

Euro wrap-up

Overview

- Bunds held on to most of Friday's gains despite upside surprises to flash November inflation data from Germany, Spain and Belgium and a further rise in business inflation expectations.
- Gilts similarly failed to reverse much of Friday's gains despite a pickup in UK consumer credit and slowing in the pace of household deposit accumulation.
- Tuesday will confirm a big rise in euro area inflation in November while new data for German unemployment and French consumer spending is due.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/23	-0.772	+0.006
OBL 0 10/26	-0.635	+0.015
DBR 0 08/31	-0.327	+0.014
UKT 0 ⁷ / ₈ 01/24	0.468	+0.030
UKT 0 ⁷ / ₈ 10/26	0.632	+0.029
UKT 0 ¹ / ₄ 07/31	0.847	+0.028

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

Euro area

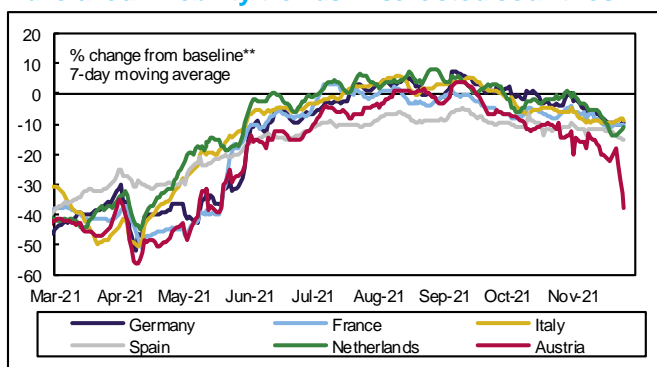
ECB officials seek to downplay concerns about both growth and inflation

Amid elevated cases of the Delta variant in many member states, the recent tightening of pandemic restrictions is now hitting mobility to suggest a non-negligible impact on spending on services (see chart below). But while member states have started to identify cases of the new Omicron variant, euro area monetary policymakers appear relatively sanguine. In remarks today, Bank of France Governor Villeroy de Galhau noted that the euro area economy had become increasingly resilient to Covid-19 with each wave, so that Omicron need not have a marked negative impact of the economic outlook. At the same time, however, while a further tightening of supply bottlenecks and shift of spending from services to goods might yet add to price pressures for certain items, he was similarly not overly concerned about the inflation outlook. Indeed, he was clear that he expected inflation to fall back soon and "remain subdued over the medium term". In what appeared a coordinated effort to counter worries about rising inflation, those comments echoed views expressed yesterday by ECB President Lagarde and today by Executive Board member Schnabel and Bank of Spain Governor Hernandez de Cos, who emphasised the temporary nature of many of the current price pressures, and insisted that inflation would "start to ease very significantly in the second quarter of 2022".

German inflation leaps ahead of expectations to highest since 1992

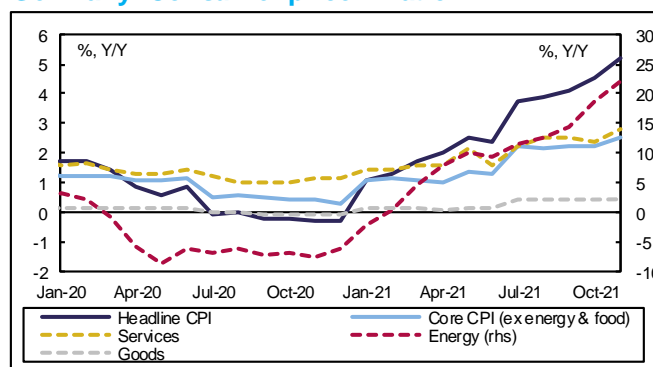
Coordinated ECB communication to allay concerns about the price outlook seemed appropriate in light of today's flash November inflation data, which surprised on the upside in each of the member states reporting. Most strikingly, German inflation on the EU-harmonised HICP measure leapt 1.4ppts – the most since January – to a series high of 6.0%Y/Y, some 0.5ppt above the consensus. The rise in the national CPI measure of 'only 0.7ppt took it to 5.2%Y/Y, the highest since 1992. Within the detail on the national measure, services inflation accelerated 0.4ppt to 2.8%Y/Y, explaining 0.2ppt of the rise in the annual rate. That is likely to have been driven at least in part by inflation of package holidays, which accelerated markedly due to pent-up demand. Energy inflation accounted for more than half of the increase on the month, rising 3.5ppts to a series high of 22.1%Y/Y to account for 2.3ppts of the overall CPI inflation rate. Non-energy industrial goods inflation made a marginal contribution to the rise on the month, edging up just 0.2ppt to 2.2%Y/Y, still nevertheless the highest rate since reunification. As with package holiday prices, high inflation overall in November was exaggerated by base effects: one year ago, the annual rate of national CPI was -0.3%Y/Y and the energy component was -7.7%Y/Y, both representing pandemic troughs. So, looked at over a two-year period, the national CPI rate reached just 2.5%Y/Y – above the ECB's target but arguably nothing too alarming considering the significant economic shocks that continue to be felt.

