

Euro wrap-up

Overview

- Bunds made gains as the flash euro area consumer confidence index fell in November by the most in 14 months.
- While UK public sector net borrowing exceeded expectations, Gilts made gains as BoE Deputy Governor Ramsden made a case for cutting Bank Rate more quickly if the labour market continues to loosen.
- Friday will bring the flash November PMIs, UK consumer confidence and retail sales figures and updated German GDP estimates for Q3.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	2.092	-0.029
OBL 2½ 10/29	2.135	-0.039
DBR 2.6 08/34	2.311	-0.036
UKT 4½ 01/27	4.367	-0.028
UKT 4½ 07/29	4.285	-0.034
UKT 4½ 07/34	4.433	-0.034

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

Euro area

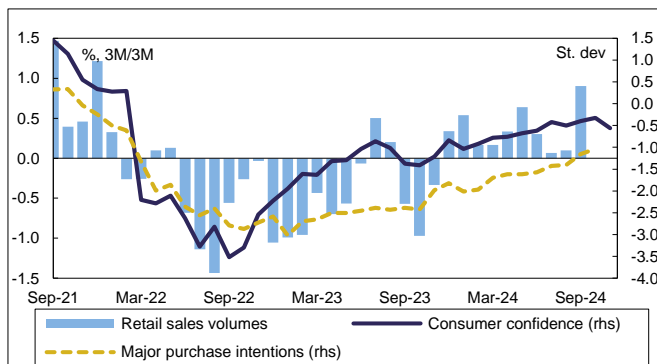
Consumer confidence dips to a six-month low on rising political uncertainties

Euro area household consumption seemingly boosted GDP growth in Q3 for a sixth quarter out of the past seven thanks to rising real disposable incomes, low unemployment, the start of the ECB's easing cycle and the related gradual improvement in consumer confidence back close to the long-run average. But, amid heightened political uncertainties in Germany and France, and a US election result that appears unfavourable for Europe, the Commission's flash euro area confidence indicator reported a non-negligible deterioration in November. In particular, the headline index fell 1.2pts on the month – the most since September 2023 – to -13.7, the lowest since June. Admittedly, this remained comfortably higher than the level a year ago (-17.0) and well above the trough (-28.6) at the inflation peak in September 2022. So, it was consistent with a softening in spending growth rather than significant decline in the middle of Q4. Indeed, the detail in today's Dutch consumer survey suggested that willingness to spend on big-ticket items was unchanged, with the respective index the joint-highest since the start of 2022, despite a notable deterioration in perceptions of the economic outlook.

French business confidence points to lacklustre growth in November

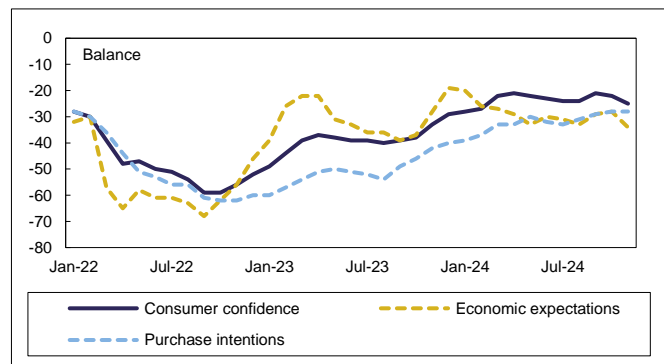
Tallying with ongoing uncertainty over the Barnier government's budget proposals, which ultimately pose an existential threat to his future as Prime Minister, the mood among French businesses remains relatively downbeat. According to today's INSEE survey, the headline French business sentiment indicator fell for a second successive month in November, by 1pt to 96, one of the lowest readings of the past 3½ years and some 4% below the long-run average. Despite an improvement in conditions in the hospitality and transport subsectors following the post-Olympics lull at the end of Q3, sentiment among services firms slipped back below the long-run average as expectations for the general business outlook worsened and selling-price expectations weakened by the most since May 2021. Retailers were also more downbeat as near-term sales expectations fell to the lowest since July. A further decline in housebuilding and other activity weighed on confidence among construction firms. And while manufacturing sentiment partially bounced back in November, it was nevertheless still trending on a three-month basis at its lowest level since February 2021, with sentiment among transport equipment manufacturers – which gave a boost to economic output earlier in the year – well below the levels seen in the first nine months of the year. With far-right leader Marine Le Pen threatening to bring down the Barnier government in a vote of no confidence if his Budget proposals are imposed via invocation of Article 49.3 of the Constitution, businesses can be forgiven for feeling uneasy about the future. And with fixed investment in France having declined in each of the past five quarters to be just ½% above the pre-pandemic level in Q3, near-term capex intentions seem likely to remain subdued at best.

