

Euro wrap-up

Overview

- Bunds made gains as the flash headline estimate of euro area inflation in November rose but the core rate was unchanged, while German and French spending indicators fell back in October.
- Gilts also made gains despite a jump in UK mortgage approvals.
- French political and fiscal tensions will remain a key focus of the coming week, which will also bring updates on euro area unemployment, German IP and factory orders, and a possible revision to euro area GDP in Q3.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	1.946	-0.044
OBL 2½ 10/29	1.932	-0.037
DBR 2.6 08/34	2.093	-0.031
UKT 4½ 01/27	4.231	-0.038
UKT 4½ 07/29	4.094	-0.050
UKT 4½ 07/34	4.246	-0.028

*Change from close as at 4:00pm GMT.

Source: Bloomberg

Euro area

Headline inflation rises back above ECB target to a 4-month high, but core rate unchanged

While yesterday's German figures surprised on the downside, today's flash euro area estimate of consumer price inflation in November aligned with the consensus expectation of a rise of 0.3ppt to a four-month high of 2.3%Y/Y. Despite the pickup in that headline HICP measure, the limited detail published today gave no cause to fear that the underlying disinflation process has shifted into reverse. The ECB will certainly not be surprised to see that the energy component was the main cause of the rise in inflation in November. With prices of auto fuel, and probably also household utilities, up this month in contrast to the marked declines a year ago, energy inflation jumped a chunky 2.7ppts to a four-month high (-1.9%Y/Y). In contrast, inflation of food, alcohol and tobacco moderated 0.1ppt to 2.8%Y/Y. And while inflation of non-energy industrial goods rose 0.2ppt to a four-month high (0.7%Y/Y), services inflation reversed the slight rise in October to fall back to 3.9%Y/Y. So, euro area core inflation was unchanged at 2.7%Y/Y for a third successive month.

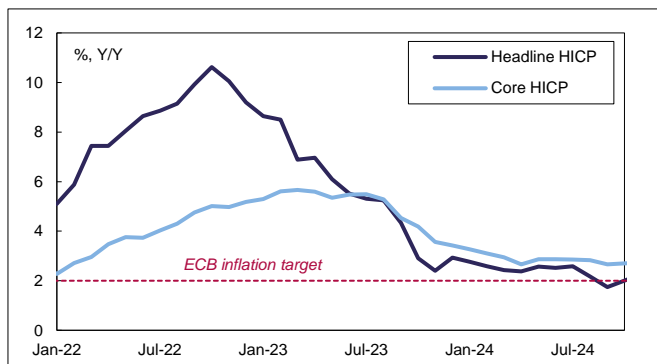
Services price-setting behaviour now consistent with an early return of inflation to target

A closer look at the core components suggested that underlying disinflation continues, with price-setting behaviour very much consistent with a return of headline inflation to target in the course of next year. On a seasonally-adjusted basis, prices of non-energy industrial goods rose 0.1%M/M to be up just 0.7%3M/3M annualised and suggest that core goods price pressures remain minimal in an environment of weak demand and intensified global competition, not least from China. Moreover, despite evidence of a continued uptrend in insurance, prices of consumer-facing activities appear to have softened. Indeed, on a seasonally-adjusted basis, services prices fell in November on the month (admittedly just 0.1%M/M) for the first time in more than 3½ years. And while that likely in part reflects softness in the typically volatile package tour component, on a three-month annualised basis services inflation moderated 0.9ppt to a ten-month low of just 2.6%. While extreme weather events have pushed the recent trend in fresh food prices significantly higher (7.7%3M/3M annualised), the seasonally-adjusted trends in both core (1.9%3M/3M annualised) and headline inflation (1.6%3M/3M annualised) are now consistent with a return back to target by the spring.

