

Euro wrap-up

Overview

- Bunds were little changed as the Commission's sentiment survey signalled a widespread, albeit modest, improvement in conditions in November.
- Gilts were also little changed despite a downbeat UK services sector survey and weaker car production figures.
- A busy end to the week will bring the euro area's flash CPI estimate for November, along with unemployment figures for October. UK economic sentiment surveys will be accompanied by bank lending data.

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 0 12/21	-0.650	-0.004
OBL 0 10/24	-0.596	+0.003
DBR 0 08/29	-0.367	+0.008
UKT 3¼ 09/21	0.511	-0.003
UKT 1 04/24	0.488	+0.005
UKT 0% 10/29	0.672	-0.003

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

Euro area

A (slightly) better Commission sentiment survey

On a busy day for economic data, the findings of the European Commission confidence survey for November contrasted somewhat with those of last week's [flash PMIs](#). Most notably perhaps, unlike the composite PMI, the Commission's headline euro area Economic Sentiment Indicator (ESI) rose this month, by 0.5pt to 101.3, with improvements registered in each of the four large member states bar Italy. Also contrasting with the fall in the euro area services PMI, the Commission's confidence index for that sector rose slightly on improved expectations for demand. But tallying with the modest improvement in the manufacturing PMI, according to the Commission survey industrial firms were also a touch more upbeat in November despite a fall in orders to the lowest since 2013 and a drop in employment intentions. Additionally, in terms of those sectors not covered by the PMIs, the Commission survey measures for confidence among retailers, and (in line with the flash estimate) consumers, rose on improved expectations for the future. But construction firms were the most downbeat in almost two years on lower orders and reduced employment plans.

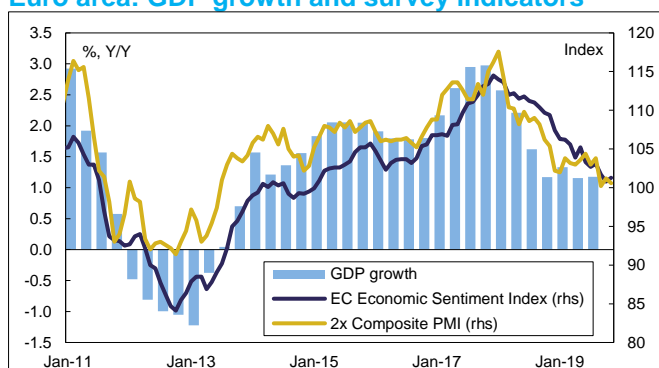
Survey consistent with weaker GDP growth in Q4

Despite the improvement in November, the Commission's headline euro area ESI remains firmly on track for its weakest quarter since Q115, with the lowest quarterly levels of confidence in services and industry since Q215 and Q213 respectively. So, while they hinted that the deterioration in the euro area economy might have paused, today's survey results still suggest a weakening of euro area GDP growth in Q4. And they also failed to signal any significant improvement ahead. Moreover, with consumer price expectations falling back close to the bottom of the range of the past two years, and selling price expectations in services and industry down to the lowest in two and three years respectively, today's survey suggested that, if anything, underlying inflation has softened too.

Lending to euro area NFCs rebounds in October

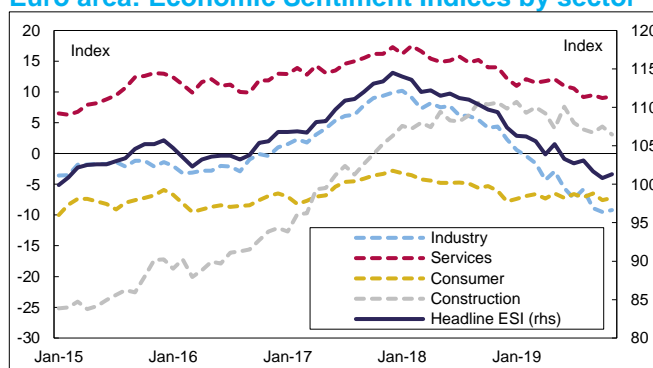
After a drop of more than €8bn in new bank lending to non-financial corporations (NFCs) in September – the first such decline in eight months and the steepest since the start of 2015 – normal service resumed in October with a net flow of €17.6bn, well above the average of the previous six months. That saw growth in the outstanding stock of loans to NFCs rise 0.2ppt to 3.8%Y/Y, matching the average for the year to-date. Banks in France, which had explained the deterioration in September, were also principally responsible for the improved showing in October, with loan growth up 0.9ppt to 7.5%Y/Y, close to the average pace in Q3, and still the strongest rate of the larger member states. Growth in German lending, however, slowed further to a seven-month low of 6.3%Y/Y. Meanwhile, thanks not least to record low interest rates and rising

Euro area: GDP growth and survey indicators



Source: Markit, European Commission, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Economic Sentiment Indices by sector



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



house prices, net lending to euro area households (adjusted for sales and securitisations) strengthened further in October, with the €20.6bn increase the strongest for more than eleven years, and growth in the stock of such loans up to 3.5%Y/Y, the highest since January 2009.

