

Euro wrap-up

Overview

- Despite a pickup in German producer prices, Bunds made gains as the Commission's flash consumer confidence indicator deteriorated in December to an eight-month low.
- Gilts outperformed as the rebound in UK retail sales in November underwhelmed and the CBI survey suggested that sales remained unseasonably weak in December.
- After a quiet festive period, the first week of January will bring flash euro area inflation estimates for December, as well as November figures for euro area retail sales, German IP, and euro area and UK bank lending.

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Daily bond market movements

| Bond | Yield | Change |
|---------------|-------|--------|
| BKO 2 12/26 | 2.010 | -0.033 |
| OBL 2½ 10/29 | 2.076 | -0.033 |
| DBR 2.6 08/34 | 2.277 | -0.024 |
| UKT 4½ 01/27 | 4.350 | -0.062 |
| UKT 4½ 07/29 | 4.298 | -0.063 |
| UKT 4½ 07/34 | 4.513 | -0.063 |

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

Euro area

Consumer confidence in the euro area drops to an 8-month low but Italian business sentiment firms

The Commission's flash euro area consumer confidence index fell for a second successive month in December to an eight-month low (-14.5), moving further below the long-run average to end 2024 on a soft note. While we have yet to see national consumer sentiment indicators from all of the member states, we suspect that the deterioration was led by France, where heightened concerns about political and fiscal uncertainty have been matched with a deterioration in business sentiment to flag risks of a dip in economic activity in Q4. In contrast, while its headline index remained very low by historical standards, yesterday's German GfK survey reported a modest improvement in optimism regarding the outlook for the economy and personal incomes, perhaps related to hopes that February's federal election will lead to a more constructive economic policy. And encouragingly perhaps, the GfK survey also reported a slightly greater willingness of German households to spend. Meanwhile, despite a very modest third successive decline on the month amid increased pessimism regarding the economic outlook, the Italian ISTAT consumer confidence index remained above its long-run average. Italian consumer willingness to spend was little changed broadly in line with its long-run norm. Moreover, thanks to a rebound in services sentiment and firm retail confidence, the ISTAT business confidence index rose for the first month in three in December to a three-month high above the long-run average. So, despite a continued downtrend in the manufacturing sector to a historically low level, the survey pointed to a pickup in Italian economic activity towards year-end after a flat Q3 and soft start to Q4.

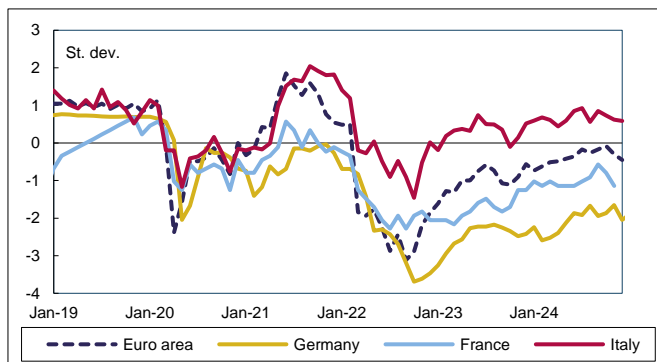
Lack of wind drives German producer price inflation back into positive territory

The adverse impact of the Dunkelflaute (dark doldrums) of windless cloudy weather on energy generation was a significant contributor to the ongoing downtrend in German [industrial production](#) in the autumn. Wind-generated electricity output fell a whopping 26%Y/Y in October to push overall German IP down to its lowest level since 2010 bar two months of the pandemic. With that weather having extended into the following month, wind-generated electricity output was down at a similar year-on-year rate in November, with consequences for factory-sector costs. Today's German industrial producer price figures reported a rise in electricity prices of 4.0%M/M in November, with natural gas prices up 1.1%M/M. As a result, industrial energy prices rose 1.8%M/M, the most in any month since September 2022, to push up the annual rate by 2.2ppts to -2.4%Y/Y, the highest since June 2023.

