November despite heightened political uncertainties in Germany and France and a US election result that risks an adverse new shock for the euro area. Indeed, the euro area headline ESI edged marginally higher this month to 95.8. Admittedly, this is almost 4% below the long-run average to be trending so far in Q4 around ½pt below the Q3 average. But it is still in line with the average in the first half of this year and more than 1pt above the average in H223. So, the Commission survey is still consistent with our view that euro area GDP growth will slow rather than contract this quarter. Sentiment among the larger member states was again mixed in November. Germany's ESI (88.8) fell to the lowest since the global financial crisis outside of the first Covid-19 lockdown since Q220 and was by far the lowest of the member states with the exception of Austria. Having fallen sharply in October, the bounce back in the French ESI (96.9) still left it well below the average in the first nine months of the year. And while the Spanish ESI (102.1) rose in November and remained above the long-run average, it was still trending so far in Q4 some 4½pts below the Q3 level illustrating the negative impact that October's devastating floods will likely have on GDP growth this quarter. In marked contrast, the Portuguese ESI (107.0) rose to its highest since May 2022, suggesting that economic activity in that country will again outperform the euro area average in Q4.

Despite a pickup in manufacturing sentiment, investment plans revised markedly lower

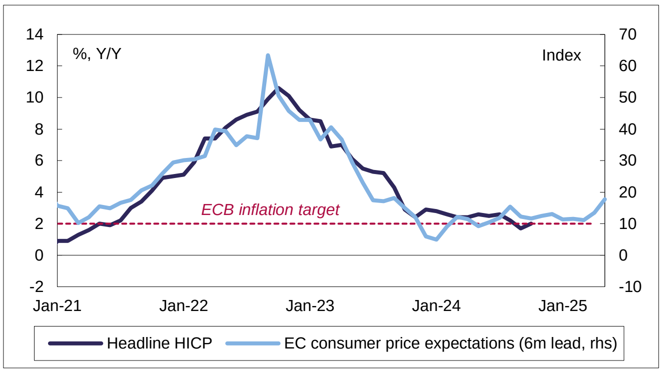
While today's survey reported a modest improvement in manufacturing sentiment for the first month in four, firms were still among the most pessimist since the first Covid-19 wave. Moreover, the pickup principally reflected greater optimism among manufacturers of "other transport" equipment (such as rail and ships) amid a jump in orders. In contrast, manufacturers of cars and ICT were the most downbeat since the euro crisis aside from the first Covid-19 wave as lower production expectations reflected a further drop in orders and a further weakening in firms' perceptions of their own competitiveness. Given also heightened uncertainties surrounding the trade policies of US President-elect Trump, manufacturers reportedly scaled back significantly their investment plans, with a negative net share of firms reporting a rise in capex for the first time since 2020 amid a marked drop in Germany. And overall, while manufacturers projected a modest increase in capex in 2025, investment plans in the autos sector were flat for next year, with a further decline in capex intentions in that sector in Germany offsetting plans for modest growth in other major member states. Meanwhile, with services sentiment having taken a step down in November, investment plans in that sector were also downwardly revised and expected to remain more modest next year than in previous years. But although consumer confidence slipped to a five-month low, there was a glimmer of positivity among retailers, who were reportedly the least downbeat since August 2023 as sales were considered the strongest since April and household purchase intentions rose to the highest since February 2022.

NRW state: Selected services inflation components*



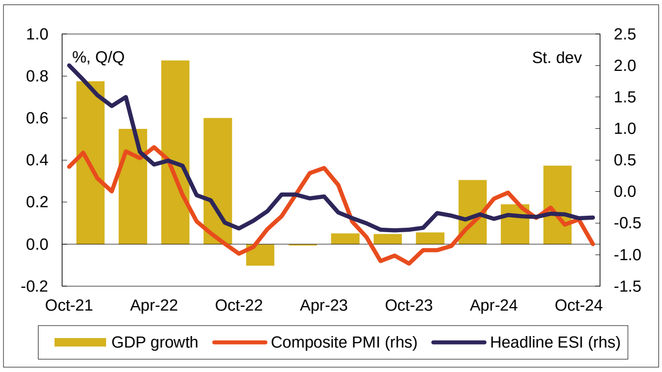
*National measure. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer price inflation & expectations



