

Euro wrap-up

Overview

- Bunds made gains as the flash PMIs signalled no new growth momentum in the euro area in November.
- Gilts made more substantive gains as the UK flash PMIs fell well short of expectations, signalling notable contraction so far in Q4.
- The coming week will bring the Commission's economic sentiment survey, as well as flash euro area CPI for November. Politics will continue to dominate the UK news flow.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.649	-0.012
OBL 0 10/24	-0.589	-0.023
DBR 0 08/29	-0.363	-0.034
UKT 3% 09/21	0.522	-0.051
UKT 1 04/24	0.490	-0.056
UKT 0% 10/29	0.700	-0.053

*Change from close as at 4:30pm GMT.
Source: Bloomberg

Euro area

Lagarde offers little new on policy

Today was noteworthy in bringing the first major speech from Christine Lagarde since she became ECB President. However, perhaps unsurprisingly, there were no signs yet of any new ideas on policy. While she noted that the ECB would "continue to support the economy and respond to future risks" in line with the Governing Council's current forward guidance, she stated that monetary policy would undergo a strategic review in the near future but offered no further information on the issues that would be considered. She was happy, nevertheless, to repeat Draghi's exhortations for Governments to take more action. In that respect, she called for the single market to be strengthened in services, capital markets and banking. And inevitably, she also argued for a more supportive fiscal stance that would help reduce the negative side-effects from highly accommodative monetary policy. So, she called for increased public investment, noting that the current level was "some way below its pre-crisis levels". Of course, Draghi has called for such things for years to minimal effect, and it's not clear that Lagarde will be any more successful.

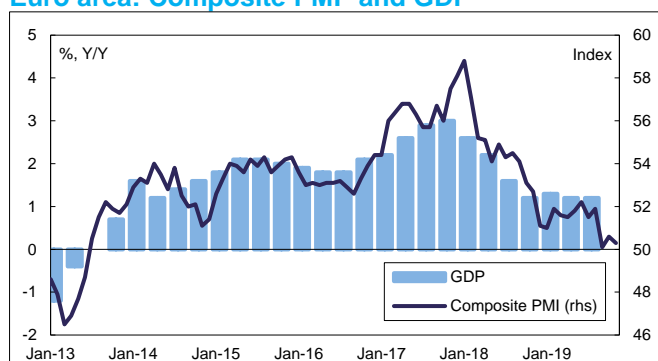
Flash PMIs suggest no new growth momentum in Q4

The case for stimulative macroeconomic policy was illustrated by today's flash PMIs for November, which disappointed expectations to suggest – contrary to the ECB's most recent forecasts – that there has been no improvement in economic growth momentum in Q4. Admittedly, there were further hints that the pace of deterioration in manufacturing has eased, with a second successive monthly increase in the euro area PMI for the sector and the associated indices for output, new orders and employment up too. However, the 0.7pt rise to a three-month high of 46.6 left the manufacturing PMI (and its aforementioned subcomponents) still languishing in contraction territory, while the average level over the first two months of Q4 was still down on the Q3 average. Moreover, contrary to expectations of an increase, the euro area services PMI fell 0.7pt to a ten-month low of 51.5 to suggest that manufacturing weakness is weighing more heavily on other sectors. And so, the euro area composite PMI fell 0.3pt to 50.3, just above September's six-year low and on track for the weakest quarterly level since Q213 when the economy was just starting to recover from the euro crisis. Indeed, overall, the survey was consistent with our forecast of GDP growth in Q4 of just 0.1%Q/Q. And of additional concern to the ECB will be the euro area price PMIs, which fell to the lowest since 2016, suggesting that its hopes of a pickup in underlying inflation are likely to be dashed.

Conditions in Southern Europe deteriorating?

