

# Euro wrap-up

## Overview

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- Euro area government bonds followed USTs lower, while Italian retail sales data suggested weak consumer spending in Q4.
- Gilts made gains, particularly at the short end of the curve, as UK GDP fell in November and a further BoE MPC member signalled readiness to vote for a rate cut in the absence of an improvement in economic conditions.
- After a quiet Tuesday, Wednesday will bring data for full-year German GDP, euro area IP and trade in November, and UK inflation in December.

### Daily bond market movements

Bond	Yield	Change
BKO 0 12/21	-0.597	+0.011
OBL 0 10/24	-0.485	+0.024
DBR 0 02/30	-0.161	+0.042
UKT 3¼ 09/21	0.485	-0.044
UKT 1 04/24	0.524	-0.034
UKT 0% 10/29	0.750	-0.020

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

Source: Bloomberg

## UK

### Another MPC member moves closer to a rate cut

At the BoE's December policy meeting, two out of nine members of the MPC – external members Michael Saunders and Jonathan Haskel – voted for an immediate 25bp cut to Bank Rate. Last week brought dovish talk from two further BoE policymakers, Governor Mark Carney and another external MPC member, Sylvia Tenreyro, who both suggested that the case for monetary easing would be strong unless the economic data improved. And the weekend saw another external member, Gertjan Vlieghe, suggest that he too has moved closer to voting for a cut, stating that he would “need to see an imminent and significant improvement in the data to justify waiting a little bit longer”. So, the MPC now appears close to achieving a majority in favour of easing policy.

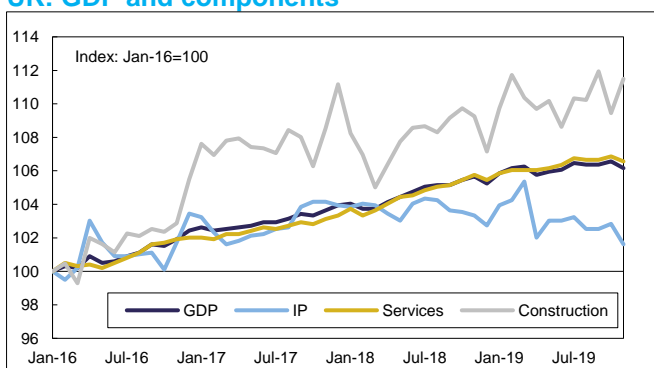
### GDP in November falls most in seven months

Today's GDP, production and trade data for November supported the case for policy easing, suggesting a loss of economic momentum in the middle of Q4. In particular, GDP fell 0.3%M/M, the most since April to be up just 0.6%Y/Y, the weakest annual rate since June 2012, when output was temporarily impeded by a special national holiday. Admittedly, the figures for September and October were revised up, so growth on a three-month basis was a touch stronger than expected at 0.1%3M/3M. However, given the profile of output over past months, a rebound in GDP in December will be required to deliver the 0.1%Q/Q growth rate that was the BoE's expectation in December. And the BoE's November Monetary Policy Report growth forecast for Q4 (0.2%Q/Q) now looks completely out of reach. So, today's data call for a downwards revision to the BoE's growth outlook when it publishes its updated Monetary Policy Report on 30 January. But the extent of any such revisions – and the likelihood of a rate cut at the end of the month – will depend also on other forthcoming economic data and surveys, including December's retail sales figures due on Friday and, most notably perhaps, the flash January PMIs due on 24 January.

