

Euro wrap-up

Overview

- Bunds made gains despite an improvement in euro area consumer confidence to its highest level this year.
- Gilts also made gains as the latest public finance figures were better than expected.
- Wednesday brings the flash euro area PMIs for November and the UK Chancellor's Autumn Statement.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/18	-0.735	-0.053
OBL 0 10/21	-0.427	-0.057
DBR 0 08/26	0.229	-0.045
UKT 1¼ 07/18	0.163	-0.038
UKT 3¼ 09/21	0.647	-0.040
UKT 1½ 07/26	1.379	-0.047

*Change from close as at 4.30pm GMT.
Source: Bloomberg

Euro area

Fillon on track for the Élysée Palace

After the past weekend's first primary, François Fillon currently appears near-unstoppable to be the centre-right Republican party's candidate in the French Presidential election next spring. Having taken more than 44% of the vote in the first round, a survey by Odoxa for France Info published today suggested he would take 65% of the vote in the second round head-to-head primary against Alain Juppé, the more socially liberal of these two former Prime Ministers. As such, Fillon is also now odds-on favourite to get through to the Presidential run-off, where he would most likely face – and, if the bookmakers are right, defeat – Marine Le Pen from the far-right Front National. Certainly, Fillon's conservative social and foreign policies might well help draw some support away from Le Pen, given that they seek to inhabit her natural territory. But some of Fillon's Thatcherite economic policies – not least a desire to cut 500k public sector workers, tear up the 35-hour working week and cut taxes for businesses – might be considered too aggressive for many French voters, who hardly have a track record of embracing market-driven reforms. So, while it is still an outside bet – with odds currently offered no shorter than 2/1 – a victory for Le Pen, who among other things has promised a referendum on French EU membership which could destroy the euro area and EU, cannot be completely ruled out.

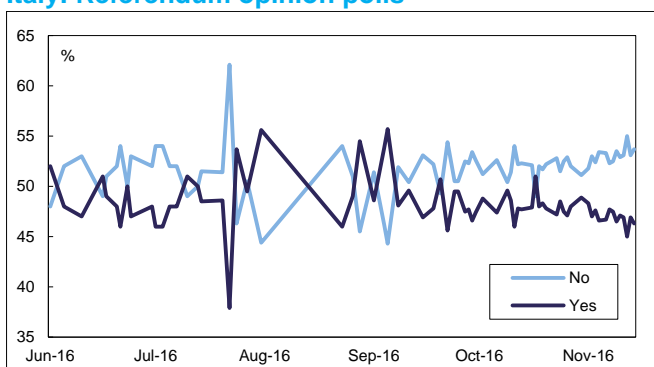
Renzi on track for referendum defeat

More imminently, the desire of voters to give leaders a bloody nose looks set to result in defeat for Italy's Prime Minister Mario Renzi in the referendum on constitutional reform on 4 December. Certainly, that was the message of all four of the final opinion polls published before the blackout period that is now in force ahead of the plebiscite. If that is indeed the outcome, it remains to be seen whether Renzi would follow through on his previous pledge to resign, a move that would risk political crisis in the euro area's third largest member state. Certainly, a new general election that could feasibly bring victory for the populist and unpredictable Five Star Movement – which has advocated a referendum on Italian membership of the euro – would generate significant risk aversion in financial markets and could, like a Le Pen Presidency, ultimately end in crisis.

Euro area consumer confidence up to 2016 high

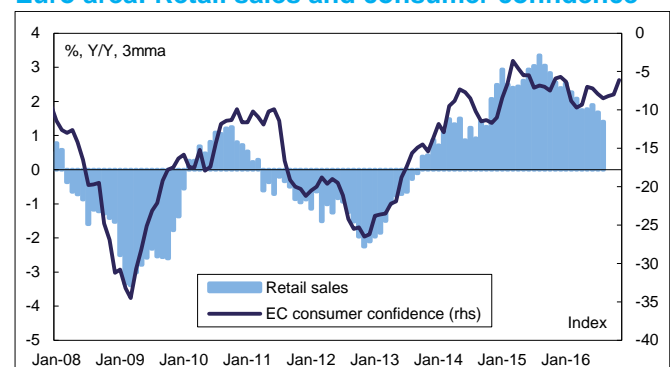
Today brought the first notable new economic data of the week in the shape of the European Commission's flash estimate of euro area consumer confidence in November. And this provided an upside surprise, showing a third successive monthly rise – and one much larger than expected – to the highest level since last December. So, the gradual downtrend in confidence seen from early 2015 through to this summer appears to have abated. But with the euro area now set to enter a period of

Italy: Referendum opinion polls



Source: Bloomberg

Euro area: Retail sales and consumer confidence



Source: Thomson Reuters, European Commission and Daiwa Capital Markets Europe Ltd.



heightened political risks, it remains to be seen whether this recent improvement in sentiment will be sustained. Indeed, since we also anticipate a slowdown in the pace of real disposable income growth, we still expect consumer spending growth to be sustained over coming quarters some way below the average pace of 0.5%Q/Q maintained from H214 through to the first quarter of this year.

The day ahead in the euro area and US

Wednesday will bring the flash PMIs for November from the euro area, Germany and France. These are expected to remain little changed from October, when the euro area composite PMI rose to 53.3, the highest level since January, and hence consistent with continued GDP growth of about 0.3-0.4%Q/Q in Q4. In the bond markets, Germany will sell 10Y Bunds while Portugal will sell 5Y bonds.

