Euro wrap-up

Overview

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- Bunds made very modest losses even as the German ifo survey remained consistent with subdued economic growth in Q4.
- Gilts were little changed as a UK retail sector survey indicated a modest improvement in sales in November.
- The coming two days will bring consumer confidence surveys from Germany, France and Italy, as well as business sentiment indicators from the latter.

Daily bond market movements

Bond	Yield	Change
BKO 0 12/21	-0.644	+0.005
OBL 0 10/24	-0.585	+0.002
DBR 0 08/29	-0.355	+0.006
UKT 3¾ 09/21	0.526	+0.002
UKT 1 04/24	0.493	-0.003
UKT 0⅞ 10/29	0.699	-0.005

*Change from close as at 4:00pm GMT.
Source: Bloomberg

Euro area

Ifo survey points to ongoing sluggishness in Q4

Consistent with Friday's flash PMIs, today's ifo survey results pointed to a modest improvement in German economic conditions in the current month. In particular, the ifo headline business climate index rose 0.3pt in November to a four-month high of 95.0. That, however, left the average level for the first two months of Q4 still slightly below the Q3 average to support our GDP forecast of another quarter of growth of just 0.1%Q/Q. Indeed, the ifo index of current conditions rose just 0.1pt to 97.9, still close to the bottom of the range of the past five years and firmly below the Q3 average. And while the expectations index rose 0.5pt to 92.1, the highest since July, it was still close to the bottom of the range of the past decade and suggestive of minimal acceleration in economic output ahead.

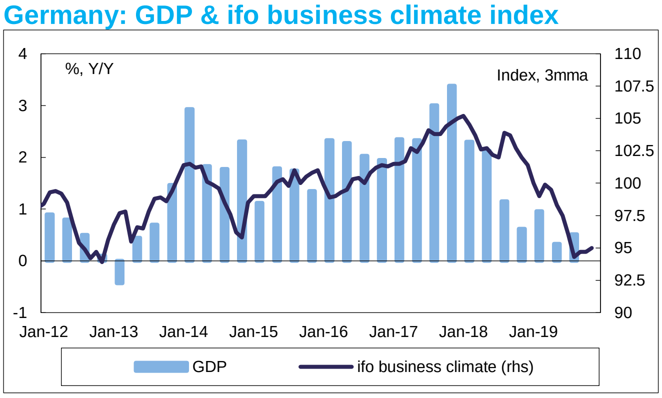
Manufacturing sector still in recession?

While the message of the headline index was consistent with that of the flash PMIs, however, the detailed findings of the ifo survey differed somewhat, e.g. reporting a deterioration in conditions in manufacturing. That led the Institute to conclude that the sector is "still in recession" with firms planning further cutbacks in production after five consecutive quarters of negative growth. Construction firms were also reportedly more downbeat, with the business climate index for the sector down to the lowest since February. But contrary to the PMIs, the ifo indices suggested an improvement in services, in terms of both current conditions and expectations. And wholesalers and retailers were much more optimistic, predicting the strongest future demand for more than three years, and suggesting that consumer spending is expected to provide ongoing support to economic growth into the New Year.

The coming two days in the euro area and US

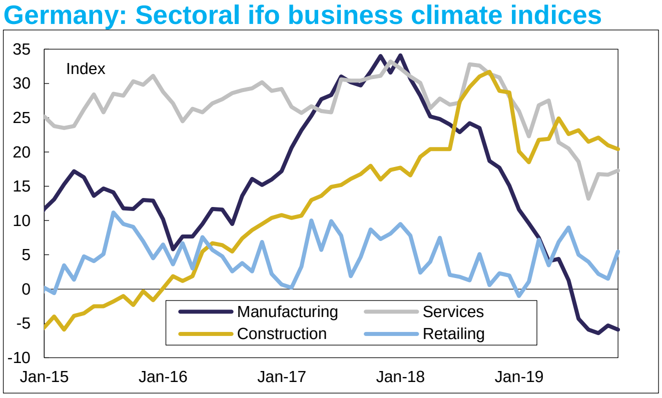
National sentiment surveys will continue to dominate the data calendar over the coming two days, with Germany's GfK consumer confidence survey (due tomorrow) expected to suggest that households were their most downbeat about conditions for more than 2½ years in November. The more upbeat assessment by retailers in today's ifo survey, however, might point to the likelihood of an upside surprise. The French INSEE consumer confidence survey (due Wednesday) is also currently expected to indicate that households were slightly less optimistic this month, although the headline index is likely to remain close to the top of the range of the past two years. Meanwhile, Italy's consumer and business sentiment indicators (also due Wednesday) are expected to maintain recent trends in November – i.e. with consumer confidence holding up relatively well but business sentiment remaining close to the multi-year low hit in September. Elsewhere, the ECB's soon-to-depart Executive Board member Cœuré is due to speak tomorrow, while ECB Chief Economist Lane will speak on

