

# Euro wrap-up

## Overview

- While euro area headline inflation ticked slightly higher in November, shorter-dated Bunds made modest gains as core inflation held steady and pricing of services and food continued to normalise.
- Gilts made modest gains as a UK survey suggested a decline in shop price inflation as retailers extended Black Friday discounting.
- Wednesday will bring final November PMIs from the euro area and UK, alongside euro area PPI data for October.

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### Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.046	-0.012
OBL 2.2 10/30	2.341	-
DBR 2.6 08/35	2.749	+0.001
UKT 3½ 03/27	3.730	-0.008
UKT 4% 03/30	3.905	-0.006
UKT 4½ 03/35	4.473	-0.006

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

Source: Bloomberg

## Euro area

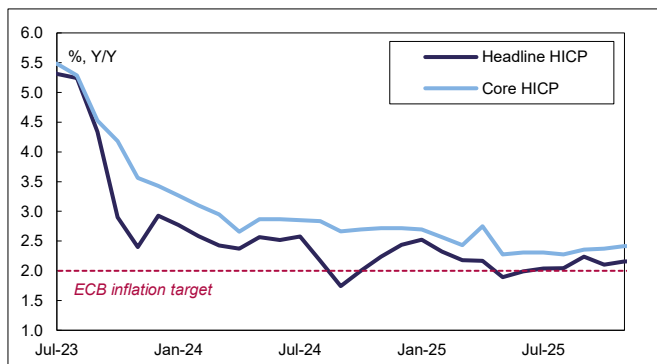
### Headline inflation ticked slightly higher in November, but core rate steady for a third month

In line with our expectation but above the consensus, today's flash estimates of euro area inflation for November saw the headline rate tick slightly higher by 0.1ppt to 2.2%Y/Y. Admittedly, it was on the low side to two decimal places (2.16%Y/Y). And it largely reflected the jump reported on Friday in Germany (up 0.3ppt to a nine-month high of 2.6%Y/Y) and rebound in Greece (up 1.3ppts to 2.9%Y/Y). More than half of all the member states, accounting for roughly 60% of the region, saw inflation remain stable or move lower in November. And we suspect that the modest upwards impulse last month will prove temporary and so should not be overly concerning for ECB policymakers. Part of the uptick related to the energy component, up 0.4ppt to -0.5%Y/Y, the least negative for nine months due to a jump in heating oil and petrol prices. But the recent moderation in crude oil prices, and especially the marked fall in wholesale gas prices, means that energy pressures appear to be dissipating. We also suspect that the upward impulse in services inflation (up 0.1ppt to 3.5%Y/Y, a seven-month high) was related to categories that are often volatile, with base effects in package holidays seemingly playing a role in Germany. Indeed, on a seasonally adjusted basis, services prices rose the least in six months, to leave momentum on an annualised three-month basis down more than ½ppt back below 3%. So, thanks also to the ongoing absence of underlying goods price pressures (a seven-month low of 0.6%Y/Y), euro area core inflation was unchanged for a third consecutive month (2.4%Y/Y). And while food inflation also held steady in November (2.5%Y/Y), a further normalisation in pricing in staples last month pushed momentum in this category to an eight-month low.

### Inflation to slip back below target in the New Year even as labour market remains tight

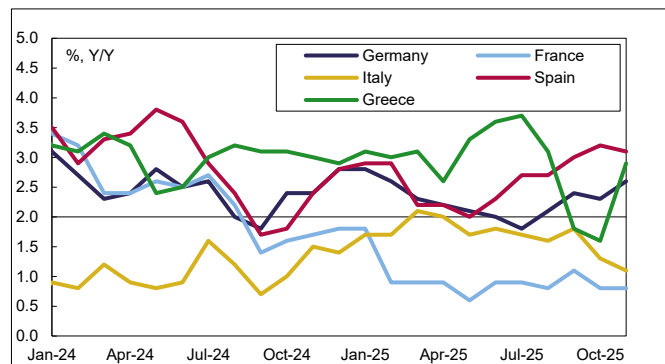
While inflation is currently tracking a touch above the ECB's projection for Q4, we expect the December forecast update to revise lower the inflation profile for 2026. Not least due to an expected step down in the energy component thanks to German subsidies as well as lower gas prices, we forecast headline inflation to fall below the 2% target from January onwards. Core goods inflation should also remain subdued due to ample supply, cheap imports and subdued global demand. And services inflation should also ease from April onwards due in part to moderating labour cost pressures. Indeed, while today's data suggest that the labour market remains relatively stable – the euro area jobless rate was steady in October at a slightly upwardly revised 6.4%, just 0.2ppt above the series low – there continues to be signs of loosening of conditions in the core member states. Indeed, the respective rates in Germany (3.8%) and France (7.7%) matched their highest levels in four years. And while unemployment rates in Italy (6.0%), Spain (10.5%) and Greece (8.6%) are at post-global financial crisis lows, evidence of slack in those member states suggests scope for further job growth and declines in unemployment in Southern Europe without reviving wage pressures. Overall, we forecast headline inflation to average 1.7%Y/Y in 2026 and 1.8%Y/Y in 2027, before edging above the 2% target in 2028.

