

Euro wrap-up

Overview

- Bunds followed US Treasuries lower as data showed a rise in euro area inflation in November and OPEC reached agreement to cut oil production.
- Gilts also made losses despite a worsening in UK consumer confidence.
- Thursday brings the final November manufacturing PMIs from the euro area and UK, and the latest euro area unemployment data.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 12/18	-0.730	+0.023
OBL 0 10/21	-0.429	+0.027
DBR 0 08/26	0.279	+0.057
UKT 1¼ 07/18	0.131	+0.033
UKT 3¼ 09/21	0.613	+0.036
UKT 1½ 07/26	1.420	+0.050

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

Euro area

Food prices push inflation slightly higher

According to the flash estimate, euro area inflation rose for the seventh consecutive month in November, up 0.1ppt to 0.6%Y/Y, the highest since April 2014. The increase in the latest month was due to higher food inflation (up 0.3ppt to 0.7%Y/Y). In contrast, energy prices fell at a slightly faster pace (down 1.1%Y/Y), while inflation of services (1.1%Y/Y) and non-energy industrial goods (0.3%Y/Y) was unchanged from October. As such, core inflation was also unchanged for the fourth consecutive month, at a subdued 0.8%Y/Y. Given this persistent lack of underlying price pressures amid significant wage restraint, we expect core inflation to remain below 1%Y/Y at least through to April, and to remain below 1¼%Y/Y over the remainder of 2017. And while we expect headline CPI to move higher to a range between 1-1½%Y/Y from January through to the end of 2017 as energy price shifts make a positive contribution to inflation, we expect it to remain well below the ECB's target of close to 2%Y/Y on a sustained basis through to 2019. That is a view consistent with recent surveys. And, while they have picked up since the summer, financial market measures of inflation expectations such as the 5Y5Y inflation swap rate (about 1.20%) remain consistent with sub-target inflation over the medium-to-long term too. As such, the ECB will decide next week to extend its asset purchases beyond next March for at least six months.

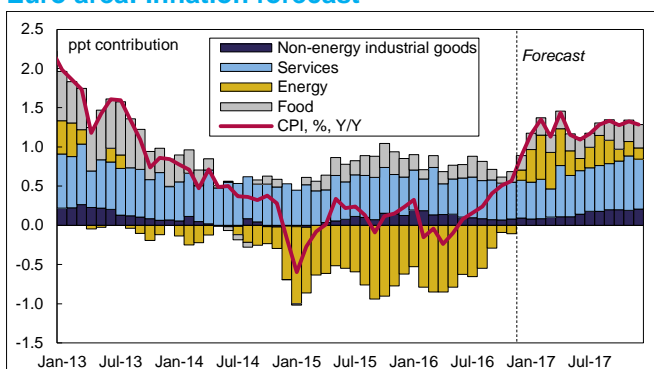
German retail sales up the most since 2014

The latest German economic data, meanwhile, were consistent with a pickup in economic growth in the fourth quarter in the euro area's largest member state following the relatively tepid rate of 0.2%Q/Q in Q3. October's retail sales figures significantly beat expectations, with growth of 2.4%M/M, the most since early 2014. Admittedly, the strength in the latest month partly reflected payback for previous weakness, with sales having fallen 1.5%M/M in September, up just 0.1% higher on a three-month basis, and still 1.0% below their level one year earlier. But with consumer confidence elevated and unemployment data for November also released today showing a further decline in joblessness for the sixteenth successive month to a new post-reunification low, conditions appear in place for solid consumption growth in the current quarter.

The day ahead in the euro area and US

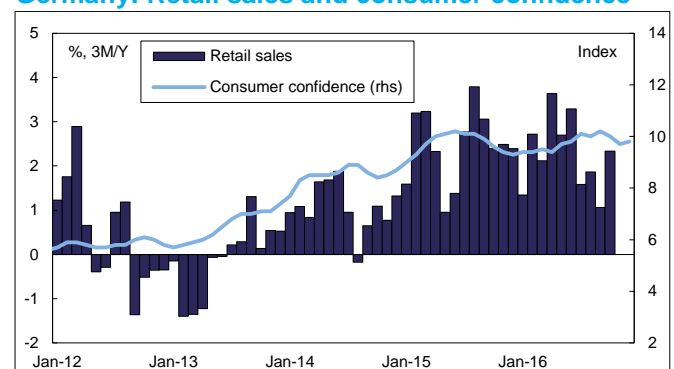
Thursday will bring the final manufacturing PMIs for November, for which the flash headline euro area index rose 0.2pt to 53.7, the highest since January 2014, signalling a strengthening of momentum in the sector in the fourth quarter. Also scheduled for release are euro area unemployment data for October, with the headline rate expected to remain unchanged at 10.0%. In the bond markets, France and Spain will sell a range of bonds.

Euro area: Inflation forecast



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

Germany: Retail sales and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



In the US, the focus will be November's manufacturing ISM indices. In addition, ahead of Friday's labour market report, November's Challenger job cut figures and the usual weekly claim numbers are also due. And October's construction spending figures are also scheduled for release.

