

Euro wrap-up

Overview

- Longer-dated Bunds followed USTs higher while the flash euro area PMIs remained underwhelming and consistent with contraction, despite beating expectations in November.
- Gilts also made gains as the flash UK PMIs suggested a steeper pace of contraction in Q4 and signalled ongoing weakness in the New Year.
- Thursday will bring the ECB account from October's policy-setting meeting, and German and French business indicators, followed by consumer confidence surveys on Friday.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.117	+0.050
OBL 1.3 10/27	1.957	-0.001
DBR 1.7 08/32	1.914	-0.058
UKT 1 04/24	3.126	-0.021
UKT 1¼ 07/27	3.172	-0.053
UKT 4¼ 06/32	3.000	-0.135

*Change from close as at 4:15pm GMT.
Source: Bloomberg

Euro area

Flash PMIs still consistent with contraction in November despite beating expectations

While today's flash PMIs beat expectations in November, they remained underwhelming and consistent with a contraction in euro area GDP in the fourth quarter. Contrasting with the anticipated decline, the headline composite PMI rose for the first month in seven in November, by 0.5pt to 47.8. But this still left the index firmly below the key-50 level for the fifth consecutive month and trending so far in Q4 almost 1½pts below the Q3 average. While the improvement was driven by manufacturing, with the relevant output PMI up 1.9pts on the month, at 45.7 it was still the weakest of the major sectors and indicative of a marked fall, with S&P Global noting that steep downturns were again recorded in chemicals, plastics, basic metals and autos. Indeed, excluding the height of the pandemic, it marked the second-strongest pace of decline in output recorded over the past decade and was trending so far in Q4 some 1½pts below the Q3 average. While the respective services PMI seemingly stabilised this month, at 48.6, it was the joint-lowest since June 2013 outside of lockdown periods and suggestive of a shrinking sector, with real estate, tourism and recreation particularly acutely impacted. Although the pace of decline eased slightly, today's survey suggested the seventh consecutive fall in manufacturing new orders (41.0), with new services business (47.6) falling the most since June 2013 outside of lockdown periods. And so firms appeared more reluctant to increase workforces, with the composite employment PMI implying the softest jobs growth since March 2021.

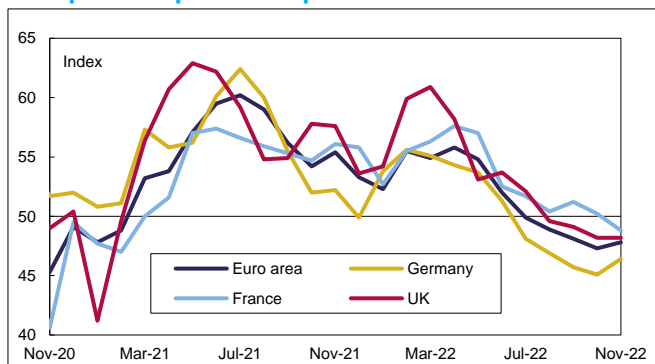
PMIs point to easing prices pressures

The flash PMIs at least reported a further reduction in supply-chain delays to the lowest in more than two years, although this in part reflected a sharp decline in purchases of inputs by manufacturers at the steepest rate since 2012 bar the initial wave of Covid-19. As such, consistent with yesterday's [German PPI](#) numbers, today's surveys suggested an easing in cost burdens in November, most notably in the manufacturing sector where the input price PMI fell by the largest margin since mid-2011 to 64.4, a cumulative drop of more than 12pts since September and the lowest level for almost two years. Overall, the composite input price PMI (71.6) fell to a fourteen-month low. Admittedly, the drop in the output price PMI (62.8) was merely a fifth of the input index, and both remained well above long-run averages.