PPI momentum still soft despite pick up in food category

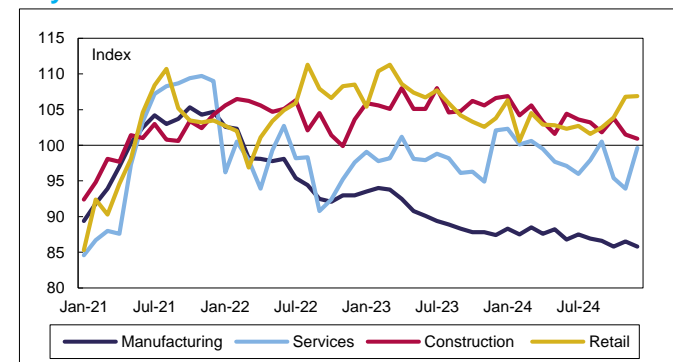
Among other PPI categories, a pickup in food costs in November contributed to higher producer consumer goods prices (0.4%M/M). So, while prices of capital goods were unchanged on the month and those of intermediate items fell, the rise in

Euro area: Consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: ISTAT business sentiment indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

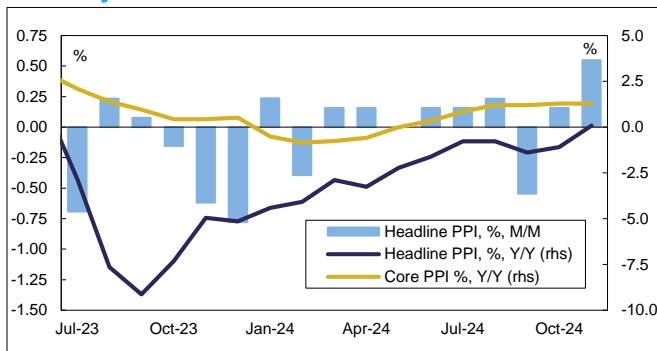
industrial producer prices of 0.55%M/M was also the highest since September 2022. And that pushed the annual rate of PPI inflation up 1.2ppts to 0.1%Y/Y, marking the first positive reading since June 2023. Excluding energy, core producer prices fell slightly on the month to be up 1.3%Y/Y, with prices of intermediate items up 0.4%Y/Y and capital goods up 1.9%Y/Y. Among consumer items, higher food prices pushed non-durable PPI inflation up to an 11-month high of 2.4%Y/Y. But inflation of consumer durables slipped back to just 0.9%Y/Y, slightly below the average for 2024 to-date. Despite higher prices of energy and food, PPI momentum weakened further in November at -0.2%3M/3M annualised, with core PPI momentum at -0.3% on the equivalent measure, due principally to the renewed negative trend in intermediate items. But momentum in consumer durables (0.9%) tallied with the pickup in core goods CPI momentum to a four-month high (0.7%) last month.

The coming few weeks in the euro area

Given the festive period, the next couple of weeks should be light on euro area economic news. Amongst the relatively thin data flow, November's monetary figures (2 Jan) will likely show that business lending remains sluggish given subdued fixed investment and relatively tight credit standards. The following week will mark a return to a more typical schedule for data releases, including December's flash euro area HICP inflation report (7 Jan). We expect the headline rate to tick upwards again in December, to around 2½%Y/Y. But importantly, core inflation should remain well-behaved – we project a fourth-consecutive side-step (2.7%M/M) – with underlying disinflation likely to maintain its recent trend. Likewise, the euro area unemployment rate (also 7 Jan) should remain unchanged in November at its historical low of 6.3%. As evidenced by today's member state releases, euro area producer prices (8 Jan) will register a steep increase in November due to the spike in electricity prices.

