

Euro wrap-up

Overview

- Despite a weak construction sector survey, Bunds made losses at the longer end as German factory orders leapt above their pre-pandemic level.
- While UK car registrations fell sharply, sterling strengthened and Gilts made losses as hopes rose that agreement between the EU and UK might be reached this weekend.
- The coming week brings the long-awaited announcement of new ECB monetary policy initiatives, another summit of EU leaders, and new data for German and French industrial production and UK GDP.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.756	-0.007
OBL 0 10/25	-0.753	+0.002
DBR 0 08/30	-0.545	+0.013
UKT 1½ 09/22	-0.051	+0.007
UKT 0% 06/25	0.015	+0.016
UKT 4% 12/30	0.347	+0.027

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

Source: Bloomberg

Euro area

German factory orders leap above pre-pandemic level

Strong recovery momentum in German manufacturing is being maintained, with new orders increasing for a sixth successive month and by a greater-than-expected 2.9%M/M in October following upwardly revised growth of 1.1%M/M the previous month. That left them up 1.8%Y/Y and 0.8% above February's pre-pandemic level, the first time that threshold has been surpassed since the arrival of Covid-19. Tallying with yesterday's strong [production data](#) from the sector, auto manufacturers' new orders rose again, up 1.0%M/M to be an impressive 6.0% above the pre-pandemic level and at the highest level since November 2018. New orders of capital goods were up a robust 3.8%M/M to the highest level since January to augur better for business investment, while orders of intermediate goods rose a firm 2.3%M/M. In contrast, despite firm growth in [retail sales](#), new orders of consumer goods fell 2.2%M/M and thus remained below February's level. Domestic orders rose a firm 2.4%M/M but were thus 0.6% below the pre-pandemic level, while foreign orders accelerated 3.2%M/M to move 1.8% above February's level. New orders from the euro area rose 0.5%M/M while new orders from other countries rose 4.8%M/M benefiting from the stronger economic recoveries in China and the US. With real turnover in manufacturing up a vigorous 4.0%M/M in October, Monday's manufacturing production data should similarly report very strong growth at the start of Q4.

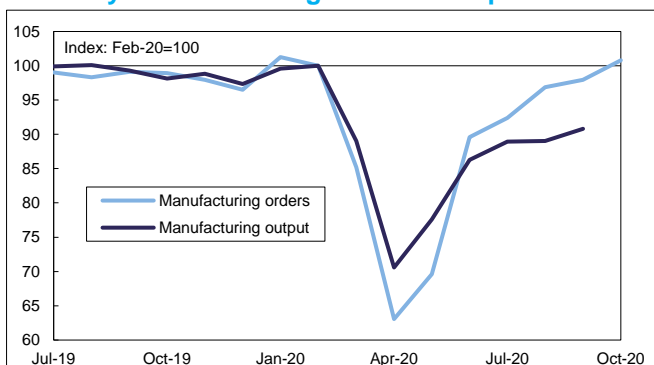
PMIs suggest that euro area construction activity has dropped in Q4

Today's final set of November PMIs suggested that construction activity remained weak in the middle of Q4 even as covid-containment measures largely by-passed the sector. In particular, the headline construction PMIs for the euro area and each of the large member states remained below the key 50 level last month. The headline euro area construction PMI rose 0.7pt but remained a contractionary 45.6, the second-lowest since May when firms were still struggling to operate due to the impact of more stringent lockdown measures. Among the large member states, Italy fared best, rising 1.7pts to a broadly neutral 49.8, while France's was most troubling, lingering at just 42.8. Moreover, each of the euro area's sub-sectoral PMIs suggested ongoing weakness too, as the measures for housing, civil engineering and commercial work also remained firmly below 50, with the index for the latter declining to just 42.7. With new orders reportedly falling again, expectations for the future remained negative and firms continued to cut jobs too. Increased unemployment, downwards pressure on wages and tighter financial conditions are likely to weigh on demand for housing over coming quarters. And commercial work will be deterred by the pandemic-related drop in demand for offices and city-centre retail, hospitality and leisure space.

ECB to extend PEPP and TLTROs – but for how long and by how much?

