

Euro wrap-up

Overview

- After the Netherlands became the latest euro area member state to tighten its pandemic containment restrictions, Bunds followed USTs lower on a quiet day for economic data from the euro area.
- Gilts also weakened despite a new record level of UK redundancies and a drop in payrolls.
- Tomorrow will bring the flash December PMIs and November data for UK inflation and euro area goods trade and construction output.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.773	+0.009
OBL 0 10/25	-0.794	+0.010
DBR 0 08/30	-0.614	+0.008
UKT 1¼ 09/22	-0.073	+0.030
UKT 0% 06/25	-0.035	+0.031
UKT 4% 12/30	0.257	+0.037

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

Source: Bloomberg

UK

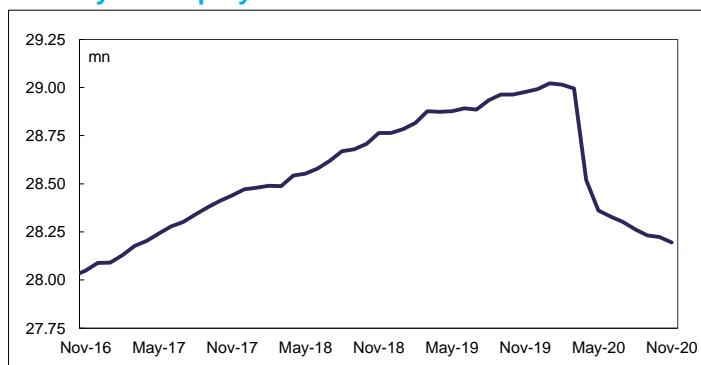
Record redundancies despite extension of Job Retention Scheme

Like many of its policy errors during the pandemic, the UK government's insistence in late summer and early autumn that its Job Retention Scheme would end in October was extremely costly. While that decision was ultimately reversed at the last minute in the face of the second wave of Covid-19, the repeated messages that the wage subsidies would be replaced with a far less generous scheme encouraged many firms to press ahead with job cuts. Indeed, according to today's figures, redundancies rose a record 217k in the three months to October to a new series high of 370k, well above peak in the aftermath of the Global Financial Crisis in 2009. Meanwhile, the unemployment rate in the three months to October rose to 4.9%, 1.2ppts above the level a year earlier, with the single month figure for October up 0.3ppt to 5.2%, the highest since December 2015. The employment rate fell 0.5ppt in the three months to October to 75.2%, 0.9ppt below the level a year earlier. And despite the belated extension of the government's support programme, the number of people in work continued to decline last month, with payrolls in November down 819k from February's pre-pandemic level and at the lowest level since March 2017, with about one third of those lost jobs reportedly coming from the hospitality sector. Moreover, the claimant count – which includes those working on low incomes or hours as well as those who are not working – rose 64.3k in November to 2.7mn, more than reversing the drop the prior month, with the equivalent rate up 0.2ppt to 7.4%.

Vacancies and wage growth up, but further bad job news lies ahead

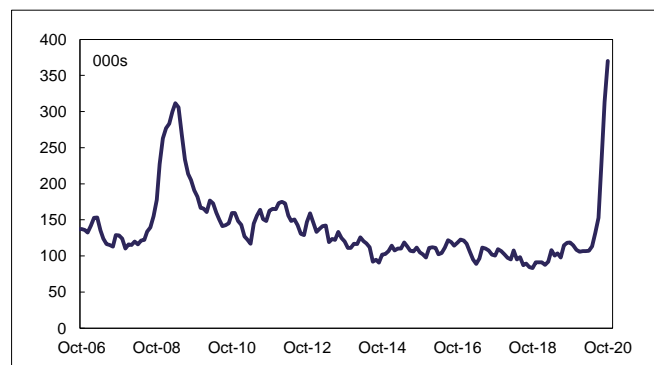
There was not only bad news in the latest labour market data, however. Vacancies continued to pick up, with the total of 547k in the three months to November up 110km from the previous quarter, albeit still roughly one third lower than a year earlier. In addition, with the return of some workers from furlough resulting in an increase in total hours worked (up a record 12.3%3M/3M in the three months to October), annual growth in employee pay also improved. Growth in average weekly earnings in the three months to October rose to 2.7%Y/Y to be up 1.9%3M/Y in real terms. And, excluding bonuses, growth in average earnings rose to 2.8%3M/Y, just 0.1ppt shy of the rate in the three months to February. Of course, pay growth continued to vary significantly by sector. Finance and business services saw the strongest rates (4.6%3M/Y) while pay growth in construction remained negative. And pay growth in wholesaling, retailing, hospitality and manufacturing turned positive. But we caution that the change in the composition of employment – with lower earners having been more likely to lose their jobs and the number of new entrants into the labour market having fallen – has contributed to the increase in average earnings. Moreover, sectors affected by renewed lockdown measures from November on – particularly hotels and catering – are highly likely to have seen employment, hours worked, and pay fall back last month. And, not least as certain prominent high-street retail chains put thousands of jobs at risk over recent weeks, the unemployment rate is likely to continue to rise well into the New Year. The BoE's November Monetary Policy Report forecast the unemployment rate to peak at around 7¼% in Q221 with the OBR's forecast of a peak of 7.5% only a little less discouraging.

