

Euro wrap-up

Overview

- Bunds and OATs were little changed despite a stronger French consumer confidence survey, but BTPs weakened after a weaker Italian survey.
- Gilts made losses after a poor performance in a TV interview by Labour leader Corbyn appeared to boost the likelihood of a Conservative majority.
- Thursday will bring the latest European Commission confidence survey, euro area bank loan data, and flash inflation estimates from Germany and Spain.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/21	-0.646	+0.001
OBL 0 10/24	-0.594	+0.008
DBR 0 08/29	-0.373	+0.003
UKT 3¼ 09/21	0.517	+0.025
UKT 1 04/24	0.484	+0.030
UKT 0% 10/29	0.680	+0.029

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

Source: Bloomberg

Euro area

French consumers most optimistic for 2½ years

Since the end of last year when French President Macron reversed some of his unpopular reforms and announced extra fiscal giveaways to appease the 'Gilets Jaunes' protests, French consumer confidence has been on a steady upwards trend. And the latest INSEE household survey out of France today offered a further upside surprise in November, with the headline sentiment indicator increasing 2pts to 106, the highest for almost 2½ years, the second-strongest reading since mid-2007 and a level well above the long-run average. The improvement in today's survey in part reflected a pickup in households' expectations of their past and future financial situation, related not least to a perceived recovery in the general economic situation and a further decrease in concerns about the outlook for unemployment. As such, the share of households considering it a suitable time to make major purchases once again increased in November, with the relevant survey component rising to its highest since April 2018 and a sizeable 28pts above its trough at the end of last year. So, having provided a positive contribution to GDP in each of the past five quarters, today's survey suggests that household consumption should continue to support French growth in the final quarter of the year too.

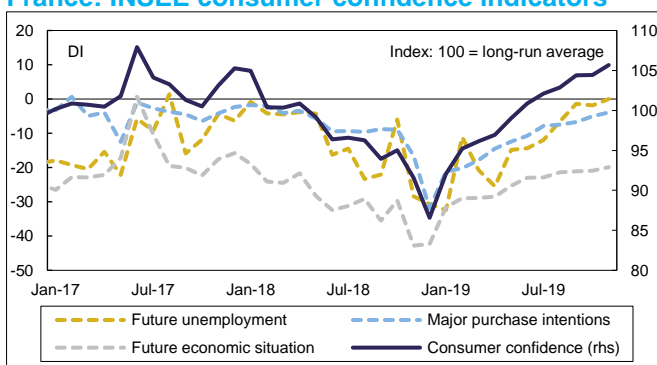
German consumers a touch more upbeat

In contrast to France, consumer confidence in Germany had been on a steady downwards trend since February. But after Monday's (otherwise underwhelming) [ifo survey](#) suggested that German retailers have become more optimistic about the outlook for sales, yesterday's GfK survey implied that German consumers are a touch more upbeat too. Having previously dropped to a 3½-year low, the headline consumer climate index edged up 0.1pt in the latest month to 9.7, still well below last year's range. Within the detail, having last month fallen to the weakest since the euro crisis, the survey reported improved expectations of business conditions to a five-month high. And income expectations ticked up from October's six-year low. However, the survey indicator of willingness to buy fell in November to a three-month low well below the range seen in the first half of the year (and far below the levels seen in 2017 and 2018). And the ECB will be more than disappointed to see the measure of consumer price expectations fall the most since 2015 to a 20-month low.

Italian consumers and businesses increasingly downbeat

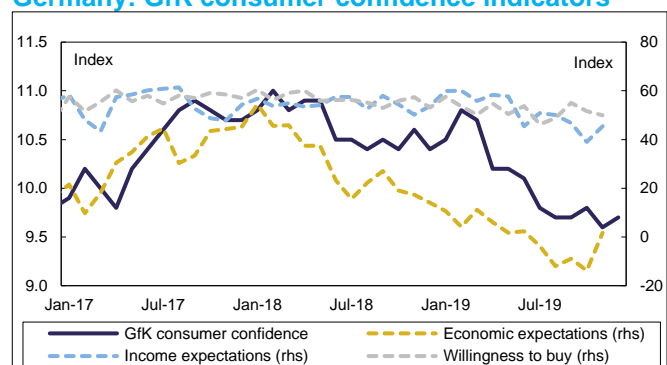
Against expectations of broadly stable conditions in Italy, today's ISTAT consumer confidence survey indicated a marked turn for the worse in November. In particular, the headline indicator fell 3pts to 108.5, a more-than two-year low, as consumers were seemingly more concerned about the economic backdrop – indeed, the relevant index declined almost 11pts to 116.3, the lowest since the start of 2015, with current and future conditions assessed to have weakened. This notwithstanding,

France: INSEE consumer confidence indicators



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: GfK consumer confidence indicators



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



retailers assessed conditions to be little changed this month with the headline index (108.2) remaining comfortably above the average of the past two years despite a modest decline in their assessment of current and future sales. The business survey also showed that confidence among services firms was unchanged at a level (99.6) only marginally stronger than the subdued average for the past year. But there was a notable deterioration in the confidence index for the construction sector, which fell more than 4pts to 137.1, a nine-month low. And the downward trend in manufacturing sentiment continued, with the relevant index falling 0.6pt to 98.9, the joint-lowest reading for five years. Overall, therefore, today's survey tallied with one message from the [flash PMI report](#), suggesting ongoing weakness in the euro area's third largest member state, supporting our expectation that the economy merely moved sideways in the final quarter of the year.