The day ahead in the euro area and US

The main euro area data focus tomorrow will be the flash inflation estimates for November. Today's German and Spanish figures posted increases of 0.3ppt on the EU-harmonised measure, to 1.2%Y/Y and 0.5%Y/Y respectively. So, while we currently expect the euro area's headline CPI rate to have ticked up 0.2ppt from October's near-three-year low to 0.9%Y/Y, the risks appear to be skewed to the upside. The increase will in part reflect a softer pace of decline in energy inflation. However, 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 subdued underlying price pressures. Tomorrow will also bring euro area unemployment figures for October, which are expected to show that the headline rate moved sideways at the eleven-year low of 7.5%. November's labour market data from Germany will also be published alongside retail sales figures for October. French consumer spending numbers for October are also due, as are final readings of French and Italian Q3 GDP.

It should be a quiet end to the week for economic news from the US, with no data of note due for release on Black Friday.

UK

Further weakening in the services sector

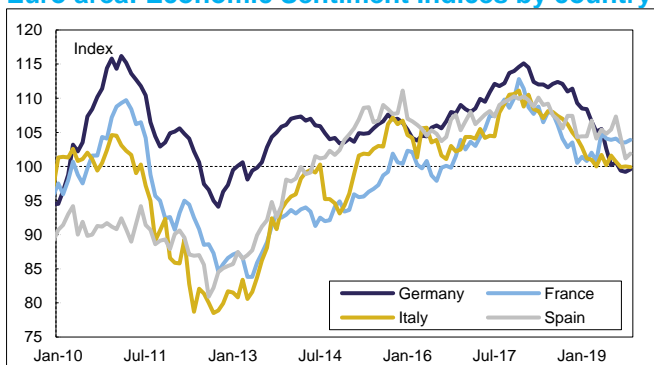
After last week's flash UK PMIs pointed to a significant deterioration in services activity in the current month, today's CBI survey reported ongoing weakening in sentiment in that all-important sector. Business and professional services, as well as firms in the consumer services subsector, reported further declines in confidence over the past three months. They also reported falling business volumes in the three months to November and foresaw further drops in activity over the coming three months. Business and professional services firms are most downbeat, and reportedly cut employment by the most since May 2017 and (citing heightened uncertainty about the outlook for demand) reduced investment too. Apart from spending on IT, they expect to reduce capex further over the coming year too. Consumer-facing services are less downbeat, being broadly neutral about the outlook for business expansion in the year ahead. As such, they appear still to be willing to recruit and invest. More generally, cost pressures eased in both sub-sectors. But services profitability still reportedly dropped at the fastest pace in eight years and is expected to fall at a similarly brisk pace in Q1.

Car production maintains downward trend

The Society of Motor Manufacturers and Traders (SMMT) car production figures for October, also published today, added to the gloomy dataflow. Not least as several manufacturers had temporarily closed factories for a few days last month as part of their preparations for a possible no-deal Brexit, for the sixteenth month out of the past seventeen production was again well down on its level a year earlier, dropping 4%Y/Y. While the weakness reportedly in part also reflected model changeovers that month, subdued domestic and overseas demand continued to take its toll. Production for the UK market was down a steeper 10.7%Y/Y, while car production for overseas markets was down 2.6%Y/Y. Over the first ten months of 2019, total production fell a hefty 14½%YTD/Y to reach the weakest level since 2011.

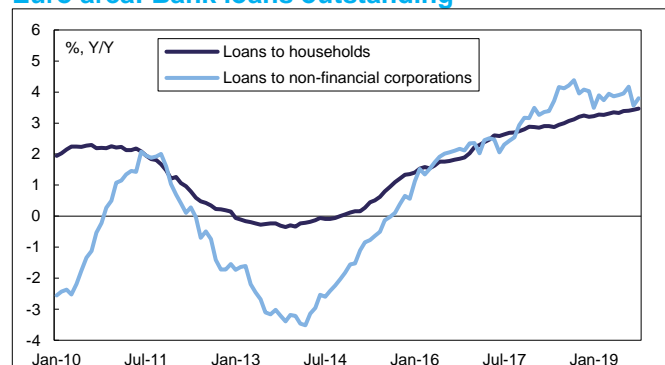
Opinion polls point to the likelihood of a Conservative majority after the 12 December General Election. Indeed, yesterday evening's keenly anticipated YouGov MRP model predictions – which successfully forecast the outcome of the 2017 election