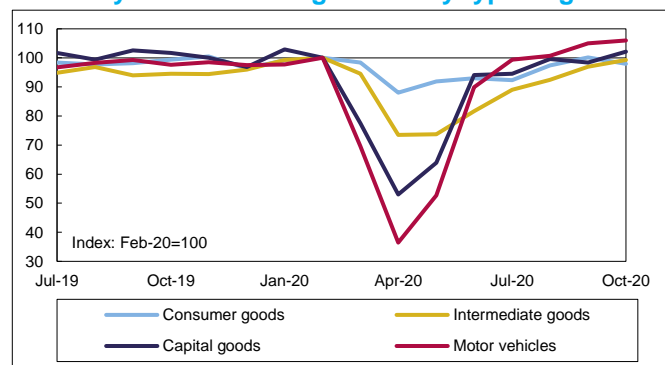
An extremely busy week ahead in the euro area will bring the long-awaited announcement from the ECB (on Thursday) of its

Germany: Manufacturing orders & output



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing orders by type of good



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

latest monetary policy initiatives, an important leaders' summit (on Thursday and Friday) that might resolve the impasse with Poland and Hungary over the Recovery and Resilience Facility and EU Budget, and a few top-tier economic data releases.

Following the ECB's [previous policy meeting](#) on 29 October, President Lagarde made clear that the Governing Council would respond to the intensification of the pandemic with new monetary policy action at the forthcoming meeting. She also stated that the Governing Council would consider a recalibration of all of its policy tools, suggesting the possibility for surprises. However, subsequent information from the [published account](#) of the meeting, as well as repeated public commentary from various Governing Council members (both hawks and doves), has emphasised that the PEPP purchases and TLTRO funding operations will be the main tools to be used. Moreover, recent comments from highly influential Executive Board members Lane and Schnabel have suggested that the Governing Council will look to extend the current level of monetary accommodation to better match the duration of the pandemic, rather than increase the amount of current accommodation.

As such, we should not expect an acceleration in the current pace of asset purchases. Instead, we should simply look for the PEPP purchases to be extended, at least to the end of 2021 but perhaps as far as mid-2022, initially at the current pace of roughly €15bn per week. The extension to mid-2022 would seem to merit an increase in the PEPP purchase envelope of up to €650bn, although the Governing Council would also then emphasise that the resulting €2.0trn envelope might not be used in full. In addition, the regular €20bn per month Asset Purchase Programme, which has been augmented by an additional envelope of €120bn to the end of this year, might be expected to continue into 2021. Meanwhile, the Governing Council seems likely to announce further quarterly TLTRO-iii operations beyond next March, perhaps also into 2022, and extend the period beyond next June during which the minimum interest rate of -1.0% will be applied to those loans. Adjustments to other policy tools, including the tiering multiplier, cannot be ruled out. However, we certainly do not expect any changes to the ECB's main policy interest rates.

The extension of the monetary policy measures will be justified by the ECB's updated macroeconomic projections. Despite stronger-than-expected growth in Q3, the setback of a likely drop in GDP in Q4 and persistent weakness into Q1 means that full-year GDP forecasts for 2020 and 2021 will be little changed. So, the Q419 level of GDP will still likely not be reached before the second half of 2022. And while inflation will be expected to rise next year due to the end of the German VAT cut and higher energy inflation, the outlook will be weighed by persistent spare capacity and the stronger euro. Indeed, the ECB is likely to project that inflation will remain below its target of below but close to 2% over the horizon to end 2023. And the post-meeting statement will likely again flag concerns about the downside risks posed by exchange rate movements.

