

# Euro wrap-up

## Overview

- Despite a pickup in German exports and a stronger-than-expected euro area sentiment survey, Bunds made gains as German factory orders and euro area retail sales remained weak.
- Gilts also made gains as a survey reported a continued softening in UK labour market conditions.
- Tuesday will bring updates on euro area unemployment and German industrial production.

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### Daily bond market movements

Bond	Yield	Change
BKO 3.1 12/25	2.533	-0.026
OBL 2.4 10/28	2.059	-0.037
DBR 2.6 08/33	2.121	-0.033
UKT 3½ 10/25	4.189	-0.019
UKT 4½ 06/28	3.720	-0.026
UKT 3¼ 01/33	3.768	-0.015

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

Source: Bloomberg

## Euro area

### Retail sales stagnating in Q4

In line with expectations, retail sales volumes in the euro area fell 0.3%M/M in November to represent the fourth decline in the past five months. The drop was not quite sufficient to reverse in full October's rise. And the average level in the first two months of Q4 was down just 0.1% from the Q3 average, suggesting that spending on goods is stagnating rather than contracting significantly. However, while they were 1.3% above the pre-pandemic level in February 2020, sales volumes were also down 1.1%Y/Y. The weakness in November was concentrated principally in Germany, where sales fell 2.5%M/M, the most since April 2022. In contrast, sales rose in France (0.4%M/M) and Spain (1.5%M/M) and several other member states. By type of good, sales of core items (i.e. non-food and non-fuel) fell 0.4%M/M to be trending broadly in line with the Q3 average. And food sales fell 0.1%M/M to be trending just below the Q3 average. Meanwhile, the value of retail sales fell 0.4%M/M in November but were up 2.1%Y/Y.

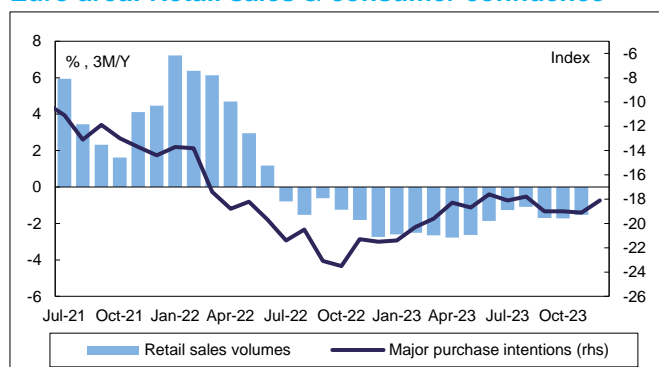
### Consumer confidence improves but willingness to make major purchases remains subdued

Looking ahead, today's final Commission survey results for December revised up slightly the index of euro area consumer confidence from the flash estimate to -15, up a substantive 1.9pts on the month and the highest since the Russian invasion of Ukraine. With consumers reporting an increased readiness to save, however, the survey indicator of households' willingness to make major purchases at present remained low by historical standards. The index of willingness to buy big-ticket items over the coming twelve months rose merely to a three-month high also still firmly below the long-run average suggesting little likelihood of a significant pickup in spending over the near term. And while the survey index of retailers' confidence rose to a four-month high, retailers' expectations for the coming three months worsened to a five-month low as new orders dropped to a near three-year low.

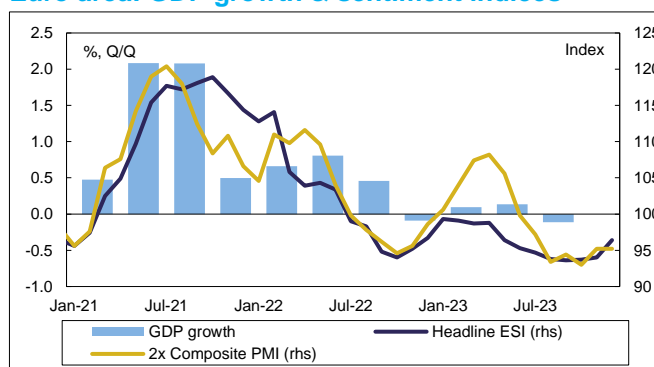
### Services drive bigger-than-expected uptick in Commission sentiment index in December