### Euro area: Headline & core HICP inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area member states: Headline HICP inflation

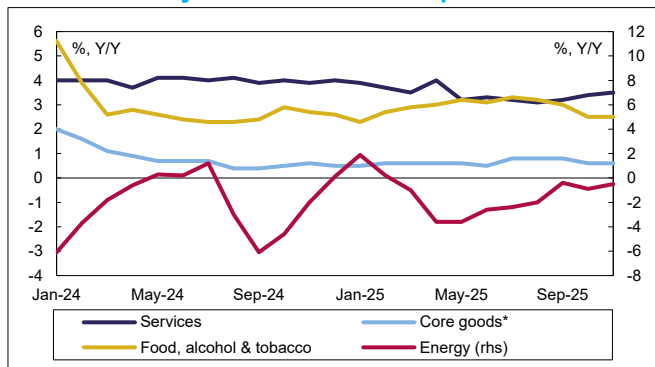


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### The day ahead in the euro area

With the risks to the ECB's economic outlook having moved further into balance, President Lagarde is likely to use her latest appearance before the European Parliament's Committee for Economic and Monetary Affairs to reiterate that monetary policy remains in a 'good place'. And tomorrow's economic data should be broadly supportive of that view too. Indeed, November's final PMIs, in line with their flash release, will likely remain consistent with a moderate pickup in growth momentum this quarter. On the surface, the flash release suggested little change to the composite output PMI, which fell just 0.1pt to 52.4. The headline figure masked a notably softer expansion from German services, down 1.8pts from October's 2½-year high (52.1), offset by a pickup in France (2.8pts to 50.8). But in both instances, those readings seem to be closer in step with their more comprehensive national surveys. And Wednesday's PMI release should also affirm continued outperformance in the periphery, led by Spain. October's PPI data, also due tomorrow, should underscore that pipeline price pressures remain largely dormant.

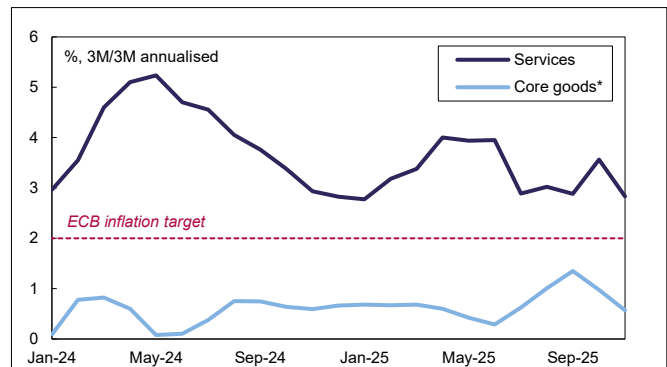
#### Euro area: Key HICP inflation components



\*Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

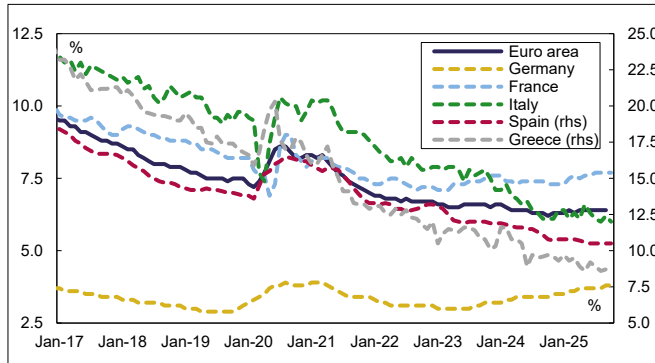
#### Euro area: Core inflation momentum



\*Non-energy industrial goods.

