

Euro wrap-up

Overview

- While German retail sales fell for the second consecutive month and French new car registrations were the weakest in any November since 1974, Bunds made losses while a Reuters report suggested the ECB might delay to February its decision on its asset purchases beyond March 2022.
- Gilts also made losses as a survey signalled the first positive rate of UK shop price inflation in 2½ years and house prices accelerated again.
- Tomorrow will bring October data on euro area unemployment and producer prices.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/23	-0.723	+0.032
OBL 0 10/26	-0.594	+0.033
DBR 0 08/31	-0.337	+0.015
UKT 0 01/24	0.545	+0.063
UKT 0 10/26	0.672	+0.048
UKT 0 07/31	0.837	+0.028

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

Euro area

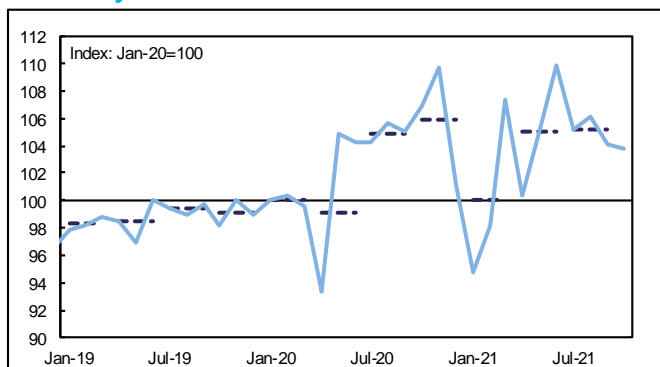
German real retail sales down in October, likely to drop over Q4 as a whole

Yesterday's data from [France and Spain](#) suggested that consumer spending on goods in both countries was relatively subdued in October. And today's figures from Germany did likewise, with real retail sales falling 0.3%MM at the start of Q4, contrary to an expected rise, to be down 2.9%Y/Y. That followed a revised drop of 1.9%MM in September. So, while real retail sales were still 3.5% above the pre-pandemic level in October, they were down 1.1% from the Q3 average. The weakness in sales in October was centred in food and related items, which fell 0.7%MM to be 4.1% below the pre-pandemic level. But sales of non-food items rose 0.6%MM to be 7.0% above the pre-pandemic level. Given the intensification of the pandemic, and the tightening of restrictions – which seek to prevent access of the unvaccinated to hospitality and non-essential stores in many regions, and might soon be extended nationwide – sales of food items might well pick-up over the near term, but total sales look set to decline over Q4 as a whole. Certainly, mobility data point to a decline in spending on both retail and recreation activity. Of course, higher prices are also eroding sales in real terms, with nominal retail sales rising 0.2%MM in October in contrast to the decline in real terms.

French car sales mark weakest November since 1974, Italian and Spanish remain in reverse too

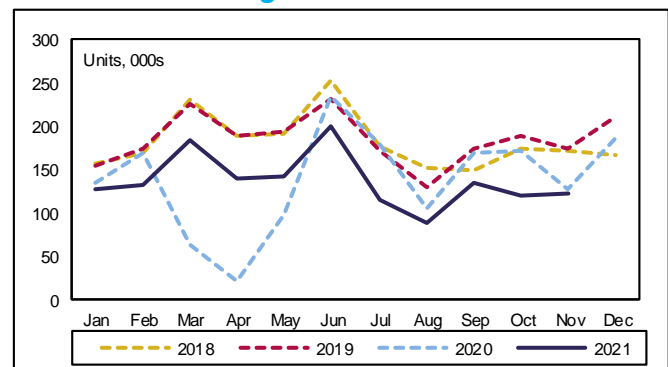
Despite the extremely low base last year as the second pandemic wave took hold, the first November new car registration numbers from the member states remained weak due not least to persistent supply bottlenecks. Admittedly, the French numbers suggested a notably softer pace of annual decline, with sales down just 3.2%Y/Y following a drop of 30.7%Y/Y in October. But this still marked the weakest November for new registrations since 1974. And compared with 2019, sales were still almost 30% lower in November. So, while sales in the first eleven months of 2021 were up 2½% compared to the same period of 2020, they were still roughly one quarter lower than the equivalent period in 2019. Italian car registrations fell by a steeper 24.6%Y/Y to just 104k units, the lowest November outturn since 2013. Admittedly this was enough to leave sales in the first eleven months of the year roughly 8½% higher than over the same period of 2020, although they were still down by 23% on the equivalent period in 2019. The drop in Spanish car registration numbers (-13.4%Y/Y) was less pronounced than of late, leaving the number of new cars registered in the year-to-date marginally higher than the equivalent period in 2020 (+3%YTD/Y). But November sales were still 28% below their level in 2019, with the year-to-date sum roughly one third lower than in that year.