As well as the improvement in consumer and retail sector confidence, today's Commission survey results reported a welcome pickup in sentiment in the other major business sectors too. Optimism was most improved in services, for which the respective index rose almost 3pts, the most since the Russian invasion of Ukraine, to an eight-month high as firms judged that demand had been firmer than previously feared and also revised up their expectations of future demand. Despite falling new orders, industrial firms were a touch less downbeat and nudged up their production expectations amid a decline in inventories. And construction firms were also a bit happier as the pace of decline in new orders slowed slightly for a third successive month. Overall, the headline euro area economic sentiment index (ESI) rose a much larger-than-expected 2.4pts

### Euro area: Retail sales & consumer confidence



### Euro area: GDP growth & sentiment indices



– the most in eleven months and a stronger pickup than implied by the PMIs – to a seven-month high of 96.4. By country, the respective ESIs for Germany, Italy and Spain all rose to multi-month highs but sentiment in France slipped back. Confidence in Germany and France, however, remains well below the respective long-run average. Also somewhat disappointingly, consumer price expectations for the coming twelve months increased as did selling-price expectations for the coming three months in all major business sectors.

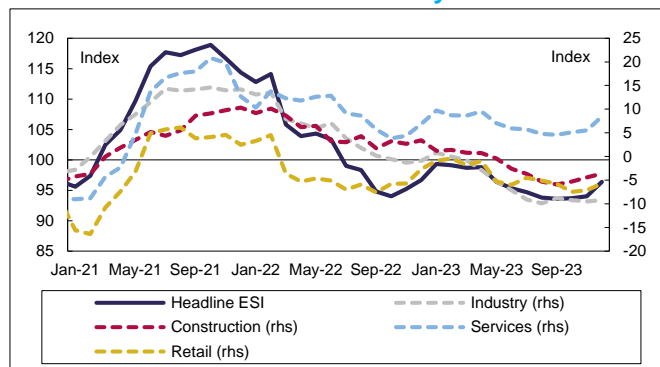
### German factory orders disappoint, signalling continued downtrend in manufacturing

Taken together with the weakness in retail sales, today's German factory orders data further highlighted that momentum in the euro area's largest member state remains largely negative despite the slight improvement in sentiment towards year-end. Indeed, having plunged 3.8%M/M in October, the rise in orders in November of 0.3%M/M was disappointingly soft, and left them down a whopping 4.6%3M/3M and 4.4%Y/Y. Orders of motor vehicles rose for the first month in three and by the most since June (4.7%M/M), and machinery and equipment saw a partial rebound (3.9%M/M). But due to weakness in other transport items, capital goods orders overall rose just 0.8%M/M to be down a striking 8.0%3M/3M. Consumer goods orders also rose for the third month out of the past four (1.1%M/M). But they too were markedly weaker on a three-month basis (-4.4%3M/3M). And while intermediate goods maintained a modest uptrend (1.1%3M/3M), this masked a second-successive monthly decline. Admittedly, orders are notoriously volatile with the underlying trend often obfuscated by movements in bulk orders. But when excluding such items, orders fell for a third consecutive month in November (-0.6%M/M) to be down 1.4%3M/3M at their lowest level since July 2020 and the euro crisis when excluding the initial Covid-19 slump. And with surveys suggesting that order books are the thinnest since the first Covid lockdown and inventories remain historically high, the near-term production outlook appears to remain extremely weak. Today's data also showed that manufacturing turnover fell for the sixth consecutive month in November, by 0.7%M/M, to be down 2.6%3M/3M. That suggests that German industrial production figures for the same month (due tomorrow) will fall short of the Bloomberg survey median forecast of a rise of 0.3%M/M following five successive monthly declines.

