

Euro wrap-up

Overview

- Bunds made losses as German Q3 GDP growth was revised higher and national consumer confidence surveys took a turn for the better.
- Gilts also fell on a quiet end to the week for top-tier UK data releases.
- The coming week will bring flash euro area inflation estimates, the European Commission's latest economic sentiment survey, and bank lending figures from the euro area and UK.

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2.2 12/24	2.167	+0.093
OBL 1.3 10/27	1.999	+0.113
DBR 1.7 08/32	1.963	+0.119
UKT 1 04/24	3.303	+0.056
UKT 1¼ 07/27	3.292	+0.074
UKT 4¼ 06/32	3.124	+0.089

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

Source: Bloomberg

Euro area

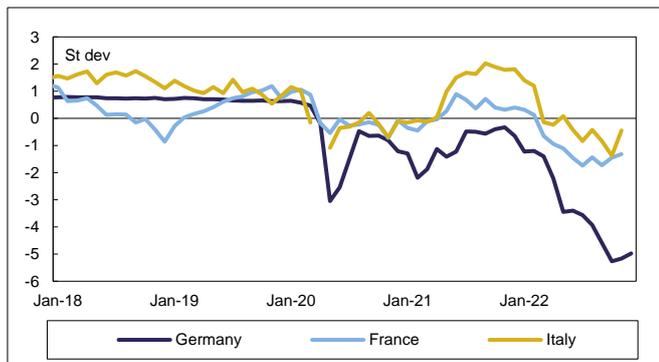
Consumer confidence takes a turn for the better, but from historically low levels

Consistent with the improvement in the flash [euro area consumer confidence](#) index earlier this week, today's surveys from the largest three member states similarly signalled a stabilisation in sentiment this month albeit from historically low levels. Certainly, the headline German GfK index rose 0.9pt in November and is expected to rise a further 1.7pts in December to -40.2, as consumers were somewhat less downbeat about the economic outlook over the coming twelve months amid a slightly improved assessment of their financial situation, related not least to household energy subsidies that will come into effect next month. But this still left the headline index some 41pts below the peak last November and the quarterly average for Q4 almost 10pts lower than in Q3. And there remained a reluctance to spend, with the relevant index at its second-weakest since 2008. The French INSEE survey also reported a modest pickup in November for the second successive month, with the headline index rising 1pt to 83. But while this was trending 2pts higher than the Q3 average, it was still well below the long-run average (100). And like in Germany, the share of households judging it a suitable time to make major purchases slipped slightly. The largest improvement in consumer sentiment in November, however, was recorded in Italy, where the headline ISTAT index jumped 8pts to 98.1. But following a slump at the start of the quarter, the index was still trending 2pts below the Q3 average, with households' purchase intentions still noticeably weaker despite a rebound this month – indeed, the relevant survey component rose 12pts on the month but was averaging some 22pts lower than Q3.

German ifo still consistent with contraction despite improved expectations

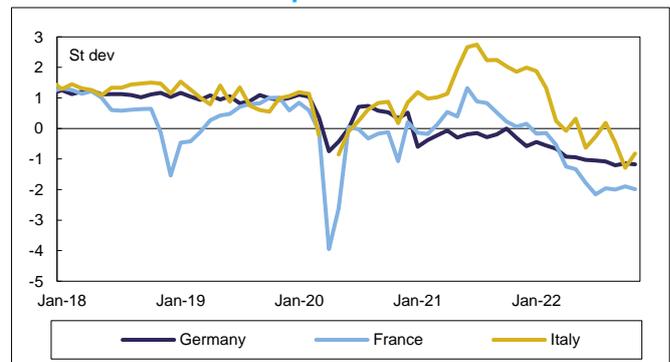
Business surveys have also offered some cautious encouragement that the economic downturn in the euro area's largest member states might prove to be shallower and shorter-lived than initially feared. Certainly, the headline German ifo business climate index, published yesterday, rose for the second successive month in November, by 1.8pts to 86.3. Admittedly, current conditions were judged to have worsened in November, with the relevant index falling 1.1pts to its lowest level since February 2021, due to a deterioration in both the manufacturing and services sectors. But with the exception of energy-intensive industries, manufacturers were markedly less downbeat about the outlook for the coming six months, as were services firms. And with retailers more upbeat about current and future conditions, the respective business climate index rose to its highest for five months, albeit remaining well below the long-run average. This notwithstanding, all survey components were trending lower in Q4, with the headline current conditions index around 3pts lower than the Q3 average and further supporting our view that German GDP will contract this quarter.

