

Euro wrap-up

Overview

- Bunds made modest losses as German factory orders fell back sharply at the start of Q4 but turnover pointed to a rebound in industrial production.
- While BoE Deputy Governor Broadbent left the door open to a rate hike this month, Gilts made very modest gains.
- Tomorrow brings German October IP data and the December ZEW investor survey, updated euro area Q3 GDP and employment numbers, and a UK retail survey.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/23	-0.749	+0.009
OBL 0 10/26	-0.631	+0.010
DBR 0 08/31	-0.390	+0.004
UKT 0 ⁷ / ₈ 01/24	0.473	-0.003
UKT 0 ⁹ / ₈ 10/26	0.582	-0.003
UKT 0 ¹ / ₄ 07/31	0.741	-0.007

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

Source: Bloomberg

Euro area

German orders slump on the absence of major orders

Today's German factory orders numbers for October fell well short of expectations, maintaining the steep downwards trend in place since the summer. In particular, orders were down a hefty 6.9%MM, the second-steepest decline since the arrival of Covid-19 to leave them down more than 13½% since July, 1% lower than a year earlier and just 1.7% higher than the pre-pandemic level. Admittedly, the orders data are notoriously volatile. And today's weakness largely reflected an absence of major orders. Indeed, when excluding such items, manufacturing orders fell a more modest 1.8%MM in October, albeit still to their lowest level in thirteen months. Within the detail, there was a decline of more than 13%MM in overseas orders (or a smaller drop of 5.3%MM when excluding major items), with a slump of 18.1% in orders from countries outside of the euro area due principally to a lack of major orders of machinery and equipment. In contrast, domestic orders rose for the first month in four (+3.4%MM), although this left them still 12½% lower than the summer peak. Orders for machinery and equipment were down almost 18%MM in October (more than reversing the 12½%MM increase in September), while orders for autos and parts fell more than 4½%MM (partly reversing the 9½%MM increase previously) and orders for metal goods fell for the fourth consecutive month. Overall, orders for capital and intermediate goods were down 10.7%MM and 2.7%MM respectively, while orders for consumer goods rose 4.3%MM.

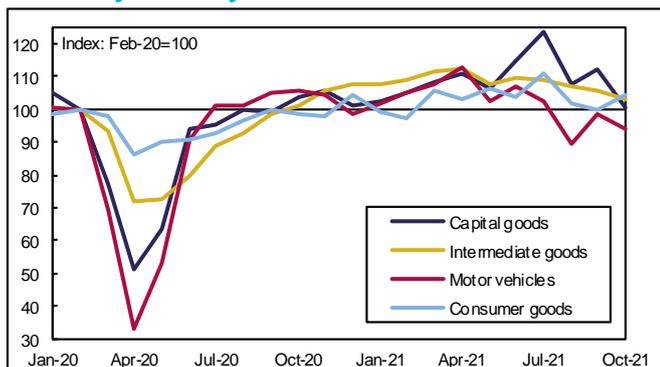
German turnover points to a rebound in production

The news from today's factory data release was not all bad, however. Manufacturing turnover rose for the first month in three in October and by 3.6%MM, the strongest monthly increase for a year. Admittedly, this still left turnover down more than 2½%YY and more than 7% lower than the pre-pandemic level. Nevertheless, it bodes well for tomorrow's industrial production release, with seemingly notable upside risks to the Bloomberg consensus forecast rise of 1.0%MM. And the further pickup in the truck toll mileage index in November – up an estimated 1.4%MM following growth of 1.6%MM in October – would suggest further recovery in production in the middle of Q4 too.

Euro area construction PMIs suggest firmest growth in the sector in almost four years

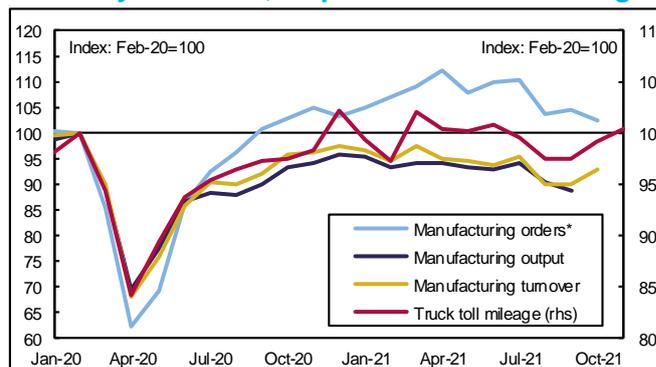
While manufacturing production appears to have picked up in October, surveys suggest that German construction output was soft after rising 1.1%MM in September. And today's construction PMIs suggest that conditions in the sector in Germany failed to improve markedly last month. While it rose to a fifteen-month high, at 47.9 the German construction activity PMI was

