

# Euro wrap-up

## Overview

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- While Germany's government was set to announce a tightening and extension of pandemic containment measures, Bunds made losses as German retail sales and labour market data beat expectations.
- Despite yesterday evening's confirmation of tighter pandemic containment measures in England, Gilts also made losses as the UK government announced more policy support for affected businesses.
- Wednesday will bring final services PMIs for December and flash inflation figures for the same month from Germany and France.

### Daily bond market movements

Bond	Yield	Change
BKO 0 12/22	-0.730	+0.003
OBL 0 10/25	-0.757	+0.011
DBR 0 08/30	-0.586	+0.021
UKT 1% 09/22	-0.159	+0.013
UKT 0% 06/25	-0.098	+0.013
UKT 4% 12/30	0.205	+0.036

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

Source: Bloomberg

## Euro area

### German retail sales defy gloomy expectations with further strong growth in November

The German economy appears so far to have remained relatively resilient to the second wave of pandemic. Defying expectations of a substantive drop, German retail sales continued to see solid growth in November, rising 1.9%M/M in real terms following growth of 2.6%M/M in October. That left sales in November up 5.6%Y/Y, with the average in the first two months of Q4 more than 3% above the equivalent level in Q3. Sales of food, beverages and tobacco were up 0.8%Y/Y while non-food items were up a strong 8.5%Y/Y. Online and mail order sales rose 31.8%Y/Y. As in many other major economies, German consumers continued to spend more on items for the home, with sales of furniture, household appliances and building materials up a vigorous 15.4%Y/Y. At the same time, they continued to eschew spending on clothing and footwear with such sales down 20.0%Y/Y. Admittedly, total sales in November were likely boosted by Black Friday shopping and the decision of consumers to bring forward sales ahead of this month's reversal of the temporary VAT cut. And sales will have fallen back in December in response to the closure of non-essential stores, which is set to be extended at least to the end of this month along with a tightening of other pandemic containment measures include travel restrictions. Nevertheless, retail sales likely saw positive growth again in Q4, offsetting some of the impact of the decline in spending on services.

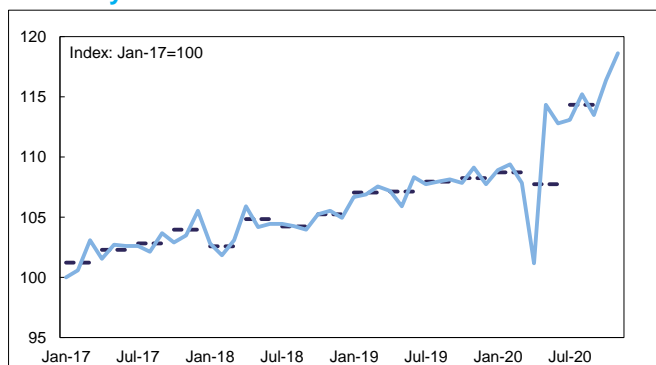
### German labour market resilient at year-end, benefiting from short-time working scheme

Evidence that Germany's economy withstood the tighter pandemic restrictions at the end of the year was provided by the latest labour market data. Contrary to the expected rise, jobless claims fell for the sixth month in a row and by a sizeable 37k. That left the claimant count rate unchanged at the 6.1%, matching the lowest since April. Of course, the government's kurzarbeit short-term working scheme continues to play an important role in supporting the labour market. According to a survey by the ifo institute, 1.95mn workers were still benefiting from the scheme at the end of the year, down very slightly from November. While there were almost 100k fewer workers from the rebounding manufacturing sector on the scheme last month, pandemic containment measures meant that more than 50k extra workers in retail and another 40k hospitality sector workers required support from the government. Nevertheless, encouragingly, the number of job vacancies continued to rise on a seasonally adjusted basis, up 5k to an eight-month high of 603k.