UK: Payroll employment



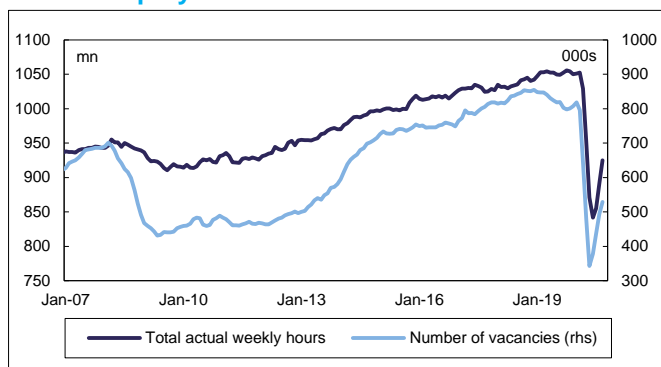
Source: ONS and Daiwa Capital Markets Europe Ltd.

UK: Redundancies*



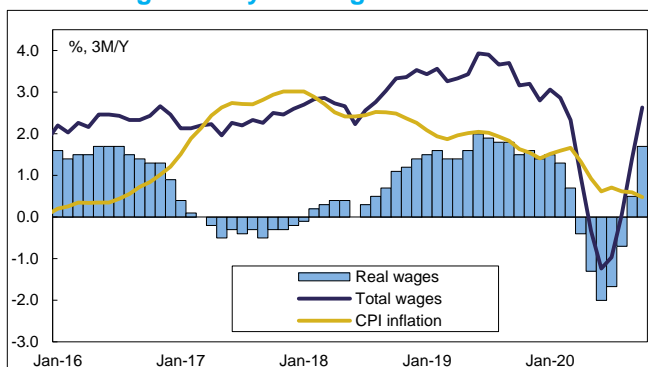
*3-month moving sum. Source: ONS and Daiwa Capital Markets Europe Ltd.

UK: Unemployment and vacancies



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Average weekly earnings and inflation



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

The day ahead in the UK

Data-wise, tomorrow brings the release of the December flash PMIs and November inflation figures. While inflation ticked up to a three-month high of 0.7%Y/Y in October, we see risks that it will slip back 0.1ppt in November, and that the core measure will fall back by as much as 0.2ppt to 1.3%Y/Y. The flash PMIs will probably continue to flag the likelihood that the economy is contracting in Q4, although the composite PMI might edge up from 49.0 in November reflecting the easing of some pandemic containment restrictions as well as Brexit-related stock-building.

