

# Euro wrap-up

## Overview

- Bunds opened higher due to events in the Red Sea and subsequently followed USTs to make further gains, even as French consumer spending data beat expectations.
- Despite a rebound in monthly UK GDP in November, Gilts also made gains as economic output continued to trend lower on a three-month basis.
- The coming week brings updates on euro area and UK CPI, euro area IP and UK wages and retail sales, as well as the account of the ECB's December policy meeting.

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### Daily bond market movements

Bond	Yield	Change
BKO 3.1 12/25	2.501	-0.117
OBL 2.4 10/28	2.065	-0.084
DBR 2.6 08/33	2.173	-0.059
UKT 3½ 10/25	4.117	-0.108
UKT 4½ 06/28	3.639	-0.109
UKT 3¼ 01/33	3.775	-0.062

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

## UK

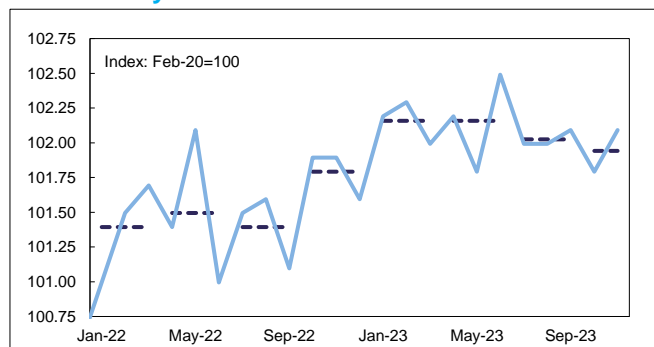
### GDP in November reverses prior month's drop with growth led by services

In line with our expectation, but a touch above the consensus on the Bloomberg survey, GDP rose 0.3%M/M in November, reversing in full the drop in October. Growth in November was led by services activity, which increased 0.4%M/M, the most in ten months, to the highest level since June. In part, that reflected the strongest month for retail sales growth since January (1.3%M/M), which benefited from extended Black Friday discounting and improved weather. But ICT services made the largest contribution to growth in this sector, while healthcare and transport also provided non-negligible support thanks to fewer strikes. Beyond services, manufacturing output grew for the first time since June, by 0.4%M/M, thanks principally to a rebound in production of pharmaceuticals (4.8%M/M), with food and computers also making significant positive contributions. Benefiting from increased extraction of crude oil and natural gas, mining and quarrying rose for the first time since August and by 1.3%M/M, not quite reversing the prior month's decline. In contrast, output in construction, which earlier in the year saw most growth of all sectors, dropped for the fourth month in the past five and by 0.2%M/M to a six-month low. House building fell 3.0%M/M, to be trending more than 6% below the Q3 level, while repair and maintenance rose 2.1%M/M to be up roughly 4% compared with the Q3 average.

### Non-negligible risk of second successive quarterly drop in GDP in Q4

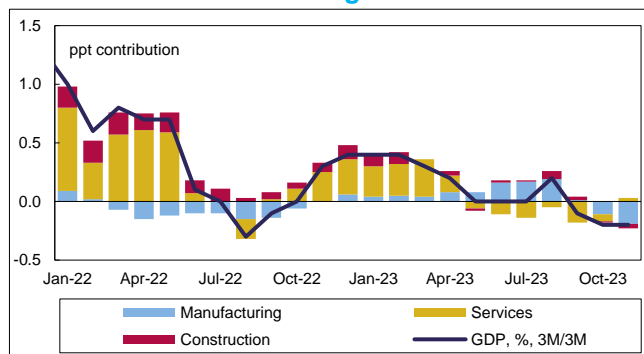
The rebound in November left GDP 2.1% above the pre-pandemic level in February 2020. However, it was still 0.4% below June's high-point for last year. Indeed, given downwards revisions, GDP on a three-month basis was down 0.2%3M/3M, leaving a non-negligible risk of a second successive quarterly contraction in Q4 following the drop of 0.1%Q/Q in Q3. At the sectoral level, services output was unchanged on a three-month basis, while manufacturing (-1.9%3M/3M), construction (-0.6%3M/3M) and mining and quarrying (-1.9%3M/3M) were all significantly lower. Given the much bigger-than-expected rise in the composite PMI to a six-month high of 52.1 in December, we think that technical recession scenario will be just about avoided. However, with surveys having strongly suggested a weak end to the year for [retail sales](#), and a pickup in strike action likely to have weighed on activity in healthcare and transport, we have nudged down our Q4 GDP forecast back to 0.0%Q/Q. With household real disposable incomes picking up in response to still-firm nominal wage growth, lower inflation and the cut in National Insurance Contributions from the start of the year, mortgage rates having declined significantly from last year's peak, and further fiscal policy easing likely to be announced in March, we still anticipate positive GDP growth from Q1 on.

