

# Euro wrap-up

## Overview

- Longer-dated Bunds made gains as euro area retail sales maintained a broadly sideways trend but German auto production ticked higher.
- Gilts made gains across the curve as BoE external MPC member Michael Saunders acknowledged in an otherwise hawkish speech that Omicron uncertainty might justify not raising rates this month.
- The coming week will bring October data for UK GDP and German industrial production, factory orders and trade.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 12/23	-0.756	-
OBL 0 10/26	-0.633	+0.003
DBR 0 08/31	-0.385	-0.010
UKT 0 <sup>7</sup> / <sub>8</sub> 01/24	0.473	-0.044
UKT 0 <sup>3</sup> / <sub>8</sub> 10/26	0.595	-0.047
UKT 0 <sup>1</sup> / <sub>4</sub> 07/31	0.762	-0.047

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

## Euro area

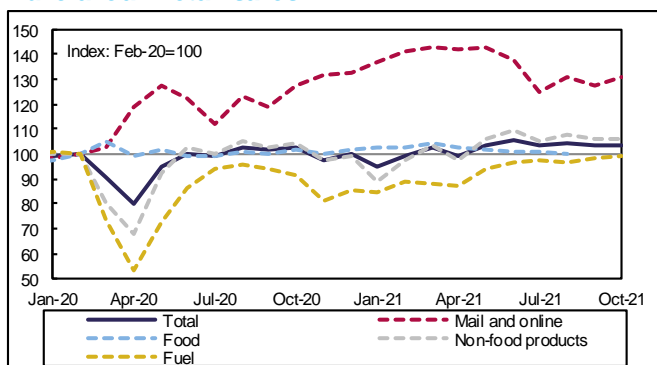
### Euro retail sales post tepid growth ahead of renewed restrictions

Despite the weakness implied by national goods spending data from Germany, France and Spain earlier this week, today's figures for aggregate euro area retail sales eked out a modest increase in October of 0.2% M/M. Admittedly, this only partly reversed the drop in September to leave sales little stronger than the Q3 average and the year-on-year rate of growth moderating 1.2ppts to 1.4% Y/Y. Indeed, the overall trend of the past six months appears to have been sideways. Within the detail, core sales (excluding food and fuel) rose a firmer 0.4% M/M, but that still left them just below the pre-pandemic level. Spending on fuel increased a further 1.3% M/M to its highest level since before the pandemic as mobility continued to recover. But with households continuing to enjoy the opportunity to eat out, spending of food (-0.1% M/M) fell for the sixth month out of the past seven. Of course, given the resurgence over the past month of the Delta variant across certain member states, and associated decline in mobility and tighter restrictions on unvaccinated people, we might expect to see a shift in trends over the remainder of the year. While food sales might be expected to rise over coming months, spending on non-food items and, in particular, fuel might well weaken. And while spending on mail and internet orders has been on a downwards trend, we expect to see a boost to online spending in the run up to Christmas as many households stay away from the High Street.

### Final services PMIs revised lower on Covid concerns

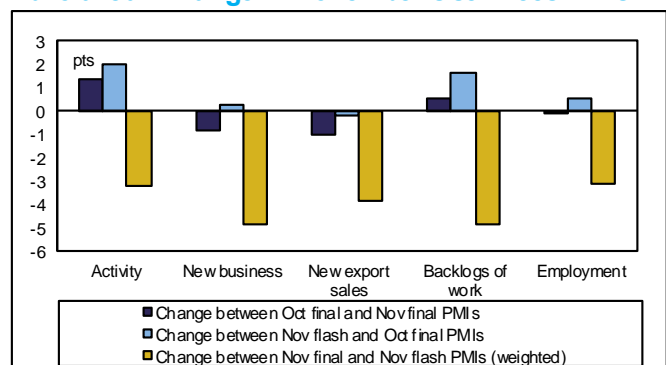
While the final services PMIs were still consistent with expansion at a faster pace than in October, today's survey suggested a significantly more downbeat assessment from those firms (22%) that submitted later in the month. For example, the headline euro area activity index was revised lower from the flash by a non-negligible 0.7pt to 55.9, admittedly still an increase (1.3pt) from October. The near-term outlook was judged to have softened, with the new orders component revised down by 1.1pts to 54.2, a seven-month low, with Markit citing the weakest growth in demand for tourism and recreation since May primarily due to rising Covid rates. So, optimism about the year ahead fell to its lowest since February. And the subsequent onset of the Omicron variant seems bound to weigh further on the sector. Among the country detail, Germany's headline services PMI was similarly downwardly adjusted from the flash to 52.7, by far the weakest of the larger member states reflecting the significantly higher number of new coronavirus cases. Despite coming in weaker than initially estimated, the equivalent French PMI (57.4) stood at a five-month high. And there were more sizeable improvements in Italy and Spain, which saw the headline PMIs rising by more than 3pts apiece to 55.9 and 59.8, three-month highs respectively. But with the exception of Italy, which saw the new business component rise (1.5pts to 56.4), demand appeared to have weakened. And the subsequent announcement of tighter restrictions on unvaccinated people in various member states, as well as more stringent travel restrictions, will likely dampen growth expectations in the run-up to Christmas.