Euro area: Consumer confidence*



*No Italian survey results in April 2020. Source: Refinitiv, GfK, INSEE, ISTAT and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer purchase intentions*



*No Italian survey results in April 2020. Source: Refinitiv, GfK, INSEE, ISTAT and Daiwa Capital Markets Europe Ltd.

German GDP revised higher in Q3, driven by household consumption

Admittedly, German GDP in Q3 came in stronger than had been implied by economic surveys. And today's updated national accounts figures showed growth revised higher from the surprisingly strong initial estimate by 0.1ppt to 0.4%Q/Q, to leave output 0.3% higher than the pre-pandemic level. Growth was overwhelmingly driven by household consumption, up 1.0%Q/Q, as an easing of remaining pandemic restrictions increased opportunities to spend on services, with the government's temporary discounted travel pass over the summer also giving a boost. Indeed, output in services jumped more than 2%Q/Q, with arts, recreation and entertainment up more than 5%Q/Q, while manufacturing also eked out a surprise increase (0.2%Q/Q) amid a surge in autos production as supply constraints eased. Among the other expenditure components, government consumption was broadly flat on the quarter, with only modest growth in fixed investment (0.2%Q/Q). And with imports having outpaced growth in exports, net trade was a modest drag on GDP growth (-0.1ppt) for the sixth quarter out of the past seven.

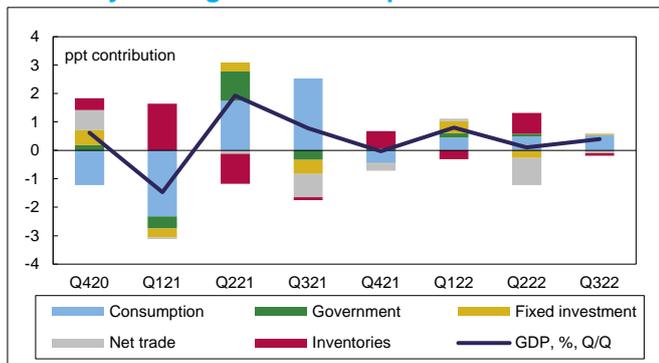
French businesses conditions stabilise, while Italian firms more upbeat about near-term outlook

Contrasting with the decline in the French [flash PMIs](#), the INSEE composite business index moved sideways for the third consecutive month in November at 102. But this was still more than 10pts below the peak earlier this year and still trending ½pt lower than in Q3. And notwithstanding some stabilisation of retailing conditions this month, sentiment among manufacturing, services and construction firms maintained a downwards trend, albeit remaining above respective long-run averages. The improvement in Italian business confidence reported by the ISTAT survey was more widespread, with sentiment in manufacturing (for which the respective index rose 1.8pts to 102.5), services (up 2.8pts to 98.8) and retail (up 3.2pts to 112.2) all boosted by improved expectations for the near-term outlook. Admittedly, current conditions were judged to remain extremely subdued, still consistent with contraction in Italian GDP this quarter.