### Services and manufacturing output down

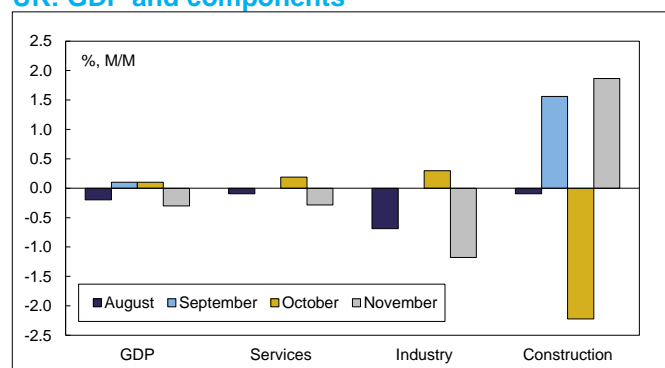
Within the detail, services output fell 0.3%M/M in November, the sharpest drop since February 2018, to be up just 0.1%3M/3M, the weakest rate in more than three years. In contrast, construction output rose 1.9%M/M, the most since January but still insufficient to reverse the drop the prior month. And in the aftermath of the end-October Article 50 deadline, which had seen activity brought forward to mitigate risks of subsequent disruption, manufacturing production fell 1.7%M/M, the most since the drop of 4.2%M/M after the initial end-March deadline. The distortion to the profile of economic activity caused by Brexit uncertainty was also reflected in the latest trade data. Goods export volumes rose 3.7%M/M, the most

### UK: GDP and components



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

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since July, to be up 3.2%3M/3M. Adding services, total exports were up a softer 2.8%3M/3M. While goods imports fell an extraordinary 11.0%M/M, they nevertheless remained up 3.9%3M/3M while total imports were up 3.0%3M/3M. Given the extreme volatility in these data, it remains unclear whether net trade provided support or subtracted from growth in Q4.

## The coming two days in the UK

Tuesday is set to be a quiet day for new UK economic data with no top-tier releases due. However, Wednesday will bring inflation figures for December. The annual rates on the headline and core CPI measures are expected to remain unchanged at 1.5%Y/Y and 1.7%Y/Y respectively, the former thus matching the lowest since 2016. The core output PPI rate is expected to edge down to 1.0%Y/Y, which would be the lowest in more than three years. BoE external member Michael Saunders, who voted for a 25bp rate cut at the November and December policy meetings, will speak publicly on Wednesday. Finally, the DMO will sell 5Y Gilts on Tuesday.

## Euro area

### Italian retail sales on track for Q4 drop

On a quiet start to the week for economic news from the euro area, the sole data release of note featured Italian retail sales in November. While Italian private consumption rose in Q319 by 0.4%Q/Q, the most in ten quarters, today's figures pointed to a much weaker showing last quarter. In particular, the volume of retail sales fell 0.3%M/M for a second successive month in November to leave the average level in the first two months of Q4 running 0.1% below the Q3 average. Sales of non-food items were down a larger 0.4%M/M to be trending 0.3% below Q3. A softer performance in Q4 for Italian retail sales and private consumption should come as no surprise – pay-back from the strength in Q3 should have been expected, all the more so given the drop in consumer confidence in November to the lowest in more than two years. And while sentiment improved slightly in December, it remained near the bottom of the range of the past two years. So, we maintain our Italian forecast for Q4 which shows growth of just 0.1%Q/Q in private consumption and a drop in GDP for the first time since Q318, albeit of just 0.1%Q/Q.

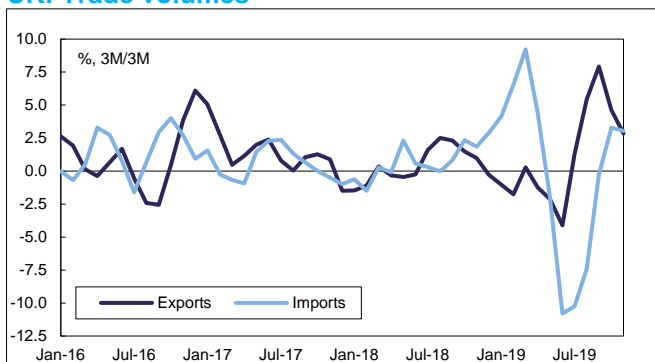
### The coming two days in the euro area and US

Tuesday should be exceptionally quiet for economic news from the euro area, with no top-tier economic data due. However, ECB Governing Council members Mersch, Villeroy de Galhau and Hernandez de Cos will all speak publicly. In the bond market, Italy will sell 3Y, 7Y and 20Y BTPs.

