

# Euro wrap-up

## Overview

- Longer-dated Bunds made modest losses even as the final euro area PMIs remained consistent with a weakening services sector in Q4.
- While the final UK PMIs signalled contraction in Q4, Gilts made notable losses and sterling appreciated sharply as polls suggested the Conservatives will likely win a majority in next week's general election.
- Tomorrow will bring revised Q3 euro area GDP and employment data, along with October retail sales figures. German factory orders and UK new car registrations numbers are also due.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.651	-0.002
OBL 0 10/24	-0.590	+0.002
DBR 0 08/29	-0.336	+0.016
UKT 3% 09/21	0.561	+0.059
UKT 1 04/24	0.541	+0.057
UKT 0% 10/29	0.723	+0.054

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

## Euro area

### Final PMIs still suggest a weaker Q4 for services, despite positive revisions

Like Monday's [manufacturing PMI](#), today's final euro area services PMI for November saw an upwards revision from the flash estimate, of 0.4pt to 51.9. That, however, still marked a decline from the prior month and was among the lowest readings of the past five years. And it left the average for the first two months of Q4 still 0.7pt below the Q3 average to suggest that manufacturing sector weakness has contaminated services. At the country level, there was also an upwards revision of 0.4pt to the German services PMI, although that left the index so far in Q4 still well below the Q3 average and on track for the worst quarter since Q213. The services PMI for France (52.2) was revised down from the flash to leave it lower than in October and set for the weakest quarterly reading since Q1. Spain's services PMI for November, released for the first time, was slightly improved on the month but still on track for the worst quarter since 2013. And Italy's fell to a six-month low (just 50.4) consistent with significant weakness in the sector.

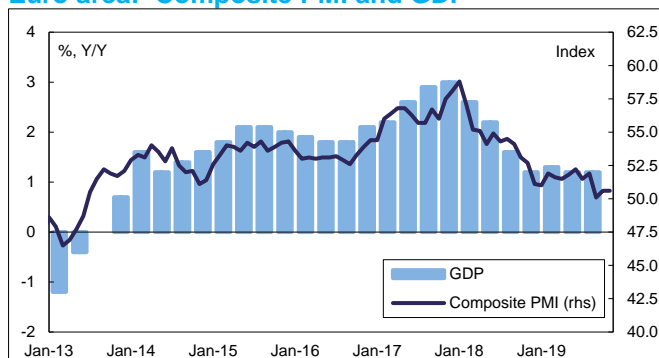
### Euro area composite PMI still consistent with slowdown

So, despite upwards revisions in both manufacturing and services, overall the final euro area composite PMI for November (50.6) was no better than in October. And it still pointed to GDP growth in Q4 of just 0.1%Q/Q, in line with our forecast, down 0.1ppt from Q3, and the weakest since the start of 2013. The equivalent PMIs for Germany (49.4) and Italy (49.6) suggest mild contraction in GDP, while those for France (52.1) and Spain (51.9) suggest continued moderate growth. The euro area composite indices also pointed to a continued absence of growth in new orders while the output price PMIs suggested an easing of inflationary pressure to the softest in more than three years. Overall, therefore, there was nothing in these surveys to suggest that economic conditions in the euro area have now turned for the better.

### The day ahead in the euro area and US

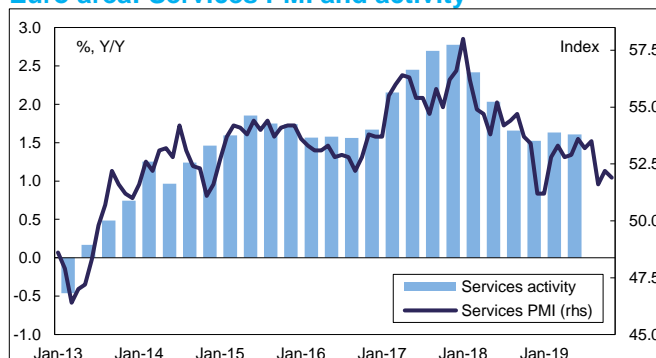
It will be a busy day for euro area economic releases tomorrow, including revised Q3 GDP and employment data, and retail sales figures for October. Headline GDP growth looks set to align with earlier estimates of 0.2%Q/Q, unchanged from Q2 and half the rate in Q1. More interesting, however, will be the release of the expenditure breakdown, which seems likely to show that growth was driven by consumption while fixed investment contracted. October's retail sales, meanwhile, are expected to have declined for the first month in three. At the member state level, the focus tomorrow will turn to the industrial sector, with Germany's October factory orders due alongside Spanish IP. In the markets, France and Spain will sell bonds with various maturities.

