

Euro wrap-up

Overview

- Bunds ended the day little changed despite an upside surprise to the final euro area and German services PMIs.
- Gilts followed Treasuries lower, while the final UK services PMIs was consistent with stagnation despite a notable upwards revision.
- Tomorrow will bring euro area retail sales figures for November and the flash CPI estimate for December.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/21	-0.636	+0.005
OBL 0 10/24	-0.557	+0.004
DBR 0 08/29	-0.289	+0.001
UKT 3¼ 09/21	0.600	+0.049
UKT 1 04/24	0.593	+0.046
UKT 0% 10/29	0.774	+0.036

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

Source: Bloomberg

Euro area

Services PMI upwardly revised but still subdued

Like last week's [manufacturing PMIs](#), the final euro area services PMIs for December, published today, brought a modest upwards revision. In particular, an increase of 0.4pt from the flash estimates left the headline and new orders indices at 52.8 and 52.1 respectively, both 0.9pt higher than November and the highest for four months, suggesting that the sector continues to grow despite ongoing manufacturing weakness. This notwithstanding, the headline PMI was still on average in Q4 ½pt lower than the Q3 average at the lowest quarterly level for five years. So, overall, while the euro area's composite output PMI was similarly upwardly revised to a four-month high, at 50.9 it remained one of the lowest readings since the euro crisis and consistent with ongoing subdued growth at the end of 2019. Indeed, over the fourth quarter as a whole, the composite PMI slowed to 50.7, the weakest since Q213. And while new orders reportedly returned to modest growth for the first month in four, firms were unsurprisingly more downbeat about their hiring intentions, with the employment component implying the weakest jobs growth since 2014.

Mixed performance among the member states

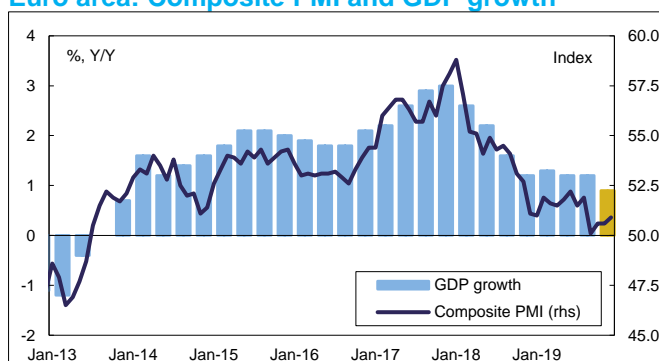
There was also a welcome improvement in Germany's services PMI at the end of last year, with a sizeable upward revision from December's flash estimate leaving the headline index 1.2pts higher than November at 52.9, a four-month high, while the new orders PMI returned to expansionary territory for the first month in four. But while that country's composite PMI was also revised higher in December, at 50.2 it was merely consistent with stagnation at the end of 2019. Moreover, given the weakness earlier in the quarter, Q4 recorded the first sub-50 quarterly German composite PMI since mid-2013.

Elsewhere, there were limited revisions made to the final French services and composite PMIs, which at 52.4 and 52.0 remained consistent with steady expansion heading into year-end and so suggested that the strikes among workers in transport and certain other sectors had so far had a relatively modest economic impact. Spain's services PMI suggested an improved performance heading into year-end too, with the headline index up 1.7pts in December to 54.9, a nine-month high, leaving the composite index rising to an eight-month high and consistent with another quarter of solid GDP growth. In contrast, while there was a pickup in the Italian services PMI in December (up 0.7pt to 51.1), a significant drop in the equivalent manufacturing survey saw the composite index fall further into contractionary territory to 49.3, an eleven-month low.

