

Euro wrap-up

Overview

- Bunds made modest gains while euro area industrial production figures reported the strongest growth in five months in October, albeit with significant variation across sub-sectors.
- Gilts followed the global trend higher on a quiet day for UK economic news.
- Tuesday will bring the flash December PMIs and the UK's latest labour market report.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.144	-0.005
OBL 2.2 10/30	2.460	-0.005
DBR 2.6 08/35	2.840	-0.015
UKT 3½ 03/27	3.734	-0.002
UKT 4½ 03/30	3.940	-0.013
UKT 4½ 03/35	4.489	-0.026

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

Euro area

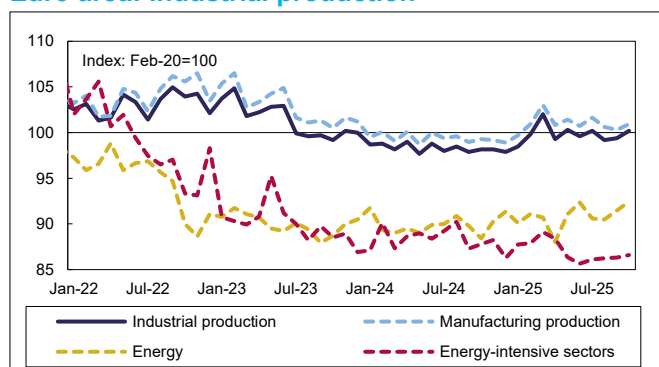
Euro area industrial output up to 5-month high, but significant variation across sub-sectors

Consistent with survey signals of a slight pickup in momentum in the euro area manufacturing sector after autos-related weakness over the summer, today's figures showed that industrial production started the fourth quarter on the front foot. Total IP rose for a second successive month in October and by 0.8%M/M – the most in five months – to take the level a little more than ½% above the Q3 average. Admittedly, the improvement in part reflected another month of solid growth in energy production (1.0%M/M) to the highest level in three years. And among the member states, growth in IP was principally accounted for by rebounds in Germany (1.4%M/M) and Ireland (4.0%M/M). But manufacturing output also rose for the first month in three (0.6%M/M), albeit with a patchy recovery across sub-sectors. Output of electrical machinery and basic metals was the highest for a couple of years. And thanks to strong growth in Germany and France, production of transport equipment excluding cars rose to a series high level tracking more than 4% above the Q3 average. In contrast, however, car production slipped back at the start of Q4, as did output of data-processing equipment. And despite a modest pickup on the month, output in pharmaceuticals was similarly tracking some 2% below the Q3 level.

Manufacturing output in Q4 likely to be broadly flat, but services & construction to maintain uptrend

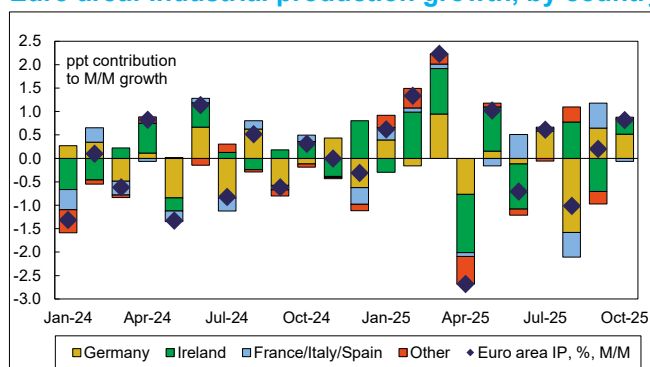
Surveys point to a slight pullback in production in November, which would tally with the drop in German truck toll mileage (-0.8%M/M), which often provides a helpful guide to industrial sector activity. Tomorrow's flash December PMIs will give an update on conditions heading into year-end. But we suspect that the manufacturing sector will provide neither a big boost nor a significant drag on GDP growth in Q4. This notwithstanding, orders data provide tentative signs of improvement in domestic demand for manufactured goods across the region. And, on the whole, surveys suggest that manufacturers remain broadly upbeat about the outlook for the six months ahead, not least in Germany where increased public spending should provide a boost to certain defence and infrastructure-related sub-sectors. Beyond the manufacturing sector, construction data from various member states – including Germany, Spain and Portugal – reported a notable pickup in activity in October, which might suggest a return to growth in Q4 for the first quarter in three. And surveys also signal an improvement in services output at the start of Q4 after stagnating in August and September. Indeed, the headline euro area services PMI rose to a 2½ year high in November to be tracking more than 2pts higher than the Q3 average, while the equivalent ESI reached the highest in over a year. As such, we continue to forecast an acceleration in euro area GDP in Q4 (0.3%Q/Q), 0.1ppt above the ECB's September projection, with a modest upwards shift to the profile of economic output further ahead also justified when the Eurosystem's macroeconomic update is published on Thursday.

