

Euro wrap-up

Overview

- Bunds were little changed as the Commission survey signalled a widespread deterioration in euro area economic sentiment but flash French inflation figures surprised on the upside.
- Gilts were also little changed ahead of the resumption of the EU-UK negotiations tomorrow.
- The coming week brings the flash November estimate of euro area inflation as well as new data on car registrations and retail sales, while ECB policy-makers will make final public comments before the next policy meeting.

Chris Scicluna

+44 20 7597 8326

Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.769	+0.001
OBL 0 10/25	-0.772	-0.003
DBR 0 08/30	-0.589	-
UKT 1½ 09/22	-0.056	+0.001
UKT 0% 06/25	-0.013	+0.002
UKT 4% 12/30	0.285	+0.007

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

Euro area

Commission survey underscores likelihood of drop in GDP in Q4 despite manufacturing resilience

Consistent with the [flash PMIs](#) and national sentiment surveys from [Germany and France](#) released earlier this week, the European Commission's business and consumer survey flagged a clear deterioration in confidence for the first time since April to underscore the likelihood of a drop in euro area GDP in Q4. The headline Economic Sentiment Index (ESI) dropped 3.5pts to a level broadly in line with that in August. The ESIs for each of the four largest member states also fell back, with Italy (down more than 8pts) and France (down almost 5pts) seeing the most notable declines.

Given the impact of pandemic containment measures, the most notable weakening was predictably recorded in services, for which the headline index fell more than 5pts – the most since April – to -17.3, the lowest since July. Demand expectations in services notably fell, as firms in many sub-sectors expect restrictions to be extended into the New Year. Sentiment in retail, construction and financial services was also weaker. And the significant deterioration in the flash estimate of consumer confidence, to the lowest level since May, was confirmed. In contrast, the equivalent measure of industrial confidence fell less than 1pt to -10.1, still above the range from March to September, as a further improvement in orders partly offset a worsening in manufacturing production expectations, which might well reflect concerns that services weakness will soon result in reduced demand for goods. Among other disappointing detail, the Commission's Employment Expectations Indicator fell for a second successive month to the lowest since June, due particularly to the weaker conditions in retail trade, services and construction. And while consumer price expectations firmed, selling price expectations fell in all sectors.

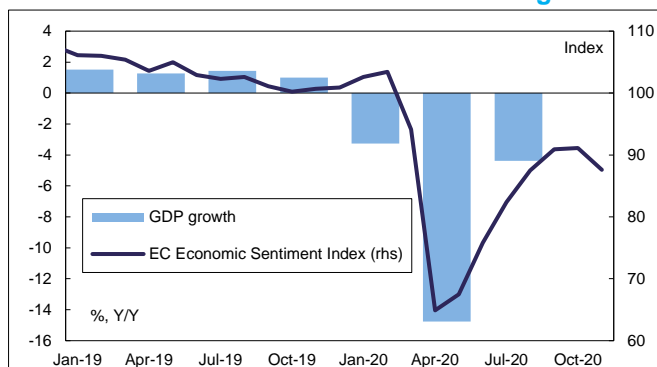
French spending on goods was strong in October ahead of closure of non-essential stores

Despite weaker sentiment among consumers and retail firms, French spending on goods remained strong in October benefiting from money that would previously have been spent on face-to-face services. Broadly tallying with the [Bank of France's](#) estimate of retail sales, consumption of goods rose 3.7%M/M to be up 2.7%Y/Y, as households appeared to stock up on food items (7.1%M/M) ahead of this month's closure of non-essential items. While spending on manufactured goods was stable, car purchases picked up after two months of decline, but expenditure on clothing again fell markedly.

Q3 GDP growth revised up, consumption close to pre-Covid level, as savings rate snapped back

