

# Euro wrap-up

## Overview

- Shorter-dated Bunds were little changed as downside surprises to the European Commission's sentiment survey indices and German factory orders data illustrated the loss of economic momentum in Q4.
- Despite a quiet day for UK economic news, longer-dated Gilts made significant losses as concerns about higher issuance in the year ahead and fiscal sustainability continued to resonate.
- Thursday will bring November figures for euro area retail sales, German IP and goods trade, as well as the results from the BoE's December DMP survey.

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### Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	2.196	+0.009
OBL 2½ 10/29	2.298	+0.024
DBR 2½ 02/35	2.548	-
UKT 4½ 01/27	4.505	+0.045
UKT 4½ 07/29	4.520	+0.075
UKT 4½ 07/34	4.798	+0.116

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

Source: Bloomberg

## Euro area

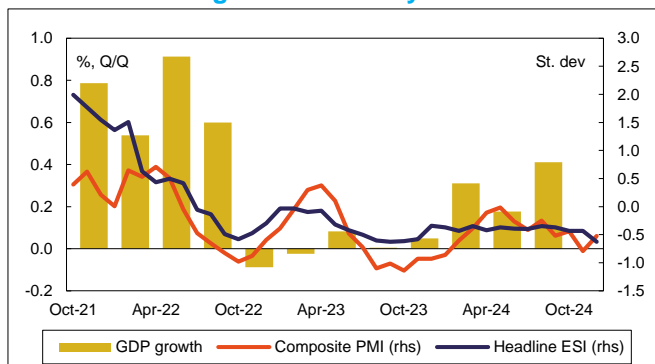
### Economic sentiment indicator slips to the lowest since euro crisis outside of initial Covid slump

Contrasting the modest improvement signalled by the [PMIs](#) in December, today's European Commission surveys pointed to a further deterioration in euro area economic conditions heading into year-end. In particular, the headline Economic Sentiment Indicator (ESI) fell 1.9pts – the most since May 2023 – to 93.7, the lowest since the euro crisis aside from the initial slump during the first Covid-19 lockdown. This left it more than 6% below the long-run average and pushed the Q4 average (95.0) some 1.2pts below the Q3 level, sustaining concerns about the loss of momentum and likelihood that euro area GDP grew minimally if at all last quarter. Tallying with the PMIs, today's survey suggested that economic conditions remained weakest in the two largest member states, with the German ESI (86.1) the lowest since 2009 and the French ESI (93.5) close to the level in August 2023, which was the lowest in 8½ years excluding the initial lockdown periods. In addition, the Italian ESI (98.2) slipped back for a third consecutive month. However, the Dutch ESI (100.1) was in line with the long-run average and the Spanish ESI (102.9) rose for a second successive month. But while it remained elevated by historical standards, the quarterly Spanish index was almost 4pts below the Q3 level – a contrast to the seven-quarter high recorded in the country's composite PMI – providing a reminder of the likely negative impact of October's devastating floods on Q4 GDP. But we still expect to see decent Spanish GDP growth last quarter. In addition, today's survey suggested that Portugal also provided support to euro area growth as the respective ESI (107) was the joint-highest since February 2022.

### Industry firms most downbeat since July 2020 as car manufacturers report a slump in production

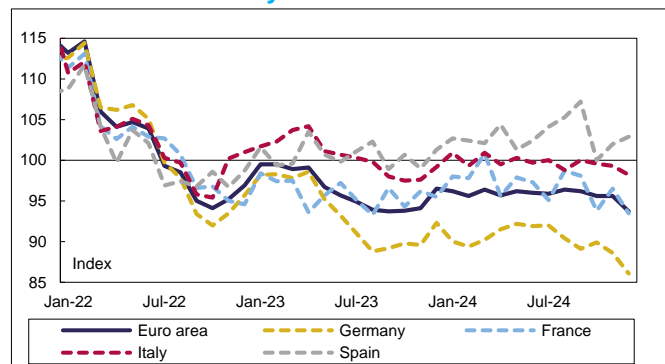
Within the sectoral detail, today's survey reported a further marked deterioration in manufacturing sentiment, with firms the most pessimistic since the first Covid-19 wave and the global financial crisis before that. The recent output trend was considered the weakest since July 2020. While the weakening in production was broad-based, it was particularly pronounced in the autos subsector, with the respective index among one of the weakest on record outside of the initial Covid collapse. Production expectations were also likely hit by a further decline in orders, unplanned rise in stocks and heightened uncertainties surrounding the trade policies of US President-elect Trump. Construction firms were also more downbeat as confidence among building companies fell to the lowest for more than four years. While services sentiment improved slightly last month, the respective index still remained below the average in the first ten months of last year. And demand was expected to take a step down in the first quarter of 2025. While retailers assessed conditions to be little changed on the month, consumer confidence slipped to an eight-month low, with heightened unemployment concerns underpinning a moderation in purchase intentions for the coming twelve months. Today's survey also again suggested that firms are looking to scale back headcount, pointing to the risk of significant job cuts in Germany and France.

