

Euro wrap-up

Overview

- While the latest data from France, Italy and Spain reported growth in manufacturing output in November, Bunds followed USTs higher.
- Despite a more positive UK labour market survey, Gilts made larger gains as another MPC member suggested that she might vote a rate cut in coming months.
- The coming week brings data for UK GDP in November, German GDP in 2019, UK and euro area inflation in December, and the account of the ECB's December policy meeting.

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Daily bond market movements

| Bond | Yield | Change |
|--------------|--------|--------|
| BKO 0 12/21 | -0.609 | -0.005 |
| OBL 0 10/24 | -0.507 | -0.011 |
| DBR 0 02/30 | -0.200 | -0.016 |
| UKT 3% 09/21 | 0.533 | -0.054 |
| UKT 1 04/24 | 0.564 | -0.052 |
| UKT 0% 10/29 | 0.775 | -0.045 |

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

Euro area

French IP on track for solid growth in Q4

After yesterday's upside surprise in the [German industrial production](#) data for November, the equivalent French figures released this morning were also a touch better than expectations. In particular, total French IP rose for the third successive month, albeit by just 0.3%M/M, to be up 1.3%Y/Y, the strongest annual rate in six months. With growth the prior month revised up to 0.5%M/M, production was trending 0.6% above the Q3 average over the first two months of the fourth quarter. Within the detail, manufacturing was broadly flat in November with stronger growth in output of capital goods and transport items offset by a drop in other categories. And given stronger growth over the previous two months, the average level of manufacturing output in October and November was 0.8% above the Q3 norm, strongly pointing to positive growth in the sector over Q4 as a whole. Meanwhile, construction output leapt 2.5%M/M in November to similarly be on track for its first quarterly expansion since Q1.

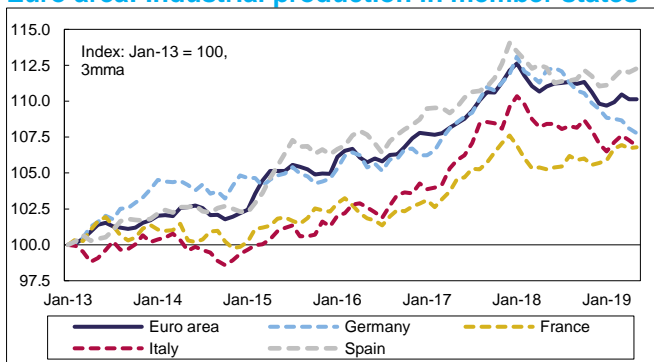
French survey consistent with positive GDP growth

While it suggested a weakening of order books for the sector, the latest Bank of France business sentiment survey, also released today, suggested that conditions in French industry were broadly stable in December, with the index for the sector unchanged at 97, only a touch below the average for the year as a whole. While the equivalent figure for services was weaker, dropping 2pts, also to 97, the lowest in more than three years, construction activity was reportedly stronger in December (the index was unchanged at 105, well above the long-run average). Overall, therefore, the Bank of France maintained its forecast of GDP growth in Q4 at 0.2%Q/Q, down 0.1ppt from the prior three quarters but in line with our own estimate.

Manufacturing output up in Italy and Spain in November

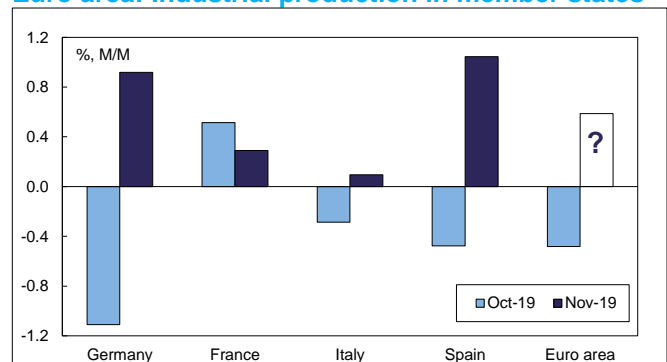
Like in France, manufacturing production in Italy and Spain also rose in November, up 0.4%M/M in both countries. In Italy, the trend since early summer has been sideways – indeed, the average level in October and November was bang in line with that in Q3. In contrast, in Spain, a downtrend throughout the summer months has been followed by recovery, with the level in November reaching a six-month high. Surveys, however, pointed to a weak end to the year to manufacturing, and so overall production growth might well have remained absent in both countries over Q4 as a whole.