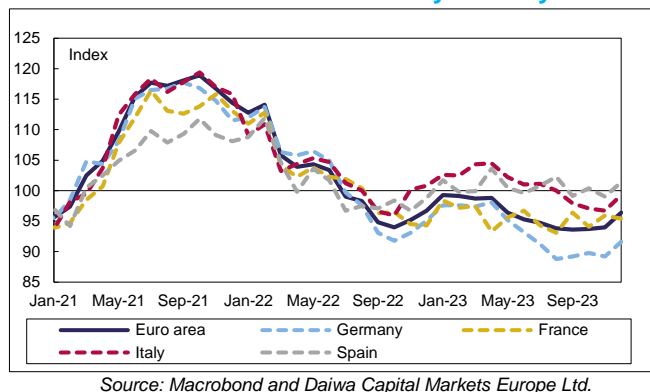
### German exports jump in November but from low level

Despite the persisting weakness in manufacturing orders and output, today's goods trade figures reported a significant upside surprise to goods exports in November. Indeed, the rise of 3.7%M/M in export values was the largest since February 2022. The improvement appeared broad based, with sizeable increases recorded among a range of goods including vehicles, machinery, electrical equipment and chemicals. But this growth followed a string of declines over the summer, with export values in October having reached their lowest level since Russia's invasion of Ukraine in Spring 2022. Indeed, while export volumes were up a slightly stronger 3.9%M/M in November, this was from the lowest level in more than two years in

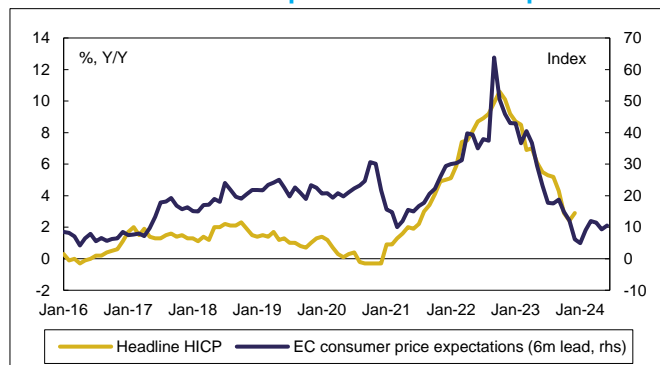
#### Euro area: Economic sentiment by sector



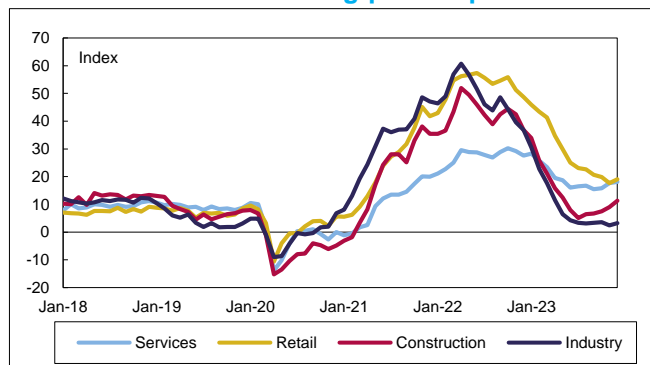
#### Euro area: Economic sentiment by country



#### Euro area: Consumer price inflation & expectations\*



#### Euro area: Business selling-price expectations\*



October. And so, on a three-month basis, export volumes were still down a 1.9%3M/3M. But while imports also rebounded in November, with volumes up for the first month in six (1.8%M/M), the drop on a three-month basis (-4.3%3M/3M) was the steepest since September 2021. Overall, the goods trade surplus rose €2.7bn to €20.4bn, the largest since January 2021. So, while surveys suggest that new export orders continue to trend lower and monthly trade data are typically highly volatile and subject to significant revisions, today's release strongly suggests that net trade will provide a positive contribution to economic growth in Q4. We doubt, however, that this will suffice to avoid another contraction in GDP.