Germany: GDP & ifo business climate index



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: Sectoral ifo business climate indices



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Wednesday. In the markets, Italy will sell shorter-dated fixed bonds and longer-dated index-linked bonds tomorrow, while Germany will sell 5Y Bunds on Wednesday.

In the US, ahead of Thursday's national holiday for Thanksgiving, the coming two days will bring a number of top-tier releases. Of particular interest will be October's advance goods trade and inventories reports tomorrow, 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. Tomorrow will also bring the Conference Board's consumer confidence indicator for November, as well as the FHFA and S&P Core-logic home price indices for September and new home sales figures for October, while Wednesday will also see the publication of the Fed's latest Beige Book. In the markets, the US Treasury will sell 2Y floating-rate bonds and 5Y fixed-rate bonds tomorrow, and 7Y fixed-rate bonds on Wednesday.

UK

Conservative manifesto notable for its lack of substance

Friday evening saw all main party leaders experience an uncomfortable grilling from members of the public live on TV, with PM Johnson in particular facing mockery over his untrustworthiness. And yesterday's publication of the Conservative Party manifesto revealed a document that was most remarkable for its lack of substance, suggesting an unwillingness to subject Johnson's policies to enhanced scrutiny at the risk of alienating voters. From an economic perspective there was little new, with the manifesto proposing a gradual boost to public capital spending above existing government plans over coming years, reaching an extra £8.1bn in 2023-4. At 2.4% of GDP that year, net public investment would still be 0.6ppt of GDP below the party's proposed ceiling, but representing only a small fraction of the increase pledged by Labour (£55bn per year), albeit providing scope for extra investment to be announced in due course ahead of the following election. Revenue-wise, the manifesto would box in a Conservative government via promises not to raise the rates of income tax, National Insurance or VAT, which would likely prove problematic in the event of an unexpected deterioration in the public finances. But previously suggested cuts to the top rate of income tax and to the main rate of corporation tax have been shelved.

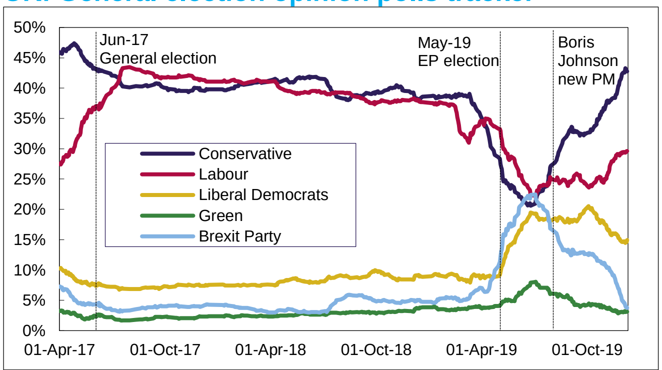
But Tory lead in the opinion polls continues to rise

Of course, the thin manifesto reflects the fact that, under a Conservative government, Brexit would continue to dominate policymaking. At its heart is the commitment to pass Johnson's Withdrawal Agreement, and thus ensure that the UK will leave the EU at end-January and then enter the so-called 'implementation period' whereby Single Market and Customs Union rules will continue to apply. But by also pledging not to extend the transition beyond December 2020, and the strong likelihood that a Free trade Agreement with the EU won't have been agreed and implemented by then, the Conservative manifesto underscores the risk that significant tariff and non-tariff barriers to trade with the EU – for manufacturing, services and agri-food exports – might come into effect at the end of next year. That risk would represent ongoing significant uncertainty for businesses, and so would continue to weigh on economic activity next year. And with the Conservative lead in the opinion polls continuing to rise despite the serious questions about lack of trust and policy substance, suggesting that the party is currently on track for a parliamentary majority of about 50 seats, we maintain our forecast of a contraction in GDP in Q4 and very weak economic growth in 2020.

