# Euro wrap-up

## Overview

- Bunds made modest gains even as the euro area's latest trade report surprised on the upside.
- Gilts made more sizeable gains, as PM Johnson sought to rule out an extension to the Brexit transition period beyond end-2020, UK wages slowed more than expected and a manufacturing survey implied a notable decline in output.
- Tomorrow will bring final November inflation figures from the euro area and UK, as well as the German ifo survey.

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**Daily bond market movements**

| Bond | Yield | Change |
|---|---|---|
| BKO 0 12/21 | -0.653 | -0.013 |
| OBL 0 10/24 | -0.555 | -0.013 |
| DBR 0 08/29 | -0.295 | -0.016 |
| UKT 3¾ 09/21 | 0.538 | -0.057 |
| UKT 1 04/24 | 0.573 | -0.059 |
| UKT 0⅞ 10/29 | 0.764 | -0.057 |

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

# Euro area

## Euro area exports stronger at the start of Q4

While the euro area's quarterly national accounts data showed that net trade provided a drag on GDP growth in Q3 for the second successive quarter, the monthly trade figures implied a gradual pick up exports as the quarter progressed, with volumes up 0.1%M/M a piece in August and September. And today's nominal trade report for October suggests a more striking improvement at the start of Q4 too. Indeed, the trade surplus widened by a larger-than-expected €5.8bn to €24.5bn, a more-than two-year high, as export values increased 2.1%M/M, the strongest monthly growth for fourteen months. This left exports up more than 3½% compared with a year earlier. And while stronger growth in exports to the UK (+5½%Y/Y) probably reflected a precautionary pickup in demand ahead of the risk of a no deal Brexit at the end of October, there were also improvements in demand from other key countries – e.g. shipments were up to the US (+5.4%Y/Y), China (+3.2%Y/Y), Japan (+7.4%Y/Y) and Switzerland (+15.2%Y/Y). This left the value of exports in October up 1½% compared with the average in Q3. And with imports down 0.3% on an equivalent basis, today's report provides cause for cautious optimism that net trade provided a modest boost to growth at the start of Q4.

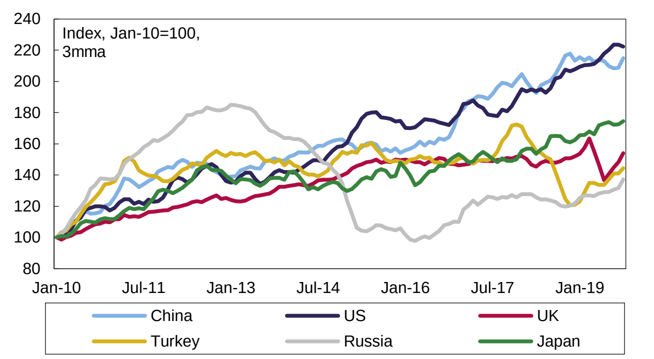
## Car registrations figures provide mixed messages

The euro area's latest car registrations figures suggested that demand within the region has held up relatively well so far in Q4. In particular, the ECB's seasonally adjusted data showed car registrations rising for the second successive month in November and by 4%M/M, with growth seen across the largest member states – e.g. sales were up in Germany (9.5%M/M), France (0.4%M/M), Italy (1.5%M/M) and Spain (2.9%M/M). Compared with a year earlier, registrations were up a seemingly strong 10.0%Y/Y, similar to the rate the previous month. However, regulatory changes this year and last have distorted the profile of sales. Indeed, with the exception of Germany, sales in the year-to-date were still lower than in 2018 in each of the large member states. And overall, year-to-date sales in the euro area in November were flat compared with a year earlier. Moreover, according to the ECB's data, despite the pickup in October and November, given a steep drop in September the level of euro area registrations in the first two months of Q4 was still trending more than 3% below the Q3 average, with declines on this basis in Germany (-6.0%), France (-1.8%) and Spain (-0.8%) and only modest growth in Italy (0.5%).