### Euro area: Retail sales



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Euro area: Change in November's services PMIs



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

### French IP returns to growth in October, but boosted by likely one-off effects

Turning to the manufacturing sector, today's French IP numbers came in a touch firmer than expected in October, with a rise of 0.9%MM. But this was insufficient to reverse the steeper-than-previously-estimated decline (-1.5%MM) in September and left output only marginally higher than the Q3 average, suggesting that ongoing supply bottlenecks continue to restrain production. While growth in October was boosted by an acceleration in output from the transport equipment subsector (8.8%MM), this principally reflected a near-14% jump in the air and spacecraft category. The increase in autos manufacturing was a more moderate 0.8%MM, to leave the level more than 6% below the Q3 average and 30% lower than the February 2020 level. In contrast, production of machinery and equipment (-0.3%MM), clothing (-0.6%MM), pharmaceuticals (-2.6%MM) and metals (-0.6%MM) all slipped back. And so, in the absence of a notable rise in construction activity (4.8%MM to a ten-month high) and energy output (0.5%MM), overall industrial production would have been much softer.

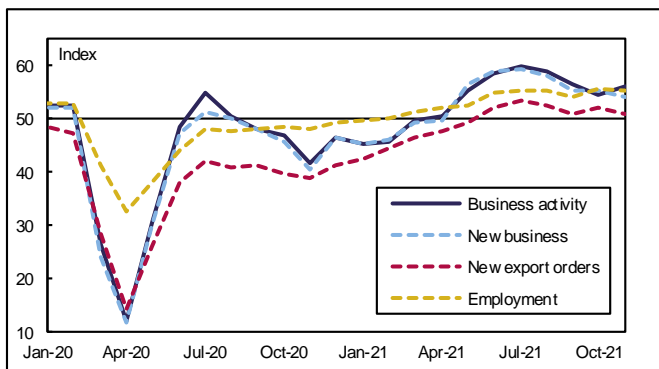
### German autos production ticks up to seven-month high but still hampered by supply bottlenecks

The ifo institute yesterday suggested that the situation regarding the outlook in the German auto industry has worsened, with risks to already disrupted supply chains amplified by the new Omicron variant. Nevertheless, today's VDA figures showed that German car production rose in November in unadjusted terms to a seven-month high of 302k units. That, however, still marked a substantive drop of 32%Y/Y, albeit an improvement of 6ppts from October. Car production in the first eleven months of the year was down 12%YTD/Y, despite the exceptionally low base last year during the onset of the pandemic. Indeed, compared with the average equivalent period in the five years before the pandemic, production has been more than 40% lower so far this year. Against this backdrop, auto sales remained exceptionally weak too, with new registrations also down 32%Y/Y at just 198k, the lowest November reading since 1985. So, in the year-to-date, German new car sales were down 8%YTD/Y (and by a much steeper 28% compared with 2019). This compared with the equivalent increases in France (+2.5%YTD/Y), Italy (+8.5%YTD/Y) and Spain (+3%YTD/Y).