Euro area: Mobility trends in selected countries*



*Travel for retail and recreational purposes. **The baseline is the median value, for the corresponding day of the week, during the five-week period 3 Jan – 6 Feb. Source: Google Mobility Reports and Daiwa Capital Markets Europe Ltd.

Germany: Consumer price inflation*



*National measure. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

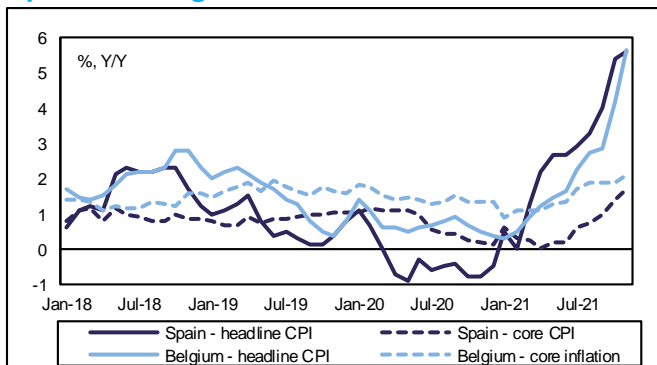
Spanish inflation at highest since September 1992, Belgian inflation jumps too

Elsewhere, today's flash inflation release from Belgium also saw the EU-harmonised measure jump in November, by 1.6ppts to a series high of 7.1%Y/Y. The national measure rose by a similar 1.5ppts, albeit to 5.6%Y/Y, the highest since 2008, with the difference between the two headline rates explained in part by the treatment of heating oil. Indeed, as in Germany, the increase in the national measure of inflation was principally driven by energy, with prices up a whopping 46.4%Y/Y to contribute 3.9ppts to the annual CPI rate. Excluding energy and food, Belgian core inflation was up just 0.2ppt to 2.1%Y/Y, nevertheless the first above-2% reading in five years. Unlike in Germany and Belgium, the upwards trend in Spanish inflation was less pronounced this month. On both the harmonised and national measures, inflation increased 0.2ppt to 5.6%Y/Y, albeit still the highest rates since September 1992. Spain's statistical agency provided little detail, but signalled that the increase in November was driven by food prices and to a lesser extent by vehicle fuel and gas, whose impact was exaggerated by base effects. Indeed, despite a more notable rise of 0.4ppt in November, Spanish core inflation on the national measure was still relatively subdued at 1.7%Y/Y.

Survey flags record selling-price expectations, but slight softening in consumer price expectations

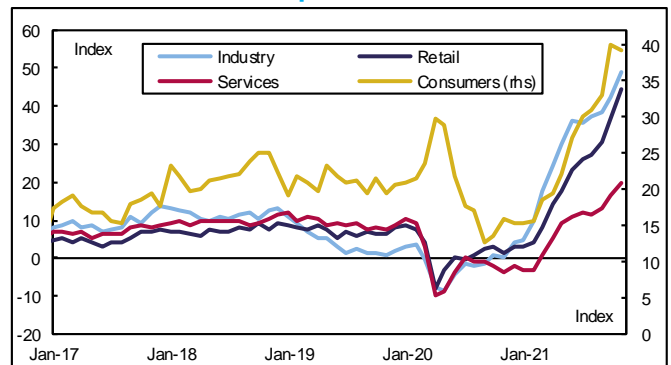
The European Commission's November sentiment survey brought some suggestions of further price pressures to come. Indeed, selling-price expectations in all main business sectors rose to series highs this month. However, that wasn't the case for consumers, whose expectations seemingly slipped back slightly, albeit with the respective index still the second-highest since 1993. In line with the flash estimate, that slight easing coincided with a deterioration in consumer confidence to a seven-month low, due not least to the continued upswing in new coronavirus cases. Indeed, the deterioration was most marked in the Netherlands where consumer confidence plunged to a one-year low as "lockdown lite" restrictions were reintroduced, with declines also registered in Belgium, Austria and Germany. On average, however, business sentiment appeared little affected by the adverse pandemic trend. Sentiment among industrial firms was judged to be stable, supported by improved assessments of expected production and order books, particularly those related to external demand. Improved expectations of future demand similarly left services sector sentiment steady. And retail and construction firms were more upbeat, the latter despite a record high share of businesses in the sector citing shortages of labour, materials and equipment as a constraint on activity. Reflecting firms' continued optimism about the future, the Commission's employment expectations index rose to the highest since January 2018, signalling continued strong growth in demand for headcount, notwithstanding challenges related to labour shortages and mismatches. Given the arrival of the Omicron variant, however, we doubt that firms will be quite so sanguine when surveyed in December.