### UK: Monthly GDP level\*



\*Dashed dark blue line represents quarterly averages. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Contributions to GDP growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

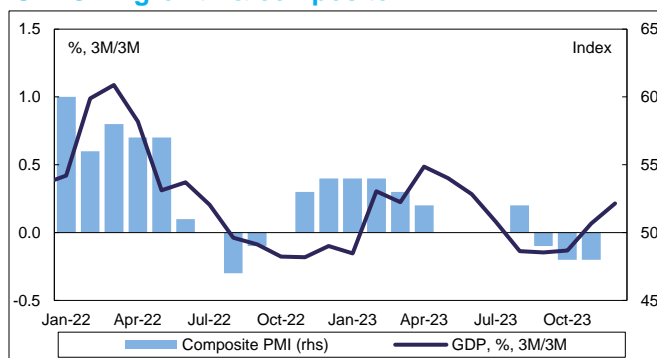
## Net trade offering little support to GDP growth in Q4 despite lower deficit in November

While net trade softened the economic contraction in Q3, contributing 0.1ppt to GDP growth, it currently looks set to make a negligible contribution in Q4. Admittedly, today's data suggested that imports were weaker than exports in November so that the trade deficit narrowed £1.8bn to £1.4bn, £0.8bn below the average in the year to-date. But the average deficit for the first two months of Q4 was still up £0.6bn from the Q3 average to £2.3bn. The total value of imports fell 2.3%M/M in November while exports were little changed on the same basis (0.1%M/M). But excluding precious metals, which distort the underlying picture, the difference in performance of imports and exports that month was more moderate. As a result, the trade deficit on this basis narrowed £1.0bn to £3.4bn, to leave the average for Q4 so far up about £1.5bn from the Q3 average at £3.9bn. Goods import values excluding precious metals were down 2.3%M/M, due not least to lower imports of machinery and transport equipment, including fewer aircraft from Germany and cars and electrical machines from China. Goods export values were down 2.0%M/M due to lower shipments of cars and crude oil. And services exports (-0.2%M/M) and imports (-0.4%M/M) both fell modestly. Overall, relative price changes failed to change the overall picture in November with total import volumes down 2.6%M/M but export volumes down just 0.1%M/M. But as import volumes far outpaced exports in October, they were trending 0.5% above the Q3 average in the first two months of Q4 while exports were trending just 0.3% higher.