Germany: Retail sales*



*Dashed dark blue lines are quarterly average. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

France: New car registrations



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Final euro area manufacturing PMIs point to subdued output growth but surging prices

The final manufacturing PMI surveys underscored that supply-side pressures continue to have a widespread impact on the sector. There was no revision to the euro area's output PMI, which despite rising for the first month five in November (up 0.5pt to 53.8) still signalled the second-softest pace of growth since June 2020, with an accelerated rate of expansion in production of consumer goods contrasting with a further slowdown in output of intermediate and investment goods. While the recent slowdown in new orders growth likely reflects some normalisation in demand following the post-lockdown surge earlier in the year, firms also cited supply-related issues and increased prices. Certainly, supplier delivery times remained among the lengthiest on record amid ongoing material and labour shortages and reduced transport availability. Against this backdrop, price pressures remained extremely elevated too – despite being revised lower from the flash estimate, the input price PMI stood at a still lofty 88.9 in November. And to alleviate some of these heightened cost burdens, the output price PMI (74.7) rose to its highest since the series began 19 years ago.

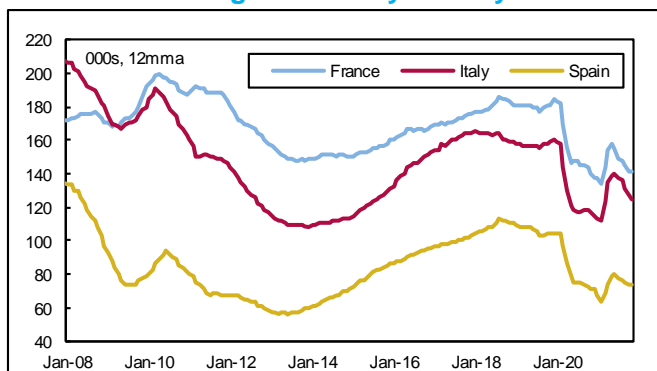
PMIs suggests Italian manufacturing recovery outpacing other member states

Among the country detail, Germany's output index was revised a touch lower from the flash estimate to 51.4, the second-lowest in seventeen months. And while there was a sizeable upwards revision to the equivalent French PMI, at 50.1 it was merely consistent with stagnation in the sector. But the main news from Markit's releases today was in the Italian survey, which saw the output PMI rise a hefty 2.7pts in November to 62.3, just shy of the series high (62.8) recorded in May and signalling by far the strongest manufacturing growth of the member states. The Irish PMI was the second-highest at 59.3, while the Dutch and Greek indices (56.0 and 55.4 respectively) remained consistent with solid growth too. The Spanish output PMI was less encouraging, however, falling 2pts to 52.5, almost 10pts lower than the summer peak and its weakest since January. Meanwhile, the price PMIs were at or close to record highs in all member states.