ECB account points to slowing pace of tightening ahead

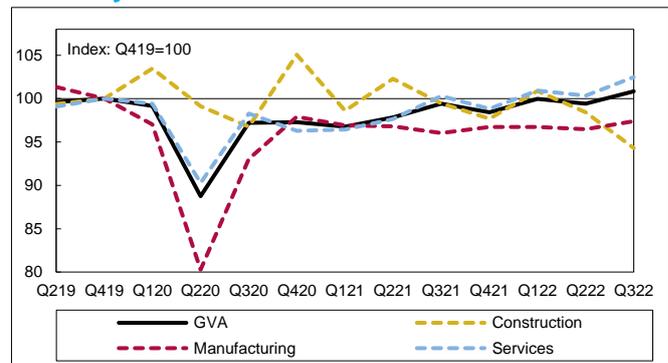
The account of the ECB's 27 October Governing Council meeting, published yesterday, suggested that a very large majority of members was supportive of the 75bps hike that took the Deposit Rate to 1.50%. Among other things, however, they were concerned not to fall short of market expectations, which might arguably have provided an unwelcome loosening impulse. Moreover, 'a few' policymakers had preferred a 50bps hike, due to a widely acknowledged assessment that economic activity had slowed sharply since the September meeting. Given the inflation outlook, all members continued to judge the need for further tightening ahead. But these minutes hinted that December might well see a reduction in the magnitude of the hike. Certainly, while members remained concerned about the current elevated level of inflation, they recognised that price pressures from commodity markets had recently fallen back, while the aggressive tightening of monetary policy so far – by a cumulative 200bps since July – as well as slower GDP growth, would also dampen the inflation outlook over the

Germany: GDP growth and expenditure breakdown



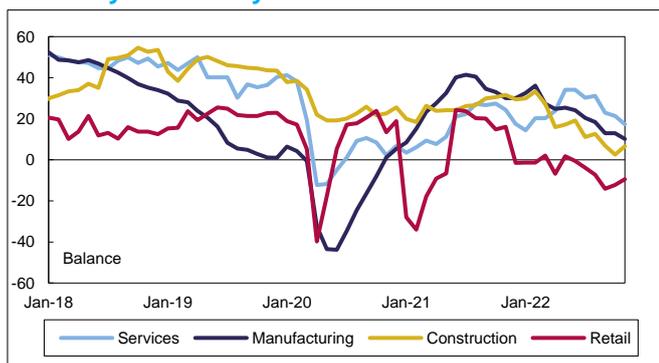
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: GVA and sector breakdown



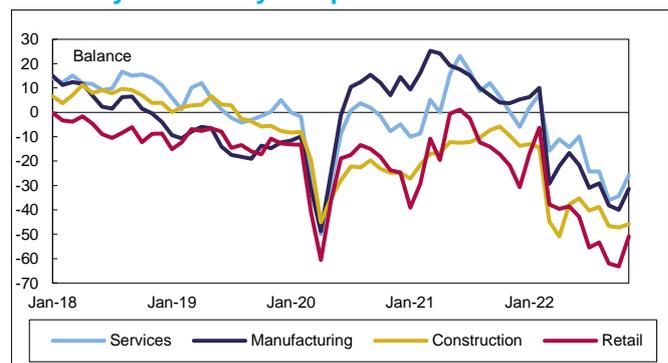
Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: ifo survey – current conditions indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Germany: ifo survey – expectations



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

medium term. Moreover, the Governing Council accepted that signs of second-round effects remain limited, with recent wage growth considered on the whole to be moderate, and inflation expectations considered still to be broadly anchored. Admittedly, Executive Board member Schnabel yesterday suggested that there still appeared limited room for slowing the pace of tightening. However, Chief Economist Lane earlier this week intimated that the need for a very large hike (75bps) might no longer be there. Overall, we continue to expect the ECB to raise rates by 50bps in December and by a further 25bps in February.