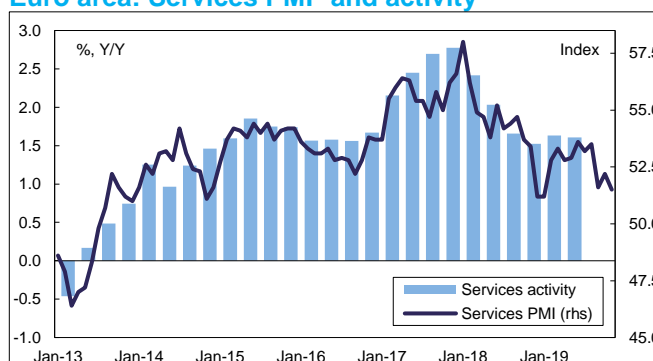
The mild improvement in the manufacturing sector was reflected in the respective PMIs for both Germany and France, which

Euro area: Composite PMI* and GDP



*Flash PMI for November 2019. Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Services PMI* and activity



*Flash PMI for November 2019. Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

rose to five-month highs. Nevertheless, at 43.8, Germany's manufacturing PMI was still consistent with underlying contraction in the sector. And that country's services PMI was weaker than expected, falling to 51.3, the lowest in more than three years. As such, while the German composite PMI edged up to a three-month high, at just 49.2 it remained one of its weakest readings since the euro crisis and a level consistent with no improvement in growth momentum in Q4. With France's services index steady and composite PMI up slightly to 52.7, close to the top of the range of the past year, today's survey tallied with [yesterday's INSEE indices](#) to suggest ongoing steady growth in the euro area's second-largest member state in Q4. In contrast, while there was no additional detail provided, Markit stated that the survey for the rest of the euro area was consistent with contraction for the first time in more than six years, with an increased pace of decline in manufacturing and a flat line in services activity. As well as renewed weakening in Italy, that suggests a possible slowdown in Spain too.

Consumption drove German growth in Q3

There were no surprises from the updated estimate of German GDP in Q3, with growth confirmed at 0.1%Q/Q following the dip of 0.2%Q/Q in Q2. And that left it up an underwhelming 0.5%Y/Y. The expenditure detail, which was published for the first time, reported that consumption was the principal driver, with spending by households up 0.4%Q/Q, broadly in line with the average of the past two years, buoyed by firm nominal growth in employee compensation (up 4.4%Y/Y) and disposable income (up 3.4%Y/Y). In addition, government current expenditure rose a vigorous 0.8%Q/Q, the most in more than three years. In contrast, investment subtracted from growth, as spending on machinery and equipment declined for the first time since Q416 and by 2.6%Q/Q, the most in more than six years. Investment in construction (up 1.2%Q/Q) provided some positive offset. And stronger exports (up 1.0%Q/Q) and flat imports (up just 0.1%Q/Q) meant that net trade added 0.5ppt to growth. But that impact was more than offset by inventory adjustments, which subtracted a hefty 0.7ppt.

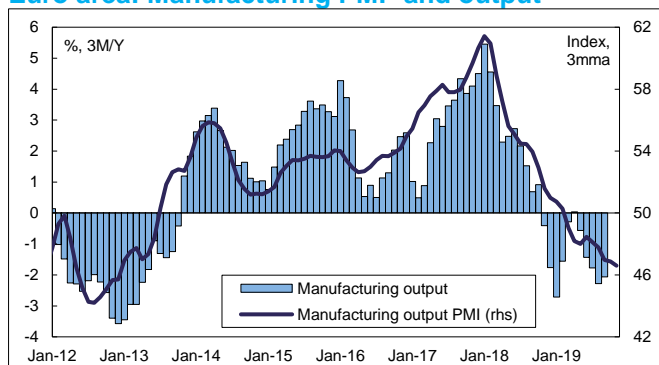
Given that sharp negative contribution in Q3, stocks seem bound to add to German growth in Q4. At the same time, however, net trade seems highly likely to subtract from growth, just as it did in four of the five quarters prior to Q3. So, overall, all will depend on domestic demand. And with consumption growth and construction investment highly likely to be weaker, consistent with today's German flash PMIs we expect overall GDP growth in the euro area's largest member state this quarter merely to match the 0.1%Q/Q rate of Q3.

