

Euro wrap-up

Overview

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- Bunds made gains despite an upbeat ZEW investor survey and an upwards revision to the estimate of euro area job growth in Q3.
- Gilts also made further gains but sterling remained off yesterday's lows as the UK government withdrew its Internal Markets Bill clauses inconsistent with international law and also started its Covid-19 vaccine programme.
- Wednesday will bring new data for German goods trade, Spanish industrial production and French business confidence.

Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.786	-0.015
OBL 0 10/25	-0.802	-0.022
DBR 0 08/30	-0.614	-0.030
UKT 1½ 09/22	-0.094	-0.008
UKT 0% 06/25	-0.046	-0.012
UKT 4% 12/30	0.254	-0.027

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

Source: Bloomberg

Euro area

Private demand drove broad-based rebound in Q3

Close to the previous estimate, euro area GDP rose by 12.5%Q/Q in Q3, rebounding from the record plunge of 11.8%Q/Q in Q2 to be down 4.3%Y/Y and 4.4% below the pre-pandemic peak in Q419. The expenditure breakdown, published for the first time, confirmed strong growth in every major category. Private consumption jumped 14.0%Q/Q, following a drop of 12.4%Q/Q in Q2, to add 7.3ppts to GDP growth. Fixed investment jumped by 13.4%Q/Q following a revised drop of 16.0%Q/Q previously to add 2.8ppts. Government spending rose strongly too, by 4.8%Q/Q, after a revised 2.2%Q/Q fall in Q2. With exports outpacing imports, net exports added 2.4ppts, while inventories subtracted roughly half that amount. By sectors, manufacturing output rebounded most swiftly, up 17.8%Q/Q, outpacing construction (13.9%Q/Q), and services (11.5%Q/Q), albeit with the latter displaying significant variation between sub-sectors. Early evidence for Q4 points to continued firm momentum in manufacturing. But pandemic containment restrictions means that services activity – and hence household consumption and GDP – will fall back in Q4. We currently maintain our forecast of a drop in euro area GDP of between 2.5-3.0%Q/Q this quarter.

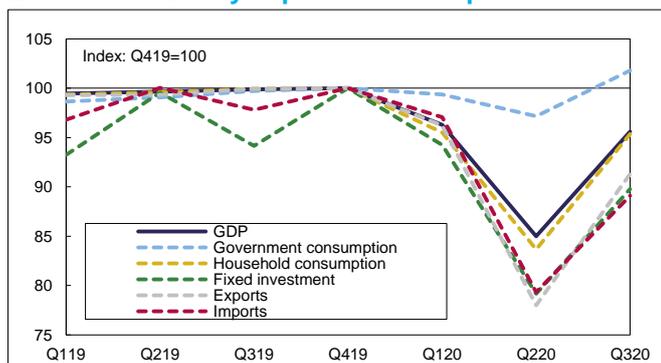
Employment up by more than previously thought in Q3 led by Spain and Ireland

Revisions showed that euro area employment leapt last quarter at a stronger pace than previously thought following a steeper than previously estimated record fall of 3.0%Q/Q (4.74mn) in Q2. Employment growth of 1.0%Q/Q (1.58mn workers) in Q3 still, however, left the number of people in work down a marked 2.3% and 3.62mn from the peak in Q419. Employment growth was strongest in Ireland (3.3%Q/Q following a plunge of 6.2%Q/Q in Q2), Spain (3.1%Q/Q from -7.5%Q/Q previously) and Austria (3.0%Q/Q from -4.0%Q/Q previously), all of which had seen some of the sharpest declines in Q2. Elsewhere, German employment on the equivalent measure fell for a second successive month, albeit by just 0.1%Q/Q following the relatively modest decline of 1.4%Q/Q in Q2. Job growth in France (1.3%Q/Q) and Italy (0.9%Q/Q) was almost half-way between that in Spain and Germany. Government labour support programmes were still supporting the incomes of some 8mn workers last quarter having cushioned the blow to employment in Q2. But as workers on those programmes were able to increase their working time, average hours worked rose 14.8%Q/Q following the drop of 13.6%Q/Q in Q2.

ZEW survey underscores optimism about the outlook despite current weakness in services

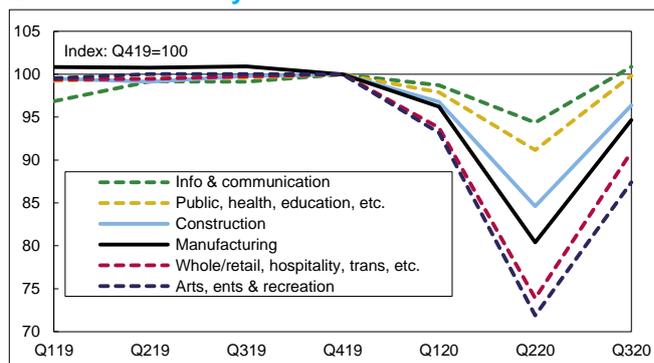
Like yesterday's Sentix euro area indices, today's ZEW investor survey results flagged a significant rebound in expectations about German economic conditions in six months' time, buoyed by optimism about vaccines, doses of which were provided to non-trial patients in the UK for the first time today. In particular, the survey's German expectations index rose 16ppts in

Euro area: GDP by expenditure component



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: GVA by sector



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

December to 55, a historically high level albeit one that was still the second-lowest since June. Investor sentiment was on balance positive with respect to all sub-sectors with the exception of banking and insurance. Greatest optimism was attached to firms in ICT, chemicals and pharmaceuticals, with sentiment only marginally positive with respect to the outlook for autos and steel firms. In addition, contrary to the findings of the Sentix survey, the ZEW survey's index of German current conditions weakened somewhat, falling 2.2pts to -66.5, the lowest level since August, weighed by concerns about the impact of pandemic-containment restrictions in services.