Inflation on track to undershoot the ECB's projection to support case for concerted easing

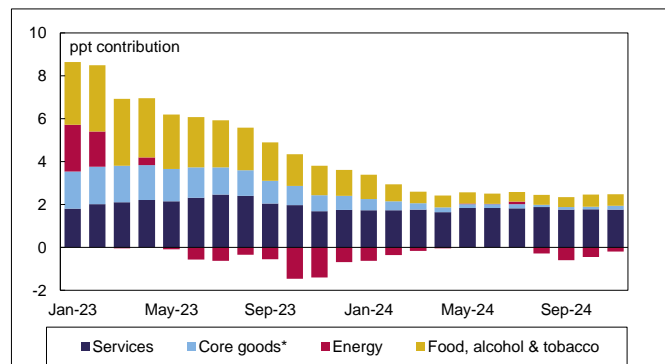
Notably perhaps, both headline and core rates are on track this quarter to undershoot the ECB's September projections. So, we expect its updated projections next month to bring forward the point at which the Governing Council expects inflation to return to target, and also to flag the increased downside risks that inflation might undershoot the target over the medium term. So, while we expect euro area HICP inflation to rise a little further to about 2½%Y/Y in December to reduce the

Euro area: Headline & core inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Contributions to headline inflation



*Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

likelihood of a jumbo rate cut, the ECB is bound to ease policy next month and probably again at each meeting in Q125. The extent of weakness in economic activity thereafter will likely play a key role in determining the pace of easing from Q2 on and also whether the Governing Council eventually pushes policy into accommodative territory (which might require a sub-2.0% deposit rate) or merely takes it to a broadly neutral stance.

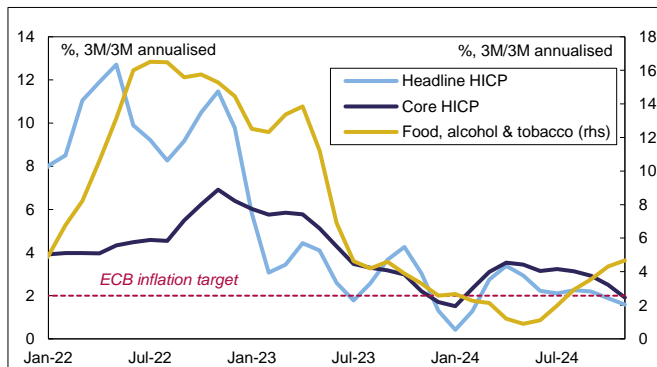
German retail sales maintain sideways trend despite falling sharply in October

While savings remained high, German household spending picked up in Q3 thanks to rising real disposable incomes and somewhat firmer consumer confidence. Indeed, private consumption rose 0.3%Q/Q, providing a positive contribution to GDP growth for just the second quarter out of the past six, with expenditure up on goods and services alike. However, having risen in the previous four months, retail sales fell back sharply in October, down 1.5%M/M, the most in two years. The weakness was led by a drop in core sales – i.e. non-food and non-fuel items – which fell more than 2%M/M, while spending on auto fuel (-3.2%M/M) also declined due perhaps to a rise in petrol prices. Admittedly, given the strength over the summer, the decline in sales in October still left them up 0.8%3M/3M and broadly in line with Q3 average. And with household purchase intentions remaining broadly stable, we are more likely to see a pause rather than slump in spending over Q4 as a whole.

Spending likely to be restrained by ongoing downtrend in job vacancies

While some strong pay settlements in Q3 should provide some further support to spending into the New Year, the outlook remains underwhelming not least due to increasing signs of less favourable adjustments in Germany's labour market. Indeed, overall German wage growth slowed for a second successive quarter in Q3, to 4.9%Y/Y in nominal terms and 2.9%Y/Y in real terms, down 1½ppts and 1ppt from the respective peaks. And while employment was little changed on the month in October (46.08mn), this was still some 45k below the level three months earlier and just 3k higher than a year ago, the softest annual rise since April 2021. Moreover, given the ongoing downtrend in job vacancies – which in November fell a further 7k to 667k, some 200k below the peak and more than 100k below the average in the year before the pandemic – and eye-catching news headlines and surveys alike flagging firms' intentions to cut headcount, we expect German employment to fall and the unemployment rate to continue to rise gradually over coming quarters, which will further weigh on pay growth and restrain willingness to spend.