## The week ahead in the UK

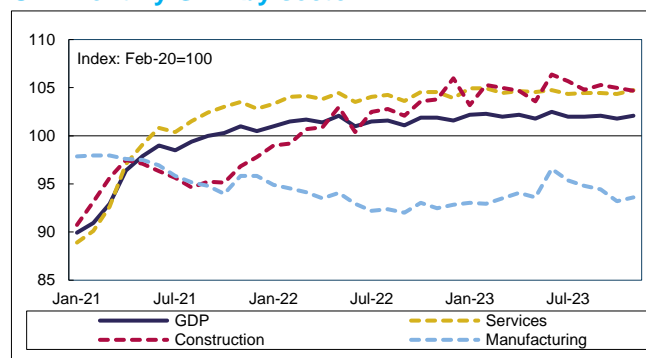
The week ahead will be a busy one for top-tier UK economic data, including the latest developments in the labour market (Tuesday), inflation (Wednesday) and retail sales (Friday). Of key interest will be CPI figures for December. Having eased to a 26-month low in November, we expect headline inflation to have edged only slightly lower last month, by 0.1ppt to 3.8%Y/Y. This would leave inflation at 4.1%Y/Y in Q4, double the MPC's target but nevertheless some 0.5ppt below the BoE's forecast published in November. The slowdown last month will in part reflect a sharp drop in petrol prices. But with services inflation also expected to have eased slightly to a fifteen-month low of 6.2%Y/Y, core inflation might well similarly fall 0.1ppt to 5.0%Y/Y, which would be the lowest since January 2022. November's labour earnings figures might also provide some encouragement with respect to domestically generated inflationary pressures. Indeed, single-month wage growth in October fell to a seven-month low, while PAYE data suggested that median pay growth in November fell to its weakest rate for more than two years. Meanwhile, in the absence of the official Labour Market Survey, the claimant count and HMRC payroll employee figures will provide a guide to the current tightness of the labour market. In terms of household spending, surveys strongly suggest that retail sales disappointed at the end of the year. So, having risen in November at the fastest pace since January, we expect retail sales to have fallen on the month, to leave them down in Q4 for a second successive

### UK: GDP growth & composite PMI



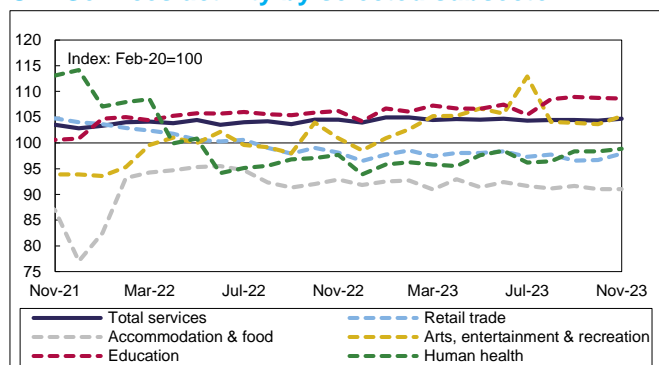
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

### UK: Monthly GDP by sector



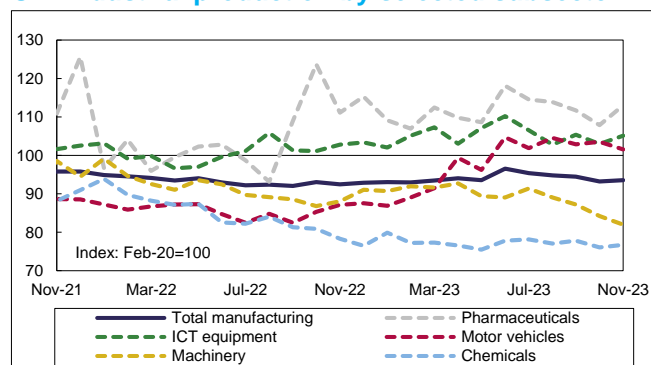
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Services activity by selected subsector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Industrial production by selected subsector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

quarter. In addition, the coming week will bring the results of the BoE's latest credit conditions survey for Q4 and the RICS residential survey for December on Thursday.

## Euro area

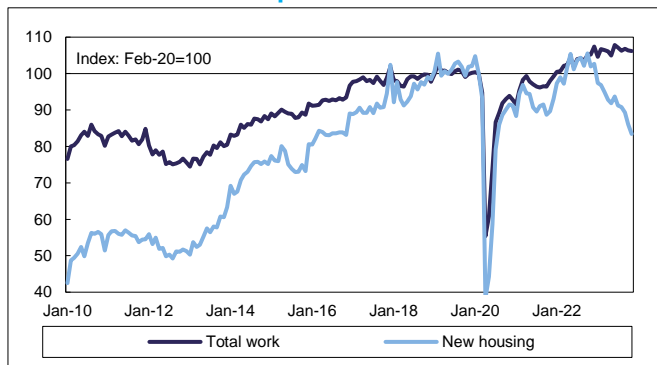
### French consumer spending on goods trending lower, but BoF ups its GDP growth forecast for Q4