Euro area

Netherlands lockdown unlikely to be the last in the euro area

A quiet day for euro area economic data brought final November inflation data from France and Italy. Both sets of data aligned with the flash estimates to suggest that the euro area headline and core figures, due on Thursday, will similarly align with the respective preliminary estimates of -0.3%Y/Y and 0.2%Y/Y respectively, the latter matching the series low. In addition, Italian trade data reported a drop of 1.3%M/M in the value of exports in October, leaving them still 5.6% below February's pre-pandemic level still about 1ppt better than the equivalent position in Germany. Meanwhile, with respect to the management of Covid-19, Germany's Health Minister Jens Spahn stated that he had received assurances that a vaccine would be approved by the EU Medicines Agency by 23 December to allow its roll-out in his member state. That would be three weeks after the national regulator gave its approval for use in the UK, where an inoculation programme is already underway. Of course, given the continued uptrend in German new coronavirus cases and deaths, on the weekend Chancellor Merkel announced plans to close all non-essential stores and services from tomorrow. And yesterday brought a similar announcement of a tightening and extension of restrictions from the Netherlands, where the current trend in cases and deaths is also a notable cause for concern. Under the new Dutch lockdown, non-essential stores, gyms, museums and schools are all closed from today for at least five weeks. While the trends in new Covid-19 cases have recently improved in several other euro area member states following the imposition of restrictions last month, renewed tightening of containment measures might seem likely to be required sooner or later if and when a third wave develops.








The day ahead in the euro area

The data highlights in the euro area tomorrow will be the flash December PMIs. These seem likely to underscore the likelihood of a contraction in euro area GDP in Q4 with another sub-50 reading expected in the headline composite index, which fell to 45.3 in November dragged lower in particular by weakness in services. The latest survey will be watched for continued resilience in the manufacturing sector, not least in Germany, where the composite PMI encouragingly remained above 50 last month. In addition, the Bank of France will publish its retail survey for November – after reporting strong growth in October, the survey is highly likely to confirm that the closure of non-essential retailing last month had a negative effect on sales despite increased online shopping. In terms of hard data, figures for euro area goods trade and construction in October are also due along with Q3 labour cost figures.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France	 Final CPI (EU-harmonised CPI) Y/Y%	Nov	0.2 (0.2)	0.2 (0.2)	0.0 (0.1)	-
Italy	 Final CPI (EU-harmonised CPI) Y/Y%	Nov	-0.2 (-0.3)	-0.2 (-0.3)	-0.3 (-0.6)	-
	 Total trade balance €bn	Oct	7.6	-	5.8	-
UK	 Unemployment claimant count rate % (change '000s)	Nov	7.4 (64.3)	-	7.3 (-29.8)	7.2 (-64.1)
	 Average earnings including bonuses (excluding bonuses) 3M/Y	Oct	2.7 (2.8)	2.2 (2.6)	1.3 (1.9)	1.4 (-)
	 ILO unemployment rate %, 3M	Oct	4.9	5.1	4.8	-
	 Employment change '000s, 3M/3M	Oct	-143	-250	-164	-

















Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU		09.00 Preliminary manufacturing (services) PMI	Dec	53.0 (42.0)	53.8 (41.7)
		09.00 Preliminary composite PMI	Dec	45.5	45.3
		10.00 Labour costs Y/Y%	Q3	-	4.2
		10.00 Trade balance €bn	Oct	-	24.0
		10.00 Construction output Y/Y%	Oct	-	-2.5
Germany		08.30 Preliminary manufacturing (services) PMI	Dec	56.0 (44.0)	57.8 (46.0)
		08.30 Preliminary composite PMI	Dec	50.8	51.7
France		- Bank of France retail sales Y/Y%	Nov	-	6.0
		08.15 Preliminary manufacturing (services) PMI	Dec	49.6 (38.0)	49.6 (38.8)
		08.15 Preliminary composite PMI	Dec	41.3	40.6
Italy		09.00 Industrial orders (sales) Y/Y%	Oct	-	3.2 (-4.6)
UK		07.00 CPI (core CPI) Y/Y%	Nov	<u>0.6 (1.4)</u>	0.7 (1.5)
		07.00 PPI input (output) prices Y/Y%	Nov	-0.5 (-0.8)	-1.3 (-1.4)
		09.30 Preliminary manufacturing (services) PMI	Dec	56.0 (50.7)	55.6 (47.6)
		09.30 Preliminary composite PMI	Dec	51.5	49.0
		09.30 House price index Y/Y%	Oct	-	4.7

Auctions and events

EMU		- Eurogroup video conference
		15.30 ECB's de Guindos scheduled to speak
		16.15 ECB's Schnabel scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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