The week ahead in the euro area

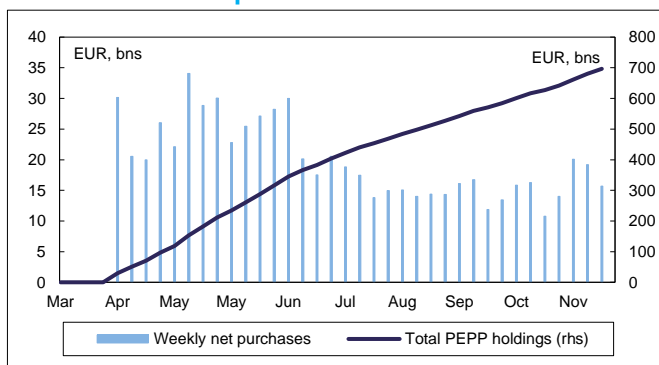
Data-wise, the coming week will be less exciting. But the week will kick off on Monday with German IP data for October, with the equivalent figures for France and Italy due on Thursday and Friday respectively. Goods trade data for the same month are also due from France (Tuesday) and Germany (Wednesday). And investor sentiment surveys for December will come from Sentix (Monday) and ZEW (Tuesday). Revised Q3 euro area GDP figures (current growth estimate of 12.6%Q/Q) are also due on Tuesday and will be accompanied by the expenditure components for the first time – household consumption, fixed investment and net trade will all have made substantive positive contributions. Final estimates of German and Spanish inflation in November are due on Friday. Finally, also on Thursday, the ECB will publish the allotment under the latest TLTRO-iii operation, the sixth to be conducted.

UK

New car registrations fall on showroom closures

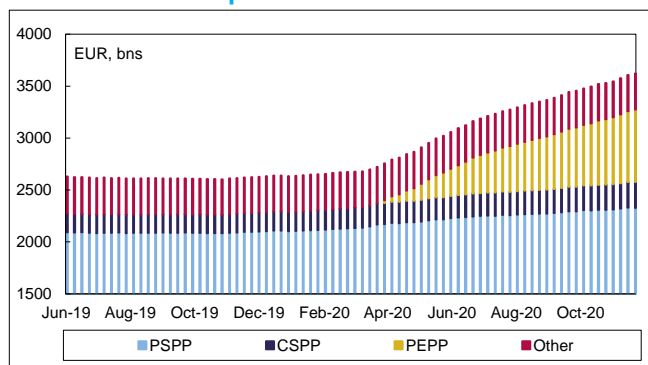
With showrooms shut due to pandemic restrictions, new car registrations inevitably fell sharply last month. However, the decline was not as marked as during the first wave earlier in the year, as car dealerships offered click-and-collect services. Overall, new car registrations dropped 27.4%Y/Y to be down 30.7%YTD/Y over the first eleven months of the year. Private

ECB: PEPP asset purchases



Source: ECB and Daiwa Capital Markets Europe Ltd.

ECB: Total asset purchases



Source: ECB and Daiwa Capital Markets Europe Ltd.

registrations fell 32.2%Y/Y to be down 27.3%YTD/Y. And while showrooms have now reopened, the recent deterioration of consumer confidence and increase in unemployment augurs ill for private new car registrations in the New Year. New registrations for larger fleets (down 22.1%Y/Y and 32.9%YTD/Y) and business (down 58.6%Y/Y and 44.9%YTD/Y) might similarly remain subdued until uncertainty about the economic outlook lifts.

UK construction PMIs point to growth in Q4

Contrary to the euro area indices, the UK construction PMIs pointed to ongoing growth in the fourth quarter, with the headline activity index rising 1.6pts in November to 54.7, broadly in line with the average of the prior three months. The improvement principally reflected a marked improvement in the civil engineering sector following temporary weakness the prior month. And against the backdrop of strong residential [property price growth](#) and a rebound in transactions in the market, the housing activity index moderated only slightly, to a still-elevated 59.2. However, the commercial activity index slipped back for a second month to its lowest level since May and one consistent with only soft growth. And construction firms continued to cut jobs. New work across the construction sector reportedly rose at the strongest pace since 2014. But the recent tightening in credit conditions as well as higher unemployment and the approaching end to the temporary stamp duty holiday in March points to a softer housing market outlook. At the same time, just as in the euro area, uncertainty about long-term demand for offices and city-centre retail, hospitality and leisure space will likely weigh on commercial activity for some time.

