Euro wrap-up

Overview

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- Bunds made gains while OATs underperformed significantly as French Prime Minister Barnier invoked a constitutional rule to force through his social security bill, raising the prospect of a no-confidence vote later this week.
- Gilts made gains even as UK house price growth accelerated the most in more than two years.
- While focus will remain firmly on French politics, the coming two days will bring final November services PMIs and a UK retail survey.

Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	1.887	-0.052
OBL 2½ 10/29	1.865	-0.057
DBR 2.6 08/34	2.030	-0.055
UKT 4⅛ 01/27	4.197	-0.029
UKT 4⅛ 07/29	4.066	-0.022
UKT 4¼ 07/34	4.210	-0.029

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

Euro area

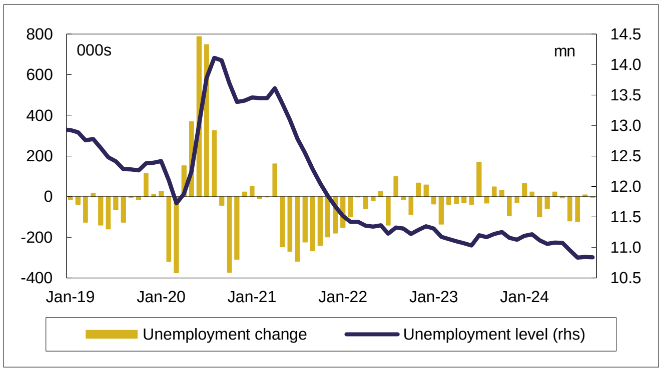
French political crisis intensifies as no-confidence vote against Barnier government approaches

The French political crisis appeared to come to a head today, as the minority Barnier government withdrew plans for a vote on its social security budget. Instead, facing opposition from far-right and left-wing parties alike to his financing bill, the Prime Minister chose to push his draft legislation through the parliament's lower house by invoking Article 49.3 of the French Constitution. Two further finance bills, including the main 2025 budget legislation, had been scheduled to be voted on by the lower house between now and the third week of December. But today's use of Article 49.3 to drive through the social security bill gives the green light to opposition parties to table a motion of no confidence against the government within 24 hours, allowing for a vote on the Barnier government's future as soon as Wednesday. If that motion is passed by a majority in the lower house, the social security finance law would be rejected and the government would be able to remain in office only in a temporary caretaker capacity until President Macron can find an alternative. The prospect of such a scenario looks likely as the far-right Rassemblement National (RN) of Marine Le Pen confirmed its intention to join left-wing parties in backing a no-confidence measure, not least given Barnier's refusal to further amend his proposals to index pensions in 2025 below the rate of inflation. And so, with no new elections to the lower house possible before next summer, French fiscal inertia and political paralysis look set to continue for several months to come.

Unemployment rate still steady at series low despite weakening growth outlook

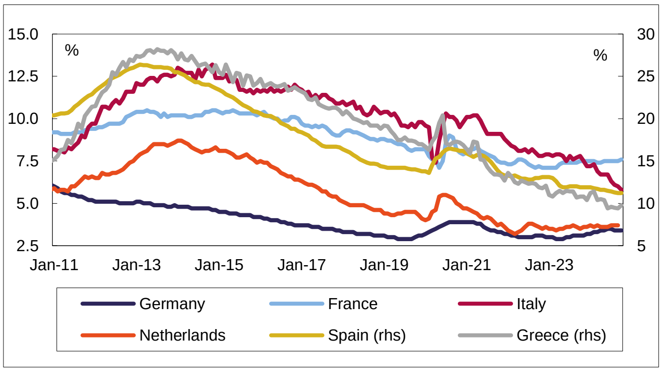
While attention today rightly remained on the French National Assembly, the euro area data-flow remained mixed. Reassuringly perhaps, the latest joblessness figures provided a reminder that the labour market continues to be broadly resilient despite the recent loss of economic growth momentum. Indeed, the number of people registered out of work fell in October for the fourth month out of the past five, albeit by just 3k. That took the cumulative decline in joblessness since February to a non-negligible 376k. As a result, the euro area unemployment rate remained for a third successive month at the series low of 6.3%, down 0.3ppt from a year earlier and 1.2ppt below the pre-pandemic level. Among the large member states, an increase in France (to a 2½-year high of 7.6%) was offset by a further decline in Italy (to 5.8%, to match the series low only previously registered in early 2007). Elsewhere, unemployment rates on the harmonised measure were unchanged in Germany (up 0.3ppt from a year ago at 3.4%), Spain (matching September's 16-year low of 11.2%) and the Netherlands (up just 0.1ppt from a year ago at 3.7%).