The day ahead in the euro area and US

Tomorrow will bring several releases of note from the euro area, including the European Commission's economic sentiment indicator (ESI), which arguably provides the most reliable guide to euro area GDP growth. While the headline index is expected to have edged slightly higher in November on the back of modest improvements in consumer and business sentiment alike, this would still leave the ESI at its second-lowest reading since early 2015 and, like the flash PMIs, consistent with slowing economic momentum in the fourth quarter. This notwithstanding, the ECB's latest lending figures are likely to indicate still solid demand for loans from businesses and households alike at the start of Q4. Meanwhile, ahead of Friday's flash inflation estimate from the euro area, tomorrow will bring preliminary CPI figures from Germany and Spain, both of which are expected to show a modest pickup in the headline EU-harmonised rates to 1.1%Y/Y and 0.5%Y/Y respectively. Meanwhile, ECB Chief Economist Philip Lane will speak in Dublin. And, in the markets, Italy will sell 5Y and 10Y bonds.

In the US, tomorrow will see markets closed for the Thanksgiving holiday.

UK

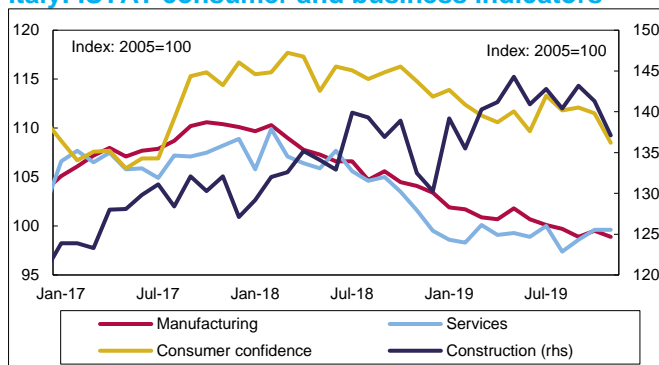
Prices on the High Street fall further

Against the backdrop of ongoing political and economic uncertainty – illustrated by the recent improvement in the Labour party's poll ratings and a surge in last-minute voter registrations, which have increased somewhat the chances of a hung UK parliament (to which we still however attach a probability of about one third) – today's BRC shop price index suggested further heavy discounting in November to tempt consumers to loosen their purse strings. In particular, the headline price index fell 0.1ppt to -0.5%Y/Y, just off the sixteen-month low hit in September. Despite a slight moderation this month, inflation continues to gain support from food prices (up 1.4%Y/Y). In contrast, non-food prices were down 1.6%Y/Y, the second-steepest drop since May 2018, with notable weakness in prices of clothing (-8.2%Y/Y) and electrical goods (-3.9%Y/Y), while DIY/gardening-related prices posted the first annual drop for more than two years, likely reflecting the impact of early Black Friday sales. Of course, not least due to intense competition on the High Street, the BRC measure of retail price inflation has been significantly weaker than overall consumer price inflation over recent years. Nevertheless, today's release further supports our view that, against the backdrop of weak economic growth, underlying inflationary pressures will remain subdued over coming quarters.

The day ahead in the UK

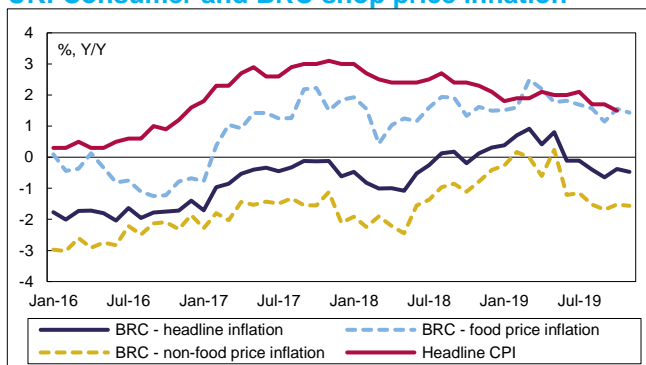
Tomorrow will see the Society of Motor Manufacturers and Traders publish car production figures for October, which are likely to report a further decline in output compared with a year earlier as several manufacturers temporarily closed factories for a few days that month as part of preparations for a no-deal Brexit. Thursday will also bring the CBI's latest quarterly services sector survey.

Italy: ISTAT consumer and business indicators



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Consumer and BRC shop price inflation






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
France	 Consumer confidence indicator	Nov	106	103	104	-
Italy	 Consumer confidence (manufacturing confidence) indicator	Nov	108.5 (98.9)	111.7 (99.8)	111.7 (99.6)	111.5 (99.5)
UK	 BRC shop price index Y/Y%	Nov	-0.5	-	-0.4	-



Auctions

Country	Auction
Germany	 sold €2.4bn of 0% 2024 bonds at an average yield of -0.6%




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 GfK consumer confidence survey	Dec	9.7	9.6	9.6	-
UK	 UK Finance mortgage approvals 000s	Oct	41.2	42.2	42.3	42.2

Auctions

Country	Auction
Italy	 sold €1.75bn of 0% 2021 bonds at an average yield of -0.03%
	 sold €0.66bn of 2.55% 2041 bonds at an average yield of 1.02%
UK	 sold £3bn of 0.625% 2025 bonds at an average yield of 0.49%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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 (8.8)	-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	07.00	Nationwide house price index M/M% (Y/Y%)	Nov	0.1 (0.2)	0.2 (0.4)

Auctions and events

Country	GMT	Auction / Event
EMU	03.30	ECB's Villeroy scheduled to speak in Tokyo
	16.35	ECB Board Member Coeure scheduled to speak in Paris
	20.00	ECB's Chief Economist Lane scheduled to speak in Dublin
Italy	10.00	Auction: €2.5bn of 0.35% 2025 bonds
	10.00	Auction: €3bn of 1.35% 2030 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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