Contrasting with the decline in sales implied by the Bank of France retail survey, today's French figures for consumption of goods beat expectations in November, suggesting a pickup in spending across a wide range of categories. In particular, consumer spending rose for the first month in four in November, by 0.7%M/M, driven by a fourth monthly increase out of five in sales of cars, a second successive rise in clothing and a rebound in consumption of energy. As such, spending on autos maintained the uptrend in place since mid-2022, to be averaging so far in Q4 almost 2% above the Q3 level, while clothing was trending some ½% above the Q3 average. Despite the pickup in November, expenditure on energy was in the first two months of Q4 almost 3½% below the Q3 average. And overall, spending was tracking 0.8% below the Q3 level, suggesting that consumption of goods provided a drag on GDP growth in Q4. But this impact seems likely to have been offset by a boost to spending on services towards the end of last year. Certainly, the Bank of France's (BoF) latest monthly economic update, published earlier this week, suggested that services activity grew at a stronger pace than previously anticipated in December, supported by the hospitality, car rental, and transport and storage subsectors. And after industrial output rose for the first month in four in November, the BoF's survey implied a significant further pickup in production in December too. So, with respondents also suggesting some stabilisation in construction activity, the BoF revised up its estimate for GDP growth in Q4, by 0.1ppt to 0.2%Q/Q.

### The week ahead in the euro area

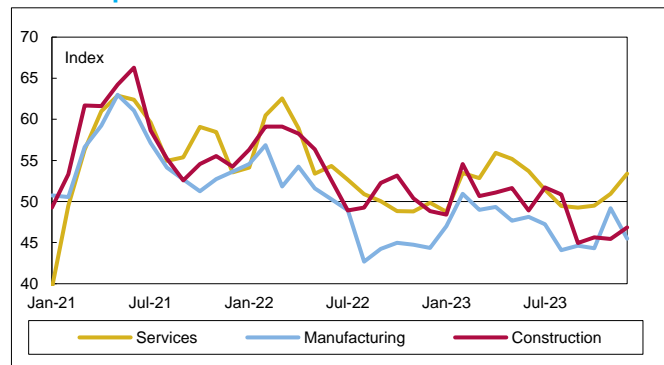
The coming week will bring several releases of note from the euro area, including updated readings of December inflation (Wednesday) and the account from the ECB's December policy-setting meeting (Thursday), which might well provide greater insight into the debate on the decision to accelerate quantitative tightening, by halving the reinvestments of its proceeds from maturing PEPP bond holdings from July. In terms of inflation, the flash HICP estimates saw euro area headline inflation jump 0.5ppt to 2.9%Y/Y in December due to energy base effects associated not least with the German government's one-off support payments in December 2022. In contrast, core HICP inflation eased a further 0.2ppt to a 21-month low of 3.4%Y/Y, led by a drop in non-energy industrial goods inflation to a 23-month low of 2.5%Y/Y. The forthcoming release will provide additional granular detail, along with additional measures of underlying inflation. Ahead of this, the results of the ECB's consumer survey for November (Tuesday) will be watched for progress in reducing medium-term inflation expectations,

### UK: Construction output



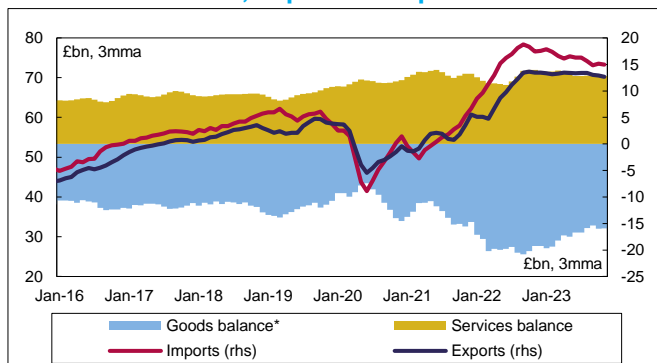
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

