

# Euro wrap-up

## Overview

- While today's figures suggest that French consumption is trending sideways and industrial production is on track for a decline in Q4, Bunds followed USTs lower after a strong US payrolls report.
- Gilts also followed USTs lower on a quiet day for UK economic news.
- The coming week will bring the ECB's minutes from the December Governing Council meeting, while key data releases include the euro area and UK's detailed December inflation reports, as well as UK GDP and retail sales figures.

**Emily Nicol**  
+44 20 7597 8331

**Edward Maling**  
+44 20 7597 8030

### Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	2.259	+0.035
OBL 2½ 10/29	2.359	+0.033
DBR 2½ 02/35	2.57	+0.016
UKT 4½ 01/27	4.509	+0.010
UKT 4½ 07/29	4.530	+0.019
UKT 4½ 07/34	4.830	+0.023

\*Change from close as at 15.45pm GMT.

Source: Bloomberg

## Euro area

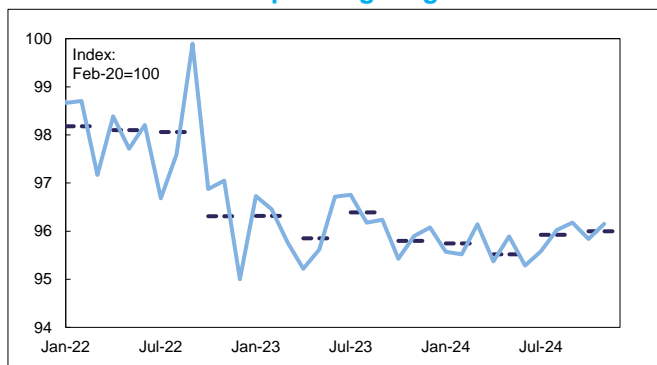
### French household consumption trending sideways despite higher spending on new cars

French household consumption growth in Q3 of 0.6%Q/Q was the strongest for two years. While this principally reflected an Olympics-related boost to expenditure on services over the summer (0.9%Q/Q), spending on goods also rose for the first quarter in four (0.4%Q/Q). But while real disposable income was on track to be up more than 1½%Y/Y in 2024, the savings rate rose steadily over the first three quarters of the year. And households appear to have tightened their purse strings further in Q4 in the face of rising unemployment concerns and heightened political uncertainties. Certainly, today's figures for expenditure on goods suggested that household spending has moved broadly sideways since Q3. Indeed, the increase of 0.3%M/M in November merely reversed the downwardly revised decline in October. The pickup reflected increased spending on new cars (4.0%M/M) to a twelve-month high. In contrast, expenditure on clothing and household appliances fell again in November, with energy consumption also down and spending on food providing only a modest offset. While new car registrations figures suggest further support to consumption heading into year-end from autos, consumer confidence has steadily deteriorated over the fourth quarter, falling in December to a 12-month low, more than 6% below the September peak and some 11% below the long-run average. Admittedly, the survey's purchase intentions index was little changed in Q4 at the joint-highest level since early 2022. But this too remained well below the long-run average. And overall, we think that household consumption will offer little support to French GDP growth last quarter.