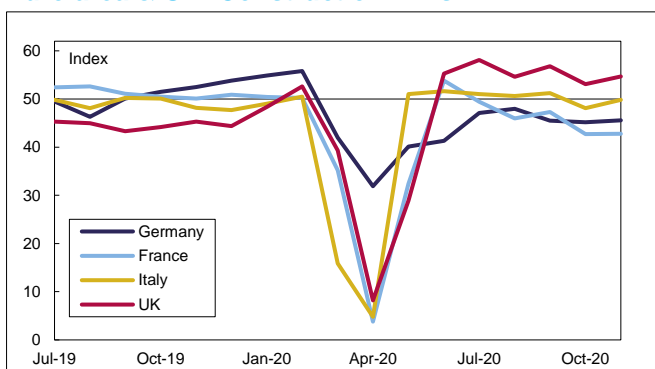
EU-UK agreement to come this weekend?

While there remained plenty of contradictory headlines about the state of play in the EU-UK negotiations, comments from both sides suggested that today could be a pivotal day for determining whether or not there would be a deal reached soon. And with chief EU negotiator Barnier having cancelled his plans to return to Brussels today, and talks set to continue, at the time of writing we certainly would not rule out an agreement being reached over the weekend. Indeed, the government's parliamentary plans for the coming week would appear to have left space for it to present a deal to MPs before the European Council meeting on Thursday. If an agreement is not reached, however, the UK government might sour the mood at the start of the coming week by pushing ahead with plans to propose legislation inconsistent with the existing Withdrawal Treaty on Monday. Such a move could then risk no additional progress until after the European Council meeting on Thursday and Friday, leaving time extremely tight to agree and ratify an FTA before the end of the year.

The week ahead in the UK

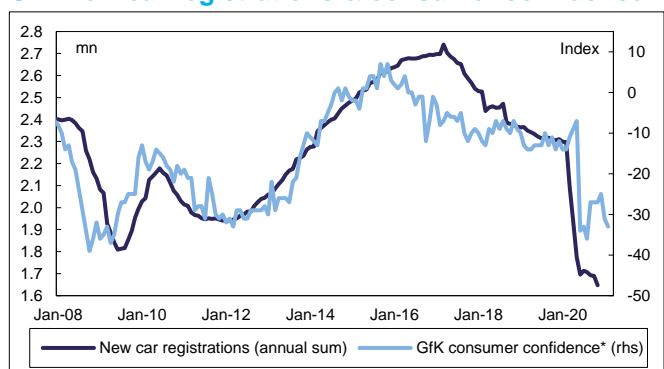
Data-wise, the highlight of the coming week will be the first estimate of GDP in October, which we expect to show a drop of 0.5%M/M to be down a hefty 9.1%Y/Y as the revival in the pandemic hit spending on services. In contrast, output of manufacturing and construction is likely to have posted positive growth. Goods trade data for the same month are due the same day. The other noteworthy data due is the BRC retail sales survey for November, out Tuesday, which will highlight the impact of the closure of non-essential stores last month.

Euro area & UK: Construction PMIs


















Source: Markit, Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: New car registrations & consumer confidence



*3-month lead. Source: SMMT, GfK, Refinitiv and Daiwa Capital Markets Europe Ltd.









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	15.9	-3.0	2.1	2.4	-9.0	6.3	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	-1.8	1.8	3.2	-11.1	6.9	5.4
Inflation, %, Y/Y										
Euro area										
Headline CPI		1.1	0.9	0.6	0.3	0.8	0.8	0.3	1.0	1.2
Core CPI		1.1	0.9	0.6	0.3	0.8	0.8	0.7	1.0	0.9
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	2000	2000	2000	2000	2000	2000
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.

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Construction PMI	Nov	45.6	-	44.9	-
Germany	 Factory orders M/M% (Y/Y%)	Oct	2.9 (1.8)	1.5 (0.2)	0.5 (-1.9)	1.1 (-1.1)
	 Construction PMI	Nov	45.6	-	45.2	-
France	 Construction PMI	Nov	42.8	-	42.7	-
Italy	 Construction PMI	Nov	49.8	-	48.1	-
	 Retail sales M/M% (Y/Y%)	Oct	0.6 (2.9)	0.3 (0.7)	-0.8 (1.3)	-0.7 (1.4)
UK	 Construction PMI	Nov	54.7	52.0	53.1	-
	 New car registrations Y/Y%	Nov	-27.4	-	-1.6	-