Euro area: Consumer confidence & retail sales



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Netherlands: Consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

With several Governing Council members signalling that the balance of risks to the growth outlook has shifted more decisively towards the downside, tomorrow's flash November PMIs will likely provide a key input for the ECB ahead of December's Governing Council decision. And after October's composite PMIs pointed towards ongoing stagnation in the euro area (50.0), and contractions in Germany (48.6) and France (48.1), we expect November's flash release to imply ongoing weakness, related not least to increased political and economic uncertainties following the collapse of Germany's ruling coalition and, in the wake of the re-election of US President Trump, the threat of tariffs on shipments to the euro area's largest export market. Elsewhere, the end of the week will also bring an update on Germany's national accounts in Q3, including a more detailed expenditure breakdown. After the first estimate surprised to the upside (0.2%Q/Q), tomorrow's figures are expected to confirm that government and household spending were the main drivers of growth. Aside from the economic data, ECB President Lagarde will give a keynote speech at a conference in Frankfurt.

UK

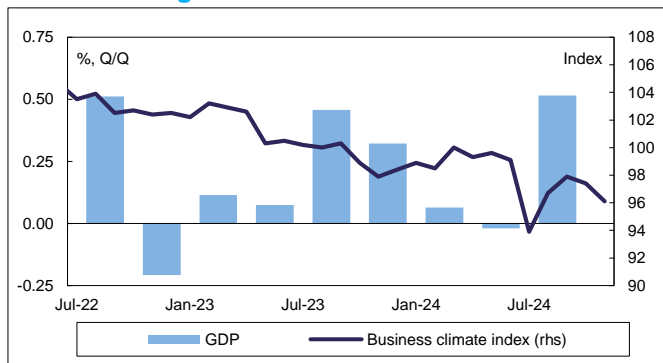
Net borrowing continues to exceed FY23/4 profile

For the fourth successive month, UK public sector net borrowing (excluding banks) exceeded the level in the same period a year ago. Net borrowing in October came in at £17.4bn, up £1.6bn from the same month in 2023 and the second highest level for the month on the series. Nevertheless, cumulative net borrowing over the first seven months of the current fiscal year was up a mere £1.1bn (or 1.1%) from the same period of FY23/4 at £96.6bn. These figures should not raise alarm about further structural deterioration in the health of the UK public finances. In part reflecting earlier evidence that the public spending plans inherited by the new government were already on a path inconsistent with its previous forecasts, the OBR's updated projection, published to coincide with last month's Budget announcement, suggested that net borrowing over FY24/5 as a whole will likely be up £2.4bn from FY23/4 at £127.5bn. As a share of GDP, that would leave it at 4.5%, unchanged from FY23/4, with a gradual decline expected thereafter to less than 3% by FY26/7 and 2.1% by the end of the decade. Meanwhile, public sector net financial liabilities (PSNFL) – the focus of the new government's debt target – were 83.7% of GDP in October, up 2.5ppts from a year earlier. PSNFL is projected by the OBR to decline from FY27/8 on.

Public spending pressures in part offset by stronger tax revenues

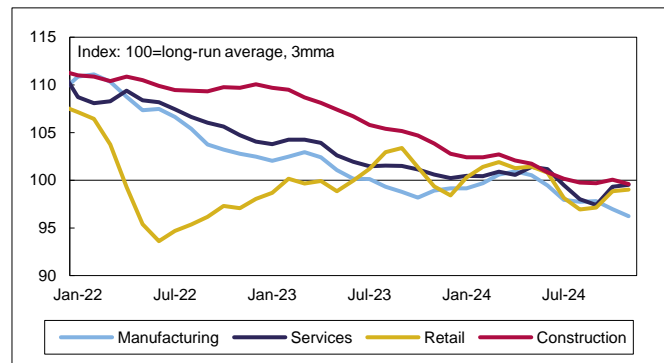
Over the first seven months of FY24/5, central government spending was running £20.0bn (3.0%) above the level a year earlier, due principally to higher levels of departmental consumption and welfare expenditure. While central government debt

France: GDP growth & INSEE business confidence



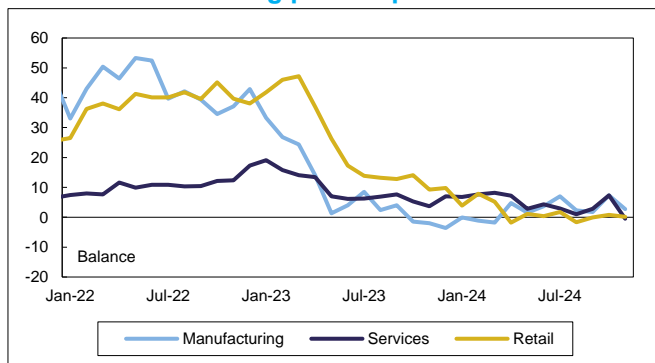
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: INSEE business confidence indices