### UK: Output PMIs



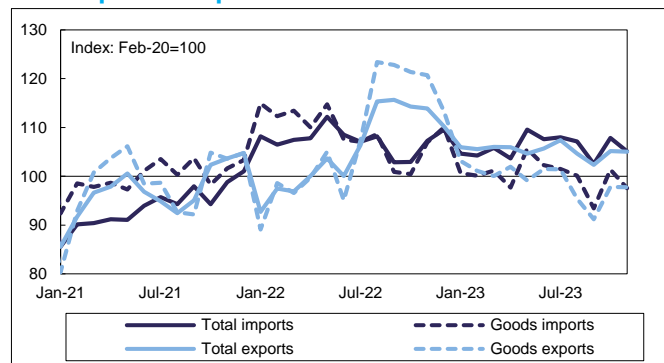
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

### UK: Trade balance, exports & imports values



\*Excluding precious metals. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

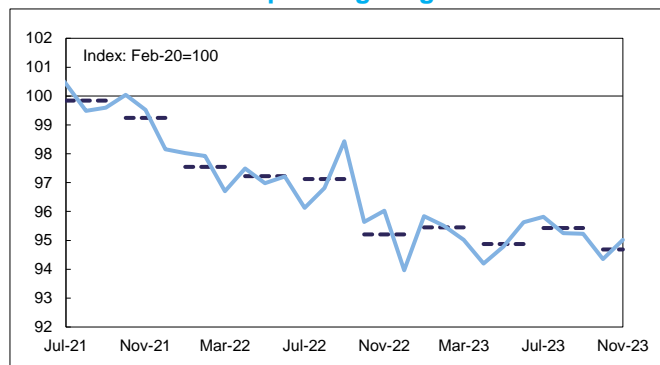
### UK: Export & import volumes



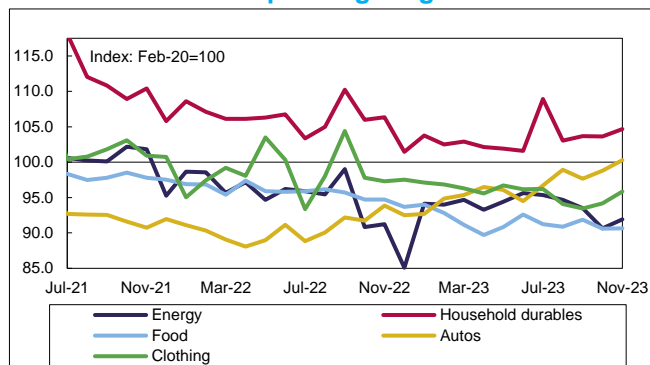
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

which had previously moved sideways at 2.5%Y/Y for three consecutive months. In terms of economic activity, euro area industrial production and goods trade (Monday) and construction activity figures (Thursday) are due for November. Equivalent IP numbers (excluding construction) already published by member states, including Germany (-0.3%M/M), France (+0.5%M/M), Italy (-1.5%M/M), and Spain (+1.1%M/M), suggest that aggregate euro area production fell for a fifth month out of the past six, by 0.3%M/M. Meanwhile, consistent with recent downbeat surveys, and given sharp contractions in Germany (-2.9%M/M) and France (-1.0%M/M), euro area construction looks set to have dropped for a third month out of the past four. Separately, the estimate of full-year German GDP growth in 2023 (Monday) and the January ZEW investor survey (Tuesday) are also due.