In the US, the Fed will release the minutes of its November FOMC meeting, while it will be particularly busy on the data front with preliminary durable goods order figures for October due for release along with new home sales numbers for the same month, FHFA house price data for September, the final University of Michigan consumer confidence survey for November and the usual weekly jobless claims numbers brought forward ahead of Thursday's Thanksgiving holiday. In addition, the Treasury will sell 7Y notes.

UK

Public borrowing continues to disappoint

With the UK's weak economic outlook likely to weigh on tax revenues and the government trying to maintain the impression of fiscal discipline, tomorrow's Autumn Statement is unlikely to provide significant fiscal stimulus, at least not of the magnitude envisaged in the wake of the Brexit vote. Certainly today's public finances data, while better than expected for October, highlighted the challenge facing the new Chancellor, with this year's public deficit remaining on track to significantly overshoot the level the OBR forecast back in March. Indeed, cumulative public borrowing to October FY16/17 was only 10.3% lower compared to the same period in FY15/16. And although this represents an improvement since the equivalent data were released a month ago, thanks to a decrease in October borrowing of £1.7bn and a downward revision of a similar magnitude to previous months, the full-year drop of 27% the OBR predicted is out of reach, not least with a slowdown in receipts evident from the middle of the year.

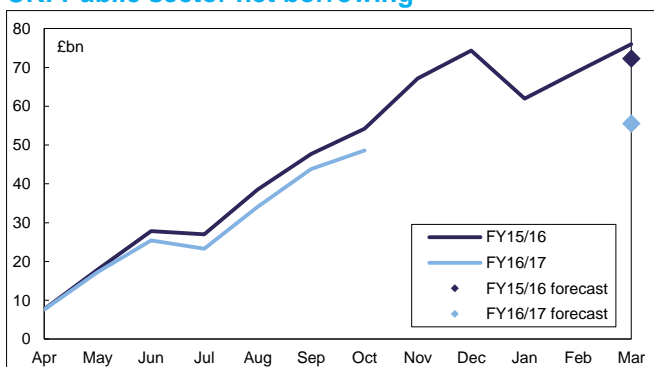
Manufacturing outlook remains firm

Meanwhile, the CBI Industrial Trends survey, also released today, suggested that conditions in the UK's manufacturing sector were more upbeat in November. Most notably, the survey signaled an improvement in new orders, driven by stronger domestic demand, while export orders, which had taken a step up on the back of the depreciation in sterling, were weaker. And there were more signs of growing price pressures. A net balance of 19% of manufacturers, the highest level since the start of 2014, expect selling prices to rise over the coming months. So while expectations for output growth over the coming three months also improved, with the relevant indicator rising to the highest level since February 2015, manufacturers might be overly optimistic, given that higher prices will almost certainly hit demand at some point in the future.

The day ahead in the UK

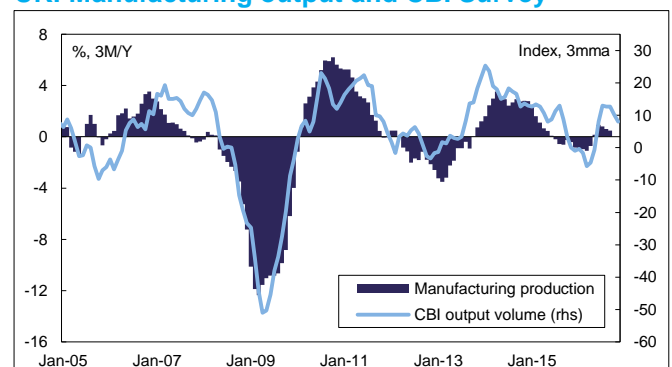
Tomorrow's economic news will be dominated by the Autumn Statement.

UK: Public sector net borrowing



Source: ONS and OBR

UK: Manufacturing output and CBI Survey








Source: Thomson Reuters 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
EMU	 Preliminary consumer confidence	Nov	-6.1	-7.8	-8.0	-
UK	 Public sector net borrowing excluding interventions £bn	Oct	4.8	6.0	10.6	9.7
	 CBI Industrial Trends survey, total orders	Nov	-3	-8	-17	-
Country	Auction					
UK sold	 £2.5bn of 1.5% 2026 bonds (22-Jul-2026) at an average yield of 1.382%					
	 BoE APF operation purchased £1bn of 15Y+ Gilts (3.18 cover ratio)					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	09:00	Preliminary manufacturing PMI	Nov	53.3	53.5
	09:00	Preliminary services PMI (preliminary composite PMI)	Nov	52.9 (53.3)	52.8 (53.3)
Germany	08:30	Preliminary manufacturing PMI	Nov	54.8	55.0
	08:30	Preliminary services PMI (preliminary composite PMI)	Nov	54.0 (55.0)	54.2 (55.1)
France	08:00	Preliminary manufacturing PMI	Nov	51.5	51.8
	08:00	Preliminary services PMI (preliminary composite PMI)	Nov	51.9 (51.9)	51.4 (51.6)



Auctions and events

Country	GMT	Auction / Event
Germany	10:30	Auction: To sell €3bn of 0% 2026 bonds (15-Aug-2026)
UK	11:30	BoE's Forbes scheduled to speak in London
	12:30	Chancellor Philip Hammond to deliver Autumn Statement 2016
	14:50	BoE APF operation: To purchase 7-15Y Gilts


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 ECB public sector asset purchases €bn	Weekly	17.8	16.5	16.8	-
Spain	 Trade balance €bn	Sep	-2.2	-	-2.6	-

Auctions

Country	Auction
UK	 BoE APF operation purchased £1bn of 3-7Y Gilts (3.66 cover ratio)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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