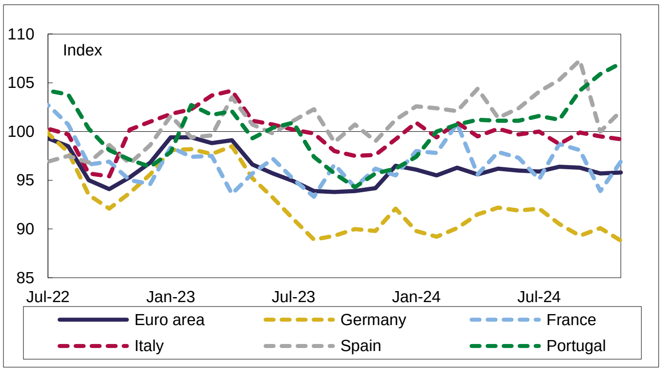
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: GDP growth & economic survey indices



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

Euro area: EC survey – country ESIs

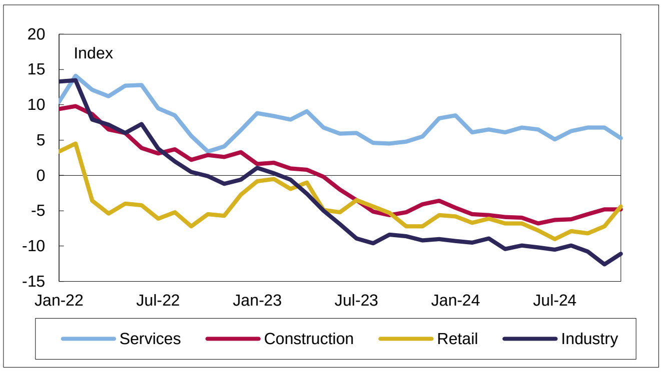


Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Lending to businesses picks up gradually, with growth concentrated at shorter maturities

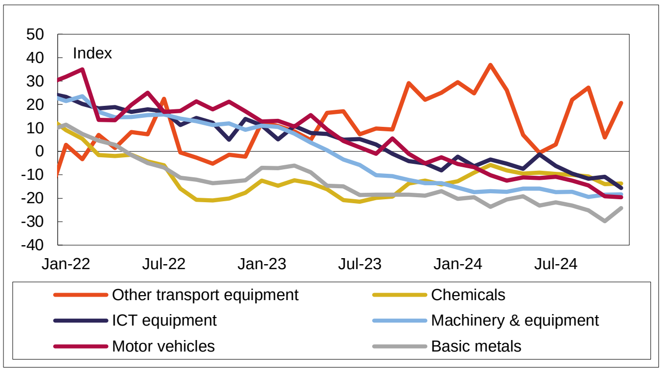
With the ECB's monetary easing cycle starting slowly to feed through to lower interest rates for borrowers, loan growth is picking up, albeit only very gradually and sadly with no evidence that it is being channelled to support growth in business fixed capex. On a three-month basis, the adjusted flow of bank lending to non-financial corporations (NFCs) rose €5.0bn in October to a three-month high of €17.0bn, back close to the top of the range this year. So, growth in the adjusted stock of loans to NFCs edged up a further 10bps to 1.2%Y/Y, the highest since July 2023. That, however, was still a little more than 2½ppts below the average rate in two years before the pandemic and also still firmly negative in real terms. Moreover, growth in lending to NFCs remains concentrated in shorter-term maturities, which tend to correspond with demand for working capital and inventories. In contrast, the net flow of longer-term loans, which responds more closely to business fixed investment, remains weak. Indeed, on an unadjusted basis, the stock of loans to NFCs with a maturity of more than five years slowed in October to a nine-year low of just 0.4%Y/Y, consistent with the messages from today's Commission business survey that capex plans are being revised down.