### Euro area: Composite PMI and GDP



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

### Euro area: Services PMI and activity



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



In the US, ahead of Friday's November labour market report, tomorrow will bring Challenger Job Cuts figures for the same month as well as weekly jobless claims numbers. Thursday will also bring October trade and factory orders data for October.

## UK

### Services PMI signals shrinking output

While the equivalent UK services PMI release today brought a notable upwards revision from the flash estimate, also similar to the manufacturing survey earlier in the week it still offered a bleak assessment of conditions in November. In particular, despite an increase of 0.7pt from the preliminary reading, the headline activity index was still 0.7pt lower than October at 49.3, an eight-month low and third-weakest reading since the Global Financial Crisis. This left the PMI trending 0.9pt lower than the Q3 average and at a level consistent with contraction. The survey offered little optimism about the near-term outlook, with the new orders component implying the sharpest decline since mid-2016 as political uncertainty ahead of next week's general election weighs on consumer and business spending. And while the employment PMI posted a sizeable gain in November, this was merely consistent with some stabilisation in the jobs market last month having implied two months of cutbacks previously.

### Composite PMI consistent with contraction

So, with the manufacturing output PMI still firmly in contractionary territory for the sixth consecutive month, the composite PMI was also lower in November, albeit the 0.7pt decline was roughly half the pace initially estimated, at 49.3, the joint-lowest since the 2016 referendum. And when also including the construction sector – the relevant PMI rose 1.1pt in November to a still-subdued 45.3 – the all-sector PMI (49.0) implied a slightly steeper pace of contraction. Indeed, today's survey is consistent with GDP growth of -0.2%Q/Q. While the PMIs have been more downbeat than official GDP of late, we continue to expect a modest contraction in the UK's economy in Q4, with our current forecast for a decline of 0.1%Q/Q.

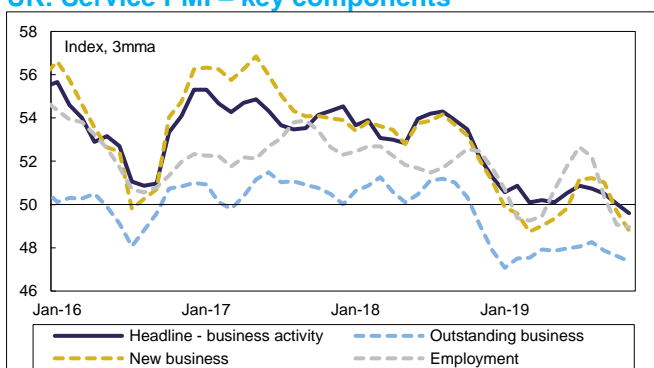
### BRC suggests a slump in sales

While the PMIs exclude the retail sector, yesterday's BRC survey was, at face value, alarming, with the headline measure of like-for-like sales down in November by 4.9%Y/Y, the biggest drop on the series going back to 1995. The figure failed to provide an accurate picture of sales last month, however, since it ignored the Black Friday shopping period at the end of the month, anecdotal evidence for which points to strong sales after consumers sat on the sidelines earlier in the month. We note that the ONS retail sales data will also incorporate Black Friday sales in the data for December rather than November. So, we expect a weak November official reading for retail sales (due on 19 December) to be followed by a much stronger December reading. Overall, however, with consumers still concerned about the economic outlook, we see little reason to expect a pickup in the underlying spending trend in the final quarter of the year, further supporting our view that the economy went into reverse in Q4.