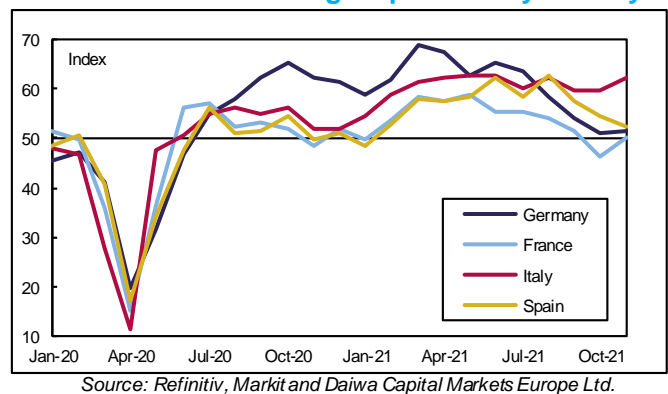
The day ahead in the euro area

Tomorrow brings the release of euro area unemployment numbers for October, which are expected to show a further decline in joblessness to leave the unemployment rate edging down for the sixth successive month, by 0.1ppt to 7.3%, which would be the lowest level since March 2020. Spanish labour market numbers for November are also due. Meanwhile, the latest euro area producer price inflation data are expected to confirm ever-growing price pressures at the factory gate. The headline PPI rate is expected to rise 3.0ppts to 19% Y/Y in October. Beyond the data, dovish ECB Executive Board member Panetta will be chairing a panel at the ECB's conference on fiscal policy and EMU governance.

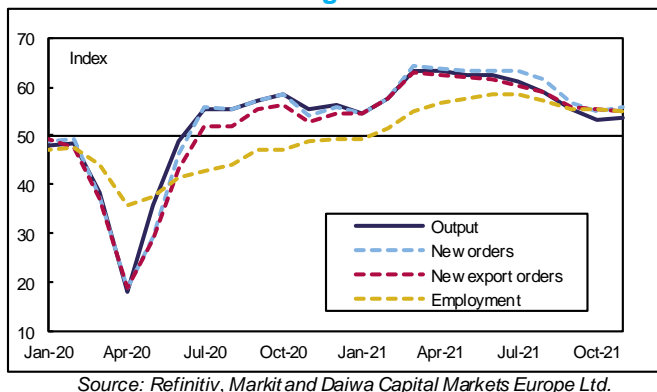
Euro area: Car registrations by country



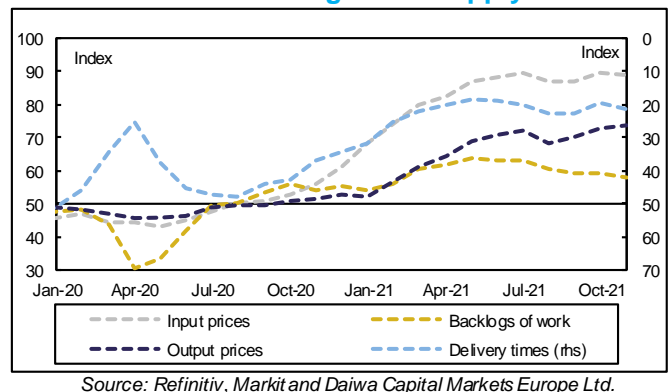
Euro area: Manufacturing output PMIs by country



Euro area: Manufacturing PMIs – demand side



Euro area: Manufacturing PMIs – supply side



UK

UK high-street inflation the highest in 2½ years

While competition on the UK High Street has remained intense over recent years, today's BRC shop price survey signalled increasing price pressures in the run up to Christmas. In particular, the headline shop price index was up 0.3% Y/Y in November, suggesting the first year-on-year increase in prices for 2½ years. This reflected a faster pace of retail food price inflation (up 0.6ppt to 1.1% Y/Y) to the highest for a year, as well as a notably softer pace of non-food price deflation. Indeed, the survey measure of non-food prices was down just 0.1% Y/Y, the smallest decline since May 2019, with prices of DIY products rising at the fastest pace since 2012 and electrical goods inflation just off August's series high. Moreover, given rising costs associated with persisting supply chain disruption – from higher energy and transport costs to widespread labour shortages – it is perhaps inevitable that retailers suggested they would continue to pass on some of these additional burdens over the near term.