The week ahead in the euro area and US

The coming week should be a relatively busy one for euro area economic releases, including the Commission's latest consumer and business sentiment surveys (Thursday) and flash inflation estimate (Friday) for November. In particular, the Commission's economic sentiment indicator (ESI) – which arguably provides the most reliable guide to euro area GDP growth – is expected to have edged slightly higher in November on the back of modest improvements in consumer and business sentiment alike. But this would still leave the ESI at its second-lowest reading since early 2015 and consistent with slowing economic momentum in the fourth quarter. In terms of prices, headline inflation is also expected to have ticked slightly higher in November to 0.9%Y/Y from October's near-three-year low of 0.7%Y/Y. While this will in part reflect a softer pace of decline in energy inflation, we also anticipate a modest increase in core inflation, by 0.1ppt to a seven-month high of 1.2%Y/Y, nevertheless still consistent with very subdued underlying price pressures. Friday will also bring the euro unemployment figures for October.

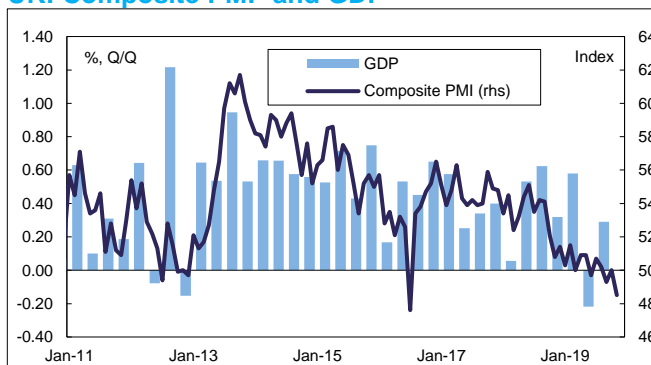
At the country level, the first half of the week will be dominated by national sentiment indicators, including the German Ifo business survey (Monday), German GfK consumer confidence index (Tuesday) and the French INSEE consumer and Italian ISTAT consumer and business monitors (Wednesday). Meanwhile, the back end of the week will bring flash inflation estimates from Germany and Spain (Thursday), and France and Italy (Friday). Friday will also bring the latest German labour market and retail sales figures, along with French consumer spending data. Elsewhere, ECB Chief Economist Lane is scheduled to speak in London on Monday evening, while ECB Executive Board members Mersch and Cœuré are due to speak on Monday and Tuesday respectively. In the markets, Germany will sell 5Y Bunds on Wednesday, while Italy will sell

Euro area: Manufacturing PMI* and output



*Flash PMI for November 2019. Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Composite PMI* and GDP



*Flash PMI for November 2019. Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

bonds on Tuesday and Thursday.

In the US, ahead of Thursday's Thanksgiving holiday, the first half of the coming week will provide several releases of note. Of particular interest on Tuesday will be October's advance goods trade and inventories reports, followed on Wednesday by durable goods orders and personal spending and income data for the same month. That day will also bring revised Q3 GDP figures, which are expected to confirm the initial estimate that growth slowed to 1.9%Q/Q annualised from 2.0%Q/Q ann. in Q2. Sentiment surveys due in the coming week will include the Chicago Fed's national activity index (Monday), Conference Board consumer confidence indicators (Tuesday) and the Chicago PMI (Wednesday). Tuesday will also bring several housing market indicators, while the Fed's latest Beige Book will be published on Wednesday. In the markets, the Treasury will sell 2Y notes on Monday, 2Y floating-rate and 5Y fixed-rate bonds on Tuesday and 7Y notes on Wednesday.