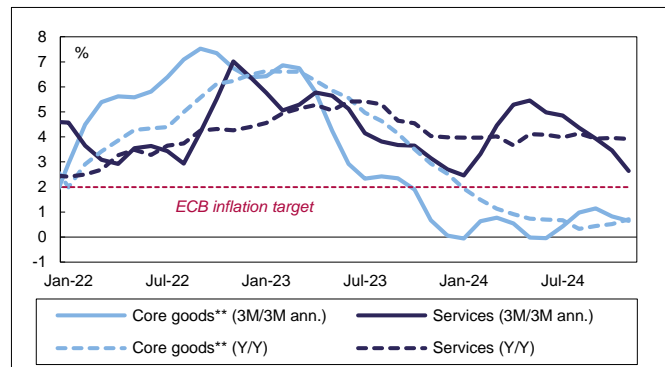
Euro area: Inflation momentum*



*Seasonally adjusted data.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

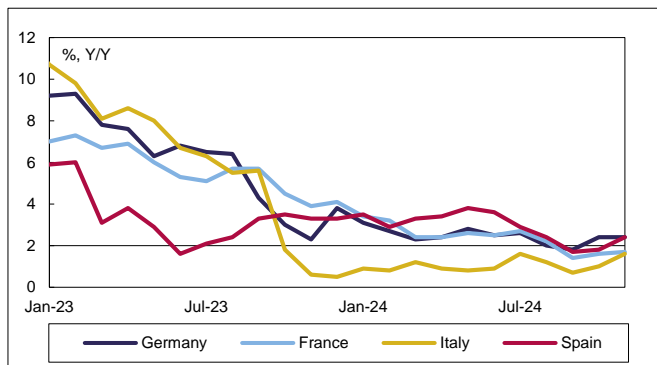
Euro area: Core inflation momentum*



*Seasonally adjusted data. **Non-energy industrial goods.

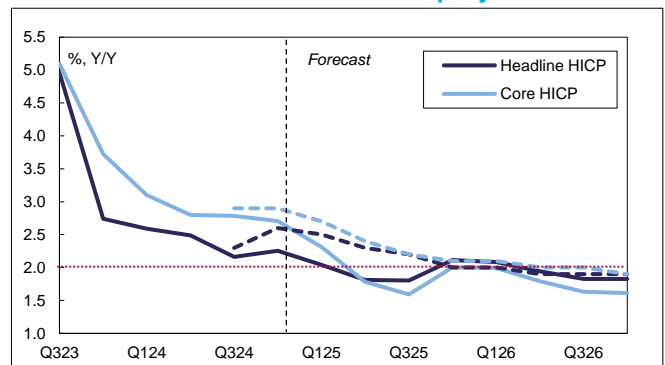
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: HICP inflation in selected member states



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: ECB & Daiwa inflation projections*



*Solid lines represent Daiwa's projections & dashed lines represent the ECB's September projections. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

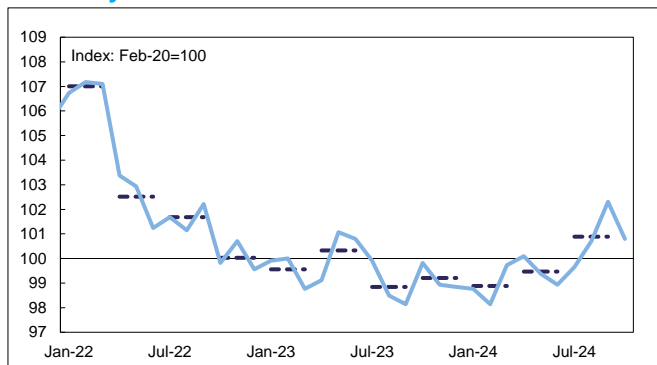
French consumption slips back as political & fiscal uncertainties intensify

As in Germany, today's French data suggested a softening in consumer spending at the start of Q4. In particular, French consumption of goods also fell for the first month in five, by 0.4%M/M. While spending on food rebounded in October (1.2%M/M), expenditure on clothing (-5.1%M/M) largely reversed the jump in September with spending on second-hand cars also down for a second successive month. Overall, however, like in Germany, this left expenditure on goods only marginally below the Q3 average. But with private consumption growth of 0.6%Q/Q in Q3 in part flattered by the impact of the Paris Olympics, and political uncertainty and associated OAT market risks now elevated, we expect French household expenditure growth to be absent over Q4 as a whole. Indeed, while Prime Minister Barnier yesterday made a key concession – the abandonment of plans to raise tax on electricity bills – to the far-right RN party which holds the largest share of seats in the National Assembly, its leader Marine Le Pen continues to threaten to withhold support for the government's budget. And she continues to threaten to back a December vote of no confidence if her further demands – for an inflation-indexed increase in pensions, moratorium of tax hikes on most individuals and ring-fencing of drug reimbursements – are not met. Certainly, the debate over the French budget, and its implications for the future of the Barnier government and OATs, will be the key focus of the coming week, when a first vote of no confidence might be held.