Improvement in German manufacturing contrasts with deteriorating French services

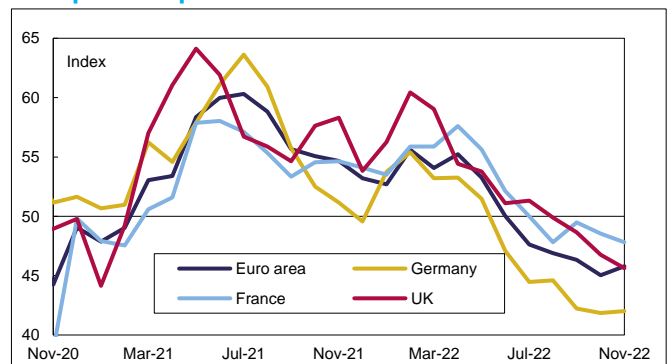
Among the member states, Germany's flash PMIs recorded the strongest improvement in November as the manufacturing output PMI jumped more than 4pts to 46.4 as supply constraints eased by the most in 2½ years and concerns about energy supply diminished somewhat amid warmer temperatures. But the pace of retrenchment in services activity (46.4) was little changed on the month. And, ultimately, despite rising for the first month in nine (up 1.3pts to 46.4), the composite output

Europe: Composite output PMIs



Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

Europe: Composite new orders PMIs



Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

index was still trending more than 1pt lower than the Q3 average, which itself was the weakest since mid-2009 outside of lockdown periods, and indicative of an economy firmly in contraction. Meanwhile, in France, having held up relatively well over recent months, the flash PMIs today suggested a turn for the worse in the services sector this month, with the respective PMI slipping below 50 for the first time since March 2021. Consequently, the composite PMI fell a further 1.4pts to 48.8, the lowest since February 2021 and trending more than 1½pts lower than the Q3 average. Elsewhere in the euro area, economic activity was judged to be contracting for a third successive month, but to a lesser extent than in September and October. So, while still a gloomy outlook, today's surveys raise the possibility that the euro area's contraction might prove to be slightly shallower than previously feared.

The coming two days in the euro area

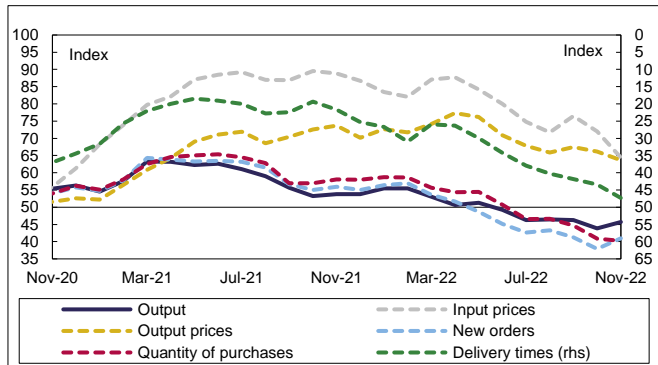
Of most interest in the euro area tomorrow will be the publication of the ECB's account from its [27 October policy setting](#) meeting, where the Governing Council raised interest rates by a further 75bps taking the Deposit Rate to 1.50% but offered a somewhat more dovish statement hinting at a likely slowing in the pace of future tightening. In terms of data, the flow of business surveys continues tomorrow, with German ifo and French INSEE indicators likely to remain consistent with a deteriorating economy in the fourth quarter. And while German and French consumer confidence indicators (Friday) are likely report a modest improvement in sentiment in line with the [Commission's flash euro area index](#), these will still point to declining household spending. Friday will also bring the first insights into Italian economic conditions in November, with the ISTAT business and consumer confidence surveys similarly expected to signal a contraction in GDP this quarter. In addition, Friday will bring updated German Q3 GDP figures, which are expected to align with the flash release that reported (surprisingly robust) growth of 0.3%Q/Q. However, the first official expenditure breakdown will likely confirm that household consumption was the main driver of growth, but net trade was a drag.