## The day ahead in the euro area and US

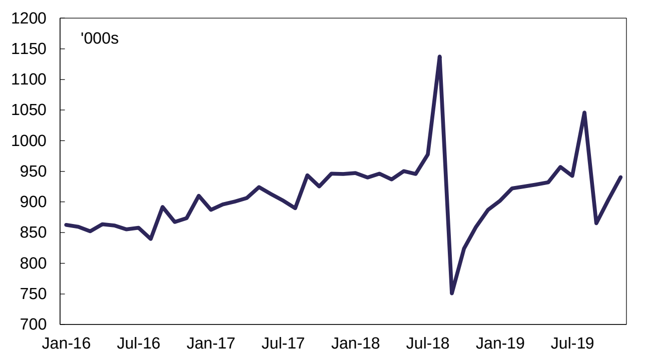
After yesterday's disappointing German flash December PMIs, a key data focus tomorrow will be the ifo survey, which will be closely watched for further insight into business conditions in the largest member state heading into year-end. Tomorrow will also bring revised euro area inflation figures for November. Last week saw equivalent figures from Germany, France and Spain align with their preliminary estimates, to show the respective headline CPI rates increasing 0.3ppt from October to 1.2%Y/Y, 1.2%Y/Y and 0.5%Y/Y. So, while yesterday's Italian figures saw the 0.2ppt increase in the flash estimate revised away (leaving headline CPI

**Euro area: Export values by destination**




*Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.*

**Euro area: New car registrations**




*Source: ECB, Bloomberg and Daiwa Capital Markets Europe Ltd.*

unchanged from October at 0.2%Y/Y), we continue to expect euro area aggregate figures to confirm that headline inflation rose 0.3ppt in November to 1.0%Y/Y, with core inflation 0.2ppt higher at 1.3%Y/Y. Euro area construction output figures for October are also due tomorrow.

On a quiet day for US economic releases, tomorrow will see Fed Governor Brainard speak at an ECB conference in honour of departing Executive Board member Cœuré.

# UK

## Employment up in October but on a downward trend

At face value, today's UK labour market report was broadly encouraging about conditions at the start of Q4. In particular, contrasting with an anticipated further decline, total employment rose in the three months to October (+24k) to leave the unemployment rate unchanged for the sixth month out of the past eight at 3.8%, the joint lowest since 1974. And on the (admittedly volatile) single-month series, the unemployment rate fell 0.5ppt to 3.5%, the lowest since it began in 1992. But the improvement in employment more than fully reflected an increase in those self-employed in October. Indeed, the number of employees fell for the third consecutive month, to leave annual growth trending to its weakest for more than seven years. A further decline in vacancies to their lowest level for more than two years and down almost 7%Y/Y raises further doubts about the near-term jobs outlook after surveys, including the PMIs and REC/KPMG Report on Jobs, pointed to the likelihood of further cutbacks in employment heading into the New Year.

## Wage growth weakens

Against this backdrop, the latest wage data fell short of expectations, with total labour earnings slowing 0.5ppt in October to 3.2%3M/Y, a thirteen-month low. And on a single-month basis, wage growth fell 1.4ppts to 2.4%Y/Y, the lowest since June 2018. The weakness principally reflected base effects in bonuses that had been unusually high in the same period in 2018. So, when excluding such payments, regular wage growth fell a modest 0.2ppt to 3.5%3M/Y, nevertheless still a six-month low. Looking ahead, we expect the subdued economic environment to contribute to a further softening of wage growth over coming quarters. And this seems bound to keep household consumption growth sub-par, and limit any increase in domestically generated inflationary pressures too.

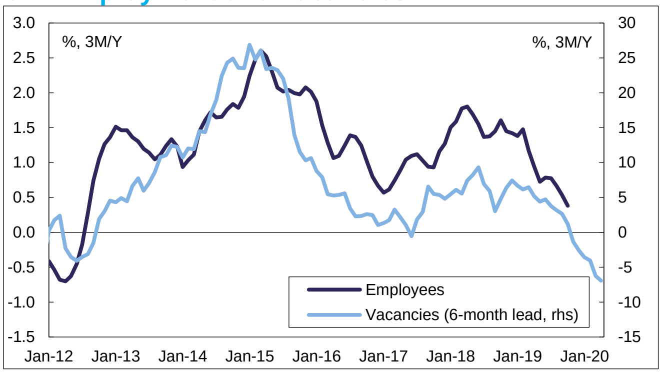
## Manufacturers' struggles deepen heading into year-end

The CBI's latest Industrial Trends survey was very downbeat. The survey measure of output volumes in the three months to December fell at the steepest rate since the Global Financial Crisis in September 2009, with production up in only six out of 17 sub-sectors. The headline drop was driven by autos, reflecting subdued sales at home and abroad, while the aerospace sub-sector provided a rare boost. Looking ahead, firms anticipate that output volumes will continue to decline, albeit at a more moderate pace in Q1. The CBI also reported that domestic and foreign orders remained well below par while stocks of finished goods rose further above "adequate" levels. So, conditions in the UK manufacturing sector remain unfavourable and the outlook looks relatively bleak too. Indeed, the strong likelihood of a sharp increase in the costs of trading with the EU at the end of the Brexit transition period – which PM Johnson insists will be fixed at end-2020 – will weigh further on business investment and sentiment in the sector throughout next year and beyond.