The week ahead in the euro area

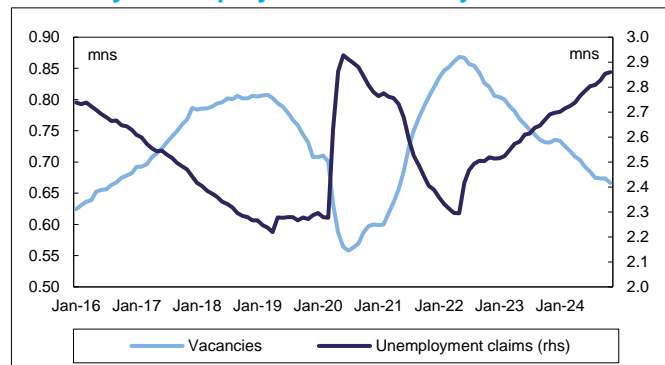
The week ahead will again be relatively busy for euro area data, starting with the region's jobless report (Monday). Reassuringly perhaps, the euro area unemployment rate should remain stable around its historical low of 6.3% in October. Nevertheless, the final estimate of euro area GDP for Q3 (Friday), which will include a first breakdown of contributions by expenditure components, could bring a downward revision from the surprisingly strong preliminary 0.4%Q/Q estimate. Certainly, we would attach a non-negligible probability to this case, particularly in light of the downward revision to growth last quarter in Germany (down 0.1ppt to 0.1%Q/Q), which saw a larger than anticipated drag from net trade and inventories. Any late revisions to Q3 growth for Italy (due Monday) and Ireland (Thursday), the latter of which has historically been prone to very sizable adjustments from one estimate to the next, could also have an impact on the aggregate euro figure at the margin. Nonetheless, Friday's estimate is widely expected to show that private and government consumption contributed positively to Q3 growth, consistent with the results of the member states as well as the firmer-than-expected pick-up in retail sales (0.9%3M/3M) observed over the same period. Of course, looking ahead, today's data and recent surveys suggest that consumer spending in the euro area most likely fell at the start of Q4 (Thursday).

Germany: Retail sales volumes*

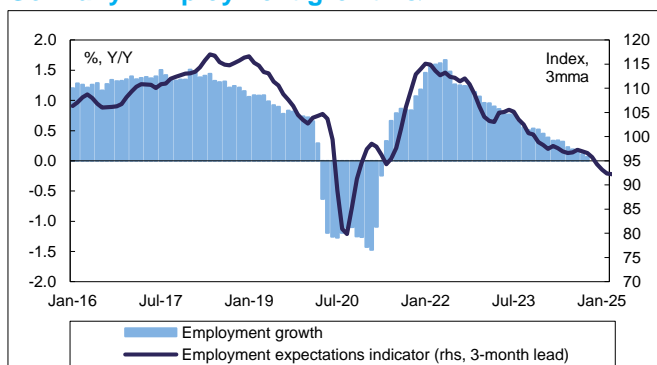


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Unemployment claims & job vacancies