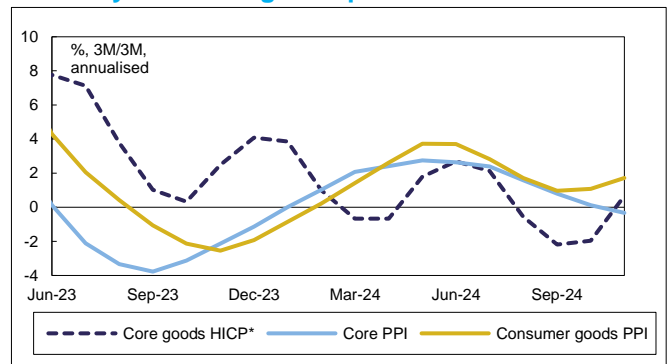
In the context of increasing downside risks to the euro area growth outlook, November's industrial production release for Germany (9 Jan, preceded by factory orders on 8 Jan) and the other core member states (10 Jan) will be of significance for policymakers. The continuation of gloomy weather – the so-called 'Dunkelflaute' – which had such a profound impact on German IP in October (-1.0%M/M), means that production is unlikely to demonstrate substantial improvement in November. And the Commission's sentiment surveys (8 Jan) and final PMIs (3-7 Jan) for December will also remain consistent with stagnation at best heading towards year-end. The ECB will hope that November's retail sales (9 Jan) regain some momentum after softening in October.

Germany: Industrial PPI inflation



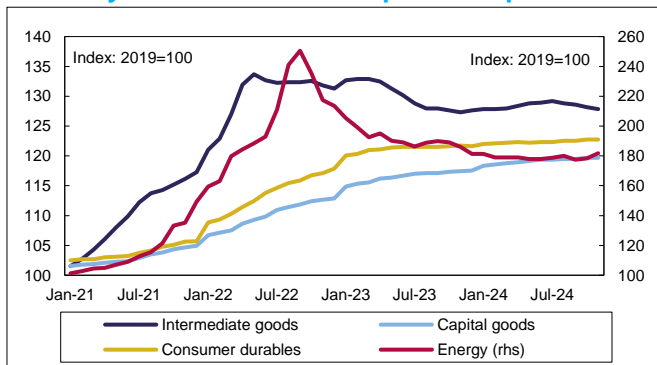
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Selected goods price momentum indices



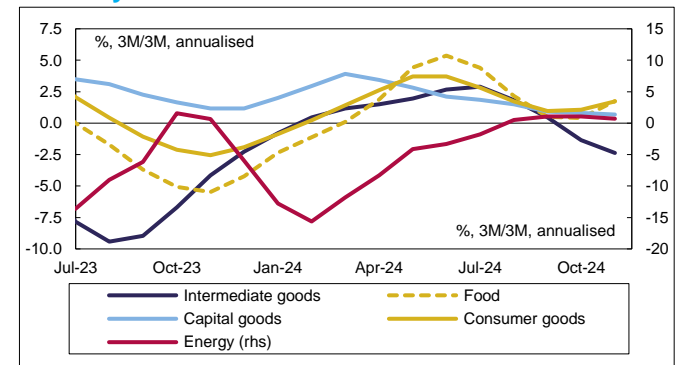
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Selected industrial producer prices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Selected industrial PPI momentum indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK

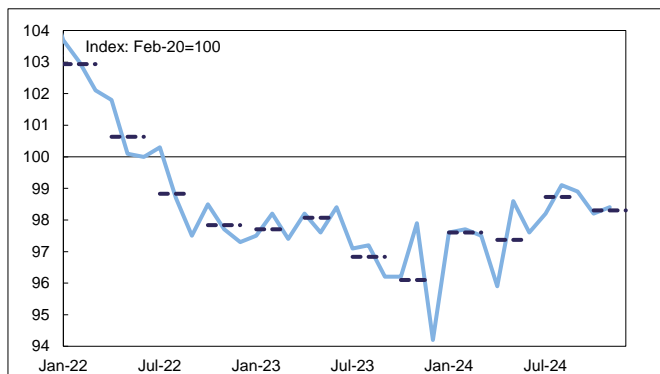
Underwhelming rebound in retail sales hit by late timing of Black Friday and adverse weather