Euro area: EC survey – sectoral ESIs



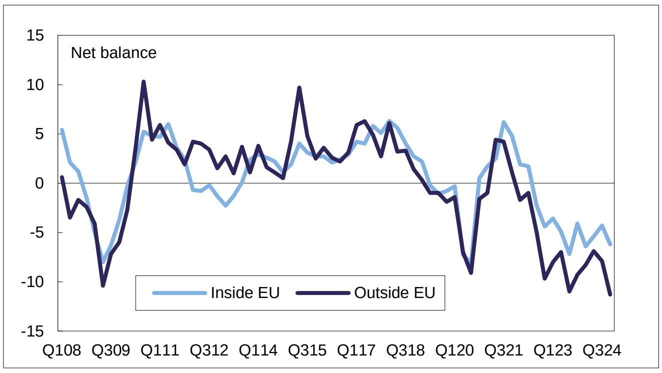
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: EC survey – industry indices



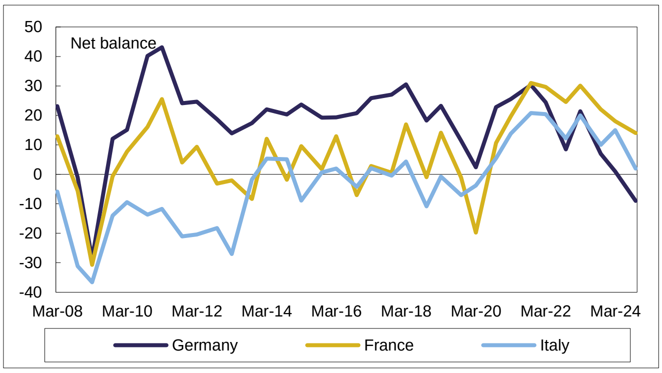
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturers' competitive position



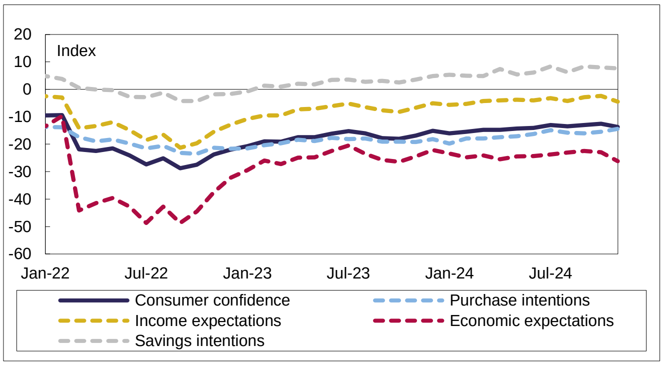
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturers' investment plans



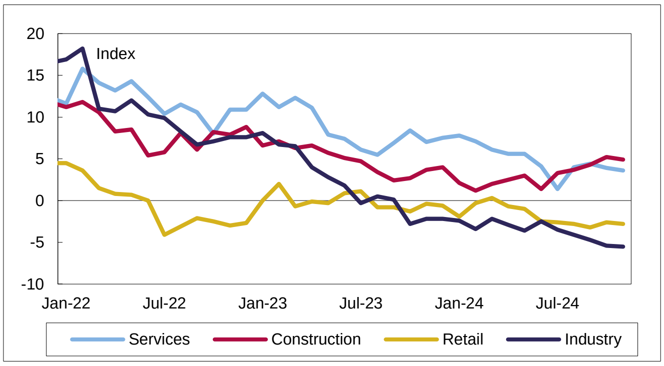
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer confidence indices



