

Euro wrap-up

Overview

- Bunds made modest gains as euro area consumer confidence unexpectedly deteriorated.
- Gilts also made gains while FCA CEO Andrew Bailey was nominated to succeed Mark Carney as BoE Governor.
- The coming week might bring Germany's November retail sales data (Friday) while the following week will bring flash December inflation data from large euro area member states.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/21	-0.654	-0.010
OBL 0 10/24	-0.529	-0.008
DBR 0 08/29	-0.252	-0.013
UKT 3% 09/21	0.553	+0.002
UKT 1 04/24	0.580	-0.015
UKT 0% 10/29	0.783	-0.020

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

Source: Bloomberg

Euro area

Consumer confidence drops to its lowest in almost three years

Having trended sideways over the past year, the Commission's euro area consumer confidence indicator has taken an unexpected step down. According to the flash estimate for December, the index fell 0.9pt to -8.1, the lowest since February 2017. Given the paucity of data, the source of the deterioration is at present unclear. At the member state level, however, we suspect that France is at least in part at fault. Having improved steadily over the past year as the Gilets Jaunes protests petered out, consumer sentiment in the euro area's second largest member state is likely to have deteriorated significantly this month as widespread protests and strikes against President Macron's pension reform proposals have persisted.

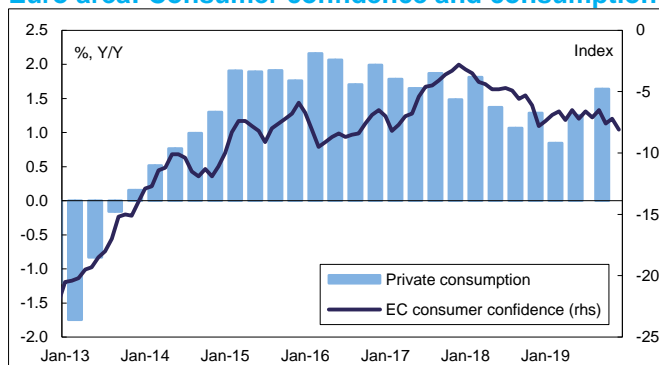
In contrast, today's GfK survey suggested that the German consumer climate improved slightly in December, with the survey's headline index up 0.1pt to 9.7. That, however, remains well down on the range recorded over the two years to mid-2019. And with the survey measure of income expectations down to a six-year low and propensity to save at a series high, GfK expects the consumer climate to deteriorate again in January. And we expect German private consumption in Q4 to have moderated somewhat from the 0.4%Q/Q rate in Q3. Meanwhile, having in November fallen to the lowest level in more than two years, Italy's ISTAT consumer confidence index picked up in December. But it remained close to the bottom of the recent range, suggesting that Italian private consumption is also likely to have slowed in Q4 from 0.4%Q/Q, the strongest rate in ten quarters, in Q3.

The coming two weeks in the euro area and US

In light of the festive season, the coming week should be exceptionally quiet from the perspective of euro area economic news. No top-tier data are scheduled for release, although Germany's retail sales figures for November might be out on Friday 27 December. This report should be watched not least as sales fell sharply in October, dropping a revised 1.6%M/M, the most so far in 2019, and so a notable rebound will be required to reduce risks of a contraction over Q4 as a whole. The following week will bring flash inflation estimates for December from Spain (Monday 30 December) and Germany and France (both Friday 3 January). The final manufacturing PMIs for December are due on Thursday 2 January, and are likely to confirm the flash estimates that suggested a deterioration in activity in the sector (the euro area PMI fell 1pt to 45.9). The following day will bring euro area bank lending data for November. In the bond markets, Italy is scheduled to sell bonds each Monday (23 and 30 December).

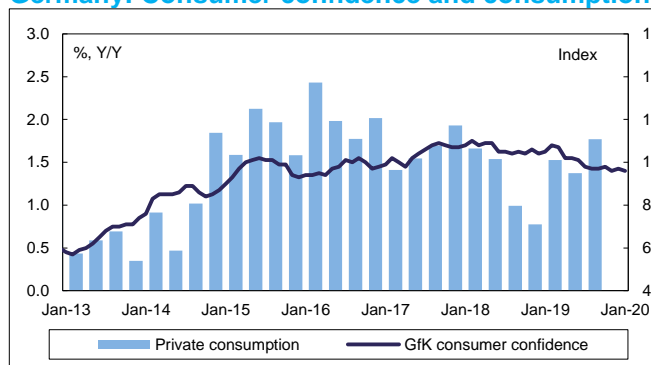
In the US, the coming week will be relatively light for economic data, although preliminary durable goods orders and new home sales figures for November are due on 23 December. Among other releases, the following week brings the advanced

Euro area: Consumer confidence and consumption



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: Consumer confidence and consumption



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



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goods trade report for the same month (30 December) and the ISM manufacturing survey for December and latest FOMC meeting minutes (both 30 December). The Treasury is scheduled to sell 5Y Notes on Christmas Eve and 7Y Notes on 26 December.