### French industrial production on track for decline in Q4, with outlook remaining gloomy too

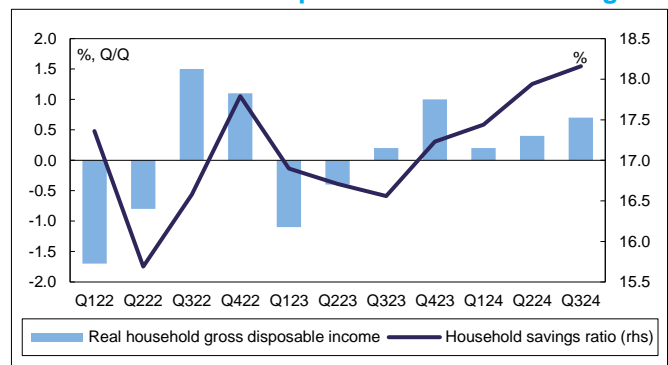
Today's French industrial production figures were consistent with modest contraction in the sector in Q4. Despite rising for the first month in three, growth of 0.2%M/M in November followed a cumulative decline of more than 1% in the prior two months. This left the level no higher than the subdued average in the previous ten months to be trending in October and November almost ½% below the Q3 average. Increased production of transport equipment – autos (5.8%M/M) and aerospace products (2.4%M/M) – and machinery was largely offset by declines in ICT and electrical equipment, food and textiles, with the latter down to the lowest level in 21 months. While the INSEE business survey signalled a further modest improvement in manufacturing sentiment in December – the respective index rose to a three-month high (97) – firms still considered conditions to be unfavourable. Moreover, manufacturers were more pessimistic about output in December, tallying with the steeper decline implied by the respective PMI. Admittedly, firms were somewhat less downbeat about order books, although the respective INSEE and PMI indices remained consistent with weak demand. And with inventory levels still considered to be high, manufacturing production is highly likely to remain subdued into the New Year too.

#### France: Household spending on goods\*



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

#### France: Household disposable income & savings



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

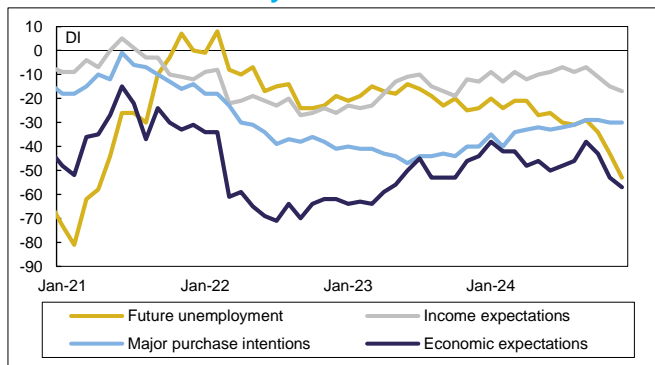
## French GDP likely moved sideways in Q4, with risks to the outlook for 2025 skewed to the downside

The French construction sector likely failed to provide much offset to manufacturing weakness in Q4. Despite rising for a second successive month in November (0.3%/M/M) to a three-month high, the average level of construction activity in the first two months of Q4 was up just 0.1% on Q3. Moreover, surveys from the Bank of France (BoF) and INSEE as well as the PMIs all point to a weakening in conditions in the sector in December. Admittedly, surveys have provided mixed messages for the services outlook. According to the early December BoF economic update, firms in hospitality, transport, warehousing and certain other business services expected another modest increase in output at the end of the year. And the INSEE index for recent services activity rose the most in seven months in December. But the headline services sentiment indicator fell to a five-month low, as future activity was expected to decline due to the deterioration in consumer confidence. And while the services PMI bounced back in December from November's ten-month low, it remained below the key-50 stagnation level. Overall, like the BoF, we think French GDP moved broadly sideways in Q4, in part reflecting payback for the temporary boost from the Olympic and Paralympic Games, which might have knocked as much as ¼ppt off growth last quarter. But while we expect GDP to return to very modest growth in Q1, risks appear skewed to the downside due to persisting political uncertainty and the current freeze to most categories of public expenditure at 2024 levels.