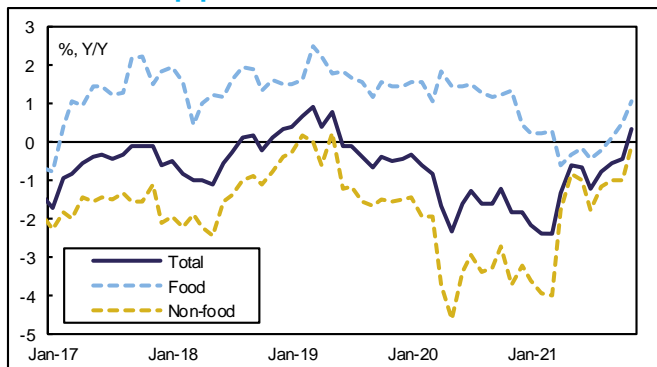
House price inflation continues to rise too, for now

Despite some slowing in housing market activity since the conclusion of the government's Stamp Duty holiday at the end of September, the latest Nationwide house price data suggested that residential property prices maintained a steady upwards trend in November. Indeed, prices rose by a larger-than-expected 0.9% M/M to leave them 10.0% higher than a year earlier and almost 15% above the pre-pandemic level. Over the near term at least, prices should remain buoyed by persistent demand and supply imbalances, with the October RICS residential survey indicating that inventories on estate agents' books were near record low levels, while new buyer enquiries reached their highest since May. With affordability becoming more stretched – the Nationwide's ratio of house prices to average earnings rose in Q3 to a record high 5.5, well above the long-run average of 3.4 – the prospect of higher interest rates over coming months and heightened economic uncertainties surrounding Covid-19 might restrain house price growth over the near term.

Final manufacturing PMI points to moderate output growth amid surging price pressures

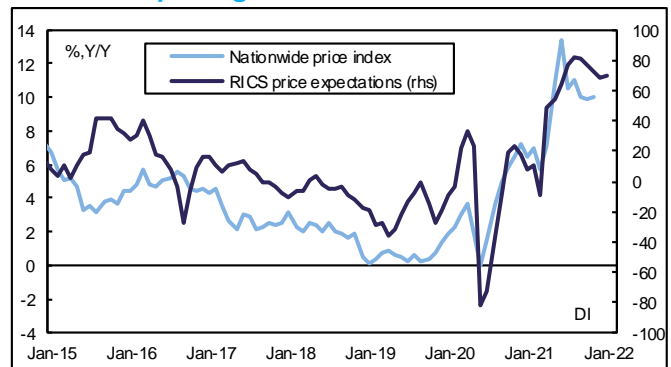
Like the euro area survey, the final UK manufacturing PMIs offered no major alteration to the underlying message in the preliminary release, that supply constraints continue to limit production, lengthen delivery times and push prices higher. Indeed, all these factors contributed to keeping the headline index at a relatively elevated level of 58.1, down just 0.1pt from the flash estimate and a three-month high. But while the manufacturing output PMI rose for the first month in six in November, and by a notable 1.5pts, at 52.7 it remained well off the series high recorded in May (63.0) and consistent with

UK: BRC shop price inflation



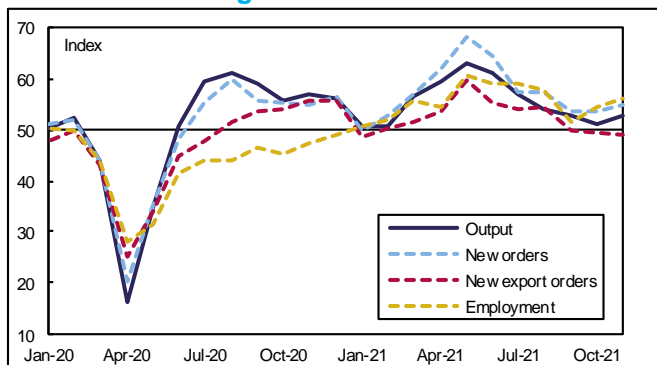
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: House price growth



