

Euro wrap-up

Overview

- Bunds made losses as the European Commission economic sentiment survey was consistent with a pick-up in euro area GDP growth in Q4.
- Gilts were little changed despite BoE lending data signalling an improvement in UK housing market momentum.
- Tomorrow brings the euro area flash inflation estimate for November. In the UK, the BoE will publish its latest Financial Stability report.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/18	-0.748	+0.014
OBL 0 10/21	-0.452	+0.010
DBR 0 08/26	0.231	+0.026
UKT 1¼ 07/18	0.101	-0.006
UKT 3¼ 09/21	0.585	-0.009
UKT 1½ 07/26	1.379	-

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

Euro area

Commission survey signals gradual acceleration in Q4

Consistent with other recent surveys such as the flash PMIs, the Commission's business and consumer sentiment indices for November implied a gradual firming of GDP growth in the final quarter of the year. Most notably, while it was a touch weaker than expected, the headline euro area economic sentiment index (ESI) inched up to 106.5, the highest level this year and second highest in five and a half years, hinting at a pickup in economic growth to 0.4%Q/Q in Q4. Within the survey detail, however, the findings were rather mixed. At the country level, the ESIs rose in France and Spain, the former to a nine-month high and the latter the best since end-2015. But they slipped back in Germany, albeit to the second-highest level in more than five years, and Italy, to a level below the average for the year to-date.

At the sectoral level, the euro area industry index remained well above its recent norms, albeit slipping back from the more than five-year high reached the previous month due partly to a more cautious assessment of the level of order books. But the respective measure for services remained unchanged above the average for 2016. And the indices for retail and construction rose further, the former to a four-month high and the latter to the highest since before the Lehman crisis. Moreover, today's figures also confirmed the improvement in consumer confidence to the highest since last December, which was flagged in the flash estimate. The survey also signalled a firming of employment intentions. And the ECB might have been particularly encouraged to see higher selling price expectations in industry, to the highest since 2012, as well as in services and retail. And there was also a notable rise in consumer price expectations to the highest in more than two years.

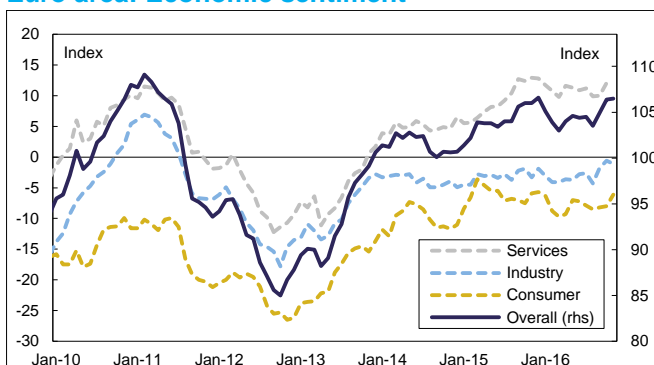
Inflation unchanged in Germany and Spain

The first figures for inflation in November were released today in the shape of the flash estimates of CPI from Germany and Spain. On the EU-harmonised measure, German CPI posted a downside surprise, unchanged at October's two-year high of 0.7%Y/Y. The detail released on the national methodology showed a rise in food prices offsetting weaker energy and services price inflation, the latter suggesting that core inflation might have fallen back a little. Likewise, the EU measure of Spanish CPI was also unchanged, at a three-year high of 0.5%Y/Y. Those results are consistent with our forecast for euro area CPI in November, due tomorrow, to remain similarly unchanged at 0.5%Y/Y.