### The week ahead in the euro area

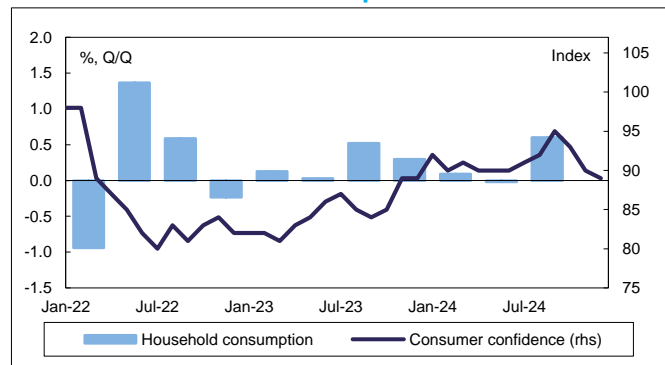
The coming week will bring a few top-tier euro area data releases, including the final estimates and detail of HICP inflation in December (Friday). Despite upside surprises to German and Spanish inflation, Tuesday's [flash euro area estimates](#) aligned with initial forecasts, reporting a further 0.2ppt increase in the headline rate to 2.4%Y/Y but a steady core rate at 2.7%Y/Y. But given the high-side reading of the headline rate to two decimal places (2.44%Y/Y), it will only take a very modest upwards revision to any of the final figures from the large member states – due to be published on Wednesday (France, Spain) and Thursday (Germany, Italy) – to invoke an upwards revision to the euro area HICP rate to 2.5%Y/Y. Nevertheless, average inflation in Q4 would still have remained consistent with the ECB's latest projections, with upwards pressure principally reflecting energy components. Perhaps more significantly, the final detail will also provide a granular breakdown to help explain the 0.1ppt uptick in services inflation, back to 4.0%Y/Y, and allow calculation of various measures of underlying inflation. While elevated services inflation will remain a point of conjecture for some of the Governing Council's more hawkish members, we suspect that Friday's release will suggest that underlying inflation remains consistent with a return of inflation to 2.0% or below by mid-year, providing enough reassurance for rate-setters to continue to withdraw monetary policy restrictiveness over coming policy meetings. Indeed, December's monetary policy account (due Thursday) will be closely

#### France: INSEE survey – consumer confidence



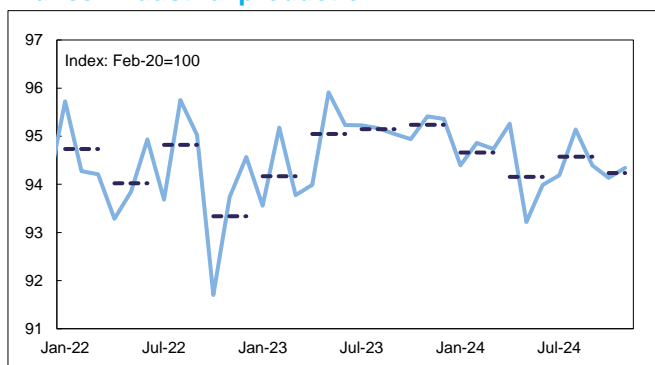
Source: Macrobond, INSEE and Daiwa Capital Markets Europe Ltd.

#### France: Household consumption & confidence



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

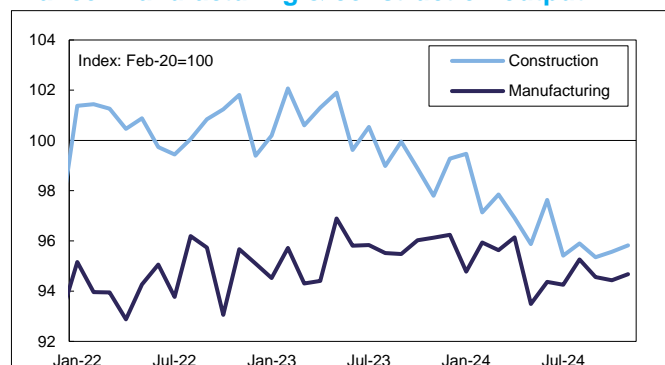
#### France: Industrial production\*



\*Dashed dark blue line represents quarterly average.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### France: Manufacturing & construction output



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

watched for any references to discussions surrounding the change to the ECB’s forward guidance (i.e. the removal of the reference to keeping “policy rates sufficiently restrictive for as long as possible”), and particularly whether any Governing Council members expressed preference towards moving beyond neutral towards a more accommodative stance.

Meanwhile, euro area IP (due Wednesday) looks likely to have grown only slightly in November having been flat in October. With the positive surprise in [German industrial output](#) (1.5%M/M) partly offset by the sharp decline in the frequently-volatile Irish data (-5.9%M/M), we expect a rise of around 0.2%M/M, which would leave euro area IP some ½ppt below its Q3 average and on track for a sixth quarterly decline in the last seven. But November’s euro area trade data (due Thursday) is expected to be somewhat less downbeat, with the pickup in German exports that month likely to be reported for the region as a whole.