Euro area: Industrial production in member states



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Industrial production in member states*



*Euro area's November IP figure is Daiwa forecast. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

The week ahead in the euro area and US

Perhaps the most notable new economic release of the coming week will be the ECB account from its 12 December Governing Council meeting, the first to be chaired by President Lagarde. On that occasion, policy was left unchanged with the ECB's interest rates, monthly asset purchases and forward guidance all unamended. So, among other things, the Governing Council left open the door to further rate cuts. The post-meeting press conference suggested that Lagarde was also keen not to preempt the findings of the ECB's scheduled strategic policy review, which is now underway. Nevertheless, the account will no doubt be closely watched for any insight into the Governing Council's assessment of the economic outlook and how policy might evolve over coming quarters.

Turning to the data, the first release of note will be the euro area's industrial production report on Wednesday, which is expected to show that aggregate output rose by around ½%M/M in November, reversing the decline in October. That day will also bring euro area trade data for the same month, expected to show that exports slipped back on the month. New car registration figures for December will follow on Thursday and final euro area inflation numbers are due on Friday. The preliminary estimate showed headline inflation rise 0.3ppt to 1.3%Y/Y, a six-month high, on the back of stronger energy inflation, while core inflation moved sideways at 1.3%Y/Y, still the highest for four years. Final inflation figures from the member states will be released earlier in the week, while full-year GDP figures for 2019 from Germany (Wednesday) will no doubt attract attention too. In the markets, Italy will sell bonds with various maturities on Tuesday, while Germany will sell 30Y bonds on Wednesday.

In the US, the first of the coming week's top-tier releases will come on Tuesday with December CPI figures expected to show increases of 0.2%M/M in both the headline and core measures. As such, the annual headline rate is forecast to have shifted slightly higher at the end of last year, by 0.3ppt to 2.3%Y/Y, on the back of energy price movements. Core inflation, however, is expected to move sideways at 2.3%Y/Y. The following day will bring retail sales figures for December, expected to post a pickup following subdued sales in November. But Friday's IP report for the same month seems likely to disappoint, with manufacturing output forecast to have moved broadly sideways following a jump in November. That day will also bring the University of Michigan's flash consumer sentiment survey for January. Other releases due include the NFIB business optimism survey (Tuesday), Empire manufacturing survey (Wednesday), Philly Fed business survey (Thursday) and various housing market indicators. There are no UST auctions scheduled.

UK

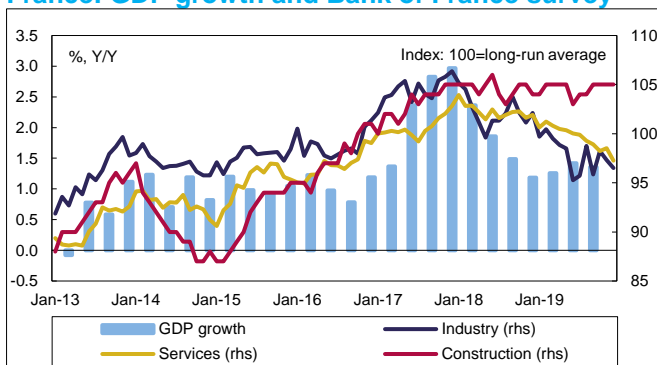
Jobs report points to modest recovery

While the UK's labour market appeared to lose momentum over the second half of last year, the latest KPMG/REC UK Report on Jobs hinted at an improvement in December. Indeed, according to the survey, permanent staff placements by recruitment agencies picked up for the first time in a year, while growth in temps billings accelerated too. Admittedly, overall staff demand growth reportedly remained relatively sluggish, with vacancy growth weak. However, recruiters continued to report skill shortages and generally tight labour market conditions. So, starting pay reportedly picked up for both permanent and temporary workers, and at slightly quicker rates than in November. Overall, therefore, today's KPMG/REC survey did nothing to suggest that the labour market has cooled sufficiently to prompt an immediate policy response from the BoE.

More dovish noises from the MPC

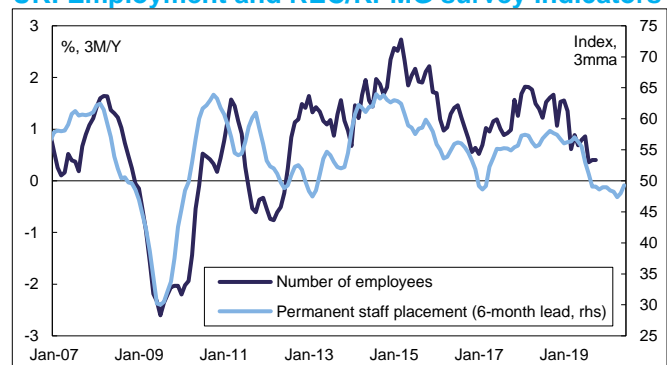
Of course, as BoE external MPC member Silvana Teneyro noted in a speech today, the labour market is typically a lagging indicator of economic conditions. And she flagged some positive factors which would support economic growth over the