The day ahead in the euro area and US

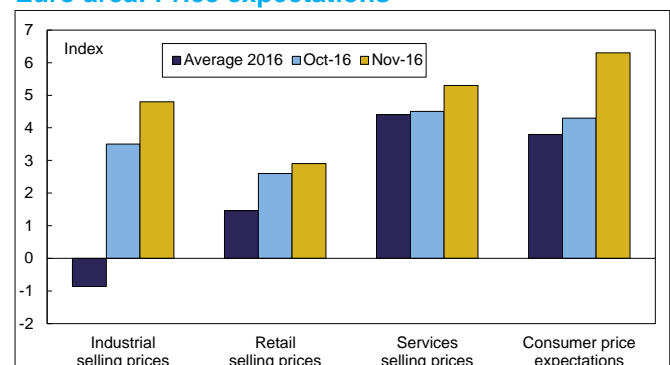
Wednesday brings the aforementioned flash estimates of euro area inflation in November. We expect both the headline and core rates to remain unchanged at their October levels of 0.5%Y/Y and 0.8%Y/Y respectively. Also due are the equivalent

Euro area: Economic sentiment*



*European Commission business and consumer survey indices.
Source: European Commission, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Price expectations*



*European Commission business and consumer survey indices.
Source: European Commission, Thomson Reuters and Daiwa Capital Markets Europe Ltd.



figures from France and Italy, with both expected to edge higher from their respective rates of 0.5%Y/Y and -0.1%Y/Y in October. Also due on Wednesday are German figures for unemployment in November and retail sales in October. In addition, ECB President Draghi will be speaking publicly in Madrid. In the markets, meanwhile, Germany will sell 5Y Bunds.

In the US, October's personal spending, income and associated deflators are due with the core PCE deflator – the Fed's preferred measure of inflation – expected to remain unchanged at 0.1%M/M, 1.7%Y/Y. In addition, ahead of Friday's labour market report the ADP employment index for November is scheduled for release while the Chicago PMI for the same month, pending home sales figures for October and the Fed's latest Beige Book are also due.

UK

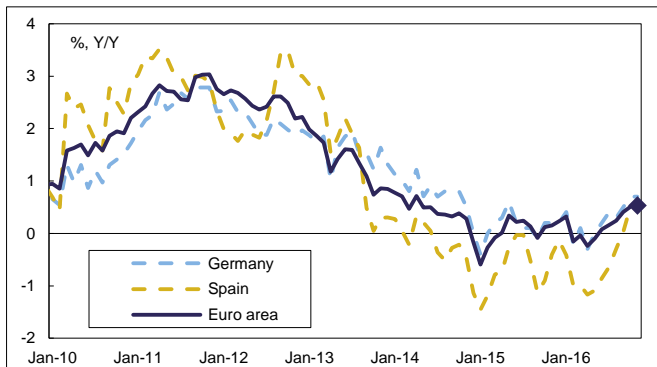
Mortgage approvals signal continued recovery in housing market

The Brexit vote had a chilling effect on the UK property market. But despite the lack of any clarity over how the process of leaving the EU is going to evolve, housing market sentiment, underpinned by falling mortgage rates, seems to be recovering. Today's release of the latest lending figures showed that the number of mortgage approvals increased notably for a second consecutive month in October, from 63.6k to 67.5k, the highest level in seven months, albeit remaining below the level seen before the Stamp Duty tax change in April. And while approvals are signalling that activity is set to recover, mortgage lending growth actually inched lower in October to 3.1%Y/Y. Meanwhile, the BoE figures also showed that unsecured lending to individuals continued to grow at a strong pace above 10%Y/Y, perhaps unsurprisingly given that consumer spending has been strong of late.