Euro area: Unemployment level & change



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Unemployment rate by member state



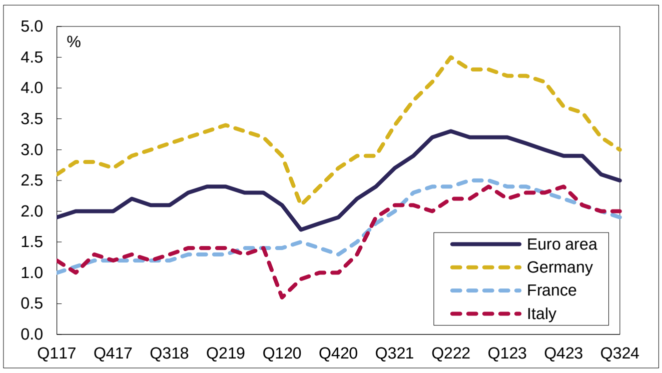
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Declining job vacancy rate suggests labour market tightness has significantly diminished

While the euro area unemployment rate remains low and stable, as in other major economies, the softening of the labour market is being reflected in a declining job vacancy rate, which fell in Q3 to a 14-quarter low of 2.5%, 0.5ppt down from a year earlier. So, the vacancy-to-unemployment ratio fell in Q3 to a three-year low, suggestive of a labour market that is no longer particularly tight. Indeed, with less urgency to hoard workers, and survey indicators and news headlines pointing to a growing desire of firms – particularly in the factory and retail sectors – to cut headcount, we still anticipate a modest pickup in the euro area unemployment rate to around 6½% over coming quarters. Today's final manufacturing PMIs for November were a case in point. The euro area manufacturing employment PMI fell 1pt on the month to just 45.2, the lowest since the first wave of Covid-19 and the euro crisis and global financial crisis before then, with the national indices for Germany, France and Italy firmly in job-shedding territory. A gradual pickup in labour slack should steadily weigh on wage settlements over coming quarters, returning pay growth to levels consistent with the sustained return of inflation to (or below) the ECB's target over the horizon.