After falling sharply at the start of Q4, the rebound in UK retail sales underwhelmed in November, as the data were impacted by the late timing of the Black Friday discounting period, inclement weather conditions and still fragile consumer confidence. Indeed, despite rising for the first month in three, sales growth of just 0.2%M/M only partially reversed the 0.7%M/M decline in October. More positively, food store sales rose for the first month in three in November, while sales of furniture, watches and jewellery also provided positive contributions. But clothing store sales fell sharply for a second successive month to their lowest level since January 2022, while non-store retail sales remained at the bottom of the range of the past seven months. And, despite remaining in positive territory, total sales growth on a three-month basis (0.3%3M/3M) was the softest since June. Indeed, with the level of sales trending in the first two months of Q4 some 0.4% below the Q3 average, retail sales will need to rise by more than 1% in December to avoid a contraction over the fourth quarter as a whole.

Survey suggests retail sales remain poor for time of year in December

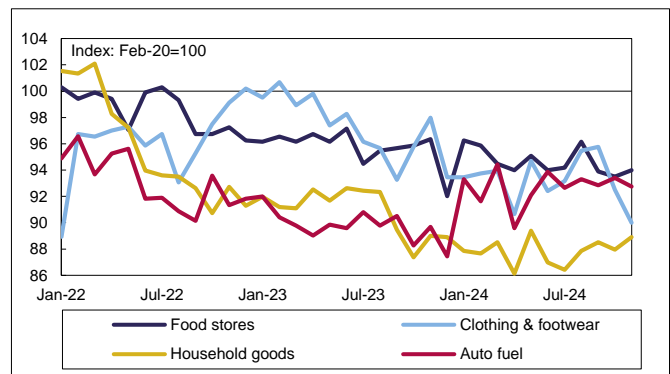
Given that the Black Friday discounting period will be included in the December retail report this year, we expect to see a more sizeable bounce back in spending this month, particularly on big-ticket items. However, today's CBI distributive trades survey implied that risks are skewed to the downside, with retailers signalling that sales remained poor for the time of year for a seventh month in row in December. According to the CBI, a net 15% of retailers reported that sales decreased compared with a year earlier, only slightly less than in November (-18%) and the third successive negative balance. Today's survey also suggested that wholesale volumes declined at the fastest rate for almost four years, while motor trades sales volumes fell the most since October 2022. Admittedly, storm Darragh seemingly impacted retail footfall in the first week of December, which decreased some 6% compared with the last week in November. It also led to the cancellation of various Christmas- and sports-related events to have an adverse impact on consumption more generally. And while the latest GfK confidence survey suggested that consumers considered the climate for making major purchases in December to be the joint best since August, it was nevertheless still much worse than the long-run average. So, while we still expect sales to rise in December, we doubt they will provide any meaningful contribution to GDP growth in Q4 and might be expected to remain subdued in the New Year too.

UK: Retail sales volumes*



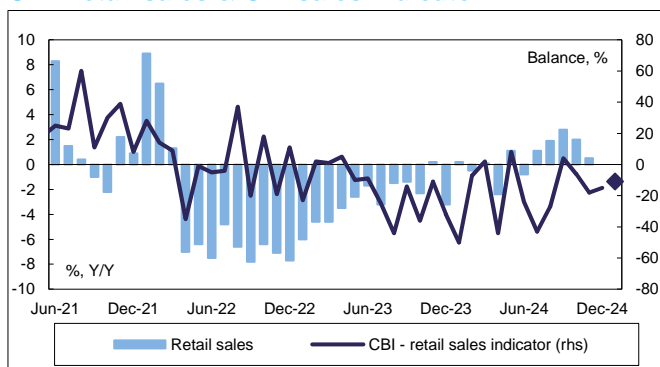
*Dashed lines represent quarterly averages. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes



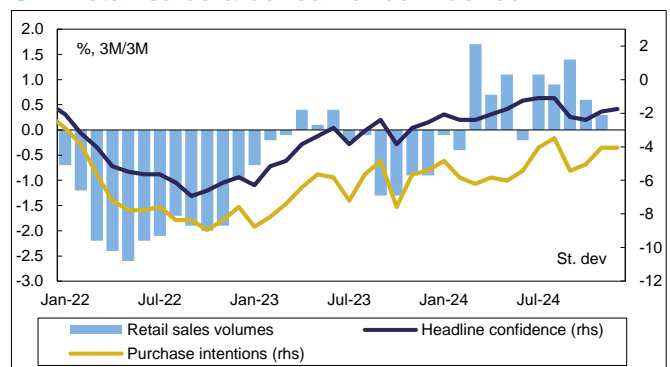
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales & CBI sales indicator*



*Diamond represents expected sales growth in January 2025. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales & consumer confidence



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

The coming few weeks in the UK










With Monday's final estimates for Q3 GDP – which should confirm the initial estimate of growth of just 0.1%Q/Q – set to conclude this year's UK data flow, the next couple of weeks should be predictably quiet on the data front. November's money and credit statistics (3 Jan) will mark the first notable release of the new year and are likely to remain consistent with a pickup in activity in the housing market. The following week's BoE Decision Maker Panel survey for December (9 Jan) is also likely to receive attention. Given the ongoing uncertainties surrounding the reliability of the ONS' Labour Force Survey, the DMP survey has assumed more significance in policymakers' forward-looking assessments of wage developments. Elsewhere, December's final manufacturing (3 Jan) and services (6 Jan) PMIs will be monitored for post-holiday revisions, particularly so the employment indices, after the flash flagged firms' intentions to slash headcount ahead of the April's planned increase in employer NICs contributions. The KPMG/REC report on jobs (9 Jan) will offer further perspective on hiring intentions in January. Finally, although recent months have seen a slowdown in spending on the high street, the British Retail Consortium's retail survey (7 Jan) should report firmer sales in December in part due to the inclusion of Black Friday discounting in the sample period.



The next edition of the Euro wrap-up will be published on 6 January 2025




























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 | 0.7 | 0.9 | 1.2 |
| UK  | 0.5 | 0.1 | 0.1 | 0.2 | 0.3 | 0.3 | 0.8 | 0.9 | 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 | 2.7 | 2.3 | 1.8 | 1.6 | 2.8 | 1.9 | 1.8 |
| UK | | | | | | | | | |
| Headline CPI  | 2.1 | 2.0 | 2.5 | 2.5 | 2.3 | 2.5 | 2.5 | 2.4 | 2.1 |
| Core CPI  | 3.6 | 3.3 | 3.4 | 3.4 | 2.4 | 2.2 | 3.7 | 2.5 | 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.












