

Euro wrap-up

Overview

- While the ZEW survey suggested that investors have downgraded their assessment of current economic conditions, Bunds made losses as German industrial production jumped the most in 12 months.
- Gilts were little changed as a UK retail survey pointed to strong sales in November.
- Several ECB Executive Board members are due to speak tomorrow, while German goods trade data for October are due on Thursday ahead of UK GDP figures for the same month on Friday.

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Daily bond market movements

Bond	Yield	Change
BKO 0 12/23	-0.718	+0.020
OBL 0 10/26	-0.607	+0.028
DBR 0 08/31	-0.375	+0.019
UKT 0 ¹ / ₈ 01/24	0.461	+0.011
UKT 0 ³ / ₈ 10/26	0.572	+0.001
UKT 0 ¹ / ₄ 07/31	0.731	+0.001

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

Euro area

German industrial production jumps most in a year as supply bottlenecks ease slightly

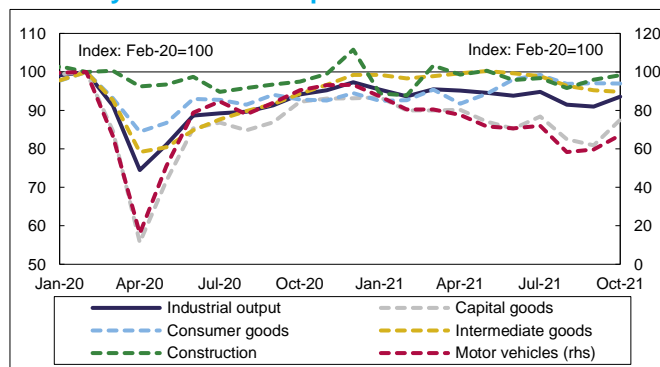
German industrial production leapt 2.8%M/M in October, the most in a year. That took it 1.2% above the Q3 average, although it was still 6.5% below the pre-pandemic level. Growth in production was in line with yesterday's [turnover data](#), but well above the Bloomberg consensus forecast (1.0%M/M). Manufacturing output rose 3.2%M/M, also the most since October 2020. Growth was driven by output of autos, which rebounded 12.6%M/M as bottlenecks appeared to ease somewhat but was still one third below the pre-pandemic level. With production of machinery also much stronger, rising 5.0%M/M to be just 0.4% below the pre-pandemic level, output of capital goods was up a vigorous 8.2%M/M. In contrast, production of intermediate items fell 0.4%M/M on weakness in the chemicals and, in particular, metals sub-sectors. Output of consumer goods (up just 0.1%M/M) remained subdued after taking a step down in the summer. Beyond manufacturing, construction rose for a second month and by 1.2%M/M to be just 0.8% below the level in February 2020, similarly to suggest a modest easing of supply-side restraints. And energy output rose 0.9%M/M to be back above the pre-pandemic level.

Certain survey and high-frequency indicators (e.g. the truck toll mileage index) suggest further growth in production in November. And despite their recent downtrend, the elevated level of factory orders and backlogs point to the likelihood of additional gains in industrial output into the New Year, as long as supply bottlenecks continue gradually to ease. Unfortunately, the adverse trend of new coronavirus cases in Europe, and emergence of the Omicron variant, risks a renewed tightening of those bottlenecks despite the glimmers of hope offered by the October data.

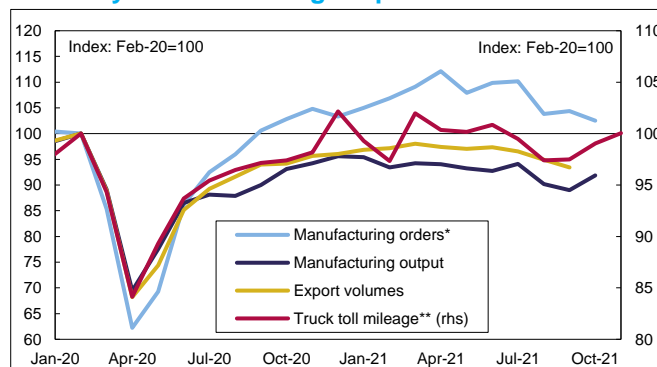
Consumer drove Q3 GDP growth as investment was restrained by supply bottlenecks

As expected, today's expenditure breakdown confirmed that euro area GDP growth of 2.2%Q/Q was almost fully accounted for by household consumption. With greater opportunities for spending on consumer-facing services, and firm growth in employment (up 0.9%Q/Q, a touch firmer than in Q2) and hours worked (2.2%Q/Q), private consumption rose 4.1%Q/Q, the most in four quarters. That, however, still left it some 2.8% below the pre-pandemic level in Q419. And other components of domestic demand were subdued. For example, weighed by a drop in construction output (-0.9%Q/Q) and capital spending on transport equipment (-8.6%Q/Q) – both restrained by supply constraints – gross fixed investment dropped for the first time in five quarters and by 0.9%Q/Q to be down about 10% from Q419. And a slower pace of stock-building subtracted from GDP growth for a second successive quarter. Meanwhile, government consumption slowed a marked 1.8ppts to 0.3%Q/Q as government support was withdrawn, but was still more than 4% above the pre-pandemic level. GDP growth was, however,