The week ahead in the euro area

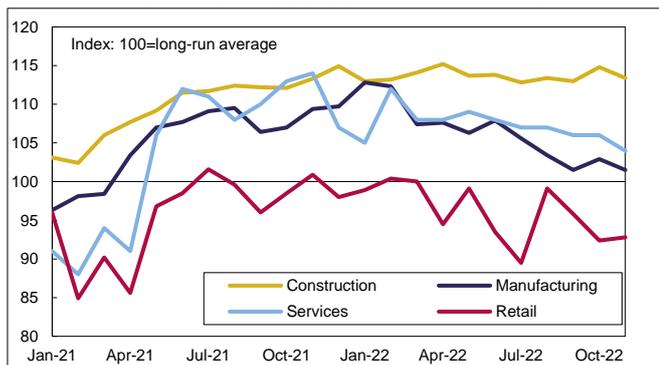
All eyes in the coming week will be on the flash euro area inflation estimate for November on Wednesday. Reflecting an anticipated easing in energy price inflation, and despite a further upwards drift in food inflation, the headline HICP rate is expected to have slipped back from October's record high of 10.6%Y/Y, albeit remaining in double-digit territory: we forecast a decline of 0.4ppt to 10.2%Y/Y. However, core inflation may well have edged slightly higher in November to above 5%Y/Y for the first time amid a further pickup in services inflation. Ahead of this, German and Spanish figures on Tuesday will offer more insight, with the equivalent data from France and Italy due on Wednesday. Friday's euro area PPI figures will also be of note and are likely to report a notable drop in October, in line with the downside surprise in [Germany](#). Meanwhile, the Commission business and consumer sentiment surveys – arguably the best guide to euro area GDP growth – for November are due on Tuesday. Given the improvement in the [flash consumer confidence](#) index and stabilisation in the [flash PMIs](#), the headline Economic Sentiment Indicator is likely to have increased from October's near-two-year low (92.5), albeit remaining below the long-run average and suggestive of a slowing economic trend. Against this backdrop, euro area unemployment figures (Thursday) might well report a modest increase in the jobless rate in October from the prior month's record low of 6.6%. In addition, euro area bank lending numbers (Monday) are likely to confirm weaker demand for household loans, not least reflecting rising borrowing costs. Other member state releases due in the coming week include German retail sales (Thursday) and goods trade data for October (Friday), and November labour market figures from Germany (Wednesday) and Spain (Friday). In terms of ECB communication, President Lagarde is due to speak before the European Parliament's ECON committee on Monday and at a BIS conference on Thursday, while Chief Economist Lane will speak at a BoF conference on Wednesday.

UK

The week ahead in the UK

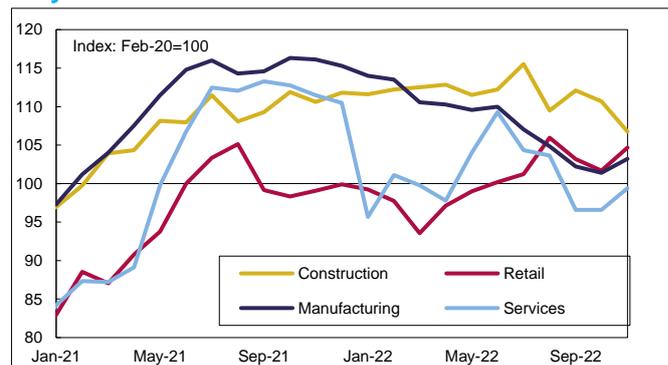
A relatively quiet week ahead for top-tier UK releases kicks off on Monday with the CBI distributive trades survey for November, which might well prove disappointing as increasingly diminished household budgets and caution over increased economic uncertainties might offset any boost to spending from Black Friday discounting. The erosion of household disposable income will be illustrated in the BRC shop price index (Wednesday) which is likely to report another notable rise in food inflation as retailers continue to offload some of their additional costs onto consumers. Despite this backdrop, the BoE's lending figures (Tuesday) are likely to suggest that demand for consumer credit remained extremely subdued due to the recent jump in borrowing costs. Meanwhile, growth in secured lending is likely to have remained relatively robust last month with these mortgages based on offers based on significantly lower interest rates than at present. In contrast, with the average interest rate on a 2Y fixed 75% LTV 184bps higher than in September, we expect to see a sharp drop in the number of approvals for new house purchases in October. In addition, on Wednesday, the BoE will publish its monthly Decision Maker Panel data, including firms' latest inflation expectations, while on Monday it will begin sales of its Gilts purchased during the market stress between 28 September and 14 October in "demand-led" operations. In terms of BoE speak, hawkish external member Catherine Mann will speak on a panel on Tuesday, while Chief Economist Huw Pill will speak on Wednesday.