Spain and Belgium: Headline and core inflation*



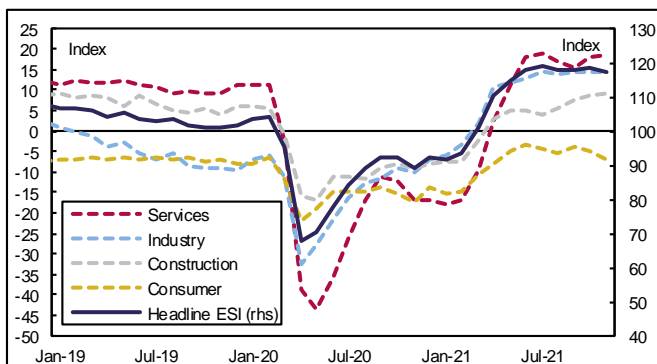
*National measure. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Inflation expectation indices



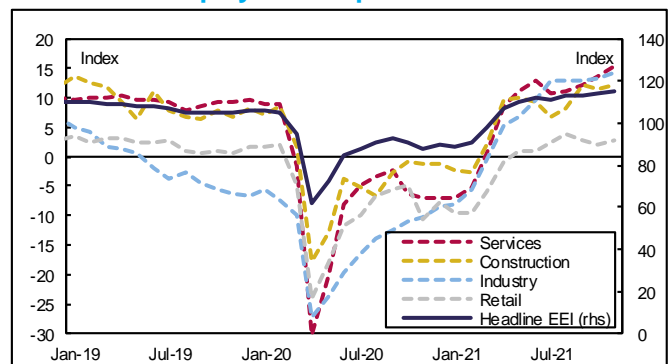
Source: Refinitiv, European Commission and Daiwa Capital Markets Europe Ltd.

Euro area: Economic sentiment indices



Source: Refinitiv, European Commission and Daiwa Capital Markets Europe Ltd.

Euro area: Employment expectations indices



Source: Refinitiv, European Commission and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

All eyes in the euro area tomorrow will be on the flash euro area CPI estimate for November, which is expected to have taken a further notable step up. Based on today's numbers, and assuming only a modest upwards shift in tomorrow's French and Italian inflation figures, the euro area's headline inflation will increase from October's euro-era high of 4.1% Y/Y to at least 4.7% Y/Y. While in part that will be driven by higher energy prices, we expect core inflation also to rise at least 0.3ppt to 2.3% Y/Y, which would be the highest for more than 19 years. Meanwhile, German labour market figures, also to be published tomorrow, are likely to reveal that joblessness fell further in November, albeit leaving the unemployment rate unchanged at 5.4%. French consumer spending and Spanish retail sales numbers for October will be published alongside final French and Italian Q3 GDP figures, which are expected to confirm growth of 3.0% Q/Q (3.3% Y/Y) and 2.6% Q/Q (3.8% Y/Y) respectively.

UK

Consumer and deposit data consistent with pickup in (nominal) spending

Today's UK bank lending numbers for October brought no major surprises, suggesting that against the backdrop of persistent economic uncertainty, rising prices and the termination of various government support schemes, demand for new loans remained relatively subdued. Admittedly, there was a pickup in demand for consumer credit last month, with a net increase of £0.7bn almost double the average net flow over the previous six months and the strongest for 15 months. But this was still roughly half of the five-year average ahead of the pandemic, and as such annual growth in consumer credit remained negative (-1% Y/Y, up from -1.5% Y/Y previously). The increase in consumer credit last month largely reflected a jump in credit card lending, by a net £0.6bn, the most since July 2020. And we also saw household deposits rise at the softest pace since February 2020 (£5.5bn compared with an average net flow of £11.9bn in the previous twelve months). So, these data were similarly suggestive of stronger nominal household spending, which would tally with higher prices as well as anecdotal evidence that consumers had started their festive preparations early this year to avoid potential shortages.