### France: Consumer spending on goods\*



### France: Consumer spending on goods



## Daiwa economic forecasts

		2023		2024				2023	2024	2025
		Q3	Q4	Q1	Q2	Q3	Q4			
GDP								%, Y/Y		
Euro area		-0.1	-0.1	0.1	0.2	0.3	0.3	0.5	0.3	1.4
UK		-0.1	0.0	0.1	0.1	0.1	0.2	0.3	0.2	0.7
Inflation, %, Y/Y										
Euro area										
Headline HICP		5.0	2.7	2.2	1.8	1.4	2.0	5.4	1.9	1.8
Core HICP		5.1	3.7	2.7	1.7	1.4	1.8	4.9	1.9	1.6
UK										
Headline CPI		6.7	4.1	3.5	1.9	2.0	2.3	7.3	2.3	2.1
Core CPI		6.4	5.3	4.5	2.7	2.3	2.5	6.2	3.0	2.1
Monetary policy, %										
ECB										
Refi Rate		4.50	4.50	4.50	4.25	4.00	3.75	4.50	3.75	2.75
Deposit Rate		4.00	4.00	4.00	3.75	3.50	3.25	4.00	3.25	2.25
BoE										
Bank Rate		5.25	5.25	5.25	5.00	4.50	4.00	5.25	4.00	2.50

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




















# The coming week's data calendar

## The coming few week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous
<b>Monday 15 January 2024</b>					
Euro area	10.00	Trade balance €bn	Nov	-	10.9
	10.00	Industrial production M/M% (Y/Y%)	Nov	<u>-0.3 (-5.9)</u>	-0.7 (-6.6)
Germany	09.00	GDP Y/Y%	2023	-0.3	1.8
Italy	09.00	Trade balance €bn	Nov	-	4.7
UK	00.01	Rightmove house price index M/M% (Y/Y%)	Jan	-	-1.9 (-1.1)
<b>Tuesday 16 January 2024</b>					
Euro area	09.00	ECB 1Y (3Y) ahead CPI expectations Y/Y%	Nov	-	4.0 (2.5)
Germany	07.00	Final HICP (CPI) Y/Y%	Dec	<u>3.8 (3.7)</u>	2.3 (3.2)
	10.00	ZEW current assessment (expectations) balance	Jan	-77.0 (12.0)	-77.1 (12.8)
Italy	09.00	Final HICP (CPI) Y/Y%	Dec	<u>0.5 (0.6)</u>	0.6 (0.7)
UK	07.00	Payrolled employees monthly change '000s	Dec	-15	-13
	07.00	Claimant count rate % (change '000s)	Dec	-	4.0 (16.0)
	07.00	Average weekly earnings including (excluding) bonuses 3M/Y%	Nov	6.8 (6.6)	7.2 (7.3)
<b>Wednesday 17 January 2024</b>					
Euro area	10.00	Final HICP (core HICP) Y/Y%	Dec	<u>2.9 (3.4)</u>	2.5 (3.6)
UK	07.00	CPI (core CPI) Y/Y%	Dec	<u>3.8 (5.0)</u>	3.9 (5.1)
	07.00	PPI output (input) prices Y/Y%	Dec	0.4 (-1.9)	-0.2 (-2.6)
	07.00	House price index Y/Y%	Nov	-	-1.2
<b>Thursday 18 January 2024</b>					
Euro area	07.00	EU27 new car registrations Y/Y%	Dec	-	6.7
	10.00	Construction output M/M% (Y/Y%)	Nov	-	-0.9 (-0.7)
Spain	09.00	Trade balance €bn	Nov	-	-51.4
UK	00.01	RICS house price balance %	Dec	-36	-43
<b>Friday 19 January 2024</b>					
Germany	07.00	PPI Y/Y%	Dec	-8.0	-7.9
UK	07.00	Retail sales including auto fuels M/M% (Y/Y%)	Dec	-0.5 (1.1)	1.3 (0.1)
	07.00	Retail sales excluding auto fuels M/M% (Y/Y%)	Dec	-0.6 (1.4)	1.3 (0.3)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.