Germany: Industrial output – selected sub-sectors



Germany: Manufacturing output & selected indices



boosted 0.3ppt by net trade, as the volume of exports (up 1.2%Q/Q) outpaced imports (up 0.7%Q/Q). With spending on consumer-facing services far more subdued due to the resurgence in the pandemic and new restrictions (e.g. France yesterday decided to shut nightclubs for four weeks), and household spending on goods moving little better than sideways, GDP is slowing in Q4. We currently expect growth in economic output of about 0.7%Q/Q this quarter, albeit with fixed investment firmer and net trade making another positive contribution. And that will be sufficient to push GDP above the pre-pandemic level for the first time.

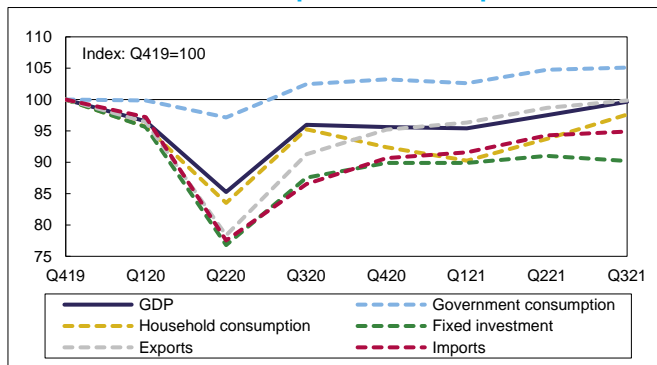
German ZEW reports a sharp decline in sentiment and inflation expectations

Like yesterday's euro area Sentix indices, today's German ZEW survey of financial investors predictably reported a marked deterioration in sentiment as the rising number of coronavirus cases and tighter restrictions in Germany and neighbouring countries weighed. In particular, the current conditions balance fell a hefty 19.9pts in December, the most since April 2020, to -7.4, the first negative reading since June. Admittedly, the deterioration in the outlook balance was less striking (down 1.8pts to 29.9), although this still marked the third-lowest reading since the onset of the pandemic. Certainly, the latest pandemic developments in addition to ongoing supply bottlenecks weighed more heavily on investors' profits expectations for certain export-oriented and consumer-facing industries. However, despite still elevated input price pressures, today's survey reported another sharp decline in inflation expectations over the coming six months, with the relevant index falling to -37.4, its lowest since March 2020 and a whopping 118pts lower than the peak in March. Against this backdrop it was somewhat surprising to see expectations for longer-term interest rates rise to their second-highest since 2018.

The coming few days in the euro area

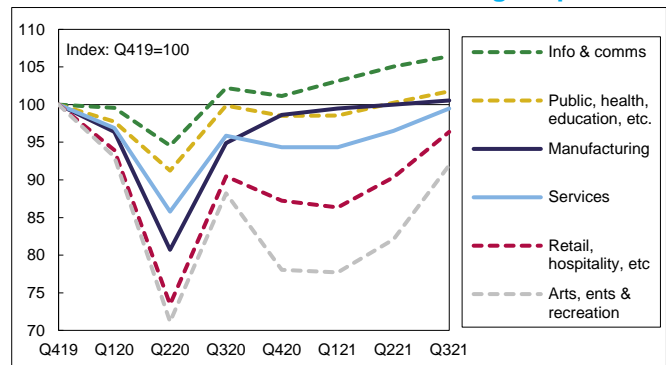
Given the absence of top-tier euro area economic data and ahead of next week's ECB Governing Council meeting, focus tomorrow will likely turn to ECB-speak, with influential Executive Board members Lagarde, Schnabel and de Guindos set to speak at the ESRB annual conference. The focus at that event, however, will be financial stability and so insights into next week's Governing Council announcements cannot be guaranteed. Tomorrow will also bring the Bank of France's latest business survey, which will provide an update on the Bank's estimate of GDP in Q4. Meanwhile, Thursday will bring German goods trade numbers, which in line with today's improved production performance, might well report a welcome jump in exports. Italian and Spanish IP numbers for October are due Friday, alongside final German CPI numbers for November – the flash estimate saw the headline EU-harmonised rate rise a stronger-than-expected 1.4ppts to 6.0%Y/Y, a euro-era high.

