

Euro wrap-up

Overview

- As Belgium reported the first European case of the Nu coronavirus and EU countries tightened restrictions on visitors from Southern Africa, Bunds and other euro area government bonds rallied while equities fell sharply.
- While BoE Chief Economist Pill again suggested he is close to voting for a rate hike, Gilts also rallied as the UK also tightened travel restrictions.
- The coming week will bring the flash estimates of euro area inflation in November as well as data for euro area unemployment and retail sales in October.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/23	-0.777	-0.021
OBL 0 10/26	-0.648	-0.067
DBR 0 08/31	-0.341	-0.086
UKT 0 ⁷ / ₈ 01/24	0.470	-0.114
UKT 0 ⁷ / ₈ 10/26	0.614	-0.123
UKT 0 ¹ / ₄ 07/31	0.824	-0.145

*Change from close as at 4:00pm GMT.
Source: Bloomberg

Euro area

Nu variant concerns prompt tightening of travel restrictions as delta wave continues to worsen

Concerns about the emergence of the new Nu coronavirus variant – which has now been identified in Belgium – today triggered a sharp rise in market risk aversion, as the EU and UK moved to re-impose travel restrictions on visitors from several nations in Southern Africa. Uncertainty about how the Nu variant might spread over coming weeks raised further doubts about the wisdom of the ECB to signal prematurely – including in yesterday's October meeting account – the likelihood that the net PEPP purchases will come to an end in March, particularly given the unfavourable trend in the delta variant across much of Northern and Central Europe. So far, while recognisable, the rise in new cases in France and Italy has been significantly lower than in Germany, Austria and the BeNeLux countries. Nevertheless, Italy will now ban access of the unvaccinated to various hospitality, leisure and entertainments from 6 December. And France is set to tighten restrictions on unvaccinated visitors and limit access to facilities at ski resorts to the vaccinated or those able to demonstrate negative tests. Against that backdrop, today's survey results from both countries suggested a softening in economic sentiment.

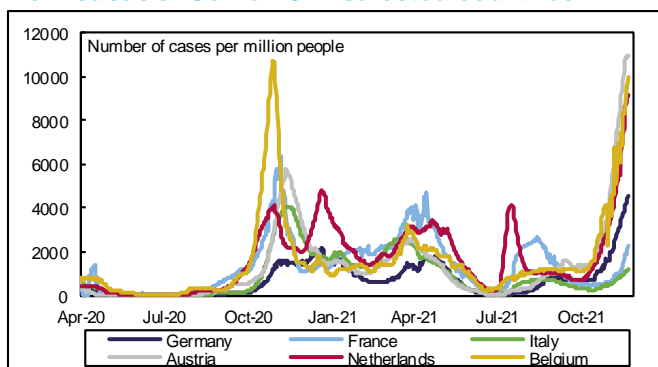
French and Italian consumers signal diminished willingness to make major purchases

In France, INSEE's headline consumer confidence index moved sideways in November, 1pt below the long-run average and 3pts below the pandemic peak in June. Within the detail, concerns about future unemployment fell to the lowest since 2007 and future inflation expectations also dropped back somewhat. But expectations for financial well-being and the economic outlook deteriorated slightly. And, perhaps also weighed by increased awareness of recent price rises, consumer willingness to make major purchases fell to the lowest since February. In Italy, the headline ISTAT consumer confidence index fell to a three-month low, albeit still elevated by historical standards. But while fears of unemployment continued to decline, expectations for the economic outlook and readiness to make major purchases deteriorated to six-month lows, while prospects for personal finances weakened to the lowest since March. Meanwhile, Italian business confidence also remained high, with the headline index steady as sentiment in manufacturing edged up to a new two-decade high. Nevertheless, while retailers remained upbeat, services confidence weakened to a five-month low, a drop that we would expect to be accentuated next month.