### The day ahead in the euro area

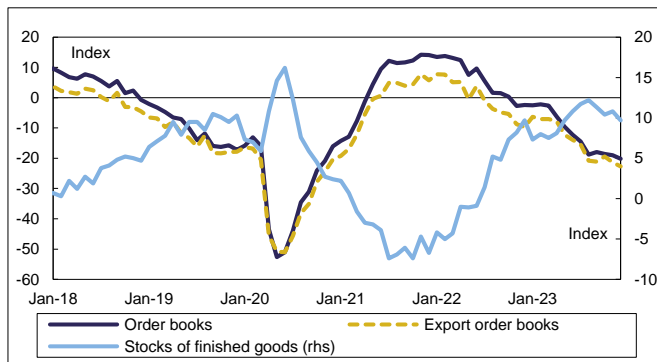
Tomorrow will bring euro area unemployment figures for November. Given recent weak economic momentum, the euro area jobless rate is expected to tick higher by 0.1ppt from October's joint-record low (6.5%). Tuesday will also bring the aforementioned German industrial production data for November, which are likely to report a sixth consecutive monthly contraction. In contrast, however, the equivalent Irish figures might be expected to report a rebound having decline in the previous two months by a cumulative 9%.

## UK

### Survey signals ongoing softening in labour market conditions

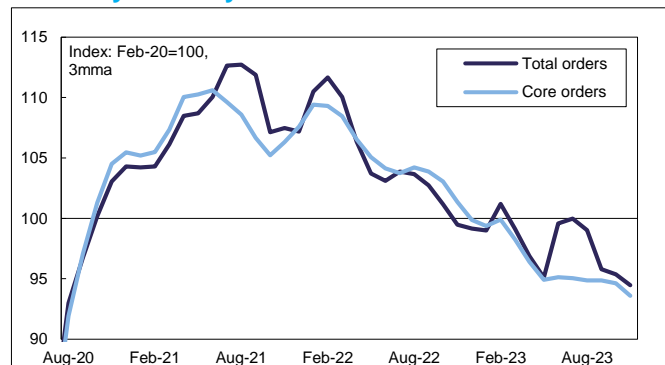
Given the temporary suspension of the ONS's Labour Force Survey (LFS), the MPC continues to take greater-than-usual interest in survey indicators of the labour market. And, as has been the case for some time, the findings of today's REC/KPMG report on jobs suggested that, against the backdrop of lacklustre economic growth, recruitment in the UK remained subdued heading into year end. Indeed, despite implying a softer pace of decline than in November, the survey suggested that permanent placements fell for a sixteenth consecutive month in December and at a faster pace than temporary billings, which declined for a second successive month. At the sectoral level, while the REC survey signalled solid demand for permanent healthcare staff, it also reported a faster pace of decline in vacancies in construction and IT. And against the backdrop of an aggregate slowing in hiring activity and reports of rising redundancies, there was a further strong rise in the availability of candidates at the end of last year. So, with an improved supply-demand imbalance, pay pressures appeared to diminish further. Indeed, the respective survey index for growth in permanent starting salaries was the second-weakest since early 2021, well below the average in the five years before the pandemic and consistent with a further moderation in average wage growth over the coming year.

### Euro area: Industrial orders & inventories



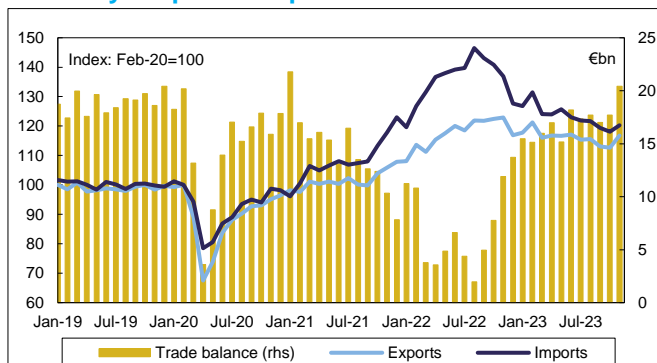
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Factory orders\*



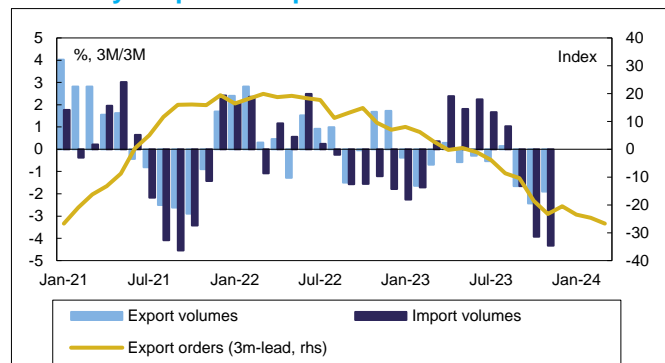
\*Core orders excludes major items. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Export & import values