The day ahead in the UK

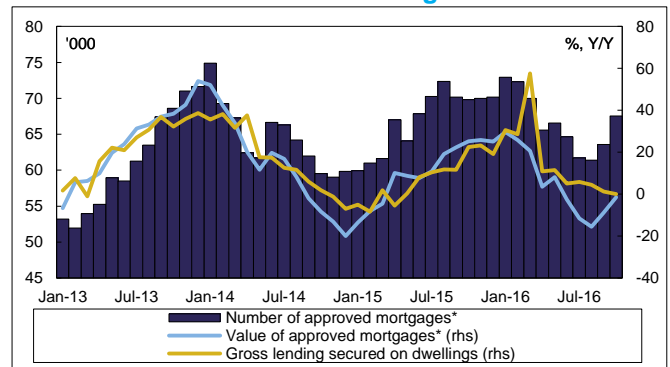
Tomorrow brings the GfK consumer confidence and Lloyds Business Barometer surveys. After the initial downbeat reaction to the Brexit vote, consumer sentiment recovered in September to its pre-referendum level of -1. But October saw the index slip to -3, and the indicator from the European Commission released today and based on the same set of data suggested that we will see a further deterioration in November. Meanwhile, on the policy front, the focus will be on the BoE's release of its annual bank stress test results and Financial Stability report.

Euro area: CPI inflation*



*EU-harmonised measure. Euro area Nov-16 reading is Daiwa forecast.
Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Indicators of secured lending to individuals

















*For house purchase.
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	 Economic sentiment indicator	Nov	106.5	106.8	106.3	106.4
	 Services (industrial) sentiment	Nov	12.1 (-1.1)	12.5 (-0.5)	12.0 (-0.6)	12.1 (-)
	 Final consumer confidence	Nov	-6.1	-6.1	-8.0	-
Germany	 Preliminary EU-harmonised CPI Y/Y%	Nov	0.7	0.8	0.7	-
France	 GDP – second release Q/Q% (Y/Y%)	Q3	0.2 (1.1)	<u>0.2 (1.1)</u>	-0.1 (1.3)	-
	 Consumer spending M/M% (Y/Y%)	Oct	0.9 (1.5)	0.3 (1.0)	-0.2 (0.7)	-0.4 (-)
Spain	 Preliminary EU-harmonised CPI Y/Y%	Nov	0.5	0.4	0.5	-
UK	 Mortgage approvals `000s	Oct	67.5	65.0	62.9	63.6
	 Net consumer credit (net lending secured on dwellings) £bn	Oct	1.6 (3.3)	1.5 (3.2)	1.4 (3.2)	1.5 (3.3)
Country	Auction					
Italy sold	 €1.75bn of 0.35% 2021 bonds (01-Nov-2021) at an average yield of 0.91%					
	 €1bn of 2022 floating-rate bonds (15-Jun-2022) at an average yield of 0.67%					
	 €1.5bn of 1.25% 2026 bonds (01-Dec-2026) at an average yield of 1.97%					
	 €1.95bn of 2024 floating-rate bonds (15-Feb-2024) at an average yield of 0.99%					
UK	 BoE APF operation purchased £1bn of 15Y+ Gilts (2.75 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	10:00	 Flash CPI estimate Y/Y%	Nov	<u>0.5</u>	0.5
	10:00	 Flash core CPI estimate Y/Y%	Nov	<u>0.8</u>	0.8
Germany	07:00	 Retail sales M/M% (Y/Y%)	Oct	1.0 (1.0)	-1.4 (0.4)
	08:55	 Unemployment change `000s (rate %)	Nov	-5.0 (6.0)	-13.0 (6.0)
France	07:45	 Preliminary EU-harmonised CPI Y/Y%	Nov	0.6	0.5
Italy	10:00	 Preliminary EU-harmonised CPI Y/Y%	Nov	0.1	-0.1
Spain	08:00	 Retail sales Y/Y%	Oct	3.2	3.2
	09:00	 Current account balance €bn	Sep	-	2.9
UK	00:01	 Lloyds business barometer	Nov	-	37
	00:01	 GfK consumer confidence survey	Nov	-4	-3

Auctions and events

Country	GMT	Auction / Event
EMU	12:30	 ECB's Draghi scheduled to speak in Madrid
Germany	10:30	 Auction: To sell €3bn of 0% 2021 bonds (08-Oct-2021)
UK	07:00	 BoE publishes Financial Stability Report
	14:50	 BoE APF operation: To purchase 7-15Y Gilts

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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