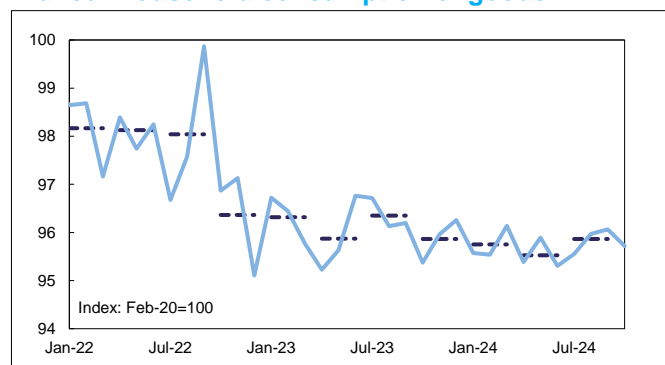


Germany: Employment growth & EEI



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

France: Household consumption of goods*



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Aside from the aggregate euro area releases, the week ahead will also bring October industrial production data for Germany (Thursday), France and Spain (Friday). German manufacturing orders (Wednesday), which will provide an important prelude into Thursday's release, will most likely reveal a non-negligible fall back in factory orders in October after the strong performance in September (4.2%M/M) was extremely flattered by a likely uptick in large-scale orders for transport equipment. That temporary burst of demand, however, may also provide some welcome relief for output in October, which should regardless be due some positive payback following the weak performance at the end of Q3 (-2.5%M/M). Nonetheless, with German IP still more than 10% below its pre-pandemic levels and with business sentiment surveys such as the PMIs pointing towards continued deterioration in Q4, the outlook for the industrial sector remains skewed to the downside. November's final manufacturing PMIs (Monday) are set to confirm that euro area manufacturing conditions remained consistent with contraction this month, consistent with the flash release. The final services, composite (Wednesday) and construction (Thursday) PMIs are also due in the coming week, with last week's flash euro area composite index having flagged a broader deterioration in conditions in November.

UK

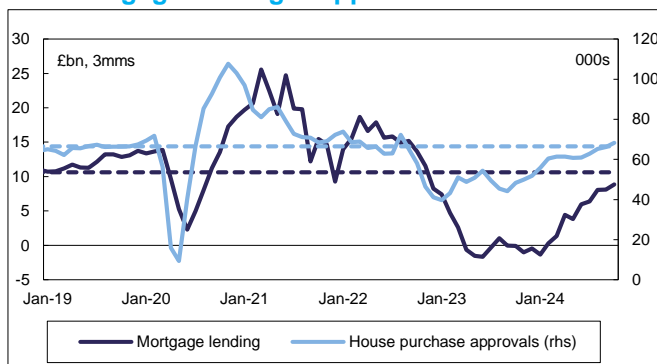
Mortgage approvals jump to more than 2-year high, but consumer credit continues to slow

Contrary to expectations, today's BoE lending figures reported a notable pickup in mortgage lending in October. In particular, the net increase in mortgage loans of £3.4bn was the largest in more than two years and back close to the long-run average. And the jump in the number of new mortgage approvals last month – to an above-average 68.3k, the highest since August 2022 – suggests that mortgage lending will continue to rise over coming months. Mortgage lending has been supported by a gradual decline in interest rates, with the average new rate on a 2Y mortgage with a 75% LTV ratio down around 75bps between May and October this year and some 180bps lower than the peak in 2023. However, amid the market repricing of expectations for Bank Rate related in part to the government's fiscal policy plans, 2Y swap rates rose more than 50bps from the trough in September to mid-November, leading to a pickup in interest rates on new mortgage deals over the past month. And while sterling swap rates have recently moderated, we might well see a temporary drop in mortgage demand heading into year-end. Separately, still-elevated borrowing costs, weaker consumer confidence and an ongoing preference to save continues to limit demand for consumer credit. Indeed, the net increase in unsecured lending (£1.1bn) remained relatively subdued by historical standards in October, pushing down the annual growth rate in the stock of such loans down to a 21-month low of 7.3%Y/Y.

The week ahead in the UK

With another relatively quiet week ahead for UK data releases, November's final PMIs will arguably be the most notable after the flash release implied that firms were more downbeat amid an increasingly uncertain outlook. And with the flash composite index pointing towards a marginal contraction (49.9) in November – its sharpest single-month decline in little more than 12 months, and precipitated by a 2ppt slowdown in the services sector (50.0) – the release was broadly consistent with a broader stagnation in activity in the middle of Q4. Thursday's construction PMI will also provide insight into that sector. Policymakers will also surely take interest in the November BoE Decision Maker Panel survey (also due Thursday) after recent rounds encouragingly pointed towards ongoing moderation in agents' price expectations. And with inflation expectations seemingly well-anchored close to the 2% target, which the MPC see as an important precondition for moderating wage and price pressures in the medium term, policymakers will be keen to see for insights as to whether last month's government budget measures will have implications for firms' future price-setting behaviour. Meanwhile, after this week's CBI survey added to concerns about weaker consumer demand in the run-up to the festive season, the BRC retail survey (Tuesday) will provide another perspective on activity on the high street in the middle of Q4. The Nationwide house price index for November (Monday) is also due at the start of the week.