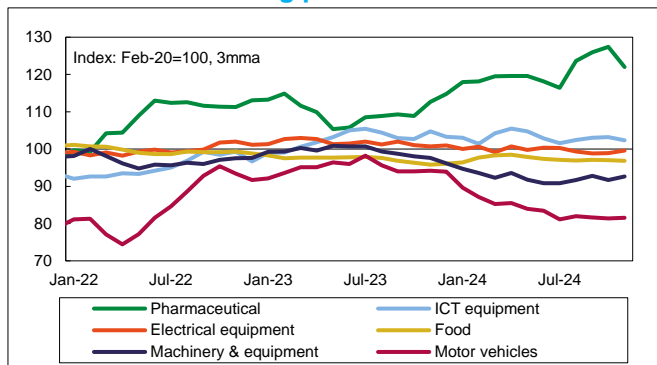
## UK

### The week ahead in the UK

After a quiet start to the week, December’s CPI report (Wednesday) will mark the start of a busy few days for UK data releases. Headline inflation rose in November to an eight-month high (0.3ppt to 2.6%Y/Y). But we expect a slight moderation in December to 2.5%Y/Y, in line with the BoE’s forecast for the month. Core inflation is also expected to ease, perhaps by a more marked 0.3ppt to 3.2%Y/Y thanks to lower services price inflation, which could fall to its lowest rate since the first stage of the Russian invasion of Ukraine. However, that step down in services inflation would likely only be temporary in nature, with a rebound in January (in part related to tax changes) probable before a more sustainable decline at the end of Q1. Nonetheless, this step down in services inflation in December, alongside a fresh set of macroeconomic projections, should make it easier for the MPC to justify a rate cut at February’s policy meeting.

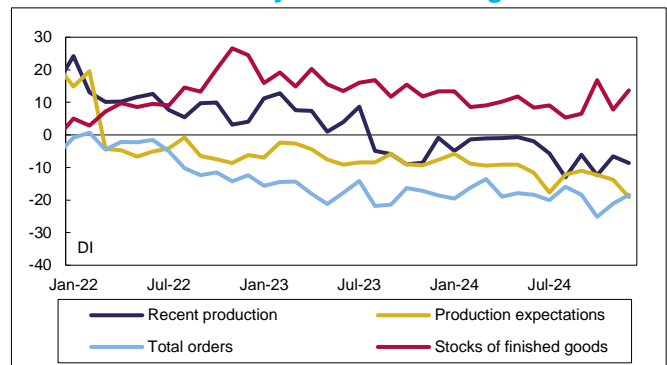
Indeed, with BoE Governor Bailey having noted in December’s statement that the MPC had revised its expectation for GDP growth to be zero in Q4 (from 0.3%Q/Q in its November projections), the loss of economic momentum in H224 as well as the recent tightening of financial conditions should pose a notable downside risk to the Bank’s inflation outlook even as it represents upside risks to the government budget deficit. Consequently, November’s Monthly GDP series (Thursday) will garner significant attention. After two consecutive months of declining output in September and October, and the downwards revision of Q3 GDP growth to 0.0%Q/Q, policymakers will be hopeful for some signs of positive growth in Q4. While some payback may be due for UK manufacturers and construction firms, whose output fell back -0.6%M/M and -0.4%M/M respectively in October, November’s results seem likely to remain weak. We expect growth to be only marginally positive,

### France: Manufacturing production



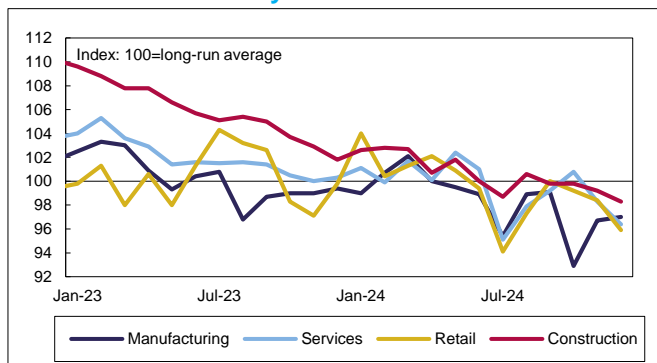
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### France: INSEE survey – manufacturing sentiment