UK

UK flash PMIs stabilise somewhat in November, but still signal contraction ahead

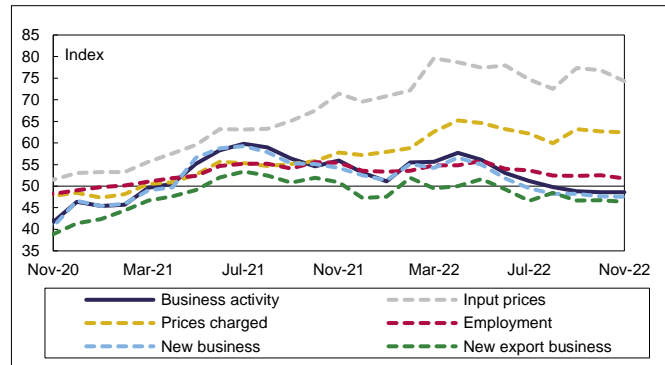
After declining sharply at the start of Q4, today's flash UK PMIs for November suggested some stabilisation, with the headline composite PMI rising for the first month in five, albeit by just 0.1pt to 48.3, to be still trending so far in Q4 some 2pts lower than the Q3 average and consistent with a steeper pace of contraction. And a further decline in new business for the ninth consecutive month, by 1.2pts to 45.6 – the weakest since the height of the global financial crisis outside of Covid lockdown periods – suggests a gloomy outlook for economic growth going forward too. Despite a modest pickup this month, manufacturing output (45.4) continued to decline at a steeper pace than services (48.8). But while the manufacturing PMI

Euro area: Manufacturing PMIs



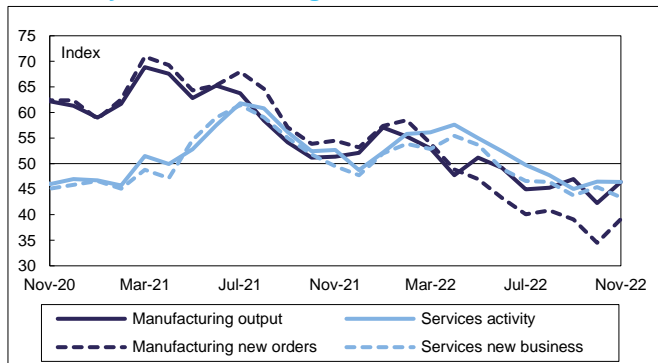
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Services PMIs



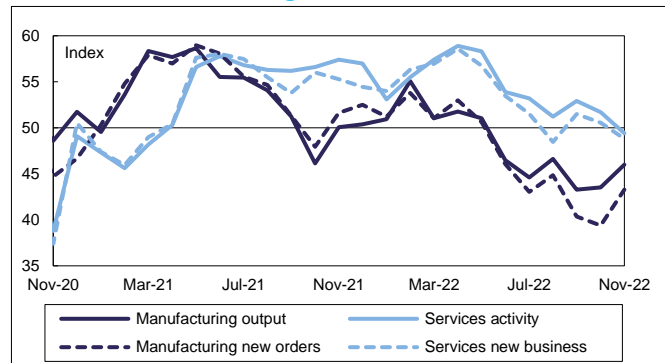
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing & services PMIs



Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

France: Manufacturing & services PMIs



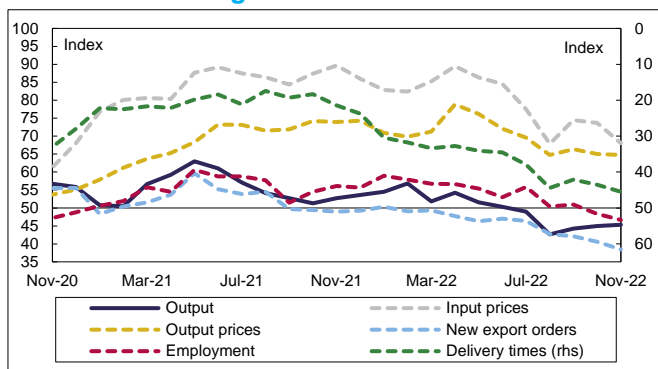
Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

was so far little changed compared with Q3, the services PMI was trending almost 2½pts lower. And the near-term outlook remains extremely weak, with manufacturing new orders trending more than 4pts lower than in Q3, due not least to the steepest pace of decline in new export orders for almost 2½ years and since February 2009 before the pandemic, with many survey respondents citing Brexit-related constraints. Against this backdrop, today’s survey suggested that firms in the sector scaled back their workforces for the second successive month, while jobs growth in the services sector was reportedly the softest for 21 months. Contrasting with the significant decline in the euro area, firms suggested that input prices – the respective PMI fell just 0.3pt to 75.3 – remained extremely elevated due not least to higher energy costs. This notwithstanding, today’s PMIs suggest a further more sizeable easing in output prices charged, with the PMI (62.0) down to its lowest for fifteen months, not least reflecting weakening demand.