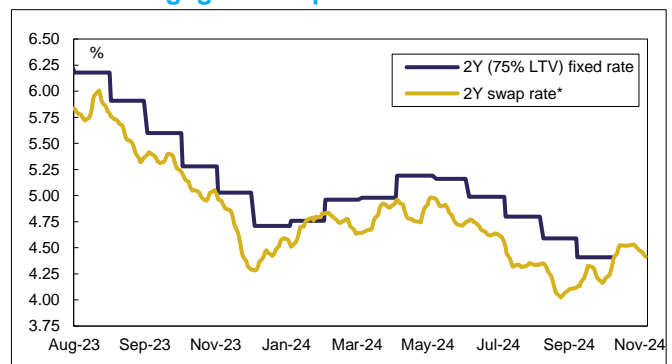
UK: Mortgage lending & approvals*



*Dashed lines represent long-run average.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.










UK: 2Y mortgage & swap rates



*5-day moving average.














Source: Macrobond and Daiwa Capital Markets Europe Ltd.

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	0.2	0.2	0.2	0.8	0.9	1.2
UK 	0.5	0.1	0.2	0.3	0.3	0.3	0.9	1.1	1.3
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.5	2.2	2.3	2.0	1.8	1.8	2.4	1.9	1.9
Core HICP 	2.8	2.8	2.8	2.4	1.9	1.7	2.9	2.0	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	2.00	3.00	2.00	2.00
Refi Rate 	4.25	3.65	3.15	2.65	2.40	2.15	3.15	2.15	2.15
BoE									
Bank Rate 	5.25	5.00	4.75	4.50	4.25	4.00	4.75	3.75	3.25

Source: Bloomberg, ECB, BoE 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 headline (core) HICP Y/Y%	Nov	2.3 (2.7)	<u>2.3 (2.8)</u>	2.0 (2.7)	-	
	ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Oct	2.5 (2.1)	2.3 (2.1)	2.4 (2.1)	-	
Germany 	Retail sales M/M% (Y/Y%)	Oct	-1.5 (3.6)	-0.5 (3.3)	1.2 (0.9)	1.6 (1.4)	
	Unemployment rate % (change 000s)	Nov	6.1 (7)	6.1 (15)	6.1 (27)	-(26)	
France 	Preliminary HICP (CPI) Y/Y%	Nov	1.7 (1.3)	1.8 (1.4)	1.6 (1.2)	-	
	GDP – final estimate Q/Q% (Y/Y%)	Q3	0.4 (1.2)	<u>0.4 (1.3)</u>	0.2 (1.0)	-	
	Consumer spending M/M% (Y/Y%)	Oct	-0.4 (0.4)	-	0.1 (-0.1)	-	
	Final payrolls (private sector) Q/Q%	Q3	0.2 (0.1)	-	0.0 (-0.1)	-0.1 (-)	
	PPI Y/Y%	Oct	-5.7	-	-7.0	-6.9	
Italy 	Preliminary HICP (CPI) Y/Y%	Nov	1.6 (1.4)	1.4 (1.4)	1.0 (0.9)	-	
Spain 	Retail sales Y/Y%	Oct	3.5	3.7	4.1	4.2	
UK 	Net consumer credit £bn (Y/Y%)	Oct	1.1 (7.3)	1.3 (-)	1.2 (7.5)	-	
	Net mortgage lending £bn (mortgage approvals 000s)	Oct	3.4 (68.3)	2.7 (64.5)	2.5 (65.6)	2.6 (66.1)	
Auctions							
Country	Auction	- Nothing to report -					