The day ahead in the euro area

The flow of sentiment indices continues tomorrow with the release of the Bank of France's November business survey results, which seem likely to prove a lot less upbeat than today's ZEW investor sentiment survey. While the industrial sentiment indicator is expected to fall to 95 in November, from 97 previously, to leave it well above April's low of 51, the equivalent services sector measures are likely to be significantly weaker. In addition, Spain will publish industrial production numbers for October, while Germany will release goods trade data for the same month.

UK

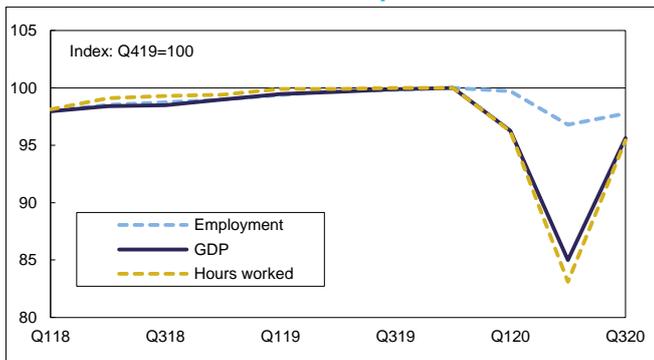
UK government withdraws provocative legal clauses

At the time of writing, no date had been set for the face-to-face talks between UK PM Boris Johnson and Commission President von der Leyen, which it was agreed yesterday would represent a last-chance opportunity to find a deal. But as tasked, the chief negotiators today prepared their overview of the remaining differences to be discussed by the two leaders. Reports from both sides suggested that the key areas of disagreement – on the long-standing obstacles of the level playing field, governance and fish – were still substantive. Nevertheless, in the absence of any bad news from the process, sterling remained off yesterday's lows. And among some observers, hopes that an agreement would be possible were supported by the decision of the UK government today to withdraw proposed clauses from its Internal Market Bill that would have breached the Brexit Withdrawal Agreement. However, while that might well be interpreted as a sign of goodwill that could be followed by further concessions, the removal of the provocative clauses might also pave the way for a no-deal Brexit that would be fully consistent with international law.

The day ahead in the UK

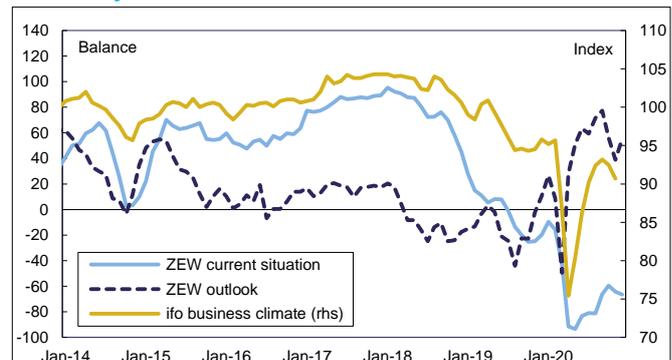
Once again, the focus will remain firmly on the EU-UK negotiations, although at the time of writing it remained unclear when the von der Leyen-Johnson bilateral would actually take place. No UK economic data are scheduled for release tomorrow.

Euro area: GDP and labour input



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Business sentiment indices



Source: Refinitiv 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 employment Q/Q% (Y/Y%)	Q3	1.0 (-2.3)	0.9 (-2.0)	-2.9 (-3.1)	-
	 Final GDP Q/Q% (Y/Y%)	Q3	12.5 (-4.3)	<u>12.6 (-4.4)</u>	-11.8 (-14.8)	-
Germany	 ZEW current situation (expectations)	Dec	-66.5 (55.0)	-67.5 (40.5)	-64.3 (32.8)	-
France	 INSEE total payrolls Q/Q%	Q3	1.6	-	-0.9	-0.8
	 Trade balance €bn	Oct	-4.8	-5.4	-5.7	-5.6
UK	 BRC retail sales monitor, like-for-like sales Y/Y%	Nov	7.7	-	5.2	-

Auctions

Country	Auction
UK	 sold £3.25bn of 0.125% 2024 bonds at an average yield of -0.001%
	 sold £2.00bn of 0.625% 2050 bonds at an average yield of 0.842%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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	0.0 (-2.7)	0.8 (-3.4)

Auctions and events

Germany	 10.30	Auction: €3bn of 0% 2022 bonds
UK	 10.00	Auction: £2.5bn of 0.625% 2035 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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