### The week ahead in the euro area

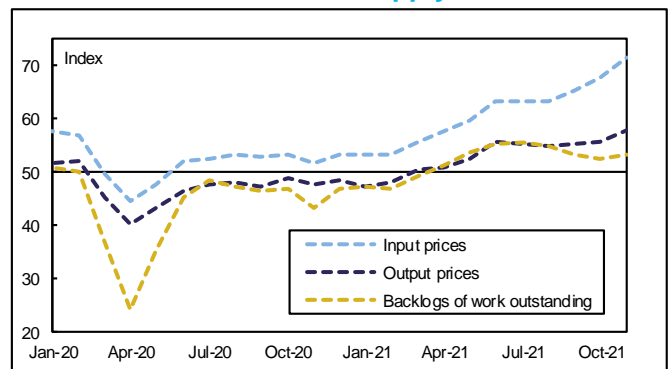
The coming week's data flow will get underway with a further update on manufacturing conditions at the start of the fourth quarter, with German factory orders and IP numbers due on Monday and Tuesday respectively. Despite ongoing weakness in the autos sector, these are expected to report the first increase in overall manufacturing production in three months. But the forecast increase of 1%MM in October would still leave output almost 1% below the Q3 average and roughly 8½% below the pre-pandemic level. French and German goods trade reports (Monday and Thursday), and Italian and Spanish

#### Euro area: Services PMIs – demand side



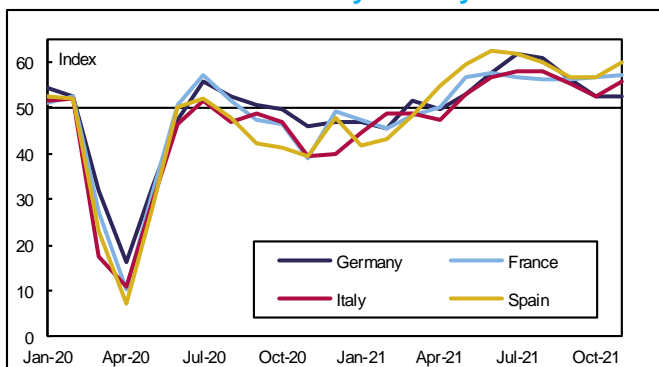
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

#### Euro area: Services PMIs – supply side



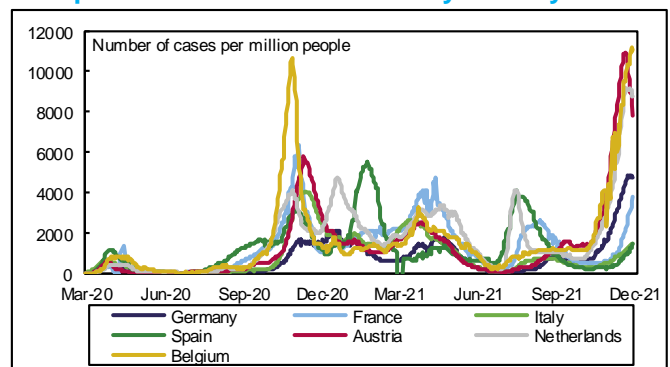
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

#### Euro area: Services PMIs by country



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

#### Europe: New coronavirus cases by country



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

October IP data (Friday) are also due. The start of the week will also bring the first sentiment indicators for December, with the euro area Sentix (Monday) and German ZEW investor surveys (Tuesday). Given the sharp drop in European equities since the middle of last month as the pandemic intensified across the region and the Omicron variant emerged, the headline indicators seem highly likely to have fallen back. The November construction PMIs are also due (Monday), while the BoF's latest business survey for November (Wednesday) will provide an update on the Bank's estimate of French GDP growth in Q4. Meanwhile, updated euro area national accounts numbers for Q3 (Tuesday) will provide the first official expenditure breakdown and will be published alongside revised Q3 employment figures. GDP growth of 2.2%Q/Q is expected to be more than fully accounted for by an acceleration in household spending on services as pandemic-related restrictions were relaxed.