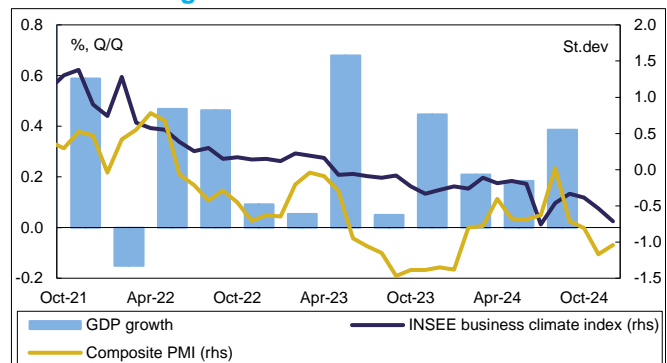
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### France: INSEE survey – business sentiment



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### France: GDP growth & business sentiment












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

perhaps around 0.1%M/M, whilst remaining largely stagnant on a 3M/3M basis. Indeed, the composite PMIs signalled stagnant output growth in that month against the backdrop of the Government's budget announcements, while disruptive weather events, including two named storms in late November, should have also served as a headwind to activity. And with consumer confidence also on the retreat, the redistribution of Black Friday discount sales to December will also deprive November of a potential boost from the retail sector. By design, however, this sampling change should inflate December's retail sales (due Friday).

Beyond the economic data, BoE MPC external member Alan Taylor – one of three dissenters who voted in favour of a 25bps cut in December – is due to make his first speech on the inflation outlook on Wednesday evening.




*The next edition of the Euro wrap-up will be published on 15 January 2025*

## Daiwa economic forecasts

	2024		2025				2024	2025	2026
	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP</b>	<b>%, Q/Q</b>						<b>%, Y/Y</b>		
Euro area 	0.4	0.1	0.2	0.2	0.2	0.3	0.7	0.9	1.2
UK 	0.0	0.0	0.2	0.3	0.3	0.3	0.8	0.8	1.3
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline HICP 	2.2	2.2	2.0	1.8	1.8	2.1	2.4	1.9	1.9
Core HICP 	2.8	2.7	2.3	1.8	1.6	2.0	2.8	1.9	1.8
UK									
Headline CPI 	2.0	2.5	2.5	2.3	2.6	2.3	2.5	2.4	2.1
Core CPI 	3.3	3.4	3.4	2.4	2.2	2.1	3.7	2.5	2.0
<b>Monetary policy, %</b>									
ECB									
Deposit Rate 	3.50	3.00	2.50	2.25	2.00	2.00	3.00	2.00	2.00
Refi Rate 	3.65	3.15	2.65	2.40	2.15	2.15	3.15	2.15	2.15
BoE									
Bank Rate 	5.00	4.75	4.50	4.25	4.00	3.75	4.75	3.75	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/ <i>Daiwa forecast</i>	Previous	Revised
France 	Industrial production M/M% (Y/Y%)	Nov	<b>0.2 (-1.1)</b>	-0.1 (-1.3)	-0.1 (-0.6)	-0.3 (-0.9)
	Consumer spending M/M% (Y/Y%)	Nov	<b>0.3 (0.3)</b>	0.2 (-0.2)	-0.4 (0.4)	-0.3 (-)
Italy 	Retail sales M/M% (Y/Y%)	Nov	<b>-0.4 (1.1)</b>	-	-0.5 (2.6)	-
Spain 	Industrial production M/M% (Y/Y%)	Nov	<b>-0.8 (-0.4)</b>	-(1.5)	0.5 (1.9)	-(1.5)
Auctions						
Country	Auction					
- Nothing to report -						