### The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 15 January 2024</b>		
Euro area 	-	World Economic Forum annual meeting in Davos, 15-19 January
<b>Tuesday 16 January 2024</b>		
Germany 	10.30	Auction: €4bn of 2029 bonds
UK 	10.00	Auction: £1.5bn of 0.75% 2033 index-linked bonds
	-	BoE Governor Bailey testifies before the Lords Economic Affairs Committee
<b>Wednesday 17 January 2024</b>		
Germany 	10.30	Auction: €1bn of 0% 2052 bonds
	10.30	Auction: €1bn of 1.8% 2053 bonds
UK 	11.30	Auction: £3.75bn of 4.625% 2034 bonds
<b>Thursday 18 January 2024</b>		
Euro area 	12.30	ECB publishes account of December meeting
France 	09.50	Auction: 2.5% 2027 bonds
	09.50	Auction: 2.75% 2029 bonds
	09.50	Auction: 0.5% 2029 bonds
	10.50	Auction: 3.4% 2029 index-linked bonds
	10.50	Auction: 0.6% 2034 index-linked bonds
	10.50	Auction: 0.1% 2036 index-linked bonds
	10.50	Auction: 0.1% 2038 index-linked bonds
Spain 	09.30	Auction: 2.5% 2027 bonds
	09.30	Auction: 1.25% 2030 bonds
	09.30	Auction: 3.9% 2039 bonds
UK 	09.30	BoE to publish Credit Conditions Survey for Q4
<b>Friday 19 January 2024</b>		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France 	Final HICP (CPI) Y/Y%	Dec	<b>4.1 (3.7)</b>	4.1 (3.7)	3.9 (3.5)	-
	Consumer spending M/M% (Y/Y%)	Nov	<b>0.7 (-1.1)</b>	0.0 (-1.4)	-0.9 (-1.3)	- (-1.4)
Spain 	Final HICP (CPI) Y/Y%	Dec	<b>3.3 (3.1)</b>	3.3 (3.1)	3.3 (3.2)	-
UK 	GDP M/M% (3M/3M%)	Nov	<b>0.3 (-0.2)</b>	<u>0.3 (0.0)</u>	-0.3 (0.0)	- (-0.2)
	Industrial production M/M% (Y/Y%)	Nov	<b>0.3 (-0.1)</b>	0.3 (0.8)	-0.8 (0.4)	-1.3 (-0.5)
	Index of services M/M% (3M/3M%)	Nov	<b>0.4 (0.0)</b>	0.2 (0.4)	-0.2 (0.1)	-0.1 (-0.1)
	Construction output M/M% (Y/Y%)	Nov	<b>-0.2 (0.9)</b>	0.4 (1.5)	-0.5 (1.1)	-0.4 (1.3)
	Trade balance (goods trade balance) £bn	Nov	<b>-1.4 (-14.2)</b>	- (-15.7)	-4.7 (-17.0)	-3.2 (-15.9)

#### Auctions





Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.






## Wednesday and Thursday's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
<b>Wednesday 10 January 2024</b>						
France	 Industrial production M/M% (Y/Y%)	Nov	<b>0.5 (0.6)</b>	0.0 (0.3)	-0.3 (1.8)	- (2.0)
Italy	 Retail sales M/M% (Y/Y%)	Nov	<b>0.4 (1.5)</b>	-	0.4 (0.3)	- (0.5)
<b>Thursday 11 January 2024</b>						
Italy	 Industrial production M/M% (Y/Y%)	Nov	<b>-1.5 (-3.1)</b>	-0.2 (-)	-0.2 (-1.1)	-
Spain	 Industrial production M/M% (Y/Y%)	Nov	<b>1.0 (0.8)</b>	0.2 (-)	-0.5 (-1.5)	-0.7 (-1.4)

### Auctions

Country	Auction
<b>Wednesday 10 January 2024</b>	
Germany	 sold €4.0bn of 2.2% 2034 bonds at an average yield of 2.19%
UK	 sold £4.0bn of 3.75% 2027 bonds at an average yield of 3.887%
<b>Thursday 11 January 2024</b>	
Italy	 sold €4.0bn of 2.95% 2027 bonds at an average yield of 3.03%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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