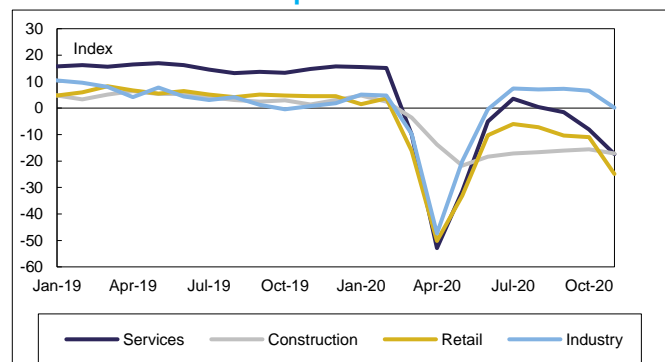
Meanwhile, updated Q3 national accounts data showed that French GDP growth was 0.4ppt stronger than previously thought last quarter, rising 18.7%Q/Q to be down 3.9%Y/Y. All components of final domestic demand rebounded sharply, with household consumption up a vigorous 17.9%Q/Q to be down just 1.3%Y/Y. Growth in spending on engineered goods (39.4%Q/Q) beat that on services (20.4%Q/Q) while spending on food slipped back (-3.3%Q/Q). Despite a rebound of

Euro area: Economic sentiment and GDP growth



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Sectoral expectations indices*



*Assessment of orders for construction. Source: European Commission, Refinitiv and Daiwa Capital Markets Europe Ltd.

23.9%Q/Q, gross fixed investment was down 4.8%Y/Y. Exports (up 22.1%Q/Q) outpaced imports (up 16.8%Q/Q). So, net trade made a positive contribution of 0.7ppt to GDP growth having subtracted 2.3ppts from the drop in Q2. Inventories contributed negatively for a second successive quarter. Household gross disposable income rebounded at the strongest pace since 1983, rising 3.7%Q/Q in Q3 following a drop of 2.6%Q/Q previously to be up 1.0%Y/Y, supported by increased jobs and pay as workers returned from furlough. As consumer spending rebounded vigorously, the household savings rate fell an extremely steep 10ppts to 16.5% in Q3, but nevertheless remained 1.6ppts above its 2019 average (14.9%).

French inflation in November surprises on the upside

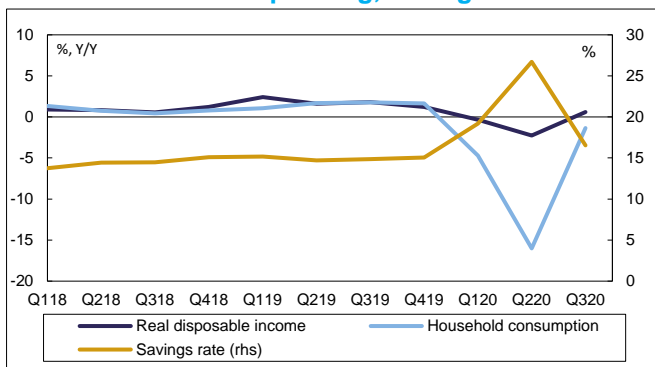
France also today published the first of the flash estimates of consumer price inflation in November from the member states. Contrary to expectations of a slight decline, inflation rose for a second successive month, with the EU-harmonised measure rising 0.1ppt to 0.2%Y/Y. The limited detail published on the national measure – which rose 0.2ppt, also to 0.2%Y/Y – showed that higher prices of services (up 0.7%Y/Y, the most in three months) and fresh food (up 10.6%Y/Y, the most since June) were the cause of the rise in headline inflation. In contrast, inflation of manufactured goods fell the most in five months (-0.4%Y/Y), while the pace of decline in energy prices was steady at -7.8%Y/Y. We note, however, that due to the pandemic containment measures, 40% of items in the inflation basket – largely of services – needed to be imputed by the statisticians, and so these data will not necessarily have provided an accurate guide to French inflation this month.