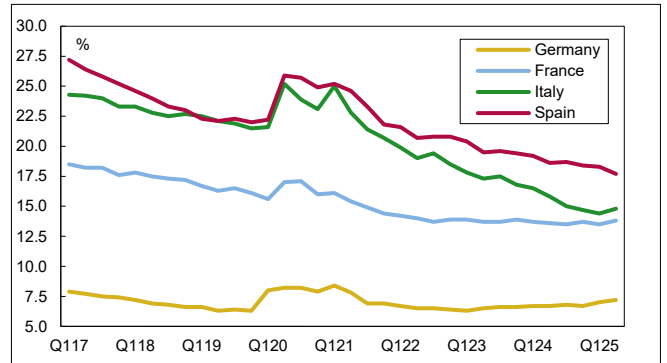
Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Unemployment rates



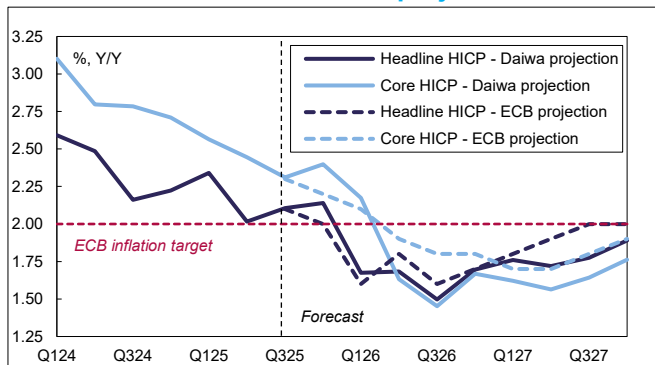
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Labour market slack



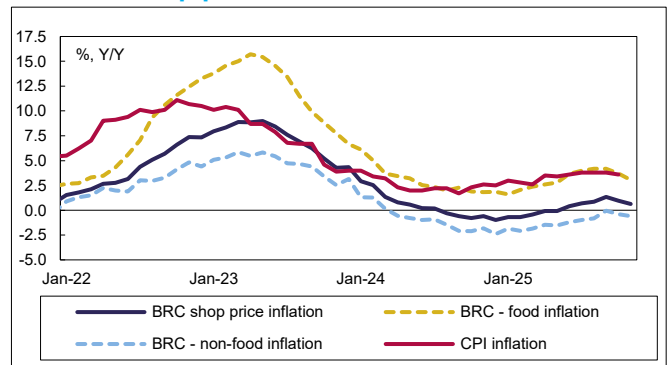
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Consumer inflation projections



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

#### UK: BRC shop price & CPI inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK**

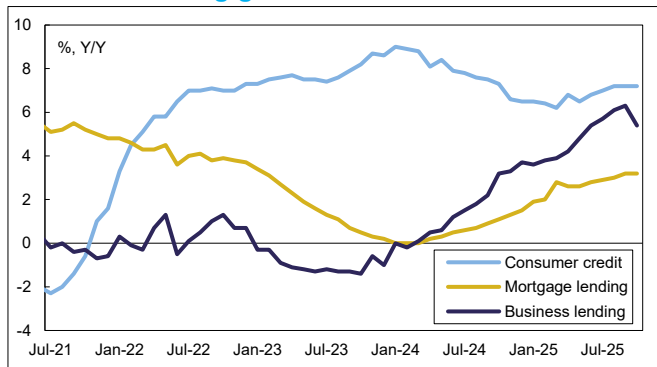
**BRC shop price inflation moderates as retailers extend Black Friday discounting**

The step down in UK consumer price inflation in October was led by a favourable base effect in the energy component as prices rose this year by roughly a third compared with last year and a moderation in services inflation to a ten-month low. While core goods inflation held steady in October (1½%Y/Y), today's BRC shop price monitor suggested that goods price pressures on the high street fell in November, as retailers brought forward Black Friday discounting to entice consumers amid intense competition. According to the BRC, shop prices fell for a second successive month to push the survey's annual inflation rate down 0.4ppt to 0.6%Y/Y, a five-month low. The decline in non-food inflation on the high street (-0.6%Y/Y) was the steepest in three months as price pressures eased across a range of goods, including clothing, DIY and gardening items, electricals and health and beauty products, with the latter recording the steepest monthly price drop for 3½ years. And while food price inflation remained elevated amid ongoing pressures in meat, fish and oils and fats, it nevertheless eased for a second successive month, down 0.7ppt to a six-month low of 3.0%Y/Y, suggesting that the spike in the food CPI rate in October will prove temporary.