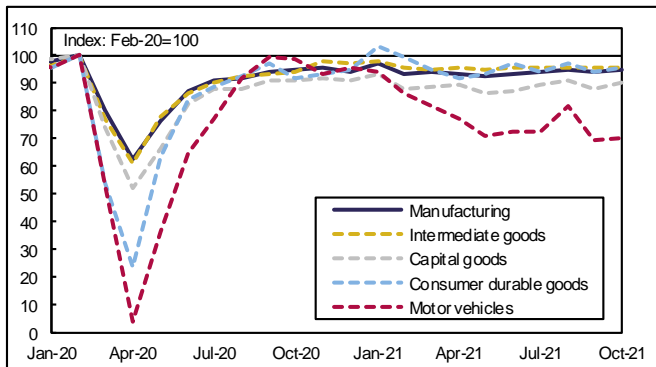
ECB policymakers in action include President Christine Lagarde, Vice President Luis de Guindos and influential Executive Board member Isabel Schnabel, who will all speak at the European Systemic Risk Board annual conference on Wednesday. In addition, President Lagarde and Executive Board member Fabio Panetta will also speak publicly on Friday.

## UK

### Final services PMIs suggest steady growth but more significant price pressures

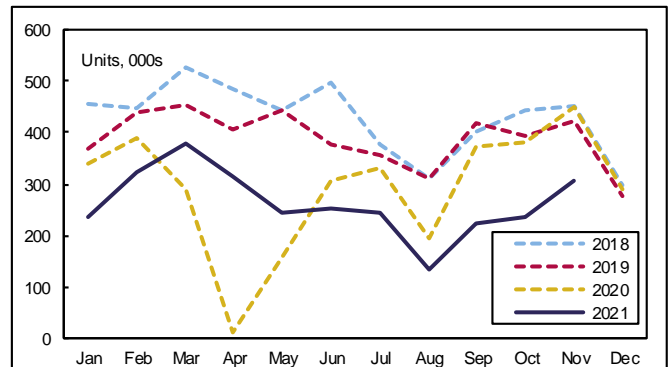
There were no major surprises from the final UK services PMIs, which were consistent with steady growth in the sector even as price pressures continued to intensify. Admittedly, the headline activity index fell a touch more than was initially estimated in November to 58.5, leaving it 0.6pt lower than October, but nevertheless still comfortably in expansionary territory and leaving it on average so far in Q4 more than 2pts higher than in Q3. According to this survey, the recovery remained supported by solid domestic demand, as well as a revival in visitors from overseas as export sales reportedly rose at their fastest pace since early 2017. Of course, the emergence of the Omicron variant and subsequent tighter travel restrictions might see a weakening in such demand over the near term. The survey also suggested that given ongoing recruitment challenges and associated wage competition, higher raw material and transportation costs, price pressures had intensified last month. Indeed, the input and output price PMIs were revised even higher from the flash estimates to survey-record levels of 82.0 and 62.4 respectively.

#### France: Industrial production



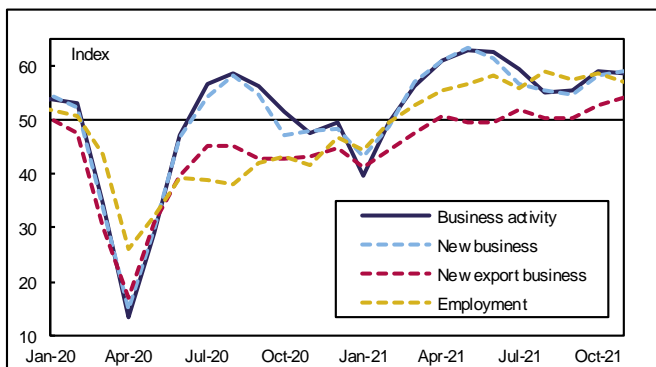
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

#### Germany: Car production



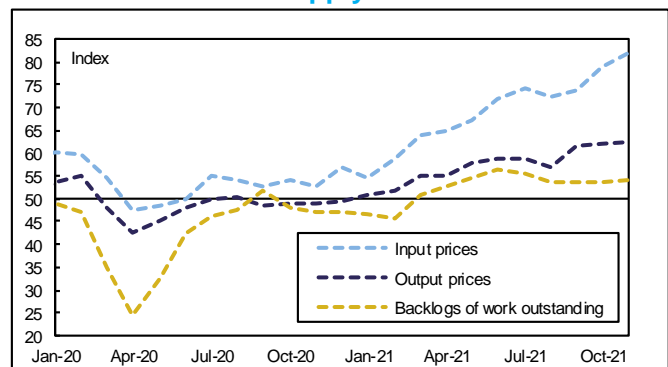
Source: Refinitiv, VDA and Daiwa Capital Markets Europe Ltd.