The coming two days in the UK

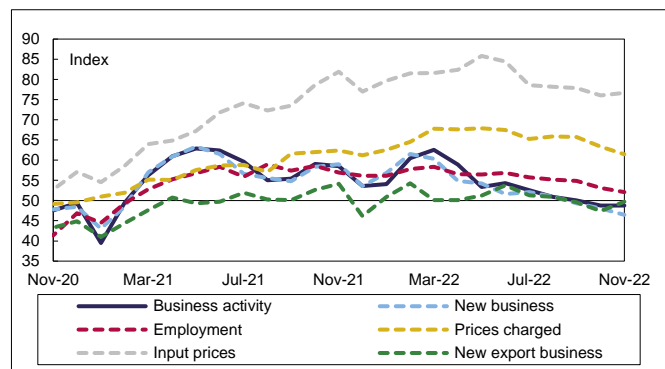
It should be a relatively quiet end to the week for top-tier UK releases, with just the CBI industrial trends survey for November due tomorrow.

UK: Manufacturing PMIs



Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

UK: Services PMIs



Source: Refinitiv, S&P Global and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 25th November 2022

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Preliminary manufacturing (services) PMI	Nov	47.3 (48.6)	46.0 (48.0)	46.4 (48.6)	-
	Preliminary composite PMI	Nov	47.8	47.0	47.3	-
Germany	Preliminary manufacturing (services) PMI	Nov	46.7 (46.4)	45.0 (46.4)	45.1 (46.5)	-
	Preliminary composite PMI	Nov	46.4	44.9	45.1	-
France	Preliminary manufacturing (services) PMI	Nov	49.1 (49.4)	46.9 (50.6)	47.2 (51.7)	-
	Preliminary composite PMI	Nov	48.8	49.5	50.2	-
UK	Preliminary manufacturing (services) PMI	Nov	46.2 (48.8)	45.8 (48.0)	46.2 (48.8)	-
	Preliminary composite PMI	Nov	48.3	47.5	48.2	-

Auctions

Country	Auction
Germany	sold €907.5mn of 1.80% 2053 bonds at an average yield of 1.94%
UK	sold £3.50bn of 0.25% 2025 bonds at an average yield of 3.347%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	09.00	ifo business climate	Nov	85.0	84.3
	09.00	ifo current assessment (expectations) balance	Nov	93.9 (77.0)	94.1 (75.6)
France	07.45	INSEE business confidence	Nov	101	102
	07.45	INSEE manufacturing confidence (production outlook)	Nov	102 (-)	103 (-8)
UK	11.00	CBI industrial trends survey, total orders (selling prices)	Nov	-9 (-)	-4 (46)

Auctions and events

Euro area	12.30	ECB publishes account of October policy meeting
	13.00	ECB's Schnabel scheduled to speak at BoE Watchers' Conference
Italy	10.00	Auction: €1.25bn of 1.75% May-2024 bonds
	10.00	Auction: €1.25bn of 1.45% Nov-2024 bonds
UK	-	BoE's Ramsden, Pill & Mann scheduled to speak at BoE Watchers' Conference
	15.00	BoE to sell medium-term bonds

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	GfK consumer confidence	Dec	-39.6	-41.9
	07.00	GDP – second estimate Q/Q% (Y/Y%)	Q3	<u>0.3 (1.2)</u>	0.1 (1.6)
France	07.45	INSEE consumer confidence	Nov	83	82
Italy	09.00	ISTAT business (manufacturing) sentiment	Nov	- (99.5)	104.5 (100.4)
	09.00	ISTAT consumer confidence	Nov	91.0	90.1

Auctions and events

Euro area	-	ECB's Muller & Visco scheduled to speak
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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