### Euro area: GDP growth & survey indices



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

### Euro area: EC survey – economic sentiment

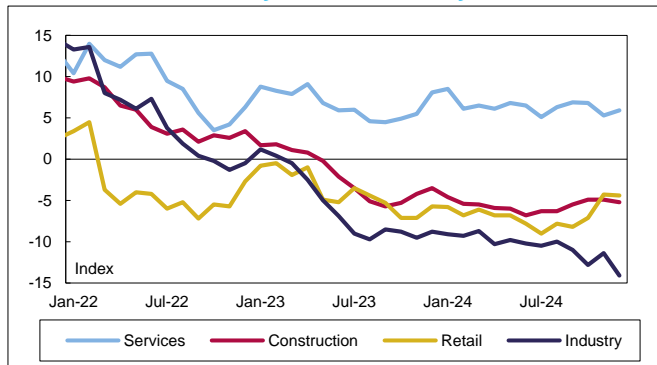


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Consumer inflation expectations rise most in 2 years, with services selling-prices also higher

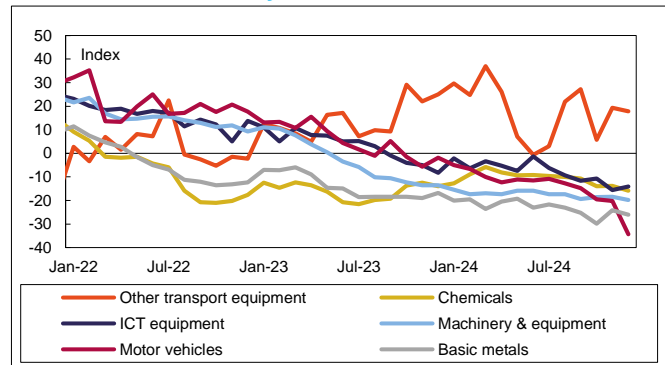
Despite the fragile economic outlook, the price-related components in today's Commission survey will likely bolster the resistance of the Governing Council hawks to a shift in ECB policy into accommodative territory. Household inflation expectations for the coming twelve months rose for a third consecutive month in December, with the respective index up to its highest for two years and back above the long-run average, most likely due to the recent uptick in energy prices. Selling-price intentions for the coming three months in the services sector also rose to a ten-month high to remain well above the average of the past 2½ decades. And while retailers' selling-price expectations eased from November's four-month high, they too remained above average, albeit well below the peak in 2022. But while pricing intentions among manufacturers rose to the highest since April 2023, they were merely back in line with the long-run average. Indeed, while higher industrial energy prices saw euro area producer prices rise in November (1.6%M/M) by the most in more than two years, core producer prices moved sideways for a fifth successive month to be up just 0.9%Y/Y. And ultimately, we expect the inadequacy of demand, intense competition not least from China, and economic uncertainty to continue to restrain firms' pricing power, particularly in the goods sector.

#### Euro area: EC survey – sentiment by sector



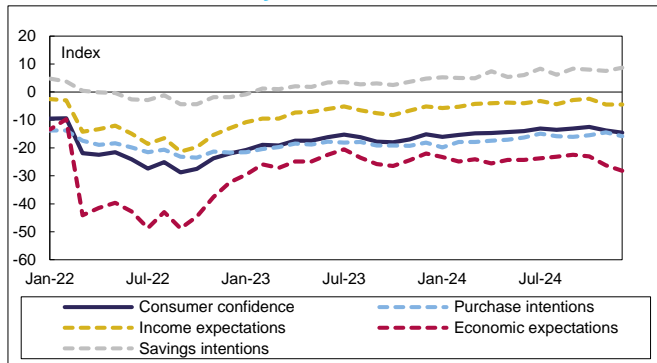
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: EC survey – industrial sentiment