The week ahead in the euro area

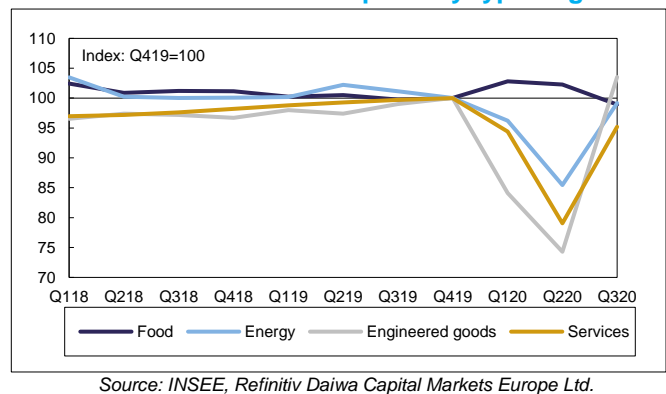
The economic news-flow from the euro area is unlikely to make many big headlines in the coming week. Nevertheless, in terms of new data, the flash estimates of November inflation from Germany, Italy and Spain are due on Monday ahead of the euro area figures on Tuesday. Despite today’s upside surprise from France, we expect the euro area headline rate of inflation to remain at -0.3%Y/Y, the lowest rate since February 2015, with the core rate holding at 0.2%Y/Y. We caution, however, that, given pandemic containment measures, a large share of the data will need to be imputed by the statisticians, rendering the inflation rates a less reliable guide to price movements than usual. Among the other data, retail sales data from Germany and the euro area are due on Wednesday and Thursday respectively. As in France, retail sales are expected to have risen further in October. However, car registrations data from the four largest member states for November are likely to be weak, with the closure of showrooms in some member states acting as a restraint. Meanwhile, German factory orders data for October are due on Friday. And survey results for November to be published in the coming week include the final manufacturing PMIs on Tuesday, final services and composite measures on Thursday and the construction PMIs on Friday.

Policy-wise, ahead of the “quiet period” before the ECB’s next monetary policy announcement on 10 December, Christine Lagarde will speak publicly on Monday and Tuesday while Chief Economist Lane will speak publicly on Wednesday. In addition, the Eurogroup of Finance Ministers will hold a videoconference on Monday with topics to be discussed including reforms to the ESM and the backstop to the Single Resolution Fund.

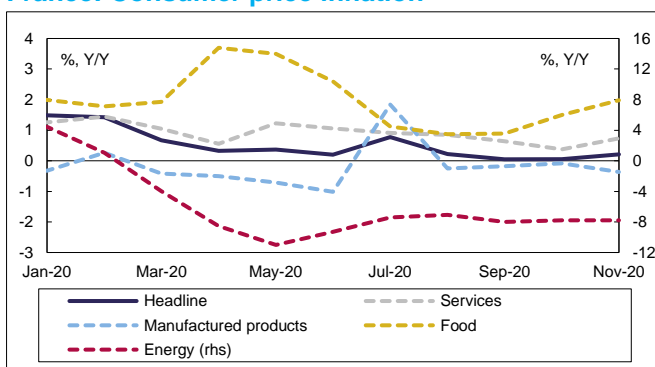
France: Household spending, saving and incomes



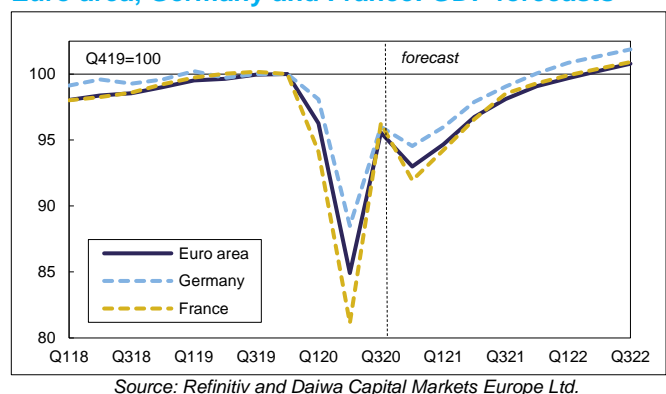
France: Household consumption by type of good



France: Consumer price inflation*



Euro area, Germany and France: GDP forecasts


















UK

The week ahead in the UK

The focus in the UK over the coming week will undoubtedly be on the Brexit negotiations, with talks set to resume in London from tomorrow. Outstanding difficulties remain on the level playing field, governance and fisheries, with differences of opinion also on the role that further transition periods and review clauses could play. Irish media reports today suggested that, in a bid to break the deadlock, the EU will propose that between 15-18% of the EU's current roughly quota of fish caught in UK waters (worth roughly €650mn) would be restored to UK trawler-men. But that will not prove big enough for the UK, which will also resist demands to subject that agreement to a future review.

Data-wise, no top-tier releases are due from the UK. BoE bank lending data for October will be published on Monday, followed by the final manufacturing, services and construction PMIs for November on Tuesday, Thursday and Friday respectively. Nationwide house price data for November are also due on Tuesday, while new car registration numbers for the same month are due on Friday.