UK

An orthodox choice of BoE Governor

After months of speculation about who might succeed Mark Carney, Andrew Bailey was today formally nominated by Chancellor Javid as the next Bank of England Governor. Currently CEO of the Financial Conduct Authority (FCA), Bailey will take over from Carney on 16 March, with the first MPC announcements under his chairmanship to be published on 26 March. Bailey has worked for more than three decades in various roles related to both monetary policy and financial stability at the BoE and the UK's financial regulators. So, while his period at the helm of the FCA was not without controversy given the emergence of recent financial sector scandals, he arguably represented the safest pair of hands to take over at the BoE after Carney.

Direction of next move in Bank Rate still data dependent

Certainly, we do not expect a sudden shift towards more unorthodox policies at the Bank, with gradual evolution of policy in line with changing economic circumstances far more likely than any revolution that might have occurred if the Chancellor had proposed a Governor more attuned to Johnson's populist Brexit agenda. Bailey is likely to be neither instinctively hawkish nor dovish. And just as yesterday's MPC statement suggested, the direction of the next move in Bank Rate will continue to depend on changes in the economic outlook. Today's upwards revision to UK GDP growth in Q3 – up 0.1ppt to 0.4%Q/Q and 1.1%Y/Y – will have no bearing, not least as it was in line with previous BoE expectations while business investment remained very weak (0.0%Q/Q and 0.5%Y/Y). And while welcome, the 3pt increase in the GfK consumer confidence index to a five-month high in December merely left it still within the range of the past year. But if the economy recovers broadly in line with the MPC's November forecasts, gradual and limited rate hikes might well be forthcoming from 2020. Alternatively, if as we expect, global growth remains subdued and Brexit uncertainties continue to weigh on economic growth and inflation, then a rate cut is likely to be the consequence.

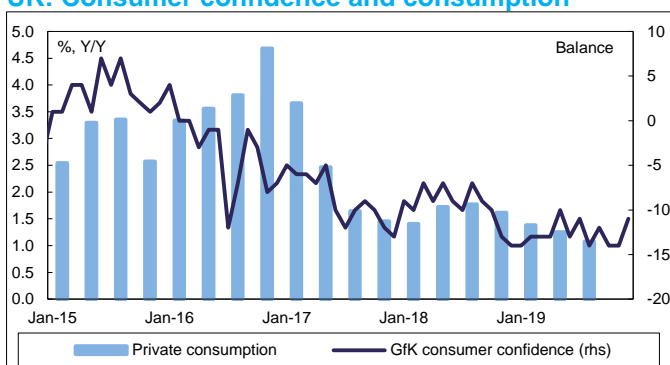
The coming two weeks in the UK

Given the festive season, the coming week's UK economic diary is empty. And the following week will be quiet until Thursday 2 January, when the final manufacturing PMIs for December are due. In the preliminary report, the output index fell a steep 3.3pts to 45.8, the lowest reading since mid-2012. The following day will bring the construction PMIs for December as well as Bank of England lending data for November.

Due to the seasonal holidays, the next edition of the Euro wrap-up will be published on 2 January 2020

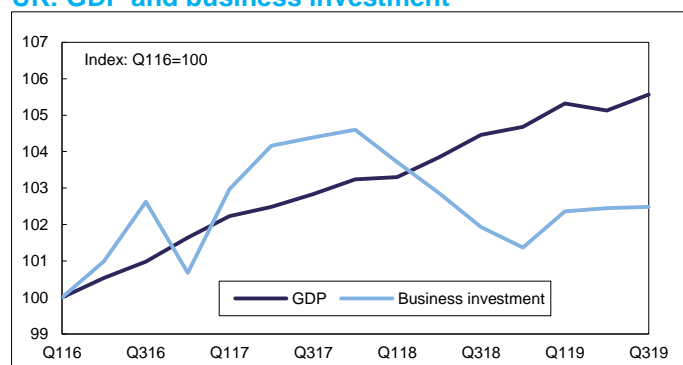


UK: Consumer confidence and consumption


















Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: GDP and business investment