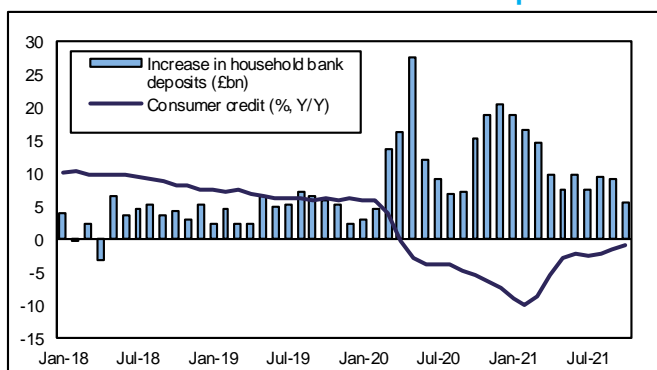
UK mortgage lending slows despite record low rates

In terms of secured borrowing, given the termination of the government's stamp duty holiday at the end of September there was an inevitable slowing in mortgage lending in October, with a net increase of £1.6bn compared with an average net flow of £6.5bn in the previous twelve months and £4.2bn in the year before the pandemic. There was a further decline in the number of mortgages approved to 67.2k in October, down from 71.9k in September and the peak of 104.5k in November 2020, to be back close to its pre-pandemic trend. That suggests a further slowing in mortgage lending ahead. But while the anticipated near-term hike in Bank Rate might well deter some buyers, today's release showed the average interest rate on new mortgages falling 19bps to 1.59% in October, a new series low, therefore suggesting that mortgages rate will likely remain well down on pre-pandemic norms even once the BoE moves to tighten policy.

The day ahead in the UK

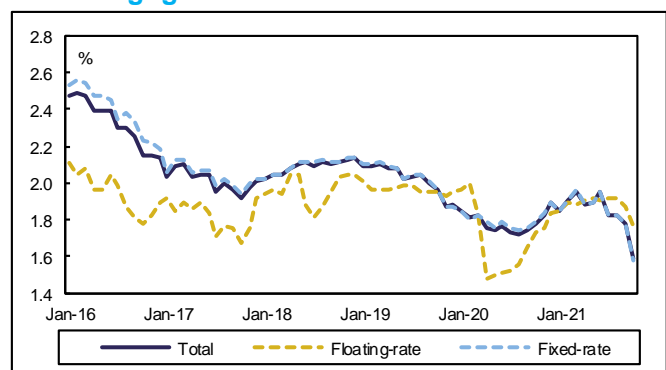
Tomorrow sees the release of the Lloyds business barometer, which will shed more light on confidence in the UK economy in November, with particular interest on firms' pay growth expectations. Beyond the economic data, BoE policy maker Mann (the newest external MPC member) will have a fireside chat about the UK economy, at which she might hint at how she will likely vote at next month's key monetary policy meeting.

UK: Consumer credit and household deposits



Source: BoE, Bloomberg and Daiwa Capital Markets Europe Ltd.

UK: Mortgage interest rates












Source: BoE 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
Euro area	 Economic Sentiment Indicator	Nov	117.5	117.5	118.6	-
	 Final consumer confidence	Nov	-6.8	-6.8	-4.8	-
	 Industrial (services) confidence	Nov	14.1 (18.4)	14.0 (17.0)	14.2 (18.2)	-(18.0)
Germany	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	5.2 (6.0)	4.9 (5.4)	4.5 (4.6)	-
Italy	 PPI Y/Y%	Oct	25.3	-	15.6	-
Spain	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	5.6 (5.6)	5.5 (5.6)	5.4 (5.4)	-
UK	 Net consumer credit £bn (Y/Y%)	Oct	0.7 (-1.0)	0.4 (-)	0.2 (-1.8)	0.3 (-1.7)
	 Net mortgage lending £bn (approvals '000s)	Oct	1.6 (67.2)	3.5 (70.0)	9.5 (72.6)	9.3 (71.9)
	 M4 money supply Y/Y%	Oct	7.0	-	7.0	-











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
Euro area	10.00	 Preliminary CPI (core CPI) Y/Y%	Nov	4.7 (2.3)	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	 PPI Y/Y%	Oct	-	11.6
	07.45	 Consumer spending M/M% (Y/Y%)	Oct	0.0 (-5.0)	-0.2 (-2.3)
Italy	07.45	 Final GDP Q/Q% (Y/Y%)	Q3	3.0 (3.3)	1.1 (18.7)
	09.00	 Final GDP Q/Q% (Y/Y%)	Q3	2.6 (3.8)	2.7 (17.3)
Spain	10.00	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	3.2 (3.3)	3.0 (3.2)
	08.00	 Retail sales Y/Y%	Oct	-	-0.1
UK	00.01	 Lloyds business barometer	Nov	-	43

Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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