Household deposits and longer-term lending to firms slows at start of Q4

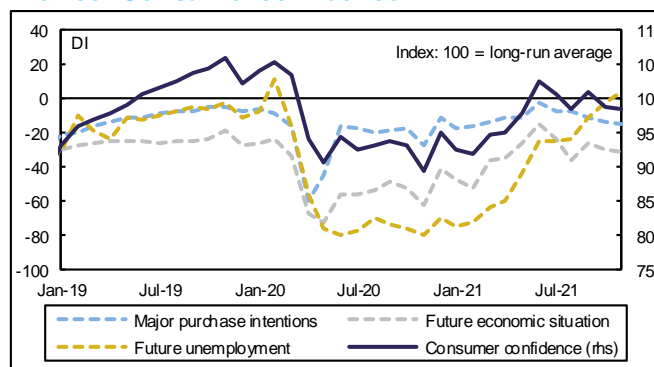
The latest ECB monetary data reported continued solid growth in M3 money supply, which accelerated by 0.2ppt in October to 7.7%Y/Y. That, however, was almost 5ppts down from the peak rate at the start of the year, and 2.7ppts down on a year earlier. Growth of the narrower M1 money supply, comprising currency in circulation and overnight deposits, slowed 0.4ppt to

New cases of Covid-19 in selected countries



Source: Our World in Data and Daiwa Capital Markets Europe Ltd.

France: Consumer confidence



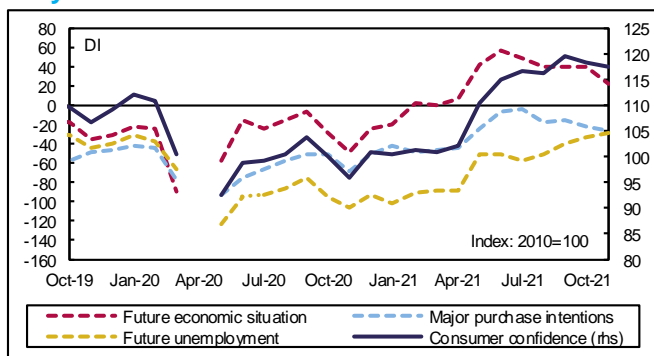
Source: INSEE, Refinitiv and Daiwa Capital Markets Europe Ltd.

a 19-month low of 10.7% Y/Y. Non-financial corporation deposits accelerated 0.3ppt to 7.4% Y/Y. But with the ratio of savings to disposable income normalising after the marked rise during the initial waves of pandemic, household deposits slowed 0.5ppt to an 18-month low 6.5% Y/Y. And adjusting for the recent leap in inflation to a euro-era high, real moneysupply growth is moderating markedly, consistent with a slowdown in real spending. Meanwhile, growth in loans to households was stable at 4.1% Y/Y. A third successive monthly net flow of €20bn in mortgages saw the respective stock slow slightly to 5.5% Y/Y, while a modest net flow of €3bn in loans for consumption pushed up the respective annual growth rate to a four-month high of 0.6% Y/Y. Growth in new loans to non-financial corporations also picked up, rising 0.4ppt in October to a six-month high of 2.5% Y/Y. But the acceleration reflected a surge in the flow of short-dated loans of €24bn, the most since March 2020, while the net flow of loans of maturities longer than one year shifted into reverse, suggestive of continued weakness in business fixed investment.

The week ahead in the euro area

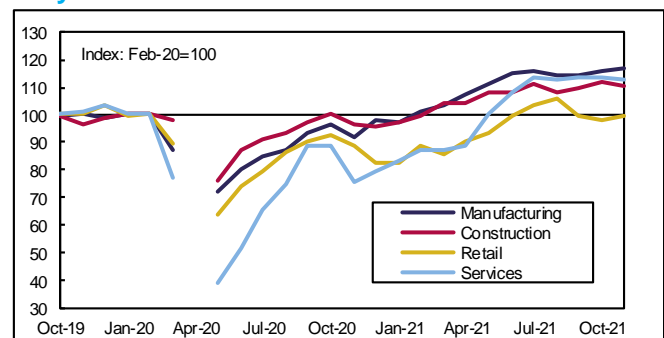
A busy week ahead for euro area top-tier data releases includes the flash inflation figures and European Commission survey results for November, as well as October unemployment and retail sales numbers. Most notably, the flash euro area CPI estimate (Tuesday) is expected to have taken a further step up in November. We expect headline inflation to increase 0.4ppt to 4.5% Y/Y, a new euro-era high. While in part that will be driven by higher energy prices, we expect core inflation also to rise 0.3ppt to 2.3% Y/Y, which would be the highest for more than 19 years. Preliminary German and Spanish CPI numbers – which will likely come in close to 5½% Y/Y – will provide further guidance on Monday, while euro area PPI figures (Thursday) will give an update on price pressures at the factory gate. Meanwhile, contrasting with the improvement recorded in the past week's [flash PMIs](#), the Commission's survey – arguably the most accurate gauge of economic activity in the euro area – is expected on Monday to show the headline Economic Sentiment Indicator moderating slightly in November, albeit remaining only just below July's series high (119.0). This will in part reflect a decline in consumer confidence (the flash index fell a larger-than-expected 2pts to a six-month low) as the number of new coronavirus cases surged in some member states and price pressures continued to rise. Meanwhile, euro area unemployment (Thursday) is expected to have declined further in October to 7.3%, which would be the lowest since February 2008, while euro area retail sales are forecast to have reversed the 0.3% MM decline recorded in September. At the country level, French consumer spending and Spanish retail sales numbers for October are due Tuesday, followed by German retail sales on Wednesday. November's new car registration figures will be published in France, Italy and Spain (Wednesday) and Germany (Friday), while French IP numbers for October are also due Friday. In terms of ECB-speak, various monetary policy makers will be in action in the coming week, including President Lagarde (Monday and Friday), Vice-President de Guindos (Tuesday), ECB Chief Economist Lane (Friday) and ECB Executive Board members Panetta and Schnabel (Sunday and Monday respectively).