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

### Germany: Export & import volumes

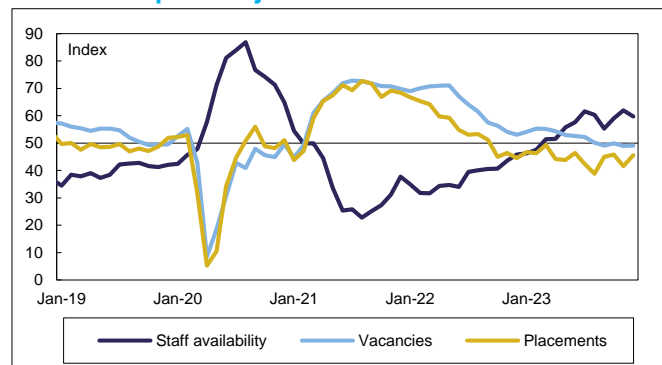


Source: Refinitiv Datastream, Bloomberg, ifo and Daiwa Capital Markets Europe Ltd.

## The day ahead in the UK

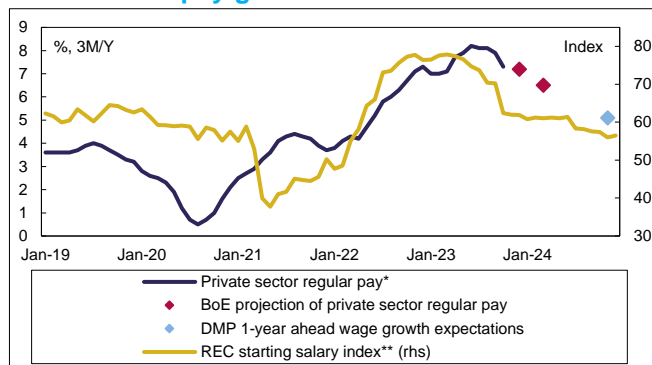
Tuesday will bring the BRC retail sales monitor for December. Following a Black Friday-related boost to retail sales in November, this will provide an update on consumer spending on goods in the run-up to Christmas.

### UK: REC report on jobs – selected indicators\*



\*Permanent staff. Source: Refinitiv Datastream, S&P Global and Daiwa Capital Markets Europe Ltd.

### UK: Selected pay growth indicators



\*Data between January 2020 and November 2022 are BoE staff estimates of underlying private sector regular pay growth. \*\*12-month lead. Source: BoE, S&P Global, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

# European calendar

## Today's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Sentix investor confidence	Jan	<b>-15.8</b>	-15.8	-16.8	-
	Retail sales M/M% (Y/Y%)	Nov	<b>-0.3 (-1.1)</b>	<u>-1.3 (-2.0)</u>	0.1 (-1.2)	0.4 (-0.8)
	European Commission's Economic Sentiment Indicator	Dec	<b>96.4</b>	94.2	93.8	94.0
	European Commission's final consumer confidence index	Dec	<b>-15.0</b>	-15.1	-16.9	-
	European Commission's industrial (services) confidence index	Dec	<b>-9.2 (8.4)</b>	-9.5 (5.2)	-9.5 (4.9)	- (5.5)
Germany	Factory orders M/M% (Y/Y%)	Nov	<b>0.3 (-4.4)</b>	1.1 (-3.4)	-3.7 (-7.3)	-3.8 (-)
	Trade balance €bn	Nov	<b>20.4</b>	18.0	17.8	17.7

### Auctions

Country	Auction
- 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	Unemployment rate %	Nov	<u>6.6</u>	6.5
Germany	07.00	Industrial production M/M% (Y/Y%)	Nov	<u>-0.3 (-4.0)</u>	-0.4 (-3.5)
France	07.45	Trade balance €bn	Nov	-	-8.6
UK	00.01	BRC retail sales monitor, like-for-like sales Y/Y%	Dec	2.4	2.6

### Auctions and events

Euro area	17.30	ECB's Villeroy scheduled to speak
UK	10.00	Auction: £2.25bn of 4.75% 2043 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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