Euro area: Economic Sentiment Indices by country



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

Euro area: Bank loans outstanding



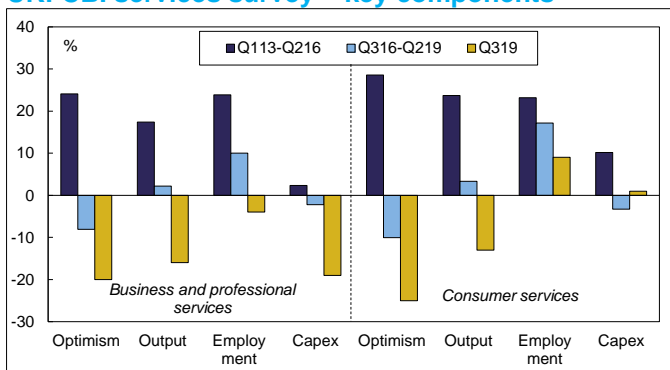
Source: ECB, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

– suggested that the Conservatives are on track for a majority of 68 seats. Such an outcome would certainly see the UK leave the EU at end January but still leave major uncertainty hanging over the future trading relationship between the UK and EU, quite possibly into 2021. That uncertainty has for some time hit investment in the UK auto sector, and will continue to do so. As such, the adverse trend in production in the sector also seems highly likely to persist.

The day ahead in the UK

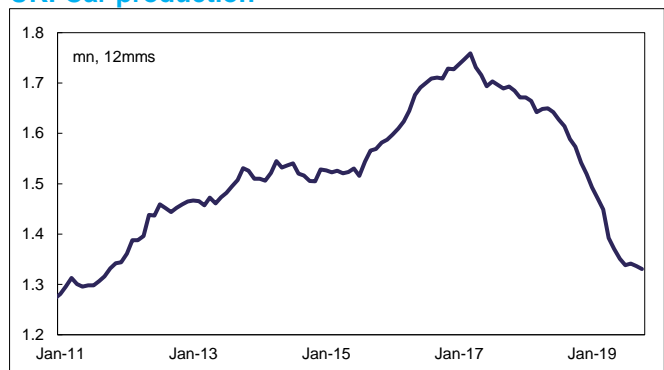
The end of the week will bring several UK releases, with most notably the GfK’s latest consumer confidence survey for November expected to show that the headline index (-14) remained at the bottom of the recent range. Against this backdrop, the Bank of England’s latest lending figures for October might well show a further slowdown in consumer credit growth at the start of Q4. Demand for mortgage lending might well have moderated too, which would be broadly consistent with the UK Finance figures published earlier in the week, showing a fall in the number of mortgage approvals in October to their lowest for seven months. Friday will also bring the Lloyds business barometer for November.

UK: CBI services survey – key components



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Car production











Source: SMMT, 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	 M3 money supply Y/Y%	Oct	5.6	5.5	5.5	5.6
	 Economic sentiment indicator	Nov	101.3	101.0	100.8	-
	 Industrial confidence (services confidence) indicator	Nov	-9.2 (9.3)	-9.1 (8.9)	-9.5 (9.0)	-
	 Final consumer confidence indicator	Nov	-7.2	-7.2	-7.6	-
Germany	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	1.1 (1.2)	1.2 (1.2)	1.1 (0.9)	-
Spain	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	0.4 (0.5)	0.4 (0.5)	0.1 (0.2)	-
	 Retail sales Y/Y%	Oct	2.6	-	3.4	-
UK	 Nationwide house price index M/M% (Y/Y%)	Nov	0.5 (0.8)	0.1 (0.2)	0.2 (0.4)	-














Auctions

Country	Auction
Italy	 sold €2.25bn of 0.35% 2025 bonds at an average yield of 0.64%
	 sold €2.75bn of 1.35% 2030 bonds at an average yield of 1.29%
	 sold €0.75bn of floating rate 2025 bonds at an average yield of 0.71%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	10.00	 Unemployment rate %	Oct	7.5	7.5
	10.00	 Preliminary 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 (6.0)	5.0 (6.0)
France	07.45	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	1.0 (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	 Consumer spending M/M% (Y/Y%)	Oct	0.3 (-0.3)	-0.4 (0.3)
Italy	09.00	 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)

Auctions and events

Country	BST	Auction / Event
- Nothing scheduled -		

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>.