

Euro wrap-up

Overview

- Bunds made modest gains despite some further upbeat economic surveys from the large euro area member states.
- Gilts made modest gains while UK bank lending data remained consistent with a gradual housing market recovery.
- Friday brings French consumer confidence and Italian retail sales data, as well as the second estimate of UK GDP in Q3.

Chris Scicluna
+44 20 7597 8326

Mantas Vanagas
+44 20 7597 8318

Daily bond market movements

Bond	Yield	Change*
BKO 0 12/18	-0.731	-0.023
OBL 0 10/21	-0.421	-0.027
DBR 0 08/26	0.265	+0.001
UKT 1½ 07/18	0.138	-0.011
UKT 3½ 09/21	0.658	-0.012
UKT 1½ 07/26	1.444	-0.006

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

Euro area

German economy accelerating in Q4

There is every indication that the German economy has picked up speed in the current quarter. Broadly consistent with yesterday's flash PMIs, today's Ifo business survey for November saw the headline business climate index unchanged at a three-and-a-half-year high (110.4), with a modest deterioration in the assessment of conditions for the coming six months offset by an improved assessment of the current situation, which was similarly considered the best since the first half of 2014. At the sectoral level, retailers and wholesalers reported a notable improvement, and construction firms again suggested that conditions have never been so favourable. And while manufacturers were not quite so upbeat about current or future conditions, their respective business climate indices remained well above the norms of the past couple of years. Meanwhile, according to the latest GfK survey, following a slight dip consumer confidence appears to be improving once again, with consumers signalling an increased willingness to buy durable goods in November and the headline sentiment indicator forecast to tick up in December to 9.8, back above the 2016 average. So, while the second estimate of German GDP in Q3 confirmed that growth slowed to just 0.2%Q/Q, the softest pace in a year as weaker exports partly offset the boost from strong private and government consumption, we currently forecast an acceleration in economic output in the current quarter to 0.5%Q/Q, the strongest rate since Q1.

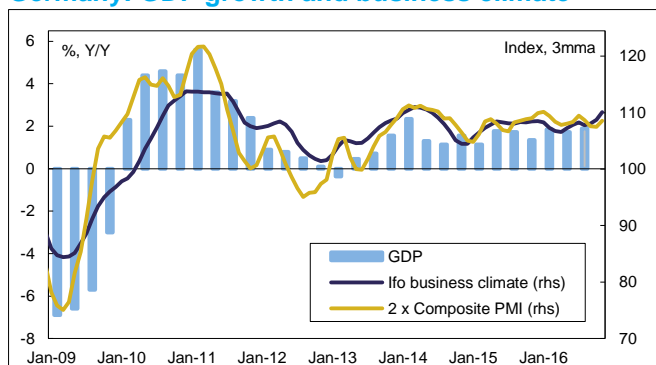
Steady expansion continues in France

The latest French INSEE business conditions indices similarly maintained the flow of broadly upbeat fourth-quarter confidence data from the euro area. In particular, the headline business climate indicator for November beat expectations, remaining above the long-run average at 102, thus matching the upwardly revised figure for the previous month and staying at the top end of the range of the economic recovery to-date. Within the detail, there was a notable pickup reported in the retail and construction sectors, while conditions in the manufacturing sector were judged to be stable above the long-run average. And it was only due to the deterioration reported among wholesalers that the headline index did not rise to a new post-crisis high. While we currently forecast that French GDP growth will remain stable in Q4 at the 0.2%Q/Q rate of the third quarter, the risks to that view now appear skewed to the upside.

The day ahead in the euro area and US

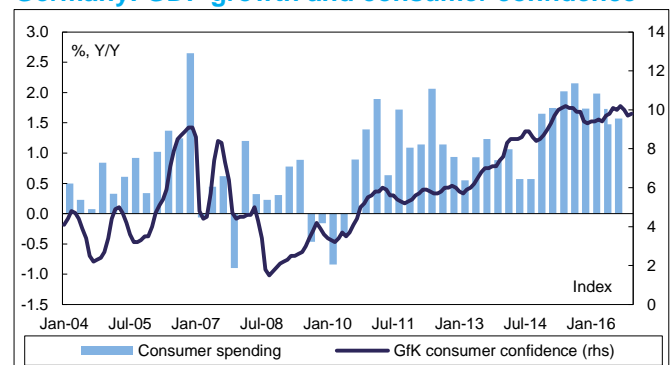
Friday brings the results of the French consumer confidence survey for November, with the headline indicator expected to remain unchanged at 98, the top of the range for the economic recovery to-date but still below the long-run average. Italian figures for retail sales and industrial sales and new orders, all for September, are also due. In addition, Italy will sell 5Y and 25Y inflation-linked bonds and 2Y zero-coupon bonds.

Germany: GDP growth and business climate



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

Germany: GDP growth and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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In the US, the week comes to an end with the October advanced goods trade report along with wholesale and retail inventory figures.