Italy: Consumer confidence*



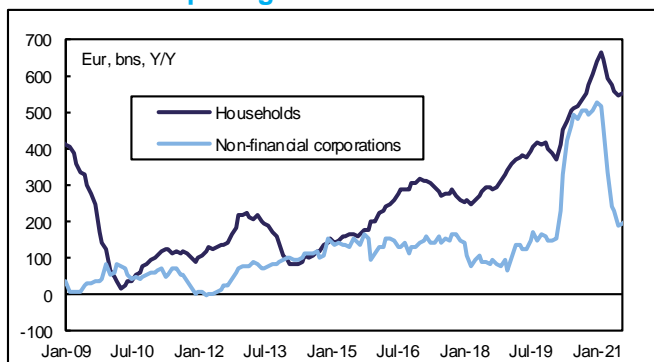
*No survey results in April 2020. Source: ISTAT, Refinitiv and Daiwa Capital Markets Europe Ltd.

Italy: Business confidence*



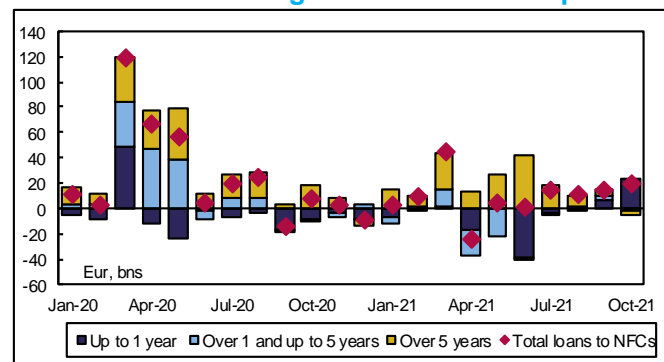
*No survey results in April 2020. Source: ISTAT, Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Deposit growth



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

Euro area: Net lending to non-financial corporations



Source: ECB and Daiwa Capital Markets Europe Ltd.

UK

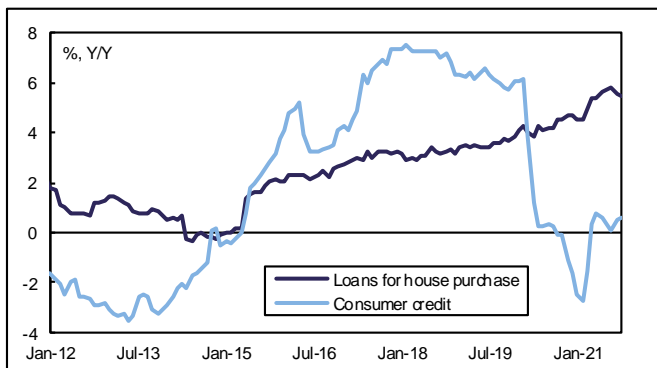
Weakest car production in October since 1956

Despite the improvement in conditions reported in several UK manufacturing surveys in the past week – including the [flash PMIs](#) and [CBI industrial trends](#) – today’s car production numbers further illustrated the marked impact of the global semiconductor shortage. After ONS numbers showed that production of motor vehicles on a seasonally adjusted basis in September was almost a third lower than its post-pandemic peak last November, today’s SMMT figures suggested that production in October was down compared with a year earlier for the fourth consecutive month and by a steep 41.4%Y/Y. In particular, the number of cars that came off the production line was just 64.7k, the lowest outturn for any October since 1956 and more than 55% lower than the average outturn in the five years ahead of the pandemic. Moreover, in the first ten months of 2021, production was even weaker than in the equivalent period in 2020 (-2.9%YTD/Y) which was dented by factory shutdowns at the onset of the pandemic. The recent weakness has also been exaggerated by the closure of a UK Honda car plant at the end of July. But given persistent supply bottlenecks, production looks set to remain subdued for several months to come.