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts












	2019				2020				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q											
Euro area 	0.4	0.2	0.2	0.1	0.2	0.2	0.2	0.1	1.1	0.7	0.5
Germany 	0.5	-0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.6	0.5	0.4
France 	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	1.3	1.2	0.8
Italy 	0.1	0.1	0.1	0.0	0.0	0.1	-0.1	-0.1	0.2	0.1	0.0
Spain 	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	2.0	1.6	1.1
UK 	0.6	-0.2	0.4	-0.1	0.2	0.2	0.2	0.1	1.3	0.6	0.5
Inflation forecasts %, Y/Y											
Euro area											
Headline CPI 	1.4	1.4	1.0	1.0	1.2	1.1	1.3	1.2	1.2	1.2	1.4
Core CPI 	1.0	1.1	0.9	1.3	1.3	1.3	1.5	1.2	1.0	1.3	1.3
UK											
Headline CPI 	1.9	2.0	1.8	1.5	1.7	1.1	0.9	1.0	1.8	1.3	1.5
Core CPI 	1.9	1.7	1.7	1.7	1.6	1.4	1.2	1.1	1.7	1.3	1.3
Monetary policy											
ECB											
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate % 	-0.40	-0.40	-0.50	-0.50	-0.50	-0.50	-0.60	-0.60	-0.50	-0.60	-0.60
Net asset purchases* 	0	0	0	20	20	20	30	30	20	30	30
BoE											
Bank Rate % 	0.75	0.75	0.75	0.75	0.75	0.50	0.50	0.50	0.75	0.50	0.25
Net asset purchases** 	0	0	0	0	0	0	0	0	0	0	0

*Monthly target €bn, end of period. **Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE 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 	Consumer confidence indicator	Dec	-8.1	-7.0	-7.2	
	Current account balance €bn	Oct	32.4	-	28.2	-
Germany 	GfK consumer confidence indicator	Jan	9.6	9.8	9.7	-
France 	Consumer spending M/M% (Y/Y%)	Nov	0.1 (0.2)	0.2 (0.4)	0.2 (-0.2)	- (-0.3)
Italy 	Consumer confidence indicator (manufacturing confidence)	Dec	110.8 (99.1)	109.0 (99.1)	108.5 (98.9)	108.6 (99.0)
	Economic sentiment indicator	Dec	100.7	-	99.1	99.2
UK 	GfK consumer confidence indicator	Dec	-11	-14	-14	-
	Lloyds business barometer	Dec	10	-	9	-
	Final GDP Q/Q% (Y/Y%)	Q3	0.4 (1.1)	0.3 (1.0)	-0.2 (1.3)	- (1.2)
	Current account balance £bn	Q3	-15.9	-15.5	-25.2	-24.2
	Public sector net borrowing £bn	Nov	5.6	6.1	11.2	9.0


















Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming two weeks' data calendar

Upcoming key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 23 December 2019					
Germany		08.00 Import price index Y/Y%	Nov	-2.4	-3.5
Tuesday 24, Wednesday 25, Thursday 26 December 2019					
- Nothing scheduled -					
Friday 27 December 2019					
Germany		- Retail sales* M/M% (Y/Y%)	Nov	-	-1.6 (1.4)
Spain		08.00 Retail sales Y/Y%	Nov	-	2.6
Monday 30 December 2019					
Spain		08.00 Final GDP Q/Q% (Y/Y%)	Q3	0.4 (2.0)	0.4 (2.0)
		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Dec	-	0.4 (0.5)
Tuesday 31 December 2019, Wednesday 01 January 2020					
- Nothing scheduled -					
Thursday 02 January 2020					
EMU		09.00 Final manufacturing PMI	Dec	45.9	46.9
Germany		08.55 Final manufacturing PMI	Dec	43.4	44.1
France		08.50 Final manufacturing PMI	Dec	50.3	51.7
Italy		08.45 Manufacturing PMI	Dec	-	47.6
UK		09.30 Final manufacturing PMI	Dec	47.4	48.9
Friday 03 January 2020					
EMU		09.00 M3 money supply Y/Y%	Nov	-	5.6
Germany		08.55 Unemployment rate % (change '000s)	Dec	-	5.0 (-16.0)
		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Dec	-	1.1 (1.2)
France		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Dec	-	1.0 (1.2)
Spain		08.00 Unemployment change '000s	Dec	-	20.5
UK		09.30 Construction PMI	Dec	-	45.3
		09.30 Net consumer credit (net mortgage lending) £bn	Nov	-	1.3 (4.3)
		09.30 Mortgage approvals '000s	Nov	-	64.6

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Upcoming key events & auctions

Country	GMT	Event / Auction
Monday 23 December 2019		
Italy		10.00 Auction: to sell bonds
Tuesday 24 December 2019		
- Nothing scheduled -		
Wednesday 25 December, Thursday 26 December 2019		
EMU & UK		- Public and market holiday
Friday 27 December 2019		
- Nothing scheduled -		
Monday 30 December 2019		
Italy		10.00 Auction: to sell 5Y and 10Y bonds
Tuesday 31 December 2019		
- Nothing scheduled -		
Wednesday 01 January 2020		
EMU & UK		- Public and market holiday
Thursday 02 January, Friday 03 January 2020		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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