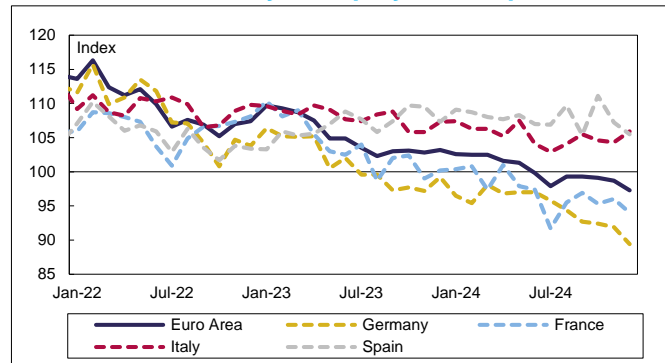
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: EC survey – consumer confidence



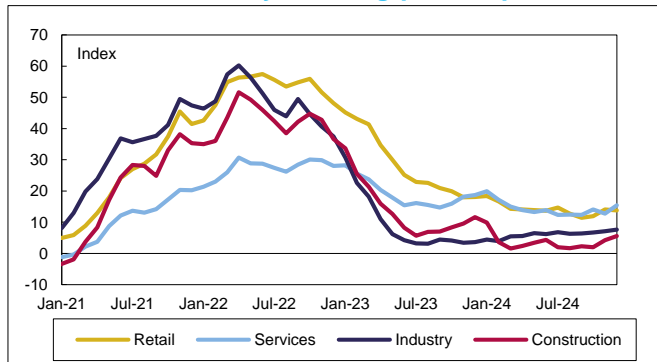
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: EC survey – Employment expectations



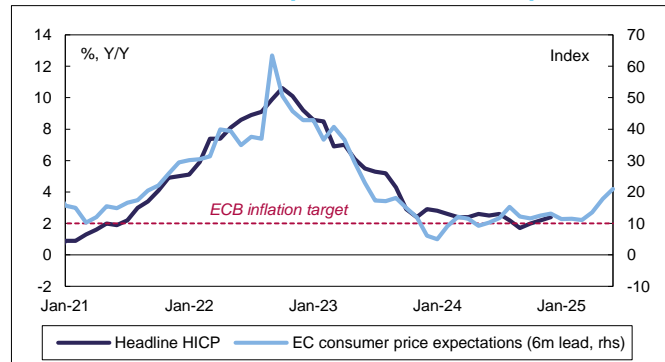
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: EC survey – selling-price expectations\*



\*3-months ahead. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

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



\*12-months ahead. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Steep decline in German factory orders reinforces persisting lack of demand

In terms of hard economic data, today's factory orders and turnover figures reinforced our expectation that German GDP was at best flat in Q4. Certainly, the decline in new factory orders of 5.4%M/M in November – the third in four months – was substantially larger than expected. This took the level to the lowest in six months and close to the bottom of the range of the past decade outside of the initial pandemic slump. And with growth on a three-month basis (1.7%3M/3M) flattered by a strong rise in September, new orders were trending in October and November some 1½% below the Q3 average. Admittedly, the weakness in November reflected a marked decline in the 'other transport equipment' category following a large-scale overseas ship order in October. Indeed, foreign orders fell by more than 10%M/M. With new auto orders failing to rise and machinery orders (1.2%M/M) only partially offsetting sharp drops in September and October, total capital goods orders slumped 9.4%M/M – the most since January – to a six-month low, averaging so far in Q4 some 3% below the Q3 level. But when excluding major items, core capital goods orders moved sideways in November to be trending a more modest ½% below the Q3 average. While total core orders rose for the second month in three, the rise was very modest (0.2%M/M) to leave them up just ½%3M/3M. And the broad trend currently appears to be sideways.

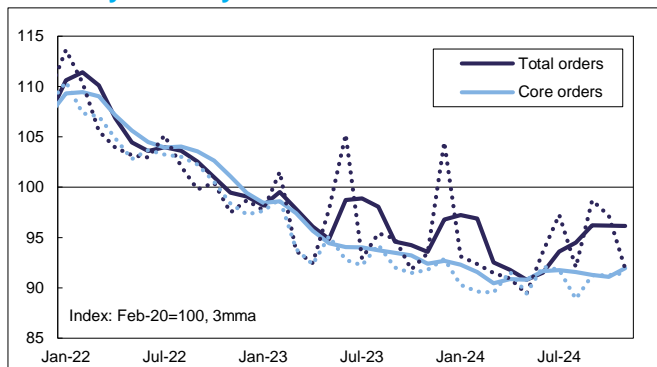
### Despite rebound in November, manufacturing turnover on track to decline Q4

Despite lacklustre orders, manufacturing turnover rebounded in November, rising for the first month in three and by 1.4%M/M, suggesting that industrial production (due tomorrow) might exceed the current Bloomberg survey expectation (½%M/M). But having declined by a cumulative 2.4% in the previous two months, turnover was still trending in October and November some ½% below the Q3 average flagging the likelihood of a drop over Q4 as a whole. And with industrial output having dropped to the lowest level in 14½ years bar the first Covid-19 lockdown, the orders data raise the risk that any rebound in November will prove temporary.