CBI survey signal above-norm retail sales despite surging prices

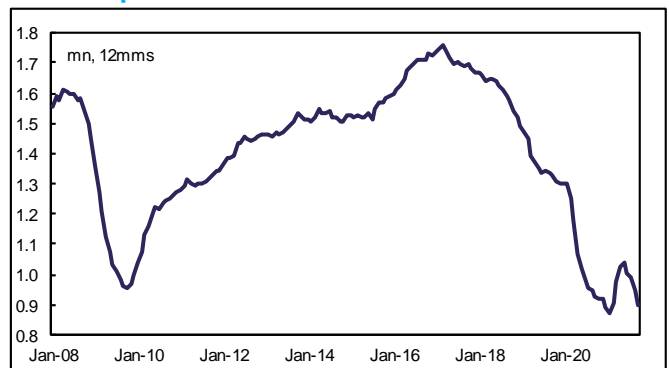
After a stronger rebound in [retail sales](#) in October, the CBI’s latest distributive trades survey, published yesterday, signalled a further pickup in November, with the headline sales index rising 9pts to 39, the second-strongest reading since September 2015, with retailers reporting that sales were good for the time of year. Admittedly, this indicator – which measures year-on-year sales growth – was likely flattered by base effects due to the tightening of pandemic-related restrictions in November 2020. And demand appears to have been boosted by fears of stock shortages in the run up to Christmas, with sales of clothing and department stores reporting a notable jump in November. Encouragingly, retailers’ stock levels were seen as broadly adequate for the first time in seven months, which might alleviate some fears of potentially empty shelves during the festive period. This notwithstanding, with retail selling prices rising at the fastest pace since May 1990, it remains to be seen whether demand will be quite as strong as respondent retailers anticipate next month, with the survey suggesting that sales were likely to remain above seasonal norms in December. Despite weak production numbers, extremely low levels of stocks and a drop in orders placed this month, motor traders were reportedly still upbeat about current and future sales.

Euro area: Loans to households



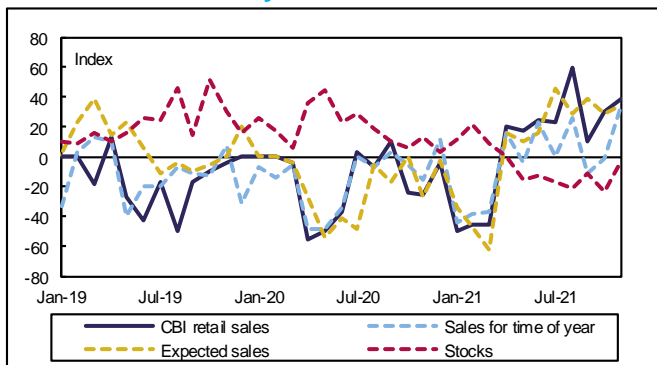
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Car production



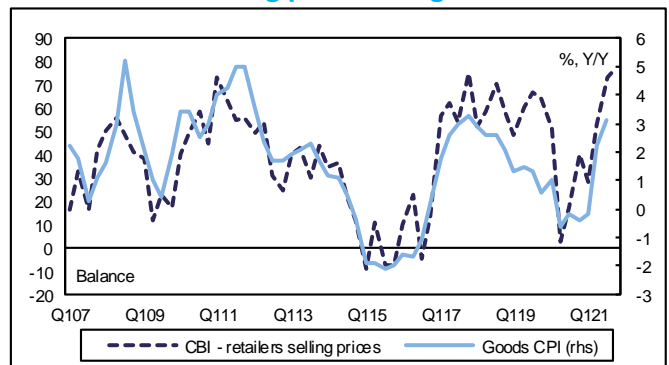
Source: Refinitiv, SMMT and Daiwa Capital Markets Europe Ltd.