Auctions





























Country	Auction
- Nothing to report -	

- 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 07 November 2020					
EMU		09.30 Sentix investor confidence	Dec	-	-10.0
Germany		07.00 Industrial production M/M% (Y/Y%)	Oct	1.3 (-4.8)	1.6 (-7.3)
Tuesday 08 December 2020					
EMU		10.00 Final employment Q/Q% (Y/Y%)	Q3	0.9 (-2.0)	-2.9 (-3.1)
		10.00 Final GDP Q/Q% (Y/Y%)	Q3	<u>12.6 (-4.4)</u>	-11.8 (-14.8)
Germany		10.00 ZEW current situation (expectations)	Dec	-67.5 (40.5)	-64.3 (32.8)
France		06.30 INSEE total payrolls Q/Q%	Q3	-	-0.9
		07.45 Trade balance €bn	Q3	-	-5.7
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	Nov	-	5.2
Wednesday 09 December 2020					
Germany		07.00 Trade balance €bn	Oct	-	20.6
		07.00 Labour costs Q/Q% (Y/Y%)	Q3	-	1.9 (5.1)
France		- Bank of France industrial sentiment survey	Nov	95	97
Spain		08.00 Industrial production M/M% (Y/Y%)	Oct	-	0.8 (-3.4)
Thursday 10 December 2020					
EMU		12.45 ECB main refinancing rate %	Dec	<u>0.00</u>	0.00
		12.45 ECB marginal lending facility %	Dec	<u>0.25</u>	0.25
		12.45 ECB deposit facility rate %	Dec	<u>-0.50</u>	-0.50
France		07.45 Industrial production M/M% (Y/Y%)	Oct	0.4 (-5.5)	1.4 (-6.0)
		07.45 Manufacturing production M/M% (Y/Y%)	Oct	-	2.2 (-6.3)
UK		00.01 RICS house price balance	Nov	63	68
		07.00 Monthly GDP M/M% (3M/3M%)	Oct	<u>-0.5 (9.9)</u>	1.1 (8.0)
		07.00 Industrial production M/M% (Y/Y%)	Oct	0.3 (-6.6)	0.5 (-6.3)
		07.00 Manufacturing production M/M% (Y/Y%)	Oct	0.3 (-8.5)	0.2 (-7.9)
		07.00 Construction output M/M% (Y/Y%)	Oct	1.0 (-7.2)	2.9 (-10.0)
		07.00 Index of services M/M% (Y/Y%)	Oct	0.3 (9.8)	1.0 (14.2)
		07.00 Trade balance £bn	Oct	0.3	0.6
Friday 11 December 2020					
Germany		07.00 Final CPI (EU-harmonised CPI) Y/Y%	Nov	-0.3 (-0.7)	-0.2 (-0.5)
Italy		09.00 Industrial production M/M% (Y/Y%)	Oct	0.6 (-)	-5.6 (-5.1)
		10.00 Unemployment rate %	Q3	-	8.3
Spain		08.00 Final CPI (EU-harmonised CPI) Y/Y%	Nov	-0.8 (-0.9)	-0.8 (-0.9)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 07 December 2020		
- Nothing scheduled -		
Tuesday 08 December 2020		
UK		10.00 Auction: £3.25bn of 0.125% 2024 bonds
		10.00 Auction: £2bn of 0.625% 2050 bonds
Wednesday 09 December 2020		
Germany		10.30 Auction: €3bn of 0% 2022 bonds
UK		10.00 Auction: £2.5bn of 0.625% 2035 bonds
Thursday 10 December 2020		
EMU		12:45 ECB monetary policy announcement
		13:30 ECB President Lagarde speaks at post-meeting press conference
		- European Council meeting
Italy		10.00 Auction: 3Y and 7Y bonds
Friday 11 December 2020		
EMU		- ECB President Lagarde takes part in Euro Summit
		- European Council meeting
France		07.45 French labour office publishes final wages data
Spain		- Spanish sovereign debt rated by Fitch
UK		07.00 BoE publishes Financial Stability Report
		09.30 BoE/Kantar Inflation Attitudes Survey
		- UK sovereign debt rated by DBRS

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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