France: INSEE business sentiment indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Italy: ISTAT business sentiment indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

	2022			2023			2022	2023	2024
	Q2	Q3	Q4	Q1	Q2	Q3			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.8	0.2	-0.3	-0.3	-0.1	0.1	3.3	-0.2	0.8
UK 	0.2	-0.2	-0.5	-0.3	-0.5	-0.3	4.3	-1.2	0.1
Inflation, %, Y/Y									
Euro area									
Headline HICP 	8.0	9.3	10.5	9.2	7.3	5.7	8.5	6.3	2.0
Core HICP 	3.7	4.4	5.2	4.9	4.1	3.4	4.0	3.6	2.0
UK									
Headline CPI 	9.2	10.0	11.1	10.5	8.6	7.6	9.2	8.0	3.9
Core CPI 	6.0	6.3	6.6	6.1	5.0	4.6	6.0	4.9	3.9
Monetary policy, %									
ECB									
Refi Rate 	0.00	1.25	2.50	3.00	3.00	3.00	2.50	3.00	2.25
Deposit Rate 	-0.50	0.75	2.00	2.50	2.50	2.50	2.00	2.50	1.75
BoE									
Bank Rate 	1.25	2.25	3.50	4.25	4.25	4.25	3.50	4.25	3.25

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Germany 	GfK consumer confidence	Dec	-40.2	-39.6	-41.9	-	
	GDP – second estimate Q/Q% (Y/Y%)	Q3	0.4 (1.3)	<u>0.3 (1.2)</u>	0.1 (1.6)	-	
France 	INSEE consumer confidence	Nov	83	83	82	-	
Italy 	ISTAT business (manufacturing) sentiment	Nov	106.4 (102.5)	- (99.5)	104.5 (100.4)	104.7 (100.7)	
	ISTAT consumer confidence	Nov	98.1	91.0	90.1	-	
Auctions							
Country	Auction	- Nothing to report -					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Germany 	ifo business climate	Nov	86.3	85.0	84.3	84.5	
	ifo current assessment (expectations) balance	Nov	93.1 (80.0)	93.9 (77.0)	94.1 (75.6)	94.2 (75.9)	
France 	INSEE business confidence	Nov	102	101	102	-	
	INSEE manufacturing confidence (production outlook)	Nov	101 (-10)	102 (-)	103 (-8)	-	
UK 	CBI industrial trends survey, total orders (selling prices)	Nov	-5 (47)	-8 (-)	-4 (46)	-	
Auctions							
Country	Auction						
UK 	BoE sold £750mn of 2030-2041 gilts						