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

Euro area: Employment intentions indices



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

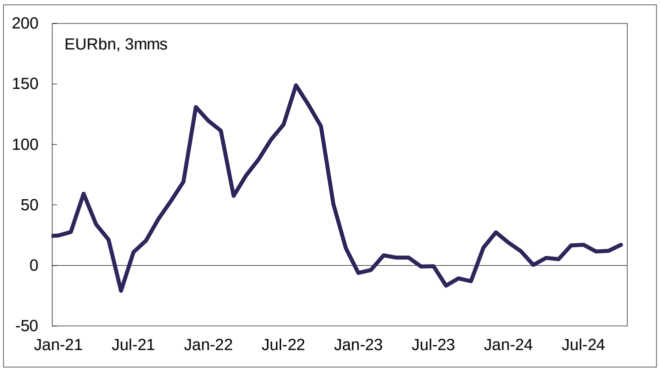
Consumer credit accelerates, but mortgage lending remains weak

Meanwhile, the net flow of loans to households maintained its uptrend in October, rising on a three-month adjusted basis to €25.7bn, the strongest since January 2023. That nudged up the respective annual growth rate to a two-year high, although at 0.8%Y/Y that was still almost 2½ppts below the average in the two years before the pandemic and also firmly negative in real terms. While consumer credit growth picked up to a seven-month high of 3.1%Y/Y, the deterioration in household sentiment in November might point to a moderation ahead. Meanwhile, with October bringing the sharpest negative net flow in loans for house purchase since January, annual growth in the respective stock of loans slowed to a four-month low of just 0.4%Y/Y pointing to continued housing market softness. Finally, having reached historical lows in the second half of 2023 as interest rates hit their cyclical peak, money supply growth continues to normalise in response to the ECB's policy easing. The narrow M1 aggregate, representing currency in circulation and overnight deposits, grew on a year-on-year basis for the first time in almost two years, albeit by just 0.2%Y/Y. M3 broad money growth picked up 0.2ppt to 3.4%Y/Y, also the highest since the end of 2022, but still below previous ECB reference values considered consistent with achievement of its inflation target over the medium term.

The day ahead in the euro area

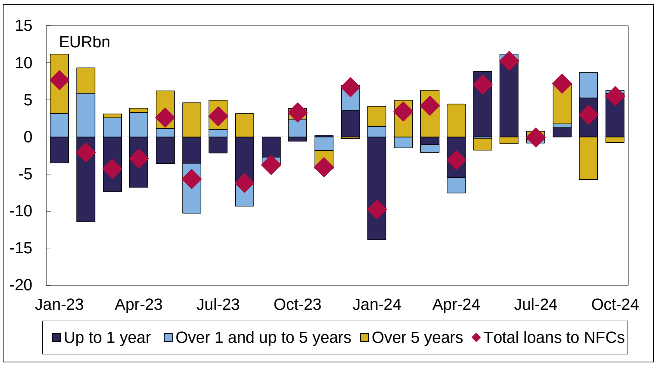
The euro area highlight at the end of the week will be the aforementioned flash HICP inflation estimates for November, which are widely anticipated to rise for a second month due to higher energy prices. We therefore expect headline inflation to edge up 0.2ppt to 2.2%Y/Y. While the energy component is likely to be the main driver of November's rise, unfavourable base effects in non-energy industrial goods and services could also exert upward pressure on core inflation, which we forecast to rise 0.1ppt to 2.8%Y/Y. Separately, despite the pickup in consumer 12-month inflation expectations reported in today's Commission survey, the ECB's consumer survey will likely suggest that medium-term inflation expectations remain well-anchored close to the 2% target. Meanwhile, ahead of next week's aggregate euro area retail sales data for October, Friday's releases from the member states (Germany, Spain and France) will likely signal that consumer spending eased at the start of Q4 following a surprisingly strong pick-up in September. In addition, tomorrow's German labour market numbers will provide insights into jobless claims and job vacancies in November.