Germany: Factory orders



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: Turnover, output and truck toll mileage**



*Excluding major orders. **November toll mileage figure is based on daily data to 25 November. Source: Refinitiv, Bloomberg and Daiwa Capital Markets Europe Ltd.

still consistent with contraction. However, in contrast, the equivalent French index rose 1.3pts to a seventeen-month high of 51.6 to suggest positive growth. And the Italian construction activity PMI rose almost 7pts to a series high of 65.5 to suggest ongoing strong expansion. As a result, the headline euro area PMI rose more than 2pts to 53.3, to suggest the firmest growth in the sector in almost four years. The detail of the survey suggested positive momentum in housebuilding for the ninth successive month in November with growth in the subsector the strongest since January 2018. Commercial construction work picked up for a second month and at the firmest rate in almost three years. But civil engineering activity reportedly continued to decline. Overall, new construction business picked up for a fourth month in a row while employment in the sector rose for a sixth successive month with positive growth in labour demand registered in each of the large member states amid continued skill shortages. Supply-side strains were reflected in further significant increases in delivery times, increases in subcontractor rates to a record high, with cost pressures still very close to series highs too.

The day ahead in the euro area

Arguably the most noteworthy release tomorrow will be the aforementioned German industrial production figures for October. We would expect to see a stronger increase in output than predicted by the Bloomberg consensus (+1.0%MM), which would more than reverse September's 1.1%MM decline. Survey-wise, the German ZEW investor sentiment survey for December is due. Today's euro area Sentix survey – similarly of financial investors – unsurprisingly revealed a significant drop in the current assessment balance, by more than 10pts to a six-month low of 13.3, as the rising number of coronavirus cases and tighter restrictions in Germany and neighboring countries weighed on sentiment. Admittedly, investors thought this current weakness will prove short-lived, with the expectations balance for six months ahead having edged slightly higher, by 0.5pt to 13.8, a four-month high. In addition, the release of euro area national accounts numbers for Q3 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 have been more than fully accounted for by an acceleration in household spending on services as pandemic-related restrictions were relaxed.

UK

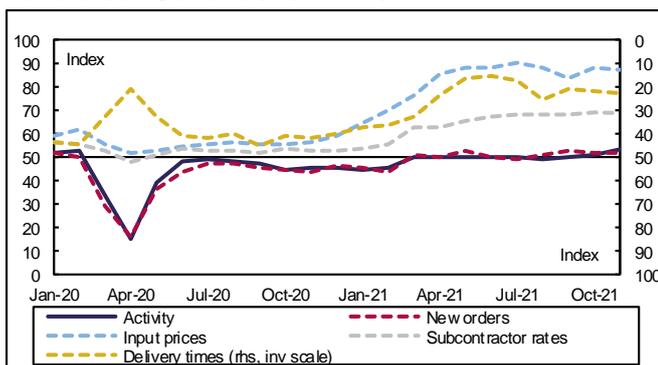
UK construction PMI signals rising output amid a modest improvement in supply chains

The UK's construction PMI survey offered a broadly encouraging assessment of conditions in the sector, with activity continuing to rise while there were tentative signs that price pressures had peaked as the worst in supplier delays may have passed. In particular, the headline activity index rose 1.0pt to 55.5, a five-month high, underpinned by a steeper rise in commercial work (up 1.4pts to 56.5) and civil engineering (up 2.5pts to 53.9). And while the housing activity PMI slipped back in November (down 0.7pt to 54.7) it remained consistent with ongoing steady expansion. This reflected ongoing robust demand, although the new business component was still the second-lowest reading since January. There were also some signs of a recovery in supply-chain performance, with 'just' 47% of firms reporting longer lead times down from a peak of 77% in June, although persistent port congestion and driver shortages remained a key challenge. So, while not reportedly as severe as in previous months, there were still significant cost burdens in the sector, with almost three-quarters of survey respondents reporting an increase in purchase prices, with just 3% reporting a decline. As such, builder optimism slipped back to its lowest for four months. Certainly, the emergence of the Omicron variant and tighter restrictions in various countries might well see a further deterioration to supply chains over the near term.