German retail sales surprise on the upside

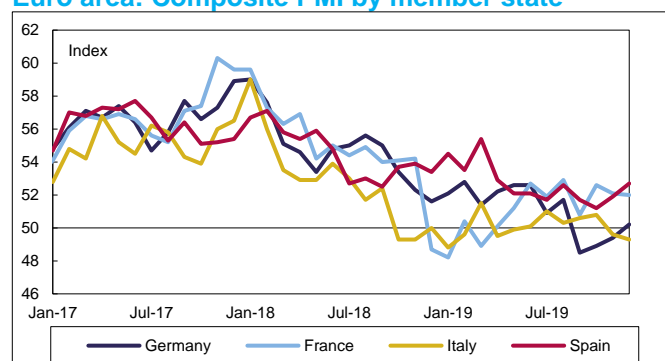
While the composite PMIs exclude the retail sector, today also brought a welcome upside surprise from the latest German retail sales figures. In particular, following a drop of 1.3%M/M in October, sales rebounded in November by 2.1%M/M, the most in ten months, to be up 2.8%Y/Y. The improvement appeared widespread, with near-3%Y/Y growth in sales of food and non-food items alike, with the latter supported by a solid increase in the 'other retailing' category which includes sales of items such as books and

Euro area: Composite PMI and GDP growth*



*Q419 GDP growth is Daiwa's forecast. Source: Thomson Reuters, Markit and Daiwa Capital Markets Europe Ltd.

Euro area: Composite PMI by member state



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


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bicycles. Overall, however, that left them trending little changed from Q3, suggestive of somewhat softer growth in German household consumption in Q4 than the 0.4%Q/Q pace of the prior quarter. The equivalent euro area retail sales figures for November are due tomorrow and seem highly likely also to report a rebound, albeit likely closer to 1.0%M/M.

The day ahead in the euro area and US

Aside from the aforementioned euro area retail sales release, tomorrow will also bring the euro area's flash CPI estimate for December. The core measure is expected to remain unchanged at 1.3%Y/Y. But higher energy inflation will push the headline rate up 0.3ppt to 1.3%Y/Y, and the spike in the oil price over the past few days obviously represents an upside risk to the near-term inflation outlook too. In the markets, Germany will sell 10Y Linkers.

Beyond the economic data, politics will remain in focus in certain member states. After a first vote yesterday, Spain's parliament is scheduled to vote again tomorrow on the establishment of a new minority left-wing coalition government led by the Socialists (PSOE) and also featuring the populist Unidas Podemos. PSOE leader Pedro Sanchez yesterday won 166 votes, with 165 votes against, 18 abstentions and one MP off sick. As such, he appears on track to win the simple majority required tomorrow to form the new government, although one or two changes of heart (or further cases of illness) could yet upset his plans.

In the US, following last week's disappointing manufacturing ISM survey for December, a key focus tomorrow will be the equivalent non-manufacturing indices. Contrasting with the marked deterioration in the manufacturing survey, the headline non-manufacturing index is expected to have largely reversed the decline seen in November to remain consistent with ongoing expansion. Final trade and durable goods orders figures for November are also due. In the markets, the Treasury will sell 3Y notes.

UK

Composite PMI still consistent with contraction

The result of the general election on 12 December provided some certainty on Brexit, confirming that the UK will definitely leave the EU on 31 January and enter a transition period to last at least to the end of the year. And so, today's final services PMI for December – which for the first time incorporated survey responses submitted after the election – provided a large upwards revision from the preliminary release. Indeed, contrasting with the modest decline implied in the initial estimate, today's survey showed the headline PMI rising 0.7pt from November to 50.0. The new orders component also increased a sizeable 3pts to 51.2, with businesses reportedly also the most upbeat about the outlook over the coming twelve months since September 2018. Of course, the headline index was still very weak at the end of 2019 and implied that the services sector had failed to grow or declined in each of the last four months of the year. Furthermore, with the manufacturing sector still in reverse, the composite output PMI remained in contractionary territory in December – albeit to a lesser degree than initially thought – with the latest two observations (49.3) marking the first successive sub-50 readings since the height of the Global Financial Crisis. When also including construction, the all-sector PMI was weaker still (48.9), a level that mechanistically implies a contraction in GDP of around 0.2%Q/Q. While the PMIs were not the best guide to GDP growth in the first three quarters of 2019, we also see a notable risk of a negative reading in Q4.