Key data releases

23 December 2024 – 10 January 2025

| 23 | 24 | 25 | 26 | 27 |
|--|--|--|---|---|
| SPAIN  GDP (Q3 F) UK  GDP (Q3 F) | NOTHING TO REPORT | CHRISTMAS DAY NOTHING TO REPORT | BOXING DAY SPAIN  PPI INFLATION (NOV) | SPAIN  RETAIL SALES (NOV) |
| 30 | 31 | 1 | 2 | 3 |
| SPAIN  HICP INFLATION (DEC P) | NOTHING TO REPORT | NEW YEAR'S DAY NOTHING TO REPORT | EURO AREA  M3 MONEY SUPPLY (NOV) MANUFACTURING PMI (DEC F) GERMANY  MANUFACTURING PMI (DEC F) FRANCE  MANUFACTURING PMI (DEC F) ITALY  MANUFACTURING PMI (DEC) SPAIN  MANUFACTURING PMI (DEC) UK  MANUFACTURING PMI (DEC F) NATIONWIDE HOUSE PRICES (DEC) | GERMANY  UNEMPLOYMENT (DEC) SPAIN  UNEMPLOYMENT (DEC) UK  BANK LENDING & MORTGAGE APPROVALS (NOV) |
| 6 | 7 | 8 | 9 | 10 |
| EURO AREA  COMPOSITE & SERVICES PMI (DEC F) GERMANY  HICP INFLATION (DEC P) COMPOSITE & SERVICES PMI (DEC F) FRANCE  COMPOSITE & SERVICES PMI (DEC F) ITALY  COMPOSITE & SERVICES PMI (DEC) SPAIN  COMPOSITE & SERVICES PMI (DEC) UK  COMPOSITE & SERVICES PMI (DEC F) | EURO AREA  HICP INFLATION (DEC P) UNEMPLOYMENT (NOV) ECB CONSUMER EXPECTATIONS SURVEY (NOV) CONSTRUCTION PMI (DEC) GERMANY  CONSTRUCTION PMI (DEC) FRANCE  HICP INFLATION (DEC P) CONSTRUCTION PMI (DEC) ITALY  HICP INFLATION (DEC P) CONSTRUCTION PMI (DEC) UK  CONSTRUCTION PMI (DEC) BRC RETAIL MONITOR (DEC) | EURO AREA  EC ECONOMIC CONFIDENCE SURVEYS (DEC) PPI INFLATION (NOV) GERMANY  FACTORY ORDERS (NOV) FRANCE  CONSUMER CONFIDENCE (DEC) TRADE BALANCE (NOV) | EURO AREA  RETAIL SALES (NOV) GERMANY  INDUSTRIAL PRODUCTION (NOV) TRADE BALANCE (NOV) UK  BOE DECISION MAKER PANEL SURVEY (DEC) BRC SHOP PRICE INDEX (DEC) KPMG/REC JOBS REPORT (JAN) | FRANCE  CONSUMER SPENDING (NOV) INDUSTRIAL PRODUCTION (NOV) ITALY  INDUSTRIAL PRODUCTION (NOV) SPAIN  INDUSTRIAL PRODUCTION (NOV) |

 UK public holiday. *Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

European calendar

| Today's results | | | | | | | |
|-----------------------|---|--------|--------------------|-------------------------------------|-------------|----------|--|
| Economic data | | | | | | | |
| Country | Release | Period | Actual | Market consensus/ Daiwa forecast | Previous | Revised | |
| Euro area |  Preliminary Commission consumer confidence indicator | Dec | -14.5 | -14.0 | -13.7 | -13.8 | |
| Germany |  PPI Y/Y% | Nov | 0.1 | -0.3 | -1.1 | - | |
| France |  PPI Y/Y% | Nov | -5.2 | - | -5.7 | -6.0 | |
| |  Retail sales Y/Y% | Nov | -0.1 | - | -0.2 | -0.5 | |
| Italy |  ISTAT consumer confidence indicator | Dec | 96.3 | 97.0 | 96.6 | - | |
| |  ISTAT business (manufacturing) confidence indicator | Dec | 95.3 (85.8) | -(86.0) | 93.1 (86.5) | 93.2 (-) | |
| |  PPI Y/Y% | Nov | -0.7 | - | -3.8 | - | |
| UK |  Retail sales – including auto fuel M/M% (Y/Y%) | Nov | 0.2 (0.5) | 0.5 (1.0) | -0.7 (2.4) | -(2.0) | |
| |  Retail sales – excluding auto fuel M/M% (Y/Y%) | Nov | 0.3 (0.1) | 0.5 (0.9) | -0.9 (2.0) | -(1.6) | |
| |  Public sector net borrowing £bn | Nov | 11.2 | 13.6 | 17.4 | 18.2 | |
| |  CBI distributive trades survey – reported sales volumes % | Dec | -15 | -10 | -18 | - | |
| Auctions | | | | | | | |
| Country | Auction | | | | | | |
| - Nothing to report - | | | | | | | |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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