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 forecast/Actual</i>	Previous
<b>Monday 13 January 2025</b>					
- Nothing scheduled -					
<b>Tuesday 14 January 2025</b>					
Italy		09.00 Industrial production M/M% (Y/Y%)	Nov	0.0 (-2.4)	0.0 (-3.6)
<b>Wednesday 15 January 2025</b>					
Euro area		10.00 Industrial production M/M% (Y/Y%)	Nov	0.3 (-1.8)	0.0 (-1.2)
Germany		09.00 GDP* Y/Y%	2024	-0.2	-0.3
		09.00 Government fiscal balance % of GDP	2024	-2.3	-2.0
France		07.45 Final HICP (CPI) Y/Y%	Dec	<u>1.8 (1.3)</u>	1.7 (1.3)
Spain		08.15 Final HICP (CPI) Y/Y%	Dec	<u>2.8 (2.8)</u>	2.4 (2.4)
UK		07.00 CPI (core CPI) Y/Y%	Dec	<u>2.5 (3.2)</u>	2.6 (3.5)
		07.00 PPI – output (input) prices Y/Y%	Dec	0.0 (-1.3)	-0.6 (-1.9)
		09.30 House price index Y/Y%	Nov	-	3.4
<b>Thursday 16 January 2025</b>					
Euro area		10.00 Trade balance €bn	Nov	-	6.1
Germany		07.00 Final HICP (CPI) Y/Y%	Dec	<u>2.8 (2.6)</u>	2.4 (2.2)
Italy		09.00 Final HICP (CPI) Y/Y%	Dec	<u>1.4 (1.3)</u>	1.5 (1.4)
UK		00.01 RICS house price balance %	Dec	28	25
		07.00 Monthly GDP M/M% (3M/3M%)	Nov	0.2 (0.0)	-0.1 (0.1)
		07.00 Services output M/M% (3M/3M%)	Nov	0.1 (0.1)	0.0 (0.1)
		07.00 Industrial output M/M% (Y/Y%)	Nov	0.1 (-1.0)	-0.6 (-0.7)
		07.00 Construction output M/M% (Y/Y%)	Nov	0.5 (0.1)	-0.4 (-0.7)
		07.00 Trade (goods trade) balance £bn	Nov	-3.7 (-18.0)	-3.7 (-19.0)
<b>Friday 17 January 2025</b>					
Euro area		09.00 Final headline (core) HICP Y/Y%	Dec	<u>2.4 (2.7)</u>	2.2 (2.7)
		10.00 Current account balance €bn	Nov	-	25.8
UK		07.00 Retail sales – including auto fuel M/M% (Y/Y%)	Dec	0.4 (4.9)	0.2 (0.5)
		07.00 Retail sales – excluding auto fuel M/M% (Y/Y%)	Dec	0.3 (3.3)	0.1 (0.3)

\*Non-seasonally adjusted. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 13 January 2025</b>		
Italy 	10.00	Auction: to sell €2.75bn of 2.7% 2027 bonds
	10.00	Auction: to sell €3bn of 3.15% 2031 bonds
<b>Tuesday 14 January 2025</b>		
Euro area 	07.35	ECB Chief Economist Lane speaks at ECB/BdF/HKMA conference on 'Europe, Asia & the changing global economy'
Germany 	10.30	Auction: to sell €5bn of 2030 bonds
UK 	10.00	Auction: to sell £1bn of 1.25% 2054 inflation-linked bonds
<b>Wednesday 15 January 2025</b>		
Germany 	10.30	Auction: to sell €1.5bn of 2.5% 2054 bonds
	10.30	Auction: to sell €1bn of 1.8% 2053 bonds
UK 	10.00	Auction: to sell £4bn of 4.25% 2034 bonds
	16.30	BoE external MPC member Taylor delivers speech on 'inflation dynamics and outlook'
<b>Thursday 16 January 2025</b>		
Euro area 	12.30	ECB to publish monetary policy account of 11-12 December Governing Council meeting
Spain 	09.30	Auction: to sell 2.7% 2030, 0.85% 2037 and 1% 2050 bonds
UK 	09.30	BoE to publish Credit Conditions Survey for Q4 2024
<b>Friday 17 January 2025</b>		
- Nothing scheduled -		

*\*Further information forthcoming. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

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