**Household lending surprisingly resilient in October, but businesses more cautious**

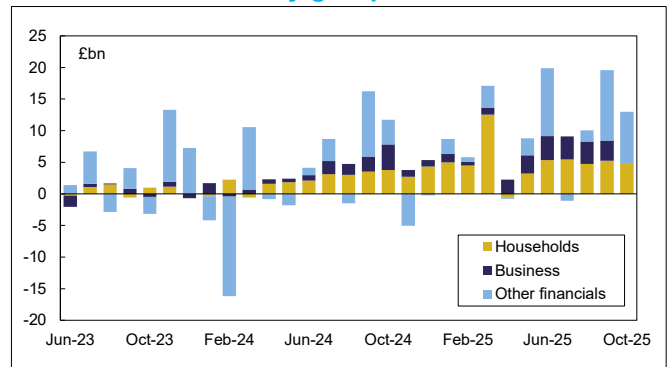
Perhaps unsurprisingly given the heightened policy uncertainty which clouded the run up to last week's Autumn Budget, the BoE's money and credit statistics suggested that businesses were reluctant to take on additional borrowing in October. Indeed, the net monthly flow of credit to privately-owned businesses that month was close to nil, the lowest in 20 months. So, business lending growth fell back 0.9ppt, to a four-month low, albeit still up 5.4%Y/Y. But overall net lending growth moved sideways (5.0%Y/Y), partly reflecting the resilience of flows to the household sector. With net consumer credit and mortgage lending flows only modestly softer than in September, their growth rates also moved sideways at 7.2%Y/Y and 3.2%Y/Y respectively. And while mortgage approvals eased a touch (-0.7k) to 65k, that was still firmer than most forecasts and contrasted somewhat the suggestions of weakening buyer appetite documented by the RICS residential market survey over recent months. That said, while the Nationwide house prices index reported that prices rose for a third successive month in November (0.3%M/M), the annual rate moderated 0.6ppt to a 15-month low of 1.8%Y/Y. That might suggest that the strongest headwinds to mortgage growth will crop up in November's data. But given the resilience of approvals to this point, respectable transaction volumes, and further support likely to come from lower interest rates, we expect housing market conditions to turn more favourable in the New Year.

**UK: Bank lending growth**



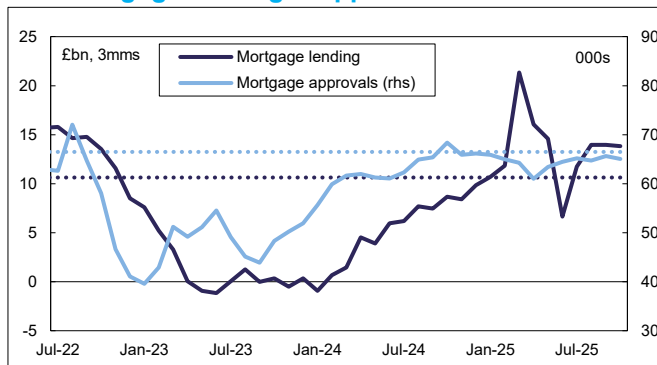
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK: Net credit flows by group**



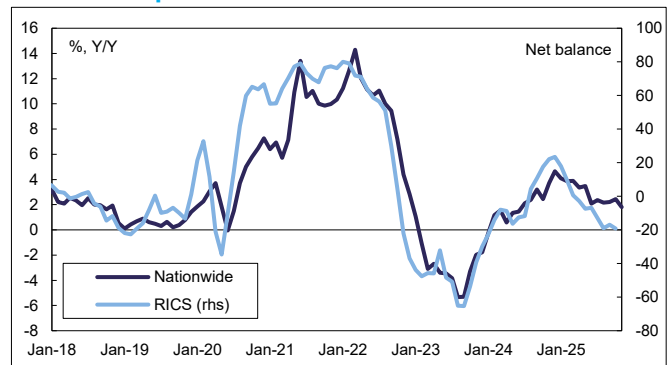
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK: Mortgage lending & approvals**



\*Dotted lines show pre-pandemic five-year averages.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK: House price indicators**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.









## Council-tax surcharge effects likely minimal in aggregate, but will weigh on top-end London prices

While the policy has proved politically contentious, the new 'high value council tax surcharge' proposed in last week's Budget is expected to have only a minimal effect on the wider housing market. The measure aims to impose an additional annual tax from April 2028 on homes with a valuation above £2m (measured against 2026 prices) within four bands, ranging from £2.5k at the lower threshold to £7.5k for properties above £5m, to be updated by CPI. Given the small number of homes to be affected by the measure – less than 1% in England according to Nationwide – its impact should be contained within the upper ends of the market. Appropriately, the OBR assumed full pass-through of the cost of the surcharge to reduce prices of the liable properties, as well as price bunching to just below each band boundary. Given the higher propensity of high-value properties in the capital, that process is likely to extend London's recent relative underperformance in price growth terms. And the OBR expects those changes to lower property stamp duty revenues in each of the coming three years before generating a surplus of £400mn for the Exchequer by FY29/30. That sum is not overly large in the context of the overall fiscal arithmetic. And with a consultation potentially leaving room for details to be ironed out, there remains uncertainty about how it will eventually be implemented in practice, or indeed whether it will eventually materialise at all.