#### UK: Services PMIs – demand side



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

#### UK: Services PMIs – supply side



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












## MPC hawk still sees significant upside risks to the inflation outlook despite Omicron uncertainty

Today's speech by hawkish BoE MPC external member Michael Saunders, who had last month voted to increase Bank Rate by 15bps, made clear that he still sees significant upside risks to the inflation outlook. In part, that reflects his assessment of major damage to the UK's supply potential from both the pandemic and Brexit, and resulting tight labour market and strong pay growth. Saunders admitted that there could be particular advantages in waiting to see more evidence on the possible effects of the Omicron variant. But he also cautioned that continued delay to raising rates also could be costly. Indeed, he suggested that, if rates weren't raised this month, "a more abrupt and painful policy tightening later" could be required. Indeed, should the economy continue in line with his assumptions, Saunders assessed that further monetary tightening, in addition to a first rate hike to 0.25%, will be required fairly soon. As such, we would certainly not be surprised to see Saunders voting again for a rate hike on 16 December.

## The week ahead in the UK

Ahead of the BoE's MPC meeting on 16 December, the key UK focus in the week ahead will be Friday's monthly GDP report for October, including the output breakdown. While high frequency data suggest that private sector services activity moved broadly sideways, retail sales for that month recorded the first positive growth since April. Additionally, a surge in provision of booster vaccinations seems likely to have supported the health sector again too. So, with a modest pickup in manufacturing output also anticipated, we would expect to see GDP growth a touch firmer than the 0.6%/MM rate recorded in September – growth of 0.7%/MM would leave overall output up more than 5%YY and back to its pre-pandemic level. Friday will also bring October's trade data. Ahead of this, the week sees the release of November new car registration numbers and construction PMIs (Monday), the BRC retail sales monitor (Tuesday), REC/KPMG report on jobs and RICS residential survey (Thursday). Beyond the data, Monday's speech by BoE Deputy Governor Ben Broadbent – who is arguably the pivotal member of the MPC – will be of interest.




## Daiwa economic forecasts

	2021		2022				2021	2022	2023
	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP forecasts %, Q/Q</b>									
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
<b>Inflation forecasts %, Y/Y</b>									
Euro area									
Headline CPI 	2.8	4.6	3.7	3.8	2.9	1.5	2.6	3.0	1.3
Core CPI 	1.4	2.5	2.0	2.8	2.3	1.6	1.5	2.2	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
<b>Monetary policy</b>									
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	0.25	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.







# The coming week's data calendar

## The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa</i>		Previous
				<i>forecast</i>	<i>actual</i>	
<b>Monday 06 December 2021</b>						
Euro area		09.30	Sentix investor confidence	Dec	12.5	18.3
		09.30	Construction PMI	Nov	-	51.2
Germany		07.00	Factory orders M/M% (Y/Y%)	Oct	-0.3 (5.2)	1.3 (9.7)
		08.30	Construction PMI	Nov	-	47.7
France		08.30	Construction PMI	Nov	-	50.3
Italy		08.30	Construction PMI	Nov	-	58.6
		09.00	Retail sales M/M% (Y/Y%)	Oct	0.3 (4.0)	0.8 (5.3)
UK		09.00	New car registrations Y/Y%	Nov	-	-24.6
		09.30	Construction PMI	Nov	-	54.6
<b>Tuesday 07 December 2021</b>						
Euro area		10.00	Final GDP Q/Q% (Y/Y%)	Q3	2.2 (3.7)	2.1 (14.2)
		10.00	Final employment Q/Q% (Y/Y%)	Q3	0.9 (2.0)	0.7 (1.8)
Germany		07.00	Industrial production M/M% (Y/Y%)	Oct	1.0 (-2.9)	-1.1 (-1.0)
		10.00	ZEW current assessment balance (expectations)	Dec	5.0 (25.1)	12.5 (31.7)
France		07.45	Trade balance €bn	Oct	-6.9	-6.8
UK		00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Nov	-	-0.2
<b>Wednesday 08 December 2021</b>						
France		06.30	Final payrolls Q/Q%	Q3	0.5	1.1
		-	Bank of France industrial sentiment*	Nov	103	102
<b>Thursday 09 December 2021</b>						
Germany		07.00	Trade balance €bn	Oct	14.3	16.0
UK		00.01	RICS house price balance %	Nov	70	70
<b>Friday 10 December 2021</b>						
Germany		07.00	Final CPI (EU-harmonised CPI) Y/Y%	Nov	5.2 (6.0)	4.5 (4.6)
Italy		09.00	Industrial production M/M% (Y/Y%)	Oct	0.3 (3.3)	0.1 (4.4)
Spain		08.00	Industrial production M/M% (Y/Y%)	Oct	0.3 (0.8)	0.3 (1.2)
UK		07.00	GDP M/M% (3M/3M%)	Oct	<u>0.7 (1.1)</u>	0.6 (1.3)
		07.00	Industrial production M/M% (Y/Y%)	Oct	0.1 (2.2)	-0.4 (2.9)
		07.00	Manufacturing production M/M% (Y/Y%)	Oct	0.1 (1.7)	-0.1 (2.8)
		07.00	Construction output M/M% (Y/Y%)	Oct	0.3 (5.4)	1.3 (7.2)
		07.00	Index of services M/M% (3M/3M)	Oct	0.4 (1.2)	0.7 (1.6)
		07.00	Goods trade balance £bn	Oct	-14.1	-14.7
		07.00	BoE/Kantar inflation expectations, next 12 months	Nov	-	2.7
		09.30	BoE/Kantar inflation expectations, next 12 months	Nov	-	2.7