Wednesday will be busier for economic data. The November euro area industrial production report is set to show growth of about ½%M/M but the goods trade figures for the same month will show a drop in exports and a narrower surplus. The first estimate of full-year German GDP in 2019 will reveal growth of about 0.6%Y/Y, down from 1.5%Y/Y in 2018 and the weakest rate since 2013. The associated fiscal numbers will report a German general government budget surplus of about 1.2% of GDP, about ½ppt lower than the previous year. And the final estimates of French and Spanish inflation in December are likely to align with the flash figures of 1.6%Y/Y and 0.8%Y/Y respectively on the EU harmonized basis, up 0.4ppt and 0.3ppt from their levels in November. ECB speakers include the hawkish Austrian Governing Council member, Robert Holzmann, while Villeroy de Galhau will speak again. In the bond markets, Germany will sell 30Y Bunds.

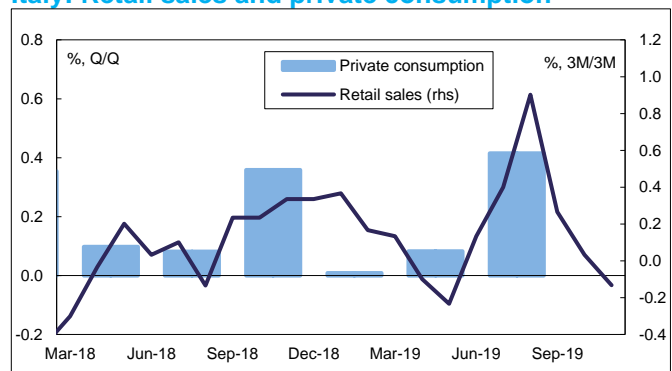
In the US, Tuesday will bring December's CPI inflation data, which are expected to show increases of 0.2%M/M in both the headline and core measures. As such, the annual headline rate is forecast to have shifted higher at the end of last year, by 0.3ppt to 2.4%Y/Y, on the back of energy price movements. The annual core inflation rate, however, is expected to move sideways at 2.3%Y/Y. The NFIB small business survey for December is also due tomorrow. Wednesday will bring retail sales figures for December, expected to post a pickup following a subdued November. Producer price data and the Fed's Beige Book, both for December, are also due on Wednesday along with the Empire manufacturing survey for January.

### UK: Trade volumes\*



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

### Italy: Retail sales and private consumption










Source: 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
Italy	 Retail sales M/M% (Y/Y%)	Nov	<b>-0.2 (0.9)</b>	- (1.4)	-0.2 (1.0)	<b>-0.3 (-)</b>
UK	 Monthly GDP estimate M/M% (3M/3M%)	Nov	<b>-0.3 (0.1)</b>	0.0 (-0.1)	0.0 (0.0)	<b>0.1 (0.2)</b>
	 Industrial production M/M% (Y/Y%)	Nov	<b>-1.2 (-1.6)</b>	0.0 (-1.3)	0.1 (-1.3)	<b>0.4 (-0.6)</b>
	 Manufacturing production M/M% (Y/Y%)	Nov	<b>-1.7 (-2.0)</b>	-0.2 (-1.6)	0.2 (-1.2)	<b>0.5 (-0.3)</b>
	 Construction output M/M% (Y/Y%)	Nov	<b>1.9 (2.0)</b>	0.6 (-1.4)	-2.3 (-2.1)	<b>-2.2 (-0.3)</b>
	 Services activity M/M% (3M/3M%)	Nov	<b>-0.3 (0.1)</b>	0.1 (0.2)	0.2 (0.2)	<b>0.3 (0.3)</b>
	 Trade balance (goods trade balance) £bn	Nov	<b>4.0 (-5.3)</b>	-2.5 (-11.8)	-5.2 (-14.5)	<b>-1.3 (-10.9)</b>

### 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
- Nothing scheduled -					








### Auctions and events

Country	GMT	Auction / Event
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



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Wednesday's data releases

### Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	 10.00	Industrial production M/M% (Y/Y%)	Nov	0.3 (-1.0)	-0.5 (-2.2)
	 10.00	Trade balance €bn	Nov	22.0	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	1.0	0.7

### Auctions and events

Country	GMT	Auction / Event
Germany	 10.30	Auction: €1.5bn of 0% 2050 bonds
UK	 08.40	BoE's Saunders scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

**In the absence of significant news, the next edition of the Euro wrap-up will be published on 15 January 2020**

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