UK: CBI retail survey – selected indicators



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: CBI retail selling prices and goods CPI














Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

The week ahead in the UK





The coming week's UK economic data calendar is relatively quiet, and unlikely to have much bearing on December's monetary policy decision. First up on Monday will be the release of the BoE's latest lending figures, which against a backdrop of heightened concerns about the near-term outlook, will show that demand for consumer credit remained subdued last month. Net mortgage lending, meanwhile, is unlikely to have maintained September's pace (£9.5bn) as homebuyers rushed to complete before the tapering of the government's stamp duty holiday at the end of that month, while the number of mortgage approvals will signal the inevitable resulting slowdown in housing market activity. On Tuesday, the Lloyds business barometer will shed more light on confidence in the economy in November, with particular interest in firms' pay growth expectations. Wednesday will bring the BRC's latest shop price index, along with the final manufacturing PMI survey, which is likely to confirm the surprise uptick in production reported in the flash release (the output index rose 1.6pts to 52.9). In contrast, Friday's final service sector PMI is likely to confirm the modest fall back in the headline activity index to 58.6, leaving it firmly above the key 50 expansion/contraction level.

Daiwa economic forecasts

	2021		2022				2021	2022	2023
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q									
Euro area 	2.2	0.5	1.0	0.9	0.9	0.5	5.0	4.3	2.2
UK 	1.3	0.9	0.7	0.6	0.6	0.6	6.9	4.3	1.8
Inflation forecasts %, Y/Y									
Euro area									
Headline CPI 	2.8	4.4	3.4	3.5	2.6	1.4	2.5	2.7	1.3
Core CPI 	1.4	2.2	1.7	2.4	2.0	1.5	1.4	1.9	1.3
UK									
Headline CPI 	2.8	4.6	5.0	4.6	4.0	2.4	2.5	4.0	1.8
Core CPI 	2.6	3.7	4.0	3.5	2.9	2.0	2.3	3.1	2.0
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) 	1850	1850	1850	1850	1850	1850	1850	1850	1850
BoE									
Bank Rate % 	0.10	0.10	0.25	0.50	0.50	0.50	0.10	0.50	0.75
Gilt purchases* (£bn) 	875	875	875	875	866	866	875	866	833

*Target end of period. Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Euro area 	M3 money supply Y/Y%	Oct	7.7	7.4	7.4	7.5	
France 	INSEE consumer confidence	Nov	99	98	99	-	
Italy 	ISTAT consumer (manufacturing) confidence	Nov	117.5 (116.0)	117.0 (114.0)	118.4 (114.9)	- (115.1)	
	ISTAT economic sentiment	Nov	115.1	-	115.0	-	
UK 	CBI distributive trades, reported retail sales*	Nov	39	-	30	-	
	SMMT car production Y/Y%	Oct	-41.4	-	-41.5	-	
Auctions							
Country	Auction						
- Nothing to report -							

*Published yesterday. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.
























The coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa</i> <u>forecast/actual</u>	Previous
Monday 29 November 2021					
Euro area	10.00	Economic Sentiment Indicator	Nov	117.5	118.6
	10.00	Final consumer confidence	Nov	-6.8	-4.8
	10.00	Industrial (services) confidence	Nov	14.0 (17.0)	14.2 (18.2)
Germany	13.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	4.9 (5.4)	4.5 (4.6)
Spain	08.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	5.5 (5.6)	5.4 (5.4)
UK	09.30	Net consumer credit £bn (Y/Y%)	Oct	0.5 (-)	0.2 (-1.8)
	09.30	Net mortgage lending £bn (approvals '000s)	Oct	5.0 (70.0)	9.5 (72.6)
	-	Nationwide house price index M/M% (Y/Y%)	Nov	0.5 (9.3)	0.7 (9.9)
Tuesday 30 November 2021					
Euro area	10.00	Preliminary CPI (core CPI) Y/Y%	Nov	<u>4.5 (2.3)</u>	4.1 (2.0)
Germany	08.55	Unemployment rate % (change '000s)	Nov	5.4 (-25.0)	5.4 (-39.0)
France	07.45	Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	2.6 (3.2)	2.6 (3.2)
	07.45	Final GDP Q/Q% (Y/Y%)	Q3	3.0 (3.3)	1.1 (18.7)
	07.45	Consumer spending M/M% (Y/Y%)	Oct	0.0 (-5.2)	-0.2 (-2.3)
Italy	09.00	Final GDP Q/Q% (Y/Y%)	Q3	2.6 (3.8)	2.7 (17.3)
	10.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	3.2 (3.3)	3.0 (3.2)
Spain	08.00	Retail sales Y/Y%	Oct	-	-0.1
UK	00.01	Lloyds business barometer	Nov	-	43
Wednesday 01 December 2021					
Euro area	09.00	Final manufacturing PMI	Nov	58.6	58.3
Germany	07.00	Retail sales M/M% (Y/Y%)	Oct	0.9 (-1.7)	-1.9 (-0.6)
	08.55	Final manufacturing PMI	Nov	57.6	57.8
France	08.50	Final manufacturing PMI	Nov	54.6	53.6
	-	New car registrations* Y/Y%	Nov	-	-30.7
Italy	08.45	Manufacturing PMI	Nov	61.0	61.1
	17.00	New car registrations Y/Y%	Nov	-	-35.7
Spain	08.15	Manufacturing PMI	Nov	57.8	57.4
	-	New car registrations* Y/Y%	Nov	-	-20.5
UK	00.01	BRC shop price index Y/Y%	Nov	-	-0.4
	09.30	Final manufacturing PMI	Nov	58.2	57.8
Thursday 02 December 2021					
Euro area	10.00	PPI Y/Y%	Oct	19.0	16.0
	10.00	Unemployment rate %	Oct	7.3	7.4
Spain	08.00	Unemployment rate % (change '000s)	Nov	9.1 (-)	9.2 (-0.7)
Friday 03 December 2021					
Euro area	09.00	Final services (composite) PMI	Nov	56.6 (55.8)	54.6 (54.2)
	10.00	Retail sales M/M% (Y/Y%)	Oct	0.3 (1.4)	-0.3 (2.5)
Germany	08.55	Final services (composite) PMI	Nov	53.4 (52.8)	52.4 (52.0)
	-	New car registrations* Y/Y%	Nov	-	-34.9
France	07.45	Industrial production M/M% (Y/Y%)	Oct	0.8 (0.1)	-1.3 (0.8)
	07.45	Manufacturing production M/M% (Y/Y%)	Oct	0.7 (-)	-1.4 (0.1)
	08.50	Final services (composite) PMI	Nov	58.2 (56.3)	56.6 (54.7)
Italy	08.45	Services (composite) PMI	Nov	54.3 (55.9)	56.6 (56.2)
Spain	08.15	Services (composite) PMI	Nov	58.6 (57.5)	56.6 (56.2)
UK	09.30	Final services (composite) PMI	Nov	58.6 (57.7)	59.1 (57.8)

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

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 29 November 2021		
Euro area 	08.30	ECB's de Guindos scheduled to speak
	 11.30	ECB's Schnabel participates in a German industry meeting
	 17.15	ECB President Lagarde takes part in a Science roundtable
Tuesday 30 November 2021		
Germany 	10.30	Auction: €3bn of 0% 2028 bonds
Italy 	10.00	Auction: €2bn of 0% 2026 bonds
	 10.00	Auction: €2.25bn of 0.95% 2032 bonds
	 10.00	Auction: €1.5bn of 2029 floating rate bonds
UK 	13.00	BoE's Mann scheduled to speak
Wednesday 01 December 2021		
Euro area 	10.00	OECD publishes latest Economic Outlook report
Germany 	10.30	Auction: €3bn of 0% 2026 bonds
UK 	10.00	Auction: £2.25bn of 1% 2032 bonds
	 14.00	BoE Governor Bailey scheduled to speak on insurance regulation
Thursday 02 December 2021		
Euro area 	15.00	ECB's Panetta to chair the policy panel at ECB conference on fiscal policy and EMU governance
France 	09.50	Auction: 2.5% 2031 bonds
	 09.50	Auction: 4.5% 2041 bonds
	 09.50	Auction: 3.25% 2045 bonds
Spain 	09.30	Auction: 2.15% 2025 bonds
	 09.30	Auction: 0.5% 2031 bonds
	 09.30	Auction: 0.7% 2033 inflation-linked bonds
UK 	09.30	BoE publishes Decision Maker Panel data – November 2021
Friday 03 December 2021		
Euro area 	08.30	ECB President Lagarde to participate in an online Q&A on 'A new vision for a better tomorrow'
	 13.00	ECB Economist Lane to chair a policy panel at ECB conference on fiscal policy and EMU governance
UK 	11.00	BoE's Saunders scheduled to speak on 'The outlook for inflation and monetary policy'

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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