### Household and corporate deposits continued to accumulate in November

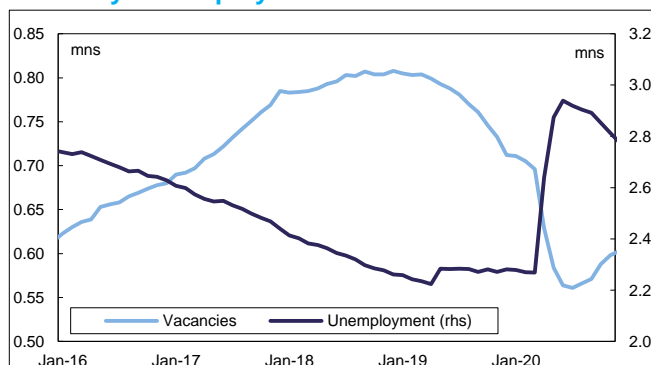
The ECB's latest monetary data showed continued substantive net inflows to bank deposits, which might unwind to provide support to economic recovery once the pandemic subsides. In particular, there was a further strong net inflow of euro area household deposits in November of €61bn, the highest since April, to a new high close to €7.6trn, with the annual growth

#### Germany: Retail sales



Dark blue bars represent quarterly averages. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Germany: Unemployment and vacancies



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

rate up 0.4ppt to 8.3%Y/Y, the highest since January 2009. Meanwhile, the net inflow of deposits placed by non-financial corporations in the euro area slowed to just €9bn, the lowest since the start of 2020. However, the annual growth rate remained elevated at 20.3%Y/Y, less than 1ppt below September's record high, with the total stock of such deposits of €2.97trn similarly a record high, reflecting still-large liquidity buffers at many firms.

### Net repayments of consumer credit and shorter-dated business loans

Meanwhile, having leapt in September to the highest since early 2008, the flow of net new loans to households slowed for a second month in November to €15bn (adjusted for sales and securitisations). The slowdown partly reflected a net repayment of consumer credit of €3.6bn, the most since April, while net lending for house purchase also moderated to €19bn. Overall, however, growth in total loans to households slowed just 0.1ppt from October's seven-month high to 3.1%Y/Y. On the same basis, net lending to euro area non-financial corporations remained relatively subdued, albeit picking up to €6bn, the most in three months, to push growth in the stock back up to 6.9%Y/Y. Net repayments of loans up to 5Y maturity were more than offset by longer-term lending. Given ongoing uncertainty related to the second wave of the pandemic, lower emergency liquidity needs, cautious fixed investment plans as well as a tightening of credit conditions, we expect net lending to corporations to remain subdued over coming months, and at least until large-scale vaccination programmes – which have started very slowly in the euro area – are far further advanced.

### The day ahead in the euro area

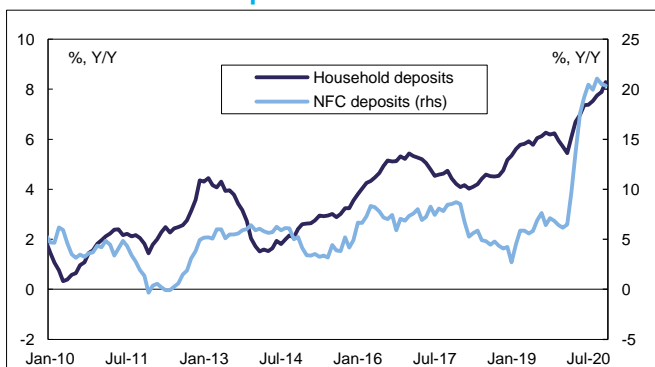
The final service sector and composite PMIs for the euro area, Germany and France will be published tomorrow, along with the Italian and Spanish PMIs for December, which will be published for the first time. The flash euro area services activity PMI rose a substantive 5.6pts to a three-month high of 47.3, to suggest a notable slowing in the pace of decline in the sector. Other December data out tomorrow include flash German and French inflation figures and the French consumer confidence survey from INSEE. While the German inflation rate on the EU-harmonised measure is expected to tick up 0.1ppt to -0.6%Y/Y, the equivalent French rate is expected to be unchanged at 0.2%Y/Y.