UK
















Dire inaugural flash PMIs suggest drop in GDP in Q4

Today brought the first ever UK flash PMIs. And they were undoubtedly weak, with declines in all key indices. The manufacturing PMI dropped 1.4pts to 48.3, marking the seventh successive reading in contraction territory and less than 1.0pt above August's seven-year low. The detail reported declines in all key manufacturing indices, with the new export orders PMI falling almost 6.0pts to just 45.8, the second-lowest since 2012, and the employment PMI down 1.0pt to 46.2, the lowest in a decade. Moreover, the services PMI also fell more than 1.0pt to 48.6, which apart from the immediate post-referendum reading was the weakest since March 2009. And so, the composite PMI fell 1.5pts to 48.5, also the lowest since 2009 with the exception of July 2016, and a reading consistent with a decline in GDP in Q4. We therefore maintain our forecast of a slightly smaller contraction of 0.1%Q/Q, which is far inferior to the BoE's forecast of growth of 0.2%Q/Q. As such, we maintain our expectation of a 25bps cut in Bank Rate in the first half of 2020.

The week ahead in the UK










While politics will continue to dominate the news flow in the coming week, with the Tory party election manifesto likely to be finally published, the data calendar will be book-ended by sentiment surveys for November. First up on Monday will be the CBI distributive trades monitor, which is expected to show that the headline retail sales index remained firmly in negative territory for the fifth consecutive month (unchanged at -10), suggesting that sales volumes remained poor for the time of the year. This would be consistent with ongoing subdued consumer confidence, with the GfK's latest household survey (Friday) expected to show that the headline index (-14) remained at the bottom of the recent range. Friday will also bring the Bank of England's latest lending figures for October. In the markets, the DMO will sell 5Y Gilts on Tuesday.

Daiwa economic forecasts

		2019				2020				2018	2019	2020
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q												
Euro area		0.4	0.2	0.2	0.1	0.2	0.2	0.2	0.1	1.9	1.1	0.7
Germany		0.5	-0.2	0.1	0.1	0.1	0.2	0.1	0.1	1.5	0.6	0.5
France		0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	1.7	1.3	1.2
Italy		0.1	0.1	0.1	0.0	0.0	0.1	-0.1	-0.1	0.7	0.2	0.1
Spain		0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	2.4	2.0	1.6
UK		0.6	-0.2	0.3	-0.1	0.2	0.2	0.2	0.1	1.4	1.2	0.5
Inflation forecasts %, Y/Y												
Euro area												
Headline CPI		1.4	1.4	1.0	1.0	1.2	1.1	1.3	1.2	1.8	1.2	1.2
Core CPI		1.0	1.1	0.9	1.2	1.3	1.3	1.5	1.3	1.0	1.0	1.3
UK												
Headline CPI		1.9	2.0	1.8	1.5	1.7	1.1	0.9	1.0	2.5	1.8	1.3
Core CPI		1.9	1.7	1.7	1.7	1.6	1.4	1.2	1.1	2.1	1.7	1.3
Monetary policy												
ECB												
Refi Rate %		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate %		-0.40	-0.40	-0.50	-0.50	-0.60	-0.60	-0.60	-0.60	-0.40	-0.50	-0.60
Net asset purchases*		0	0	0	20	20	20	20	20	15	20	20
BoE												
Bank Rate %		0.75	0.75	0.75	0.75	0.75	0.50	0.50	0.50	0.75	0.75	0.50
Net asset purchases**		0	0	0	0	0	0	0	0	0	0	0