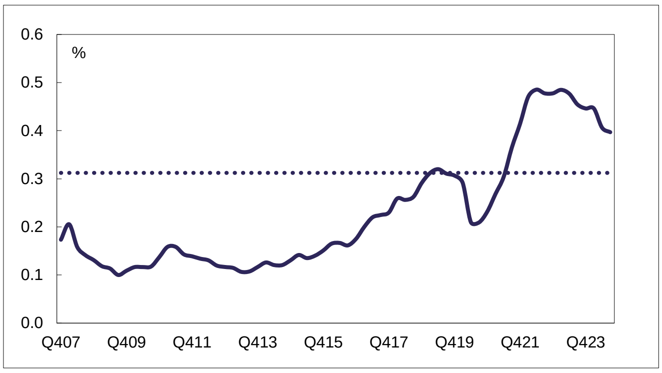
The coming two days in the euro area

Euro area: Job vacancy ratios by member state



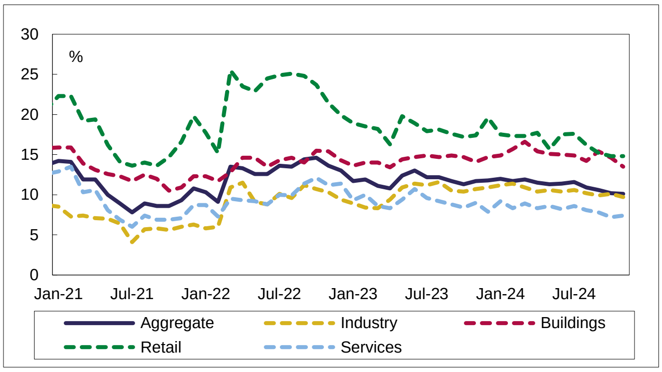
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Job vacancy to unemployment ratio*



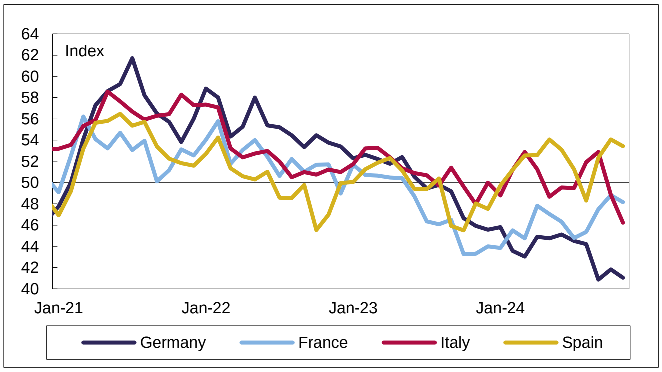
**Dotted line represents average in 2019.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Share of firms hoarding labour



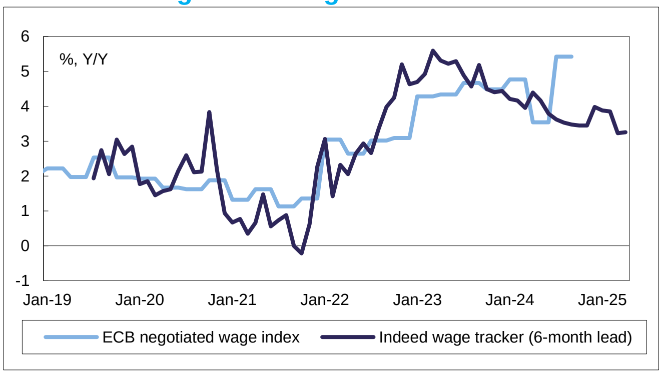
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing employment PMIs



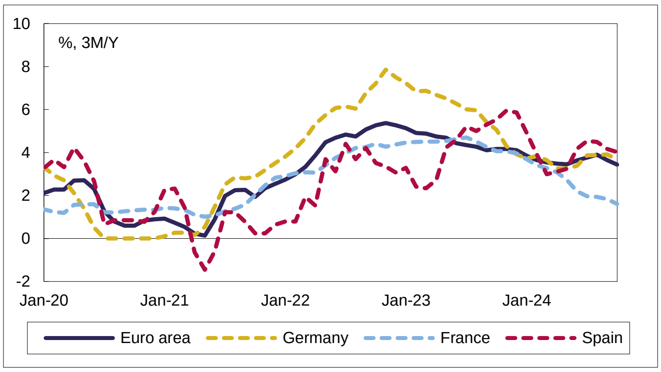
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Negotiated wages & Indeed tracker