Retail survey points to modest improvement in November

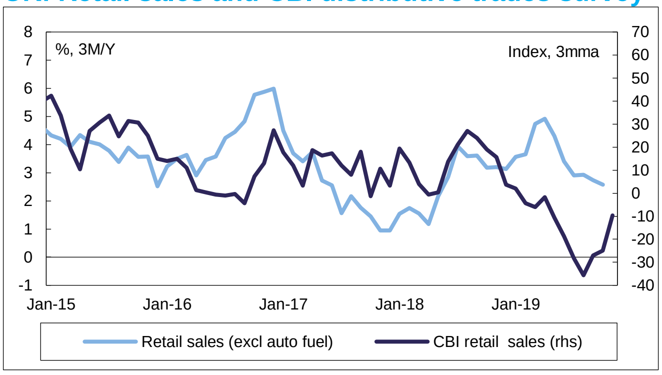
While last week's flash PMIs offered a particularly downbeat assessment of economic activity in November – the composite index declined to the second-lowest since 2009 to a level consistent with a contraction in GDP in Q4 – these surveys

UK: General election opinion polls tracker*



*15-poll moving average. Brexit Party shows UKIP data up to April 2019. Source: Yougov, Ipsos Mori, Survation, Panelbase, ORB, ComRes, Opinium, Deltapoll, Kantar, ICM Research, BMG and Daiwa Capital Markets Europe Ltd.

UK: Retail sales and CBI distributive trades survey



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

exclude the retail sector. And today's CBI distributive trades survey offered just a little more encouragement than of late about sales this month. In particular, the headline retail sales index unexpectedly increased 7pts to -3, the smallest decline for seven months, while retailers were seemingly more optimistic about the near-term outlook too, with the expected sales index rising 6pts to +1, the first positive reading since June. The improvement in November reflected notable growth in sales at food stores while sales at other store-types were weaker, and online sales posted the softest growth since June. Admittedly, this CBI survey has proved a fairly unreliable guide to the official retail sales figures over the past year. Moreover, the rising importance of Black Friday discounting in the UK has increasingly distorted retail sector conditions at this time of year. Indeed, this year, these promotions will be captured in December's official retail sales figures, compared with November's in 2018. So, we might well see a notable decline in year-on-year sales growth in November followed by strong annual growth in December. Regardless, we maintain our view that, against the backdrop of weak consumer confidence and slowing employment and wage growth, underlying household spending growth will continue to moderate heading into the New Year.

The coming two days in the UK

It will be relatively quiet for top-tier UK economic releases over coming days, with just the UK Finance lending figures for October due tomorrow, while the BRC shop price index for November will be published on Wednesday. In the markets, the DMO will sell 5Y Gilts tomorrow.

In the absence of significant news, the next edition of the Euro wrap-up will be published on 27 November 2019

European calendar

Today's results

Economic data

Country		Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Germany		Ifo business climate index	Nov	**95.0**	95.0	94.6	**94.7**
		Ifo current assessment (expectations) balance	Nov	**97.9 (92.1)**	97.9 (92.5)	97.8 (91.5)	**- (91.6)**
UK		CBI distributive trades survey, total reported sales	Nov	**-3**	-	-10	**-**

Auctions

Country	Auction
	- Nothing to report -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country		GMT	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Germany		07.00	GfK consumer confidence survey	Dec	9.6	9.6
UK		09.30	UK Finance house loans 000s	Oct	42.2	42.3

Auctions and events

Country		GMT	Auction / Event
EMU		08.00	ECB's Coeure 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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's data releases

Economic data

Country		GMT	Release	Period	Market consensus/ *Daiwa forecast*	Previous
France		07.45	Consumer confidence indicator	Nov	103	104
Italy		09.00	Consumer confidence (manufacturing confidence) indicator	Nov	111.7 (99.8)	111.7 (99.6)
UK		00.01	BRC shop price index Y/Y%	Nov	-	-0.4

Auctions and events

Country		GMT	Auction / Event
EMU		09.30	ECB's Chief Economist Lane scheduled to speak
Germany		10.30	Auction: €3bn of 0% 2024 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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