## The day ahead in the UK

As with the euro area, November's final PMIs will provide Wednesday's data highlight in the UK. And given a lack of notable revisions to Monday's final manufacturing survey, the likelihood of a marked difference in the final services reading looks relatively unlikely too. Therefore, we expect tomorrow's survey to affirm a downcast picture about private sector activity last month, with the composite PMI reading (down 1.8pts to 50.5 in the flash estimate) suggestive of a non-negligible loss of growth momentum midway through Q4. The employment and price PMIs will also warrant particular attention, with the flash release flagging resumed weakness in hiring intentions (45.3) and a stark moderation in output price growth (50.4) to a near-five-year low. Affirmation of those readings would also support the case for another Bank Rate cut by the BoE this month (as is our view), albeit with recent comments from the more hawkish Chief Economist Pill and external MPC member Greene implying that the split on the MPC is likely to persist. External MPC member Mann – who also voted to hold rates in November – may offer insights into her view when she speaks on a panel at a central bank symposium in New York.









## 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	<b>2.2 (2.4)</b>	<u>2.2 (2.4)</u>	2.1 (2.4)	-
	 Unemployment rate %	Oct	<b>6.4</b>	6.3	6.3	6.4
Italy	 PPI Y/Y%	Oct	<b>0.2</b>	-	1.5	-
Spain	 Unemployment (net employment) change 000s	Nov	<b>-18.8 (44.7)</b>	-	22.1 (64.6)	-
UK	 BRC shop price index Y/Y%	Nov	<b>0.6</b>	1.0	1.0	-
	 Nationwide house prices M/M% (Y/Y%)	Nov	<b>0.3 (1.8)</b>	0.1 (1.6)	0.3 (2.4)	0.2 (-)
Auctions						
Country	Auction					
Germany	 sold €3.563bn of 2% 2027 bonds at an average yield of 2.05%					
UK	 sold £1bn of 0.125% 2031 inflation-linked bonds at an average yield of 0.949%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Monday's results

## Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Final manufacturing PMI	Nov	<b>49.6</b>	<u>49.7</u>	50.0	-
Germany	 Final manufacturing PMI	Nov	<b>48.2</b>	<u>48.4</u>	49.6	-
France	 Final manufacturing PMI	Nov	<b>47.8</b>	<u>47.8</u>	48.8	-
Italy	 Manufacturing PMI	Nov	<b>50.6</b>	50.1	49.9	-
Spain	 Manufacturing PMI	Nov	<b>51.5</b>	52.3	52.1	-
UK	 Net consumer credit £bn (Y/Y%)	Oct	<b>1.1 (7.2)</b>	-	1.5 (7.3)	1.4 (7.2)
	 Net mortgage lending £bn (mortgage approvals 000s)	Oct	<b>4.3 (65.0)</b>	4.5 (64.5)	5.5 (65.9)	5.2 (65.6)
	 Final manufacturing PMI	Nov	<b>50.2</b>	<u>50.2</u>	49.7	-








## Auctions

Country	Auction
- Nothing to report -	



*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

## Tomorrow's releases

## Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	 09.00	Final composite (services) PMI	Nov	<u>52.4 (53.1)</u>	52.5 (53.0)
	 10.00	PPI Y/Y%	Oct	-0.5	-0.2
Germany	 08.55	Final composite (services) PMI	Nov	<u>52.1 (52.7)</u>	53.9 (54.6)
France	 08.50	Final composite (services) PMI	Nov	<u>49.9 (50.8)</u>	47.7 (48.0)
Italy	 08.45	Composite (services) PMI	Nov	52.8 (53.9)	53.1 (54.0)
Spain	 08.15	Composite (services) PMI	Nov	55.8 (56.3)	56.0 (56.6)
UK	 09.30	Final composite (services) PMI	Nov	<u>50.5 (50.5)</u>	52.2 (52.3)

## Auctions and events

Euro area	 10.30	ECB Chief Economist Lane to deliver keynote speech at exchange rates conference hosted by Bank of Slovenia, Ljubljana			
	 13.30	ECB President Lagarde to speak before European Parliament's Committee on Economic and Monetary Affairs, Brussels			
UK	 10.00	Auction: to sell £4.75bn of 4% 2029 bonds			
	 17.00	MPC External Member Mann on panel discussing reserve currencies at GIC College of Central Bankers Symposium, New York			

*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

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