UK

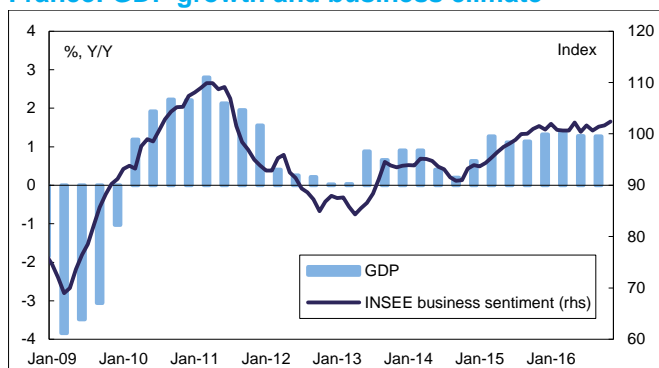
Firmer mortgage lending points to a gradual recovery in the housing market

The BBA retail banking statistics released today signalled that activity in the housing market is set to continue to recover over coming months, having been hit earlier this year by the Stamp Duty tax change and the Brexit vote. Indeed, although gross new mortgage loans remained broadly unchanged in October, the number and the value of mortgage approvals for house purchase rose further and reached their highest levels since May. And with consumer spending growth having remained strong after the Brexit vote, unsecured lending indicators show no signs of slowing either. Indeed, in October consumer credit growth reached its fastest pace since the pre-crisis years, 7.2%Y/Y.

The day ahead in the UK

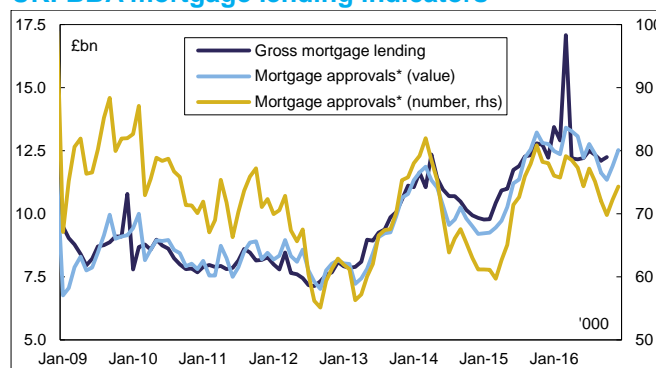
The data focus tomorrow will be on the second release of Q3 GDP figures, which are expected to confirm that growth eased by 0.2ppt to 0.5%Q/Q to match its average over the last eight quarters. Meanwhile, with figures from the retail sector indicating that sales growth picked up sharply after the EU referendum, the expenditure breakdown is expected to show that private consumption, which may well have been boosted by expectations of higher inflation in the future, remained the main driver of growth. But figures on business investment are likely to receive more attention, given that this is the area where the BoE in particular expected the first economic impact of Brexit uncertainty to be felt. And those are expected to show a fall of about 1%Q/Q in the wake of the Brexit vote. Among other notable new data tomorrow, the CBI will release its Distributive Trade survey, which seems likely to signal that retail sales growth moderated slightly in November.

France: GDP growth and business climate



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: BBA mortgage lending indicators












*2M lead. The figures include loans for house purchase, remortgaging and other secured lending.

Source: BBA, 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
Germany	 GDP – second release Q/Q% (Y/Y%)	Q3	0.2 (1.7)	<u>0.2 (1.7)</u>	0.4 (1.8)	-
	 Ifo business climate index	Nov	110.4	110.5	110.5	110.4
	 Ifo current assessment balance (expectations)	Nov	115.6 (105.5)	115.0 (106.0)	115.0 (106.1)	115.1 (105.9)
	 GfK consumer confidence survey	Dec	9.8	9.7	9.7	-
France	 Business confidence indicator (production outlook)	Nov	102 (3)	101 (2)	101 (2)	102 (1)
Spain	 GDP – second release Q/Q% (Y/Y%)	Q3	0.7 (3.2)	<u>0.7 (3.2)</u>	0.8 (3.2)	-
UK	 BBA loans for house purchase 000s	Oct	40.9	39.0	38.3	38.7
	 BoE corporate bond purchases £mn	Weekly	3471	-	3070	-
Country	Auction					
UK	 BoE APF operation purchased £1bn of 7-15Y Gilts (4.48 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
France	 07:45	Consumer confidence survey	Nov	98	98
Italy	 09:00	Industrial sales M/M% (Y/Y%)	Sep	-	4.1 (6.8)
	 09:00	Industrial orders M/M% (Y/Y%)	Sep	-	10.2 (15.9)
	 09:00	Retail sales M/M% (Y/Y%)	Sep	0.2 (-0.1)	-0.1 (-0.2)
UK	 09:30	GDP – second release Q/Q% (Y/Y%)	Q3	<u>0.5 (2.3)</u>	0.7 (2.1)
	 09:30	Index of services M/M% (3M/3M%)	Sep	0.2 (0.8)	0.2 (0.8)
	 11:00	CBI Distributive Trades survey, retail sales	Nov	12	21

Auctions and events

Country	GMT	Auction / Event
Italy	 10:00	Auction: To sell up to €3.5bn of zero-coupon 2018 bonds (28-Dec-2018)
	 10:00	Auction: To sell 0.1% index-linked 2022 bonds (15-May-2022)
	 10:00	Auction: To sell 2.55% index-linked 2041 bonds (15-Sep-2041)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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