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Indeed wage trackers



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

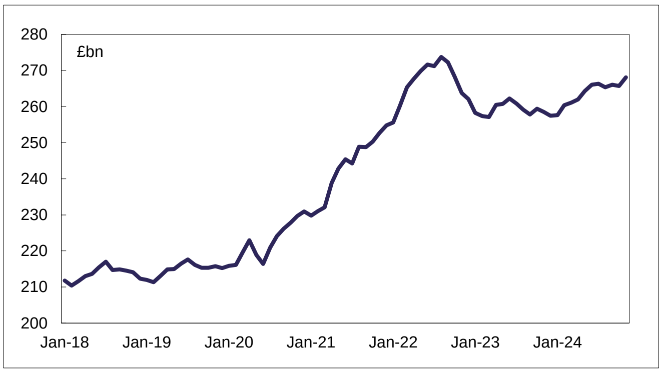
French political events will remain the principal focus the foreseeable future with investors now anticipating a vote of no confidence in the Barnier government as soon as Wednesday. In terms of other economics news, Tuesday will be a relatively quiet day in the euro area. And Wednesday's events beyond France include ECB President Lagarde's quarterly update on economic and monetary policy developments to the European Parliament's Economic and Monetary Policy Committee (ECON). In terms of economic data, meanwhile, Wednesday will bring the final euro area composite and services PMIs for November. The flash composite PMI signalled that euro area economic activity slipped back into contractionary territory in November (down 1.9pts to 48.1), driven by the weakest performance in services activity since January. Euro area producer price figures are also due, although in line with signals from business surveys such as the PMIs, the absence of underlying input price pressures should result in another soft reading for October despite higher energy prices.

UK

House prices rise at strongest annual pace for two years

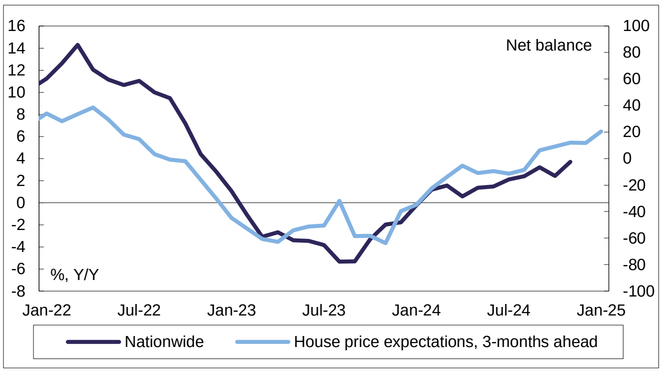
While surveys suggest a further loss of UK economic momentum in Q4, the recovery in the housing market seemingly remains intact, benefitting from lower borrowing costs, low levels of unemployment and a recovery in household disposable incomes. According to today's Nationwide report, house prices rose for a sixth month out of the seven in November and by a stronger-than-expected 1.2%M/M, the most since March 2022. This took the average house price up to £268k, the highest for more than two years, some 3.7% higher than a year earlier, more than 5% above the trough in September 2023 and just 1% below the peak in August 2022. While the recent RICS survey suggested a lull in new buyer enquiries in October ahead of the government's budget announcements, other indicators point to a further improvement in housing market activity. Certainly, the jump in mortgage approvals in October – to an above-average level of 68.3k – points to a further pickup in mortgage lending over coming months and ongoing support for house prices over the near term. And an upcoming change to stamp duty from April will likely see a flurry of activity in the housing market at the turn of the year as people aim to bring forward house purchases to avoid paying higher taxes. However, the recent pickup in interest rates on new mortgage deals over the past month to reflect the market's repricing of the future path of Bank Rate might well act as a constraint on house prices further ahead, not least given that housing affordability – in terms of the ratios of mortgage payments to earnings and house prices to earnings – still remains historically stretched despite the moderation from the peak in 2023.

UK: Nationwide average house price



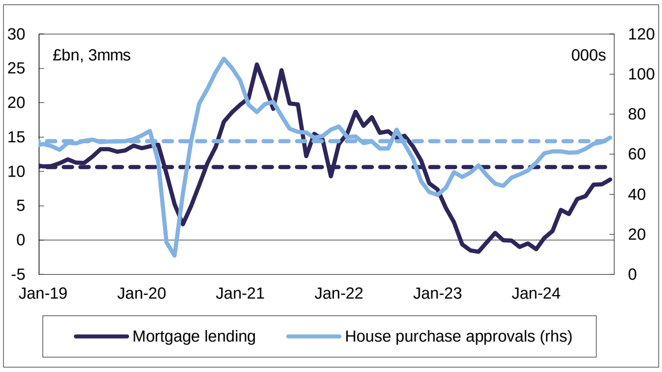
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: House price growth