### The day ahead in the UK

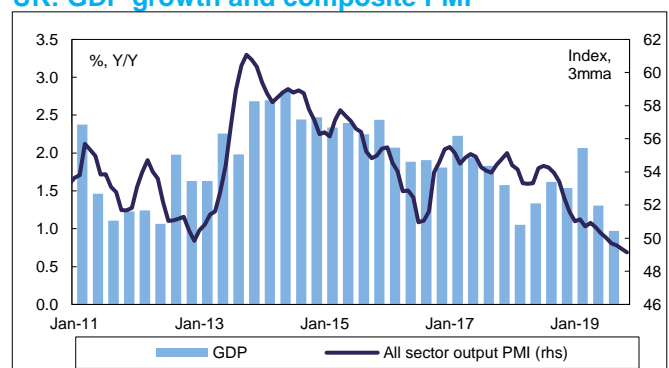
In the UK, tomorrow will bring the latest new car registrations figures, which, against the backdrop of weak consumer confidence, are likely to report a further year-on-year decline in November for the eighth month out of the past nine. In the markets, the DMO will sell 30Y Gilts.

#### UK: Service PMI – key components



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

#### UK: GDP growth and composite PMI









Source: Markit, 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	 Final services (composite) PMI	Nov	<b>51.9 (50.6)</b>	51.5 (50.3)	52.2 (50.6)	-
Germany	 Final services (composite) PMI	Nov	<b>51.7 (49.4)</b>	51.3 (49.2)	51.6 (48.9)	-
France	 Final services (composite) PMI	Nov	<b>52.2 (52.1)</b>	52.9 (52.7)	52.9 (52.6)	-
Italy	 Services (composite) PMI	Nov	<b>50.4 (49.6)</b>	51.2 (50.6)	52.2 (50.8)	-
Spain	 Services (composite) PMI	Nov	<b>53.2 (51.9)</b>	51.9 (50.7)	52.7 (51.2)	-
UK	 Final services (composite) PMI	Nov	<b>49.3 (49.3)</b>	48.6 (48.5)	50.0 (50.0)	-





### Auctions

Country	Auction
Germany	 Auction: sold €2.47bn of 0% 2029 bonds at an average yield of -0.33%


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
EMU	 PPI Y/Y%	Oct	<b>-1.9</b>	-1.8	-1.2	-
Spain	 Unemployment 000s	Npv	<b>20.5</b>	-	97.9	-
UK	 BRC retail sales monitor, like-for-like sales Y/Y%	Nov	<b>-4.9</b>	-0.4	0.1	-
	 Construction PMI	Nov	<b>45.3</b>	44.5	44.2	-








### Auctions

Country	Auction
UK	 Auction: sold £2.75bn of 0.875% 2029 bonds at an average yield of 0.738%







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	 10.00	Retail sales M/M% (Y/Y%)	Oct	-0.5 (2.2)	0.1 (3.1)
	 10.00	Final GDP Q/Q% (Y/Y%)	Q3	0.2 (1.2)	0.2 (1.1)
	 10.00	Final employment Q/Q% (Y/Y%)	Q3	0.1 (1.0)	0.2 (1.2)
Germany	 07.00	Factory orders M/M% (Y/Y%)	Oct	0.4 (-4.7)	1.3 (-5.4)
	 08.30	Construction PMI	Nov	-	51.5
Spain	 08.00	Industrial production M/M% (Y/Y%)	Oct	-0.4 (0.0)	-0.8 (0.8)
UK	 09.00	New car registrations Y/Y%	Nov	-	-6.7

### Auctions and events

Country	GMT	Auction / Event
France	 09.50	Auction: 0.75% 2028 bonds
	 09.50	Auction: 4.0% 2060 bonds
Spain	 09.45	Auction: 0.25% 2024 bonds
	 09.45	Auction: 0.6% 2029 bonds
	 09.45	Auction: 2.7% 2048 bonds
UK	 10.30	Auction: 1.75% 2049 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

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