France: GDP growth and Bank of France survey



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Employment and REC/KPMG survey indicators


















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

near term, most notably higher fiscal spending and reduced Brexit uncertainty. But she also acknowledged that the risks to the BoE's assumptions underpinning an anticipated pickup in demand, including those related to Brexit, were still skewed to the downside. And, after [yesterday's speech](#) from Mark Carney flagged the possibility of near-term monetary policy easing, Tenreyro stated that she would be inclined to vote for a rate cut in coming months if the evidence suggested that ongoing uncertainties were continuing to weigh on UK demand.

The week ahead in the UK

The coming week brings several top-tier UK economic releases, including perhaps most notably November's monthly GDP, activity and trade figures. After a disappointing start to the fourth quarter, with zero GDP growth in October, expectations are for no improvement in November. And given the decline in output at the end of Q3, this would leave GDP down 0.1%3M/3M. While the continued weakness could in part reflect special factors, such as the timing of the Black Friday discounting period, manufacturing production is also expected to have reversed the modest growth reported in October, while an anticipated slight increase in construction activity will only partly offset the weakness recorded the start of Q4. But while December's retail sales figures (due Friday) are set to receive a boost from the inclusion of the Black Friday period, these are likely to add to evidence that consumption growth moderated over the fourth quarter as a whole. Also of note will be December's inflation data (Wednesday) – both the headline and core CPI rates are expected to be unchanged at 1.5%Y/Y and 1.7%Y/Y respectively, but we see the risks to the former rate to be skewed to the upside. Other releases include the BoE's latest credit conditions survey and RICS house price indices (both due Thursday). In the markets, the DMO will sell 5Y Gilts on Tuesday.

Daiwa economic forecasts





| | 2019 | | 2020 | | | | 2021 | | 2019 | 2020 | 2021 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| GDP forecasts %, Q/Q | | | | | | | | | | | |
| Euro area  | 0.2 | 0.1 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 1.2 | 0.9 | 0.6 |
| Germany  | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.0 | 0.6 | 0.6 | 0.6 |
| France  | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 1.3 | 1.1 | 0.8 |
| Italy  | 0.1 | -0.1 | 0.1 | 0.1 | 0.0 | -0.1 | 0.0 | -0.1 | 0.1 | 0.1 | -0.1 |
| Spain  | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.2 | 1.9 | 1.6 | 1.2 |
| UK  | 0.4 | -0.1 | 0.3 | 0.3 | 0.3 | 0.3 | 0.1 | 0.3 | 1.3 | 0.8 | 0.8 |
| Inflation forecasts %, Y/Y | | | | | | | | | | | |
| Euro area | | | | | | | | | | | |
| Headline CPI  | 1.0 | 1.0 | 1.4 | 1.3 | 1.4 | 1.4 | 1.3 | 1.2 | 1.2 | 1.5 | 1.6 |
| Core CPI  | 0.9 | 1.2 | 1.2 | 1.2 | 1.3 | 1.2 | 1.2 | 1.1 | 1.2 | 1.4 | 1.6 |
| UK | | | | | | | | | | | |
| Headline CPI  | 1.8 | 1.5 | 1.7 | 1.3 | 1.2 | 1.4 | 1.6 | 1.9 | 1.8 | 1.4 | 1.9 |
| Core CPI  | 1.7 | 1.7 | 1.6 | 1.7 | 1.7 | 1.6 | 1.8 | 2.0 | 1.8 | 1.6 | 2.0 |
| 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 %  | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.60 | -0.60 | -0.50 | -0.50 | -0.60 |
| Net asset purchases*  | 0 | 20 | 20 | 20 | 20 | 20 | 30 | 30 | 20 | 20 | 30 |
| BoE | | | | | | | | | | | |
| Bank Rate %  | 0.75 | 0.75 | 0.75 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 0.50 | 0.50 |
| 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 |
|---------|---|--------|-------------------|--|-------------|-------------------|
| France |  Bank of France industrial sentiment indicator | Dec | 97 | 97 | 97 | - |
| |  Industrial production M/M% (Y/Y%) | Nov | 0.3 (1.3) | 0.1 (0.4) | 0.4 (-0.2) | 0.5 (-0.1) |
| Italy |  Industrial production M/M% (Y/Y%) | Nov | 0.1 (-0.6) | 0.0 (-0.6) | -0.3 (-2.4) | - |
| Spain |  Industrial production M/M% (Y/Y%) | Nov | 1.0 (2.1) | 0.2 (0.5) | -0.4 (-1.3) | -0.5 (-) |
