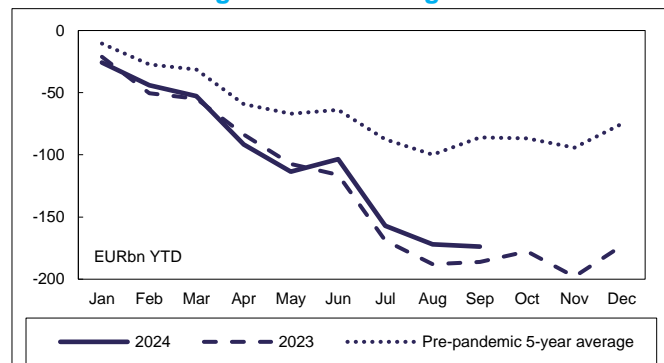
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Firms' selling price expectations



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Central government budget balance



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

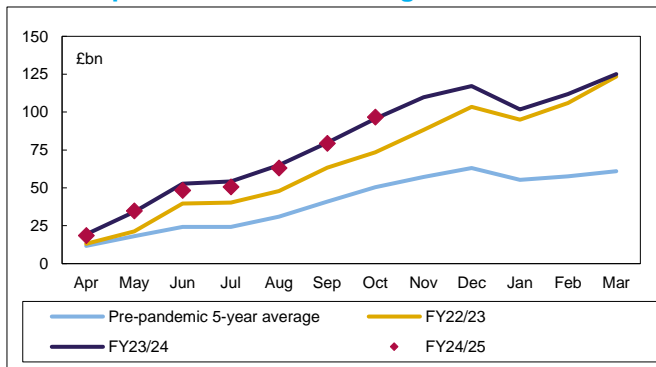
interest in October exceeded the level a year earlier to represent the highest level for the month on the series, over the first seven months of FY24/5 it was down 3.9%Y/Y reflecting lower inflation-linked payments. Reassuringly, central government cash receipts continued to exceed their trajectory of the last fiscal year. Despite the previous government’s pre-election cut in employee National Insurance Contributions (NICs), income tax and NICs receipts overall were up 2.3%Y/Y in the first seven months of FY24/5 thanks in part to elevated wage growth. VAT (up 1.7%Y/Y) and corporation tax receipts (up 10.2%Y/Y) were also trending above the same period a year ago as economic growth remained modestly positive.

The day ahead in the UK

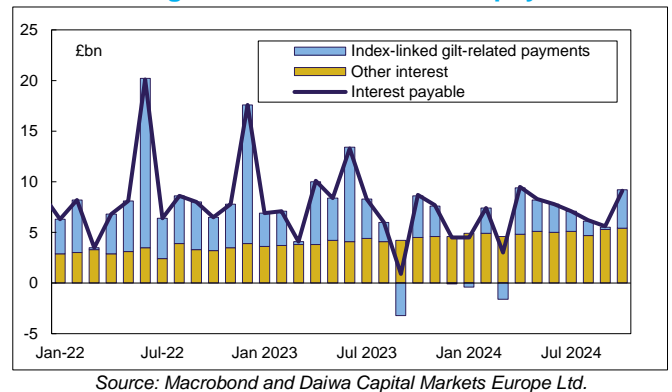
Like in the euro area, attention in the UK on Friday will be largely focused on November’s flash PMIs after the effects of budget uncertainty on firms appeared to weigh notably on October’s results. This led the composite index to fall to an eleven-month low (51.8), albeit still remaining consistent with a broad expansion across each of the subsectors. November’s flash release might struggle to claw back much of last month’s loss as firms continue to digest the contents of the new fiscal package amid heightened economic uncertainty following the US election result. Indeed, today’s CBI industrial trends survey suggested that output fell again in the three months to November in 14 out of 18 subsectors and at a faster pace than in October. But while almost 40% of manufacturers still suggested that orders remained below the norm for the time of year, firms were the least downbeat about the size of their order books since June. So, while a greater share of firms considered stocks to be more than adequate, they also expected a modest pickup in production over the coming three months.

The ripple effects of last month’s budget are also likely to surface in October’s retail sales data, for which we expect to see a first monthly decline in four. Indeed, the BRC monitor and CBI distributive trades surveys signalled a slowdown in retail activity in the lead up to the budget, consistent with the drop in consumer confidence that month. Tomorrow’s GfK consumer survey might be expected to report an improvement in sentiment this month, boosted not least by a further cut in interest rates.