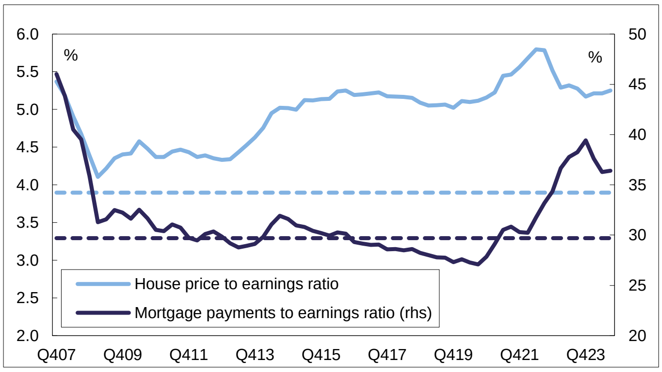
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Mortgage approvals and lending*



**Dashed lines represent pre-pandemic five-year average.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Measures of housing affordability*



**Dashed lines represent long-run averages.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The coming two days in the UK

Surveys will dominate the dataflow in the UK over the next two days, with the BRC retail monitor to provide another view of retail sector activity in November, after last week's CBI survey added to concerns about weaker consumer demand in the run-up to the festive season despite ongoing discounting by retailers. Meanwhile, Wednesday will bring final PMIs after November's flash release flagged a broad-based deterioration in activity in the middle of Q4. The composite output index experienced its sharpest drop in more than a year (down 1.9pts) to a 13-month low (49.9) consistent with stagnation, in part reflecting a notable slowing in services momentum, Given a sizeable downward revision to today's final manufacturing output index – by 1pt from the flash to a nine-month low of 48.3, with an even sharper drop in new orders (45.7) – there is a decent chance that the final composite indicator could point towards a slightly larger contraction. Aside from the data, a pre-recorded interview with BoE Governor Bailey will be shown at the Financial Times conference on Wednesday morning.

The next edition of the Euro wrap-up will be published on 04 December 2024

European calendar

Today's results

Economic data

Country		Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area		Unemployment rate %	Oct	**6.3**	6.3	6.3	-
		Final manufacturing PMI	Nov	**45.2**	*45.2*	46.0	-
Germany		Final manufacturing PMI	Nov	**43.0**	*43.2*	43.0	-
France		Final manufacturing PMI	Nov	**43.1**	*43.2*	44.5	-
Italy		GDP – final estimate Q/Q% (Y/Y%)	Q3	**0.0 (0.4)**	*0.0 (0.4)*	0.2 (0.9)	-
		Manufacturing PMI	Nov	**44.5**	46.0	46.9	-
Spain		Manufacturing PMI	Nov	**53.1**	54.0	54.5	-
UK		Final manufacturing PMI	Nov	**48.0**	*48.6*	49.9	-
		Lloyds business barometer	Nov	**41 (60)**	40 (-)	44 (61)	-
		Nationwide house price index M/M% (Y/Y%)	Nov	**1.2 (3.7)**	0.2 (2.4)	0.1 (2.4)	-

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/ *Daiwa forecast*	Previous
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

Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country		GMT	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Euro area		09.00	Final composite (services) PMI	Nov	*48.1 (49.2)*	50.0 (51.6)
		10.00	PPI Y/Y%	Oct	-3.3	-3.4
Germany		08.55	Final composite (services) PMI	Nov	*47.3 (49.4)*	48.6 (51.6)
France		08.50	Final composite (services) PMI	Nov	*44.8 (45.7)*	48.1 (49.2)
Italy		08.45	Composite (services) PMI	Nov	49.7 (50.6)	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	*49.9 (50.0)*	51.8 (52.0)

Auctions and events

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
		10.00	Auction: to sell £4bn of 4% 2031 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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