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.











### The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 06 December 2021</b>		
Euro area 	11.00	ECB President Lagarde and Board Member Panetta participate in Eurogroup meeting
UK 	11.30	BoE's Broadbent speaks on 'The outlook for growth and monetary policy'
<b>Tuesday 07 December 2021</b>		
Euro area 	11.00	ECB Board Member de Guindos participates in ECOFIN meeting
Germany 	10.30	Auction: €4bn of 0% 2023 bonds
UK 	10.00	Auction: £1.5bn of 1.25% 2051 bonds
<b>Wednesday 08 December 2021</b>		
Euro area 	08.15	ECB President Lagarde gives a pre-recorded address to the European Systemic Risk conference
Euro area 	11.30	ECB Board Member de Guindos speaks at the European Systemic Risk conference
Euro area 	13.10	ECB Board Member Schnabel participates in a panel on 'strengthening the financial system post Covid-19'
Germany 	10.30	Auction: €3bn of 0% 2031 bonds
<b>Thursday 09 December 2021</b>		
UK 	01.01	KPMG/REC report on jobs
<b>Friday 10 December 2021</b>		
Euro area 	09.05	ECB President Lagarde participates in a panel at a BIS event
UK 	09.30	BoE publishes its Inflation Attitudes survey

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Euro area 	Final services (composite) PMI	Nov	<b>55.9 (55.4)</b>	56.6 (55.8)	54.6 (54.2)	-
Euro area 	Retail sales M/M% (Y/Y%)	Oct	<b>0.2 (1.4)</b>	0.3 (1.4)	-0.3 (2.5)	<b>-0.4 (2.6)</b>
Germany 	Final services (composite) PMI	Nov	<b>52.7 (52.2)</b>	53.4 (52.8)	52.4 (52.0)	-
Germany 	New car registrations Y/Y%	Nov	<b>-31.7</b>	-	-34.9	-
France 	Industrial production M/M% (Y/Y%)	Oct	<b>0.9 (-0.5)</b>	0.6 (-0.4)	-1.3 (0.8)	<b>-1.5 (0.5)</b>
France 	Manufacturing production M/M% (Y/Y%)	Oct	<b>0.9 (0.1)</b>	0.8 (-0.5)	-1.4 (0.1)	<b>-1.6 (-0.3)</b>
France 	Final services (composite) PMI	Nov	<b>57.4 (56.1)</b>	58.2 (56.3)	56.6 (54.7)	-
Italy 	Services (composite) PMI	Nov	<b>55.9 (57.6)</b>	54.3 (55.9)	56.6 (56.2)	-
Spain 	Services (composite) PMI	Nov	<b>59.8 (58.3)</b>	58.6 (57.5)	56.6 (56.2)	-
UK 	Final services (composite) PMI	Nov	<b>58.5 (57.6)</b>	58.6 (57.7)	59.1 (57.8)	-

#### Auctions

Country	Auction
- Nothing to report -	

- Nothing to report -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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