Growth in UK car registrations flattered by low base a year ago

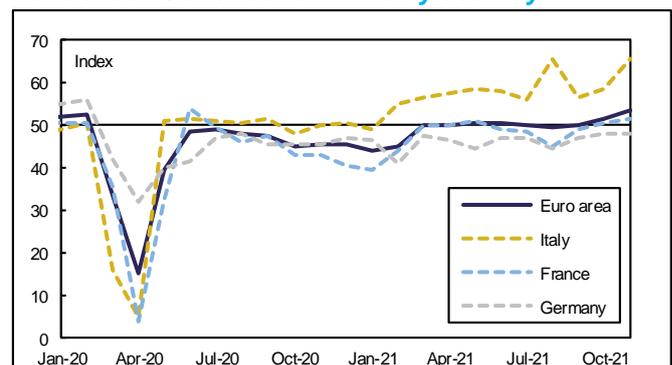
The latest new car registration numbers were at face value also improved in November, recording the first positive year-on-year growth (1.7%Y/Y) since June. But this was likely flattered by tighter pandemic-related restrictions this time last year – indeed, the number of units registered in November 2020 was the lowest in any November since 2008. And so, when compared with November 2019, today's modest increase left them down by more than one quarter. In the first eleven months of the year, the number of new cars sold was up by 2.8%YTD/Y in 2021, but down by more than one third compared with the

Euro area: Construction PMIs



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

Euro area: Construction PMIs by country



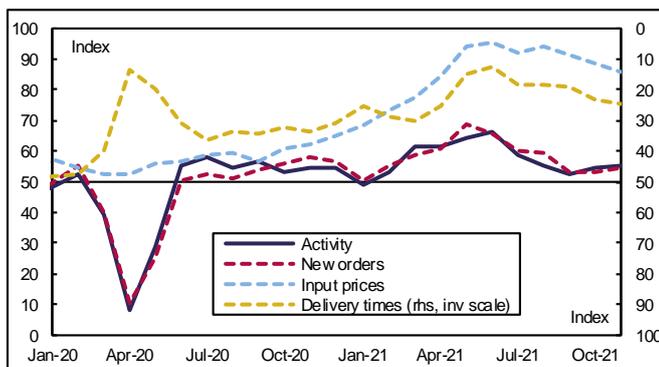
Source: Refinitiv, Markit and Daiwa Capital Markets Europe Ltd.

average equivalent period in the five years before the pandemic. Given the persistent supply bottlenecks in the sector due to the severe global shortage of semi-conductors, which might well be exacerbated by tighter lockdown restrictions across Asia, manufacturers look set to continue to struggle to meet demand for the time being, which will in turn remain a hindering factor on the amount of new cars sold over the near term too.

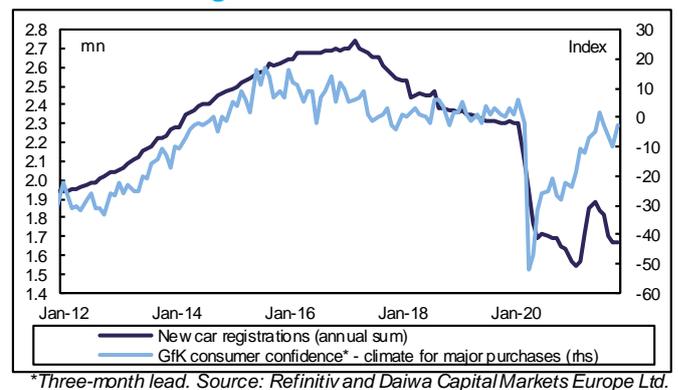
The day ahead in the UK

Tomorrow sees the release of the BRC retail sales monitor, which will provide further insight into spending on the UK high street. We expect it to align with the latest [CBI distributive trades survey](#), which signalled a further pickup in November, as more households began their Christmas shopping early to dodge potential supply-chain induced shortages.

UK: Construction PMIs



UK: New car registrations and consumer confidence



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Sentix investor confidence	Dec	13.5	12.5	18.3	-
	Construction PMI	Nov	53.3	-	51.2	-
Germany	Factory orders M/M% (Y/Y%)	Oct	-6.9 (-1.0)	-0.3 (5.2)	1.3 (9.7)	1.8 (10.3)
	Construction PMI	Nov	47.9	-	47.7	-
France	Construction PMI	Nov	51.6	-	50.3	-
Italy	Construction PMI	Nov	65.5	-	58.6	-
	Retail sales M/M% (Y/Y%)	Oct	0.1 (3.7)	0.3 (4.0)	0.8 (5.3)	1.0 (5.4)
UK	New car registrations Y/Y%	Nov	1.7	-	-24.6	-
	Construction PMI	Nov	55.5	54.2	54.6	-

Auctions

Country	Auction
- Nothing to report -	

- 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 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	5.7 (25.4)	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

Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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