Auctions

| Country | Auction |
|-----------------------|---------|
| - Nothing to report - | |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

The coming week's key data releases

| Country | GMT | Release | Period | Market consensus/ <i>Daiwa forecast</i> | Previous |
|----------------------------------|---|---|--------|--|--------------|
| Monday 13 January 2020 | | | | | |
| Italy |  09.00 | Retail sales M/M% (Y/Y%) | Nov | - | -0.2 (1.0) |
| UK |  09.30 | Monthly GDP estimate M/M% (3M/3M%) | Nov | 0.0 (-0.1) | 0.0 (0.0) |
| |  09.30 | Industrial production M/M% (Y/Y%) | Nov | 0.0 (-1.2) | 0.1 (-1.3) |
| |  09.30 | Manufacturing production M/M% (Y/Y%) | Nov | -0.2 (-1.6) | 0.2 (-1.2) |
| |  09.30 | Construction output M/M% (Y/Y%) | Nov | 0.6 (-1.4) | -2.3 (-2.1) |
| |  09.30 | Services activity M/M% (3M/3M%) | Nov | 0.1 (0.2) | 0.2 (0.2) |
| |  09.30 | Trade balance (goods trade balance) £bn | Nov | -2.5 (-11.7) | -5.2 (-14.5) |
| Tuesday 14 January 2020 | | | | | |
| - Nothing scheduled - | | | | | |
| Wednesday 15 January 2020 | | | | | |
| EMU |  10.00 | Industrial production M/M% (Y/Y%) | Nov | 0.5 (-1.1) | -0.5 (-2.2) |
| |  10.00 | Trade balance €bn | Nov | - | 24.5 |
| Germany |  09.00 | GDP Y/Y% | 2019 | 0.6 | 1.5 |
| France |  07.45 | Final CPI (EU-harmonised CPI) Y/Y% | Dec | 1.4 (1.6) | 1.0 (1.2) |
| Spain |  08.00 | Final CPI (EU-harmonised CPI) Y/Y% | Dec | 0.8 (0.8) | 0.4 (0.5) |
| UK |  09.30 | CPI (core CPI) Y/Y% | Dec | 1.5 (1.7) | 1.5 (1.7) |
| |  09.30 | ONS house price index Y/Y% | Nov | 1.1 | 0.7 |
| Thursday 16 January 2020 | | | | | |
| EMU |  07.00 | EU27 new car registrations | Dec | - | 4.9 |
| Germany |  07.00 | Final CPI (EU-harmonised CPI) Y/Y% | Dec | 1.5 (1.5) | 1.1 (1.2) |
| UK |  00.01 | RICS house price balance | Dec | -5 | -12 |
| Friday 17 January 2020 | | | | | |
| EMU |  10.00 | Construction output M/M% (Y/Y%) | Nov | - | -1.0 (0.3) |
| |  10.00 | Final CPI (core CPI) Y/Y% | Dec | 1.0 (1.3) | 1.0 (1.3) |
| Italy |  09.00 | Total trade balance €bn | Nov | - | 8.0 |
| |  10.00 | Final CPI (EU-harmonised CPI) Y/Y% | Dec | 0.5 (0.5) | 0.2 (0.2) |
| UK |  09.30 | Retail sales including fuel M/M% (Y/Y%) | Dec | 0.8 (2.8) | -0.6 (1.0) |
| |  09.30 | Retail sales excluding fuel M/M% (Y/Y%) | Dec | 0.8 (3.0) | -0.6 (0.8) |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

| Country | GMT | Event / Auction |
|----------------------------------|---|--|
| Monday 13 January 2020 | | |
| - Nothing scheduled - | | |
| Tuesday 14 January 2020 | | |
| EMU |  08.30 | ECB's Mersch scheduled to speak |
| Italy |  10.00 | Auction: 0.05% 2023 bonds |
| |  10.00 | Auction: €2.5bn of 0.85% 2027 bonds |
| |  10.00 | Auction: €1.25bn of 3.1% 2040 bonds |
| UK |  10.30 | Auction: £3.25bn of 0.625% 2025 bonds |
| Wednesday 15 January 2020 | | |
| Germany |  10.30 | Auction: €1.5bn of 0% 2050 bonds |
| UK |  08.40 | BoE's Saunders scheduled to speak |
| Thursday 16 January 2020 | | |
| UK |  09.30 | BoE publishes its credit conditions survey |
| Friday 17 January 2020 | | |
| - Nothing scheduled - | | |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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

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