Euro area: GDP and expenditure components



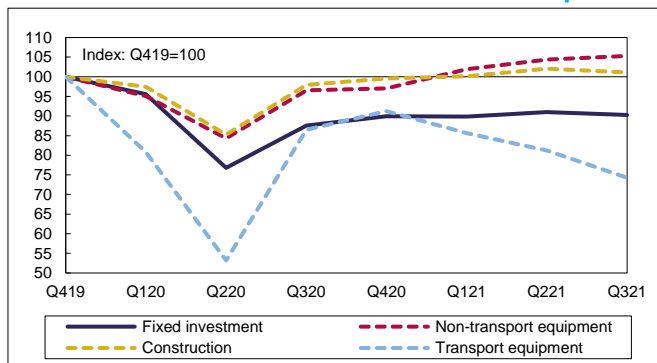
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Services and manufacturing output



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Fixed investment – selected components



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: ZEW survey indices*



*Dashed lines represent long-run averages. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK

UK surveys report stronger spending amid Black Friday deals and supply shortage concerns

The BRC retail sales monitor pointed to robust spending in November as consumers snapped up early Black Friday deals and seemingly brought forward spending amid concerns about supply shortages and prices. The survey measure of like-for-like sales rose 1.8%Y/Y, the most since July, with total sales up 5.0%Y/Y supported by stronger non-food sales. While growth may have been flattered slightly by tighter restrictions last year, total sales were 4.1% higher than November 2019. This tallied with the latest Barclaycard spending numbers, which showed expenditure on such credit cards in November up 16% compared with November 2019, with spending on non-essentials (up 17.7%) the highest since before the pandemic. This in part reflected a boost to retail as shoppers prepared for Christmas, with almost 4 in 10 reportedly having brought forward gift buying this year. The colder weather also gave support to clothing sales, with spending (up 11%) recording its strongest growth since the pandemic. But while the pace of decline in spending in restaurants (down 4.3%) moderated slightly, there was tentative evidence that the rise in Covid cases had triggered increased spending on takeaways (up 63.2%) instead. And given the subsequent emergence of the Omicron variant we might well see increased substitution of spending on goods instead of services over the near term too. Certainly, the modest boost to the travel sector in November seems unlikely to be maintained in light of tighter travel restrictions.

The coming few days in the UK

Ahead of next week's BoE MPC decision, the main UK focus in the second half of the week will be October's GDP report on Friday. 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, the provision of booster vaccinations seems likely to have contributed to a further increase in health sector activity. So, with a modest pickup in manufacturing output also anticipated, we would expect to see GDP rise a touch above the 0.6%M/M rate recorded in September – growth of 0.7%M/M would leave overall output up more than 5%Y/Y and back to its pre-pandemic level. Meanwhile, ahead of next week's labour market report, Thursday's REC/KPMG report on jobs will also be of interest, with recruitment consultants likely again to report a high level of vacancies, a lack of suitable candidates and rising starting salaries, and therefore pointing to a tight labour market. The RICS residential survey (also due Thursday) is also expected to report steady house price growth amid persistent demand-supply imbalances in the housing market.

The next edition of the Euro wrap-up will be published on 10 December 2021

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Final GDP Q/Q% (Y/Y%)	Q3	2.2 (3.9)	2.2 (3.7)	2.1 (14.2)	-
	Final employment Q/Q% (Y/Y%)	Q3	0.9 (2.1)	0.9 (2.0)	0.7 (1.8)	0.8 (1.9)
Germany	Industrial production M/M% (Y/Y%)	Oct	2.8 (-0.6)	1.0 (-2.9)	-1.1 (-1.0)	-0.5 (-0.4)
	ZEW current assessment balance (expectations)	Dec	-7.4 (29.9)	5.0 (25.1)	12.5 (31.7)	-
France	Trade balance €bn	Oct	-7.5	-6.9	-6.8	-6.9
UK	BRC retail sales monitor, like-for-like sales Y/Y%	Nov	1.8	-	-0.2	-

Auctions

Country	Auction
Germany	sold €3.28bn of 0% 2023 bonds at an average yield of -0.71%
UK	sold £1.5bn of 1.25% 2051 bonds at an average yield of 0.871%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
France	06.30	Final payrolls Q/Q%	Q3	0.5	1.1
	-	Bank of France industrial sentiment*	Nov	103	102

Auctions and events

Euro area	08.15	ECB President Lagarde gives a pre-recorded address to the European Systemic Risk Board conference
	11.30	ECB Board Member de Guindos participates on a panel at the European Systemic Risk Board conference
	13.10	ECB Board Member Schnabel participates on a panel at the European Systemic Risk Board conference
Germany	10.30	Auction: €3bn of 0% 2031 bonds

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

Thursday's releases

Economic data











Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	07.00	Trade balance €bn	Oct	14.3	16.0
	07.00	Exports (imports) M/M%	Oct	0.8 (0.4)	-0.7 (0.4)
UK	00.01	RICS house price balance %	Nov	70	70

Auctions and events



UK	01.01	KPMG/REC report on jobs (November)
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's releases
Economic data

Country		GMT Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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
		09.30 BoE/Kantar inflation expectations, next 12 months	Nov	-	2.7

Auctions and events

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.

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

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