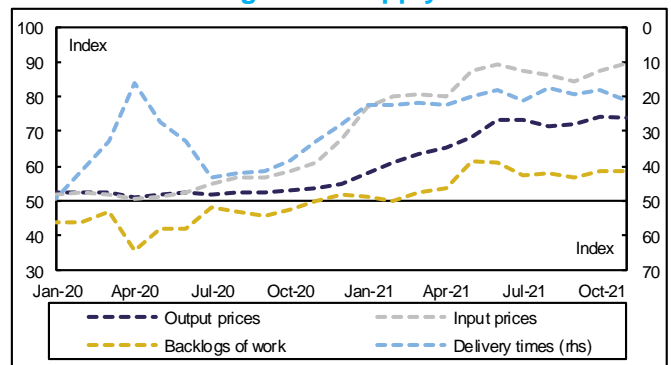
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing PMIs – demand side



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

UK: Manufacturing PMIs – supply side

















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

only moderate growth. Despite a reported pickup in domestic orders, new export orders fell for the third consecutive month with reports of weaker demand from China and ongoing trade disruption with the EU related to Brexit. And while the employment index signalled a faster pace of jobs growth, manufacturers continued to cite reduced production capacity on the back of labour and input shortages, with orders being in part fulfilled by a further depletion in stocks. In addition, the strain on supply chains led to a further substantial increase in manufacturers cost burdens, with around three-quarters of survey respondents reporting a rise and just 1% citing a fall. And so the input price PMI rose to a fresh series high of 90.0, while the output price PMI (74.0) was just a fraction below October's high.

The day ahead in the UK





Tomorrow will be very quiet for top-tier UK economic releases, with just the BoE due to publish its latest Decision Maker Panel data, which provides a view of developments in the economy from UK businesses.

European calendar









Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Final manufacturing PMI	Nov	58.4	58.6	58.3	-
Germany	 Retail sales M/M% (Y/Y%)	Oct	-0.3 (-4.1)	0.9 (-1.7)	-2.5 (-0.7)	-1.9 (-0.6)
	 Final manufacturing PMI	Nov	57.4	57.6	57.8	-
France	 Final manufacturing PMI	Nov	55.9	54.6	53.6	-
	 New car registrations Y/Y%	Nov	-3.2	-	-30.7	-
Italy	 Manufacturing PMI	Nov	62.8	61.0	61.1	-
	 New car registrations Y/Y%	Nov	-24.6	-	-35.7	-
Spain	 Manufacturing PMI	Nov	57.1	57.8	57.4	-
	 New car registrations Y/Y%	Nov	-13.2	-	-20.5	-
UK	 BRC shop price index Y/Y%	Nov	0.3	-	-0.4	-
	 Final manufacturing PMI	Nov	58.1	58.2	57.8	-
	 Nationwide house price index M/M% (Y/Y%)	Nov	0.9 (10.0)	0.4 (9.3)	0.7 (9.9)	-
Auctions						
Country	Auction					
Germany	 sold €2.46bn of 0% 2026 bonds at an average yield of -0.58%					
UK	 sold £2.25bn of 1% 2032 bonds at an average yield of 0.918%					

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 PPI M/M% (Y/Y%)	Oct	3.6 (19.0)	2.7 (16.0)
		10.00 Unemployment rate %	Oct	7.3	7.4
Italy		09.00 Unemployment rate %	Oct	9.1	9.2
Spain		08.00 Unemployment change '000s	Nov	-	-0.7

Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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