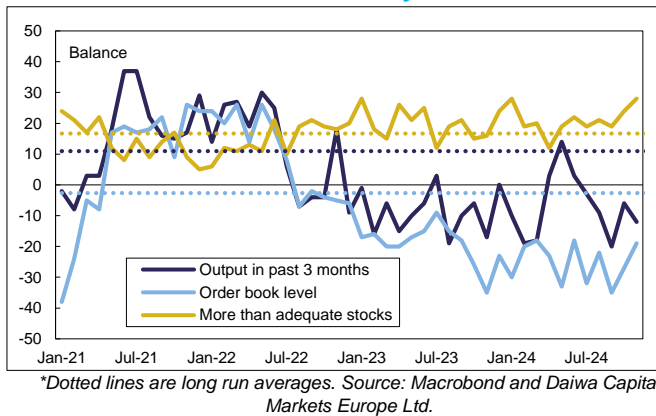
UK: Net public sector borrowing*



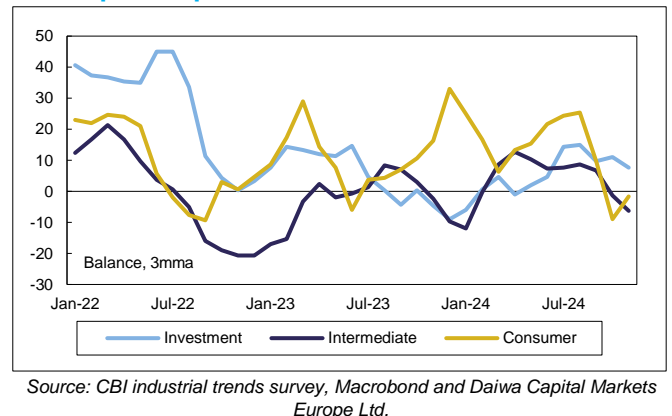
UK: Central government debt interest payments



UK: CBI industrial trends survey indices*








UK: Expected production 3 months ahead














European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Preliminary Commission consumer confidence indicator	Nov	-13.7	-12.4	-12.5	-
	 New car registrations Y/Y%	Oct	-0.3	-	-7.1	-
France	 INSEE business (manufacturing) confidence indicator	Nov	96 (97)	97 (94)	97 (92)	-(93)
UK	 CBI industrial trends survey – total orders (selling prices) balance %	Nov	-19 (11)	-25 (5)	-27 (0)	-
	 Public sector net borrowing £bn	Oct	17.4	13.3	16.6	16.1














Auctions

Country	Auction
France	 sold €3.811bn of 2.5% 2027 bonds at an average yield of 2.45%
	 sold €2.255bn of 0.75% 2028 bonds at an average yield of 2.60%
	 sold €1.223bn of 0% 2030 bonds at an average yield of 2.76%
	 sold €3.708bn of 2.75% 2030 bonds at an average yield of 2.74%
	 sold €821mn of 3.15% 2032 inflation-linked bonds at an average yield of 0.88%
	 sold €705mn of 0.6% 2034 inflation-linked bonds at an average yield of 1.03%
	 sold €398mn of 0.1% 2036 inflation-linked bonds at an average yield of 1.18%
	 sold €324mn of 1.8% 2040 inflation-linked bonds at an average yield of 1.19%
Spain	 sold €1.375bn of 3.1% 2031 bonds at an average yield of 2.768%
	 sold €1.161bn of 4.2% 2037 bonds at an average yield of 3.187%
	 sold €1.545bn of 1% 2042 bonds at an average yield of 3.442%



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	 09.00	Preliminary manufacturing (services) PMI	Nov	46.0 (51.6)	46.0 (51.6)
	 09.00	Preliminary composite PMI	Nov	50.0	50.0
Germany	 07.00	GDP – final estimate Q/Q% (Y/Y%)	Q3	0.2 (-0.2)	-0.3 (-0.1)
	 08.30	Preliminary manufacturing (services) PMI	Nov	43.0 (51.7)	43.0 (51.6)
	 08.30	Preliminary composite PMI	Nov	48.7	48.6
France	 08.15	Preliminary manufacturing (services) PMI	Nov	44.5 (49.0)	44.5 (49.2)
	 08.15	Preliminary composite PMI	Nov	48.3	48.1
	 -	Retail sales Y/Y%	Oct	-	-0.5
UK	 00.01	GfK consumer confidence indicator	Nov	-22	-21
	 07.00	Retail sales – including auto fuel M/M% (Y/Y%)	Oct	-0.3 (3.4)	0.3 (3.9)
	 07.00	Retail sales – excluding auto fuel M/M% (Y/Y%)	Oct	-0.4 (3.3)	0.3 (4.0)
	 09.30	Preliminary manufacturing (services) PMI	Nov	50.0 (52.0)	49.9 (52.0)
	 09.30	Preliminary composite PMI	Nov	51.7	51.8

Auctions and events

Euro area	 08.30	ECB President Lagarde to deliver keynote speech at the Frankfurt European Banking Congress (EBC)
	 13.00	Bundesbank President Nagel & Banque de France Governor Villeroy deliver speeches at the Frankfurt EBC

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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