UK

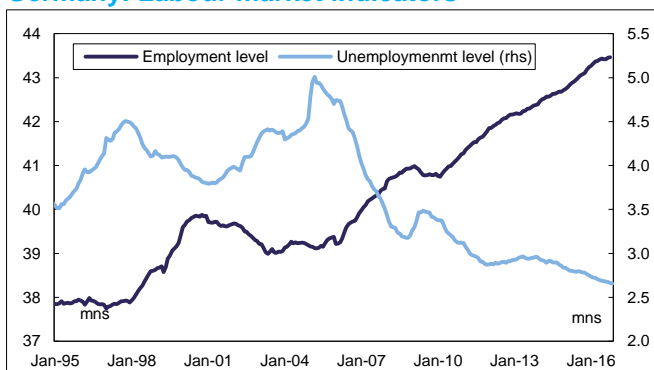
Consumer confidence takes a sharp turn for the worse

Today's GfK consumer confidence survey showed a marked deterioration in consumer sentiment in November, with the headline index falling 5pts to -8, the lowest level since July. Within the survey details, consumers assessed that both their personal financial situation and general economic prospects had weakened significantly, while the index for major purchases fell sharply as well, from 14 to 5, the second lowest level since mid-2015. So, overall, the survey hinted at a slowdown in consumer spending towards the end of the year, which would also no doubt leave GDP growth slowing in Q4 too. However, the Lloyds Business Barometer, also released overnight, suggested that business sentiment was somewhat more resilient in November with the headline indicator falling to 32, still a relatively high level matching the reading seen in May before the Brexit vote.

The day ahead in the UK

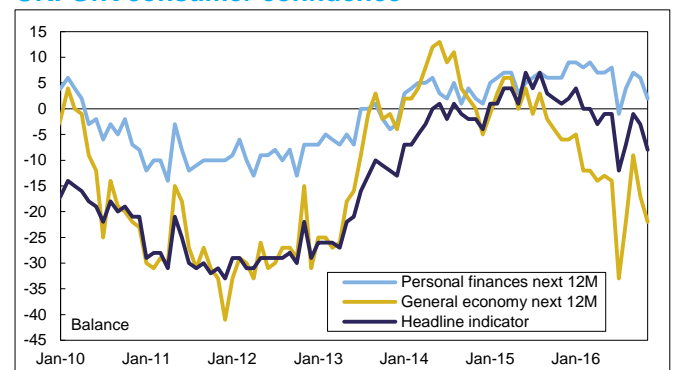
The focus tomorrow will be on the manufacturing PMI survey. Having moderated in October from the twenty-seven month high of 55.5 to 54.3, the headline indicator is expected to have been little changed in November, suggesting reasonable growth in the sector. However, the new orders index is expected to have fallen.

Germany: Labour market indicators



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: GfK consumer confidence















Source: GfK, 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	 Flash CPI estimate Y/Y%	Nov	0.6	<u>0.5</u>	0.5	-
	 Flash core CPI estimate Y/Y%	Nov	0.8	<u>0.8</u>	0.8	-
Germany	 Retail sales M/M% (Y/Y%)	Oct	2.4 (-1.0)	1.0 (1.0)	-1.4 (0.4)	-1.5 (0.6)
	 Unemployment change '000s (rate %)	Nov	-5.0 (6.0)	-5.0 (6.0)	-13.0 (6.0)	-
France	 Preliminary EU-harmonised CPI Y/Y%	Nov	0.7	0.6	0.5	-
Italy	 Preliminary EU-harmonised CPI Y/Y%	Nov	0.1	0.1	-0.1	-
Spain	 Retail sales Y/Y%	Oct	2.2	3.2	3.2	3.1
	 Current account balance €bn	Sep	1.5	-	2.9	-
UK	 Lloyds business barometer	Nov	32	-	37	-
	 GfK consumer confidence survey	Nov	-8	-4	-3	-
Country	Auction					
Germany sold	 €2.5bn of 0% 2021 bonds (08-Oct-2021) at an average yield of -0.47%					
UK	 BoE APF operation purchased £1bn of 7-15Y Gilts (3.14 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	 Final manufacturing PMI	Nov	53.7	53.5
	10:00	 Unemployment rate %	Oct	10.0	10.0
Germany	08:55	 Final manufacturing PMI	Nov	54.4	55.0
France	08:50	 Final manufacturing PMI	Nov	51.5	51.8
Italy	08:45	 Manufacturing PMI	Nov	51.3	50.9
	09:00	 Unemployment rate %	Oct	11.6	11.7
	10:00	 GDP – second release Q/Q% (Y/Y%)	Q3	<u>0.3 (0.9)</u>	0.0 (0.7)
Spain	08:15	 Manufacturing PMI	Nov	53.7	53.3
UK	07:00	 Nationwide house price index M/M% (Y/Y%)	Nov	0.2 (4.7)	0.0 (4.6)
	09:30	 Final manufacturing PMI	Nov	54.4	54.3
	15:00	 BoE corporate bond purchases £mn	Weekly	-	3070

Auctions and events

Country	GMT	Auction / Event
France	09:50	 Auction: To sell 1.5% 2031 bonds (25-May-2031)
	09:50	 Auction: To sell 4.5% 2041 bonds (25-Apr-2041)
Spain	09:30	 Auction: To sell 1.3% 2026 bonds (31-Oct-2026)
	09:30	 Auction: To sell 0.55% 2019 index-linked bonds (30-Nov-2019)
	09:30	 Auction: To sell 4.7% 2041 bonds (30-Jul-2041)
	09:30	 Auction: To sell 0.75% 2021 bonds (30-Jul-2021)
UK	10:30	 Auction: To sell £2.75bn of 0.5% 2022 bonds (22-Jul-2022)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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