Daiwa economic forecasts

		2020				2021		2020	2021	2022
		Q1	Q2	Q3	Q4	Q1	Q2			
GDP growth, %, Q/Q										
Euro area		-3.7	-11.8	12.6	-2.7	1.8	2.2	-7.4	5.1	3.5
Germany		-1.9	-9.8	8.5	-1.5	1.5	2.0	-5.7	4.2	3.4
France		-5.9	-13.8	18.7	-4.5	2.5	2.5	-9.1	6.9	3.6
Italy		-5.5	-13.0	16.1	-3.0	2.1	2.4	-8.9	6.5	3.2
Spain		-5.2	-17.8	16.7	-4.0	3.5	2.5	-11.8	6.6	5.4
UK		-2.5	-19.8	15.5	-2.5	1.8	3.2	-11.3	5.9	5.9
Inflation, %, Y/Y										
Euro area										
Headline CPI		1.1	0.2	0.0	-0.3	0.0	0.6	0.2	0.6	1.1
Core CPI		1.1	0.9	0.6	0.2	0.4	0.4	0.7	0.5	0.8
UK										
Headline CPI		1.7	0.6	0.6	0.6	0.9	1.9	0.9	1.6	1.6
Core CPI		1.6	1.4	1.3	1.3	1.6	2.1	1.4	1.8	1.4
Monetary policy										
ECB										
Refi Rate %		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	-0.50	-0.50	-0.50
PEPP envelope (€bn)		750	1350	1350	1850	1850	1850	1850	1850	1850
BoE										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Bond purchases (£bn)		645	745	745	895	895	895	895	895	895

*Monthly target €bn, end of period. **Monthly target £bn, end of period.
 Source: Bloomberg, ECB, BoE 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 30 November 2020					
Germany		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	-0.2 (-0.4)	-0.2 (-0.5)
Italy		10.00 Preliminary CPI (EU- harmonised CPI) Y/Y%	Nov	-0.2 (-0.5)	-0.3 (-0.6)
Spain		08.00 Preliminary CPI Y/Y% (Y/Y%)	Nov	-0.8 (-0.7)	-0.8 (-0.9)
UK		00.01 Lloyds business barometer	Nov	-	-18
		09.30 Net lending secured on dwellings (mortgage approvals '000s)	Oct	4.5 (82.0)	4.8 (91.5)
		09.30 Net consumer credit £bn (Y/Y%)	Oct	0.2 (-)	-0.6 (-4.6)
		09.30 M4 money supply Y/Y%	Oct	-	6.1
Tuesday 01 December 2020					
EMU		09.00 Final manufacturing PMI	Nov	53.6	54.8
		10.00 Preliminary CPI (core CPI) Y/Y%	Nov	<u>-0.3 (0.2)</u>	-0.3 (0.2)
Germany		08.55 Final manufacturing PMI	Nov	57.9	58.2
		08.55 Unemployment change '000s (rate %)	Nov	8.0 (6.3)	-35.0 (6.2)
France		08.50 Final manufacturing PMI	Nov	49.1	51.3
	-	New car registrations* Y/Y%	Nov	-	-9.5
Italy		08.45 Manufacturing PMI	Nov	52.0	53.8
		09.00 Final GDP Q/Q% (Y/Y%)	Q3	16.1 (-4.7)	-12.8 (-17.7)
		17.00 New car registrations Y/Y%	Nov	-	-0.2
Spain		08.15 Manufacturing PMI	Nov	50.5	52.5
	-	New car registrations* Y/Y%	Nov	-	-21
UK		00.01 BRC shop price index Y/Y%	Nov	-1.3	-1.2
		09.30 Final manufacturing PMI	Nov	55.2	53.7
		07.00 Nationwide house price index* M/M% (Y/Y%)	Nov	0.2 (5.5)	0.8 (5.8)
Wednesday 02 December 2020					
EMU		10.00 PPI Y/Y%	Oct	-2.5	-2.4
		10.00 Unemployment rate %	Oct	8.4	8.3
Germany		07.00 Retail sales M/M% (Y/Y%)	Oct	0.5 (5.2)	-1.9 (7.0)
Italy		09.00 Preliminary unemployment rate %	Oct	9.9	9.6
Spain		08.00 Unemployment change '000s	Nov	-	49.6
UK		00.01 BRC shop price index Y/Y%	Nov	-1.3	-1.2
Thursday 03 December 2020					
EMU		09.00 Final services (composite) PMI	Nov	41.3 (45.1)	46.9 (50.0)
		10.00 Retail sales M/M% (Y/Y%)	Oct	0.5 (2.4)	-2.0 (2.2)
Germany		08.55 Final services (composite) PMI	Nov	46.2 (52.0)	49.5 (55.0)
	-	New car registrations* Y/Y%	Nov	-	-3.6
France		08.50 Final services (composite) PMI	Nov	38.0 (39.9)	46.5 (47.5)
Italy		08.45 Services (composite) PMI	Nov	40.8 (43.5)	46.7 (49.2)
Spain		08.15 Services (composite) PMI	Nov	36.6 (40.2)	41.4 (44.1)
UK		09.30 Final services (composite) PMI	Nov	45.8 (47.4)	51.4 (52.1)
Friday 04 December 2020					
EMU		08.30 Construction PMI	Nov	-	44.9
Germany		07.00 Factory orders M/M% (Y/Y%)	Oct	1.2 (0.5)	0.5 (-1.9)
		08.30 Construction PMI	Nov	-	45.2
France		08.30 Construction PMI	Nov	-	42.7
Italy		08.30 Construction PMI	Nov	-	48.1
		09.00 Retail sales M/M% (Y/Y%)	Oct	-0.2 (0.4)	-0.8 (1.3)
UK		09.30 Construction PMI	Nov	-	53.1
		09.00 New car registrations Y/Y%	Nov	-	-1.6