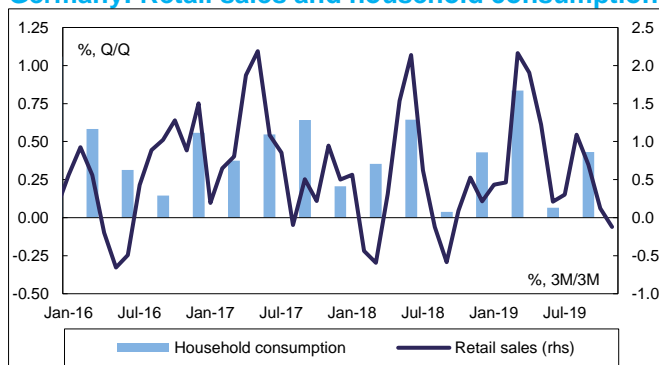
Car registrations remained in reverse in 2019

Today's new car registrations figures for December were, at face value, also more encouraging, with growth of 3.4%Y/Y. But this headline figure was in part flattered by a low base that month last year. And over 2019 as a whole, the number of new cars sold was down more than 2% to 2.31mn, the lowest annual reading for six years. In the absence of a sudden improvement in consumer confidence we should expect 2020 to be little better.

The day ahead in the UK

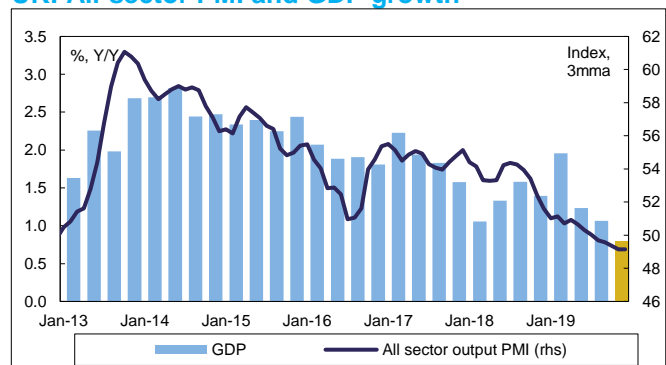
It should be a quieter day for UK economic news tomorrow, with no top-tier releases due. However, the DMO will sell 10Y Gilts.

Germany: Retail sales and household consumption












Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: All-sector PMI and GDP growth*









*Q419 GDP growth is Daiwa's forecast. Source: Thomson Reuters, Markit 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 PMI (composite PMI)	Dec	52.8 (50.9)	52.4 (50.6)	51.9 (50.6)	-
		PPI Y/Y%	Nov	-1.4	-1.6	-1.9	-
Germany		Retail sales M/M% (Y/Y%)	Nov	2.1 (2.8)	1.0 (1.0)	-1.9 (0.8)	-1.3 (1.4)
		Final services PMI (composite PMI)	Dec	52.9 (50.2)	52.0 (49.4)	51.7 (49.4)	-
France		Final services PMI (composite PMI)	Dec	52.4 (52.0)	52.4 (52.0)	52.2 (52.1)	-
Italy		Services PMI (composite PMI)	Dec	51.1 (49.3)	50.5 (49.7)	50.4 (49.6)	-
Spain		Services PMI (composite PMI)	Dec	54.9 (52.7)	53.9 (52.0)	53.2 (51.9)	-
UK		New car registrations Y/Y%	Dec	3.4	-	-1.3	-
		Final services PMI (composite PMI)	Dec	50.0 (49.3)	49.0 (48.5)	49.3 (49.3)	-
Auctions							
Country	Auction						
- Nothing to report -							

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%)	Nov	1.0 (1.8)	-0.6 (1.4)
		10.00	Preliminary CPI (core CPI) Y/Y%	Dec	1.3 (1.3)	1.0 (1.3)
Germany		08.30	Construction PMI	Dec	-	52.5
Italy		10.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Dec	0.5 (0.5)	0.2 (0.2)
Auctions and events						
Country		GMT	Auction / Event			
Germany		10.30	Auction: to sell €500mn of 0.50% 2030 index-linked bonds			
UK		10.30	Auction: to sell £2.75bn of 0.875% 2029 bonds			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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