### German retail sales decline in November amid declining consumer confidence

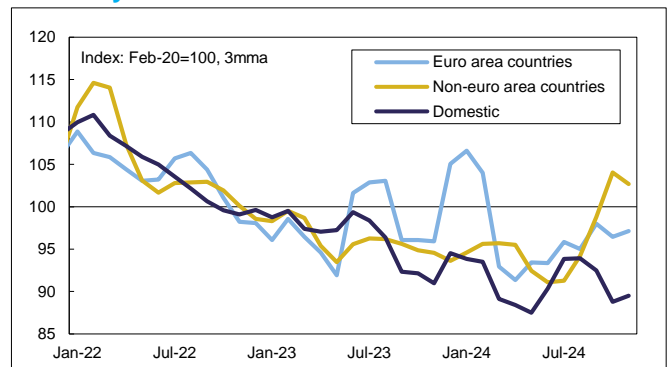
While firmer German household consumption growth in Q3 in part reflected a rebound in spending on goods (1.4%Q/Q), today's retail sales figures suggested a moderation in the fourth quarter amid heightened economic uncertainties and rising unemployment fears. In particular, sales volumes fell for a second successive month in November, by 0.6%M/M, the most in twelve months. The decline was led by a further drop in non-food sales (-1.8%M/M) amid lower online sales while growth in food sales remained modest (0.2%M/M). Given positive carryover from the surge in September, total sales were still trending in October and November some 0.8% above the Q3 average. But after consumer confidence declined to a seven-month low

Germany: Factory orders\*



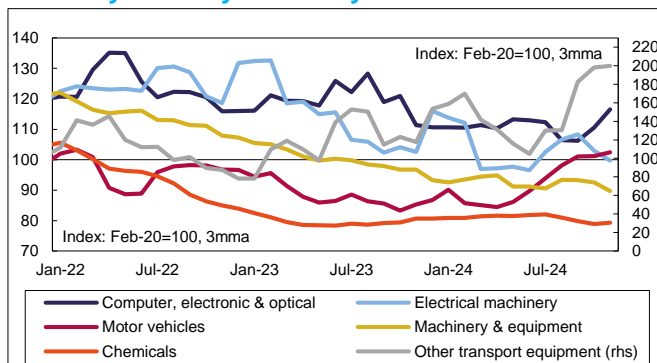
\*Core orders exclude large-scale orders. Dotted lines represent single-month data. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Domestic & overseas orders



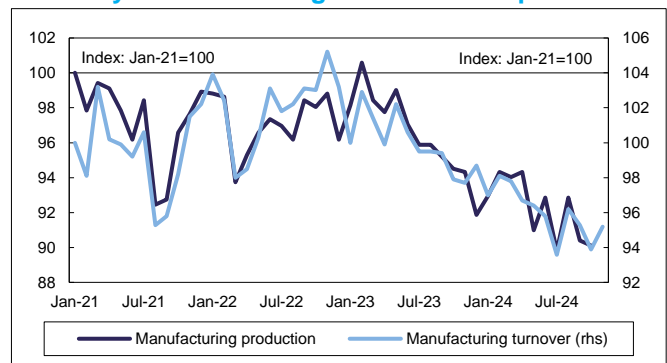
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Factory orders by subsector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing turnover & output



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

in December, an ifo survey showed that retailers judged conditions to have deteriorated heading into year-end. And expectations for the New Year remained similarly downbeat.

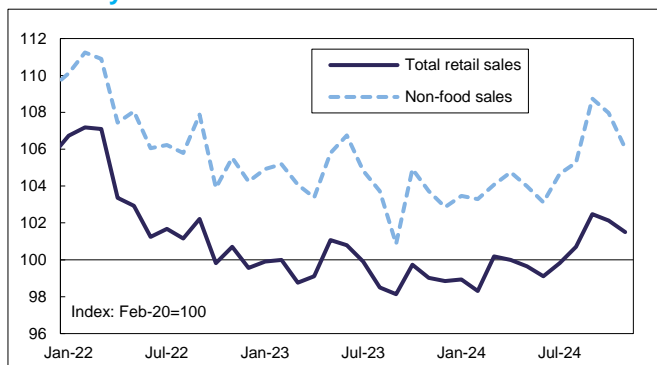
### The day ahead in the euro area

The main event in the euro area tomorrow will be the aforementioned German IP data for November. Consistent with the pickup in turnover reported today, we expect manufacturing output to rebound somewhat after falling in October (-1.5%M/M). But the ongoing combination of gloomy weather and high industrial power prices likely served as another headwind to energy generation and energy-intensive output. While foreign factory orders fell sharply that month, November's trade data might yet report a pickup in exports, if only as payback after they slid to a more than 2½-year low in October. Meanwhile, with data released so far having shown that retail sales fell in Germany, Spain and Belgium to more than offset growth in France and Portugal, tomorrow's euro area retail sales data might report a second consecutive monthly decline in November.