Euro area: Industrial production



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Industrial production growth, by country



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

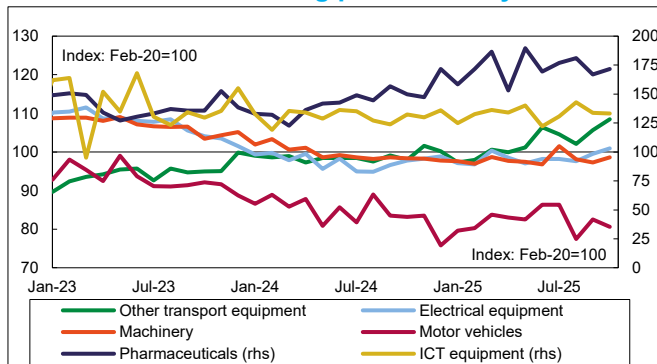
The day ahead in the euro area

Tuesday's euro area economic data calendar is more extensive than today's, with December's flash PMIs and October goods trade data set to take precedent. The PMIs foreshadowed the more optimistic economic growth narrative in the euro area over recent months and have pointed towards a notable pickup in growth momentum in Q4. Perhaps encouragingly, the rise in the composite output index in November (to 52.8, a 2½-year high) was helped by a first expansion in France for 15 months (50.2) and still-solid momentum in Germany (52.4). Given the variability of the French PMIs in recent times, however, the likelihood of some payback underscores expectations for some moderation in the euro area survey this month. Similarly, we see the risks to the euro area goods trade figures in October to the downside, given the prospects of payback for the distortive export boost provided by another bumper shipment of Irish chemicals to the US at the end of Q3. Besides Ireland, data from the member states points towards a wider trade surplus in October, albeit attributable to weaker imports rather than stronger exports. Otherwise, final Italian inflation detail for November will provide clarity on the drivers of its moderation in November, to a 13-month low of 1.1%Y/Y. Its confirmation should ensure a predictable euro area print on Wednesday. Like the flash estimate, the final Q3 job vacancy rate should signal that, despite the apparent tightness of the labour market, demand for workers remained relatively subdued, particularly in Germany. December's update to the German ZEW investor sentiment survey is also due.

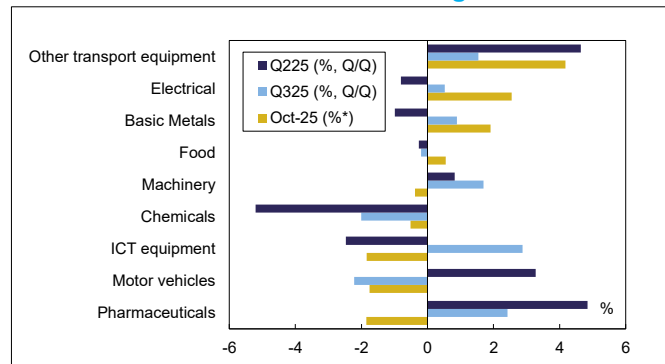
The day ahead in the UK

As in the euro area, it's set to be a busy day for economic data from the UK too. The main event will be the labour market report, which we expect to further reinforce expectations of a Bank Rate cut ahead of Thursday's announcement. Despite signs of stabilisation in some corners of the labour market, we expect the headline figures to remain firmly consistent with continued loosening of the jobs market. Broadly in line with the BoE's expectation, private sector regular pay growth – the MPC's preferred measure – should slow to below 4%3M/Y for the first time since the end of 2020, having already reached a near-four year low in September of 4.2%3M/Y. The previous release showed that the unemployment rate overshoot the BoE's expectations in September, ticking up 0.2ppt to a near-five year high of 5.0%3M, and leaving the risks to October's figure skewed to the upside. Moreover, surveys have remained pretty downbeat about firms' hiring appetite. The UK flash PMIs (also due tomorrow) will provide a signal as to whether firms' employment intentions returned to positive territory following last month's Budget or, more likely, remained in contractionary territory for a 14th consecutive month. The PMIs will also provide an early, and likely subdued, perspective on private sector activity at the end of Q4. Focus will additionally be given to the price PMIs, having themselves fallen sharply in November to suggest the slowest rate of increase in almost five years.