Euro area: Net new lending to NFCs*



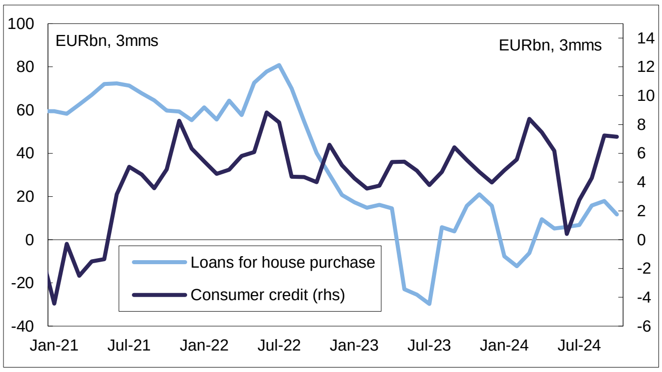
*Adjusted basis. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Net new lending to NFCs by maturity*



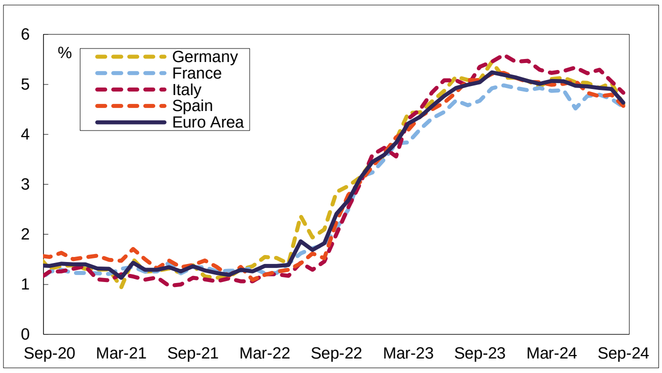
*Unadjusted basis. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loans to households



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Interest rate on new loans to NFCs



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK

The day ahead in the UK

On an otherwise quiet end to the week for UK data, Friday will bring bank lending figures for October. Demand for credit is expected to edge up over coming quarters, as suggested by the BoE's latest quarterly Credit Conditions Survey, as gradual easing in Bank Rate feeds through into less restrictive borrowing conditions. Certainly, recent rounds of the money and credit report have noted a steady recovery in mortgage lending. But whilst mortgage approvals rose to a two-year high at the end of September (65.7k), greater caution ahead of the government's budget announcement at the end of October as well as a recent rise in interest rates on new mortgage deals might well have led to a dip in approvals last month.

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area	Final Commission consumer confidence indicator	Nov	**-13.7**	*-13.7*	-12.5	-
	Commission economic sentiment indicator	Nov	**95.8**	95.2	95.6	95.7
	Commission industrial (services) confidence indicator	Nov	**-11.1 (5.3)**	-13.0 (6.5)	-13.0 (7.1)	-12.6 (6.8)
	M3 money supply Y/Y%	Oct	**3.4**	3.4	3.2	-
Germany	Preliminary HICP (CPI) Y/Y%	Nov	**2.4 (2.2)**	2.6 (2.3)	2.4 (2.0)	-
Italy	ISTAT consumer confidence indicator	Nov	**96.6**	97.4	97.4	-
	ISTAT business (manufacturing) confidence indicator	Nov	**93.1 (86.5)**	- (85.0)	93.4 (85.8)	-
	PPI Y/Y%	Nov	**-3.8**	-	-2.7	-
Spain	Preliminary HICP (CPI) Y/Y%	Nov	**2.4 (2.4)**	2.4 (2.3)	1.8 (1.8)	-

Auctions

Country	Auction
Italy	sold €3.25 of 3% 2029 bonds at an average yield of 2.79%
	sold €1.5 of 2032 floating bonds at an average yield of 4.08%
	sold €1.5 of 2.45% 2033 bonds at an average yield of 3.16%
	sold €2 of 3.8% 2035 bonds at an average yield of 3.39%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ *Daiwa forecast*	Previous
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	*2.2 (2.8)*	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	*0.4 (1.3)*	0.2 (1.0)
	07.45	Consumer spending M/M% (Y/Y%)	Oct	-	0.1 (-0.1)
	07.45	Final payrolls (private sector) Q/Q%	Q3	- (-0.1)	0.0 (-0.1)
	07.45	PPI Y/Y%	Oct	-	-7.0
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	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)

Auctions and events

Country	GMT	Event
UK	10.30	BoE to publish Financial Stability Report

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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