Source: Bloomberg 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> <i>forecast/actual</i>	Previous
Monday 28 November 2022					
Euro area	09.00	M3 money supply Y/Y%	Oct	6.1	6.3
UK	11.00	CBI distributive trades survey, reported sales	Nov	-	0
Tuesday 29 November 2022					
Euro area	10.00	EC Economic Sentiment Indicator	Nov	93.0	92.5
	10.00	EC industrial (services) confidence	Nov	-0.5 (1.9)	-1.2 (1.8)
	10.00	EC final consumer confidence	Nov	-23.9	-27.5
Germany	13.00	Preliminary CPI M/M% (Y/Y%)	Nov	-0.2 (10.4)	0.9 (10.4)
	13.00	Preliminary HICP M/M% (Y/Y%)	Nov	0.1 (11.4)	1.1 (11.6)
Italy	10.00	PPI M/M% (Y/Y%)	Oct	-	3.5 (53.0)
Spain	08.00	Preliminary CPI M/M% (Y/Y%)	Nov	0.1 (7.4)	0.3 (7.3)
	08.00	Preliminary HICP M/M% (Y/Y%)	Nov	0.1 (7.4)	0.1 (7.3)
UK	09.30	Net consumer credit £bn (Y/Y%)	Oct	-	0.7 (7.2)
	09.30	Net mortgage lending £bn (approvals)	Oct	-	6.1 (66.8)
	09.30	M4 money supply Y/Y%	Oct	-	5.4
Wednesday 30 November 2022					
Euro area	10.00	Preliminary HICP M/M% (Y/Y%)	Nov	<u>0.1 (10.2)</u>	1.5 (10.7)
	10.00	Core CPI Y/Y%	Nov	<u>5.1</u>	5.0
Germany	08.55	Unemployment claims change '000s (rate %)	Nov	12.5 (5.5)	8.0 (5.5)
France	07.45	Final GDP Q/Q% (Y/Y%)	Q3	<u>0.2 (1.0)</u>	0.5 (4.2)
	07.45	Preliminary CPI M/M% (Y/Y%)	Nov	0.3 (6.1)	1.0 (6.2)
	07.45	Preliminary HICP M/M% (Y/Y%)	Nov	0.3 (7.0)	1.2 (7.1)
	07.45	PPI M/M% (Y/Y%)	Oct	-	1.0 (28.5)
	07.45	Consumer spending M/M% (Y/Y%)	Oct	-0.9 (-4.9)	1.2 (-3.0)
Italy	09.00	Final GDP Q/Q% (Y/Y%)	Q3	<u>0.5 (2.6)</u>	1.1 (4.9)
	10.00	Preliminary CPI M/M% (Y/Y%)	Nov	0.1 (11.3)	3.4 (11.8)
	10.00	Preliminary HICP M/M% (Y/Y%)	Nov	0.3 (12.0)	3.8 (12.6)
Spain	08.00	Retail sales Y/Y%	Oct	-	0.1
UK	00.01	Lloyds business barometer	Nov	-	15
	00.01	BRC shop price index Y/Y%	Nov	-	6.6
Thursday 01 December 2022					
Euro area	09.00	Final manufacturing PMI	Nov	47.3	46.4
	10.00	Unemployment rate %	Oct	6.6	6.6
Germany	07.00	Retail sales M/M% (Y/Y%)	Oct	-0.6 (-2.9)	1.0 (-0.6)
	08.55	Final manufacturing PMI	Nov	46.7	45.1
France	08.50	Final manufacturing PMI	Nov	49.1	47.2
	-	New car registrations* Y/Y%	Nov	-	5.5
Italy	08.45	Manufacturing PMI	Nov	47.0	46.5
	17.00	New car registrations Y/Y%	Nov	-	14.6
Spain	08.15	Manufacturing PMI	Nov	-	44.7
	-	New car registrations* Y/Y%	Nov	-	11.7
UK	07.00	Nationwide house price index M/M% (Y/Y%)	Nov	-0.4 (5.8)	-0.9 (7.2)
Friday 02 December 2022					
Euro area	10.00	PPI M/M% (Y/Y%)	Oct	-2.0 (31.6)	1.6 (41.9)
Germany	07.00	Trade balance €bn	Oct	5.3	2.9
Spain	08.00	Unemployment change '000s	Nov	-	-27.0

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

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 28 November 2022		
Euro area	-	ECB's Knot & Nagel scheduled to speak
	14.00	ECB President Lagarde to give an introductory statement at European Parliament Committee hearing
UK	15.00	BoE to sell medium-term bonds
Tuesday 29 November 2022		
Euro area	08.10	ECB's de Guindos scheduled to speak
	13.30	ECB's Schnabel scheduled to speak
Italy	10.00	Auction: €3.00bn of 4.40% 2033 bonds
	10.00	Auction: €1.25bn of 2030 floating-rate bonds
UK	12.35	BoE's Mann scheduled to speak
Wednesday 30 November 2022		
Germany	10.30	Auction: €3bn of 1.70% 2032 bonds
UK	08.30	BoE's Pill scheduled to speak
Thursday 01 December 2022		
Euro area	16.45	ECB Chief Economist Lane scheduled to speak
France	09.50	Auction: 0.00% 2031 bonds
	09.50	Auction: 0.50% 2040 bonds
	09.50	Auction: 3.25% 2045 bonds
	09.50	Auction: 0.75% 2052 bonds
	09.50	Auction: index-linked bonds
Spain	09.30	Auction: fixed-rate bonds
UK	09.30	BoE publishes Monthly Decision Maker Panel data
	10.00	Auction: £2.25bn of 1.25% 2051 bonds
Friday 02 December 2022		
Euro area	02.40	ECB President Lagarde to chair roundtable discussion in Thailand on 'The global dimensions of policy normalisation'
	12.00	ECB's de Guindos scheduled to speak

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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