*Monthly target €bn, end of period. **Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE 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		Prelimianry manufacturing (services) PMI	Nov	46.6 (51.5)	46.4 (52.4)	45.9 (52.2)	-
		Preliminary composite PMI	Nov	50.3	50.9	50.6	-
Germany		Final GDP Q/Q% (Y/Y%)	Q3	0.1 (0.5)	0.1 (0.5)	-0.2 (0.3)	-
		Preliminary manufacturing (services) PMI	Nov	43.8 (51.3)	42.8 (52.0)	42.1 (51.6)	-
		Preliminary composite PMI	Nov	49.2	49.3	48.9	-
France		Preliminary manufacturing (services) PMI	Nov	51.6 (52.9)	50.9 (53.0)	50.7 (52.9)	-
		Preliminary composite PMI	Nov	52.7	52.8	52.6	-
UK		Prelimianry manufacturing (services) PMI	Nov	48.3 (48.6)	48.9 (50.1)	49.6 (50.0)	-
		Preliminary composite PMI	Nov	48.5	50.2	50.0	-
Auctions							
Country		Auction					
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 25 November 2019					
Germany		09.00 Ifo business climate index	Nov	95.0	94.6
		09.00 Ifo current assessment (expectations) balance	Nov	97.9 (92.5)	97.8 (91.5)
UK		11.00 CBI distributive trades survey, total reported sales	Nov	-10	-10
Tuesday 26 November 2019					
Germany		07.00 GfK consumer confidence survey	Dec	9.6	9.6
UK		09.30 UK Finance loans for housing000s	Oct	42.2	42.3
Wednesday 27 November 2019					
France		07.45 Consumer confidence indicator	Nov	103	104
Italy		09.00 Consumer confidence (manufacturing confidence) indicator	Nov	111.6 (99.9)	111.7 (99.6)
UK		00.01 BRC shop price index Y/Y%	Nov	-	-0.4
Thursday 28 November 2019					
EMU		09.00 M3 money supply Y/Y%	Oct	5.5	5.5
		10.00 Economic confidence indicator	Nov	101.0	100.8
		10.00 Industrial confidence (services confidence) indicator	Nov	-9.1 (8.9)	-9.5 (9.0)
		10.00 Final consumer confidence indicator	Nov	-7.2	-7.6
Germany		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	1.2 (1.2)	1.1 (0.9)
Spain		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	0.4 (0.5)	0.1 (0.2)
		08.00 Retail sales Y/Y%	Oct	-	3.4
UK		- Nationwide house price index* M/M% (Y/Y%)	Nov	0.1 (0.2)	0.2 (0.4)
Friday 29 November 2019					
EMU		10.00 Unemployment rate %	Oct	7.5	7.5
		10.00 CPI (core CPI) Y/Y%	Nov	0.9 (1.2)	0.7 (1.1)
Germany		07.00 Retail sales M/M% (Y/Y%)	Oct	0.2 (3.0)	0.0 (3.4)
		08.55 Unemployment rate % (change '000s)	Nov	5.0 (5.0)	5.0 (6.0)
France		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	0.9 (1.1)	0.8 (0.9)
		07.45 Final GDP Q/Q% (Y/Y%)	Q3	0.3 (1.3)	0.3 (1.3)
		07.45 PPI Y/Y%	Oct	-	-1.0
		07.45 Consumer spending M/M% (Y/Y%)	Oct	0.3 (-0.4)	-0.4 (0.3)
Italy		09.00 Preliminary unemployment rate %	Oct	9.8	9.9
		10.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	0.3 (0.2)	0.2 (0.2)
		11.00 Final GDP Q/Q% (Y/Y%)	Q3	0.1 (0.3)	0.1 (0.1)
UK		00.01 GfK consumer confidence	Nov	-14	-14
		00.01 Lloyds business barometer	Nov	-	6
		09.30 Net consumer credit (net mortgage lending) £bn	Oct	0.9 (3.8)	0.8 (3.8)

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 25 November 2019		
EMU		18.00 ECB's Chief Economist Lane scheduled to speak
Tuesday 26 November 2019		
EMU		08.00 ECB's Coeure and Wunsch are scheduled to speak
Italy		10.00 Auction: 0% 2021 bonds
		10.00 Auction: 2.55% 2041 index-linked bonds
UK		10.30 Auction: £3bn of 0.625% 2025 bonds
Wednesday 27 November 2019		
EMU		09.30 ECB's Chief Economist Lane scheduled to speak
Germany		10.30 Auction: €3bn of 0% 2024 bonds
Thursday 28 November 2019		
EMU		03.30 ECB's Villeroy scheduled to speak
		- ECB's Chief Economist Lane and Board Member Coeure scheduled to speak at separate events
Italy		10.00 Auction: €3bn of 10Y bonds
		10.00 Auction: €2.5bn of 5Y bonds
Friday 29 November 2019		
EMU		16.10 ECB's Villeroy scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.