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












The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 30 November 2020		
EMU	 10.30	ECB President Lagarde speaks at European Policy Centre Forum
	 -	Eurogroup videoconference
UK	 14.30	BoE's Tenreyro scheduled to speak
Tuesday 01 December 2020		
EMU	 10.00	OECD publishes Economic Outlook
	 17.00	ECB President Lagarde scheduled to speak
UK	 10.00	Auction: £3bn of 0.125% 2026 bonds
	 11.30	Auction: £2.25bn of 1.25% 2041 bonds
Wednesday 02 December 2020		
EMU	 14.00	ECB's Chief Economist Lane scheduled to speak
Germany	 10.30	Auction: €2bn of 0% 2025 bonds
UK	 10.00	Auction: £1bn of 0.125% 2028 index-linked bonds
	 11.30	Auction: £2.75bn of 0.25% 2031 bonds
Thursday 03 December 2020		
France	 09.50	Auction: 5.75% 2032 bonds
	 09.50	Auction: 1.25% 2036 bonds
	 09.50	Auction: 2% 2048 bonds
	 09.50	Auction: 4.5% 2041 bonds
UK	 09.30	BoE's Monthly Decision Maker Panel data published
Friday 04 December 2020		
Germany	 -	German sovereign debt rated by DBRS
Italy	 -	Italian sovereign debt rated by Fitch
UK	 09.30	BoE's Tenreyro scheduled to speak




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 European Commission economic confidence	Nov	87.6	86.0	90.9	91.1
	 European Commission industrial (services) confidence	Nov	-10.1 (-17.3)	-10.9 (-16.3)	-9.6 (-11.8)	-9.2 (-12.1)
	 European Commission final consumer confidence	Nov	-17.6	-18.0	-15.5	-
France	 Final GDP Q/Q% (Y/Y%)	Q3	18.7 (-3.9)	18.2 (-4.3)	-13.8 (-18.9)	-
	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	0.2 (0.2)	0.1 (0.0)	0.0 (0.1)	-
	 PPI Y/Y%	Oct	-2.0	-	-2.4	-2.3
	 Consumer spending M/M% (Y/Y%)	Oct	3.7 (2.7)	3.5 (1.8)	-5.1 (-1.3)	-4.4 (-0.8)
Italy	 Istat economic sentiment	Nov	82.8	-	92.9	92.2
	 Istat consumer (manufacturing) confidence	Nov	98.1 (90.2)	99.5	102 (95.6)	101.7 (94.7)
	 PPI Y/Y%	Oct	-2.9	-	-3.8	-
Spain	 Retail sales Y/Y%	Oct	-2.7	-3.9	-3.3	-

Auctions

Country	Auction
Italy	 Auction: €2.5bn of 0.5% 2026 bonds at an average yield of 0.01%
	 Auction: €3bn of 0.9% 2031 bonds at an average yield of 0.59%
	 Auction: €2.5bn of 2026 floating-rate bonds at an average yield of -0.02%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.