## The day ahead in the UK

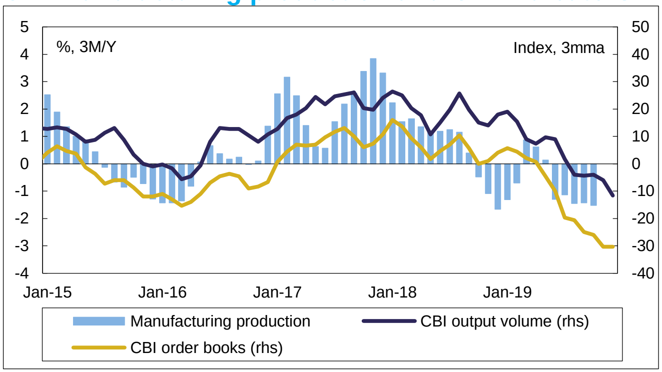
Ahead of Thursday's BoE policy announcement, tomorrow's inflation release is likely to confirm that price pressures in the UK remain relatively subdued in November – indeed, we expect headline inflation to decline 0.1ppt to 1.4%Y/Y, which would be the weakest rate for three years. While this in part reflects an anticipated easing in food price inflation, non-energy industrial goods inflation is also expected to fall back, suggesting that the core CPI rate might also drop from the 1.7%Y/Y level seen in the previous two months. Wednesday will also bring the ONS house price index for October.

### UK: Employment and vacancies




*Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.*

### UK: Manufacturing production and CBI indicators*




**CBI Industrial Trends survey. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.*

# European calendar

## Today's results

**Economic data**

| Country | | Release | Period | Actual | Market consensus/ *Daiwa forecast* | Previous | Revised |
|---|---|---|---|---|---|---|---|
| EMU | | EU27 new car registrations Y/Y% | Nov | **4.9** | - | 8.7 | **-** |
| | | Trade balance €bn | Oct | **24.5** | - | 18.3 | **18.7** |
| Italy | | Trade balance €bn | Oct | **8.1** | - | 2.8 | **2.7** |
| UK | | ILO unemployment rate 3M% | Oct | **3.8** | 3.9 | 3.8 | **-** |
| | | Employment 3M/3M, '000s | Oct | **24** | -14 | -58 | **-** |
| | | Claimant count rate % (change '000s) | Nov | **3.5 (28.8)** | - | 3.4 (33.0) | **- (26.4)** |
| | | Average earnings (excluding bonuses) 3M/Y% | Oct | **3.2 (3.5)** | 3.4 (3.4) | 3.6 (3.6) | **3.7 (-)** |
| | | CBI Industrial Trends survey, total orders | Dec | **-28** | -25 | -26 | **-** |

**Auctions**

| Country | | Auction |
|---|---|---|
| UK | | sold £2.75bn of 2% 2025 Gilts at an average yield of 0.561% |

*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

## Tomorrow's data releases

**Economic data**

| Country | | GMT | Release | Period | Market consensus/ *Daiwa forecast* | Previous |
|---|---|---|---|---|---|---|
| EMU | | 10.00 | Construction output M/M% (Y/Y%) | Oct | - | 0.7 (-0.7) |
| | | 10.00 | Final CPI (core CPI) Y/Y% | Nov | 1.0 (1.3) | 0.7 (1.1) |
| Germany | | 09.00 | Ifo business climate index | Dec | 95.5 | 95.0 |
| | | 09.00 | Ifo current assessment balance (expectations) | Dec | 98.1 (92.9) | 97.9 (92.1) |
| UK | | 09.30 | CPI (core CPI) Y/Y% | Nov | 1.4 (1.7) | 1.5 (1.7) |
| | | 09.30 | PPI input prices (output prices) Y/Y% | Nov | -1.9 (0.8) | -5.1 (0.8) |
| | | 09.30 | House price index Y/Y% | Oct | - | 1.3 |

**Auctions and events**

| Country | GMT | Auction / Event |
|---|---|---|
| | | - Nothing to report - |

*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

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