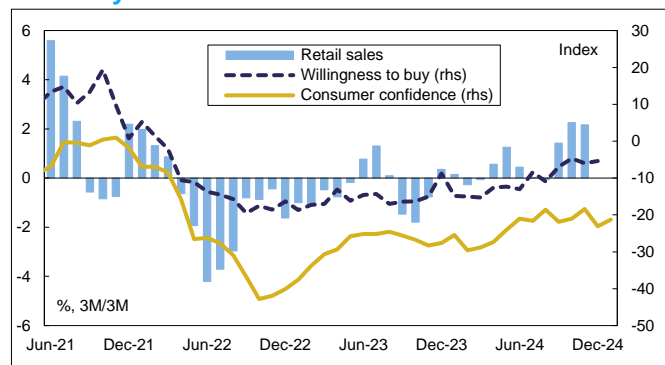
### The day ahead in the UK

Tomorrow's December Decision Maker Panel survey results will be watched for insights into firms' likely response to the significant increase in the national living wage and employer NICs due in April. Although November's survey already flagged firms' intentions to absorb increased costs through a mix of higher prices, lower profits and softer wage increases, December's final PMIs suggested that further headcount reductions and increased selling prices could yet be factored in. Elsewhere, December's BRC shop price index will reveal the extent to which retailers extended recent rounds of discounting into the Christmas period. Taken alongside Tuesday's like-for-like sales data, these will also help to inform predictions of retail sales in December, official data for which are due next week. Finally, December's REC/KPMG report on jobs is also due after last month's release reported a notable drop in labour demand.

#### Germany: Retail sales











#### Germany: Retail sales & consumer confidence





## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Commission economic sentiment indicator	Dec	<b>93.7</b>	95.6	95.8	95.6
	 Final Commission consumer confidence indicator	Dec	<b>-14.5</b>	<b>-14.5</b>	-13.7	-
	 Commission industrial (services) confidence indicator	Dec	<b>-14.1 (5.9)</b>	-11.6 (5.7)	-11.1 (5.3)	-11.4 (-)
	 PPI Y/Y%	Nov	<b>-1.2</b>	-1.4	-3.2	-3.3
Germany	 Factory orders M/M% (Y/Y%)	Nov	<b>-5.4 (-1.7)</b>	0.0 (3.0)	-1.5 (5.7)	-
	 Retail sales M/M% (Y/Y%)	Nov	<b>-0.6 (2.3)</b>	0.5 (2.5)	-1.5 (3.6)	-0.3 (5.1)
France	 INSEE consumer confidence indicator	Dec	<b>89</b>	90	90	-
	 Trade balance €bn	Nov	<b>-7.1</b>	-	-7.7	-7.5






#### Auctions

Country	Auction
Germany	 sold €3.781bn of 2.5% 2035 bonds at an average yield of 2.51%
UK	 sold £4.25bn of 4.375% 2030 bonds at an average yield of 4.49%






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	Retail sales M/M% (Y/Y%)	Nov	0.3 (1.7)	-0.5 (1.9)
Germany	 07.00	Industrial production M/M% (Y/Y%)	Nov	0.5 (-4.5)	-1.0 (-4.5)
	 07.00	Trade balance €bn	Nov	14.5	13.4
UK	 00.01	BRC shop price index Y/Y%	Dec	-0.4	-0.6
	 09.30	DMP 3M output price (1Y CPI) expectations %	Dec	3.7 (2.8)	3.7 (2.8)

#### Auctions and events

Euro area	 09.00	ECB to publish Economic Bulletin
France	 09.50	Auction: to sell up to €13bn of 3% 2034, 1.25% 2036, 2.5% 2043 and 3.25% 2055 bonds
Spain	 09.30	Auction: to sell 2.4% 2028, 3.1% 2031, 2.9% 2046 bonds & 2.05% 2039 inflation-linked bonds
UK	 00.01	KPMG, REC and S&P Global release UK report on jobs for December
	 16.00	BoE Deputy Governor Breeden scheduled to give a speech

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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