Source: Bloomberg 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 2 December 2024						
Euro area		09.00	Final manufacturing PMI	Nov	<u>45.2</u>	46.0
		10.00	Unemployment rate %	Oct	6.3	6.3
Germany		08.55	Final manufacturing PMI	Nov	<u>43.2</u>	43.0
France		08.50	Final manufacturing PMI	Nov	<u>43.2</u>	44.5
Italy		08.45	Manufacturing PMI	Nov	46.0	46.9
		09.00	GDP – final estimate Q/Q% (Y/Y%)	Q3	<u>0.0 (0.4)</u>	0.2 (0.9)
Spain		08.15	Manufacturing PMI	Nov	54.0	54.5
UK		00.01	Lloyds business barometer	Nov	40 (-)	44 (61)
		07.00	Nationwide house price index M/M% (Y/Y%)	Nov	0.2 (2.4)	0.1 (2.4)
		09.30	Final manufacturing PMI	Nov	<u>48.6</u>	49.9
Tuesday 3 December 2024						
France		07.45	Budget balance YTD €bn	Oct	-	-173.8
Spain		08.00	Unemployment (employment) net change 000's	Nov	-	26.8 (67.8)
UK		00.01	BRC retail sales monitor – like-for like sales Y/Y%	Nov	0.6	0.3
Wednesday 4 December 2024						
Euro area		09.00	Final composite (services) PMI	Nov	<u>48.1 (49.2)</u>	50.0 (51.6)
		10.00	PPI Y/Y%	Oct	-3.3	-3.4
Germany		08.55	Final composite (services) PMI	Nov	<u>47.3 (49.4)</u>	48.6 (51.6)
France		08.50	Final composite (services) PMI	Nov	<u>44.8 (45.7)</u>	48.1 (49.2)
Italy		08.45	Composite (services) PMI	Nov	49.7 (51.2)	51.0 (52.4)
Spain		08.15	Composite (services) PMI	Nov	53.8 (53.4)	55.2 (54.9)
UK		09.30	Final composite (services) PMI	Nov	<u>49.9 (50.0)</u>	51.8 (52.0)
Thursday 5 December 2024						
Euro area		08.30	Construction PMI	Nov	-	43.0
		10.00	Retail sales M/M% (Y/Y%)	Oct	-0.4 (1.7)	0.5 (2.9)
Germany		07.00	Factory orders M/M% (Y/Y%)	Oct	-2.0 (1.3)	4.2 (1.0)
		08.30	Construction PMI	Nov	-	40.2
France		07.45	Industrial production M/M% (Y/Y%)	Oct	0.3 (-0.1)	-0.9 (-0.6)
		08.30	Construction PMI	Nov	-	42.2
Italy		08.30	Construction PMI	Nov	-	48.2
Spain		08.00	Industrial production M/M% (Y/Y%)	Oct	-	0.5 (0.6)
		08.00	House price index Q/Q% (Y/Y%)	Q3	-	3.6 (7.8)
UK		09.00	New car registrations Y/Y%	Nov	-	-6.0
		09.30	DMP 3M output price (1Y CPI) expectations %	Nov	3.5 (2.6)	3.5 (2.5)
		09.30	Construction PMI	Nov	53.5	54.3
Friday 6 December 2024						
Euro area		10.00	GDP – final estimate Q/Q% (Y/Y%)	Q3	<u>0.4 (0.9)</u>	0.2 (0.6)
		10.00	GDP – household consumption Q/Q%	Q3	-	0.1
		10.00	GDP – government expenditure Q/Q%	Q3	-	0.9
		10.00	GDP – fixed investment Q/Q%	Q3	-	-2.5
		10.00	Final employment Q/Q% (Y/Y%)	Q3	<u>0.2 (1.0)</u>	0.1 (0.9)
Germany		07.00	Industrial production M/M% (Y/Y%)	Oct	1.0 (-3.3)	-2.5 (-4.6)
		07.00	Trade balance €bn	Oct	15.7	16.9
France		07.45	Trade balance €bn	Oct	-	-8.3

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 2 December 2024		
- Nothing to report -		
Tuesday 3 December 2024		
Germany 	10.30	Auction: to sell €4.5bn of 2% 2026 bonds
UK 	10.00	Auction: to sell £2.25bn of 4.375% 2054 bonds
Wednesday 4 December 2024		
Euro area 	13.30	ECB President Lagarde testifies before Committee on Economic and Monetary Affairs in the European Parliament
Germany 	10.30	Auction: to sell €3.5bn of 2.6% 2034 bonds
UK 	09.00	BoE Governor Bailey speaks in pre-recorded interview for Financial Times conference
UK 	10.00	Auction: to sell £4bn of 4% 2031 bonds
Thursday 5 December 2024		
France 	09.50	Auction: to sell up to €5bn of 4% 2038, 0.5% 2040, 1.5% 2050 & 0.5% 2072 bonds
Italy 	11.00	ISTAT to publish economic outlook for 2024/25
Spain 	09.30	Auction: to sell 2.7% 2030 & 3.45% 2034 bonds
UK 	17.00	BoE external MPC member Greene speaks on panel at Financial Times conference
Friday 6 December 2024		
- Nothing to report -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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