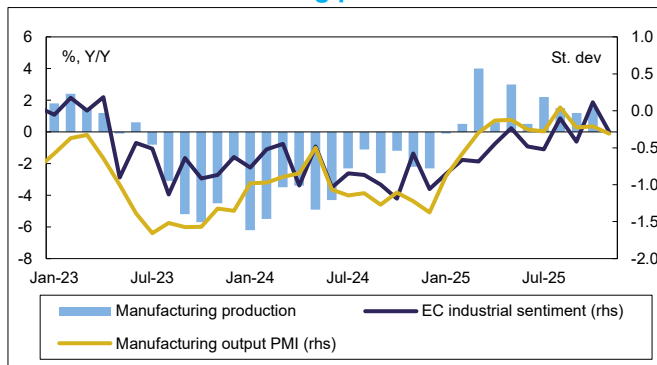
Euro area: Manufacturing production by sub-sector



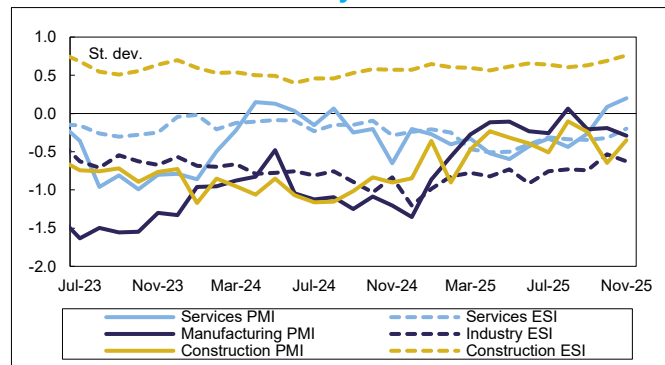
Euro area: Growth in manufacturing sub-sectors



Euro area: Manufacturing production & sentiment




Euro area: Selected survey indices



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Industrial production M/M% (Y/Y%)	Oct	0.8 (2.0)	<u>0.8 (2.1)</u>	0.2 (1.2)	-



















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 Preliminary services (manufacturing) PMI	Dec	53.3 (49.9)	53.6 (49.6)
		09.00 Preliminary composite PMI	Dec	52.7	52.8
		10.00 Trade balance €bn	Oct	-	18.7
		10.00 Final job vacancy rate %	Q3	<u>2.2</u>	2.3
Germany		08.30 Preliminary services (manufacturing) PMI	Dec	53.0 (48.5)	53.1 (48.2)
		08.30 Preliminary composite PMI	Dec	52.4	52.4
		10.00 ZEW current situation (expectations) balance	Dec	-80.0 (39.0)	-78.7 (38.5)
France		08.15 Preliminary services (manufacturing) PMI	Dec	51.2 (48.1)	51.4 (47.8)
		08.15 Preliminary composite PMI	Dec	50.4	50.4
Italy		09.00 Final HICP (CPI) Y/Y%	Nov	<u>1.1 (1.2)</u>	1.3 (1.2)
UK		07.00 Average wages (excluding bonuses) 3M/Y%	Oct	4.4 (4.5)	4.8 (4.6)
		07.00 Private sector regular wages 3M/Y%	Oct	3.8	4.2
		07.00 Unemployment rate 3M%	Oct	5.1	5.0
		07.00 Employment 3M/3M change 000s	Oct	-60	-22
		07.00 Payrolled employees M/M change 000s	Nov	-20	-32
		07.00 Claimant count rate % (change 000s)	Nov	-	4.4 (29.0)
		09.30 Preliminary services (manufacturing) PMI	Dec	51.6 (50.4)	51.3 (50.2)
		09.30 Preliminary composite PMI	Dec	51.6	51.2

Auctions and events

UK		10.00 Auction: to sell £4.25bn of 4.125% 2031 bonds
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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