## UK

### Lockdown measures to ensure a moderate contraction in UK GDP in Q1

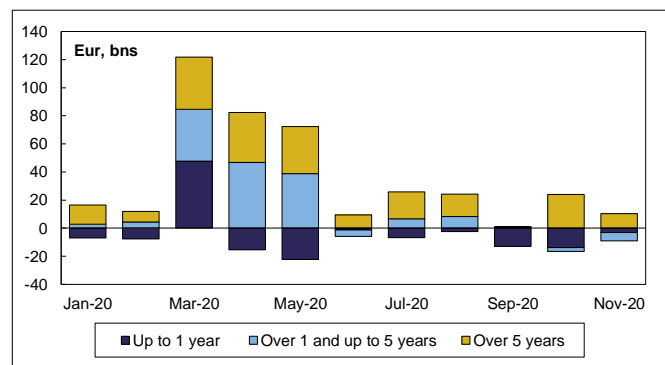
The likelihood of two successive quarterly declines in UK GDP at the turn of the year increased further yesterday evening as PM Johnson announced a new English national lockdown to accompany the similar approach announced yesterday in Scotland. The new measures, which are expected to last for at least seven weeks, will see all schools resort to remote learning while – as had already been the case in London and much of the South East – hospitality, leisure and non-essential retail remain closed. Unlike the initial lockdown during the first wave, however, the manufacturing and construction sectors will continue to be allowed to operate. And with the remote education provision also scoring to GDP, the extent of the contraction in overall economic output will be modest compared to the first half of 2020. To ease slightly the hit to balance sheets of small firms, the UK government announced 'one-off top up grants' for firms in retail, hospitality and leisure, worth up to £9k per property, as well as additional discretionary funds for other impacted businesses, local authorities and the devolved administrations. Among other support, the furlough job protection scheme has now been extended to April with the government-backed loan scheme extended until March. Beyond then, however, policy support for business is likely to be far harder to come by, with the government relying on progress implementing its vaccine programme to allow a return to more normal economic activity from Q2 on. In particular, the government hopes that all over-70s, front-line health and care workers, and the most clinically vulnerable to Covid-19 – amounting to about 13 million people – will receive at least one dose of vaccine by mid-February, at which point the English lockdown measures might be lifted. So far, about 1 million people have received a vaccine dose in the UK, by some margin the quickest progress in Europe. However, supply-chain and other implementation concerns could mean the mid-February target is missed.

### Euro area: Bank deposits



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Net new loans to non-financial firms



Source: ECB and Daiwa Capital Markets Europe Ltd.




## The day ahead in the UK

Like in the euro area, Wednesday will bring the final services and composite PMIs for December, along with the BRC shop price index and new car registrations for the same month. The preliminary services PMI rose to 49.9 in December, while the composite PMI rose 1.7pts to 50.7, above the key 50 level to suggest a modest increase in activity. In other news, BoE Governor Bailey is due to speak at a Parliamentary hearing on the BoE's Financial Stability Report.


## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 M3 money supply Y/Y%	Nov	<b>11.0</b>	10.6	10.5	-
Germany	 Retail sales M/M% (Y/Y%)	Nov	<b>1.9 (5.6)</b>	-2.0 (4.0)	2.6 (8.6)	-
	 Unemployment rate % (change '000s)	Dec	<b>6.1 (-37.0)</b>	6.2 (10.0)	6.1 (-39.0)	-













#### Auctions

Country	Auction
Germany	 sold €4.83bn of 0% 2022 bonds at an average yield of -0.73%




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	Final services (composite) PMI	Dec	47.3 (49.8)	41.7 (45.3)
	 10.00	PPI Y/Y%	Nov	-2.1	-2.2
Germany	 08.55	Final services (composite) PMI	Dec	47.7 (52.5)	46.0 (51.7)
	 13.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Dec	-0.2 (-0.6)	-0.3 (-0.7)
France	 08.50	Final services (composite) PMI	Dec	49.2 (49.6)	38.8 (40.6)
	 07.45	INSEE consumer confidence	Dec	92	90
	 07.45	Preliminary CPI (EU-harmonised CPI) Y/Y%	Dec	0.2 (0.2)	0.2 (0.2)
Italy	 08.45	Services (composite) PMI	Dec	45.0 (47.3)	39.4 (42.7)
Spain	 08.15	Services (composite) PMI	Dec	44.0 (45.6)	39.5 (41.7)
UK	 00.01	BRC shop price index Y/Y%	Dec	-	-1.8
	 09.00	Final services (composite) PMI	Dec	49.9 (50.7)	47.6 (49.0)
	 09.00	New car registrations Y/Y%	Dec	-	-27.4

#### Auctions and events

Germany	 10.30	Auction: €5bn of 2031 bonds
UK	 10.00	Auction: £3bn of 0.25% 2031 bonds
	 14.00	BoE Governor Bailey speaks at Parliament Committee hearing on the Financial Stability Report

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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